An ISO 9001 & ISO 13485 Certified Company

Date: 17th February, 2023

To, **BSE Limited (“BSE”)**, Corporate Relationship Department, 2nd Floor, New Trading Ring, P.J. Towers, Dalal Street, Mumbai – 400 001	To, **National Stock Exchange of India Limited (“NSE”)**, “Exchange Plaza”, 5th Floor, Plot No. C/1, G Block, Bandra-Kurla Complex, Bandra (East), Mumbai – 400 051
BSE Scrip Code: 543399	**NSE Symbol: TARSONS**
ISIN: INE144Z01023	**ISIN: INE144Z01023**

Sub: Intimation under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 – Transcript of Earnings Call

Dear Sir/Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the transcript of Company's Earnings call held on 13th February, 2023 regarding discussion on the operational and financial performance of the Company for the third quarter and nine months ended 31st December, 2022, is enclosed herewith.

This intimation is also being made available on the Company's website viz www.tarsons.com

Kindly take the same on record.

Thanking you,

Yours faithfully,
For Tarsons Products Limited
(Formerly Tarsons Products Private Limited)

SANTOSH KUMAR AGARWAL

Digitally signed by SANTOSH KUMAR AGARWAL
Date: 2023.02.17 16:35:53 +05'30'

Santosh Kumar Agarwal
Company Secretary & Chief Financial Officer
Membership No. 44836

Encl: As above

"Tarsons Products Limited
Q3 FY '23 Earnings Conference Call"
February 13, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on February 13, 2023 will prevail.

MANAGEMENT: **MR. ROHAN SEHGAL – WHOLE-TIME DIRECTOR – TARSONS PRODUCTS LIMITED**
MR. SANTOSH AGARWAL – CHIEF FINANCIAL OFFICER – TARSONS PRODUCTS LIMITED

MODERATOR: **MR. MITESH SHAH – NIRMAL BANG EQUITIES**

Moderator: Ladies and gentlemen, good day, and welcome to Tarsons Products Limited Q3 FY '23 Earnings Conference Call hosted by Nirmal Bang Equities Private Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Mitesh Shah from Nirmal Bang Equities. Thank you, and over to you, Mr. Shah.

Mitesh Shah: Thank you, Nirav. Good afternoon, everyone. On behalf of Nirmal Bang Institutional Equities, I welcome you all to Tarsons Products 3Q FY '23 earnings conference. From the senior management team, we have today with us Mr. Rohan Sehgal, Whole-Time Director; Mr. Santosh Agarwal, CFO. I will now hand over this call to our management of Tarsons Products for the opening remarks, post which we can start Q&A session. Thank you, and over to you, sir.

Rohan Sehgal: Good afternoon, and a very warm welcome to everyone present on the Q3 FY '23 Earnings Conference Call for Tarsons Products Limited. Along with me today, I'm joined by Mr. Santosh Agarwal, the Chief Financial Officer and the Company Secretary for Tarsons Products Limited, and SGA, our Investor Relations Advisors. We have uploaded our quarterly investor presentation on the stock exchanges and the company's website. I hope all of you have an opportunity to go through the same. Let me begin with the industry insights, followed by our financial and operational performance for Q3 as well as the 9 months FY '23.

First, I would like to provide some background on the life sciences industry. The overall industry is slowing down on the back of current recessionary trends and aftereffects of the COVID pandemic. We have also seen slowdown across our end markets, including diagnostics, academia as well as research institutes. Pharma, however, has been holding up, but not at the same levels comparing to the pre-pandemic days. Diagnostics industry is seeing declined volumes and the entry of new players in the industry has distributed the existing volumes and in turn the demand for our products. Academia and research is yet to gain momentum and post the recently announced financial budget, the envisage uptick in volumes for our coming quarters. We believe that these problems are temporary in nature and the industry will revive soon on the back of growing demand for labware products across customer segments. We have seen new investments made in the industry, and many new players are entering the pharmaceutical and diagnostic industries, which will be beneficial for the overall life science industry as well as plastic labware suppliers.

Speaking on the financial performance, our revenues in Q3 FY '23 stood at INR 61 crores, which is lower by 13% from Q3 FY '22. The decrease in revenue is majorly attributable to 2 reasons. Firstly, there has been a slowdown in the industry, which in turn has reduced the demand for our products, but if we speak of our performance in comparison to the industry, we have outgrown the industry growth. Hence, it is fair to say that our Tarsons has been able to increase its market share.

Secondly, as mentioned in our previous communications, there was a sudden surge for COVID-related products in FY '22, which has normalized now. Hence, we see on a like-to-like basis for our conventional business, revenues are holding up and have shown resilience on the back of strong brand equity for Tarsons. We believe that the industry slowdown is a temporary phenomenon, and the demand should bounce back as we are entering the post-pandemic era.

When it comes to the exports opportunity, we believe we have huge opportunities in the export markets. We have been attending multiple shows and exhibitions in the last 9 months to demonstrate our ability to deliver quality products of global standards on a larger platform. We have been receiving positive feedback and inquiries for our products these might get converted into sales as and when demand comes back. Along with the array of products manufactured post the commissioning of our new facility, this will include capacity expansion with all new product lines. We will be able to capture a higher market share in the export markets, both on the OEM as well as the branded business. The global plastic labware market is massive, and we are capable of delivering best-in-class products.

Our focus is on developing a trusted global brand in order to increase our revenue share from exports, which will be an important growth driver in the future. On the EBITDA front, our EBITDA stood at INR 27 crores in the coming quarter with an EBITDA margin of 23.5%. Our margins were lower as compared to previous year on account of change in product mix as well as reverse operating leverage going out on account of dip in revenues for the current quarter. Our margins were also impacted on account of higher sales promotional, marketing and traveling expenses for our participation in various shows and exhibitions. However, we consider it as an investment to fuel our future growth.

We are on track with our ongoing capex plans, which will fuel our next phase of growth. Our new Panchla facility will enable us to serve a completely new segment of the plastic labware industry. Our other capital expenditure project in Amta, West Bengal, which we are expanding in some key products as well as building a fulfillment center to consolidate our warehouse operations into a single centralized unit to better manage our inventories and achieve cost synergies. At the same location, we also aim to do backward integration in the manufacturing process by building an in-house sterilization center for captive consumption.

Robust outlook for the industry for the medium to long term gives us the confidence to continue our investments in capacity expansions as well as new product lines, and we are not too worried about the short-term phenomenon. Before handing over the call to Santosh, I'd like to emphasize that our primary strategy will be to improve existing products and expand into new product portfolios, focus on branding information activities. We believe that the Indian plastic labware market is at a very nascent stage and with huge potential in the export markets, we are all geared to outperform the industry growth.

With this, I would like to hand over the call to Mr. Santosh Agarwal, CFO for Tarsons, for his comments on the operational and financial highlights.

Santosh Agarwal: Good afternoon, everyone, and a very warm welcome to our Q3 FY '23 earnings call. On the revenue front, revenue from operations for Q3 FY '23 stood at INR 61.3 crores as compared to

INR 70.7 crores in Q3 FY '22, lower by 13% on Y-o-Y basis. For 9 months FY '23, revenue from operations for 9 months FY '23 stood at INR 201 crores as compared to INR 260 crores in 9 months FY '22. Just to reiterate what Rohan said, we had a high rate of COVID-related revenue in FY '22, which are negligible in the current year, and hence, the revenue tends to be lower. On a like-to-like base, the revenue will be marginally lower to flattish for 9 months FY '23.

Revenue from exports stood at INR 21 crores and domestic at INR 41 crores on a quarterly basis. For 9-month FY '23, exports stood at INR 68 crores and domestic was INR 133 crores. For quarter 3 and 9-month FY '23, export sales contributed around 34% and domestic sales contributed around 66%. At a gross level, our gross profit for Q3 FY '23 stood at INR 48 crores as compared to INR 55 crores in Q3 FY '22. For 9 months FY '23, GP stood at INR 157 crores as compared to INR 172 crores in 9 months FY '22. Our GP margin for Q3 FY '23 stood at 77.5%. And for 9-month FY '23 GP margin stood at 77.8%.

At an EBITDA level, EBITDA for Q3 FY '23 stood at INR 27 crores as against INR 33 crores in Q3 FY '22, 20% lower Y-o-Y. EBITDA for 9 months FY '23 stood at INR 91 crores as against INR 108 crores in 9 months FY '22. EBITDA margin for Q3 FY '23 stood at 43.5% and for 9-month FY '23, EBITDA margin stood at 45%. At the PAT level, profit after tax for Q3 FY '23 was INR 16 crores with PAT margin of 26.3%. And profit after tax for 9 months FY '23 was at INR 58 crores with PAT margin of 28.8%. PAT was also impacted on account of higher depreciation.

With this, I would like to open up the floor for Q&A.

Moderator: The first question is from the line of Karan Khanna from Ambit Capital.

Karan Khanna: So firstly is around coming on to the export business. You alluded to political uncertainty and recessionary trends to explain the declining exports revenue during the quarter. But last quarter, when you had done well on exports front, there was no mention about possible slowdown on the export front. So if you could elaborate on that? And second, given industry demand continues to remain sluggish, what's your plan of action to ensure that your upcoming facility at Panchla does not go underutilized?

Rohan Sehgal: So as in the last earnings call to the current earnings, what we see is that we see more and more slowing down in major economies. So we are pretty unaffected by problems happening in Russia and Ukraine. But if you look at the US, you look at Europe, you look at major geographies, South Korea, Japan, the spending on our kind of products is coming down and the reason for that coming down is the inflation rates are high and the economic conditions globally is not very positive. And once that's not positive, it effects everything and research budgets and other spending habits are also affected. And we see the output and outtake is slightly slower at this point of time.

Regarding our new facilities, I think we have to watch very closely all the capacity expansions what we are doing because the demand seems to be lower at this point of time. However, we think it's very temporary. But for the new product groups, I think we are not too worried because we start with a base of zero, it's a new product which we are launching, and we would move in the same way which we have planned, gradually increasing our market share both domestically as well as internationally. So I think majority of our expansion moving forward is for products which we never made before as against products in which we're expanding capacities.

Karan Khanna: So just continuing on that and the sluggish demand environment that you're talking about, so how confident are you to meet your stated guidance of INR 500 crores revenue by FY '23 against the backdrop of a slowing global economy?

Rohan Sehgal: So I still feel that the next year is a very critical year, which starts from 1st of April. So we took a call and review our guidance, depending on how we see the momentum in the first few quarters of next year. But I still believe that this is on the back of a huge artificial demand which is created during COVID and all those economic factors are there to play, but I feel that the industry is saturated at this point with a lot of pent-up stock through the COVID period. And it's very temporary phenomenon and things should bounce back pretty strong, very soon. So still, we would stick to our guidance, which we have given for the FY '25 and probably look to re-evaluate it towards middle of the next financial year in case things are not looking up.

Karan Khanna: On your domestic conventional business, you've indicated there was substantial growth during first half. But if I remove the COVID revenue from the base, your domestic revenues are largely flat. So I think on the last call, you mentioned you were expecting growth in the domestic revenue on the back of new product launches such as PET bottles and keeping higher inventory in anticipation of that. So could you just comment on revenue offtake in new products during the quarter, what's been the contribution from that?

Rohan Sehgal: So the contribution at this point, we do not have any revenue from new kind of contribution at this point in this quarter because these new bottle product lines which we're looking at require a lot of approvals, which are internal approvals, not customer approvals, which are raw material approvals, lot of purity approvals, and it's a large range of products. So you cannot have 4 or 5 sizes in cell.

You need to have a complete range, which is there as per Google competitor base. So we are in the process of launching the final stage of products, and I think towards the end of Q4, which is around the month of March, we'll start seeing the first sales of these bottles.

Karan Khanna: And on Panchla, you had highlighted that you were starting to build export revenue during fourth quarter. Has that already started? And what is the remaining capacity expansion for the facility, how much of the overall capex have we incurred?

Rohan Sehgal: So Panchla is slated to the operational and the complete facility ready around the end of May 2023. So until the facility does not start, we do not have even INR 1 of revenue from the facility. So Panchla is under construction. The construction is 99% complete. We are just going through the clean room production as well as the electrical lines and the final finishing touches. So, we believe we're about 10 to 12 weeks away from being able to build those revenues from that facility.

Karan Khanna: And lastly, given we are already halfway through fourth quarter, are there any more factors that you proceed that can lead to further disappointment?

Rohan Sehgal: No. I think the factors are it's the industry is sluggish at this point of time. And the global environment has not helped our international business. I think that there is uncertainties which is playing out. And hence, people are conservative. There are certain country-wide risks as well which we have started seeing. For example, in South America, there is certain currency issues with certain key countries which we've been operating in. Egypt has been going through a very, very tough phase in terms of currency as well. But these countries are not the major countries for us, but they still account for a good size of our international business. But moreover, I think the US and Europe has been very, very sluggish, which is the major part of our business.

And this is not aided overall sluggish industry. So sluggish industry along with sluggish economy in these countries is not in our favor, but we still feel that the kind of product lines which we are coming out with, the industry looks to be in a very, very strong position moving forward. It is going through a temporary blip, and this industry will bounce back very, very soon.

Moderator: Next question is from the line of Garvit Goyal from NVest Research.

Garvit Goyal: So you have announced capex plan of almost INR 500 crores a year ago from now. And we are expecting both Panchla and Amta to be operationalized in Q2 FY '24. Basically my question are, when the capex you have incurred until now in these facilities shall start contributing to the top line and as you mentioned, margin improvement? And second is, as far as our existing facilities are concerned, these are not at fuller utilizations as they were in FY '22, due to temporary slowdown we mentioned in the industry.

So does that mean the new facility is coming in, shall cater to the new customers? And if yes, are you received some orders from these new customers? There are any kind of discussions that are going on with them with regard to upcoming product?

Rohan Sehgal: So regarding our facilities, our facilities are designed in such a way that most of the machines are unique for the various product lines. So having our current facility is not fully utilized plays no role in the new facilities coming up because we cannot interchange capacities with the old and new facilities, they're all unique to each other. And we generally don't receive orders in advance. You build a new product line in market.

The new product line, we get the first levels of feedback from new customers, and that's how we build on from there and grow revenues. And capex will come into place only once the facility is the fully operational. At this point of time, we have a large amount of work in progress, capex, both in the manufacturing infrastructure base as well as in the equipment, molds, machinery, ancillary and so on.

Garvit Goyal: Let's take it from the different angle. I was just asking how much time you will take to ramp up this new facility in terms of revenue. That was basically I was trying to say.

Rohan Sehgal: So it all depends. I think the capacity expansion should be ramped up quicker because these are existing product lines, and Tarsons has an established brand image as well as a very, very strong market segment for these kind of products, but it will all depend on how the industry is looking at that point of time. And for the newer products, as I've said in my earlier calls, it's a period of

3 to 5 years to completely ramp up and have a significant market share in the domestic market for such product lines.

Garvit Goyal: As far as I remember the new facility that is coming in, that is entirely towards the new product, right?

Rohan Sehgal: No, it has capacity expansion as well, which are existing product lines as well as new product lines, but majorly new products, but there are capacity expansion plan as well.

Garvit Goyal: And sir, what is your target top line for FY '24 considering the current demand environment that is going on in the industry, sir?

Rohan Sehgal: So at this point of time, we'd not like to give any guidance because things are very volatile. And we will see how things go in quarter 1 and quarter 2 of next year.

Garvit Goyal: And the current environment is for existing products is equally for the new products as well means demand is low in this existing product. So we can assume the demand will be low for those new products as well? Or is it same? What is the difference?

Rohan Sehgal: Absolutely, absolutely. The demand its an industry wide demand, it's not a demand which is only catering to our segment or plastic labware. It is the demand, which is for chemicals, reagents, equipment, glassware, plastic ware, everything put together. The industry, the buyers are facing this kind of an issue. And that's how it is. And we will wait and see how it works out. But for the new product lines, the advantage is we start from level zero, so everything is incremental revenue. It's very difficult to showcase growth in such tough conditions, especially when we have such a strong base of being a market leader in India.

Garvit Goyal: And you were mentioning in the quarter, your market share has increased. So what is the current market share, sir?

Rohan Sehgal: We believe that our market share is slightly higher than what we had showcased in the earlier periods because considering the industry trends and looking at industry peers, it's very difficult to get identical numbers because except ours the entire industry is private. It is only our numbers which are out in the public, but we see large amounts of degrowth and when we speak to distributors and customers, we see very high levels of inventories and unsold inventories for other competitors. So things are not looking good for a lot of competitors in the industry. And we feel that we are in a better position as compared to competitions in India.

Garvit Goyal: And so you are mentioning diagnostic industry is not doing well, number of players are increasing, but still number of players are increasing and you are saying your unlisted players not able to sell them, then I think it should be good for you, right? But I'm not understanding ...

Rohan Sehgal: The diagnostic industry's going to a transformation. So there is a lot of panic at this point of time with new players coming in, prices dropping and prices increasing slightly less. There has been a great shift in pricing. So we maintain our brand quality, and we did not have different levels of quality. So we would not be in a position to participate in large or deep discounts for our products. So at this point of time, it's going through a little bit of prices and a transformation where the existing established legacy players are being challenged by some of the new players coming in. So it's not a good sign as a supplier as well as for many of these diagnostic players as well. So only when things settle down, will we be able to understand the real impact for us positively or negatively for the diagnostic industry.

Garvit Goyal: So your CFO to EBITDA is getting reduced, it was 93% in FY '20. And in first half FY '23, it's 55%. So why this shift is happening? Is there any changes in the economics of the business apart from increasing the proportion of your exports, which basically increased from 26% at that time to 34% in first- half.

Santosh Agarwal: Sir, our cash from operations is still intact. If you see our percentage of margin, EBITDA is we are still maintaining at about 45% EBITDA and our cash profit is still at 40% level, 38% to 40% level. So, we are confident that our operations are generating enough cash accruals, and we look forward to growth.

Garvit Goyal: Sir, I was asking for this particular percentage, CFO to EBITDA ratio. Your working capital efficiency seems to have lagged over a period of time. That's what I would trying to ask.

Santosh Agarwal: So we need to keep some working capital considering our 1,700 SKUs. So considering this PAT currently we have a inventory of INR 112 corer and the debtor is about INR 50 crores and creditor is about to be INR 10 crores to INR 20 crores. So this kind of working capital is required and if you see the proportion with the cash from operation, which is doing really well. And going forward, once the sales pace pick up, it will go even better.

Moderator: The next question is from the line of as Harsh Mulchandani from Kriis Portfolio.

Harsh Mulchandani: So Rohan, I have couple of questions. One is this cost which you mentioned that you spent on promotions marketing. So just wanted to understand that what has been the exact nature of these cost spend in the quarter? And how do you see this cost increasing versus the previous years? And typically, how much time does it take to onboard a customer once you go for these events? So some color if you could help us understand.

Rohan Sehgal: So what we do is we go to international shows and exhibitions and we also do domestic exhibitions and road shows. The purpose of domestic equation and roadshow is to reiterate our brand image as well as launch some new products. And the process of conversion is fairly easier since we are in a very strong position in the domestic markets. International shows and exhibition, there's no direct correlation because you keep participating in some key exhibitions and key shows internationally and then business starts coming in.

You cannot correlate which business has come from which exhibition, it's very, very difficult because you meet with selling people over and over again in multiple shows. But these costs were pretty much muted during the COVID period because of travel restrictions. And moving forward, I think these costs will not play a good role once the revenues start increasing. At this point of time, there's a fair amount of fixed cost, which is associated with the company of these revenues. For example, we are at INR 61 crores this quarter. Had we run at INR 75 crores or INR 77 crores, there would have been a minimal increase in fixed cost, if at all. So the EBITDA of the margin would have shown very, very differently had the revenues being up. Of course, the variable costs would have increased in proportion. But at this company structure and size, we would have grown maybe 25%, 30% more without having an increase in the fixed costs.

Harsh Mulchandani: And second question was around last 2, 3 quarters, every quarter, we are getting surprises either from higher base due to COVID and now an industry slowdown. So I just wanted to get a sense that is there something that we are lacking a grip on how the markets are moving post COVID? Or there is some fundamental change, which we are not able to understand because the last 2 to 3 quarters, we are getting surprises.

So obviously, you are on ground. So there must be coming on your mind going in. And now we are not getting any short-term guidance. So is there some change which is happening, which you are seeing on the ground level? Just wanted to get kind of sense on that?

Rohan Sehgal: So earlier as well, we have not provided any short-term guidance. We had given a longer-term guidance of about 3 years earlier. And I think our narrative has remained constant in quarter 1 and quarter 2 as well, that although COVID has completely gone, the industry has not come back to normal levels. The industry is still quite sluggish, and we have maintained that in Q1 and Q2 as well. Although Q1 and Q2 saw good levels of non-COVID revenue growth. We continue to maintain similar levels in Q3, but the industry is slowing down, but this is not a new thing which we have proposed in Q3.

The industry has been slow all across the years in diagnostics, pharma, research continue to remain slow with biotech and CROs maintaining good growth and good progress. We believe that this is not here to stay and this would quickly change. But we are unable to point the finger as to an exact time when it will change. And hence, we are not giving any short-term guidance.

Harsh Mulchandani: So is it fair to understand that market has degrown by more than 20% as a ballpark number because we've dipped by almost 15% and assuming that you've gained market share. So is it fair to think that market is slowing down considerably because 20% slowdown is a huge number?

Rohan Sehgal: At this point of time, we don't have any data available for the market. So for me to put a number would not be right. There is no official data, but all the information that we have provided is from our understanding of the industry, visiting end customers, visiting the distributors and feeling the pulse of the market, but we don't have any official data to put a number at.

Moderator: Next question is from the line of Mitesh Shah from Nirmal Bang.

Mitesh Shah: Just a couple of questions about export. We talking always about the INR 50,000 crores export market, and we has not reach to the INR 100 crores of sales. Is that recession and this kind of slowdown have impacted that much that even smaller players are impacting so much, I'm failing to understand because we keep marketing, we keep participating in the exhibitions and we're talking about the China Plus One opportunity as well, but it's not showing in the number at all?

Rohan Sehgal: Absolutely. I think is a INR 50,000 crores market and we've been promoting and competing in the international markets and doing the same strategy for sales and marketing over the last 10 years since we've been in the market, last 12 years. But when the market rebounds back, I don't see us coming anywhere close to having sizable market share. So the expectations are that we are able to have a sizable market share on this INR 50,000 crores market? I don't believe that is going to be there. Even though the China Plus One strategy comes into play, it would not be there. In terms of slowing down, I think all the companies which are purely into the labware space have seen considerable slowdown, companies smaller than us, companies larger than us. Globally, I think there are few listed global players, which are available online. They are listed in their respective countries, in China and the US and Europe and their full year numbers have been published because they have January to December, we can clearly see the level of slowdown that far exceeds our slowdown levels.

Mitesh Shah: But the size is too small of us compared to those players. So that's why I'm a bit worried about that despite this size, we are not able to gain the opportunity over a period of time. So that's ...

Rohan Sehgal: The problem is that a player who has got a $1 billion or $1.5 billion market has made the kind of investments organically and inorganically over 6 to 7 decades, its present in all these countries directly with a large direct and indirect sales team and have made considerable amount of investments in those countries. The way we are planning on our international business is to find correct representatives and agents for our business and conduct business from Calcutta in India to these international countries.

So it's a very different approach, which was taken to international business. It's a very profitable and very sustainable approach, and we are not in a position at this point of time organically to conduct business like the way the large MLCs have been conducting. It's a very different approach.

Mitesh Shah: And also, you're talking about the slowdown in the growth and the R&D spending. But any of the management in the last conferences, I have never heard about the company most of us slowing down their research investments. So is it visible right now in the market as per you?

Rohan Sehgal: At this point of time, if you look at the buying in pharma, it's not the same. I think it was drastically low during COVID periods because understandably because a lot of the units were not functioning, but it's still lower than our pre-COVID levels. Diagnostic is drastically lower. And research and institutional business is also very, very low at this point of time compared to pre-COVID level. So when you look at it from our industry level, we're a bio supplier.

We're a supplier of plastic labware to these new customers and new industries. We see a considerable slowdown and we don't see any competition in both domestic as well as international taking market share away from us. It's just an industry slowdown what we see. And it's also resonated internationally as well when we speak to distribution partners, when we speak to OEM partners, inventory levels are high and business levels are low at this point of time.

Mitesh Shah: And about the diagnostic, you're talking about competition. But I think the volume-wise industries are still growing and the new players are increasing the awareness in the industry. Definitely, the price would be under pressure. I believe it will be continued for next 3, 4 years. So it is like some smaller players are eating the market share of us because of the better pricing and they're offering better pricing than us?

Rohan Sehgal: So we are not seeing that until now. Of course, the market is segmented and there are segments which we cannot cater to, which are at a very, very low price compared to us, which was always the case even in the past since inception, since the last 15, 20 years. And then there could be a very small segment of customers, which do not buy from us and also have preference for other brands and hence, the availability of various players in the market. But we don't see any shift or movement of our market share.

And there is no alarming situation where people are taking share away from us. We just see slowness and sluggishness and hence, we are waiting to see how the industry pans out over the next few quarters. But there is no alarming situation where we are losing out the competition for any reason, quality, price, brand, anything.

Moderator: The next question is from the line of Harsh from Marcellus Investment Managers.

Harsh: So to begin with, you alluded in your initial comments that you saw the budget. And in that budget, the allocated funds for the research budget are then increased. So could you just quantify that or how much was it this year, how much will it be next year?

Rohan Sehgal: So we don't know that because they don't give a breakup of research, which is bio supply research, which is a very broad research term and a number on that against plastic number is not the right figure. But the government has spoken very favorably on research as well as medical devices, and we hope that our industry stands to gain from that. We are yet to see that because the budget was just very, very recent. But the government and the research market has not been able to rebound itself, which was the pre-COVID levels. And at this point of time, the optics from the research organization is very, very well.

Harsh: But there would see some numbers, which is comparable on a year-on-year basis. I agree that plastic labware consumables might not get a number. But as a whole, when you're saying that research budget has increased. So I'm just trying to assess it, how much has that increased?

Rohan Sehgal: They're not put in a number there, but they've put in a statement where these numbers are stated to increase and that we have renewed focus on that. So it's yet to be seen what would be allocated. But again, these budgets are extremely large. And if you look at the budget, which is spent on plastic labware is not even a fraction of the entire budget on research.

Santosh Agarwal: And plastic labware market is a very small part of research, right? So to give the exact figure of plastic labware market at this point of time is difficult.

Harsh: And secondly, from your commentary, I agree that exports have gone down on a Q-o-Q basis, but what to what extent is the domestic revenue going down on a Q-o-Q basis because they said the slowdown was already there last quarter, and it is non-COVID to non-COVID. So what explains the slowdown, 8% slowdown in domestic Q-o-Q revenues?

Rohan Sehgal: So we see there is a slight slowdown on the domestic revenues. I would still feel that it's not a very, very major slowdown compared to how the industry is doing at this point of time. It's on the basis if you look at our customer base segmented into pharma, into research, into diagnostics and then into biotech, biopharma and CROs, I think with the exception of the last product group, which is biotech and CRO because biopharma, we don't have a product line to approach them in a very, very large scale.

The other customer segments are pretty slow. Some being drastically slow like research, diagnostics and some being partially slow like pharma. Pharma is still picking up, but not as much as it used to be pre-COVID levels. So in terms of delivery of products, in terms of quality of our products, in terms of price competitiveness of our products, we are not facing any issues, but where the issues are on the demand of the customers. And as this starts picking up, we should start seeing numbers increasing in a good pace.

Harsh: And will it be possible to give segment-wise break up of how much which segment has slowed down on a Q-o-Q basis or on a year-on-year basis?

Rohan Sehgal: So we can prepare that and get that send separately, but again, that would be assumptions to the best of our ability as we are getting all this information based from our sales teams and our marketing teams as well as our distribution base. All these customer groups are serviced through our distribution channel and we don't have direct invoicing of customers.

Harsh: And one last question. Are you seeing a change in the competitive landscape in the post-COVID world?

Rohan Sehgal: See, temporarily, there would always be a little bit of panic as the transition is going through. There are a lot of distributors which are filled with inventory levels for products which they don't need and products which they're unable to sell as well as a lot of manufacturers, which went overaggressive and there's a lot of smaller players who went overaggressive and increase capacities to levels which they cannot cater to today. So we don't believe that this is a major problem in the medium to long term because we are well established with our customer base as well as our distribution base in India.

And we have a very unique value proposition for our OEM customers as well as our growing branded sales distributor base internationally. So overall, the industry is not looking very good at this point in time, but we believe that the rebound is just around the corner. And we will be in a good position to capitalize on the rebound. And even in today's current levels, I think, as I explained in one of my earlier answers, we are doing amongst all the players, we have been in the better end of the performance compared to peers in India as well as internationally, smaller in size then us and as well as larger in size then us.

Moderator: Next follow-up question is from the line of Dheeresh Pathak from White Oak Capital.

Dheeresh Pathak: Yes. Just INR 50,000 crores, somebody mentioned, you also sort of said about it. So this is our target market or this is like a very big market and our target market is stronger than this?

Rohan Sehgal: This is the market of plastic labware consumables sold globally, and we also manufacture plastic labware consumables. So it's like-for-like products, which are being sold, which we manufacture and which we don't manufacture, which we will be entering into globally.

Dheeresh Pathak: So currently that we manufacture the category of products we are covering, what percentage of that of the INR 50,000, the current product…

Rohan Sehgal: Approximately around 50%, 60%, 60-odd percent, maybe INR 30,000 crores, approximately, that would be my best guess because these are reports from frost and Sullivan, I don’t have product-wise breakup of these market sales.

Dheeresh Pathak: And the new capacity that you're putting up, you see the coverage will go from 60% currently to higher levels?

Rohan Sehgal: It's actually new products plus new capacity. It's not only new capacity. New capacity means existing products, and new products means new products.

Dheeresh Pathak: A mix of INR 50,000 crores market, but you will expand your product portfolio basket, right, in the new capacity your putting up?

Rohan Sehgal: We should be in a position to pretty much to capitalize this entire INR 50,000 crores market in the next few quarters.

Dheeresh Pathak: Of this, India market is INR 600-odd crores and you have 1/3...

Rohan Sehgal: Right. No. It's about INR 1,200-odd crores.

Dheeresh Pathak: India market is INR 1,200-odd crores. Okay. Sir, you mentioned that sorry, my other question was how many new accounts that have been added in the last 12 months?

Rohan Sehgal: So we had added a few distribution accounts in the international market spaces outside India. But in India, as I said, the distribution remains constant, and we keep adding more at the customer level and not at the distribution level. So we change in India in the distribution level only if certain regions are not being catered well or certain product lines are not being represented well. So far, we have a very established and well set up distribution network in India and we don't make new changes frequently.

Dheeresh Pathak: How many new clients would have been added? Distribution count same but new clients in the last 12 months, any ballpark?

Rohan Sehgal: Very limited because, again, our reach is there in most of the clients, but as and when we will be seeing wallet share increases when the new products coming in with these customer clients in India.

Dheeresh Pathak: In the international market, how many new distributors have been added?

Rohan Sehgal: Approximately about 3 to 4, but these are branded distributors and not large OEMs. And we are in the process of now building up our revenues and even starting to market our products in these markets with these distributors.

Dheeresh Pathak: And the domestic diagnostics market, the incumbents might be having a tough time, but people were challenging things. And how do get the industry volume growth? Would you have an estimate of how the investment is going in volume terms in aggregate?

Rohan Sehgal: In diagnostics?

Dheeresh Pathak: Yes, in India.

Rohan Sehgal: I wouldn't have the number for the diagnostics industry book. I don't have any data behind me to position a number. But what I understand from our people, from our business development teams, from the distributors is that if the end customer is going through a little bit of a difficult time, it also gets passed over being the suppliers like us. So, even though the industry is expanding in terms of number of players, I don't see it benefiting any of these players or any of the suppliers like us.

Dheeresh Pathak: No, but the newer players are challenging them, like let's say Tata 1mg, Pharmeasy, Netmeds they also need the consumables, right?

Rohan Sehgal: Yes, absolutely, But the products are being tossed around. But the demand has been passed over from certain players to other players. And it's not that new markets have been created a new area that we generated. It's all circular.

Dheeresh Pathak: And is there a client concentration in the export revenue? Like what would be the top 3 distributor clients in export revenue?

Rohan Sehgal: I think the top 3 should be approximately around 40%, if not -- in and around that number.

Dheeresh Pathak: Of the export revenue?

Rohan Sehgal: 40% of export revenues, yes.

Moderator: Next question is from the line of Zain from Dolat Capital.

Zain: I just want some clarity on facility in Panchla. In earlier call you've said that you completed 85%. So just want to know how much of it is completed now? And also, if I'm not wrong, you said that you are waiting for some equipment’s to come in?

Rohan Sehgal: Absolutely.

Zain: So we completed now the commissioning from when?

Rohan Sehgal: So our entire building is complete. We just have the front fascia, which is going on at this point of time. So from a civil construction point of view, the entire building is complete. But the interiors of the building are going on, the offices are being made, the clean rooms are being made. And the various wiring and the various transformers, the DB electrical sets and the other electrical and plumbing works are in process.

The infrastructure and the civil, which I said, is 85% is complete. The roads have been built. The boundary walls, everything, the whole building is complete and done. In terms of equipment's, we have some levels of equipment's which are getting dispatched towards the end of this quarter, which is all the large voluminous equipment's coming from different parts of the world, so it will be dispatched by sea. And let us consider 4 to 6 weeks, about 6, 7 weeks for deliveries here in India by sea and then engineers from various companies should be coming for SATs, Site Acceptance Test.

And over a phased manner, throughout this year, there will be different equipment's that should be coming in, in the same process with their engineers coming in and doing the SATs and revenue will start being ramped up there.

Zain: Okay. So when can we expect the first revenue start generating from?

Rohan Sehgal: As I said -- between 10 to 12 weeks, I believe that we can start generating the first revenues. So around the month of May is when I believe that the first machines would start running in Panchla. But in terms of facility readiness, we will be ready in 8 weeks maximum with these clean room construction and all the electrical and plumbing works is done and then the civil and infrastructure everything is ready.

Zain: And what about Amta facility?

Rohan Sehgal: Amta facility is currently under construction, and that should move towards the months of July and August.

Zain: And on this call, you said the current COVID revenue contribution is negligible. So can you give you a number of 9 months FY '23 number of COVID revenue and compared to FY '22?

Rohan Sehgal: So I feel that in the 9-month revenue, there would be hardly anything. There will be 0 revenues, obviously, in Q2 and Q3. There could be some spillover revenue in Q1 from Q4 because Q4 had generated a good amount of revenue because COVID was still active in Q4 FY '22. So with certain grants and other things pulling over to Q1, we could have seen a little bit of revenue. But at this point of time, we don't see any movement of COVID-related products through inquires and purchase orders of our distributors.

Zain: And how much it was in FY '22, if you can give the number?

Rohan Sehgal: Approximately about 15%, 17% of the revenue, which I would translate to somewhere around INR 15-odd crores would be approximately COVID related.

Zain: Can you speak in the guidance of a conventional business for FY '24?

Rohan Sehgal: I said earlier as well, in one of the questions that at this point of time, we will not be in a position to give any short-term guidance. The market is pretty fluid. The industry is going through a little bit of transition post the pandemic and looking to regain its momentum. So we'll take a call in the next couple of quarters as to how things go.

Moderator: Next question is from the line of Mitesh Shah from Nirmal Bang.

Mitesh Shah: Rohan, on this industry slowdown, you just said about. And we also, last year, I think the Omicron was in January. So could we expect that the Q4 will be again soft for us?

Rohan Sehgal: So we are not sure that the fire was definitely a portion of COVID revenue in Q4 of FY '22 and the industry continues to remain the way it is, misusing the COVID revenue, there would be a gross decline, but we don't know where the final number would be, how the industry will pan out over the next 45 days? So it's yet to be seen how Q4 FY '22 will be.

Mitesh Shah: And so next year, I think there won't be any COVID base. And I believe that you might be having some indication that when things would be normalizing? And what would be the scenario in the next couple of quarters. Could we expect that it would be like at least a double-digit growth we can expect for next year?

Rohan Sehgal: No. So again, as I said, I'm not in a position to giving guidance at this point of time, even a broad level of guidance would not be possible. But yes, we expect the industry to lead on back in the next couple of quarters. I mean, if not, and it is slightly longer, we would like to take some of our new product lines, which are coming out and push them very hard in order to ensure that we can generate growth from our existing list.

Mitesh Shah: And the new capacity, as you said that because of the new products are contributing more and taking time to be ramped up. So could it be right to assume that initially the operational cost would be impacting our EBITDA margins for at least the next couple of years unless the new products ramp-up will be start coming?

Rohan Sehgal: Couple of years, I think, would be a very long statement, but yes, maybe a few quarters would be more accurate. But yes, even today, we are investing for our new facilities and the investments have started in terms of processes as well as people. And whenever we build facilities in the magnitude of what we are building Panchla, if we don't ramp them up, there would be costs associated with those facilities. But once ramped up, I think it will bring in efficiencies and what we currently see in our current setup.

Mitesh Shah: So entire facilities will we start on a one shot or phased manner, we will be starting these facilities and...

Rohan Sehgal: The entire infrastructure is build one shot. But, of course, the facilities will move in a phased manner. We would have a fair amount of space available in Panchla as well as Amta in for future capex expansion. So I believe that the amount of capex that we are doing today is to do similar amounts of capex in the future without having to invest in real estate as well as infrastructure.

Mitesh Shah: I'm more talking about the P&L point of view. So how much the operational cost or the depreciation will be hitting on the next year from the new facilities basically?

Rohan Sehgal: So we would have head of operations. We would have head of manufacturing. We would have a lot of fixed costs in every facility, which should be there, whether the facility is half full or completely full. So you would have quality engineers, you would have heads of quality. So there will be a fixed amount of people which would be there. And then the incremental increase would be marginal compared to fully ramping up the facility.

Of course, the key workers would mean exactly as per the number of machines, but the 40 to 50 people in the facility outside them, that would be slightly heavy though the facilities don't completely ramp up. And once it ramps up, it would be being more efficient than our current setup.

Mitesh Shah: But sir, can you be more precise that how much the approximate cost will be hitting on the P&L -- operational front and the depreciation front from these Panchla facility next year?

Santosh Agarwal: See, I can give you the historical number. For example, the last 9 months, we added INR 34 crores of fixed assets, and INR 73 crores CWIP. And because the addition of INR 34 crores, our depreciation rate may increase, right? So in the same way, we are in -- running capex of INR 500 crores. So going forward, as soon as the machinery will come into our balance sheet and once we will be marked as put to use, then depreciation will keep on increasing. But it will be on a good note, if the revenue will also come into the picture, then the PAT will be good.

Mitesh Shah: So entire INR 500 of operational expenditure and the capex would be hitting from the next year onwards, then we definitely start operationally, right?

Santosh Agarwal: We did not say these are the operational expenditures. These are the capex and this will go to the balance sheet rather than to the P&L.

Moderator: Next follow-up is from Garvit Goyal from NVest Research.

Garvit Goyal: So you were mentioning your target market, if you look on the export side, this is around INR 30,000 crores. But you also mentioned that you people are trying to capture since 12 years. So why we have not been able to get a significant portion or what is that which is presenting us to set a footprint in the export market over this long period of time, sir?

Rohan Sehgal: So the major reason is that we are an Indian-based company with our facilities and our offices and our entire brand image and history is from India. And India is a INR 1,200 crores market. And there have been various companies in Germany, in France, in the UK, in the United States and Canada, which have been present for more than a century, 100, 115-year-old companies in these countries, which enjoy very strong brand loyalty, brand image, brand history in these countries, which are almost 80%, 70% of the world market.

And they enjoy complete dominance in these countries, and it's not 1 company, there may be a group of about 10 to 12 different large brands. And it's not so easy to break into these brands. We were new and almost unknown player from India. So just a time period of 3 to 4 years or 5 years of marketing activities and efforts can never change this. You will have to look at the mix of different strategies of having our offices directly in many of these countries on a sustainable basis that we are not losing money as the company grows larger in size as well as any inorganic play in the future, if at all, various other strategies and it cannot be such a simple plain strategy of this attending shows and exhibitions and appointing channels and agents.

If we continue in this phenomenon, we will continue to grow the company very strongly. But that whole number of INR 30,000 crores or INR 50,000 crores will look very large and our number will look very, very insignificant compared to the INR 30,000 crores or INR 50,000 crores number.

Garvit Goyal: So then out of these genuine efforts that you are commissioning, how much do you expect to make growth marketing, let's say, 2 to 3 years?

Rohan Sehgal: So we expect to grow, but as I said, we are not -- I'm not in a position to give any guidance. We hope that we will continue to grow like the way we have grown over the last 12 years. In 12 years, we've grown our export business more than 30times. We were about INR 3 crores to INR 4 crores maybe 5 years back, and now we are close to INR 100 crores.

Moderator: I now hand the conference over to Mr. Rohan Sehgal for closing comments.

Rohan Sehgal: I take this opportunity to thank everyone for joining the call. We will keep updating the investor community on a regular basis for incremental updates on your company. I hope we have been able to address all your queries. For any further information, kindly get in touch with us or strategic growth advisers, our Investor Relations Advisers. Thank you once again.

Moderator: Thank you very much. On behalf of Nirmal Bang Institutional Equities, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.