“Marksans Pharma Limited

4QFY23 Earnings Conference Call”

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MODERATOR: **MR. PRASHANT NAIR – AMBIT CAPITAL PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Marksans Pharma 4QFY23 Earnings Conference Call hosted by Ambit Capital. 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. Prashant Nair from Ambit Capital. Thank you, and over to you, sir.

Prashant Nair: Thank you, Ryan. Good afternoon, everyone, and thank you for dialing in. I am Prashant Nair, healthcare analyst at Ambit Capital. I would like to thank the Marksans Pharma management for giving us the opportunity to host this call. From the company today, we have with us Mr. Mark Saldanha, Founder, Chairman and Managing Director; and Mr. Jitendra Sharma, Chief Financial Officer. I will now hand over the call to Mark for opening remarks and to take it forward. Over to you, Mark.

Mark Saldanha: Thank you, Prashant. Welcome, everyone, and thank you for joining us in our 4QFY23 and FY23 earning conference call. We appreciate your continuous interest and support for the company. We are delighted to report a great year of performance, which exceeded our FY23 guidance of INR1,800 crores in revenue. Our performance was led by intense focus and execution, driving market share in various products and SKUs. We saw strong growth across all our markets.

Our EBITDA margin improved for the quarter based on normalization in freight cost and cost optimization initiatives that we had undertaken. We observed improved market conditions in the quarter with stability in price erosion for our Rx products. This year has been a relatively busy year for us, which accounted for keyseveral key developments for the company, enabling shareholder value creation. This included the completion of the Teva Pharma acquisition,the OrbiMed warrant conversion,the share buyback, and now, additionally, we have announced a dividend of INR0.5, which is 50% of the equity ofINR1 each face value for the financial year of '22-23.

We have appointed MrsShailaja Vardhan as our new woman independent director in the company for the strengthening and broadening our board. One of our key focus areas for the next financial year is going to be the integration of our newly acquired manufacturing plant from Teva, where we plan to obviously increase the capacity and launch new delivery segment dosage forms. We expect a meaningful revenue contribution from this plant to start from Q3 of FY24. We continue our focus on revenue growth by growing SKUs and existing retailers, products, and key markets. We also aim to launch new high-margin products in the year to come, enter new geographies, add new customers, and capture growth opportunities in the OTC segment.

We continue to take steps for backward integration and operational efficiencies. Marksans has consistently maintained a net cash balance sheet for the last five years. We aim to maintain a strong balance sheet with a disciplined growth approach over the coming years. We remain confident of the performance in the coming quarters, while headed to the best of regulatory and governance practice.

With this, I'd like to turn it over to Jitendra, who will update you on the financials and then we can start our Q&A.

Jitendra Sharma: Thank you, sir. Starting with 4QFY23 performance.Our operating revenue was INR486 crores, an increase of 16.3% compared with INR418 crores last year. The US and North America was at INR193.5 crores, representing a 12.8% increase year-on-year basis. UK and EU Formulation marketsgrew by 33.1% year-on-year to INR206.3 crores. Australia and New Zealand Formulation market recorded revenue of INR63.4 crores. The rest of the world saw an 11.8% increase in sales to INR22.8 crores in 4QFY23.

Gross profit was at INR242.1 crores, up 17.3% year-on-year. Gross margin increased by 40 basis points from 49.4% to 49.8% in Q4 of FY23. The raw material prices have started to normalize. However, the company is yet to see the full benefit of it.

EBITDA for the quarter was at INR109.5 crores, an increase of 72.1% year-on-year. EBITDA margin increased by 730 basis points from 15.2% in Q4 of FY22 to 22.5% in Q4 of FY23 on account of the normalization of freight expenses and cost optimization initiatives. Profit after tax was at INR82.7 crores compared to INR29.7 crores in Q4 of FY22, a growth of 178.9%. EPS for the quarter was at INR2, with almost 185% growth on a year-on-year basis.

Now, taking you through the full year FY23 performance.Operating revenue was at INR1,852 crores in FY23, up 24.2% year-on-year. The gross profit for the year increased by 20.3% to INR930.8 crores. The gross margin was at 50.3%. EBITDA for FY '23 increased by 31% year-on-year to INR339 crores. However, EBITDA margin increased by 100 basis points from 17.4% to 18.3% in FY '23.

The cash generation from the operation was at INR237 crores. For FY23, PAT grew by 42% year-on-year basis to INR265 crores. The earnings per share grew by 42% to INR6.4 per share. In FY23, the free cash flow was INR183.8 crores.

The capex incurred during the year was INR53.6 crores and we spent INR29.5 crores in R&D, which amounts to 1.6% of the sales. We continue to remain debtfree. We had a total of INR715 crores of cash as of 31st March 2023, which we plan to utilize for capex and funding our inorganic growth strategies.

With this, I would like to open the floor to questions and answers. Thank you very much.

Moderator: Thank you. We will now begin the question-and-answer session. Our first question comes from the line of Agastya Dave with CAO Capital. Please go ahead.

Agastya Dave: Thank you very much for the opportunity, and Mark, I must congratulate you. Amazing execution. Congratulations. Great work this quarter. Sir, my questions to you are basically a follow-up on something that we discussed last quarter. You had mentioned three major levers for margins going forward. One was the high-cost raw material prices coming down, then the channel inthe freight cost and the internal improvements.

Now, my understanding was that the freight reduction would have contributed to 100 basis points of margin improvement this quarter,but you guys, quarter-on-quarter, have reported a much, much bigger jump. So can you help me reconcile,because in the opening statement, you have also mentioned that the RM prices while coming down have not benefited you at all. So can you please help us reconcile the margins between Q3 and Q4?

Mark Saldanha: Yes. I mean, see, the RM prices have been dropping down, but it's not that we have been able to capitalize it for the full year.

Agastya Dave: Right.

Mark Saldanha: So, definitely, we did see a better improvement in Q4 compared to Q3. And again, this basically revolves around the inventory being held at different levels, at different plants, at differentprocesses. While the freight has seen a steep decline on a month-to-month basis, so it's just a matter of timing,again, we definitely saw a better quarter compared to the previous quarters where these were concerned. Even the RM, actually, in April, we have seen better pricing than what we had seen in the last quarter. So there has -- because, obviously, when your inventory depletes, your new pricing comes into play, where your raw material and your purchase comes into play.

So that is where the dynamics basically changes from time. But definitely for the financial year, we could not capitalize it for the full 12 months because, obviously, we didn't see the prices prevailing at that -- at this level for the full 12 months. We saw an improvement happening in the third quarter. It was much better in the fourth quarter. Our inventory, which was there, reduced, because obviously due to all the supply challenges, we had to hold high inventory. So once the inventory started depleting, we started gaining on the new cost of goods or new cost of raw material that came into play.

Agastya Dave: Sir, you mentioned in Q3 that you guys were sitting on six months of total inventory, different for different locations and different products.

Mark Saldanha: Yes.

Agastya Dave: What is this number down to now? The six months of high-cost inventory.

Mark Saldanha: Yes. It's almost over. And some of the places and some of the items, we have already started with new cost. But I must tell you that the cost of Q4, what material we got in Q4 and what we are getting in Q1 of this financial year, which is starting from April, has further improved.

Agastya Dave: I see.

Mark Saldanha: So there has been a continuous process of improvement. I do believe that it is coming to a rock bottom in terms of pricing,but I do believe this year will be much better where pricing is concerned or raw material pricingsare concerned.

Agastya Dave: Nice. Nice. One other question, which is on the inorganic side.Sir, any progressaslast quarter, you were saying you were evaluating two deals. Any progress there? Any likelihood that we'll see some announcement this quarter?

Mark Saldanha: Not this quarter, definitely not this quarter,but it's a continuous process. We do evaluate. We go under due diligence. We find out that maybe it's not the right deal for us. Sometimes valuations don't fit in. But nothing concrete where we are far away from pen to paper. But we are in dialogue with a couple of potential targets, but nothing concrete as of now.

Agastya Dave: Great. Sir, I may have a couple of more questions. I'll go back in the queue and come back. Thank you.

Mark Saldanha: Sure.

Agastya Dave: All the best for next quarter.

Mark Saldanha: Thank you.

Moderator: Thank you. Our next question comes from Viraj Mahadevia, individualinvestor. Please go ahead.

Viraj Mahadevia: Hi, Mark, Jitendra. Fantastic numbers. Congratulations to you for staying on course through the difficult last year. Mark, my question was regarding your opening remark about the launch of new products. Can you give us a flavor of the nature of new products you're looking to launch from your R&Dstable, which are going to push up margins overall?And in a normalized freight and raw material environment, do you think 25% margins are achievable in FY24 or FY25?

Mark Saldanha: So let me address your first question. Obviously, our product launches are something which -- obviously, it's not something that we start today and launch tomorrow. So these are items where we have been working on and where we file for quite a long -- I mean, maybe 12 months earlier. So we do see some approvals coming in the digestive range of items. We do see some approvals coming in the pain segment. We are expecting quite a few approvals in our UK plant and our UK manufacturing facilities. So we are seeing potential approvals coming all across

Viraj Mahadevia: So what's different about these products, Mark?What is different? Is it extended relief?

Mark Saldanha: Products in the UK are -- you are looking at antidepressants, cardiovascular items, some Rx and a mix of OTC. Out here in India also -- I mean, for the US market, you are looking at a bunch of pain and digestive in OTC and some in Rx items, and cough and cold also.

Viraj Mahadevia: Right. And what is…

Mark Saldanha: It is a basket of items,Mahadev.

Viraj Mahadevia: Right. What would lead to higher margins?

Mark Saldanha: So the higher margins, we are looking at basically, obviously, better cost of goods, raw materials, better product mix that is going to come into play with new approvals coming in. So these are factors that we are playing on. In terms of, obviously, leveraging new cost of material is always great news. But this will also come with some challenges of pricing pressure in terms of new price challenges that will ramp in, in the market because raw material prices have really declined dramatically out there.

But we do see us capitalizing on this raw material, the freight, the packaging material, cost that has come down, petroleum product -- petroleum items which are impacted with oil pricing, everything has improved. So we are very hopeful for a better financial year this year compared to last year.

Viraj Mahadevia: Right. My second question, Mark, is regarding your cash balances and something I've repeatedly asked, and congratulations on completing the buyback last year. I'm sure you are very pleased both from a shareholder and owner perspective at the price at which it was done. You have about INR715 crores of cash on your books. You're generating about INR200plus crores of free cash flow annually.

Even if you set aside INR200 crores for the Teva acquisition plus debottlenecking and another INR400-odd crores potentially for one or two acquisitions, you'd still have another INR50 crores to INR100 crores incremental left. Would you consider another buyback down the line because your share is still not fairly valued? Obviously, we have improved and come the long way since your last buyback,but that would add further to investor confidence.

Mark Saldanha: I think this is going to be an every-year process.And we have now defined the process of free cash flow and how we have to deploy the free cash flow in terms of dividendand buyback. And we will basically -- I mean, this year itself, we have -- like I said, we have done a buyback as well as improved on our dividend ratio. But if you look at it, one-third of the free cash flow we have deployed onto -- either into both categories or any one of the categories we have to explore on that.

Viraj Mahadevia: Right. So you'resaying, potentially it's INR50 crores to INR70 crores could come back to shareholders in terms of a combination of dividend and/or buyback?

Mark Saldanha: Yes.It's one-third of free cash flow. That's what we try to adopt.

Viraj Mahadevia: Great. Excellent. Thank you. All the very best. Look forward to 2024 and 2025.

Mark Saldanha: Thank you very much.

Viraj Mahadevia: Thank you.

Moderator: Thank you. Our next question comes from Hiral Nandu with Kalpvruksh Capital. Please go ahead.

Hiral Nandu: Thank you. Thank you for the opportunity.And congratulation, Mark, for the great set of numbers.

Mark Saldanha: Thank you.

Hiral Nandu: Just to understand on the EBITDA margin, as you have promised earlier or you have guided further that we will keep growing, and it is seen on that path. We are now 22.5% EBITDA. So in going forward, how much this sustainable and growth, as I think the earlier question was also same line,that 25% or at least 22.5% margin sustainable in the future. And are we on the same target, top line of INR2,000-plus crores in the years to come?

Mark Saldanha: Yes. I mean, we are very confident. In all my earlier conference calls, we had set out a benchmark of INR2,000 crores and we are pretty much around there. And so now we no longer talk of INR2,000 crores. We talk beyond INR2,000 crores. So we are confident of surplus singthat benchmark. Now we are setting up a new benchmark, a new milestone for us,and that we are planning to achieve in the coming years. So definitely we are confident...

Hiral Nandu: We are excited to hear the new benchmark, actually.

Mark Saldanha: Yes. I mean, because there is visibility. Obviously, we do believe INR2,000 crores will be crossed,and now we are aiming for higher grounds, higher -- new heights, let's put it this way. So we have visibility and we do see us growing in the next three years or so. And that's where I do believe, at least from a revenue point of view, we have surplus expectation, like I mentioned, in this year itself and we do plan in the coming years.

So from a bottom line point of view, obviously, we are working hard in terms of EBITDA. It's very fluid, but it's always -- I believe it's going to be always better than the previous because of all these improvements of raw material, freight, everything coming into play.

Hiral Nandu: So you see that this raw material and the freight price now being settled and more or less can remain constant in the future, right, for the next couple of quarters, so that this margin is sustainable that way. And if some guidance or some thought process on the Teva facility, that what kind of revenue we see in this coming year, financial year '24?

Mark Saldanha: Well, like I saidI mean, there will be a gestation time.We have just acquired.We have just moved into Teva somewhere in April. There will be some gestation time for integration, for expansion of capacity, everything. So we do see revenue generation coming from the Q3 of this year. And then, obviously, we do see a full-fledged revenue generation happening maybe in the Q4 or Q1 of the next year, Q1 is more realistically, where we do believe with the amount of investment that we are doing, it will be probably equivalent to or at par or bigger than our present facility in Goa.

Hiral Nandu: Superb. Superb. All the very best and congratulations once again. Thank you.

Mark Saldanha: Thank you very much.

Moderator: Thank you. Our next question comes from the line of Darshil Jhaveri with Crown Capital. Please go ahead.

Darshil Jhaveri: Good evening, sir,and thank you so much for taking my question. Firstly, sir, congratulations on great set of results.

Mark Saldanha: Thank you.

Darshil Jhaveri: So, sir, I just wanted to ask about -- so we were talking about going beyond INR2,000 crores revenue. So that would be for FY24, correct, sir? Andso what would be the potential of combinedour, new product launch and Teva maybe for FY25 or something we could have, like, some sort of what we could see is our combined that. And will the Teva facility impact our EBITDA margins because we are seeing integrationof new facilities?

Mark Saldanha: So from a short-term point of view, if you're talking of a quarter or two, definitely integration takes time, takes money. So there's a cost implication out there. But from a medium to long-term point of view, the return on investment, and there's a lot of gain from the pain that we take in the short-term. So I do believe thatTeva facility is going to add tremendous value and basically it's going to fuel our growth and service our front-ends globally.

So I think there is no other shorter cut or a shorter way to actually overcome that. But we are doing -- we are basically burning the candle at both the ends. We are working extremely hard to ensure the gestation time is as short as possible where that is concerned.

Darshil Jhaveri: Okay, sir. So, if I may, just for FY24, can we think about INR2,000-crores-plus revenue with around 22% margin,would that be a fair assumption?

Mark Saldanha: Well, I can say we are quite confident of breaching the INR2,000 crores.So that's not a problem. The margin part of it, I would not want to speculate right now. But we are optimistic that a our EBITDA will be better than what it was for the year end

DarshilJhaveri: Oh, okay,sir, that helps a lot. And sorry, sir, but can I just if -- about the Teva facility.So what kind ofpeak revenue or how that we couldmaybe expect, maybe FY25, because I understand there is a gestation period or something?Any something ballpark figure?

Mark Saldanha: I think from a revenue point of view, again, we don't want to give a short-term outlook on a revenue basis. We normally talk aboutour objectives of hitting new goals and new heights. We have plans in place to achieve our new milestone. We no longer talk of INR2,000 crores, but it's great that you still remember INR2,000 crores. So -- but we have set a new height for the company, a new objective, new goal. But I do believe in terms of volumes, we are looking at 5 billion-plustabletsor pills to come out of Teva for '25.

Darshil Jhaveri: Okay, sir.That helps a lot. And congratulation once again on a great set of results. Thank you so much.

Mark Saldanha: Thank you.

Moderator: Our next question comes from the line of Manoj Mathew Jacob, an individual investor. Please go ahead.

Manoj Mathew Jacob: Hello.Congratulations, Mark and Jitendra.

Mark Saldanha: Thank you.

Manoj Mathew Jacob: My question is what about the DMF,have you filed the DMFs? You said you will be filing DMF for molecules?

Mark Saldanha: So, Matthew, we are working on it. We are working on right now five items, five products, five molecules. We are hoping that our DMF would be filed somewhere in the month of September 2023. Obviously, we are just going through the entire process of stability, profiling, and impurities. There's a lot of chemistry that is involved in all that, but we are optimistic that we should see the light in terms of the filing part of it.

Manoj Mathew Jacob: And you'll still stick to contract manufacturers, not to own the backward integration?

Mark Saldanha: Yes.

Manoj Mathew Jacob: You'll still stick to contract manufacturers.And one question, sir. Teva alone, Teva alone, the next financial year, how much will it do? INR1,000 crores or INR2,000 crores?

Mark Saldanha: I didn't get what you were asking. Could you repeat?

Manoj Mathew Jacob: I'm talking Teva facility alone. Teva facility alone.

Mark Saldanha: Teva facility, okay. Like I said, I can't give a number to itbecause we don't give a forward look on this, but I can give you what we are aiming in terms of the number of pills that we are -- the capacity that we are looking at,5 billion to 6 billion tablets coming out of that facility.

Manoj Mathew Jacob: Not 8 billion.

Mark Saldanha: Well, it will go to 8 billion, but it's a stepping stone. So we won't -- it's not like -- I wish it was like a Ferrari where you start from a zero to 100 in 4 seconds, but it does not happen that way. We are investing a lot. So in the first year, after the -- I mean, after the first year, we do believe we will touch between 5 billion to 6 billion and then we will be aiming for 8 billion.

Manoj Mathew Jacob: Okay. And you will be looking into inorganic growth because we sit on a good amount of cash.

Mark Saldanha: Well, that's a part of our business module that we always pursue and -- but if history has to say something about us, we are very choosy in how we go about doing our inorganic strategies and how we acquire companies. We have to see the synergy and obviously, it has to bevalue-driven for our shareholders So it's easier said than done, but we are exploring.We are in dialogue. We've gone through due diligence of over two companies in the last 8 months. So we do explore that possibility, but nothing concrete today to report on that.

Manoj Mathew Jacob: Okay. Okay. That's good news,and the last question.There was some news that in Madhya Pradesh you allotted some piece of land. Is that true? Is it -- are you building something over there?

Mark Saldanha: Yes, Indore, that was Indore,we were awarded land, but now our focus has gone to this new facility, Teva, that we acquired because that came a bit later on. So presently, we are pursuing the Teva plant. We've got our hands full.And like I mentioned in my opening statement, that's our priority number one because that will ensureour objectives being hit and our growth plan beingexecuted.

Manoj Mathew Jacob: If you look at your financials, it seems that you bought the Teva plant for INR56 crores and you will be putting in another INR200 crores to expand capacity. Am I right?

Mark Saldanha: Yes. INR200 crores includes the acquisition cost.

Manoj Mathew Jacob: Okay. So now INR200 crores minus INR56 crores.That's how we should read it.

Mark Saldanha: Yes.

Manoj Mathew Jacob: Okay. Okay. Thank you, Mark,and congratulations.

Mark Saldanha: Thank you.

Moderator: Our next question comes from Vignesh Iyer with Sequent Investments. Please go ahead.

Vignesh Iyer: Congratulations, sir, on a strong set of numbers and thank you for the opportunity. This is more related to your other expensesfor this quarter and for the quarter that ended December. Just to get an understanding, as in your other expenses in quarter three was around INR101 crores and which is INR72 crores in this quarter. So just wanted to understand if this is one-time savings in quarter four or was it more to do with one-time expenses in the earlier quarter? Or what is the exact nature that we have managed to save a good chunk despite having growth in revenue?

Jitendra Sharma: So mainly, of course, this reduction has come from freight because in terms of -- if you see the product mix, most of our products are volume-driven products and our freight costs,like, has gone as high as 15%, like, of the revenue number when the freight rates were at peak.

So just for your better understanding, for US refer containers, like, earlier at pre-COVID level, the freight rates were in the range of $3,000 per container, which have gone up to $12,500 per container and now it has come down again back to $3,000 per container. Similarly, for UK also, the freight rates have gone up to almost $9,000 per container, which has now come down to almost $2,000 per container.

So we have witnessed a good amount of saving there. And so there is no one-off as such because freight, like, in coming quarters, we believe these are the normal levels. We have gone to almost pre-COVID levels of freight rates. So, hopefully, like, we seebetter numbers. We have taken lot of measures in terms of the cost optimization also. And there are some reclassification, which we have done in our other expenses and that also resulted into bit of lower other expenses in totality.

Vignesh Iyer: Sure. So, sir, if my understanding is correct, subject to the freight doesn't go up from here, we'll be saving that amount of cost, right, for this amount ofsavings that we're doing.

Jitendra Sharma: A good part of that, yes.

Vignesh Iyer: Fair enough. And secondly, coming to this new acquisition that you have done in Teva facility, just to understand if I have to put a blended margin profile for the products that are going to come from the Teva facility, would it be more or less on lines with what the company is making now?

Mark Saldanha: Yes, that would be fair enough to say. Obviously, we will always try to improve on the margins, but it's too early to mention on the improvement part of it. But I think it'd be fair to say that it will be a blended mix of what we are getting today.

Vignesh Iyer: Okay.Because just to get the understanding, because you've got a huge chunk of cash with you,so just to understand what is the process by the management to actually identify any company.Is there a metrics in place, like a good IRR or ROC that you expect the company to make out of such acquisition? I mean, if I could just -- if we could, as an investor, get an idea behind, apart from the product profile, obviously, which is more on the technical side of it, but on the financial side, if we could get some understanding of what is the management thought process behind, because we have got a good chunk of money even after this acquisition.

Mark Saldanha: So, obviously, when you -- acquisitions are different types of acquisitions. When you look at an asset, I think the gestation time is going to be how fast we can optimize the desired output that we are looking for. And if we hit those objectives, then return on investment relatively is very fast.And obviously, we do calculate all this into an acquisition that we go into.

When it's related to more into company and to different geographies and all, it becomes a bit more complex. Then integration takes a bit longer and return on investment takes a bit longer because then you are looking for different objectives and different milestones to be hit and different growth trajectories to be hit. So there, obviously, the dynamics and even the valuation becomes different when you look at company versus you look at a facility. So a facility is always looked as either asset or a liability. Company is always looked with more sentiments and emotions attached to it and valuations and multiples that go into play.

Vignesh Iyer: Yes, it is right. I don't deny on that part of it, but, financially, at least, I mean, as the management would be deciding on acquiring a company, which probably has like 3.5, 4 times of fixed asset turnover or a 15%, 20% of ROC at least, right? So if you have got any specific metric that you could share with us that, okay, we don't pick up a company if it is below this because at this ROC level, it doesn't make sense to actually put money in the company.

Mark Saldanha: No, I think we evaluate it from case to case basis. We don't have a metrics defined in paper that way, but we do have -- obviously, we have a board of directors. We brainstorm. We evaluate it. We do consider -- we do try to see how fast we can -- how fast the ROC will take place.And if it is too long, then we have to let go of it.

Vignesh Iyer: Okay. Sir, just last question from my side. I just wanted to understand, we closed this year with a -- on a consolidated basis with a tax rate of 21%. Would it be at this level only or will it be moving to probably something like 25% again in next year?

Jitendra Sharma: Yes.It will increase a bit because from this year onwards, the UK corporate tax rates have increased from 20% to 25%. So we believe the effective tax rates from this year onwards should go to around 23%.

Vignesh Iyer: Okay. Okay, sir. Thank you. That's all from my side. All the best.

Jitendra Sharma: Thank you.

Moderator: Thank you. Our next question comes from the line of Anupam Aggarwal with Lucky Investment Managers. Please go ahead.

Anupam Aggarwal: Thank you so much for the opportunity and congratulations team on great numbers. My first question is on the Teva plant. So I understand Q3 of this year is when you're looking to commercialize. Can you help us understand the annual opex cost that will start flowing through from the next year with respect to Teva plant?

Jitendra Sharma: Well, see, the opex cost will depend on the level of activity and the capacity utilization we will have from the plant. So right now, we are in the investing mode. We don't have much ofopex out there, but definitely, we are investing a lot in capex. The current costs, like, are not that high and -- but definitely it will increase in coming quarters.But our objective here is to ensure that we start generating revenue as early as possible. And we believe that we will achieve, like, a breakeven kind of scenario by Q3 of this financial year,so far as Teva facility is concerned.

Anupam Aggarwal: You mean EBITDA breakeven by Q3 FY24?

Jitendra Sharma: At profit level, I mean to say at profit level. Not EBITDA.

Anupam Aggarwal: Understood. Understood.

Jitendra Sharma: Yes, at net profit level.

Anupam Aggarwal: But you just mentioned to the earlier participant that blended company level both are at a similar margin as what Marksans reports currently. I'm not able to reconcile the math.

Jitendra Sharma: Yes.That was with regard to the product mix what we were talking about. The EBITDA, which our -- the existing plant product mix generates, like, we will have similar level of EBITDA with the products which we are going to get manufactured at Teva plant.

Anupam Aggarwal: All right. All right. Have we already started front-ending some costs with respect to the Teva plant already in the Q3, Q4 numbers?

Jitendra Sharma: It will start from Q1.

Anupam Aggarwal: It will start from Q1. All right. And at 5 billion capacity, which sir said in year one, what will be the opex cost for the plant on an annual basis?

Jitendra Sharma: Well, I can give you just offhand numbers. It will be anything between INR50 croresto INR60 crores per annum.

Anupam Aggarwal: Understood. That helps. Thank you. Second question with respect to the new products,so you mentioned they're coming in digestive and pain segments and antidepressantsand a mix of Rx and OTC. Just to get a color on how the product mix will shape up from the Teva plant. Is it similar to what we do currently or is it going to be meaningfully changing from there?

Mark Saldanha: More or less in the first year, it is going to be very similar. And then as and when we start filing some products from the Teva plant, the product mix will change.

Anupam Aggarwal: And the revenue mix from that plant is also going to look similar, US and UK largely, or…

Mark Saldanha: It will be more European-driven, but I do believe eventually it will balance it out to US and Europe.

Anupam Aggarwal: US and Europe. Understood. Just lastly from my end, just wanted to understand directionally, I know OrbiMed has come in and hasconverted the warrants. Any support you have received from them in terms of customer engagements, in terms of penetrating deeper intoMSE markets, or getting into new markets? Some sense if you can give as to what -- financially, we understand you've got the support, but otherwise, if you can help us understand what is the role OrbiMed is playing in terms of getting more business to us?

Mark Saldanha: Yes. I mean they are actively involved in dialogue.They are also helping us in identifying M&As.They are on the board.They basically -- all the M&As we get also, we have -- they have insight, they have market intelligence on various continents and countries where they give us good inputs on potential targets that we identify and the background checks. So I think their value addition is tremendous, number one on the board, on the corporate governance point of view.And obviously, in M&A, they are very actively helping us on that.

Day to day running of operation, obviously, we do most of the day to day operation.They do actively participate in our meetings that we have every fortnight or once a month.Whenever we do have board meetings, they are quite active out there.

Anupam Aggarwal: So I believe it's been a year OrbiMed showed interest in investing in Marksans. Last one year, have you seen anything in numbers financially helping us show better numbers?

Mark Saldanha: I think their role is a little different.They are not here to run the company.So we run the company…

Anupam Aggarwal: Right.

Mark Saldanha: But their role is more on to adding value on to the board and on to the direction that we would -- that we plan to take, the support structure that they actually offer, and obviously, the wealth of knowledge that is there in this industry as well as in M&As. So we lean towards them where we -- whenever we do come across an M&A or with --sometimes they have honestly recommended quite a few M&As, and they actually approach company or M&As for us even if we have potential target, because they have better connectivity and better bandwidth of approaching clients. So they have been very instrumental.

And M&As is a very important part of our business module that has evolved our company over the period of years. So I do believe they will add tremendous value where that is concerned.

Anupam Aggarwal: Right. Lastly if I may, sir, out of INR200 crores, we have invested INR57 crores, so balance INR143 crores.Will that entire INR143 crores flow through in FY24 as capex?And over and above our current business, what is the capex there?

Mark Saldanha: So in the Teva plant, we have already --starting from April, we've started really spending money because, like I said, we are trying to compress the gestation time as fast as possible.And we are trying to put machines, we are trying to increase capacities, we are trying to integrate.So a substantial part of that money will go in this financial year and in the new -- and whatever, our new -- in the current financial year, which is going on.

And with the other facilities, the normal capex, which goes year-on-year, in terms of upgradation of machines or breakdowns or engineering novels that we keep working on, so that's a normal process which pretty much every plant witnesses on a yearly basis.

Anupam Aggarwal: Right. So INR150 crores, INR200 crores each year for next two years.Is that understanding right?

Mark Saldanha: More or less.

Anupam Aggarwal: Okay. Got it. Thank you so much and wish you all the best, sir.

Mark Saldanha: Thank you.

Moderator: Thank you. Our next question comes from Yogesh Tiwari with Arihant Capital Markets. Please go ahead.

Yogesh Tiwari: Yes. Good afternoon, sir.Thanks for the question and thanks for the opportunity, and congratulation for the result.

Mark Saldanha: Thank you.

Yogesh Tiwari: My first question is on the employee cost. So on a quarter-on-quarter basis, the employee cost has declined.So what would be the reason for it?

Jitendra Sharma: See, basically, I think it is just that, like, some bonus payments normally, which happens in the initial quarters and towards the end, like, it normalizes.So I think it is that, which has basically resulted in a bit lower employee cost. So it will get covered, like, in the first two quarters of the current year.

Yogesh Tiwari: So basically, it was related to some bonus component.

Jitendra Sharma: Yes.The incentives and bonuses, which are normally being paid in Q1 and Q2.

Yogesh Tiwari: Sure, sir.And in terms of the US business, like what would be the price erosion for the fourth quarter and what would be the current status, like, how is the pricing environment now versus Q4?

Mark Saldanha: So in the first quarter of this financial year, obviously, there is a stability in terms of pricing.But whenever raw materials change, pricing erodes so fast it's never encouraging because it creates panic and even the front-end witnesses that price erosion to some extent, but I do believe this year, there will be a stability. I do not see prescription products which were highly volatile. We have seen -- we are witnessing now pricing stability happening.So that is a good news. So we do not see any further price erosion happening where that is concerned.But in the rest of the industry, it's just a normal trend, which is nature of the beast that I would put it at.

Yogesh Tiwari: So, sir, directionally, like Q1, the current quarter, the price erosion is less than Q4.Can we assume that?

Mark Saldanha: Yes, we can assume that.

Yogesh Tiwari: And it is in the range of a single low digit?

Mark Saldanha: Yes.

Yogesh Tiwari: Okay, sure. In terms of US business, sir, our proportion of OTC has improved significantly from about 55% to about 74%, 75%. So how will it impact our business in the US?Are margins increasing?What would be the impact like?

Mark Saldanha: I don't see an impact. I see a positive because we are gaining market share only. Operational leverage will kick in with better revenue coming in. Distribution will get more economical and cheaper when you start shipping more products to the same destination. So I do see freight cost optimization happening, I do see operational expenses being optimized and leverage being kicking in there.

So I do see a benefit happening only from that angle.

Yogesh Tiwari: Thank you. So, sir, can we assume that because of the increase in the proportion of OTC products in the US, that might be one of the factors why our other expense and freight cost is also reduced drastically in the quarter?

Mark Saldanha: To some extent,yes..

Yogesh Tiwari: And we will be able to maintain that low freight cost because of the increase in this proportion?

Mark Saldanha: Yes.

Yogesh Tiwari: Sure, sir. In terms of the UK business, we have seen quite a strong growth of, like, 33% on a YoY basis. So what would be the key drivers for that such a strong growth? Because other regions still they are in a band, but UK and Europe is doing extremely well. So what would be the key drivers for it?

Mark Saldanha: New product launches happening,and so we are very aggressively launching new products. We are also obviously taking market share.Soas company matures, the product basket matures.You get better market share.You get better position.And definitely, with new products coming in, you see a better product mix and a better profitability happening.

Yogesh Tiwari: Sure, sir. And in terms of the -- as you told in the commentary that we will be looking at some inorganic opportunities. So any target segments, what would be the target segments for the inorganic opportunity?

Mark Saldanha: Well, I can't say target segments, but I can tell you geographies, we are still exploring Europe. So we look at opportunities in Europe.We look at opportunities in India. So we are exploring different geographies.

Yogesh Tiwari: Sure.And like, we have about INR700 crores of cash.So that what would be like the ticket size of that acquisition approximately? What would be the range like?

Mark Saldanha: We don't define that.We are more keen on looking at the qualitative part of the acquisition than the quantitative part of it. So we do look at, number one, there has to be a synergy and there has to be a value addition on what we can get on to the table. So based on that, we are open to different ticket sizes, but we are -- we don't go with a mindset that we need to acquire something really big or acquire something really small.

Yogesh Tiwari: Sure, sir.And sir, in terms of the outlook for FY24, so this Teva facility would be coming about like in Q3 of this year.And we grew by about like 24% approximately in Q this FY23 and this Teva facility coming in mid of '24. So can we do better than the growth we had in FY23? Can we assume that with the new facilityis coming?

Mark Saldanha: Well, we are expecting to grow, that's for certain. I mean, our benchmark is to cross INR2,000 crores and we are positioned for that. So definitely growth will happen, but the full optimization of the Teva facility, you'll basically see it in the next financial year, like I mentioned in the Q1 of '25. But definitely,this is -- you will see returns happening, you will see sales revenue being generated in Q3 '24, and that will add to our growth story only because obviously any additional revenue that comes in is going to add to your growth story.

Yogesh Tiwari: So, sir, just in terms of approximate quantification, because of the new facility and other initiative which we took, so we will be able to grow more than 20% in this current financial year facilitated by our other initiatives.

Mark Saldanha: It's tough to give a number right now or a percentage right now.But like I said, when you talk of Q3 of '24, basically three-fourths or half the year or more than half the year is already over here. So it's not going to be like, well, if numbers could add up that easily, then next year you'll ask me, can we do 40% growth. So it does not work that way, but, definitely, we plan to maintain our growth level for this year, too.

Yogesh Tiwari: Sure, sir.And lastly, sir, for modeling purpose, what would be the sustainable operating margins in the long-term for us?

Jitendra Sharma: Can you repeat your question again, please?

Yogesh Tiwari: What would be the range of sustainable operating margins, EBITDA margins, for our company in the long-term?

Jitendra Sharma: See, we have achieved 18% EBITDA margin during March '23.And it is a bit difficult to give forecast, but we expect to maintain at least these margins at these levels.

Mark Saldanha: And probably improve slightly.Obviously, we are aiming -- we want to touch the 20% levels, but we have to work out on that.

Yogesh Tiwari: Sure, sir.That is very helpful. That's all from my side. Thanks.

Moderator: Thank you. Our next question comes from the line of Prerit Choudhary with Green Portfolio. Please go ahead.Prerit, your line is unmuted. You could please ask your question.

Since there is no response, we move on to our next question, which is from the line of Shikhar Mundra with Vivog Commercial Limited. Please go ahead.

Shikhar Mundra: Hi, sir.Congrats on a good set of numbers. What would you say is our existing capacity utilization for the Goa, UK and US facilities?

Mark Saldanha: You are talking of the present facility or the Teva, including the Teva?

Shikhar Mundra: No, excluding Teva.

Mark Saldanha: So we are at 70% utilization.

Shikhar Mundra: All right. And sir, how much do we plan to invest in API manufacturing for the top 10 molecules?

Mark Saldanha: I didn't get you. You're asking how much do we plan to invest or how much do we…

Shikhar Mundra: API. APImanufacturing for the top…

Mark Saldanha: Yes. I mean, we are -- right now, we are targeting the top five molecules to file our DMFs. It may go between five to seven items that we will file DMFs. And we'll probably be looking at an investment around INR20-odd crores, INR20-odd crores to INR30-odd crores.

Jitendra Sharma: So we are basically going through a CDMO approach.

Shikhar Mundra: Okay.

Jitendra Sharma: So basically our investment here will be mainly in filing DMFs, in the product development and in filing the DMFs. So we believe that we will spend somewhere around say INR5 crores to INR7 crores per molecule.

Mark Saldanha: Per molecule.

Shikhar Mundra: Okay. And what would be the potential cost saving for these? Like, these top five molecules contribute how much to our revenues? And what would you expect the cost savings due to the backward integration?

Mark Saldanha: The top five molecules, the fact that they talk of top five molecules will probably contribute maybe 30%.

Jitendra Sharma: In terms of the price reduction. But in terms of the overall margins, like, we can expect our gross margins to improve by anything between 300 to 500 basis points.

Shikhar Mundra: That's only pertaining to these five molecules or on a company level?

Jitendra Sharma: On these five molecules.

Shikhar Mundra: All right. And one question for the Teva facilities. You have acquired the whole facilities for INR56 crores. Then, how come are we spending extra INR144 crores to get it ready? What are we exactly spending this on?

Mark Saldanha: For capacity enhancements. And obviously, the capacity is very small. So we are increasing it to our expectation. So the facility is big, but the capacity is small.

Shikhar Mundra: Okay. So what is the current capacity? So -- because we plan to make it 8 billion. So what is like the current capacity in terms of units?

Mark Saldanha: I think it's less than 2 billion.

Shikhar Mundra: All right. All right. And do we have some manufacturing agreement with Teva in place to supply them some of the medicines from this facility?

Mark Saldanha: We have for 12 months.

Shikhar Mundra: 12 months. And how much would be the potential in terms inbillion units?

Mark Saldanha: I didn't get you. How much would be the potential in terms of units?

Shikhar Mundra: Yes, to Teva.

Mark Saldanha: It will obviously come from the present capacity only. This is not from our increased capacity. So they will be consuming it from their present capacity that is already installed.

Shikhar Mundra: All right. And that agreement is for this financial year, FY24?

Mark Saldanha: Yes.For this financial year, for 12 months.

Shikhar Mundra: All right. All right. And so the EBITDA margin which has occurred, so how much -- like, the EBITDA margin expansion which has occurred from quarter three to quarter four, how much would you say it is due to a change in product mix and how much from the savings and freight costs?

Mark Saldanha: I think a substantial comes from the raw material and freight cost. And product mix, that is a continuous process that takes place. But you will see a better impact of the product mix in this financial year.

Shikhar Mundra: All right. So if the freight cost remain as it is, so this EBITDA is definitely sustainable, would you say that or we can even do better than this, like with the improvement in product mix?

Mark Saldanha: I'm hoping for better.

Shikhar Mundra: All right. Got it. Thank you and best of luck.

Mark Saldanha: Thank you.

Moderator: Thank you. Our next question comes from Vishal with Systematix. Please go ahead.

Vishal Manchanda: Hi. Good evening and thanks for the opportunity. Sir, would you like to speak about the drivers that would help you in FY24 in terms of performance, whether it would be new product launches or probably any specific opportunity that you're looking at in FY24?

Mark Saldanha: So FY24, obviously, is on two grounds. One is continuing the momentum that we have set out in 2023. I think a substantial amount of that momentum happened in the last half of the year. So that itself, if it carries forward, will help us achieve our objectives. Then, obviously,a better profitability where we obviously are hoping for the best in terms of pricing and raw material, sustainability pricing and freight, which I do see is basically now stabilizing and has hit rock bottom.

And then, obviously, last but not the least, commercializing and integrating our Teva facility, which we are expecting some decent amount of revenue generation happening in the last half of the year.

Vishal Manchanda: Sir, when you say integration, you mean the backward integration with your own API?

Mark Saldanha: No, no. Teva, we are talking about obviously integration in terms of our products. We still need to do a lot of site variations out there. We still need to get our licenses into Teva. So it's not that -- we are not inheriting any product licenses from Teva. So it's not something that we are inheriting. It's only the facility. So it's one thing expanding the operation in terms of capacity, but it's another thing of trying to say, okay, these are the products that we need to introduce into Teva and for that we need regulatory approvals or site variation approvals to basically take place so that we can actually produce this product somewhere.

Vishal Manchanda: Okay. And with Teva cost starting to hit into your P&L, will that dilute your margins in the near-term?

Mark Saldanha: There will be some short-term pains before beforeyou see gains. So definitely, there will be -- while we are investing in the short-term in the first three to six months, there will be some short-term pains, but we are expecting tremendous gains to come out of that.

Vishal Manchanda: Any fundamental improvement that you're seeing in Europe in terms of either competitors exiting, helping you gain market share, or better pricing,any such trends in Europe that you're seeing?

Mark Saldanha: No, nothing that is visible right now.

Vishal Manchanda: Okay. But overall, do you see an improvement in the environment, the competitive environment and pricing environment?

Mark Saldanha: I see an improvement in our performance beyond that.

Vishal Manchanda: Right.

Mark Saldanha: I mean the environment is what it is for the last 10 years, is going to be always the same.

Vishal Manchanda: And ibuprofen contribution, can you call out the number during the quarter?

Mark Saldanha: Well, it is a part of our pain. It is a part of our largest portfolio that product that we have that we enjoy market share. The exact number of the -- number on the molecule, I don't have it readily available with me right now.

Vishal Manchanda: And the backward integration will happen this year with your own API?

Mark Saldanha: Yes.

Vishal Manchanda: Second half or…

Mark Saldanha: Second half. We are hoping for filing maybe in September or October.

Vishal Manchanda: So you mean you can start selling with your own API? It'll take time post that once you…

Mark Saldanha: It will take time because then, once the DMF is filed, then we have to also -- we will be also filing for our own license to be incorporated in our own license. So it may take another three to four months, but at least the first step would -- we would have crossed the first step.

Vishal Manchanda: Understood. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, I request please restrict yourself to one question per participant. Our next question comes from the line of Sachin Kasera with SVAN Investments. Please go ahead.

Sachin Kasera: Yes. Hello. Good evening and congrats for a good set of numbers. I had two small questions. One is on the margin. So in the presentation you have mentioned that you want to increase the share of R&D from 1.5% to 4% to 5%. And there's also mention that our expectation is to reach like the 25% margin. So which means that we need to expand our markets by like 900 to 1,000 basis points, part of which will be reinvested in R&D and part will be retaining.

So, one, this looks like a very ambitious number from the current 18% that we reported this year. So, first, if you could tell that? And secondly, will this expansion be primarily driven by gross margins or we see significant benefits coming from,like, things like freight savings or maybe operating leverage or some other cost-saving initiatives if you could dwell on that?

Mark Saldanha: Well, it's going to come from both, I mean, from all fronts basically. It cannot come from a single front. Like I mentioned, the margin contribution will also happen because of product mix that we are looking at, which, again, is a part of new product launches, which is a part of R&D contribution, which basically gives rise to new launches that happen on a quarterly basis, on a yearly basis. So product mix is going to play a critical part for any company to evolve from point A to point B.

And then, again, it's a cumulative thing of -- it's a cumulative effort of every department on every area to save -- to add value onto the bottom line. Whether it might be raw materials, freight, and operating leverage, operation cost. So we look at every small thing, distribution cost, everything of that sort.

Sachin Kasera: And on R&D, you are talking of like almost tripling as a percentage of sales. That's too also on a growing revenue target. So what exactly are you trying to do because this looks like a very, very significant increase in the overall R&D spend. So what are we going to do in terms of the number of filings or is it there going to be a significant involvement of the complexity of this product because this looks like a multi-fold increase in the overall R&D spend in the next two, three years?

Mark Saldanha: Yes, I do believe. So now that we've evolved to A point for us to go to aim at new heights, we have put a lot of emphasis on to R&D. We are looking at various segments, delivery dosage, complex molecules, clinical molecules, molecules which may need some clinical studies. So all these, obviously, we do believe our cost going up. Historically, we avoided or we basically restrained from going into such complexities because it's high-risk, high-gain strategy,but we were very conservative with our outlook and our cash flow.

And although we will continue operating the same way, but now we have the bandwidth we will expand. We have the chemistry behind us and we have the financial capabilities to basically explore couple of molecules that may cost more than what we historically paid.

Sachin Kasera: Sure. And just one clarification on the EBITDA margins.You mentioned that you expect to sustain them or even slightly better. So you are referring to the full year margins or you are referring to the Q4 margins because the full year and the Q4 numbers…

Mark Saldanha: Full year. No, we are talking of full year only, because quarter-to-quarter, you'll always have these variations, but we'd like to be known for a full-year performance.

Sachin Kasera: Sure. Thank you.

Moderator: Thank you. Our next question comes from the line of Anupam Aggarwal with Lucky Investment Managers. Please go ahead.

Anupam Aggarwal: So thank you for the follow-up. I just had a question on your presentation slide where you mentioned the number of filings and products that are in the pipeline. So across markets, we have about 92 products in UK, Europe, US and ROW where we either are awaiting approval or plan to launch in the next two years. Can you help us quantify the overall size of these molecules? What is the opportunity? What is the number of -- how many players are there in each of these products or if you can just give some color at least?

Mark Saldanha: That will take more than a few -- a couple of minutes when you talk of such a wide basket of products. But we have been very selective based on our strengths, our product portfolio. We aren't the only players in -- quite a few of them. Obviously, there are other players. These are not first to file. But at the same time, there are certain molecules in that basket, which are very niche and basically where we believe a lot of players are more restricted than other molecules that we basically start off that you'd normally see.

So that's where we are -- we basically have identified molecules very strategically where we feel -- which will revolve both our capabilities, our strength of marketing, distribution, and at the same time, in terms of number of players. Now, like you rightly said, there are a lot of molecules in our filing, a lot of products in our launch items,so it's difficult to go through one by one.

Anupam Aggarwal: Not one by one, but overall if you can help us understand what is the market size we are looking at?

Mark Saldanha: Some of them go into $1 billion, but that has no relevance because, again, it again depends on number of players and the market share that you can take from that particular molecule. The molecule may have $1 billion market size or $1.5 billion,$2billion, but then you have the brand, you have the generic.And from the generic, you have number of players in there.

Anupam Aggarwal: Right. Secondly and the last one, are we shifting any products from our current facility to the new plant of Teva, or is it completely new range, new set of products there?

Mark Saldanha: We will be shifting certain products so that we can start commercial operations. New products, new product filings,we'll see light only in FY25 mid.

Anupam Aggarwal: Any percentage or number of molecules you can help us with what we are shifting to new plant?

Mark Saldanha: It's going to be a small basket right now. So they're small.

Anupam Aggarwal: Small basket efforts. Thank you. Thank you so much. That's all from my side.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments.

Mark Saldanha: Thank you, all, for participating in our questions and thank you for all the support and the good wishes. Be safe and hope to talk to you soon again next quarter. Take care. Cheers.

Moderator: Thank you. On behalf of Ambit Capital, that concludes this conference. Thank you for joining us and you may now disconnect your lines.