

Directors' Report

To
The Members,

The Directors are pleased to present the 30th Annual Report with the Audited Accounts for the financial year ended 31 March, 2018.

₹ in Millions

1. FINANCIAL RESULTS

	<u>2017-18</u>	<u>2016-17</u>
Turnover	13,001	10,339
Profit before interest and depreciation	2,462	2,006
Interest	491	482
Profit before depreciation	1,971	1,524
Depreciation	856	691
Profit before taxation	1,115	833
Provision for taxation		
- Current tax	447	217
- Deferred tax liability/(assets)	(104)	(91)
Profit after tax	772	707
Reserves and surplus	6,529	5,885
Dividend on equity share	107	132
Tax on dividend	22	27
Transfer to general reserve	-	100

2. COMPANY PERFORMANCE

Last year we crossed a milestone of ₹ 10,000 million in revenues, This year Hikal made a quantum jump in revenues to cross ₹13,000 million, an all-time high. As we look forward to celebrating 30 years of Hikal this year, we are working towards maintaining the growth momentum.

Hikal saw its revenue increase from ₹ 10,339 million in previous financial year to ₹ 13,001 million (a growth of 25.7%). The sales of the Pharmaceutical business grew by 23.3% to ₹ 7,528 million and that of our Crop Protection business grew by 29.3% to ₹ 5473 million (Details of business performance provided in the MDA).

Introduction of new products, addition of new customers and increased market demand for existing products contributed to this growth. The EBITDA (₹ 2,462 million) also showed a growth of 22.7% over previous financial year which was achieved through manufacturing efficiencies and scale on the operating side.

Our gross profit margins, however, faced downward pressures due to an unprecedented and unexpected price increase of several key raw materials imported from China due to shutdowns of factories on environmental concerns faced by our suppliers. We have tried to make up the margin with productivity improvements. We expect the raw material situation to stabilise in the near future, however as part of risk diversification plan we are actively involved in alternate vendor development for some of our key raw materials.

This impact of the raw material rise is reflected in the margin. The EBITDA margin was 18.9% (last FY: 19.4%). In spite of this our PBT has increased from ₹ 833 million to ₹ 1,115 million, an increase of 33.9%. Our PAT increased from ₹ 707 million to ₹ 772 million, an increase of 9.19%. PAT margins were negatively impacted due to reduction in R&D tax benefits and withdrawal of investment allowance. This resulted in our effective tax rate increasing from 15.1% in the previous financial year to 30.7% in this year. Despite this increase in tax expenses, our EPS has increased from ₹ 8.55 to ₹ 9.40.

Based on our improved credit rating (ICRA A- from the earlier rating of BBB+) and healthy cash flows generated, we managed to save significantly on the total cost of our finances. We expect our credit rating to further improve this year which should provide us additional benefits on the cost of our borrowings.

We have made considerable capital investments in both our businesses, Pharmaceutical and Crop Protection as well and in Research and Technology. In line with our long-term strategy, we are investing in adding more production capacity for existing as well as new products that are in the pipeline and we expect this trend of Capital expenditure to continue for the next couple of years.

Over the last one year, we have further improved our debt to equity ratio from 0.95 to 0.91 and our interest coverage ratio from 2.75 to 3.27 and our efforts to improve them further are on track.

3. EXPORTS

Exports for the year are ₹ 9,115 million (70% of total sales) as compared to ₹ 6,612 million (65% of total sales) in the previous year. We have diversified our customer base which includes more local customers who in turn re-export our manufactured products.

4. MANAGEMENT DISCUSSION AND ANALYSIS

The Management Discussion and Analysis on the operations of the Company is provided in a separate section and forms a part of the report.

5. BONUS ISSUE

Based on the healthy cash flows of the company and the positive prospects for growth in the near future, the directors have recommended the issuing one bonus share for every two equity shares held. The Bonus issue is subject to approval of the share holders in the ensuing Extra Ordinary General Meeting of the company.

6. DIVIDEND

The Board declared an interim dividend of 35% which was paid to shareholders in February 2018 (previous year: 30%), and recommended a final dividend of 25% on expanded capital, post bonus issue, thus making total dividend for the year 2017-18 60% (previous year: 60%) .

7. SHARE CAPITAL

The paid-up equity share capital as at 31 March 2018 stood at ₹ 164.4 million. During the year under review, the Company has not issued shares with differential voting rights nor granted any stock options or sweat equity. As on 31 March 2018 none of the Directors of the Company hold instruments convertible into equity shares of the Company.

8. EXTRACT OF ANNUAL RETURN

The details forming part of the extract of the annual return in form MGT-9, as required under Section 92 of the Companies Act, 2013, is included in this Report as "Annexure - A" and forms an integral part of this Report.

9. SUBSIDIARY ACCOUNTS

In terms of the approval granted by the Government of India, Ministry of Company Affairs under Section 129 (3) of the Companies Act, 2013, copies of the balance sheet, profit and loss account, directors' report and the report of the auditors of the subsidiary company Acoris Research Limited, have not been attached with the balance sheet of the Company. The Company will make available these documents / details upon request made by any shareholder of the Company interested in obtaining the documents / details, and they can also be inspected at the registered office of the Company as well as of the subsidiary. Pursuant to the approval, a statement of the summarized financials of the subsidiary is attached along with the consolidated financial statements. Pursuant to Accounting Standards (Ind AS) – 110 issued by the Institute of Chartered Accountants of India, the consolidated financial statements presented by the Company includes the financial information of its subsidiary.

10. DIRECTORS

All Independent Directors have given declarations that they meet the criteria of independence as laid down under Section 149 (6) of the Companies Act, 2013 and Securities and Exchange Board of India (Listing Obligations & Disclosure Requirements) Regulations, 2015.

In accordance with the provisions of Section 152 of the Companies Act, 2013 and the Company's Articles of Association, Mrs. Sugandha Hiremath, Director retires by rotation at the forthcoming Annual General Meeting, and being eligible, offers herself for re-appointment.

Mr. Ranjit Shahani was appointed as Additional Director (Independent) of the Company on 8 February 2018.

Prof. Dr. Axel Kleemann resigned from the Board of Directors w.e.f. 5 May 2018. The Board places on record the valuable advice and guidance given by Dr. Kleemann during his tenure.

Details of the number of Board meetings held during 2017-18 form part of the Corporate Governance Report.

11. BOARD EVALUATION

Pursuant to the provisions of the Companies Act, 2013 and Securities and Exchange Board of India (Listing Obligations & Disclosure Requirements) Regulations, 2015, a structured questionnaire was prepared after taking into consideration the various aspects of the Board's functioning, like composition of the Board and its Committees, culture, execution and performance of specific duties, obligations and governance.

The performance evaluation of the Independent Directors was completed. The performance evaluation of the Chairman and the Non-independent Directors was carried out by the Independent Directors. The Board of Directors expressed their satisfaction with the evaluation process.

12. WHISTLE BLOWER POLICY

The Company has a whistleblower policy to report genuine concerns or grievances. The whistleblower policy has been posted on the website of the Company (www.hikal.com).

13. NOMINATION AND REMUNERATION POLICY

The Board of Directors has framed a policy which lays down a framework in relation to remuneration of Directors, key managerial personnel and senior management of the Company. The Nomination and Remuneration Policy of the Company is attached as "Annexure – F" to this report. This policy also lays down criteria for selection and appointment of Board members. The details of this policy are explained in the Corporate Governance Report and also put up on the website of the Company (www.hikal.com).

14. RELATED PARTY TRANSACTIONS

All related party transactions that were entered into during the financial year were at an arm's length basis and were in the ordinary course of business. There are no materially significant related party transactions made by the Company with promoters, directors, key managerial personnel or other designated persons which may have a potential conflict with the interest of the Company at large.

All related party transactions are placed before the Audit Committee as also the Board for approval.

The policy on Related Party Transactions as approved by the Board is uploaded on the Company's website <http://www.hikal.com/investors/pdf/Related%20Party%20Policy.pdf>

None of the Directors has any pecuniary relationships or transactions vis-a-vis the Company.

15. SIGNIFICANT AND MATERIAL ORDERS PASSED BY THE REGULATORS OR COURTS

There are no significant and material orders passed by the regulators / courts that could impact the going concern status of the Company and its future operations.

16. RISK MANAGEMENT

The Company has a robust business risk management framework in place to identify and evaluate all business risks. The Company recognizes that risk management is a crucial aspect of the management of the Company, and is aware that identification and management of risk effectively is instrumental to achieving its corporate objectives.

The Company has identified the business risks, and the business heads, who are termed as risk owners, assess, monitor and manage these risks on an ongoing basis. The risk owners assess the identified risks and continually identify any new risks that can affect the business. Different risks such as technological, operational, maintenance of quality, reputational, competition, environmental, foreign exchange, financial, human resource, legal compliances among others are assessed on a continuous basis. The Risk Management Committee and Audit Committee review and submit to the Board of Directors their findings in the form of risk register at regular intervals. At the Board meetings, the members have a detailed discussion to assess each risk and the measures that are in place to lower them to acceptable limits.

The strategies are reviewed, discussed and allocation of appropriate resources is done as and when necessary. The risk management program, internal control systems and processes are monitored and updated on an ongoing basis. A built-up mechanism has been established to identify, measure, control, monitor and report the risks. Business heads are responsible for rolling out the risk assessment and management plan within the organization.

17. INTERNAL FINANCIAL CONTROL SYSTEMS AND THEIR ADEQUACY

The Company has an internal financial control system, commensurate with the size, scale and complexity of its operations. To maintain its objectivity and independence, the Internal Audit function reports to the Chairman of the Audit Committee of the Board.

The Internal Audit Department monitors and evaluates the efficacy and adequacy of the internal financial control system in the Company, its compliance with operating systems, accounting procedures and policies at all locations of the Company and its subsidiaries. Based on the report of internal audit function, process owners undertake corrective action in their respective areas and thereby strengthen the controls. Significant audit observations and corrective actions thereon are presented to the Audit Committee of the Board.

The Audit Committee of the Board of Directors actively reviews the adequacy and effectiveness of the internal financial control systems and suggests improvements to strengthen them. The Company has a robust management information system, which is an integral part of the control mechanism.

During the year, a thorough audit of the internal financial controls was carried out by an independent firm of Chartered Accountants.

18. KEY MANAGERIAL PERSONNEL

The Company has appointed the following persons as key managerial personnel.

Mr. Jai Hiremath, Chairman & Managing Director

Mr. Sameer Hiremath, Joint Managing Director & CEO (Whole time Director)

Mr. Sham Wahalekar, Chief Financial Officer & Company Secretary

19. PARTICULARS OF LOANS, GUARANTEES & INVESTMENTS BY THE COMPANY

The details under Section 186 of the Companies Act, 2013 are given in the notes to the financial statements.

20. DIRECTOR'S RESPONSIBILITY STATEMENT

Your Directors state that:

- (i) In the preparation of the annual accounts, the applicable accounting standards read with requirements set out under Schedule III to the Companies Act, 2013 (the Act), have been followed and there are no material departures from the same;
- (ii) The Directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year ended 31 March 2018 and of the profit of the Company for that year;
- (iii) The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (iv) The annual accounts have been prepared on a going concern basis;
- (v) The Directors have laid down internal financial controls to be followed by the Company and that such internal financial controls are adequate and are operating effectively; and
- (vi) The Directors have devised a proper system to ensure compliance with the provision of all applicable laws and that such systems are adequate and are operating effectively.

21. AUDITOR

M/s. B S R & Co. LLP, Chartered Accountants have been appointed for a term of five years commencing 2014-15 to 2018-19. Members are requested to ratify their appointment for the year 2018-19.

The Auditor's report to the members on the accounts of the Company for the year ended 31 March, 2018 does not contain any qualifications, adverse or disclaimer remarks.

22. COST AUDITOR

The Company has re-appointed M/s. V. J. Talati & Co., as the Cost Auditor to carry out the audit of cost accounts for the financial year 2018-19. The cost audit report for the financial year 2016-17 was filed with the Ministry of Corporate Affairs, Government of India, on 8 September, 2017.

23. SECRETARIAL AUDITOR

The Board had appointed M/s. Ashish Bhatt & Associates, Practicing Company Secretaries, to conduct a secretarial audit for the financial year 2017-18.

The secretarial audit report for the financial year ended 31 March 2018 is annexed herewith as "Annexure - B" to this Report. The secretarial audit report does not contain any qualifications, reservations or adverse remarks

24. CORPORATE SOCIAL RESPONSIBILITY (CSR)

The Corporate Social Responsibility Committee (CSR Committee) has formulated and recommended to the Board, a Corporate Social Responsibility Policy (CSR Policy) indicating the activities to be undertaken by the Company, which has been approved by the Board. The CSR Policy may be accessed on the Company's website at: http://www.hikal.com/investors/corporate_governance/pdf/Corporate_Social_Responsibility_Policy.pdf

Policy Statement:

As a socially responsible corporate member of the world community with long-term relationships, we believe that the future of our business is best served by respecting the interests of society at large. Through our efforts, we shall strive to improve the living standards of the community. Our CSR activities shall aim to make a difference to the lives of the needy, underprivileged members of society including children, women and senior citizens, and the environment.

The key philosophy of all CSR initiatives of the Company is guided by three core commitments of Scale, Impact and Sustainability. The Company has identified six focus areas of engagement which are as under:

- Health: Affordable solutions for healthcare through improved access, awareness and sanitation
- Education: Access to quality education, training, skill enhancement, enhancement of vocation skills
- Environment: Environmental sustainability, ecological balance, conservation of natural resources
- Protection of national heritage, art and culture: Protection and promotion of traditional art, culture and heritage
- Overall development activities in surrounding areas of Hikal's manufacturing sites for the benefit of society
- Contribution to Prime Minister's National Relief Fund or any other fund set up by the Central Government for socio-economic development or welfare

Implementation of the CSR Program

1. Project activities identified under CSR are to be implemented either by personnel of the Company or through a registered trust or a registered society.
2. The time duration of each project / program shall depend on its nature and intended impact.

The Company will also undertake other need-based initiatives in compliance with Schedule VII of the Act. During the year, the Company has spent ₹ 12.02 million on CSR activities. Pursuant to the provisions of the Companies Act, 2013, the Company should have spent ₹ 11.98 million (being 2% of the average net profits of the last three financial years), during the financial year 2017-18.

The Annual Report on CSR activities is annexed herewith marked as "Annexure - C".

25. SAFETY & ENVIRONMENT

The Company continued to maintain the highest standards in environment, health and safety. The Company has become the first Indian life sciences company to receive the Responsible Care certification. It is applicable to all manufacturing and research sites of the Company. Continuous training and awareness programs for the employees are undertaken on a frequent basis.

26. PUBLIC DEPOSITS

The Company has not accepted any deposits and as such there are no overdue deposits outstanding as on 31 March 2018.

27. EMPLOYEES

The Company considers its human capital as an invaluable asset. The Company continued to have cordial relationships with all its employees. Management and employee development programs and exercises were conducted at all sites. Employees had various team building exercises and were sponsored for various external seminars and other developmental programs to enhance their skill sets. The total workforce of the Company stood at 1,405 as on 31 March 2018.

As required by the provisions of Section 197 (12) of the Companies Act, 2013, read with Rule 5 (1) of the Companies (Appointment and Remuneration of Management Personnel) Rules, 2014, as amended, from time to time, is enclosed herewith as "Annexure – D".

The statement containing particulars of employees as required under Section 197 (12) of the Companies Act, 2013 read with Rule 5 (2) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 forms part of this report. Further, the report and the financial statements are being sent to the members, excluding the aforesaid statement. In terms of Section 136 of the Companies Act, 2013, the said statement is open for inspection by the members at the registered office of the Company during business hours on working days of the Company up to the date of the ensuing Annual General Meeting. Any member interested in obtaining such particulars may write to the Company Secretary at the registered office of the Company.

28. CONSERVATION OF ENERGY, RESEARCH & DEVELOPMENT, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

In accordance with the requirements of Section 134 (3) (m) of the Companies Act, 2013, read with rule 8 (3) of the Companies (Accounts) Rules, 2014, a statement showing particulars with respect to conservation of energy, technology absorption and foreign earnings and outgo forming part of the Directors' Report, is given in the enclosed "Annexure- E" which forms part of this report.

29. CORPORATE GOVERNANCE

A report on Corporate Governance along with a certificate from the Auditors of the Company regarding the compliance of the code of Corporate Governance as also the Management Discussion and Analysis Report as stipulated under the provisions of Regulation 34 of the Securities and Exchange Board of India (Listing Obligations & Disclosure Requirements) Regulations, 2015 are annexed to this Report.

30. ACKNOWLEDGEMENTS

The Board of Directors place on record their appreciation of the contribution and sincere support extended to the Company by our bankers, financial institutions and valued customers and suppliers.

The Board also places on record its appreciation for the impeccable service and generous efforts rendered by its employees at all levels, across the Board towards the overall growth and success of the Company.

31. CAUTIONARY STATEMENT

Statements in the Board's Report and the Management Discussion and Analysis describing the Company's objectives, expectations or forecasts may be forward-looking within the meaning of applicable securities laws and regulations. Actual results may differ materially from those expressed in the statement. Important factors that could influence the Company's operations include global and domestic demand and supply conditions affecting selling prices of finished goods, input availability and prices, changes in government regulations, tax laws, economic developments within the country and other factors such as litigation and industrial relations.

For and on behalf of the Board of Directors

Date : 9 May 2018
Place : Mumbai

Jai Hiremath
Chairman & Managing Director
DIN:00062203