November 16, 2022

BSE Ltd
P J Towers,
Dalal Street,
Mumbai - 400 001.
Scrip Code: 524735

National Stock Exchange of India Ltd
Exchange Plaza,
Bandra-Kurla Complex, Bandra
Mumbai - 400 051.
Symbol: HIKAL

Dear Sir/Madam,

Subject: Transcript of Earnings call for quarter and half year ended September 30, 2022

In continuation of our letters dated November 08, 2022 and November 09, 2022 and pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings call held on November 9, 2022.

Kindly take the information on record.

Thanking you,

Yours Sincerely,
for **HIKAL LIMITED**

RAJASEKHAR REDDY CHINTAKINDI
Digitally signed by RAJASEKHAR REDDY CHINTAKINDI
Date: 2022.11.16 13:05:56 +05'30'

Rajasekhar Reddy
Company Secretary & Compliance Officer

Encl.: As above

"Hikal Limited

Q2 FY23 Earnings Conference Call"

November 09, 2022

Disclaimer: E&OE. This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange will prevail.

MANAGEMENT: **MR. SAMEER HIREMATH – MANAGING DIRECTOR – HIKAL LIMITED**
MR. KULDEEP JAIN – CHIEF FINANCIAL OFFICER – HIKAL LIMITED
MR. MANOJ MEHROTRA – PRESIDENT – PHARMACEUTICAL BUSINESS – HIKAL LIMITED
MR. VIMAL KULSHRESTHA – PRESIDENT – CROP PROTECTION BUSINESS – HIKAL LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Hikal Limited Q2 FY '23 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance, during the conference call, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sameer Hiremath, Managing Director, Hikal Limited. Thank you, and over to you, sir.

Sameer Hiremath: Thank you. Ladies and gentlemen, a very good evening to all of you. And thank you very much for joining us today for our Q2 and H1 FY '23 earnings call. I am Sameer Hiremath, Managing Director of Hikal. In this call with me, I have Kuldeep Jain, our Chief Financial Officer; Manoj Mehrotra, our President, Pharmaceutical Business; Vimal Kulshrestha, our President Crop Protection Business and Strategic Growth Advisors, our Investor Relations advisers.

I trust that you had a wonderful Diwali and wish you a very happy and prosperous New Year. I hope you had a chance to go through our earnings release, investor presentation and the financial figures for the quarter. These are available on our website as well as the stock exchanges website. On the macro level, the geopolitical uncertainties continue with the energy crisis in Europe, declining growth rates globally across sectors and steadily rising inflation.

On the supply chain front, there have been disruptions, but proactive measures and expanding our critical supplier base has contained the negative impact. As highlighted in the previous call, we have ensured that we timely deliver products as per the requirements of our customers. The first quarter of this financial year witnessed several challenges in both our businesses.

The intensity of these challenges has reduced in the second quarter and we are back on track to grow quarter-on-quarter and end the year strongly. Clients and customers aiming to diversify their supply chains continue to provide strong tailwinds for future developments and inquiries. And this provides for a healthy rebound from the lows that we touched in Q1 FY '23 due to multiple internal and external challenges.

Margins continue to be impacted as expected and outlined in the previous call, due to a steep increase in the cost of raw materials, utilities, energy, and solvent prices. Also, the rise in crude oil prices has significantly impacted freight and logistic costs. However, we have seen prices of some of the key raw material softening and expect the trend to continue in the upcoming quarters, thereby improving our margins and profitability.

Talking about the numbers for this quarter, the revenue recorded an increase of 19% year-on-year on account of a significant recovery in the Crop Protection business. The topline stood at INR 559 crores for the quarter as against INR 469 crores in the same period last year. Our half yearly revenue remained flat over last year stood at INR 938 crores.

The margin pressure as highlighted earlier, led to an EBITDA reduction to INR 70 crores predominantly due to increase in input costs. The EBITDA for the same period last year stood at INR 91 crores. On a half yearly basis, EBITDA was INR 92 crores. Lower operating profit as well as increased depreciation on account of asset additions and increase in finance costs due to increased rate hike resulted in a PAT level profit of INR 25 crores against a profit of INR 44 crores in the same quarter last year, and a loss of INR 9 crores in the June quarter from this year. Hikal's long-term credit rating is maintained at A+ by ICRA.

Now I'd like to hand over to our President Crop Protection, Vimal Kulshrestha, to take us through the performance of the Crop Protection division.

Vimal Kulshrestha: Thank you, Sameer, and good evening, all participants of this call. The crop business has recorded revenue growth of 42% year-on-year with INR 269 crores total revenue in Q2 FY '23 versus INR 190 crores in Q2 FY '22. The EBIT for the division was at INR 35.3 crores at a 13.1% margin, in Q2 FY '23 on a back of higher input costs and raw materials, solvents and energy as against INR 34 crores at 18% margin in Q2 FY '22.

The corresponding figure of the half year period stood at INR 423 crores at the topline level and INR 46 crores at the EBIT level. All our plants are now operating at full capacity, demand for our own product continues to remain strong in the domestic market and the forecast is also higher from existing global innovator companies.

Additionally, there is higher traction in the inquiries from existing as well as new customers in CDMO segment. In our Own Product segment, demand from our existing product remains intact from our key customers -- we are also planning to complete the planned commissioning of our new fungicide plant in fourth quarter of this financial year and start the revenue accrual subsequently. We have a strong new product pipeline at various stages of development to capitalize on opportunities in our business.

Our CDMO business continued to receive inquiries from existing, as well as new customers for new products. We are also seeing growth in our existing products. To ensure stable availability, pricing of key raw materials we have embarked upon a strategic vendor development, de-risking the supply chain from China as well as backward integration to assure the appropriate raw material availability, which is on track. We are also working on cost improvement programs to improve on production costs.

Now I would like to hand over to our President Pharmaceutical, Manoj Mehrotra to take us through the performance of Pharmaceutical division. Thank you. Over to you, Manoj.

Manoj Mehrotra: Thank you, Vimal and good evening to all participants on the call. The pharma business experienced a marginal growth in revenue of 4% with INR 290 crore total revenue in Q2 FY '23 versus INR 280 crores in Q2 FY '22. The EBIT of the division stood at INR 10.6 crores and a 3% margin in this quarter. The subdued growth is due to temporary demand softening for key products across the pharmaceutical industry, which will correct in the upcoming quarters as the business cycle recovers.

The corresponding figures for the half year period stood at INR 514 crores at the topline level and INR 2 crores at the EBIT level. Fall in EBIT attributed to the significant increase in input costs. There is softening of raw material prices, which will start showing results going forward. Our business excellence initiatives have resulted in reduction of costs, which helps in partly absorbing the impact of higher input prices.

In our API business, over the year, we added several new customers and strengthened presence in new geographies such as the Middle East and Latin America. Our new product launches in anti-diabetic therapeutic area continues to witness increased traction from customers globally. We have 10-plus products in the development pipeline and are planning to launch 3-4 products in FY '23.

Our CDMO business continues to receive increased inquiries from existing as well as new customers. Our future pipeline for CDMO business remains robust with multiple upcoming opportunities being worked on. Our product pipeline in all our business segment is very robust, and we have also made efforts to increase our profitability.

Additionally, in order to increase yield and solvent recovery for our products, we are working on a number of cost improvement initiatives. FY '23 was always going to be a year of consolidation and rebuilding. We are on-track in spite of several market headwinds. Q2 FY '23 showed a resilient performance and this momentum will continue in the next two quarters, resulting in us ending the financial year on a strong note.

Now I'll hand over back to our Managing Director, Mr. Sameer Hiremath for the rest of the call.

Sameer Hiremath: Thank you, Vimal and Manoj. With our business heads, having talked about their respective businesses, I would like to take you through some of our other key priorities that we are working on as part of Project Pinnacle. We have been transforming our business, while continuing to drive profitable growth.

Over several quarters, we have partnered with a globally renowned consulting firm and have identified the right strategic direction for choosing suitable products, partners and technologies for the future while bolstering our R&D and manufacturing capabilities. These efforts have started to yield results and have helped steady the business for now and we expect this to take off and substantially contribute to our growth in the future.

Coming to the Animal Health business, this is one of our key growth drivers and is steadily growing as our internal plans. Development of processes for multiple active pharmaceutical ingredients as part of the multi-year animal health project with the leading inventor is progressing well. A dedicated multipurpose manufacturing facility is under construction and expected to come on stream by the first quarter of FY '24.

We are in a strong position to leverage our deep connections and relationships with global innovators to become a partner of choice in this space owing to our capabilities of handling complex chemistries, our track record and our ability to provide end-to-end support in developing processes, new technologies, complex molecules and providing the option of scaling up products quickly and flexibly.

With this, we now open the floor to your questions and answers. Thank you.

Moderator: The first question is from the line of Anjana Shah from Shah Investments.

Anjana Shah: Thank you so much for this opportunity. Before I ask my questions, I would just like to take a moment to congratulate you on your performance this quarter. So sir, as you know, you had indicated in the previous call, I'm happy to see that the company has stayed true to its commitment of a sequential recovery. And it's good to see a robust growth. And with additional capacities becoming functional plus the multi-year animal health contract, I'm assuming is also coming on stream and due course. I think it's only a matter of time that we achieve our accelerated growth objective.

I mean, having followed this company for over years, I'm just glad to see it back on its path of recovery, and this time on a very strong footing. So, congratulations on that, sir. So, sir, I have two questions, mainly and basically a way forward perspective. So, the first one is, sir, I said that Q2 was significantly better than Q1. And we expect Q3 and Q4 to be even better. So how confident are we to beat the FY '22 revenue at the end of the year?

Sameer Hiremath : Thanks for the question. I think we are pretty confident of beating the overall revenues for the year. And as you rightly said and I mentioned in my last call, we expect a sequential recovery and Q3 to Q4 will be better than Q2. We will end the year back on a strong note and Q4, we'll come back to pre-2022 levels.

Anjana Shah: Sir, secondly, we crossed INR 550 crores revenue this time in Q2. Can it be safe to assume that we can maintain this run rate of INR 550 crores each quarter going forward?

Sameer Hiremath: Yes. I think we'll do slightly better than that quarter-on-quarter. We keep on improving every quarter.

Moderator: Thank you. The next question is from the line of Ashit Kothi, an Individual Investor.

Ashit Kothi: Sir, I would like to know two things, if you could update, when exactly CDMO is going to start contributing to the top line and bottom line. And the main question is when are we going to again reach the level of EBIT and what have you seen in the previous con calls of First quarter, second quarter and third quarter of 2022?

Sameer Hiremath: Sorry, I heard your first question, but I couldn't hear your second question, it’s very unclear can you please repeat the second question.

Ashit Kothi: June '22, June '21 and September '21, the margin upliftment, which was there, when do we feel that we reach the same margin upliftment?

Sameer Hiremath: So, I think your two questions, you said when is CDMO are going to start contributing to the business. First quarter of next year. So, for next year, you will see a big shift in our business. As I mentioned earlier, we are moving towards a hybrid model of CDMO and own products, and that's well underway. So next year itself will be large part of our business will shift on the pharma side towards the CDMO. Crop is already primarily CDMO driven, and we're getting several new launches on the CDMO space, while we're seeing opportunities on the own product space. That's the first question. The second question is when do you expect to see the business go back to September '21 type of level? I think we expect that to start happening from early part of next financial year.

Ashit Kothi: It would be basically in both financial year '24 and '25?

Sameer Hiremath: Yes, early part of financial year '24 Q1, Q2.

Moderator: The next question is from the line of Kunal Shah from Carnelian.

Kunal Shah: Yes. So, congratulations in the first place to Sameer and his team for a good set of numbers. I have a few questions. First question being on the capex part. So if you could just help summarize I mean, what capex goes live when in both crop and the pharma segment because crop, I believe we are already done with the maximum utilization levels that can be there?

Sameer Hiremath: Yes. So, I'll answer that, and hand it over to my CFO to give you specific numbers. So the crop capex is the big plant which is going to get commissioned by Q4 of FY '23. That is next quarter. While the pharma current capex in the Animal Health business will come on stream by Q1 of FY '24. That's where we expect the capex is to go on stream, i.e. to be commissioned.

Kunal Shah: And this crop capex, which is going to come on stream in Q4 FY '23, what amount that we spent, which is going to come on stream from Q4?

Sameer Hiremath: The overall capex would be close to INR 300 crores that will come on stream by Q4.

Kunal Shah: Fair enough. And the question basically was on the balance sheet side. So, I see that on quarter-on-quarter, our debt has gone up marginally from INR 690-odd crores to INR 742-odd crores. So, we are very comfortable on the net debt-to-equity levels. But any sense on that? And also, second question, we do have a CWIP of INR 306-odd crores still there in the balance sheet. So, this pertains largely to the crop plant, which is going to basically come on stream from Q4? Is that understanding correct?

Sameer Hiremath: Yes. I think Kuldeep, CFO, why don't you take that one?

Kuldeep Jain: Yes, this is largely part of the capex, which we are planning for in the next quarter, fourth quarter.

Kunal Shah: Okay. And on debt part, anything?

Kuldeep Jain: Debt part, basically, if you look at from the debt equity, we are still well within the limit it is under the bank regulations, and we will maintain that.

Kunal Shah: And the question basically was on the margin front. So, you did allude to right that incrementally margins would be better going forward on a quarter-on-quarter basis, it would see improvement and also September '21 levels would be there from next year, first quarter onwards. I just wanted to understand in the current revenue that we have done, right, just to get a sense of how much that is led by inflation because, obviously, some part of the revenue growth would also be on account of inflation. So, if you could just give a sense of what how much would be the revenue growth would be on account of inflation, volumes. If you could just help give some sense on that particular aspect would be helpful?

Sameer Hiremath: Well, volume growth for the quarter was 12% year-on-year. And for H1, our volume growth was slightly lower, slightly negative, because of the Q1, as you know, the shut down in our crop site. But Q2, we had a growth of 12% in volume growth in absolute terms.

Moderator: The next question is from the line of Rohit Nagraj from Centrum Broking.

Rohit Nagraj: Thanks for the opportunity and congrats on the good sequential performance. Sir, first question is on the animal health care vertical. Now you mentioned that the plant is likely to go on stream by Q1 FY '24. But earlier, if I'm not wrong, from the earlier conversations, the product validations will start in FY '24 and the revenue contribution is expected from FY '25. So once the plant has started, do we have to submit the trial quantities in the initial part and the commercials only will start after one year? Or what is the sense that we are getting currently?

Sameer Hiremath: So that's part of the plan. I mean, initially, you have to do the DMF filings from the plant and the validation batches, which will be used up in the first year of the commissioning. And in the second year onwards, in commercial supply will start as and when the different markets open up and the different approvals come back. We're doing global launch for our products in all different geographies all around the world. So, some markets will come faster, some may take longer. But from year two onwards, commercial supply will start.

Rohit Nagraj: And any numbers that we can provide in terms of what will be the capitalization for this particular plant? And what kind of revenue potential that it will have may be at peak or after the second year?

Sameer Hiremath: See, we are working towards a 1.5 asset turnover ratio, as I mentioned earlier, and we meet those norms. With an EBITDA margin that in excess of what we have historically pre September '21 numbers, well over 20% EBITDA margins. That's all I can tell you on the guidance. We are bound by confidentially in the contracts with our customers to give any specific numbers.

Rohit Nagraj: Sir, second question is on the crop protection. So, I think you mentioned that currently, the plants are running at optimal utilization and the capitalization for the new project is likely to happen in Q4. So, for Q3 and Q4, do we have any spare capacity or probably we will be hinged to the current run rate of what we have done in Q2?

Sameer Hiremath: Vimal why don’t you take this.

Vimal Kulsreshtha: Yes. So, thanks for the question. So, our plants are currently operating around 90% of the capacity, which is almost full. We have around 10% capacity available spare, which based on any new demand, which can be fulfilled. And we are also working on many debottlenecking projects also of the capacity, which is a continuous process for us. So that also will keep going to improve capacity of the plant. Does it answer your question?

Rohit Nagraj: Yes, that's fairly good. One last question on the overall performance. So, given that the raw material prices, inflation will come back to normalcy and the demand environment will start picking up, when do we see the normalized performance in terms of top line growth as well as margins of, say, 18% to 20%, which we had guided earlier that we are on a quarterly basis? Will it happen in Q2 FY '24? Or will it take slightly longer than that?

Sameer Hiremath: I think that earlier caller also asked a similar question. And we expect to start from Q1 and for Q2 latest FY '24. This is as per current estimates and because there still remains sort of global uncertainty and things could change, but we feel that currently based on where we see the business today. Between Q1 and Q2 of next year, we should be able to get back to September or December '21 type of margin levels.

Rohit Nagraj: Just one last clarification on the Taloja issue, any new development that you want to share?

Sameer Hiremath: No, there's nothing. The plants are running at full capacity and operating at optimal capacity, there's nothing.

Moderator: The next question is from the line of Dhwanil Desai from Turtle Capital.

Dhwanil Desai: Sameer and team, congratulations for sequential recovery. So, the first question is, so you mentioned that on the Crop Protection side, INR 300 crore capex will get capitalized and animal health will come on stream next year. So, both put together, so we are doing INR 2,000 crore run rate revenue before issues came. So, after both this capex -- will it increase our revenue potential by 40%, 50%? Is that a good understanding?

Sameer Hiremath: Well, the new capex is that they're doing both of them for the crop protection and the animal health will have an asset turn 1.4 to 1.5 times. At peak, it takes about two years to get to peak, two to two and half years depending on the segment. Crop segment is slightly faster than the Animal Health or Pharma segment. So, between 24 to 30 months, we get to pre-utilization of the plants, and that time, we'll generate an asset turn of close to 1.5. So, you can add that it will have significant upside over the next two years to our business of our company and improvement in our margins.

Dhwanil Desai: And second question, you mentioned something about we pivoting more towards CDMO in pharma from next year onwards? And animal health maybe one of the things that will add to that. But, so we were doing 20%, 21% margin till June, September '21. So, this pivoting more towards CDMO will it change the margin profile from 21% to significantly higher number. Is that a right understanding? Or the normalized margin in CDMO also equivalent to what we were doing earlier?

Sameer Hiremath: No, I think the 20%, 21% margin that we had was a blended margin for the company in the past was 19% to 20%, that includes our generic as well as CDMO projects, product. Even our old current CDMO of project products are well in excess of 20%. And the new CDMO products that we're getting are well above 20%. So, 20% is a blended margin that we have achieved historically. So, any new CDMO molecules that we are getting will improve margins. And Manoj, probably you want to jump in and talk about that.

Manoj Mehrotra: Yes. Thanks, Sameer. So CDMO business definitely gives us more gross margin as well as EBITDA margin. Our effort is to focus more on the CDMO business, where we have good customer traction and good discussions going on at this moment. Those results will start coming in FY '23 and FY '24. Overall, we would like our API and CDMO business to be close to 50-50.

Dhwanil Desai: So, the proportion is not going to materially change, right? That's going to remain same?

Manoj Mehrotra : If you see last year, it is more of last, say, 18 months or so, it's more like 55% to 60% for API. CDMO has been subdued because of some of our base customer demand being a little low. But as we add more customers, it will go to 50-50 in year one or so. And going forward, it is definite, we would like to move it more to a 60-40 ratio. But having said that, our hybrid model of focusing both in CDMO and API will continue. We will continue filing new DMF for own API sales as well as keep adding new customers for CDMO.

Dhwanil Desai: And so I think one more question on Pharma, Manoj. So, I think what we hear is that in Agri, the recovery is much faster. In Pharma, we are still kind of navigating through challenges. So can you describe the specific challenges either on the product side, market side, customer side, that will be helpful.

Manoj Mehrotra: Main issue in pharma has been the increase in input costs for APIs as well as the CDMO business. On the API side, because of various market conditions and extent of competition, and price erosion in the US and other regulated markets, we have not been able to pass on the cost increases. But on the CDMO side, yes, we have a more transparent cost model, although there is a lag, but we are able to pass on those cost increases to customers.

But we are seeing now that the raw material prices are softening, and we have already seen some improvement in this quarter. we still hold some inventory of raw materials. So, we had benefits only for part of this quarter two. But going forward, Q3 and Q4, we'll see recoveries in the margin for API business as well as some pass-through costs of CDMO will also start coming in. So yes, there will be a recovery of margins in Q3 and Q4.

Dhwanil Desai: And how about the volume recovery and volume growth?

Manoj Mehrotra: Yes, the volume growth, if you really see if you have seen our investor presentation, API business volume is good. CDMO was a little subdued because for our base customers, there were some inventory correction, which will stop in 2022. 2023 kind of first quarter onwards, in my view, we'll be back to normal volume and margins.

Moderator: The next question is from the line of Ankit Gupta from Bamboo Capital.

Ankit Gupta: Congrats for the good rate on a sequential basis. Sir, if I look at the margins of the Pharma segment during the quarter, we have come back to a positive parity of about 3.65% during the quarter. And we have historically also indicate almost 17%, 18% kind of EBIT margins. So when do you think we'll be reverting back to at least 15%-plus kind of EBIT margins in the pharma segment?

Sameer Hiremath: Manoj, do you want to answer that?

Manoj Mehrotra: Yes. See, it's a little uncertain at this stage. We'll definitely see improvement in Q3 and Q4 because the raw material prices have softened. And if the same trend continues, I'll say, if I take a guess three quarters, it will be back to where we were. And going forward, as we kind of leverage our scale and add new products it will increase beyond that.

Ankit Gupta: Sure. So, we'll come back to those kind of margins with mid-teen kind of margins, let's say, by Q1, Q2 of next year is what we can expect safely?

Manoj Mehrotra: Yes. Provided the same softening of raw materials continue. See, that is the fundamental driver which brought us down. All our products are doing well. They have reasonably good demand apart from some inventory correction here and there. Customers continue to have full faith in us. As and when the raw material prices start coming down, which we are seeing and the same trend continues, yes, what you are saying sometime middle of next year, we'll be back to where we were a year ago.

Ankit Gupta: Sure. And on pharma side, itself, I had the second question regarding our own products on the API side. Looking at the DMF filing of the company. And since April 2018, we have filed just five DMFs, including one Sitagliptin, which was filed twice, so another was Favipiravir, which was largely the COVID drug.

So last for four years, we have just filed four products DMF. So, what is the strategy on the new product front? And why are these filing less DMF. I understand you have earlier stated that we only file for DMFs, for products which we want to launch. But four -- in within a span of four years is too low -- for a company of our size and what is our strategy on DMF filing and launching these products going forward?

Manoj Mehrotra: So, I think the data needs to be rechecked because we have filed some more DMFs, which are coming to fruition. Sitagliptin itself has three grades of Sitagliptin. Then we have other molecule like Apixaban, Lacosamide, Dapagliflozin, Empagliflozin. All those have been filed, and we are working on getting supply chain, right. And as we go forward, and the patent expire, we'll start commercializing these products. This year itself, we have already filed one DMF, which is Desvenlafaxine, it is a public domain. Three more are getting filed in the next four months.

So overall, the run rate of three to four DMFs will remain. And as we stated earlier that we want to file DMF that, we believe we have a strong process position, and we'll commercialize them at a minimum revenue of INR 50 crores per DMF, that's our policy and we will maintain that.

Ankit Gupta: And on CDMO products on the pharma side, how many products are we launching? Or how many products do we expect our innovators to launch during current year and FY '24?

Manoj Mehrotra: So, on the CDMO side, it's a little confidential, we would not be able to disclose all the information. But I can only say that the pipeline is strong for CDMO product. And going forward, you will see results coming in at FY '24 onwards.

Ankit Gupta: And I'm not talking about the numbers, but if you can just state how many products you plan to launch during FY '24 on CDMO side?

Manoj Mehrotra: The CDMO, I'll say, atleast two to three, it depends on the launch strategy of the customer. And on the animal health side, as Sameer already mentioned, that's also a kind of a semi-CDMO product. Those products will go into validation next year and commercialization in FY '25 onward. There is a good pipeline for CDMO products.

Ankit Gupta: And is the 50% - 60% CDMO to own product ratio that you have talked about, over the medium term, do you think -- is this including the Animal Health APIs or the Animal Health contract? Or is this including excluding those segments?

Manoj Mehrotra: Excluding Animal Health. Animal Health, we are going to track separately going forward. That will be tracked separately. But this I'm talking of on the human health side.

Ankit Gupta: Sure. And one question on the balance sheet front. We have a CWIP of INR 306 crores. So, we have the fungicide project, which is coming on stream by Q4. So, and we also have the Animal Health contract project, which is also coming on stream by, let's say, Q1 of next year. If you can give us a breakup how much amount will be spent on the fungicide project and how much on the Animal Health - on a combined basis, let's say, we have already spent x-money on fungicide and x-money on animal health and x-money and y-money is remaining to be spent?

Sameer Hiremath: Kuldeep, why don't you take this?

Kuldeep Jain: Yes. Sure, so we have a capital work in progress INR 309 crores during this September quarter end. We expect to spend another at INR 192 crores to INR 200 crores in H2. And we expect to capitalize this Animal Health, AMP 2, this is fungicide. We still believe that we will CWIP of INR 150 crores to INR 160 crores by end of March. We can't really give you any numbers regarding this fungicides and Animal Health.

Ankit Gupta: In total, we'll be spending almost INR 500 crores on both these projects is what our expectation is?

Kuldeep Jain: Yes.

Ankit Gupta: And on Agro, we have seen very strong traction, and we have reported our highest ever sales in that segment. But our margins, although would have improved sequentially over the past touching ~14%, but we have earlier also touched 20% kind of EBIT margin. So, when do you expect we can reach to those kind of EBIT levels over the next few quarters?

Vimal Kulshrestha: Yes. So, I'll take this question. This is Vimal. So, we expect these margins to improve sequentially on a quarter-on-quarter basis, and we expect that year-on-year basis, we'll see improvement of 100 basis points or so.

Ankit Gupta: Sure. And just last question on our existing plants. Sameer, you stated that with our current capacity, we can touch INR 2,000 crores, INR 2,200 crores of annual revenue. So, is there a possibility of debottlenecking from the existing setup so that we can improve our capacity at our existing plants?

Vimal Kulshrestha: Yes. So, as we have already mentioned in this call itself that we continuously work on our plants on many projects to debottleneck our capacity. And that's a continuous process for us and that we do on all manufacturing excellence projects.

Moderator: The next question is from the line of Ritesh Poladia from Girik Capital.

Ritesh Poladia: Sir, there is one BSE announcement on 19th October saying that you need to submit your comments on the NGT joint committee report. So, what are the timelines? And what are the salient comments by this report, if you can share with us?

Sameer Hiremath: Well, the NGT report is only a report, and it has, as you mentioned, it has come out on October 19. We have been given time to file the response till January 2023, and we're making the appropriate representations and filling our responses accordingly.

Ritesh Poladia: Any financial penalties has been suggested in that report, if you can tell us that?

Sameer Hiremath: Yes. They have given some numbers in the report financially. But it is a question that we have taken up with them and the numbers are being discussed with NGT. They put a number in the report, but they've given us an opportunity to hear our side before they finally decide on the order. The order has not been passed. It's only a report right now. And they've given us an opportunity to respond to the report. And then they will finalize the order based on the hearing from Hikal and the representation made by Hikal.

Ritesh Poladia: So, this entire process would be about six, nine months from here on?

Sameer Hiremath: At least, it may be even longer.

Moderator: The next question is from the line of Rajesh Kumar, an individual investor.

Rajesh Kumar So my question is like on the same line, like regarding this compensation, like how much impact we might have in case with our legal team is not able to defend it?

Sameer Hiremath : Sorry, it got disconnected, yes.

Rajesh Kumar Congrats and thanks for the good set of numbers. My question is on the same line, sir, like regarding the compensation amount, like how much impact that we might have in case if we are not able to defend it?

Sameer Hiremath: Well, first of all, the number has not been finalized yet. It's just a recommendation. The representation of Hikal will take place over the next few months. And the hearings will take place. After that, there will be a joint committee discussion, and we have been given an opportunity to make our point of view. And if you look at historically, I don't know what will be the final outcome of this report. But even if we have to, the chances of us to ask to pay the entire amount is extremely low. There are several recourses and things we see of NGT recommendation made in the past for all chemical incidences in the past have resulted in stay by the Supreme Court. And even any amounts have to be paid, there's a very nominal amount. So, we don't expect to have a material impact or any significant impact on the operations of the company as and when it does get decided.

Moderator: The next question is from the line of Aman Vora from Premier Capital.

Aman Vora: Good sequential improvement in our numbers. I just want to understand more on the pharma side. So, like a few quarters back, we've been talking that we are negotiating with our customers to actually go for the pass-through clause and we have been having inventory reduction at the end of the customers. So, what is the outlook here on the pharma side over the near term and medium-term outlook, if you can also share?

Sameer Hiremath: Manoj, do you want to take this?

Manoj Mehrotra: Yes, So, on the pharma side, CDMO, yes, we have multiple contracts, and they are in various stages of negotiations with customers on the pass-through cost. And as we had mentioned, there is always a lag of almost six to nine months, in some cases, almost a year. So, we have been successful on a few to pass on, and some will come in 2023.

Aman Vora: And sorry, if I missed this point, I really want to understand like the aggressive capex that we are doing. Can you just shed some light on how we are funding the capex and what are our plans for funding the capex?

Sameer Hiremath: Yes. Kuldeep, our CFO, why don't you take this.

Kuldeep Jain: Yes. So, we have having sufficient internal accruals. So, we have one-third, we are investing from the internal accruals and two-third, we are borrowing from the banks.

Aman Vora: And we had also like, we were working out an arrangement with IFC. Any update on that?

Sameer Hiremath: Yes. So IFC has already approved $50 million.

Aman Vora: So, we have received that money?

Sameer Hiremath: Yes. We are withdrawing in phases.

Aman Vora: And just one last question. I want to understand like last call, Sameer, you highlighted that gradually in FY '24, starting FY '24, we should get back to the margins that we were doing pre like, say, December, like Q3 FY '22, the kind of margins you were doing in Q3 of FY '22. We should get back to those and then grow further from there. So, do we hold on to that guidance or any change in that seeing the current scenario?

Sameer Hiremath: No, I think we still are confident on that guidance. Based on the current situation, based on where we are today, we see that by Q1, Q2 of next financial year we should get back to the old margins and growth profile.

Moderator: Thank you. That was the last question for today. I now hand the conference over to the management for closing comments.

Sameer Hiremath: Thank you, everyone, for joining our quarterly earnings call and for your continued interest in our company. As I've spoken over the last call, FY '23 was going to be our year of consolidation. It's a sequential recovery quarter-to-quarter. We have demonstrated just that with our Q2 performance, which is significantly better than Q1. And it's a strong conviction that this will only get better over the course of the second half of this year. We are in an excellent position to get back to business as usual and prepare for accelerated growth.

Thanks to the resilience built in, the process improvements, cost improvement measures, the business excellence efforts. We feel that we have persevered through the difficult times because of our dedication to, and openness with all of our stakeholders. Just as our business head, our CFO and I, have talked about our business and performance, over the previous quarter and the half year, the upcoming business pipeline, which continues to be robust for both the businesses, I would like to reiterate the same message and conviction.

We believe that with our plants running at optimum capacity with debottlenecking initiatives underway and the additional capacities coming on board in the next few quarters, along with the new product launches and other exciting opportunities coming our way. We will achieve all our targets that we have been guiding for over the past few quarters. With that, I would like to close this call. Should there be any further questions, please feel free to reach out to our Investor Relations partner, Strategic Growth Advisors. Stay safe and take care. Thank you very much.

Moderator: On behalf of Hikal Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.