Management Discussion and Analysis

Economic Review

Global Economic Review

The world economy exhibited immense potential for high growth rates in 2023-24; however, it was disrupted by the outbreak of the Russia-Ukraine conflict. The war in Ukraine has not shown definitive signs of immediate resolution, despite diplomatic efforts and ceasefire agreements in some regions, reducing the intensity of conflicts in the short-term. Additionally, rapidly rising tensions in the Middle East due to the Israel-Gaza war and new commodity price spikes from geopolitical shocks, including Red Sea Crisis and supply disruptions or more persistent underlying inflation could prolong tight monetary conditions.

The International Monetary Fund anticipates, global inflation rates have peaked in many countries and are showing signs of gradual decline, from 6.8% in 2023 to 5.9% in 2024 and 4.5% in 2025, with advanced economies returning to their inflation targets sooner than emerging, thanks to factors like central bank monetary tightening through interest rate hikes, moderating energy prices, and easing supply chain disruptions. However, inflation remains at elevated levels compared to pre-pandemic norms, and central banks are cautious about declaring victory too soon.

Europe's Recovery is on Track

Europe's recovery, supported by domestic demand, is progressing steadily. The latest GDP data for the Euro area show growth slightly above expectations, as all major economies have performed slightly better than expected in April 2024. The recovery is fuelled by increasing confidence among consumers and businesses. Household incomes are maintained by strong labour markets, contributing to the rise in incomes during this recovery phase.

Outlook

According to the April 2024 report by the IMF, the baseline forecast is for the world economy to continue growing at 3.2% during 2024 and 2025, at the same pace as in 2023. Conversely, upside factors include the potential for a short-term fiscal stimulus in light of numerous countries holding elections in 2024, expedited monetary policy accommodation, and productivity enhancements facilitated by advancements in technologies such as artificial intelligence. In contrast, the World Bank's 'Global Economic Prospects' report released in January 2024 adopts a more conservative stance, estimating global Real GDP growth at 2.6% for 2023, with growth forecasts of 2.4% and 2.7% for 2024 and 2025, respectively.

Global Growth Forecast (%)

Particulars	2023	2024 (P)	2025 (P)
World Output	3.2	3.2	3.2
Advanced Economies	1.6	1.7	1.8
US	2.5	2.7	1.9
Eurozone	0.4	0.8	1.5
Japan	1.9	0.9	1.0
UK	0.1	0.5	1.5
Other Advanced Economies	1.8	2.0	2.4
Emerging Market and Developing Economies	4.3	4.2	4.2
China	5.2	4.6	4.1
India	**7.8**	**6.8**	**6.5**
Emerging Market and Middle-Income Economies	4.4	4.1	4.1
Low-Income Developing Countries	4.0	4.7	5.2

Source: World Economic Outlook, IMF, April 2023
Note:
1 P stands for projections
2 For India, data and forecasts are presented on fiscal year basis, with FY24 (starting in April 2023) shown in the 2023 column. India's growth projections are 6.9% in 2024 and 6.5% in 2025 based on the calendar year.

Indian Economic Review

The Economic Review for March highlighted that India's economy has maintained its strength despite facing global challenges and geopolitical tensions. Factors like robust domestic demand, increased rural demand, strong investment, and sustained momentum in manufacturing have all played a role in India's resilience.

India's retail inflation in 2023-24 witnessed a notable decline, reaching its lowest point since the Covid-19 pandemic. The Monetary Policy Committee (MPC) of India opted to maintain the current policy rates, pointing to the ongoing transmission of monetary policy. The aim is to bring inflation into alignment with the target rate of 4% while also continuing to support economic growth. The RBI has projected CPI inflation for 2024-25 at 4.5% taking into consideration the potential challenges like geopolitical tensions and domestic weather-related disruptions. Additionally, the government's proactive measures, such as reducing prices of petrol, diesel, and LPG, have also contributed to inflation control efforts. Crude oil prices have a direct bearing on the rise of retail and wholesale inflation in India. Currently, crude oil and related products have a weight of 4.4% in retail (CPI) inflation and 10.3% in wholesale (WPI) inflation. Changes in crude oil prices tend to get directly reflected in the CPI and WPI readings, as well as indirectly through the pass-through to other components over time.

March 2024 witnessed several indicators of robust economic performance, including record-levels of the stock market indexes, remarkable Goods and Services Tax (GST) collections, and substantial growth in both the manufacturing and services sectors.

Outlook

The National Statistical Office (NSO) estimates India's GDP growth at 7.6% for 2023-24, up from 7.0% in 2022-23. Consumption, comprising 56% of GDP, grew by 3.0%, exports by 1.5%, and imports surged by 10.9% in 2023-24. Government capex initiatives spurred private investment, leading to a 10.2% growth in Gross Fixed Capital Formation, accounting for 34% of GDP. Agriculture grew by 0.7%, manufacturing by 8.5%, construction by 10.7%, and services by 7.5%. 'Trade, hotels, transport, communication, and broadcasting services' within the service sector grew by 6.5%. (Source: NSO estimates, February 2024)

The joint efforts of the government and the RBI to tackle inflation, involving adjustments in policy rates, bolstering food reserves, and easing imports, have led to successful management of inflation. Consequently, retail inflation in 2024-25 witnessed a significant decline, reaching its lowest level since the COVID-19 pandemic, with core inflation dropping to 3.3% in March 2024.

Further, the forecast of an above-normal monsoon in 2024 suggests favourable conditions for a strong harvest, alleviating worries about inflation.

India's trade deficit is expected to decline in the coming years as the PLI scheme deepens its coverage and extends to other sectors. India has established itself as the world's third largest fintech economy, ranking just behind the US and the UK.

Overall, amid uncertain global conditions, India's economy continues to demonstrate resilience, supported by robust growth, strong economic indicators, stable prices, and consistent performance in the external sector. Despite global uncertainties, India remains the fastest-growing major economy, with both international organisations and the Reserve Bank of India expressing optimism about its growth prospects for the current fiscal year.

India's Growth Forecast (%)

2022-23	2023-24 (E)	2024-25 (P)
7.0	7.6	7.0

Source: CSO/RBI

Industry and Business Review: Pharmaceutical

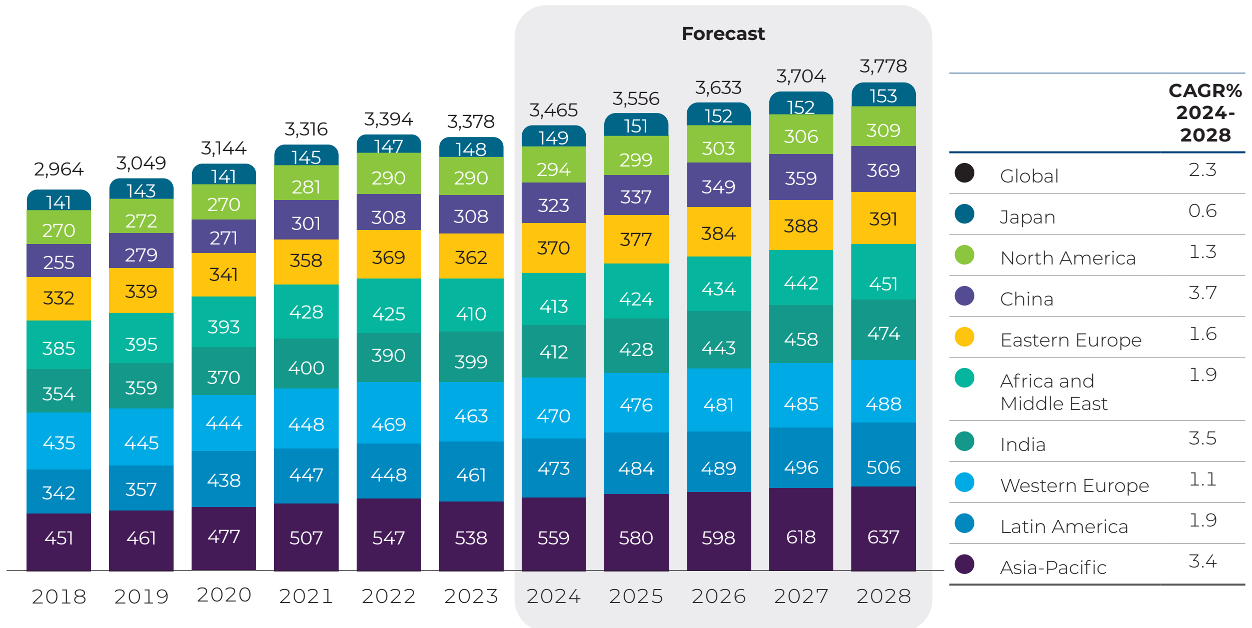
Global Pharmaceutical Industry*

In 2023, the global pharmaceutical sector experienced significant changes in medicine consumption and expenditure worldwide, laying the groundwork for robust expansion in the foreseeable future. Despite downward adjustments in spending on vaccinations and Covid-related treatments due to decreased usage, the industry displayed remarkable resilience and adaptability by embracing innovative therapies and increasing overall medicine utilisation. While global medicine usage reached a plateau in 2023, projections by SP Industries suggest a steady growth trajectory at an average rate of 2.3% until 2028. Biotechnology continues to be a key driver of medicine growth over the next five years, alongside specialised medications addressing chronic and rare ailments. Furthermore, advancements in neurology, mental health treatments, and the emergence of next generation biotherapeutics are poised to reshape patterns of medicine expenditure and consumption.

With the shift of the pandemic from an acute crisis to an ongoing endemic situation, the forecast for medicine expenditure until 2028 saw an upward revision, indicating faster growth rates and an expected Compound Annual Growth Rate (CAGR) ranging from 5-8%. This surge is anticipated to result in a total expenditure of USD 2.3 Trillion.

Global Pharmaceutical Industry Growth: 2018-2028*

Historical and projected use of medicine by region, 2018-2028, Defined Daily Doses (DDD) in Billions



Source: IQVIA Institute, December 2023

Global Pharmaceutical Market

(USD Bn)

Regions	2019-2023 CAGR	2023	2024-2028 CAGR	2028
Developed Markets	7.2%	1,275.5	5-8%	1,775-1,805
Pharmerging Markets	7.8%	303.7	10-13%	400-430
Other Markets	5.6%	27.6	3-6%	33-37
Global Pharmaceutical Market	7.3%	1,606.8	6-9%	2,225-2,255

Source: IQVIA 2023 report

* IQVIA Institute: Global Use of Medicine Outlook 2024.

Global Pharmaceutical Market – Share by Product Type

(% of Total)

Region	Original Brands (%)		Non-original Brands (%)		Unbranded Generics (%)		OTC, Vaccines and Others (%)		Total (USD in Billion)	
Year	2023	2028	2023	2028	2023	2028	2023	2028	2023	2028
Developed Markets	76	78-79	10	9-10	9	7-8	5	4-5	1,275.5	1,775-1,805
Pharmerging Markets	27	28-30	35	33-35	14	13-17	24	21-24	303.7	400-430
Other Markets	32	27-35	49	45-51	6	5-7	13	11-12	27.6	33-37
Global Markets	66	68-69	15	14-15	10	8-9	9	7-8	**1,606.8**	**2,225-2,255**

Developed Markets

By 2025, spending on medicine in developed markets is projected to reach USD 1.775 to USD 1.805 Trillion annually. This growth is driven by innovative therapeutics, despite challenges from generics and biosimilars. Immunology treatments will see steady use, though biosimilar competition may offset some gains. The spending increase will be fueled by new products and existing branded medicines.

Developed Markets – Pharmaceutical Spending and Growth

(USD in Billion)

Region/Country	2019-2023 CAGR	2023	2024-2028 CAGR	2028
Top 10 Developed Markets	7.0%	1,081.6	5-8%	1,505-1,535
Other Developed Markets	8.5%	193.9	5-8%	255-285
Total Developed Markets	7.2%	1,275.5	5-8%	1,775-1,805

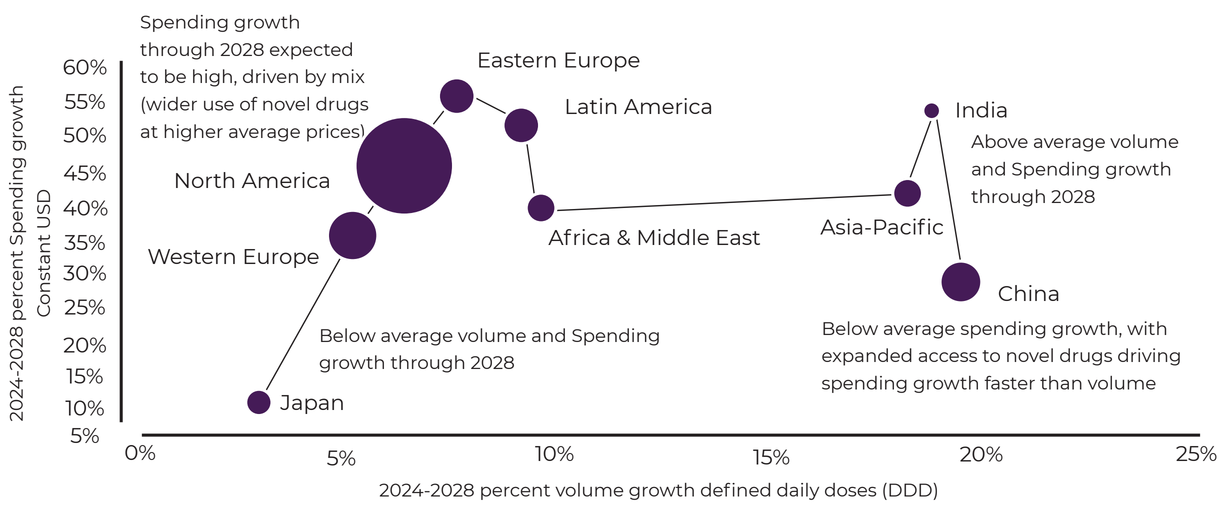
Growth by Region

Global use of medicines grew by 14% over the past five years and a further 12% increase is expected through 2028, bringing annual use to 3.8 Trillion defined daily doses according to IQVIA. The global use of medicines increased by 414 Billion defined daily doses over the past five years and is expected to grow another 400 Billion by 2028. Pharmaceutical spending in the United States will likely increase steadily, with forecasts indicating a 2% to 5% annual rise until 2028. Over the next five years, the top five European pharmaceutical markets are expected to witness a notable increase in consumer spending.

The highest volume growth over the next five years is expected in China, India, and Asia-Pacific, all exceeding 3% compound annual growth. Lower volume growth in higher income regions such as North America, Western Europe and Japan are linked to more established health systems and existing access to medicine.

Regions around the world are growing following diverging trends, with some more volume driven while others have a greater contribution from adoption of innovation. Countries in North America, Eastern and Western Europe, Latin America, and Africa and Middle East are expected to increase spending growth by more than 30%, indicating both population-driven volume growth and a shift in the mix of products to more expensive products. China, the world's second largest country by pharmaceutical spending, will increase volume by 20% in aggregate over five years, while spending will increase 21%, a more modest rate than in the prior years and still embedding a focus on expanding access to novel drugs via the National Reimbursement Drug List (NRDL).

Spending and Volume Growth by Region



Source: IQVIA MArket proqnosis, September 2023; IQVIA Institute, December 2023.

Megatrends

Personalised Medicine and Genomics

The availability of genomic data has made personalised medicine possible. Pharmaceutical companies are now using genetic information to develop customised therapies tailored to the individual needs of each patient. This approach promises not only more effective treatments but also a reduction in unwanted side effects.

Advances in Biotechnology

Biotechnology will continue to play a central role in drug development. New biological therapies, such as gene therapies or cell therapies, could offer breakthrough treatment options for diseases that have been difficult to treat to date.

Digital Health and Telemedicine

Through the use of digital technologies and telemedicine, patients can now receive medical advice and treatment from the comfort of their own homes. Pharmaceutical companies are increasingly investing in digital health solutions that improve patient care and increase adherence to treatment. This leads to better healthcare, especially in rural areas.

FDA Drug Approvals

The FDA's Centre for Drug Evaluation and Research (CDER) oversees the regulation of both prescription and over-the-counter drugs, including biological therapeutics and generic drugs. The CDER, a division of the US Food and Drug Administration (FDA), recently published a comprehensive report detailing the centre's approval of 55 new drug innovations in 2023. Additionally, the report highlights significant developments such as the expansion of treatment applications and patient populations for previously approved therapies, as well as the approval of drugs in new dosage forms and formulations. Over the past decade, from 2014 to 2023, the CDER has consistently averaged around 46 new drugs in its portfolio.

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NOVEL DRUGS APPROVED BY THE CDER IN 2023

New Drug Launches

The number of new drugs approved by CDER last year was notably higher than 2022, which saw 37 approvals, and the highest year for novel approvals since 2018, which saw 59 approvals. Oncology, neurology, and immunology have had rising shares of new launches in the past five years, with 204 of the 362 launches (56%) compared to 105 of 246 (43%) from 2014 to 2018.

Infectious diseases, including anti-bacterial, anti-viral, anti-fungal and anti-parasitic treatments, have included novel treatments for HIV, Ebola, and more recently smallpox, and are 11% of NAS launches over the last decade, with some year-to-year variability.

Particularly, CDER approved five biosimilars last year, including three biosimilars for reference therapies that did not previously have a corresponding biosimilar. In addition, 20 of the 55 novel drugs approved, or 36 %, in 2023 were deemed first-in-class, meaning they contain a mechanism of action different from existing therapies.

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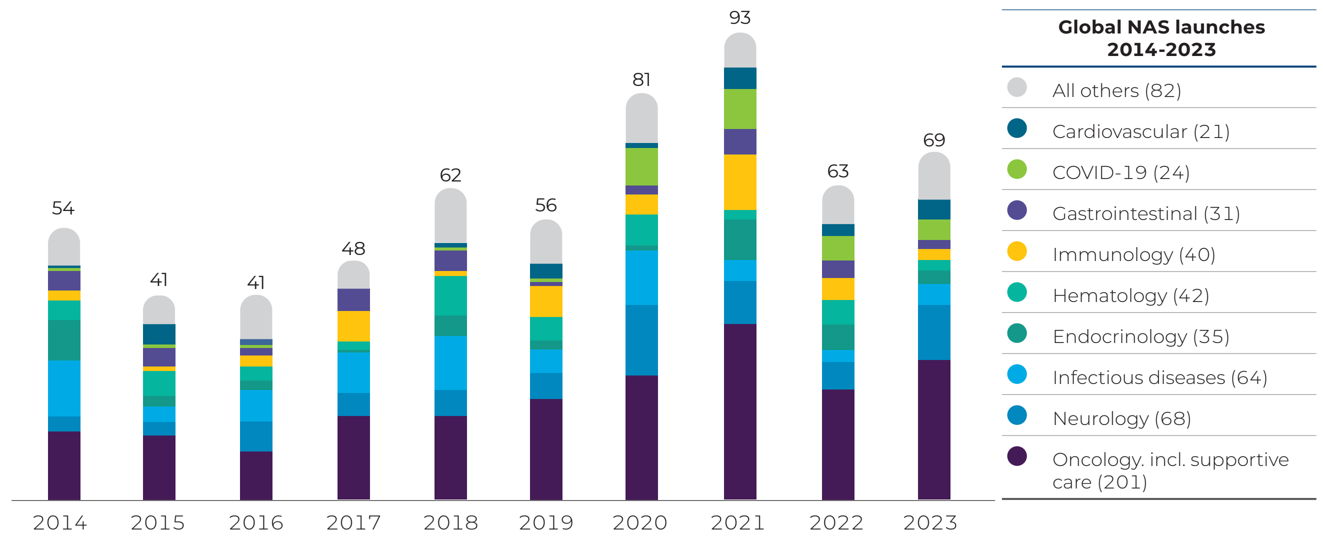
NOVEL ACTIVE SUBSTANCES (NASS) WERE LAUNCHED GLOBALLY IN 2023

Global Launches of Novel Active Substances (NAS) by Therapy Area, 2014-2023

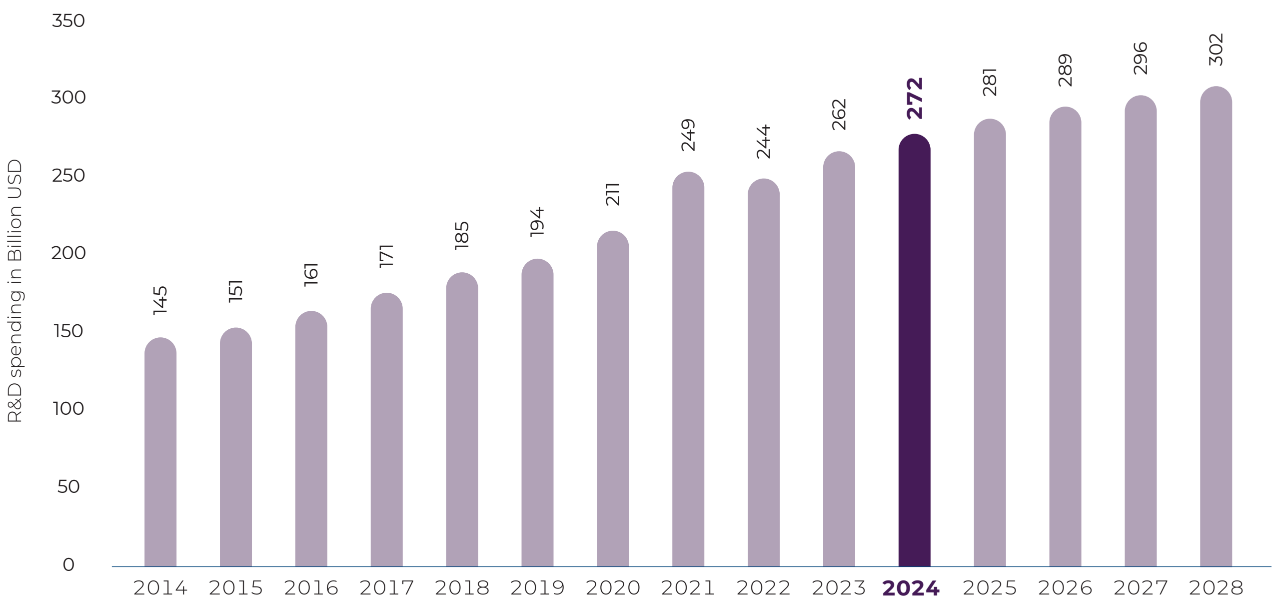


Source: IQVIA Institute, Jan 2024.
Source: https://www.iqvia.com/insights/the-iqvia-institute/reports-and-publications/reports/global-trends-in-r-and-d-2024-activity-productivity-and-enablers

Pharmaceutical R&D

According to Statista, in 2022, global pharmaceutical R&D spending reached USD 244 Billion, up from USD 137 Billion in 2012. This encompasses all stages from disease research to clinical trials, with regulatory oversight primarily by the FDA in the US. Pharmaceutical companies face significant pressure to innovate due to limited patent protection and competition from generics and biosimilars, driving high R&D investment and a focus on specialty drugs. Recent trends include outsourcing R&D to reduce costs and leveraging big data for predictive modeling, enhancing drug safety and efficiency. Real-world Evidence (RWE) is increasingly important, necessitating partnerships with tech companies and using diverse data sources, including social media.

Total Global Spending on Pharmaceutical Research and Development from 2014 to 2028



Source: https://www.statista.com/statistics/309466/global-r-and-d-expenditure-for-pharmaceuticals/

Indian Pharmaceutical Industry

India has become a cornerstone of global healthcare, emerging as the world's largest supplier of generic drugs and a leading force in affordable vaccines and medications. This thriving sector, currently ranked third globally in pharmaceutical production by volume, has exhibited remarkable growth with a CAGR of 9.43% over the past nine years. With medicine spending expected to reach USD 3,842 Billion by 2028, reflecting a CAGR of 7-10% between 2024 and 2028, India's pharmaceutical market is likely to grow.

Encompassing a diverse range of segments – from generic drugs and over-the-counter medications to cutting-edge biosimilars and biologics – the Indian pharmaceutical industry is a powerhouse of innovation and affordability. This dynamic landscape plays a critical role in ensuring access to essential medicines and fostering advancements in global healthcare.

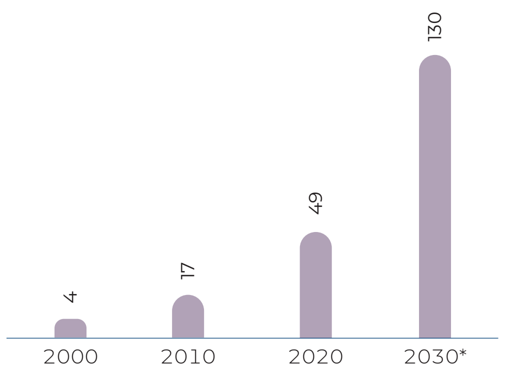
Indian pharmaceutical sector supplies over 50% of global demand for various vaccines, 40% of generic demand in the US and 25% of all medicine in the UK. The domestic pharmaceutical industry includes a network of 3,000 drug companies and 10,500 (Approx) manufacturing units. India enjoys an important position in the global pharmaceuticals sector. The country also has a large pool of scientists and engineers with the potential to steer the industry ahead to greater heights.

Importance of the Indian Pharmaceutical Sector among Foreign Investors

The Indian pharmaceutical industry has become a magnet for foreign investment, solidifying its position as one of the top ten most attractive sectors in India. This is no accident, as the government allows for 100% automatic FDI in greenfield ventures, streamlining the investment process. Even established players can benefit, with up to 74% automatic FDI available, followed by a smooth government approval route. This openness, coupled with the industry's robust growth, makes India an incredibly attractive proposition for foreign investors.

According to a recent EY FICCI report, there has been a growing consensus over providing new innovative therapies to patients. Indian pharmaceutical market is estimated to touch USD 130 Billion in value by the end of 2030. Meanwhile, the global market size of pharmaceutical products was estimated to cross over the USD 1 Trillion mark in 2023.

Indian Pharmaceutical Market Size



Source: Statista Report, 2024

Snapshot of Government Policies

Production Linked Incentive Scheme for Bulk Drugs (PLI 1.0) → Domestic Manufacturing of 53 KSMs / Drug Intermediates and APIs

Production Linked Incentive Scheme for Pharmaceuticals (PLI 2.0) → Domestic Manufacturing of high value products

Bulk Drugs Park Scheme → 3 Bulk Drug Parks with Common Infrastructure Facilities

Incentives

Fermentation Products

2022-26: **20%**

2026-27: **15%**

2027-28: **5%**

Chemically sythesised products

2021-27: **10%**

Tenure of the scheme

The scheme shall be operational during the period 2020-2021 to 2024-2025.

Base Year

Financial Year 2019-20

Eligibility

Support under the scheme shall be provided only to manufacturers of critical KSMs/DIs and APIs registered in India subject to committed investment and minimum annual production capacity.

Proposer

The proposer shall be a State Government who can make only one proposal of Bulk Drug Park under the Scheme having a minimum area of 1,000 acres. For north eastern and hilly states the minimum area is 700 acres.

Incentives

The total financial outlay is INR 150,000 Million allocated amongst 3 applicant groups based on revenue:

Group A: **INR 110,000 Million**

Group B: **INR 22,500 Million**

Group C: **INR 17,500 Million**

Tenure of scheme

Tenure of the Production Linked Incentive Scheme is 2020-21 to 2029-30. Base year of the scheme is 2019-20.

Incentives

INR 30,000 Million for providing financial assistance for construction of Common Infrastructure Facilities in 3 Bulk Drug Parks with a maximum limit of INR 10,000 Million.

Scheme Tenure

Financial Year 2020-21 to Financial Year 2018-29

Global Active Pharmaceutical Ingredients (API) Industry

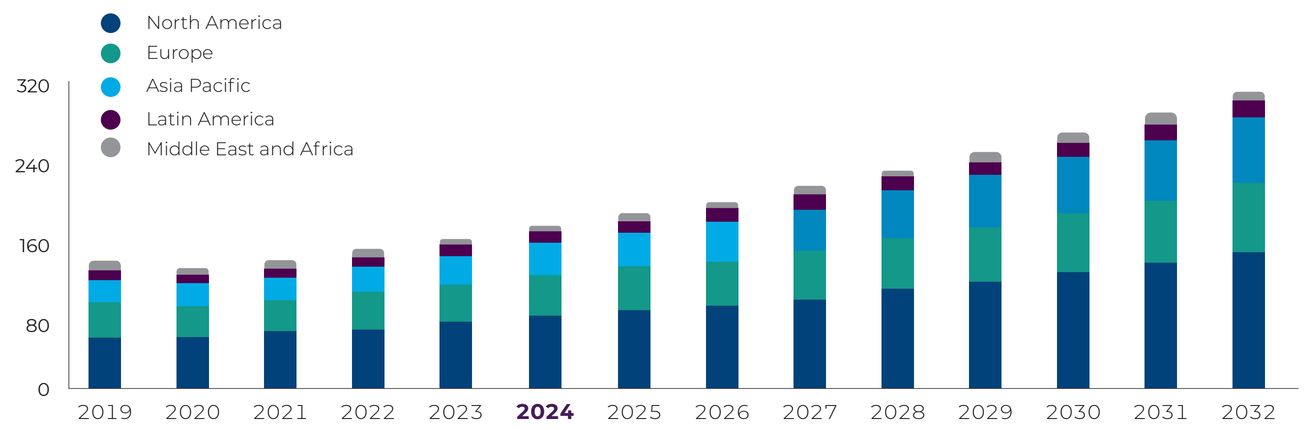
The Active Pharmaceutical Ingredients (API) market size is estimated to grow by USD 86.47 Billion at a CAGR of 6.73% between 2023 and 2028.

The market is currently witnessing an upward trend of intent to outsource APIs by leading players in the pharmaceutical industry. For emerging biopharmaceutical and virtual pharmaceutical companies, most of the API and intermediate manufacturing is done by outsourcing providers. This trend is also observed in generic drug manufacturing, where orchestration is done by the generic drug manufacturer to have the API manufacturing outsourced by a large portion. In addition, active pharmaceutical ingredient manufacturers are known to obtain a cost advantage through economies of scale and the availability of low-cost labour and land.

Growth by Market Segment

Active Pharmaceutical Ingredient Market Size, By Region, 2019-2032

(USD Billion)



Source: https://www.polarismarketresearch.com/industry-analysis/active-pharmaceutical-ingredients-market

Megatrends

Increasing Focus on Digital health and AI Integration

AI is being used for drug discovery, predicting patient outcomes, and personalising treatment plans. Machine learning algorithms analyse vast datasets to identify potential drug candidates and optimise clinical trial design.

Geopolitical Uncertainty and Supply Chain Resilience

Recent global events have highlighted the vulnerabilities of global supply chains. Pharmaceutical companies are increasingly looking to diversify their manufacturing footprint and invest in domestic production capabilities. This trend could benefit companies with a strong presence in emerging markets like India.

Focus on affordability

There is a large population with limited access to healthcare. The pharmaceutical industry is therefore under pressure to develop and deliver affordable medicines. This is leading to a focus on biosimilars, Contract Research and Manufacturing Services (CRAMS), and value-based pricing.

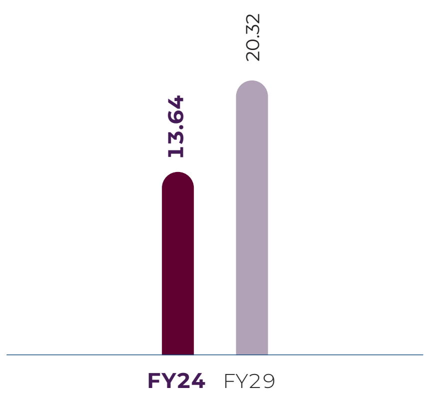
Indian Active Pharmaceutical Ingredients (API) Industry

According to Mordor Intelligence, the Indian Active Pharmaceutical Ingredients Market size is estimated at USD 13.64 Billion in 2024, and is expected to reach USD 20.32 Billion by 2029, growing at a CAGR of 8.31% during the forecast period (2024-2029). India's drugs and pharmaceuticals exports stood at USD 22.51 Billion in 2023-24. (April-January) recording a strong year-on-year growth of 8.12% during the period. Exports of drugs and pharmaceuticals were estimated to be at USD 2.13 Billion in January 2024, accounting for 5.8% of the total exports in the month. The Indian government has implemented the Production Linked Incentive (PLI) initiative for the pharmaceutical industry, which incorporates a programme specifically designed to encourage the domestic production of crucial KSMs and APIs.

India Active Pharmaceutical Ingredients (API) Market

Market Size in USD Billion

CAGR 8.31%



Source: https://www.mordorintelligence.com/industry-rweports/india-active-pharmaceutical-ingredients-market

Factors Driving Growth

Government Initiatives: The Indian Government has introduced various initiatives to support the pharmaceutical industry, such as 'Pharma Vision 2020,' which aims to make India a global leader in end-to-end drug manufacture.

Aging Population: The growing elderly population in India is leading to an increased prevalence of chronic diseases, which in turn drives demand for pharmaceuticals.

Shifting competitiveness of Chinese firms: The growing stringency of environmental regulations and increasing labour expenses have escalated operational costs for Chinese companies, particularly impacting those in the Agro and API sectors, resulting in the closure of some businesses. Consequently, Indian firms have found themselves in a more competitive position.

Fragmentation: Despite significant deal activity, the API and CDMO sector in India remains notably fragmented, boasting over 2,500 manufacturers of APIs and intermediate products.

Global Contract Development and Manufacturing Organisation (CDMO) Industry[2]

The global Contract Development and Manufacturing Organisation (CDMO) market is poised for a period of sustained expansion, with a projected Compound Annual Growth Rate (CAGR) of 7.2% throughout the forecast period of 2021-2026. This growth is attributed to a confluence of compelling factors. One key driver is the burgeoning demand for specialised treatments, as the pharmaceutical landscape increasingly focuses on targeted therapies for complex medical conditions. Additionally, the flourishing biopharmaceutical industry is fostering a need for specialised manufacturing expertise, propelling the CDMO market forward. Furthermore, the growing need for advanced manufacturing technologies is playing a significant role. As the development of novel drugs necessitates cutting-edge production processes, CDMOs with these capabilities are becoming increasingly sought-after.

The market itself is segmented into two distinct categories: service type and end-user. By service type, the market encompasses contract development and contract manufacturing services. Contract development refers to the outsourcing of activities related to drug discovery and pre-clinical development, while contract manufacturing focuses on the large-scale production of drugs. In terms of end-user, the market primarily caters to pharmaceutical and biotechnology companies. These companies leverage CDMOs to streamline their drug development processes, reduce costs, and gain access to specialised expertise.

7.2%
EXPECTED CAGR 2021-2028

Asia Pacific
FASTEST GROWING MARKET

[2] https://www.mordorintelligence.com/industry-reports/pharmaceutical-contract-development-and-manufacturing-organisation-cdmo-market

Growth by Region

The U.S. CDMO market is expected to rise from USD 54.21 Billion in 2023 to USD 68.32 Billion by 2028 (CAGR of 4.74%). China's market, valued at USD 27.12 Billion in 2023, is projected to reach USD 42.94 Billion by 2028 (CAGR of 9.63%).

Geographically, North America currently holds the dominant position within the global CDMO market. This is due to the presence of a well-established pharmaceutical and biotechnology industry, coupled with a robust infrastructure for clinical trials. However, the Asia-Pacific region is projected to witness the most significant growth during the forecast period. This surge can be attributed to factors such as a growing domestic pharmaceutical market, a skilled and cost-effective workforce, and government initiatives aimed at promoting the development of the CDMO sector.

Indian Contract Development and Manufacturing Organisation (CDMO) Industry

The Indian Contract Development and Manufacturing Organisation (CDMO) industry is rapidly growing due to increasing demand for outsourcing pharmaceutical manufacturing and development services. India is poised to overtake China in the global CDMO market, projected to grow from USD 238.47 Billion in 2024 to USD 330.36 Billion by 2028.

India's CDMO market is anticipated to grow from USD 19.63 Billion in 2023 to USD 44.63 Billion by 2029 (CAGR of 14.67%), driven by opportunities in API production and contract research, especially as many new molecules go off-patent.

The Indian government has launched several initiatives to promote the growth of the CDMO industry, including the PLI (Production Linked Incentive) scheme, which provides incentives to pharmaceutical companies for manufacturing high-value products in India.

Major Trends

Increasing Demand for High-Value Services

The demand for specialised services such as drug discovery and development are rising. Consequently, CDMOs are investing in R&D capabilities and forming partnerships with academic institutions and biotech companies to provide comprehensive drug development solutions.

Focus on Technology and Innovation

CDMOs are adopting advanced technologies like continuous manufacturing, automation, and artificial intelligence to optimise production processes, reduce costs, and enhance quality control.

Offering Integrated Services

CDMOs now provide a range of services including drug discovery, preclinical and clinical development, and commercial manufacturing. This shift towards end-to-end solutions enables CDMOs to offer more comprehensive services and establish long-term client partnerships.

Hikal – Business Review of the Pharmaceutical Division

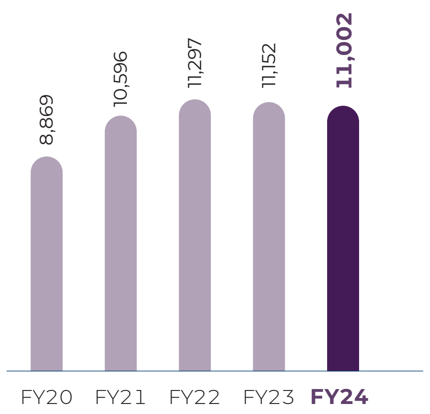
Hikal's Pharmaceutical division has seen positive improvements in margins, attributed to changes in the product mix and business excellence initiatives. Our Company has experienced significant traction in its own products segment, particularly from customers in Japan, Latin America, and the Middle East, showcasing a promising outlook for its newer product portfolio.

Despite challenges, the pharmaceutical sector is showing signs of improvement with a stabilised demand profile and raw material prices. Hikal remains strategically focused on acquiring new customers, enhancing operational efficiencies, and optimising costs through various business excellence initiatives. This strategic approach has led to an enhanced margin profile and volume growth in the pharmaceutical business, reflecting the positive outcomes of its efforts in recent years.

Regulatory approvals from multiple customers and authorities have strengthened Hikal's customer base across key geographies, including Japan, Latin America, and the Middle East, especially within the API segment. The pharmaceutical division's performance has enhanced, with EBIT at 8.5% compared to 5.8% in the previous year. Pharmaceutical revenue stood at INR 11,002 Million and EBIT stood at INR 935 Million up by 44% over last year, Hikal has demonstrated resilience amidst challenges and is poised to sustainably drive growth in the future, leveraging its strong market presence and continued focus on operational excellence.

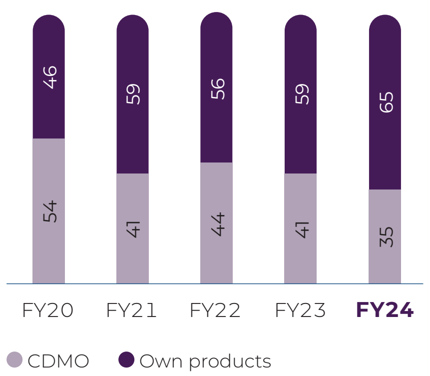
Pharmaceuticals Performance Trajectory

Revenue
(INR in Million)



EBIT
(INR in Million)

Revenue Break-up
(%)



API

Hikal's API division has been pivotal to the Company's growth. This growth is attributed to new product launches and expanded sales volumes, supported by robust global contracts with major pharmaceutical firms. The division's focus on developing complex APIs and ongoing investments in R&D underscores its commitment to innovation and product enhancement.

Investments in manufacturing infrastructure have been significant, with a state-of-the-art facility in India meeting top-tier quality standards. Embracing green technology, Hikal has started purchasing renewable power at Jigani, aligning with sustainability objectives.

Expanding its market reach, the API division has secured new clients in Latin America and the Middle East, particularly in the generics segment. A robust pipeline of new products is poised for imminent launch, while ongoing business excellence initiatives focus on enhancing throughput, productivity, and cost efficiencies.

Hikal envisions leadership in critical APIs, prioritising innovation, and operational optimisation. Its unwavering commitment to regulatory compliance and quality assurance is reflected in its global service delivery. Looking ahead, Hikal aims to bolster API sales by increasing customer engagement, exploring new markets, and consolidating its position in key API segments, leveraging strengths in backward integration, scalability, and technology advancement.

CDMO

Hikal's Contract Development and Manufacturing Organisation (CDMO) division has been integral to its success, renowned for delivering intricate projects while upholding stringent quality standards. Long-term

collaborations with global pharmaceutical giants underscore its commitment to compliance and regulatory excellence. Continual investments in capacity expansion and technological advancements keep Hikal at the forefront of the industry.

To fuel its growth trajectory, the Company is ramping up capacity, enhancing technology toolbox and bolstering manufacturing capabilities. Efforts to diversify raw material sources aim to reduce reliance on China, aligning with evolving industry trends favouring outsourcing. India's rising prominence as an outsourcing hub, coupled with shifting geopolitical dynamics, presents favourable opportunities for expansion.

Hikal remains optimistic about expanding its CDMO business, backed by a robust project pipeline and an expanding client base. Emphasising customer satisfaction, quality, and compliance, the division's growth strategy remains steadfast.

With ongoing discussions with global innovators and a relentless focus on quality and innovation, Hikal's CDMO division is poised for sustained growth, capitalising on the burgeoning outsourcing landscape in the pharmaceutical sector.

Industry and Business Review: Animal Health

Global Animal Health Industry

As per Grand View Research, the global Animal Health market was valued at USD 62.40 Billion in 2023 and is expected to grow at a CAGR of 9.0% from 2024 to 2030. Factors propelling market growth include increased animal health spending, disease prevalence, concerns about zoonotic diseases, company initiatives, pet insurance adoption, and pet humanisation. According to Skyquest, the animal health market, valued at USD 54.01 Billion in 2019, is projected to reach USD 112.36 Billion by 2031, growing at a CAGR of 8.8% from 2024 to 2031.

* Skyquest

Animal healthcare involves treating medical conditions in animals using drugs, vaccines, medicated feeds, and diagnostics. Animals play crucial roles in human life, providing food, protection, and companionship. Additionally, they are utilised in biological research fields like genetics and drug testing. Increasing awareness of animal diseases, stricter regulations, and a focus on disease prevention are driving demand for animal healthcare products, leading to rapid market expansion globally.

8.8%

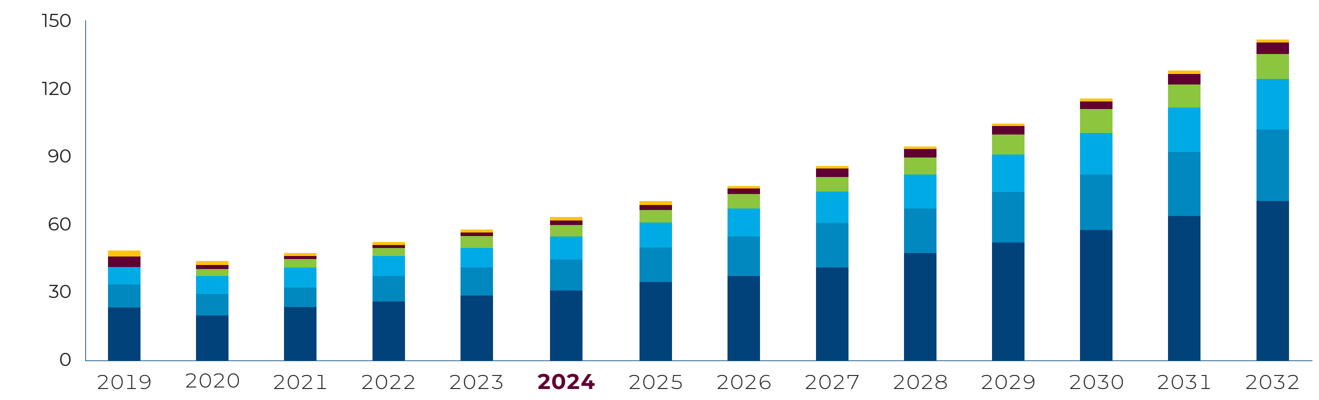
CAGR FROM 2024 TO 2031 (PROJECTED ANIMAL HEALTH MARKET VALUE)*

Growth by Regional Market Segment

The global animal health market is segmented into several regions, including North America, Europe, Asia-Pacific, Latin America, and the Middle East and Africa.

According to Grand View Research, North America dominated the market in 2023, holding a 32% share, attributed to robust government measures and animal welfare efforts. The Asia Pacific region is poised to grow rapidly at over 10%, driven by investments in animal healthcare and competitive pricing strategies. Europe also boasts a significant market share due to rising disease prevalence and increased spending on veterinary care.

Animal Health Market Size, by Region, 2019-2032
(USD Billion)



Source: https://www.polarismarketresearch.com/industry-analysis/animal-health-market

Indian Animal Health Industry

According to IMARC, the Indian animal health market size is valued at INR 80.0 Billion in 2023 is poised to reach INR 160.5 Billion by 2032, exhibiting a CAGR of 7.8% during 2024-2032. India's animal health industry represents 2.5% of the global industry. This growth is propelled by factors such as rise in zoonotic diseases, increased government investment in animal healthcare, and extensive R&D efforts by key players are key drivers of the market's growth.

The current industry can be segmented based on products, such as medicines, parasiticides and disinfectants, vaccines, medical devices, and nutritional supplements. Animal vaccines alone make up 17% of the animal healthcare industry which amounts to USD 170 Million. Currently, vaccines and pharmaceuticals dominate the market, particularly in companion animal healthcare segment including the livestock health segment. Dogs account for a high market share in the companion animal healthcare market, due to the growing dog population and ownership rate, the rising prevalence of zoonotic diseases and other skin allergies in dogs and rising canine healthcare costs. However, there's a noticeable shift towards natural and organic products in the pet segment. The poultry segment accounts for 33% of the market share and has been experiencing good growth, despite challenges such as high input costs. The Indian Government has rolled out various policies and initiatives, including the National Livestock Mission, the National Programme for Bovine Breeding and Dairy Development, and the Rashtriya Krishi Vikas Yojana, to foster the growth of the animal health industry. These endeavours aim to enhance animal health, boost livestock productivity, and promote sustainable agriculture.

Major Trends

Government Support and Initiatives

The Indian government has implemented initiatives like the National Livestock Mission and the Livestock Health and Disease Control scheme to bolster the growth of the animal health industry.

Zoonotic Diseases and Market Growth

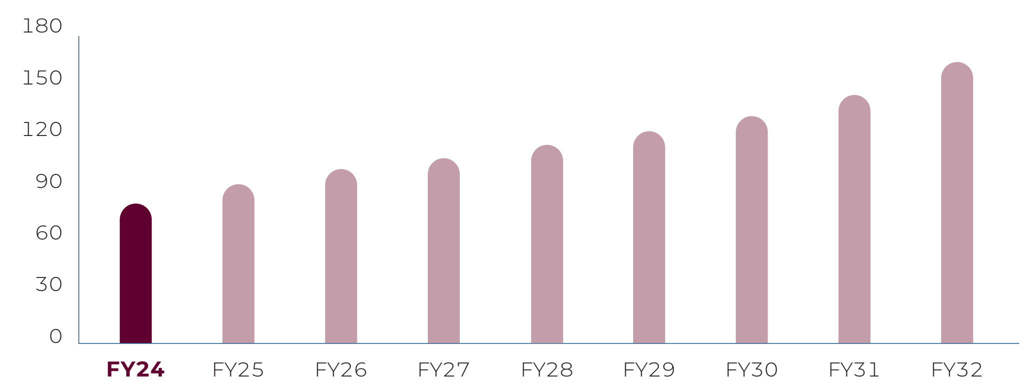
Zoonotic diseases, transmitted from animals to humans, pose health risks. Recent outbreaks like avian influenza and COVID-19 highlight the need for proactive measures. Demand for animal vaccines and diagnostics surges, driving market growth. Investments in infrastructure and policies further boost expansion.

Technological Advancements Driving Growth

Emerging tech reshapes animal healthcare, offering innovative solutions. Advanced diagnostics ensure rapid disease detection, aiding treatment decisions. Telemedicine and remote monitoring enable real-time health tracking. Data analytics and AI optimise disease management. Biotech innovations promise novel therapies, fuelling market growth.

India Animal Health Market Size, 2024-2032

(In Billion INR)



Source: https://www.imarcgroup.com/india-animal-health-market

Hikal – Business Review of the Animal Health Division

We are dedicated to developing and manufacturing high-quality veterinary products for both domestic and international markets. Our strong regulatory track record and manufacturing capabilities have fostered lasting partnerships with leading animal health companies. Recently, we have expanded our global presence, particularly in Europe and Latin America, with a strong focus on quality.

To sustain growth, our Animal Health business aims to diversify our product portfolio, in the Anti-parasiticide segment and beyond. We commissioned a new animal health facility in Q3 FY24. We have completed validation for four products and several others are underway. Over the next few quarters, these validation batches will act as a first step towards registration and then towards commercialisation of the products. We will explore new geographical markets to capitalise on emerging opportunities. Investing in R&T is crucial for creating innovative products that address unmet needs in the animal health industry. With increasing global demand for veterinary products, Hikal is well-positioned to seize opportunities and solidify its market position.

Animal Health Multi-Purpose cGMP facility at Panoli, Gujarat

We have attained significant certifications demonstrating our commitment to global excellence and regulatory compliance. This site has achieved a Zero 483s inspection from the US FDA in May 2023 for stringent quality standards. It has secured PMDA certification from Japan in June 2019 to bolster our presence in Asia, and obtaining GMP certification from the Local FDA in December 2023, highlighting our adherence to superior manufacturing practices. In November 2013, we were audited by FAMHP in Belgium, reinforcing our compliance with European regulatory standards. Additionally, our Integrated Management System (IMS) certifications—ISO 9001:2015, ISO 14001:2015, valid till May 2026, and ISO 45001:2018, valid till November 2026—underscore our commitment to quality management, environmental responsibility, and occupational health and safety globally.

Industry and Business Review: Crop Protection

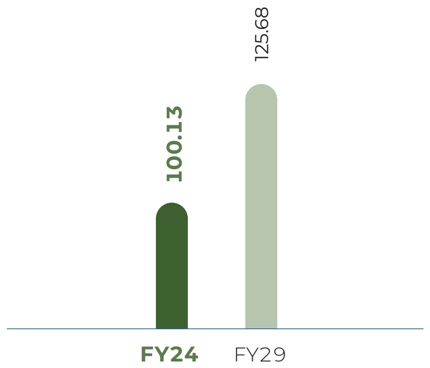
Global Crop Protection Industry

According to IMARC, the global crop protection chemicals market reached USD 92.2 Billion in 2023 and is expected to reach USD 134.7 Billion by 2032, with a growth rate (CAGR) of 4.2% during 2024-2032. Major factors driving this growth include increasing global population, expanding agricultural practices, the need for higher crop yields, changing consumer preferences, technological advancements, and climate change-induced pest pressure. In addition, the increasing demand for organic food and sustainable agriculture practices is driving the demand for bio-based crop protection solutions.

Crop Protection Chemicals Market

Market Size in USD Billion

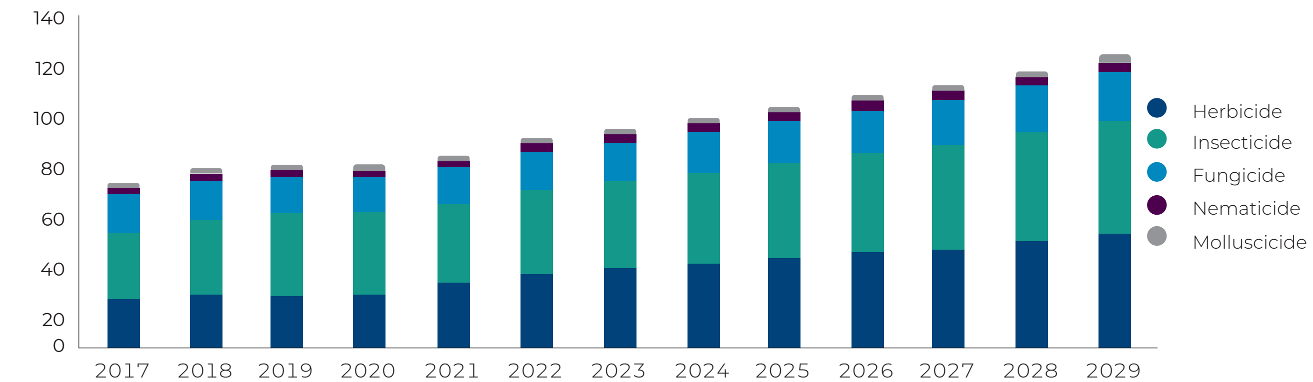
CAGR 4.65%



Source: Mordor Intelligence

Source: https://www.mordorintelligence.com/industry-reports/global-crop-protection-chemicals-pesticides-market-industry

Crop Protection Chemicals Market by function, USD, Global, 2017-2029



Source: https://www.mordorintelligence.com/industry-reports/global-crop-protection-chemicals-pesticides-market-industry

Growth by Product Type

According to Grand View Research, herbicides have the largest market share in the crop protection industry. In 2022, it accounted for a share of 44.2% whereas, fungicides had a share of 19.1%, followed by insecticides accounting for 27.2%, biopesticides at 3.4% and other crop protection chemicals at 6.1%.

Crop Protection Chemicals Industry Data Book Coverage

Markets Covered	
Crop Protection Chemicals Industry	
2,828.7 kilotons in 2022	
3.7% CAGR (2023-2030)	
Herbicides Market	**Fungicides Market**
1,249.5 kilotons in 2022	538.9 kilotons in 2021
3.7% CAGR (2023-2030)	3.5% CAGR (2022-2030)
Insecticides Market	**Biopesticides Market**
766.1 kilotons in 2022	95.7 kilotons in 2022
4.0% CAGR (2023-2030)	4.8% CAGR (2023-2030)
Other Crop Protection Chemicals Market	
178.5 kilotons in 2022	
3.1% CAGR (2023-2030)	

Source: https://www.grandviewresearch.com/sector-report/crop-protection-chemicals-industry-data-book

Growth by Region

The Asia Pacific agrochemicals market experienced robust growth, reaching USD 4.93 Billion in 2023. Projections indicate further expansion to USD 15.38 Billion by 2033, with a notable CAGR of 12.02% expected from 2024 to 2033.

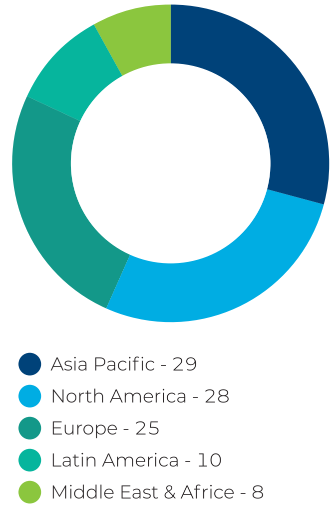
Asia-Pacific led the market in 2023, boasting a substantial revenue share of about 29.18%. This region stands out as a key market for agrochemicals globally, attributed to its status as the largest and most populous area worldwide.

In 2023, North America exhibited a noteworthy revenue share. The region's agricultural land faces a decline due to population growth, rapid urbanisation, and industrialisation. Consequently, farmers increasingly rely on agrochemicals to enhance productivity and maintain quality.

The North America agrochemicals market surpassed USD 63.14 Billion in 2023 and is poised for further growth, projected to reach USD 88.63 Billion by 2033.

Agrochemicals Market Share, by Region, 2023

(%)



Source: https://www.precedenceresearch.com/agrochemicals-market

Major Trends

Increasing Global Population

With the global population on the rise, there's a growing demand for food to sustain more people. Crop protection chemicals are crucial in maintaining agricultural productivity by shielding crops from pests, diseases, and weeds. By averting or reducing yield losses, these chemicals enable farmers to meet the escalating food requirements of a larger population.

Expanding Agricultural Practices

The expansion of agricultural practices, including commercial farming and intensive cropping systems, is driving the demand for crop protection chemicals. Larger-scale farming operations necessitate effective management of pests, diseases, and weeds to mitigate yield losses. Crop protection chemicals offer farmers reliable solutions to safeguard their crops and optimise production in these intensified agricultural setups.

Rising Need for Higher Crop Yields

Crop protection chemicals are essential for achieving higher crop yields by shielding crops from threats that can diminish productivity. Pests, diseases, and weeds pose constant challenges to farmers, and crop protection chemicals provide effective means to tackle these threats. By employing these chemicals judiciously and adhering to recommended practices, farmers can protect their crops, minimise yield losses, and enhance overall productivity, contributing to global food security.

Indian Crop Protection Industry

According to IMARC Group, the Indian crop protection chemicals market is projected to grow at a CAGR of 4.80% during 2024-2032. This growth is driven by the development of resistance among pests and diseases, necessitating continuous innovation in crop protection products. Various factors contribute to the robust growth of the market. Firstly, the escalating regional population demands enhanced food production, urging farmers to optimise crop yields through advanced agricultural technologies. Crop protection chemicals play a crucial role in safeguarding crops against pests, diseases, and weeds, ensuring a stable food supply.

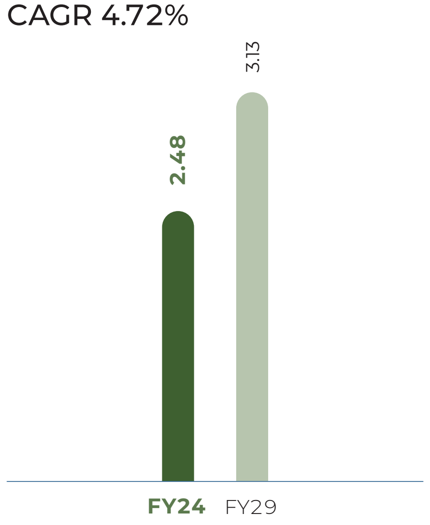
Additionally, unpredictable weather patterns and climate change accentuate the need for resilient agricultural practices, with crop protection chemicals providing a proactive defense mechanism against climate-related risks.

Furthermore, the trend of precision agriculture, characterised by precise input application, aligns well with the targeted nature of crop protection chemicals, enhancing cost-efficiency and minimising environmental impact.

Overall, the market thrives on interconnected drivers, including the imperative to meet food demand, adapt to climate uncertainties, and embrace precision agriculture for a sustainable farming future.

India Crop Protection Chemicals Market

Market Size in USD Billion



Source: Mordor Intelligence

Hikal – Business Review of the Crop Protection Division

Our Crop Protection division has experienced a significant volume drop due to both selling price impacts from intense competition and reduced volumes compared to last year. This year, the division witnessed higher purchase from CDMO customers. Our focus on research and development has enabled the development of innovative solutions that meet the evolving needs of farmers and comply with regulatory requirements globally. The CDMO business continues to receive new inquiries from repeat customers, with new inquiries in the pipeline.

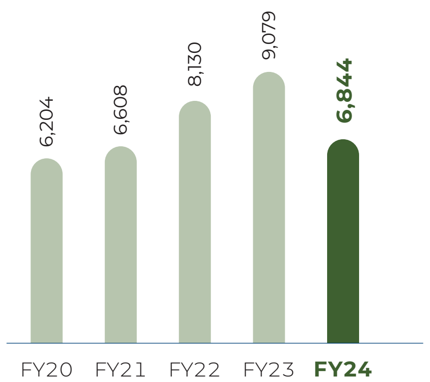
Despite proactive cost improvement initiatives, Hikal's Crop Protection division continues to face significant headwinds. Reflecting these challenges, the Crop Protection division revenue and EBIT have declined, compared to last year. However, we expect market stabilisation and recovery to begin after the end of this financial year.

Crop Protection sales was significantly affected by channel inventory and over-capacity, leading to reduced sales. Despite this, we are in advanced discussions with various global innovators for new opportunities, expanding our product portfolio, particularly in the herbicides segment, to tap into new market segments and broaden our customer base. Additionally, the commissioning activity is ongoing at the new multipurpose facility in Panoli, Gujarat. Although we have faced near-term industry-wide challenges, we anticipate the market trajectory to improve towards the end of this financial year, positioning us well for long-term profitable and sustainable growth across both our Pharma and Crop Protection businesses.

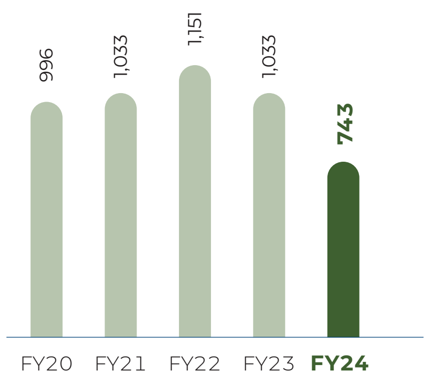
Looking ahead, we are well-positioned for long-term profitable and sustainable growth. We are investing in new R&D capabilities to develop products addressing unmet needs in the crop protection market. Maintaining a strong focus on quality, compliance, and customer satisfaction is central to our growth strategy. As we begin operating at higher capacity utilisation, a significant business ramp-up is anticipated, which will improve margins. While the near-term industry-wide challenges persist, our commitment to innovation, customer relationships, and compliance will drive our growth in the crop protection industry, ensuring we remain resilient and competitive in a dynamic market environment.

Crop Protection Performance Trajectory

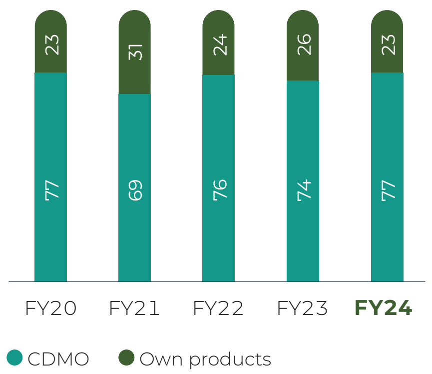
Revenue
(INR in Million)



EBIT
(INR in Million)



Revenue Break-up
(%)



Hikal – Research and Technology Review

Elevating Capabilities

We honed in enhancing commercial capabilities, meeting diverse customer needs, and showcasing efficient scalability from lab to pilot stages. Hikal is a technology-driven supplier in pharmaceuticals and crop protection, investing 4.52% of annual sales in Research and Technology (R&T) for eco-friendly processes.

Expanding capacities and cutting-edge facilities allow us to surpass industry standards and offer reliable partnerships. Pursuing operational efficiency, we invest in captive production and state-of-the-art labs to deliver innovative products that meet market demands.

Process Improvement

During process development, we emphasise reducing process time cycle and solvent consumption by recycling recovered solvents, aiming to minimise waste generation and its long-term impact on environment.

Filings

Our R&T team has filed two US Drug Master Files (DMFs) and completed one Certificate of Suitability to the Monographs of the European Pharmacopoeia (CEP) filings, six CEP amendments, and six US DMF amendments for the pharmaceutical segment.

Pharmaceuticals

Hikal has embarked on the development of two NCE molecules:

» Development is ongoing for the first NCE API, with the process being developed at R&T and subsequent validation planned at the Jigani facility

» R&T is also working on another NCE molecule with initial supply to the customer being facilitated by the R&T Kilo lab facility. This will be followed by comprehensive process optimisation and validation

Animal Health API

Amidst our ongoing efforts to advance our portfolio, we are taking strides to develop Animal Health APIs:

» Hikal R&T successfully developed four Animal Health APIs, which underwent successful validation at our new Animal Health cGMP Manufacturing facility in Panoli

» Process validation for several Animal Health APIs is currently underway

» Patent applications have been submitted for three of the Animal Health APIs, covering the innovative processes developed by R&T. Corresponding manuscripts have been submitted to various journal houses

Green Chemistry Principles in Animal Health API Development

We integrate Green Chemistry principles into our Animal Health APIs development, upholding sustainability standards. Concurrently developing multiple APIs, we achieved successful plant-scale validation. Additionally, the completion of various other API developments highlights our proficiency. This dedication ensures our products provide effective solutions while being environmentally responsible, positively impacting our surroundings.

CDMO

During 2023-24, our CDMO team completed over 50 batches in a cryo reactor for a customer project, safely handling highly pyrophoric butyllithium solution. The CDMO team has also secured a repeat order for a hazardous Click Chemistry project and are preparing for larger-scale batches at Unit 2.

Innovation, Safety and Sustainability in Process Development

Scaling Click Chemistry with Safety

We achieved a milestone by scaling Click Chemistry with robust safety measures for hazardous chemicals, a first in India, showcasing our commitment to innovation and safety.

Process Development for a Food Ingredient

Our team developed a synthesis route and robust process for a flavouring agent, paving the way for future scale-up, reflecting our dedication to high-quality, customer-centric products.

Greener Processes for Advanced Intermediates

We created an environmentally friendly process for an advanced intermediate, eliminating hazardous reagents and improving Process Mass Intensity (PMI) and throughput, underscoring our commitment to sustainability and efficiency.

Enhanced Process Safety Lab Capabilities

We established a Process Safety Lab at R&T, equipped with Reaction Calorimetry, Gas Evolution kit, HF-Cal, and DSC. A dedicated team of scientists works in this lab to ensure safety and innovation.

Zero Liquid Discharge (ZLD)

A Zero Liquid Discharge (ZLD) system has been set up at R&T, furthering our commitment to sustainable practices.

Crop Protection

Our dedication to innovation and process optimisation has led to remarkable achievements this year.

Milestones Achieved during 2023-24

- A crop project involving azidation chemistry (Stossel's classification -4) was successfully commercialised
- Another project in Crop Protection optimised the existing process, reducing raw material costs by 50%, and the optimised process has been successfully implemented on a commercial scale
- HIE (Hydrogen Isotope Exchange) chemistry was optimised to prepare OLED intermediates, enabling Hikal to enter the OLED (Organic Light-emitting Diodes) market

Outlook

We will continue to prioritise customer-recommended products and in-house developments, aiming for effective commercialisation. Our goal is to convert contract development projects into long-term manufacturing opportunities in the pharmaceutical and crop protection divisions.

To boost product competitiveness, we are implementing process improvements, productivity measures, and cost-reduction strategies. We are investing in new technologies and forming partnerships to support these efforts.

Our commitment to newer, greener technologies will help reduce our carbon footprint, optimise resource use, and enhance process efficiency.

Financial Review

Consolidated Abridged Profit & Loss Statement (INR in Million)

Particulars	2023-24	2022-23
Total Revenue	17,870	20,284
EBITDA	2,694	2,625
PBT	954	1,054
PAT	695	784

Revenue from Operations

Our total revenue registered a decline of 12% y-o-y, reaching INR 17,870 Million compared to the previous years' figure of INR 20,284 Million.

Commentary: This performance reflects the challenging market conditions we faced over the past year. Despite this setback, we remain focused on strategic initiatives to drive growth and improve operational efficiency to return to a positive trajectory in the coming quarters.

EBITDA

Our EBITDA for the current financial year stood at INR 2,694 Million with margins at 15.1%, marking a growth of 3% y-o-y, compared to the previous year's figure of INR 2,625 Million.

Commentary: This performance demonstrates our ability to improve operational efficiency and maintain profitability despite challenging market conditions. The growth in EBITDA highlights our effective cost management strategies and our commitment to enhancing shareholder value.

PAT

In 2023-24 our PAT amounted to INR 695 Million, compared to the previous year's figure of INR 784 Million.

Commentary: This performance reflects the impact of the challenging economic environment and increased operational costs. Despite the reduction in PAT, our focus remains on long-term growth and profitability through strategic investments and enhanced operational efficiencies. We are confident that these efforts will position us for stronger financial performance in the future.

Working Capital Position

As of 31 March 2024, working capital position is strained on account of market dynamics predominantly driven by increased account receivables by 22 days. The Company generated INR 1,866 Million from operating activities, a decrease from the previous year's figure of INR 3,153 Million. The Company's investing activities resulted in a cash outflow of INR 1,737 Million, which was utilised to expand capacity as part of Hikal's ongoing capex programme aimed at realising future business opportunities. Meanwhile, financing activities led to a smaller outflow of INR 270 Million, indicating an improvement from the previous year's figures. As of 2023-24, the Company's closing balance of cash and cash equivalents stood at INR 126 Million.

Debt Position

In 2023-24, the net-debt equity ratio increased to 0.67 compared to 0.61 in previous year. The interest cost incurred during the current fiscal year was INR 564 Million, indicating an increase/ decrease from the previous year's interest cost of INR 481 Million.

Return on Equity (RoE) and Return on Capital Employed (RoCE)

The financial year 2023-2024 saw a decrease in the Return on Equity (RoE) to reach 6.0% compared to the previous year's figure of 7.1%. On the other hand, the Return on Capital Employed (RoCE) declined by 78 basis points from 8.5% in 2022-23 to 7.7% in 2023-24.

Capex

For 2023-24, we have invested a total of INR 2,042 Million towards a Capex programme aimed at increasing capacities. This capex is towards creating multi-product plants that will benefit both the Pharmaceutical and Crop Protection divisions, as well as upgrade the infrastructure of existing production facilities. We anticipate that these new plants will reach full capacity utilisation within the next 2-3 years.

Consolidated Cash Flow Statement (INR in Million)

Particulars	As on 31 March 2024	As on 31 March 2023
Opening Cash and Cash Equivalents	267	114
Cash flows from:		
(a) Operating Activities	1,866	3,153
(b) Investing Activities	(1,737)	(2,923)
(c) Financing Activities	(270)	(77)
Closing Cash and Cash Equivalents	126	267

Key Financial Ratios

Ratios	As on 31 March 2024	As on 31 March 2023	Variance (%/bps)
Debtor Turnover	3.59	4.57	21%
Inventory Turnover	2.66	3.43	23%
Interest Coverage Ratio	4.78	5.46	12%
Current Ratio	1.28	1.42	10%
Net Debt Equity Ratio	0.67	0.61	10%
Net Profit Margin (%)	3.90	3.91	0%
Net worth	11,876	11,335	5%

Strategic Review

Project Pinnacle

The 'Project Pinnacle' is a business transformation initiative, enabling us to navigate through the next stage of our business plan and capitalise on the opportunities to build a healthy pipeline for our operations.

On its second phase, the initiative is beginning to yield results propelling us closer to our goals of fostering sustainable growth across all our businesses with momentum in the supply chain, derisking strategy, developing differentiated competencies, the acquisition of new customers globally, and building a technology platform.

Our Strategic Ambitions

» Leadership in ESG
» Manufacturing Excellence
» Research and Technology
» Customer Centricity
» Supply Chain Management

Leadership in ESG

Aligned with our purpose of improving lives and serving the community, we are committed to integrating sustainability into all our operations. We engage with international rating agencies to gain global recognition for our ESG efforts, establishing it as a distinctive characteristic that sets us apart. We identified areas of advancement to enhance our sustainability practices in our defined ESG framework.

Our commitment has earned us the prestigious bronze medal from EcoVadis validating our dedication to sustainability. In the future ahead, ESG will be a key driver of our business, with a defined strategy and roadmap to make a positive environmental impact.

Manufacturing Excellence

We are strategically investing in our operations to optimise resources and achieve greater operational efficiency. Additionally, we are expanding our capacities and investing in new equipment.

Competitive Advantage

Our advanced GMP/ non-GMP multipurpose manufacturing facilities enable us to meet customer requirements across all business segments

We Use it

» To ensure on-time delivery of our products to valued customers
» To maintain profitability without compromising our quality and ESG commitments

HIBEX Productivity Challenge

HIBEX is Hikal's business excellence Initiative. We launched the 'HIBEX Productivity Challenge,' a company-wide Capital Efficiency Programme aimed at holistic sustainable outcomes. This innovative micro-battle competition keeps every Hikalite engaged while delivering tangible results in

» Increased asset throughput
» Sustained higher profitability
» Improved asset returns through sustainable operations

Initiatives Undertaken

Capacity

Commissioned

» New animal health multi-purpose cGMP plant at Panoli

Addition of

» Invested in debottlenecking CAPEX for capacity enhancement

INR **2,042** Million
CAPEX FOR NEW ASSETS

145 m^3
REACTOR CAPACITY

Capability

HIBEX

» Inaugurated an enhanced process safety lab
» Implementation of self-managed teams (SMTs) across businesses
» 20% production increment for one pharmaceutical product facilitated by automation and efficient material handling
» Achieved 20% cost improvement across 3 generic APIs

Compliance

Planned Approvals

» API facility in Panoli, Gujarat, underwent a US FDA audit, which concluded with 'Zero' 483 observations
» ZLD (Zero Liquid Discharge) has been setup at R&T

Research and Technology

Our commitment to leveraging science and technology enables us to deliver exceptional products and solutions, ensuring high quality and enhancing productivity and profitability. We are expanding capacities and investing in new laboratories and cutting-edge equipment.

Competitive Advantage

Our R&T capabilities rely on our Company's culture of innovation, research, and collaboration.

We Use it

» To diversify our product portfolio by creating high-value new products
» To improve the profitability of our existing product portfolio
» To create a differentiated value proposition by developing capabilities across complex chemistries

Customer Centricity

Our core strategy aims to create extraordinary experiences for our clients by offering a unique value proposition that combines custom manufacturing and bulk development services, setting us apart with our vast capabilities.

Competitive Advantage

Our customer orientation relies on our commitment to being a sustainable & reliable partner to our customers.

We Use it

- To build meaningful and value accretive partnerships with our customers
- To provide exceptional customer service and innovate basis customer feedback to build loyalty and advocacy

Initiatives Undertaken

Key Account Management (KAM) Systems

We adopted a KAM approach across multiple accounts to build deeper strategic relationships. As part of our KAMs, we have:

- Defined priority accounts basis current size and full potential
- Define key roles and responsibilities to manage priority accounts and ensure delivery excellence
- Developed a mechanism to consistently ensure customer delight

Customer Roadshow

- Roadshow through strategic locations across the globe, including Japan, South Korea, Europe, the US, and Latin America
- It is an opportunity to engage with senior leadership from our existing esteemed clientele while forging new connections with potential customers
- It will help in paving the way for future partnerships that will be instrumental in realising our vision

Supply Chain Management

Amid geopolitical tensions and geo-concentration risks, we are de-risking our supply chain through backward integration, alternative sourcing, partnerships, localisation, and digitisation.

Competitive Advantage

A resilient, de-risked supply chain enables us to navigate global uncertainties while ensuring continuous supply to our customers.

We Use it

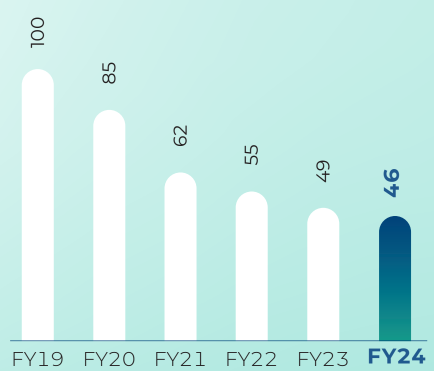
- To de-risk our production process, while keeping our supply chain reliable
- To maintain market competitiveness during times of global business shocks

Reducing our Dependence on a Single Geography

A substantial portion of our supply chain risk arises because of the concentration of our supply chain towards a single geography. Considering the global pharmaceutical industry, China supplies a substantial portion of KSMs, APIs, and AIs to the rest of the world. As part of our supply chain initiatives, we have been able to reduce dependence on China for one of our key products by developing local vendors. This is how we aim to benchmark the management of supply chain risk for the rest of our products.

Share of Procurement from China for Select Products

(%)



Initiatives Undertaken

Backward Integration

- We have initiated backward integration for KSMs and started multi-sourcing from diverse geographies to mitigate disruption

Localisation

- We have started to develop connections with local vendors to initiate and expand supply chains within India

Alternate Sources and Partnerships

- We have started partnerships with suppliers in India, Europe, Japan, and Korea for supply chain security
- New partners developed for domestic strategic sourcing

Digitised and Integrated Supply Chain

- We have started identification of weak links in our supply chain for improvement
- We have started building up inventory and building real-time network visibility

Regulatory Compliance

We are committed to green chemistry and engineering, investing in processes and systems that ensure safe, responsible operations and meet global regulatory standards.

Competitive Advantage

Our production plants are compliant with international agencies like the US FDA, PMDA, EDQM, ANVISA, and other global agencies

We Use it

- To create shared value and maintain business sustainability
- To align our interests with collective well-being

FDA U.S. FOOD & DRUG ADMINISTRATION

Pharmaceuticals - Unit I (Bangalore)

- Aug 2019 - EIR Received
- Previous inspection in Nov 2016, Apr 2014, Aug 2011, Mar 2008 & Mar 2004

Pharmaceuticals - Panoli

- May 2023 - Zero 483s (EIR Received) - API Manufacturing
- Previous inspection in Sep 2019 for intermediates and KSM

Risk Management

At Hikal, we consider risk management a crucial aspect of managing the Company effectively and efficiently. Our Risk Management Policy, developed in compliance with applicable Indian regulations and tailored to our organisational context, is not just a document, but a roadmap to our success. It outlines our risk management framework, explaining Hikal's approach to risk management and documenting the roles and responsibilities of the Risk Management Committee, Chief Risk Officer, and Risk Owners.

We acknowledge operating in an environment filled with known and unknown risks, uncertainties, and variable assumptions. These include factors such as the financial health of global and domestic economies, industry performance, external competition, regulatory risks, future growth and expansion prospects, technological implementations, potential adverse changes in revenue, income, or cash flows, and exposure to market risks.

Recognising the significance of risk management in achieving our strategic objectives, we adopt a proactive, formal, and systematic approach to identify and manage potential risks. We view risk management not as a burden, but as a critical element in effectively and efficiently managing the organisation, ensuring continued success in the face of challenges.

Risk Management Objectives

- Ensure that all current and future material risk exposures are identified, assessed, quantified, appropriately mitigated, and managed
- Ensure compliance with appropriate regulations, including ESG standards, through best practices
- Ensure business continuity and sustainable growth with financial stability

Risk Management Process

Risk Assessment

This involves identifying risks and probable causes that could impact the Company's objectives. Risk evaluation compares the level of risk found during the analysis against predefined risk weightage to assess their potential severity of impact and probability of occurrence.

Monitoring, Review, and Reporting

- Monitoring involves tracking identified risks and the effectiveness of existing risk management measures.
- Reporting includes documenting risks and risk management measures to the Risk Management Committee.
- This process uses a risk matrix of probability and impact, Key Risk Indicators (KRI), and Key Performance Indicators (KPI), depending on applicability and criticality.

Communication and Consultation

The Chief Risk Officer, along with Risk Owners and Champions, conducts regular and mandatory risk management training programmes. This ensures that all employees proactively contribute to managing risk effectively.

Risk Treatment

This includes drafting and executing mitigation plans based on the Company's risk appetite.

Risk and Response

Delay and Failure to Comply with Laws and Regulations

1. Verifying compliance with regulatory requirements before finalising any significant investment decision
2. Securing prompt approval for new CDMO products, licensed materials, process modifications, etc.

Non-complying with PCB Consent and Hazardous Waste Guidelines

1. Capital investment has been made at all our sites to revamp the ETP facilities.
2. Digital tools are used for monitoring compliance.

Project Costs and Schedule Overruns

1. Enhanced measures to prevent duplication of efforts
2. Supervision at different organisational levels at specified intervals and use of digital tools for project assessment

Monopoly/ Limited Suppliers for Raw Materials

Developed vendors in accordance with the Alternate Vendor Development (AVD) Charter.

Crisis & Risk Management

Ensured that our Crisis and Risk Management processes are well-defined, and our teams have received training to effectively manage crises both within our organisation and with external stakeholders.

Frequent Updates in USFDA Requirements

Focused on being prepared for USFDA at all times.

Dependence on China for Raw Materials Supplies

Expanded supplier base to introduce new geographic regions for key raw materials

Key Customers/ Products Dependence

1. Established the Key Account Management Process
2. Ensured continued growth with current customers and products

Adverse Impact of Natural Calamities on Plant Operation

1. Strengthened the on-site emergency plan for all sites.
2. Implemented a tool named SIREN for sending emails and SMS alerts to locations potentially impacted by a natural catastrophe event.

Cyber Attack

Enhanced measures for safeguarding information security and preserving data integrity

Increasing Competition

1. Hibex initiatives for optimising costs
2. Improved customer interaction

High Employee Attrition Rates

1. Thorough employee engagement initiatives are implemented across all locations.
2. Exceptional achievements are promptly acknowledged and rewarded.
3. The SMT programme has been successfully introduced.

Lack of IT Disaster Recovery Plan

1. Implemented IT system DRP and continuity plan.
2. Created SharePoint site for PLC and Scada Backup upload.

● Decrease in Risk Profile ● Increase in Risk Profile
● Same as last year

Human Resources

We value our people as our most precious asset and aim to cultivate a culture of excellence across operations. Our focus is on building top-tier teams led by exceptional professionals. We have fostered a culture of meritocracy, empowerment, and care, promoting excellence and innovation. Talent development is paramount, with ample opportunities presented for skill enhancement and leadership preparation. Our HR strategy reinforces our market advantage by implementing effective HR Policies, Standards, and Roles and Responsibilities and aligning with our overall business strategy. This integration ensures seamless coordination and enables us to effectively meet business objectives.

Internal Controls and their Adequacy

Our internal control systems are appropriate for the nature and size of our business. They include Entity-level controls, Information Technology General Controls, and Financial and Operating controls.

The Company's management is responsible for establishing and maintaining adequate internal controls. The Company's management and the internal audit team continuously assess the effectiveness of its internal controls across all locations and functions.

In addition, the Audit Committee frequently holds independent sessions with the statutory auditor and the management to discuss the adequacy and effectiveness of internal controls.

Our Company implemented proper Internal Financial Controls, and these financial controls were adequate and effectively operated during 2023-24.