MOREPEN

Date: 31/07/2021

To,

National Stock Exchange of India Ltd.
Exchange Plaza, Bandra Kurla Complex,
Bandra (East), Mumbai- 400 051
Symbol: MOREPENLAB

BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai- 400 001
Scrip Code: 500288

Subject: Transcript of 'Analyst/ Investor Conference Call' - Q1 FY22

Dear Sir/Madam,

Please find attached transcript of 'Analyst/ Investor Conference Call' organised on Tuesday, 27th July 2021 at 04.00 P.M. (IST) subsequent to declaration of unaudited standalone and consolidated financial results for the quarter ended 30th June 2021.

This is for your information and records.

Thanking you.

Yours faithfully,

For Morepen Laboratories Limited

Morepen Laboratories Ltd. New Delhi

Vipul Kumar Srivastava
Company Secretary

Encl. as above.

"Morepen Laboratories Q1 FY22 Earnings Conference Call"

July 27, 2021

MANAGEMENT: **MR. SUSHIL SURI – CHAIRMAN & MANAGING DIRECTOR, MOREPEN LABORATORIES LIMITED**
MR. SANJAY SURI – EXECUTIVE DIRECTOR & HEAD - API BUSINESS, MOREPEN LABORATORIES LIMITED
MR. AJAY SHARMA – CHIEF FINANCIAL OFFICER, MOREPEN LABORATORIES LIMITED
MR. VIPUL KUMAR – COMPANY SECRETARY, MOREPEN LABORATORIES LIMITED

Moderator: Good day, ladies and gentlemen and a very warm welcome to the Morepen Laboratories Limited Q1 FY'22 Earnings Conference Call. We have with us today on the call, Mr. Sushil Suri – Chairman and Managing Director; Mr. Sanjay Suri – Head of API Business; Mr. Ajay Sharma – Chief Financial Officer; and Mr. Vipul Kumar – Company Secretary. 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I am now glad to hand the conference over to Mr. Sushil Suri – Chairman and Managing Director of the company. Thank you and over to you, sir.

Sushil Suri: Good afternoon, friends. This is Sushil Suri, CMD, Morepen. I hope that all of you are comfortable, safe and COVID is easing out, hopefully, all of us are moving out little bit, please stay safe.

Quickly, coming to the performance of the Q1 and of course some important developments, I would like to share that Q1 of FY'22 was a very eventful quarter. Though we had lockdown, we had thrashing second wave hurt us everybody, but we have many first in this quarter. So, for the first time in the company, our revenue has gone up by 50%, 49-point some odd per cent, so 49% growth in the total revenue and this is on a base, last year also we had 27% growth in the same quarter and year as a whole we had 39% growth. So, there is 50% revenue growth in a quarter. So, that's a very phenomenal growth what we had. Certainly, since our revenue is high, we have been able to curtail the expenses, and the EBITDA has also smoothened; 63% up in EBITDA, and coming specifically to the numbers, Rs.388 crores of net revenue and Rs.45 crores of EBITDA against Rs.27 crores last year. And for the first time, the company is now able to say that we have a huge profit and 97% increase in the profit before tax. Profit before tax of the company is Rs.38.53 crores and we are going to pay a tax for the first time now after a long, long time, almost after 25-years. So, there is a provision for tax committed of Rs.8 crores and our profit after tax is Rs.30.47 crores which is up almost 57% and correspondingly, the EPS is also up. So, on the whole, it was a very good quarter. And this is in the backdrop of high numbers in the last year same quarter also.

And the second highlight of the quarter is that during early this month and last month, we had done a tie up with the RDIF which is the Russian Direct Investment Fund.. We have already started trial production. Six batches are being sent to Gamaleya, Moscow for testing. And the moment we get approvals, we will apply for the manufacturing license and we hope to start the commercial production within four to six weeks. So, this will be the fastest, any company in country would be starting the commercial production. No doubt, our technology transfer is different. And we have a capacity to produce up to 250 million doses per annum and which can be increased up to 500 million doses per annum. So, depending upon how much volume, how much bulk do we get, how much supplies do we get, so we can increase the capacity. We know that there is a lot of demand for Sputnik in India, but we are hopeful for exports also depending on how RDIF directs us. It's a very interesting development for the company that we are entering into basically biologicals, first entry of course in vaccines and from vaccines we can go to another biological products, other monoclonal antibodies, biotechnology products which are a good beginning for the biosimilars. World over globally if we see, of the top-100 products, more than 50-products are biological products. So, it's a good entry into that. So, the company is very focused and dedicated to keep investing in the future. So, these are the two major developments.

Coming to a little bit detail, of course, the presentation have been shared in the website and stock exchanges that quickly speaking, at a consolidated level, last year we grew at 39% and this quarter it is 50%, this is the highest ever growth in a quarter; Rs.388 crores is the revenue.

There are four business segments as you all know that there is an API business and there is a Medical Devices business, then Finished Dosages and OTC. Finished Dosages and API is under the Morepen label and Medical Devices and OTC is under Dr. Morepen label.

So, segment wise growth if we look at it, 17% growth in API against a large growth in the last same quarter and Diagnostic Devices has really phenomenal growth; 189% growth, it's incredible that against a backdrop of 16% growth last year same quarter and from Rs.46 crores to Rs.134 crores, of course, COVID second wave was contributing a trigger point for this. Then Finished Dosages have come up very clearly. Last year also same quarter there was a lockdown and everything. So, there was almost a washout and we had only Rs.30 crores of sales and now it has come back, 30% up which is very good. And Dr. Morepen has an OTC product also, is coming back very clearly. Last year and this year comparatively, we have 172% growth in the total revenue but minus a non-COVID revenue. Including the COVID revenue, the company has grown by 9%. But if you take out the COVID product which we sold last year, sanitizers, masks, disinfectants and other products, because that's not a permanent business. So, the company has grown 172%. All around, company has grown very well.

But remarkable here is the Diagnostics division has almost taken 11% share more from the API, Diagnostics have gone from 26% to 36.9% in this quarter and API is 52% and while Finished Dosage is 11% on a standalone basis. So, in case you look at a macro picture, Diagnostic Devices is leading the race in this quarter which is rightly so because if we look at the numbers, we will come back shortly, so it's growing very well.

API business, as I said, has grown 17%, last year, it had grown 44%. In API, Loratadine core product has grown 16%, Montelukast has grown by 45%, Atorvastatin has been a bit low but new molecules have grown well by 110%, new molecules again is more of diabetes, so two new products in the diabetic which we had launched, both have grown by 110%. But if you look at the overall things, so Loratadine is anti-allergic which has not grown much, but Montelukast is more related to I would say, again, asthma, it was again related to COVID, also, many people have been recommended Montelukast. So, it is pre-COVID, post-COVID, during COVID, Montelukast has been consumed. It is still in short supply, great demand. Atorvastatin is a regular product. Last quarter same quarter Atorvastatin has grown very comfortably. This year there's not much growth. But interesting thing is the new molecules, the new branded drugs which are going off patent and which we are sending the R&D quality, so these new molecules were doing very well.

Then coming to the main basket of the Medical Devices, as I shared, 189% growth against 71% growth last year. Last year, you have seen Point of Care, Medical Devices business grew 71%. And here if we look at the details, Gluco Meters is leading the race, 233% growth in Gluco Meters, Gluco Meter Strips and BP Monitor is 183%, then Nebulizers almost 700% growth, Oxymeters of course where a small base last year, have 2,000% growth this year, but this is misleading because last year numbers were very small, but Oxymeters have a very good growth in both April and May. So, June and July are a bit quiet, but we are prepared that in case god forbid third wave comes, good sufficient supply of oxymeters have been retained. And oxygen concentrator was a big issue in the month of April and May. So, we are getting ourselves prepared to set up our own facilities for oxygen concentrators. So, depending, God forbid if third wave comes, we will be ready with the oxygen concentrators in our own manufacturing also. So, these are the major growth drivers for the Medical Devices.

Of course, Gluco Meters have been contributing very high, highest ever, BP monitor has been contributing and Gluco Meters we have 700 million strips already sold as per the calculation till date and number of meters installed is 5.65 million. So, the higher base we have for the meters, higher is the reserve potential to launch more and more strips. Last year this grew by 73% number of meters installed and now this quarter number of meters is 176%. So, quarter-on-quarter if we see compared to last year same quarter, the number of BP Monitor installed was 187%, number of Gluco Meter installed is 176%. There's an overall continuity in the market both on BP and Glucose. Rather because of the lockdown, because of the COVID, because of the COVID scare, more and more people are checking sugar and BP at home, more and more doctors are advising patients to check their BP and sugar at home. In certain cases, even post-COVID people had a problem of high sugar levels. So, they have been recommended to check the sugar levels sitting at home. And similarly, the cardiac patients are checking their BP. So, this has become I would say essential commodity now that you need to have a BP Monitor, Gluco Meter at home. Of course, in the case of oxymeters and nebulizers, nebulizers also were used during the COVID time. Oxymeter has become a bare essential thing these days. On the whole, for this vision, I would like to say that the market has basically fast tracked its growth. So, this growth is going to take five to seven years but because of COVID, people have realized the sensitivity of health and far most important is health. And more and more people are concerned about their self-health, that is what aim of the company is.

As we look forward, we are increasing our capacities of Gluco Meter and BP Monitor, and also getting into more and more new high-tech products and backward integrations of diagnostic devices. This is going to be a big business for us in the coming years. And now this business has become sizeable and during this quarter we have clocked Rs.130 crores of the sales. So, now it's a reasonable size. So, as the board has already discussed to hive off this business into a separate subsidiary, so we have got initial approval from the board, we may going to start the process to go for NCLT approval etc., and there would be a demerger process is basically unlocking the value of this division. And then company can separately invite investors and maybe go for IPO at appropriate stage. So, that's the plan for the distribution.

Finished Dosage division, as I shared that it has bounced back very nicely, has grown by 30%, covering all the losses which we had last year same quarter. There also, of course, the effect of COVID is very clearly seen. We have seen growth of antibiotics which is 179%, growth of vitamin is 91%, gastro product, there were a lot of people having gastro problems during the COVID and of course, other products have also grown nicely.

Then coming specifically to our Dr. Morepen OTC, here we have seen that during the quarter and during the COVID times, both times, more and more people have been focusing on OTC, more and more people have been focusing on the nutrition, immunity, vitamins, multi-vitamins and now more and more people are going more towards Ayurveda and more towards immunity booster products than taking pills. Of course, pills are still required. So, in case if you take out the COVID products which we sold last year, there is a growth of 172% in Dr. Morepen and again OTC contributes around 259%, Grooming is again 275%.

And another interesting thing which happened this quarter is we put a very aggressive effort was on the online sales. Dr. Morepen has launched a full range of online products which is only for the eCommerce. So, 11% of Dr. Morepen sale has become online now. And for our personal grooming division, 33%, one-third of the same is happening online. So, that is a new I would say milestone which we have achieved that company was earlier dependent only on regular routine distributor, but now more and more online traction is coming up. And eCommerce is the future which will happen. So, we are proud to share that we have launched almost 30-products which are exclusively for eCommerce; there is a Green Tea, Immune Tea, PCOS Powder, then three types of Collagens, Muscle Food, Sexual Wellness Products and then Iron & Zinc Garcinia, Honey, Vitamins, Cod Liver Oil (COQ-10), GILOY, Omega-3, then Stress and Sleep tablets, Slim Shake, then Beetroot and Apple Cider Vinegar. All these products are now available online as younger generation is buying more and more, that is what is adding to the online eCommerce share of the company's products.

I would just like to add and share with you one number that Dr. Morepen as a portfolio which includes our Diagnostics Devices and OTC and a little bit of our common healthcare products. Dr. Morepen as a portfolio was Rs.504 crores last year. And of course, now it is already in one quarter it is Rs.196 crores, it's almost Rs.200 crores.

So, we can see that Dr. Morepen as a portfolio will be somewhere around Rs.1,000 crores in the next two years' time. So, now you can imagine a Rs.1,000 crores portfolio sitting under the vail of Morepen. So, at some stage, Dr. Morepen branded business would also be hived off and will be shifted into a separate subsidiary company. Dr. Morepen Limited is a separate subsidiary but some of the brands are sitting in the main company whereas, some brands are in the OTC company. But Dr. Morepen as a company would also be at some stage go for its own IPO. But at Rs.700- 800 crores top line now and maybe Rs. 1,000 crores in next one year time. So, Dr. Morepen itself is a billion-dollar valuation product, which is sitting under the vail of Morepen Lab. So, this also would be hived off separately because the total I would say some of the parts maybe much bigger. That's in the brand value.

As we discussed that we are spending more and more efforts on devices and creating new products on the API and of course lots of efforts are going for finished products in the international market, ANDA, so we have processed and finished dossier for 13-products of the new molecules which are expiring in a four to five year. So, we are prepared the complete ANDA. So, 18% of our total R&D spend is going towards ANDA and then Devices and then of course around 78% is spent on API. So, there is a 112% increase in R&D spend in the quarter. Of course, last year same quarter there was a complete lockdown, there was not much spend. But with due regards, this year's R&D activity has been started in full swing.

We have total 246 people which include R&D, ARD and all the quality control and testing people. So, there is a big team which is working on that line.

Coming to the Financial Highlights and Ratios, we already talked that net revenue is up 50%, expense is up 48%, there is basically a 2% saving from the net revenue which is adding back to the EBITDA, so EBITDA has gone up by 63% and interest of course is down 27%. We are a debt-free company technically. So, only Rs.29 lakhs interest was there last year and around Rs.21 lakhs this year. This is primarily because of the small vehicle loans and other things. Otherwise, there is zero interest on the company. And a cash profit is up 64% which is around Rs.45 crores of cash in the company in the quarter. Profitability ratios -are slowly going up. EBITDA has grown up from 10.8% to 11.7%, there is a 90 basis points up on the EBITDA. Profit before tax has also gone up, around 237 bps and 7.55% to 9.92% profit before tax. And profit after tax has also gone up by almost 0.12% which is nominal but major issue here is that there is a provision for tax which is around Rs.8 crores. If we remove the tax provision, the profitability ratio is very high, but we are happy that now we are becoming a tax paying company. Profit before tax is 97% and tax provision is Rs.8 crores, after tax is 57% and accordingly the EPS of the company has also gone up by 57%. On a quarterly basis, the EPS is Rs.0.68. So, on an annualized basis, it would be like Rs.2.40, Rs.2.30, same calculation. So, that's broadly the outlook.

But going forward, if we see on the API side, our focus remains on the new molecules and we already shared in the last quarter that we are working on a full basket of around 30-products which constitute a part of the $40 billion market wherein patents are expiring in next two years. And, of course, earlier, we were talking only of the API plant. Now we want to have our ANDAs also for that. On the Medical Devices side, we are expanding the capacity for the products and plus also going for some new expansion which you will hear soon. And on the Finished Dosage side, as we talked earlier that all the new products for which we are filing the ANDAs, those products will be coming to the Indian market also, we will have some lead in the market. And Dr. Morepen OTC, certainly, we have launched more than 50-products in the trade and more than 30-products in the online eCommerce market also. So, Dr. Morepen will be focusing more and more in the online market and would be reaching to the consumers that way as more and more possible. So, we are all prepared and all set for the next year. The first quarter is very promising and we are happy that this kind of growth continues, so we will be able to deliver much better results. I think that's the basic commentary and in case now if anybody has any questions, we can start taking the questions.

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Ranveer Singh from Sunidhi Securities. Please go ahead.

Ranveer Singh: In Sputnik part, just I wanted to understand what kind of investment we are making and which facilities we will be using to produce this?

Sushil Suri: On Sputnik, for the time being, we are doing only the fill and finish business and we do not have major investments to begin with. But our commitment and understanding with RDIF is that they want us to produce the bulk also. So, for bulk we do not have facilities at our existing facility. So, we may put up additional facilities which will be part of our biosimilar strategy going forward. But that maybe three to six months somewhere depending on how things pan out in the next one or two quarters depending on the demand. So, because five, six companies have already in the race for using bulk. So, for the time being , we do not have investments but the only thing what we will be needing is the working capital which as on today the plan is to have in-house funding only, but in case we need some working capital, we will certainly be having our local arrangements. But no major investments.

Ranveer Singh: Right now, our agreement is for fill and finish products, right?

Sushil Suri: That is fill and finish, because we need the product fast.

Ranveer Singh: So, what kind of upside in terms of revenue or profitability if you could give some indications of sense?

Sushil Suri: I would like to keep quiet for some more time till Ajay will give you some numbers, but as we shared in the press release that we have the capacity to fill up to 250 million doses in a year and depending on how much volume do we get from them and maybe all demand and supply is a global, I think global demand is going to stay here, earlier people were saying for six months, one year, but now people are clear that COVID is here to stay, another five years, ten years, we don't know. So, more and more vaccine will be required and it all depends, but it will be very difficult to give the numbers till we sign any agreement with the numbers because our technology transfer agreement has been signed, we are sending the samples to them, once the samples are approved, only then manufacturing license agreement will be signed. But it would be premature to leave any numbers to the market.

Ranveer Singh: But our agreement is just manufacturing agreement, we do not have distribution right so far, right?

Sushil Suri: That's right. We are basically partners of RDIF for manufacture. That is how all our other Indian counterparts are but once the vaccine is produced, if they want to sell it in India, maybe Dr. Reddy has got some sort of exclusivity, we do not know what, but if they say okay supply to Dr. Reddy, we will supply to them, but if RDIF ask us to supply to government of India, we will supply to government of India and in case they say okay, you can market it on our own, so we are happy to do, we have been getting offers from many market players to even market that. But we are keeping ourselves tight and we are only representative of RDIF.

Ranveer Singh: On tax rate, so now full tax has started coming in, so what would be the effective tax rate for the year on annualized basis?

Ajay Sharma: This is Ajay. MAT rate will be around 20%.

Sushil Suri: Out of MAT, now we are going with the composite rate tax, 22% there's carry forward or something, that's it.

Ajay Sharma: There will be carry forward losses as well due to benefit of that.

Ranveer Singh: Carry forward losses has completely exhausted, right?

Ajay Sharma: Yes, this year.

Ranveer Singh: I missed the commentary you spoke about API plant, that new plant you are planning to set up.

Sushil Suri: API plant detail is already in our last quarterly presentation we have given. So, the plant is under approval and beginning of construction stage, we have got local clearances and we have got the land transfer, land transfer has happened only in this quarter. So, we have prepared all the blueprints and on-site construction has started only on the building side, but it's going to take at least one year to complete the civil work and 18-to-24-months for starting the commercial batches. It will start in a phased manner, not everything will take time.

Ranveer Singh: This Gluco Meter sales is tremendous this quarter. I understand that second wave has actually pushed many products from your company. So, going forward, once that COVID-related thing normalizes, obviously demand will also normalize. In that case, we spoke about encouraging capacity also. So, how things are going to shape up in next two, three years assuming that COVID things gets normalized and COVID-induced basically that demand goes away?

Sushil Suri: I think that's very valid and a very practical question because everybody has this question that is this demand one-time, is it temporary, is it just a temporary hype. But I would be happy to share the last year diagnostics division had grown 71%, this is a one-time number, it may never happen. This quarter we have grown 189%, so it's three times than 71%. So, basically, also the base has changed. More and more people are now using the products. Once checking your sugar every day, so that you get a habit, then you start doing it every day. Similarly, the BP monitor. I think the major thing which COVID has done, it's not that it is COVID, and you should check your sugar. COVID has basically given awareness; you should be alert about your health, care about your sugar level, care about your cardiac level, care about your obesity. So, all these devices which earlier we are not using at home have started using as we are scared now. Now, more and more people are getting adapted. And to a large extent, more and more doctors are also advising that you should do a regular checkup. So, there was a time that the doctors never wanted people to use the home devices. Even if you say that "Oh, I have checked it at home." They will just laugh it off. Now they say, you do the testing at home and send us report every time. And you might have noticed that post-COVID, this tele-medicine has also come up very heavily and rather this video consultation has come up heavily. During video consultation also, the doctor expects that you do your parameters on your own and tell me. So, these things are not there at all. So, basically, I would say COVID period has only enhanced, or I would say fast tracked whatever is going to happen in the next 10-years' time, maybe it has happened, that's going to happen anyways. People were going to buy these. So, we were always saying India is slow, the penetration is low, but COVID had forced us to adapt all these things and you would remember there was demonetization time, overnight players like Paytm had come up and just there, but now there are 10 service providers in the market and everybody has begun, similarly, in digital player, eCommerce. Basically, we work better under pressure. So, that's what has happened. So, we have got a better access now and the lifestyle of people has changed. And to just give you another parallel example, that there was a time and we talked earlier also that everybody who used to say that okay, it's important to have maybe a washing machine or a microwave or a refrigerator at home. So, now those microwave, refrigerator is fine, but you have to have BP monitor and glucometer also at home and may be Oxymeter, maybe at some places people who are senior citizens at home, maybe they would like to keep even oxygen concentrator at home. And the medical devices has increased. So, people were spending hardly I would say Rs.500 – Rs. 1,000 on medical devices and testing, now that budget has gone up, I would say average Rs.5,000-Rs.6,000 per household, so **demand for point of care devices** has increased.

Moderator: The next question is from the line of Hitesh Sancheti from Manya Finance. Please go ahead.

Hitesh Sancheti: My question was regarding the preferential allotment which you are planning to do last quarter and you have postponed it because you wanted to get a higher price. Of course, I appreciate that as a minority investor. But when are we planning to revise it again?

Sushil Suri: Hitesh, since it's a price-sensitive information, I won't give you a direct answer, but strategically it is very clear that the investors who are looking for a bargain deal and fortunately for the company the price level or the market level was very high, the company's performance was very good and as our quarterly results are coming strong quarter-after-quarter, these EBITDA numbers are going up. So, we could see that we don't want to undersell, and we want to watch the interest of all the shareholders including minority shareholders and we are concerned about wealth creation for all of us…all of us includes promoters also, that we should not sell cheap and we could see that there is too much of dilution happening at a bird price. So, we have been able to negotiate with them and certainly they are working on the revised structure and they have passed a few more due diligence paper. So, now it is for the board to decide when they come back that we want to take up at these prices or the future prices depending upon our own capital requirement also. And you would see that we have sufficient cash flows in the company and there seems to be no urgency to add capital, but we are keeping it open and as and when the board decides, should we or should we not take fresh liquidity at these prices, we will take a call. But as on today, we are keen to invest.

Hitesh Sancheti: As of today, we have the same investors keen to invest, right?

Sushil Suri: Yes, they are certainly more than keen because they always see that the market is getting stronger and stronger.

Hitesh Sancheti: And even the promoters?

Sushil Suri: Of course, the promoters will have to buy at the same time because of SEBI formula.

Hitesh Sancheti: What is the CAPEX required in this financial year?

Sushil Suri: CAPEX total requirement is Rs.178 crores in the three years. So, we will be spending around Rs.35-40 crores in the current year.

Hitesh Sancheti: So, this is all by internal accruals?

Sushil Suri: As on today, the plan is same but we are open to have some say typical term loan for buildings and other things in case there is a need but so far so good. Our working capital requirements are going high. So, we are open. We haven't signed anything else yet.

Hitesh Sancheti: So, for the API capacity, we require a higher CAPEX at that time?

Sushil Suri: Of course, CAPEX requirement same. Initially, there will be only investment in the building part and plant and machinery is going to take some time, we just need to give some ordering advances. So, maybe there will be a high requirement in the next financial year.

Moderator: The next question is from the line of Mohit Gupta, an individual investor. Please go ahead.

Mohit Gupta: Sir, I heard environment clearance for Morepen that side, as mentioned the maximum expansion of the existing API around 1,200 API out of 2,000 API. In presentation there is a mention market will be down for all the API in future. Then what is the reason for maximum expansion for all the API if market is down in future?

Sushil Suri: Very interesting question. I just like to clarify a very simple thing. Basically, whenever in API, any new product is launched, market goes high and high, but the moment patent expire, the value of the product goes down. Similarly, now we have a product range, we have four, five so-called old products for which market is trading; from $4 billion market will go to $2.8 billion market because one is the product demand will go down, the price goes down, rates go down and new products come, so doctor starts recommending the new product. So, now the expansion what we are doing is not for the old product, the expansion we are doing is for the new products. Of course, old products also in case we need any capacity, for example, from China point of view, we are importing intermediate from China. So, we may do a set up or a backward integration to make those intermediates at our own place. But primarily, the function would be to set up the facilities for the new molecules for which we do not have capacity. If we divert out capacity of the old molecules into the new molecules, that we will do the sale out of old molecules. There has to be a very I would say fine balance. We continued old products, we continue increasing it, because that is the bread and butter that will give you 70-80% sales or maybe up to 90% sales. Slowly, slowly the new molecules will keep on adding and old molecules stay where it is.

Moderator: The next question is from the line of Maitri Parikh from Pi Square Investments. Please go ahead.

Maitri Parikh: What is the EBITDA margins for the segment like API, Medical Devices and Formulations and Dr. Morepen?

Sushil Suri: We do not have separate margins unfortunately with me now, but broadly speaking, 11% margin is almost spread equally all over the place, but certainly there are lower margins in case of Dr. Morepen because of the initial ad spend and brand spending. But Devices this quarter has been very nice. API is low in this quarter because there were certain rise in the prices of the raw materials from China. But in general, overall 11% EBITDA is what I would say inching more and more towards positive side. So, there was a time that our margins were going below. 10.8%-11.7% is in spite of little drop in the API, EBITDA but we see company as a whole, we are comfortable.

Maitri Parikh: And in the Formulations business, that has been posting result at EBITDA level in the last year, right. So, when do we see it coming on a medium level?

Sushil Suri: The branded formulations is at breakeven even in this quarter, and last year because all those are complete wash out, so we had to pay the salaries whether people are working or not, doctors were not meeting, people are not so-called visiting the doctors, so we had to keep the momentum up, some people left us and some people were pushed to, I would say, key. So, all said and done, last year was not a good year for finished dosages. So, this year, we are confident and comfortable, the first quarter had been very good.

Maitri Parikh: My second question is on the CAPEX in the previous quarter in the presentation you had laid out a few things you could spend up around Rs.530 crores, total of API, Medical Devices, Formulations and OTC. So, how much will you be spending in total and if you could give the breakup that would be really helpful?

Sushil Suri: I don't have ready figures with me but like I said in my API the investment will be between Rs.35-40 crores and on the Medical Devices will be around Rs.20 crores and these are all will be from the internal accruals.

Moderator: The next question is from the line of Anupam Agarwal from Lucky Investment Advisors. Please go ahead.

Anupam Agarwal: Sir, we have seen a phenomenal growth in the top line, margin and PAT. My question is what explains the drop in the gross margin from 33% last year to 30.5% in this quarter given that we would have enjoyed better pricing in the diagnostics businesses, the company level gross margin, sales minus raw material has gone down?

Sushil Suri: That I will share. Ajay ji, you can share about the API cost going up.

Ajay Sharma: Yes, in the API business, we have not realized that much better margin from our export side. So, whatever increase happened, it was on account of the domestic business wherein you don't have margin though we have top line. So, we are able to grow our top line in the API business, but at the same time we couldn't drive that much margin. So, that was the reason, RMC pricing was a bit higher I will say. Even in the diagnostics business, so we have not as such increased our margin. We are able to sell the number of products more. So, that is how on overall basis it has happened.

Anupam Agarwal: So, basically export API margin would have been higher till COVID or during COVID?

Sushil Suri: As you would understand, export is at a higher price and to the regulated markets. So, this is just a one quarter impact. So, maybe next quarter it will be bouncing back

Anupam Agarwal: Just a clarification. I missed your number. The next three years CAPEX, amount is how much?

Sushil Suri: Rs.178 crores for API approved project and another Rs.100 crores for the Diagnostics Devices.

Anupam Agarwal: Sir, just some timeline of basically hiving off our Diagnostics business and the OTC business. Any color you would like to give as to at what level of sales would we be looking to hive off this company and what will be the timeline?

Sushil Suri: On the Medical Devices, we are ready and the numbers are good; last year we had Rs.300, 400 crores, so we are already at Rs.134 crores per quarter even if we talked I would say this is a base. So, we are ready, and the board has already given initial approval to start the procedure. So, we may have to file an application with the NCLT and it will take four to six months' time. So, if everything goes on time before the close of the financial year or maybe Q1 of next year, which should be hived off Diagnostics Devices.

Anupam Agarwal: And about Dr. Morepen?

Sushil Suri: Dr. Morepen may take another one or two years because it has to get a critical mass. The whole new range of products is being launched and we have to get a critical mass.

Anupam Agarwal: And that focus is driven by online sales?

Sushil Suri: Yes, basically, now the time has changed, the world has changed, so we can't keep pushing the old story now, so new story has come up and we are seeing a very-very good response.

Anupam Agarwal: Just in the formulations side, we are filing a healthy amount of ANDAs. Can you give some color as to what will be the size of these molecules average and whether you will be able to garner about 10%, 15% market share?

Sushil Suri: Average size of the products of what we have filed ANDA is between $2 billion to $4 billion which even when the market crashes by 70%, 80% would be very comfortably around 40, 50 billion, I would say we are expecting 10%-15% market share because earlier times there was something like first-to-file and you are getting exclusivity of these 10%-

15%, people tend to gather. So, even if we get 2%-5% share, our projections are good. So, what we made last year is between 2% to 5% only.

Anupam Agarwal: We have a field force for marketing the products or how is it going to be distributed?

Sushil Suri: Certainly, we have our own office in US, Morepen Inc. is our own subsidiary, but closure to the date we will be opened to do the tie-ups with the marketing companies. In case we feel that Morepen should have its own brand, we are open, but we have been approached by many people who would like to just get the marketing part. Maybe once we have ourselves a portfolio of 50, 100 products, at that time we can have our own marketing. And just for five, six products, I think it's too early to have our own infrastructure and cost, very-very high cost to set up.

Moderator: The next question is from the line of Hitesh Sancheti from Manya Finance. Please go ahead.

Hitesh Sancheti: Just a follow-up question about the new molecules. Which applications are we concentrating? Are we looking at any oncology molecules also?

Sushil Suri: Hello, Hitesh. Our focus primarily is on anti-diabetic and cardiac products. Of course, two products are new in psychiatric. So, that's like 60% of the market but going forward, when we go towards biosimilars, so then certainly some oncology and some other monoclonal antibodies those would come, but that’s not part of the present plan, the API plants can do, they are primarily the gliptins, diabetics.

Hitesh Sancheti: Do we have any structure for generally the shareholders?

Sushil Suri: We don't have any formal structure as of now but it's a good suggestion, so we can always implement that. In case you write to company secretary, we will be able to some schemes.

Moderator: The next question is from the line of Alisha Mahavla from Envision Capital. Please go ahead.

Alisha Mahavla: Firstly, I like to know what is your current capacity utilization for your API plant?

Sushil Suri: We use 80%-90% between various products. We have different products and we substitute one product with the other and we have spare capacities. But going forward, more and more equipment we keep on adding, so we will be able to maintain the same capacity but adding more and more production. For different products, Loratadine, Montelukast, we have a dedicated facility, so we use it for almost 100%. Between Atorvastatin and Fexofenadine we switch the capacity, but 80-90% we utilize.

Alisha Mahavla: Sir, if I may ask for a clarification, since you are already at 80%-90% and the new API capacity should take at least 24-months, with our current level of 17% YoY growth, do you think we will be able to maintain this kind of growth?

Sushil Suri: With your permission, that's a smart thing but how do we manage it, basically, we keep on adding small little CAPEX to balance the capacity, so we keep on adding additional reactors in the same machinery, we keep on adding balancing equipment, somewhere centrifuge, somewhere we had a dry up, somewhere we had a vacuum, so we keep on adding the capacity and there is nothing like a fixed capacity. But when we are saying that new plant, new plant is a new building will be built. But in the existing plant also, we have a routine CAPEX. So, that routine we spend Rs.10 to 15 crores every year to match the demand of the products. But the new plant will be set up only say after a gap of almost 20, 21-years, in '98 we had set up the old plants. Now, we are setting up new block, new utility, new generator, new cooling tower, everything will be new and additional. So, that will not only impact the existing capacity, that will be additional capacities.

Alisha Mahavla: Sir, I would also like to understand that the current run rate that we are seeing for both our API and Formulations segment. Do you think this is sustainable going forward or do you expect it to at least taper slightly once the COVID tailwinds no longer exist?

Sushil Suri: First of all, let's admit COVID is going to be here. We all have to get used to it. The only thing is that whether we have to change our lifestyle. One or any another product goes, but something or the other will keep on happening and I would say the medicine requirement or the focus on health & recovery will remain., I would say even from the last year, in formulations and in Dr. Morepen we are now coming back, it's not that there is extraordinary growth, just coming back because last year was a low number. So, we don't see any major slip in the sale. Diagnostics Devices business proved itself quarter-after-quarter that in spite of 71% growth last year, this is a phenomenal growth this year. So, we have seen that there is a low base and we are a mid-size company with small base. So, we don't foresee that growth of 20%, 30% would be difficult. We are a small company with modest numbers. So, it's not that we have to add up Rs.1,000 crores every year. So, numbers are small and we are comfortable that 20-30% we will be able to maintain.

Moderator: The next question is from the line of Abhishek Behera, retail investor. Please go ahead.

Abhishek Behera: I have one question that is about the redeemable preferential share. Like when do you plan to redeem them or what is that you are going to do with it if you could tell us?

Ajay Sharma: In fact, we have already talked to our lenders. So, they are inclined to go for conversion into equity capital. So, this is last thing from the bank side and will be taken care in this financial year.

Abhishek Behera: Mr. Ajay, so the conversion rate, the issuance of the new preferential shares, so that will be as per the SEBI formula, right?

Ajay Sharma: Yes-yes.

Moderator: The next question is from the line of Ranveer Singh from Sunidhi Securities. Please go ahead.

Ranveer Singh: How much cash currently we have in balance sheet?

Sushil Suri: We are lucky that we don't have to keep cash at our home, but we have fixed deposits around Rs. 30 to 35 crores which we have deposited in the bank and try to arrange some financial facility against that because we don't have any other working capital facility, and we use all the cash to get so-called return on the facilities. And these days, RBI is pushing that you cannot open a current account. So, that is the only way we can use the banking facility that we give them FDR and use the current account facilities. We do not have any other credit facilities.

Ranveer Singh: Have we received any cash from the investors so far, any upfront?

Sushil Suri: No, because all that will be only after the AGM, we will have to come back to you to take shareholders' approval and only then.

Ranveer Singh: Promoters funding earlier what we made, that has been consumed?

Sushil Suri: Promoter funding in the March we had received Rs.43 crores.

Ranveer Singh: Would you like to give any guidance in terms of revenue we can expect in FY'22 or profitability?

Sushil Suri: Yes, we are always happy to share our feelings but regulations does not allow us to speak much but in general I would say we are at a happy healthy position and if everything goes well, so we will be able to maintain the growth by at least 25%-to-30% if not 50%, industry is doing very good, our devices are doing good, API is good, and once we have all the expected plans in place, the life will be much better. So, far like you are seeing in diagnostics devices, the market has just unfolded heavily. Similarly, in API, we are just doing old molecules, where we are going to have 40% market size, again the growth will be much higher. So, the potential is huge but I won't like to give any specific numbers.

Moderator: That was the last question in queue. I now hand the conference over to Mr. Sushil Suri for closing comments.

Sushil Suri: Thank you, everybody for appreciating your own company's performance. We value your participation and comments and look forward for more and more fruitful association. While we know that we were all locked in our houses for many long, but today we had some physical board meeting this time after a long gap. So, hopefully, you guys are also taking good care of yourself. So, hope to see you soon. Maybe in the AGM, it will be virtual, but look forward for your favorable support. Thank you, guys.

Moderator: Ladies and gentlemen, on behalf of Morepen Laboratories Limited that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.