February 10, 2025

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 ended December 31, 2024

In continuation of our letters dated January 29, 2025 and February 4, 2025 and pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings conference call to discuss the financial and operational performance for the period ended Q3 & 9M'FY25, held on Tuesday, February 4, 2025.

Kindly take the information on record.

Thanking you,

Yours Sincerely,
for **HIKAL LIMITED**

Rajasekhar Reddy Chintakindi
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Date: 2025.02.10 11:51:18 +05'30'

Rajasekhar Reddy
Company Secretary & Compliance Officer

Encl.: As above

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Hikal Limited

Q3 & 9MFY25 Earnings Conference Call

February 04, 2025

E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 4th February 2025 will prevail.

MANAGEMENT:
MR. SAMEER HIREMATH – MANAGING DIRECTOR
MR. KULDEEP JAIN – CHIEF FINANCIAL OFFICER
MR. ANISH SWADI – SENIOR PRESIDENT, BUSINESS TRANSFORMATION AND STRATEGY
MR. VIMAL KULSHRESTHA – HEAD, CROP PROTECTION DIVISION

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Moderator: Ladies and gentlemen, good day, and welcome to Hikal Limited Q3 and 9MFY25 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 then zero on your touch-tone phone. Please note that this conference is being recorded.

Before we move on to the presentation, a small disclaimer to all the participants. This conference call may contain forward-looking statements about the company, which are based on beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involves risks and uncertainties that are difficult to predict.

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

Sameer Hiremath: Thank you. Ladies and gentlemen, good afternoon, and a warm welcome to all of you. We extend our gratitude to all of you for participating in our Q3 and 9MFY25 results conference call. We are pleased to provide you with an update on the progress made by your company. We trust that you have had the opportunity to review our earnings release, investor presentation and the financial statements for the quarter ended 31st December 2024. These documents can be accessed on both Hikal's website and the stock exchange's website.

I am Sameer Hiremath, Managing Director, Hikal Limited, and I will be leading the discussion and presenting the financial results. On this call with me, I have Anish Swadi, Senior President of Business Transformation and Strategy; Kuldeep Jain, Chief Financial Officer; Vimal Kulshrestha, Head of our Crop Protection Division; and Strategic Growth Advisors, Investor Relations Advisors.

As we move into 2025, the global chemical market is poised for stabilization and growth following a gradual recovery observed in the last year. Key trends indicate a modest increase in demand across various sectors, spurred by advances in innovation, transformation, digitally and sustainability.

We have a focus on key areas like demand growth, sustainability initiatives, technological advancements and operational excellence. Despite the ongoing challenges such as pricing pressure from competitors, especially from China, the global crop protection industry is expected to stabilize in the next 2 to 3 quarters.

In Q3 FY25, our revenue amounted to INR448 crores with an EBITDA of INR72 crores, reflecting an EBITDA growth of 11% on a Y-o-Y basis. For 9MFY '25, revenue stood at INR1,307 crores with an EBITDA of INR205 crores, a growth of 3% and 18%, respectively. Our business initiatives have resulted in increased operating cash flow of INR102 crores on a 9-month basis Y-o-Y.

Board of Directors at the Board meeting concluded this afternoon have recommended an interim dividend of INR0.6 per share, which is 30% of the face value. We have capitalized our new multipurpose facility at Panoli last month. We expect the ramp-up from this facility over the next 2 to 3 years.

As we approach the end of this financial year, we expect to deliver positive results on a full year basis, led by stronger profit and margin growth. In the current quarter, we have enhanced our margin profile on account of operating leverage and cost improvement initiatives as well as improvement in our product mix.

For our API business, we are witnessing recovery on the back of improved volume uptakes, which is expected to remain steady in the coming quarters. We are strengthening our position in our portfolios, launching in new geographies, onboarding new registrations, which are beginning to come through.

On the CDMO side, several projects are moving towards validation and commercialization after completing the development process. We are well positioned to capitalize on the healthy pipeline that we have during our development and in our validation plans and are prepared to foster long-term growth with our global innovator customers in the CDMO business.

Additionally, on the Animal Health side, our project under the long-term agreement with a leading global innovator company is advancing smoothly and as per plan with validation of seven products already completed and the balance to be completed in the next few months. We are engaging with several innovator customers and experiencing significant positive traction, resulting in an increase in new product pipeline and a healthy RFP inflows.

The crop protection sector is starting to exhibit signs of stabilization. There has been a rise in domestic demand, which is supporting our own products as well as a lot of innovator RFPs, which have started to come through now in our CDMO business, signalling a long-awaited uptick in the industry.

Although China Plus One is expected to strengthen in the current operating environment, intense pricing pressure and dumping continues from the Chinese competitors for generics and commodity products. Hikal's strategy is to work towards more on NCEs - new chemical entities and new technologies in the crop and the pharmaceutical business.

For the Pharma business, for the quarter ended December 31, 2024, our Pharmaceutical business reported revenues of INR293 crores and an EBIT of INR33 crores, which is a significant increase of 450 basis points on a Y-o-Y basis based on improvement in product mix and operating leverage.

Our API business is also experiencing volume growth due to successful global customer acquisitions. Furthermore, on the CDMO front, we are moving towards supplying validation quantities of several NCE molecules in the upcoming quarters. Commercial supply will be initiated by the end of calendar year '26, beginning '27.

For the API business, we are exhibiting strong growth on a QoQ basis. We remain committed to boosting volume demand by expanding our market presence and our market share and adding on board new customers while also increasing the share of business for our existing clientele.

Additionally, we are leveraging our market reach through the enhancement of our product offerings. Currently, our product development pipeline includes eight to nine products, and we're anticipating to launch three to four products annually.

On the CDMO front, we have seen consistently improvements in offtake from key innovators, a trend that is expected to persist and improve in the upcoming quarters. Our CDMO business experienced an uptick in inquiries, particularly with a greater focus on NCE molecules from various innovator companies.

We are committed to seizing these opportunities as several promising discussions are advancing towards development and validation. Additionally, our two projects for NCEs are making notable strides in Phase III clinical trials with their respective innovators and are expected to launch very soon.

This progress is anticipated to support our growth as we plan to ramp up operations in FY'26, '27. Moreover, our food ingredients projects is progressing well, and we expect it to achieve peak revenue in the next 2 to 3 years. Overall, the pharmaceutical business is on a growth trajectory as it adapts to changing market dynamics, regulatory environments and consumer demands.

Companies that prioritize cost efficiency, operational excellence, quality and sustainability excellence and innovation will be well equipped to enhance profitability and revenue, setting the stage for a prosperous 2025 and beyond. Collaboration within the industry and with regulatory bodies will be essential to navigate challenges and seize opportunities for growth in the evolving landscape.

Now I'll hand over to Vimal, who will provide an overview of the Crop Protection division's performance. Over to you, Vimal.

Vimal Kulshrestha: Thank you, Sameer. Good afternoon, ladies and gentlemen. Financials for Crop Protection division. In Q3 FY '25, the revenue for our Crop Protection business stood at INR154 crores with an EBIT of INR14 crores and EBIT margin of 9%. We have several projects in progress with our current innovative clients as well as prospective new customers, and we are seeing encouraging momentum with several companies in CDMO sector for both development and contract manufacturing.

About the business verticals we have in own products in line with our growth plans, we are aggressively identifying and developing new product opportunities to further expand our offering and derisk our customer and product portfolio. For our specialty products, we are witnessing increase in traction with customers, especially in new product areas.

In CDMO business, currently, it has a strong pipeline of eight products from both current and prospective clients. By successfully pursuing these opportunities, we expect to strengthen our position among global innovators and promote growth in CDMO business over medium to long term.

Overall crop business strategically, we are investing in research and development, embracing sustainable practices and adopting precision technologies. We will be well equipped to capture opportunities presented in this dynamic market. While challenges continue to arise, our focus on adaptability and innovation will be crucial in successfully navigating the ever-evolving landscape of agrochemical sector. Together, we can drive meaningful change and position ourselves for success in the future.

Now I would hand over to Anish, who will provide an overview of Animal Health business and business strategy. Over to you, Anish.

Anish Swadi: Thank you, Vimal. First, I'd like to discuss a brief on the Animal Health business. The development of various APIs for an animal health innovator is moving forward successfully under our long-term agreement. We expect to complete the validation of the portfolio in the upcoming 2 quarters, which will assist us in securing the product registration in various countries and ultimately enable the launch of these products across several global markets.

Post that, we will be in a position to commercially sell the products across the world. We are proactively engaging with several new clients in the animal health space for process development and the synthesis of several complex molecules for NCEs, and the outcomes so far have been promising. We continue to garner several new inquiries from companies across the globe.

On our transformation project, Project Pinnacle, it has already been showing some positive results over the past several quarters. We have made significant progress in maintaining growth across our diverse operations. We have amplified our dedication to ESG initiatives, expanded our geographical reach, upgraded our technology initiatives and attracted new customers by bringing them on board.

Additionally, we are consistently investing about 4.5% to 5% of our revenue into our R&D to drive innovation in products and services that meet the changing demands of all our customers. Our commitment to continuous improvement and innovation positions us to stay well ahead in the market dynamics and preserve our industry leadership.

As we move into the next phase of our strategic plan, we are prioritizing the front end to seize opportunities that will strengthen our business pipeline. We have further strengthened our front-end business development teams globally, which will help us capture more opportunities as they present themselves.

Overall, we remain optimistic about our future and are confident that our strategic initiatives and focus on sustainability will equip us to face challenges and achieve long-term sustainable growth.

Now I would like to open the floor to Q&A.

Moderator: Thank you very much, sir. We will now begin the question and answer session. We have our first question from the line of Dhaval Shah from Girik Investments.

Dhaval Shah: Very encouraging to see the strong commentary on the pharma business and also the bottoming out of the agrochemical business. So my first question is on the pharma side. On the CDMO front, you mentioned about various molecules in Phase III trials and plus close to commercialization. And so, I would like to understand, first, so what is the pipeline of molecules do we have, which are in Phase III and IV trials? If you could share some number?

And secondly, the commercialization expectation, should we be expecting any in the FY '26 or everything will come in FY '27? And also, how many molecules are moving -- you feel are close to the commercialization and validation? That's my question on pharma side.

Sameer Hiremath: Hi Dhaval. So, we have currently about , 13 to 14 products in the CDMO under various pipelines, and most of them are between Phase II and Phase III. Phase IV is already getting into launch mode. Out of that, two products are very close to launch, which we expected to be launched in -- towards the end of financial year FY '26. And the others will get launched if everything goes well, in FY '27 and beyond.

Apart from this, we're adding on every quarter new inquiries and new molecules. So the pipeline is building up. A few years ago, this pipeline was a few products, then it became 5 to 6 products. Now we're talking of 13 to 14 products. As we go forward, the number of projects during -- between Phase II B and Phase III will be at any given time, we're targeting to increase this number well beyond 14.

And even in these products, which are apart from this, we have many -- these are all NCEs, as you know. We have some proprietary products, which are products which are just about going off generic, but we have a CDMO manufacturing opportunity, which will also be substantial. But the customers are looking at moving their supply chains. Those are also increasing.

Dhaval Shah: Okay. So these two molecules you mentioned are going to be commercialized in end of FY '26, and those are NCEs, if I heard it correctly?

Sameer Hiremath: Yes. At the end of '26, very early '27. That's the customer indication that we have as of now. Yes, all NCE molecules, yes.

Dhaval Shah: So now if you see in the history of Hikal, it is the first time where an NCE molecule is getting commercialized for us, which was in CDMO space?

Sameer Hiremath: yes, these are advanced intermediates. This is not the final API. Customers decided to do the last step in-house, the last couple of stages. But yes, this is not the first time. We have done in the past, but not at this scale. They were very early on intermediates. This is advanced intermediates of significant potential going forward, yes.

Dhaval Shah: Okay. And then -- so two molecules getting commercialized by the customer, I mean, the customer being the innovator in FY '26 and 1 molecule in FY '27 is what you are expecting?

Sameer Hiremath: Yes. And that can -- we're looking at how to accelerate. It also depends on clinical trials, right? I mean this is the latest number.

Dhaval Shah: Yes, yes. So all these are Phase III giving very promising results post Phase III?

Sameer Hiremath: That's right.

Dhaval Shah: Okay. And so now putting this into the numbers, how do you see this -- the CDMO side of the pharma business growing over the next 3 years for us?

Sameer Hiremath: Well, I think if you look at our current portfolio today, although our CDMO business -- it is -- and our own product business is more or less 50-50, if you look at historically last few years, right. But from a going forward, I think CDMO will overtake the generics business. So it may be working towards a 60-40 type of split from a revenue perspective.

But our generic business also is taking in. We're filing in 3-4 DMFs every year. Our existing products also volumes are growing. We're entering new geographies and new approvals. But it's not only that. There's a stepwise growth as against -- that's going to happen in the business. We have a plan in place that we have launched our Pinnacle strategy that we started working on 2 years ago.

And we have a detailed plan for the next 3 to 5 years. Things are moving as per the plan. We have a very structured approach for customer acquisition, new product development and market penetration and market expansion.

Dhaval Shah: Got it. So, these three molecules combined, which will be commercialized, could give us what sort of revenue, if you can give us any direction?

Sameer Hiremath: I don't think it's too early to give you the number. It depends on how the NCE picks up and the volumes pick up. Customers expect them, if you read market reports of the customers, they are expected to be all blockbuster drugs. So, I think it -- time will tell, but they are quite promising, yes.

Dhaval Shah: And from the -- as a percentage of the end market revenue of that concern drug, our revenue share should be how much, around 1%, 1.5%.

Sameer Hiremath: Typically depends on the product, right, API cost to the total or advanced intermediate cost depending on -- it's a few percentages of the total formulation value, end product value.

Dhaval Shah: Yes. And will we be the sole advanced intermediate supplier in all these or?

Sameer Hiremath: Either one, or one of two.

Dhaval Shah: Got it. Yes. And on the margins front, in the current quarter, our Pharma business has slightly seen a drop in the EBIT margin. What would you alluded that drop to change in the product mix or some CDMO revenues, it has gone from 14% to 11%.

Sameer Hiremath: Yes. I think, see, in our business, it's not fair to look at a QoQchange. You should look at more of 6 months to 6 months or annual change because customers say moves up supplies around like all of the supplies, which are supposed to happen in December, customers said, can you ship it to us in January because of inventories. So, it's a little phasing of the molecules. But if you look at annually, it's a correct way to look at our business, because on a 9-month basis, our Pharma business has grown from 5% to 10% EBIT, that's doubled --. So that is more representative than rather looking from a QoQ up and down.

Dhaval Shah: Got it. And from a longer-term perspective, given the couple of whatever the growth drivers you spoke about, can we assume around -- can we be moving towards 20% to 22% EBITDA margins over by FY '27.

Sameer Hiremath: In the Pharma business?

Dhaval Shah: So, overall, at a company level?

Sameer Hiremath: Our aim is to cross the 20% barrier, which we were historically doing about 2, 3 years ago. So, our target is to cross that first and go beyond that also, yes.

Dhaval Shah: Got it. Yes, and just bookkeeping question, what would be our…

Moderator: Sorry to interrupt, sir. May I please request you to rejoin the queue as there are several participants waiting for this?

Dhaval Shah: Sure.

Moderator: We have our next question from the line of Amar Maurya from Lucky Investments.

Amar Maurya: Just wanted to understand, on the pharma scale up, this quarter, the CDMO has dropped. So, any specific reason for this?

Sameer Hiremath: Pharma scaleup, CDMO was dropped?

Amar Maurya: I mean CDMO percentage as of the overall Pharma revenue came down from 80% to 56% in this particular quarter, right?

Sameer Hiremath: Crop Protection versus Pharma,you're talking about.

Amar Maurya: No.

Sameer Hiremath: Are you talking about pharma or talking about crop.

Amar Maurya: Sir, in both the cases, we have some CDMO, right?

Sameer Hiremath: Yes.

Amar Maurya: So basically, in Pharma, what would be the CDMO percentage in 9-month basis?

Sameer Hiremath: 9 months, I will tell you 1 minute. 9 months, our Pharma CDMO percentage is about 40%.

Amar Maurya: Okay. Is it dropped significantly, like in the quarter?

Sameer Hiremath: It has not dropped. It has gone up.

Amar Maurya: It's gone up. Okay. And what would be the CDMO percentage of Crop Chemical?

Sameer Hiremath: It's about -- historically, it's about 70%. Please look at Slide 14 on the investor presentation.

Moderator: We have our next question from the line of Rohit Nagraj from B&K Securities.

Rohit Nagraj: Good to hear that both the segments are recovering. Animal Health is doing progress. So, first question on the Animal Health front. We have been working on the validation for the innovator. Have we also started for the validation for ex innovator customers? And if yes, then what is the timeline that we are looking at? And if not yet, then again, I mean, what could be the timeline when the validation will start, and we'll expect some commercial supplies?

Anish Swadi: Yes. So, I'll just take a step back. When we look at validation for the innovator customer, what we do is we basically are validating the product, right, for all customers. So, when the validation happens, it's not only for one customer, it's for all customers because we're scaling up the product and putting it into commercial and getting all the data for filing.

So, at the same simultaneous time, we've been marketing it or sending samples to external customers as well. So, we started that phase almost 12 to 14 months ago. And as we went through the product life cycles of validating several products, we've been also shipping samples to customers across the globe.

Overall, we expect like a lead time of anywhere between 14 and 16 months from the time of validating the product in order to get the approvals to sell it in that particular country, depending on the geography we're selling it into.

Rohit Nagraj: Right. So effectively, what you have said in the presentation and comments that next couple of quarters, the validation will be completed. That stays put?

Anish Swadi: Yes, that's correct. So -- but we've also started validating some products or some of the portfolio early on, right. So those products have been undergoing registration, and then we shortly -- we should be able to sell it. In the next quarter or so, as those product registrations come through, we'll be able to sell those products.

Rohit Nagraj: So just one clarification here. So effectively, FY '26 will be the first year of commercialization of some of the products and revenue generation from those products?

Anish Swadi: That's correct. In addition to what we've received in terms of validation revenue. So, validation revenue will end and then commercial revenues will start sometime towards the end of FY '26.

Rohit Nagraj: The second question is on Project Pinnacle. So, we've seen improvement in both the businesses margins. Can you quantify how much of this improvement has come because of Project Pinnacle? And if not, then how much of incremental upside can be seen from current levels? So maybe the benefits to the tune of, say, 50%, 60% have been acknowledged in the current margins or maybe 30%, 40% will be left over for the next foreseeable future. So just a comment from that perspective?

Anish Swadi: Sure. So, I'll just take a step back in terms of assessing what Project Pinnacle was all about. Project Pinnacle was a program designed to -- when we were in COVID, we decided that, look, we wanted to know where the market is going to be in the next 5 years and where we should position ourselves to capture those opportunities.

So, when we got our partners on board, we realistically stripped down the entire company and said, look, what are the gaps in each of the operating divisions, what are the gaps in terms of how we need to be more efficient from a manufacturing perspective, from an organization perspective.

It was not all only about getting an incremental cost benefit out of it. It was also to kind of realign ourselves to take advantage of what we think the next future opportunities are going to be. So, Project Pinnacle was revolved around the strategy of the business and then implementing the strategy.

So, as Sameer mentioned in his opening conversation, we have a 3- and 5-year detailed strategy plan of where we are today and where we want to go in the next 5 years. And Project Pinnacle has laid out that strategy in detail, highlighting what the gaps are, how do we fill those gaps in and what we need to add on in order to capture the opportunities as we go forward.

Rohit Nagraj: Just one clarification here. So, getting to about 20% plus margins is also a part of this maybe by FY '27?

Anish Swadi: Absolutely. I mean it's not only increasing the revenue, but increasing the margin profile, selection of products, which are the areas of focus in terms of business that we need to win, what are the growth drivers, what is the ESG goals. So, it's a whole round strategy exercise. It wasn't just focusing only on the bottom line, right? Obviously, the bottom line is what we're all working towards. But putting all these factors together in ensuring that we deliver a positive and sustainable bottom line over the next several years.

Moderator: We have our next question from the line of Ankit Gupta from Bamboo Capital.

Ankit Gupta: So, my first question was on the veterinary side. So, with commencement of commercial sales from FY '26 onwards, how big can this segment become for us over the next 2, 3 years, if you can highlight what is the potential for this segment to grow in the next 2 to 3 years, FY '27, '28?

Anish Swadi: Yes. So, I'll take it a little further. I mean, we were always in the Animal Health business, but one of the results of Project Pinnacle, as we talked about earlier, was to really focus on this business and become a key supplier, a niche supplier to the animal health industry. And we've done that very successfully.

I think over the next 5 years, we'd like this to become an independent division by itself, stand-alone, just like we have Pharmaceuticals and we have the Crop Protection division. So, we really see a significant amount of growth in excess of INR400-plus crores of business over the next 5 years. So that's the long-term plan that we have and even grow it beyond that.

Ankit Gupta: Sure. And with this -- the contract with the innovator that we have, that also contributing in a big way, what can be the margins in this segment? What kind of margins will generate?

Anish Swadi: So, the margins will be -- on the contribution side, I would estimate the margins to be 45% plus, right? Because the portfolio in the Animal Health business is a mix. It's a mix of what we call existing generic portfolios or existing generic products, coupled with CDMO type business as well. So, it will be very similar to our current businesses that we have in terms of the Pharma and the Crop Protection business in terms of the split, right?

So we're starting off right now with a portfolio that's a niche portfolio, but it's an existing generic portfolio where we've refiled all the products. So, they are new products, but they're already existing on the market.

Ankit Gupta: So -- but given we also being innovative products, shouldn't the margins be higher gross margins because even at the company level, we do higher margins than the 45% gross margin that you're indicating?

Anish Swadi: Yes, certainly. I mean, like I said, is that the NCE type or the CDMO type products will be in excess of 50% in terms of gross margins, right? But again, it's -- I'm talking about the entire Animal Health business, right? It will be in excess of 45%. Some products will be even 55%. Some products will be 45% to 50%, right?

Ankit Gupta: Okay. And Sameer, one question on the long-term growth prospects for the company. If you look at our history, like we had touched almost INR2,000 crores revenue in FY '23 and last 2 years have been challenging because of the issues that we have seen on both the segments. So -- and we have done quite a bit of capex over the past 3 to 4 years, almost INR600 crores, INR700 crores plus.

And with this -- with the kind of new products that we are seeing on both Pharma and Agrochem side, and these are like we are looking at a tie-up with innovators for CDMO CRAMS products. So, over the next 2 to 3 years, like how do we see the growth in the company? Like margins you have spoken about our aspiration to reach 20%.

Let's say, 27%, 28%, what kind of revenue are we looking at, at the company level with so many things happening, both on Pharma, Agrochem as well as on the veterinary API side?

Sameer Hiremath: I think we are anticipating a growth in the next 3 to 5 years of high teens per year-on-year CAGR if you were to project ourselves out and we were sitting together here in FY '28, 3-4 years from now, and we have to review where the business was in FY '24 and where we are stepwise, we'll get there.

And margins will cross then margins will cross the 20% number. I mean, our aim is to get well in excess of 20%. And mid- to high teens is where we're targeting year-on-year CAGR growth. And with that operational leverage will play out, EBITDA margins will improve, and we're working more towards the CDMO pipeline where we're getting involved in proprietary products and NCEs. That is the strategy for the overall business.

Ankit Gupta: And the 15%, 20% growth, can we take INR2,000 crores as the base for that because last 2 years, we have seen decline in revenues, right, like we have.

Sameer Hiremath: Yes. That's right.

Ankit Gupta: And my last question was that on the agrochemical side. So here also, you have spoken a bit on opportunities on the innovative side. So, if you can talk a bit about that, how many launches we are looking at on the innovator side over the next 2 to 3 years? And any other pipeline development on the CRAMS on innovative side on agrochemical as well?

Sameer Hiremath: Yes. So, the agrochemical space, I mean, there has been some pricing pressures and volume pressure because of the overall slowdown in the industry and also the China dumping effect. So, we are also retooling our product offerings, and we are working more towards the NCEs and the CDMO pipeline.

And we have several, as Vimal mentioned, we have more than 8 active projects which are under filing or under launch in the next 2 to 3 years. And these will drive growth FY '27 onwards, I would say. I think there's a few more quarters of pain left for the crop business while things come back to growth phase or the worst is behind us and we are using this opportunity to strengthen our offerings and to onboard new contracts and new customers.

And again, like the Pharma business where the number of RFPs that we have today and the number of wins that we have versus maybe 2 years ago have increased substantially. So, it's a little bit of a pain for the short term, but I think medium to long term. The crop assets are also being repurposed into the specialty chemicals business. So, we're using the same infrastructure and the same assets to launch products in the specialty chemicals space for global innovator customers where the growth is going, say significant, where we see better margin profile, where a company with our reputation and standards is preferred and where China Plus One definitely is playing out to a large extent.

Ankit Gupta: But the seven, eight products that you were referring to, these are all innovative products, these are a mix of generic or the largely generic products?

Sameer Hiremath: Not all innovator products. Some are generic innovator called proprietary off-patent and some are NCE on-patent chemistry as well. They're not commodity generics. None of them are commodity products.

Moderator: Thank You. We have our next question from the line of Sajal Kapoor from Antifragile Thinking.

Sajal Kapoor: Sameer, while answering to a participant, you mentioned the keyword blockbuster. What could be the peak potential of an average NCE CDMO? I mean, can any of these molecules after, say, 3, 4 years of launch because there is always a ramp-up period, you will not get the peak sales in year 1.

But let's assume we touch the peak potential of these NCE molecules that we have in late phase 3 or 4 years out. I mean, can each of them individually or can any of them fetch us INR500 crores or thereabout on an annualized run rate when they reach that peak potential? Is that -- I mean, is that what you mean by a blockbuster? Or is it -- I'm not getting the right end of the stick here?

Sameer Hiremath: See, I think it all depends on the size of the molecule and the growth aspirations and depends on the dosage of the molecule. I think INR500 crores is a bit too high. It's very stretched. I mean we all aspire to get one or two those. But currently, with what we see, it could be INR50 crores in the worst case to maybe a few hundred crores per molecule in the best case, in that range.

But we have multiple products that we will launch. It's not going to be focused on one or two products. The idea is to launch multiple products in any given year, increase our pipeline. So, a combination of that could generate INR400 crores, INR500 crores every year going forward.

Sajal Kapoor: Yes. understood. And Sameer, there are no less than 20 high-quality small molecule CDMO companies in India. And what I mean by high quality is they have got immaculate regulatory compliance track record. They have the depth in the scientific research. So, in that kind of cohort, there are no less than 20 high-quality small molecule CDMO companies in India. Why do you think innovators come to Hikal? I mean what is so unique about Hikal that they are not getting elsewhere?

Sameer Hiremath: I think the answer is right to some extent, and I'd like to defer to some extent as well. While there are several players in the CDMO space, it's a very vast service offering. You can do R&D services, you can do clinical trials, you can do manufacturing, you can do formulation development. So, the CDMO space is a very wide segment. What we participate in the segment that we participate, I would say there are probably five or six of companies of our repute and our credibility. And the reason I'm saying that is when we get customers to visit us, which were increasing presence of our customers, even today, we have a very large customer on one of our sites, they typically come to India for a week to 10 days, and they visit four or five companies during their visit. They spend 1 or 2 days, and we are on that list. So we are in that top 5, I would say, in the country. And we offer also a very strong pipeline capability from the R&D side as well as we have the manufacturing expertise. That's what differentiates us. The 20 companies that you mentioned about maybe being very strong -- very big in R&D, but they have less expertise in manufacturing.

We also add the angle of being able to do cost improvements when the product goes off patent, life cycle management. Because of our specialty chemicals and the crop protection history of 36 years, we have a lot of differentiated technology that we offer, and that can be leveraged and the know-how is available in our Pharma business as well.

As well as our ESG track record, our sustainability initiatives and our quality compliance track record, we're able to differentiate ourselves. And participate in a smaller pool of competitors rather than 20. We do have competition, but it is a smaller pool where we participate and where we project our capabilities.

Sajal Kapoor: Sure. And this movement of innovators trying to diversify away from China, is this predominantly seen in U.S. innovators and Japanese innovators? Or do you think some of the European innovators are also thinking that perhaps this time, they should also diversify?

Sameer Hiremath: I think it's happening in all innovators. It's not only U.S. or Japan, more pronounced in U.S. and Japan. But Europeans also are beginning to look at this very seriously now.

Sajal Kapoor: Sure. And one last question, Sameer. In recent times, the innovators are getting very active around small molecules. Previously, there was a chatter around that biologics will rule the world ultimately and there will not be a place for small molecules. I mean, based on whatever research that I have done and interacted with the industry, there seems to be some shift happening there that innovators are now coming back and they are eyeing the small molecules, which they once kind of started vacating?

What could possibly explain this shift in the behaviour? Is it something like the small molecules, GLPs, they are giving some ray of hope to these innovators? I mean why would they come back to small molecules kind of making a u-turn, if you like?

Sameer Hiremath: Well, I don't -- I'm not an expert on that to answer that. But my -- probably it has something to do with the drug delivery mechanism because the biologics are all mostly injectables and also the affordability. Small molecules are far more affordable than the biosimilars or biologics. I think -- and there's an incredible innovation in the small molecule space, which is happening. Even the largest GLP-1 drugs that are moving from injectables, they're moving to oral solids now because of affordability and widespread acceptance.

Sajal Kapoor: Yes. No, understood. I think that's exactly where I was also thinking along the lines that the small molecule GLPs are much more affordable versus a large molecule and say -- or even a peptide GLP for that matter. The cost of manufacturing, I think, is also lower, and therefore, the affordability angle is also better in small molecule GLP. So yes, I think, yes, understood. Thank you so much. All the very best. Look forward to fourth quarter and future years.

Sameer Hiremath: Thank you.

Moderator: The next question is from the line of Raj Desai from R.D Securities.

Raj Desai: So I had a couple of questions. First being, if you could provide with the value and volume growth for Q3 and 9M on the Pharma side and on the Crop Protection side?

Sameer Hiremath: Yes. Kuldeep. Why don't CFO take this numbers? Kuldeep?

Kuldeep Jain: Yes. Thanks, Sameer. For the 9-month basis, our volume in crop protection growth was 41%. And in Pharma, just 3.7%.

Raj Desai: And on value terms?

Kuldeep Jain: In value terms, our crop growth was -- degrowth was 3.3%, while the Pharma growth was 7.1%. So technically, we have not grown in value, we have grown in volume.

Raj Desai: Okay. And sir, I have one more question. What are your views on the latest tariffs from the U.S.? And do you believe that it will provide an opportunity for India?

Sameer Hiremath: Anish, why don't you take that?

Anish Swadi: So, look, of course, we've heard the news this morning about 10% tariffs on chemical companies in China. We're obviously looking at that. Those are in addition to supposedly 25% already existing tariffs that they have in place. But look, it's a volatile situation, right? We don't know how it's going to pan out, whether it's a negotiating tactic with the new administration.

But overall, I think fundamentally, we do see a good opportunity for us in particular and for India as a country because the shift in terms of moving from China, particularly has been increasing over the past, not just few months, but I would say probably the 12 to 18 months, right? So almost 1, 1.5 years. So I think overall, the shift is happening. And we do see opportunities presenting themselves.

I think the tariffs, we'll have to wait and watch to see what the impact is. It's not just easy to bring back manufacturing to a particular country to the U.S. or to any other country overnight. So, I think it will be a quid-pro-quo. We'll have to give up something in order to get something, but it's more about us waiting and watching to see how things pan out.

Moderator: Thank you. We have our next question from the line of Dhaval Shah from Girik Capital.

Dhaval Shah: What will be our gross debt number as of 9 months? And what will be our operating cash flow for the 9 months?

Kuldeep Jain: See, our debt was INR731 crores. It was December 2024. And as far as the positive cash flow is concerned, we have INR102 crores positive cash flow, operating cash flow.

Dhaval Shah: INR102 crores.

Kuldeep Jain: Yes, positive cash flow.

Dhaval Shah: INR102 crores. That's your operating cash flow, right?

Kuldeep Jain: Yes.

Dhaval Shah: Yes. And the capex for the current year, are we doing around INR140 crores, which was guided last quarter on the call. Is it the same number?

Kuldeep Jain: Absolutely. We are sticking to what we have said earlier. It will be INR140 crores to INR150 crores.

Dhaval Shah: Okay. And for FY '26, how much are we planning?

Kuldeep Jain: As you mentioned earlier, typically, we have a plan of almost INR150 crores to INR200 crores each year.

Dhaval Shah: Okay. And in terms of -- so we capitalized the Agrochem plant last month, as you mentioned. So how much would that amount be, the capitalized amount?

Kuldeep Jain: INR340 crores.

Dhaval Shah: INR340 crores. Okay. Got it. And so now INR150 crores, INR200 crores capex what we'll be doing, so large will be our replacement and maintenance capex or some other expansion will also be part of it?

Kuldeep Jain: See, 30% to 40% will be replacement capex. The balance will be the debottleneck growth capex.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. And I now hand the conference over to Mr. Sameer Hiremath for closing comments. Over to you, sir.

Sameer Hiremath: Thank you everyone, for joining our quarterly earnings call and for your continued interest in our company. We appreciate your support as we navigate through the challenges of the global business environment. I wish to reiterate that our quarter-on-quarter performance will continue to yield positive growth and profitability through the end of this financial year.

As we conclude this call, we want to assure you that we are here to address any further questions and concerns. Please feel free to reach out to us, our Investor Relations partners, Strategic Growth Advisors, as well. Once again, thank you for your participation. Goodbye, and have a very good evening. Thank you.

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