HIKAL

CREATING VALUE THROUGH **SUSTAINABILITY**

ANNUAL REPORT 2022-23

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Guided by our vision, we have made substantial progress on the Environment, Social, and Governance (ESG) front by establishing a sustainability roadmap. This not only bolsters our standing but also positions us as a more robust and enduring organisation committed to sustainability.

Jai Hiremath
Executive Chairman

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2022-23 Highlights

FINANCIAL

₹20,230 mn
Revenue

13%
EBITDA Margin

₹6.36
EPS

₹127 mn
Free Cash Flow

19%
Dividend Payout Ratio

0.61x
Net Debt to Equity

ESG

ENVIRONMENT

7%
Reduction in water intensity per ₹ of turnover

Multiple
Power purchase agreements (PPAs) signed to procure renewable energy

SOCIAL

2,16,500
Beneficiaries

Zero
Fatalities

GOVERNANCE

20%
Women Directors

100%
Employees* trained on any of the principles of the BRSR

*Other than BoD and KMPs

CREATING VALUE THROUGH SUSTAINABILITY

About the Cover

The way molecular bonds lay the groundwork for complex structures; sustainable practices serve as the foundation for our resilience, success and positive impact. This concept is reflected on the cover of this year's Annual Report, where blue symbolises Hikal, and green represents our commitment to sustainability. The overlapping bond signifies the symbiotic relationship between Hikal and Sustainability - wherein lies the potential for growth.

For over three decades, our commitment has been to drive growth through scale, efficiency, and quality. This year, we strengthened our commitment to sustainability, going above and beyond to extend the value we create beyond our products. Embracing sustainability aligns our Company's operations with environmental responsibilities and yields significant benefits in multiple aspects.

We firmly believe that sustainability and growth are intertwined. With sustainability as our north star, we have made significant investments in technology to ensure clean energy, reduce our carbon footprint, conserve natural resources, and minimise waste generation across all our sites. This, in turn, enhances our reputation and fosters stronger relationships with stakeholders, including colleagues, partners, and the communities in which we operate.

Our sustainability roadmap focuses on reducing our carbon footprint across the entire value chain. Prioritising sustainability leads to cost savings through optimised use of resources and energy efficiency. Furthermore, by adopting a 'molecular thinking' approach, we aspire to become the preferred partner for our global customers – passionate, future-ready, and committed to sustainability.

Overcoming. Thriving. Succeeding.

Guided by our vision, we have made substantial progress on the Environment, Social, and Governance (ESG) front by establishing a sustainability roadmap. This strengthens our position and positions us as a more resilient and sustainable organisation.

Jai Hiremath
Executive Chairman

Dear Shareholders,

The financial year 2022-23 posed significant challenges for both of our businesses, due to the significant increase in raw material prices and supply chain disruptions. The commitment and collective efforts of all Hikal team members who have worked tirelessly to ensure a sequential recovery each quarter. Their dedication and coordination have been vital in navigating the hurdles we faced.

Guided by our vision, we have made substantial progress on the Environment, Social, and Governance (ESG) front by establishing a sustainability roadmap. This strengthens our position and positions us as a more resilient and sustainable organisation.

Financial Performance

We achieved total revenues of ₹20,284 million in 2022-23, compared to ₹19,476 million in the previous year, demonstrating our ability to navigate complex market dynamics while delivering value to our customers.

Our ongoing commitment to maximise shareholder value remained steadfast as we achieved an EBITDA of ₹2,625 million and a net profit of ₹784 million in 2022-23. The reduction in margins is mainly on account of higher raw material prices.

The Board of Directors has recommended a final dividend of ₹0.6 per share, bringing the total dividend for 2022-23 to ₹1.2 per share (60%) including the interim dividend announced earlier this year.

Pharmaceutical Division

In the Pharmaceutical Division, our revenues stood at ₹11,152 million against the previous year's revenues of ₹11,297 million. The EBIT for the division stood at ₹650 million, achieving a 6% margin. While our profitability faced challenges stemming from significant raw material input prices, we implemented cost reduction measures through our business excellence initiatives. These proactive efforts have helped us partially absorb the impact and stabilise our profit margins. Furthermore, we successfully expanded our customer base and consolidated our presence in new regions such as the Middle East and Latin America. Most notably, our new product launches in anti-diabetic therapeutics have generated significant interest and acceptance among global customers.

Looking ahead, our primary focus will be maximising active pharmaceutical ingredient (API) sales by increasing our share of customers' wallets. To achieve this, we will explore new markets and actively work towards expanding our market share in specific APIs.

With respect to our Contract Development and Manufacturing Organisation (CDMO) business, we anticipate normalisation of demand in the second half of 2023-2024. I am pleased to share that despite the severe de-stocking by our customers in the generic market, we experienced increased traction among our existing innovator customers allowing us to expand our share of the CDMO business. Our robust pipeline of projects in the CDMO space continues to grow, and we remain committed to fostering strong partnerships and capitalising on emerging opportunities in the CDMO industry.

I am pleased to announce that our API facility in Panoli, Gujarat, successfully faced a US FDA audit in 2022-23. The audit yielded exceptional results, and we received a compliance status of 'No Action Indicated' (NAI), commonly known as 'Zero 483' observations from the US FDA. These developments further strengthen our position in the industry and demonstrate our commitment to adhering to strict quality standards and regulatory requirements.

Crop Protection Division

The Crop Protection division achieved a 12% annual revenue growth with ₹9,079 million in total revenues for 2022-23 compared to ₹8,130 million recorded in the previous year. The EBIT of the division was at ₹1,033 million, representing a margin of 11%. The revenue growth is primarily attributable to higher demand from existing and new customers. We commercialised two new advanced intermediates for a global innovator company.

We are focusing on capitalising on new opportunities, strengthening our position among global innovator companies, and enhancing operational efficiencies through strategic vendor development and supply chain optimisation. These measures ensure a reliable supply of essential raw materials and contribute to stable pricing. By implementing these initiatives, we are fortifying our operations, streamlining costs, and reinforcing our ability to meet customer demands efficiently and consistently.

Our ongoing transformation journey, Project Pinnacle, has gained momentum, driving advancements in our product portfolio and geographical expansion.

Animal Health

Our Animal Health business has demonstrated consistent growth, and we are making significant progress in developing multiple APIs under a long-term agreement with a global innovator Animal Health company.

Over the next few years, we will supply validation batches of the under-development products to our esteemed customers. Additionally, we actively discuss with customers worldwide, offering them manufacturing and process improvements to meet their current and future requirements.

We aim to be a partner of choice in providing innovative solutions in the industry.

Business Transformation – Project Pinnacle

Our ongoing transformation journey, Project Pinnacle, has gained momentum, driving advancements in our product portfolio and geographical expansion.

I am delighted to report that the efforts invested in Project Pinnacle are already yielding positive results, laying the foundation for long-term value creation.

We remain focused on creating shared value for all stakeholders, prioritising customer needs, employee well-being, and developing a robust and diversified supply chain. Our sustainability efforts include implementing renewable energy projects, strengthening compliance policies, and embracing sustainable waste management practices.

Research and Technology

During the year, we have spent 3-4% of our sales on research and technology (R&T) investments, emphasising our commitment to ensuring future growth. These substantial investments aim to build new capabilities to drive our business forward.

Our current focus lies in the backward integration of raw materials and developing greener processes. Backward integration of critical raw materials is a strategic decision to help reduce supplier concentration and geographical dependence, ensuring a more stable supply chain.

During the year, our R&T team filed three US Drug Master Files (DMFs), five CEP amendments, and ten US DMF amendments for the pharma segment.

Furthermore, we have successfully concluded global registrations for three products in the Crop Protection segment, solidifying our presence in key markets. In line with our plans, we are excited to announce the upcoming launch of two new fungicide products this year. These products will be manufactured at our state-of-the-art facility in Panoli, Gujarat.

Creating Shared Value

We believe in empowering our stakeholders to create an environment where everyone can thrive and contribute to shared goals by fostering shared ownership and purpose. We prioritise the needs of our customers, a commitment that not only drives us to provide innovative chemical solutions today but also fuels our aspiration to meet the evolving needs of tomorrow.

Similarly, employee well-being is the bedrock of our organisation. We undertook various initiatives throughout the year to support our employees. We have also been conferred with the prestigious Great Managers Award and have been recognised as 'Companies with Great Managers'. This is a testament to the efforts that we continuously put in to foster a culture of productivity and continued excellence.

Lastly, our ongoing efforts to develop alternative suppliers and reduce dependence on a single geography or vendor are progressing as planned. This strategic initiative aims to position us as the

Recognising the significance of infrastructural development in enhancing the quality of life for communities, we have made substantial improvements to the social infrastructure surrounding our manufacturing plants.

preferred partner for our global customers by ensuring a robust and diversified supply chain. These endeavours reinforce our commitment towards being a forward-thinking organisation and meeting the evolving needs of our customers.

Responsible Growth – ESG Goals

We are committed to conducting our business responsibly, safely, and efficiently to become a sustainable company for long-term success. In pursuit of this goal, we have implemented several initiatives across all our sites.

We are actively implementing renewable energy projects as part of our sustainability strategy. Our efforts have yielded fruitful results as we have successfully signed long-term Power Purchase Agreements (PPAs) with two prominent solar power developers. These agreements secure 9.5 MW and 3.2 MW of solar energy for our Taloja and Mahad units. Furthermore, we have agreed to procure 4.8 MW of renewable energy from a hybrid project encompassing wind and solar technologies for our Panoli unit and 7 MW for our Jigani unit. Additionally, we are actively working towards reducing waste generation throughout our operations, embracing sustainable waste management practices.

We are proactively strengthening our compliance policies and Standard Operating Procedures (SOPs). To ensure the highest level of compliance, we have engaged a reputable internal audit firm. Furthermore, we have partnered with a distinguished ESG firm and initiated third-party audits across our entire plant network. These audits identify gaps in our processes and provide valuable guidance for improvement.

As a testament to our commitment to sustainability, we embarked on our first materiality assessment in 2022-23. This assessment served as a crucial step in gaining a deeper understanding of the needs and expectations of all our stakeholders, including our colleagues, partners, and the communities in which we operate. By aligning our actions with their expectations, we aim to create a positive and lasting impact.

Way Forward

I am proud of what we have achieved in an uncertain economic landscape. We have expanded our business while staying true to our core values and culture pillars.

We anticipate a deceleration in the first half of the upcoming financial year, due to the global growth slowdown and mounting pricing pressure. Nonetheless, we remain focused on operational excellence and capital efficiency as we strive to reduce costs and enhance our margins, enabling us to stay competitive within this demanding global landscape. We are well positioned for sustainable growth in the medium to long term, driven by our focus on innovation, commitment to sustainability, global presence, and a robust financial foundation.

On a concluding note, I thank all our stakeholders for supporting and standing with us this year. I wish to convey my sincere thanks and appreciation to team Hikal for their continued commitment and dedication towards the organisation during difficult times. Lastly, I would like to express heartfelt gratitude to our customers, bankers, and shareholders for their unwavering support and commitment.

Warm Regards,

Jai Hiremath
Executive Chairman

CORPORATE OVERVIEW

The Hikal Way connects our people through a shared mission, long-term vision, and strong values. It has empowered us to create impactful solutions, build enduring relationships, and drive meaningful outcomes.

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