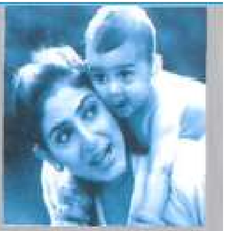

**Date: 11/05/2022**

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 Investors and Analyst Conference Call on Results for Q4 FY 22**

Dear Sir/Madam,

Please find attached transcript of Investors and Analyst Conference Call organized on Friday, 6th May 2022 at 04.00 P.M. (IST) subsequent to declaration of audited standalone and consolidated financial results for the quarter and financial year ended 31st March 2022.

Kindly take note of aforesaid into your records.

Thanking you,

Yours faithfully,

**For Morepen Laboratories Limited**

**Vipul Kumar Srivastava**
**Company Secretary**
**M. No. A-26231**

MOREPEN LABORATORIES LIMITED ★ Gurugram (Haryana)

**Morepen Laboratories Limited**
CIN NO. L24231 HP1984PLC006028
**Corp. Off.:** 2nd Floor, Tower C, DLF Cyber Park, Udyog Vihar-III, Sector-20, Gurugram, Haryana-122016, INDIA
TEL.: +91 124 4892000, E-mail: corporate@morepen.com, Website: www.morepen.com

**Regd. Off.:** Morepen Village, Malkumajra, Nalagarh Road, Baddi, Distt. Solan (H.P.) -173205, INDIA
Tel.: +91 1795 266401-03, 244590, Fax: +91 1795 244591, E-mail: plants@morepen.com

# “Morepen Laboratories Limited Q4 FY22 Earnings Conference Call”

## May 06, 2022

**MANAGEMENT:** **MR. SUSHIL SURI – CHAIRMAN & MANAGING DIRECTOR, MOREPEN LABORATORIES LIMITED**
**MR. AJAY SHARMA – CHIEF FINANCIAL OFFICER, MOREPEN LABORATORIES LIMITED**
**MR. VIPUL KUMAR SRIVASTAVA – COMPANY SECRETARY, MOREPEN LABORATORIES LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to Morepen Laboratories Limited Q4 FY22 Earnings Conference Call. Joining us on this call today are, Mr. Sushil Suri – Chairman and Managing Director; Mr. Ajay Sharma – Chief Financial Officer and Mr. Vipul Kumar Srivastava – Company Secretary.

As a remainder, 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sushil Suri – Chairman and Managing Director of Morepen Laboratories Limited. Thank you and over to you, sir.

**Sushil Suri:** Good afternoon, everybody. Hope everybody is safe and sound at his place. We know and we understand that now the offices have started opening up and to a large extent, the work from home scenario is going, we are all walking to the offices now. Let us pray that this COVID thing goes forever and we all have a safe journey from here onwards.

Coming straight to the business:

We have already uploaded the results on the stock exchange yesterday, but just to give you a quick run and a quick summary where we are and what is happening, so we all know that the whole financial year was very challenging. We have two rounds of COVID, second wave and a little minor third wave and last two months I would say almost full quarter, last 2-3 months, the global scenario has also been very disturbing and particularly due to the Russia-Ukraine war situation or overall global scenario, global markets, whether it is in stock market or the currency market or commodity market, there have been lot of fluctuations and variations, but all set and done, we have concluded the year very nicely and just to update you the numbers which are already in the open market, so last we had Rs. 1200 crores of topline, so this year we have been able to increase by 30% increase in the revenue amounting to Rs. 1,557 crores, so it is a very solid jump as against the large number last year, so last year we had said that we will be able to maintain a growth of 20 to 25%, but we have scaled it to 30% and we are proud of the team and full support of all the stakeholders. So, the revenue growth is really good and of course against the 30% revenue growth we have got a pre-tax profit of 29% increase which is almost proportionate to the net revenue, but when we talk of the post-tax profit, post-tax profit of course had only 5% increase and we are proud to share that for the first time almost after 25-30 years, the company has started paying tax and we are a tax paying company, we have paid Rs. 25 crores tax this year. The total tax incidence is Rs. 25 crores on Rs. 126 crores profit. So, almost Rs. 25 crores goes to the tax, so net increase is only 5%, maybe post profit after tax. So, basically whatever increase in profit has come, that has all gone to the tax part. So, one way, it is good that we are now contributing to the economy of the country, we are contributing towards the tax, but on the other hand, it is not coming to my pocket or your pockets, it is being going for the taxation purpose. So, with the 5% increase in the profit after tax, so there is a 5% increase in the PAT. This is broad number, 30% increase in revenue, 29% increase in PBT and 5% increase after tax, Rs. 25 crores tax incidence, first time and of course now once we become a tax paying company from here onwards, the comparison would be apple to apple because till last quarter and as such we are comparing the results with the last quarter results or last year results. Last year, there was no tax. So, now, this year we are paying tax, so hence onwards, whatever we compare it will be tax to tax, apple to apple comparison on an annual basis.

So, now coming specifically to the quarterly split, this year was very interesting for the first quarter, we had a second wave of COVID and there was a lot of aggressive purchasing by the customers, whether on retail side or B2B, whether on API or medical devices, we had a rocking first half Q1, Q2, both were good, Rs. 388 crores, Rs. 398 crores and third quarter also was around Rs. 399 crores. This quarter is a little shy, Rs. 372 crores, but broadly speaking we are maintaining almost Rs. 400 crores mark with 1557 in the gross. If we have Rs. 400 crores it become Rs. 1600, so little shy of Rs. 1600, but now we are Rs. 400 crore quarter company, between Rs. 350 to Rs. 400 crores and quarter-on-quarter last year same quarter we had Rs. 291 crores, this year Q4 is Rs. 372

crores, so there is a 28% jump in the quarterly revenue which is very good and annual revenue increase is 30%, this quarter is 28%, so we are almost there.

Now, if we go forward and try to see where the income is coming from, so against 28% revenue growth and of course year as a whole the growth is 30%, from Rs. 1200 crores to Rs. 1557 crores. So, here, our export revenue has gone up by 17% against 30% increase in the total revenue. Exports revenue has gone up by 37% while the domestic revenue has gone up by 38%. So, the point to be noted here is, there is a substantial increase in the domestic revenue, of course one is because of the medical devices business. There was a huge jump in the medical devices business. In the first half there was 88% growth and in the second half was almost there was 10% growth. So, overall, there is a 46% growth in the medical devices and in the API also, it being our core business of API, so good growth is coming from the domestic market. Our export share which was 67% last year has come down to 64% in the API business. So, domestic market has gone up, but otherwise for the quarter, this Q4 export is 39% up, domestic is 20% up, but company as a whole there is 17% increase in the export business. So, export business of your company has gone up to Rs. 557 crores, so we have crossed the Rs. 500 crores mark which we are planning last year, but last year we were close at Rs. 477, but now this year we have crossed the Rs. 500 crores mark and 17% increase, Rs. 557 crores export market. So, this is a very big milestone which we have achieved.

Now, coming specifically to the business segments:

Just to repeat, we have one API business which is B2B and here we are not dealing with the consumer, it is more back to industry to industry and all the other 3 businesses are more of B2C, medical devices, OTC, and finished dosages. Finished dosage is actually not B2C because it goes with the doctor prescription, but still it is directly to the consumer. Medical device business as we have shared in our past calls, we have already taken shareholder's approval and the process of shifting it to the separate subsidiary is under process subject to regulatory approvals, so approvals take a little more time than usual, so whenever there is any update we will share with you on that. So, these are the main three businesses; API, medical devices, formulations and OTC.

Now, if we look at the segment wise growth:

All the business segments have been giving phenomenal growth, the API business has grown by 26% as I shared that exports have grown, but generally API also gone up by 26%, again 30% increase of the company growth, API has grown by 26%. This is the major contributor in the business, so there has been more increase in the domestic side, but even export has also not been left behind, so we will come specifically to the product wise. Then, medical devices business, as I shared, from Rs. 287 crores it has gone to Rs. 419 crores with 46% jump in the medical devices business. Here again, the first half was remarkably good, the second half is nominal growth of 9 to 10%.

Formulation business from Rs. 131 crores, it has gone to Rs. 169 crores, there is an increase of 28%. This is a very good growth, very good jump, but I must share that this jump looks high as compared to the previous year because last year the jump was only 5% because year before because of the COVID, there was very nominal increase of only 3 to 4%. So, basically the formulation business was most affected due to COVID, but now it has come back. We are back to the original numbers and lastly our OTC business has gone up from Rs. 86 crores to Rs. 106 crores.

So, basically it has crossed the Rs. 100 crores mark, so all business segments are about Rs. 100, so OTC also is Rs. 106 crores. We had a growth of 23%. So, all segments have grown, API by 26%, diagnostic devices 46%, formulation 28% and Dr. Morepen OTC by 23%, so if we look at the segment wise percentage, medical devices business percentage has gone up by almost 3% from 26% to 29% because the growth was higher than the API, so API has gone from 62 to 59%, it is a 3% drop, almost 2.6% drop. Medical devices has gone up, 3%, formulation is almost same, 11-12%.

Now, I will give you heads up on individual businesses:

First, we look at our core business, which is our API which is our strength where we are known for the quality and we are leaders in the global market on certain products. So, here, on the quarterly basis, we have gone up by 37% from Rs. 171 crores last year same quarter, we have gone to Rs. 235 crores in this quarter. So, while year as a whole, the growth is 26%. So, here we have grown both in the domestic market and in the export market, but if we look at the CAGR which is the compounded annual growth rate, where some people call it CAGR, the compounded growth rate is 28%. So, API business has been growing consistently year after year by average 38%. So, this year it has grown 26%. So, last year of course was 39%. If we look at the export revenue, as I already shared that from Rs. 473 crores it has gone to Rs. 553 crores. In the quarter, the export revenue was again substantially higher. The current quarter export revenue of API has gone by 40%, but company as a whole, if you look at the API business, our export is 64%. 64% of all the goods in the API are export. So, domestic market is only 36%, but here also there is a little shrink that during the current year, our export has decreased by 3% from our share of 67, it has dropped to 64.

Now, if you look at the continent wise sales that Rs. 557 crores sales is not coming specifically from one market, so it is coming from various markets. The US market has grown by 48% which is a very big jump. Last year, US market had not grown very well. Because of the COVID, there were many travel restriction and the people are not buying. So, buying has started again and there is an increase of 48% and this increase includes our traditional product, Loratadine and Montelukast and also last quarter we shared that we have got approval of Fexofenadine, which is the generic form of Allegra, so we had got US FDA approval. Our Fexofenadine supplies have started to US last quarter in this Q4. So, US market has shown very good growth which will of course continue as we get more and more orders for all the different products. European market has grown 18% which is as good as our overall growth of 17%. Asian market was bit slow, but still it has grown 7%. Here it includes markets like Japan, Korea, Thailand, so we can see that still the movement is not very high including China, so because these markets are taking some time China is still disturbed, still struggling with the COVID, but we had good exports to China also earlier. Indian market as I shared that even the API segment also, the Indian market has gone to 48%. We have almost added Rs. 100 crores in the Indian market domestic sales, thanks to our one leading product, Montelukast, so it was effective in COVID also, but in general for asthma and for pollution, so Montelukast is growing very well and domestic market has grown 48%, primarily because of Montelukast. South American markets which are Brazil, Argentina, Chile, Uruguay, Paraguay, so all these markets taken together has grown by 25% and of course frequent markets are again up by 9%. So, we have added 183 new customers without much travel and without much marketing efforts in this business, so we have got more than 1009 satisfied customers globally as against 826 customers which were last year. Thanks to the whole team and they have been performing very well and we are now expanding teams in all the continent, and we want to focus more and more. Now, as the COVID scenario has slowed down and travel have started, so we have extensive travel plans in the coming 2 years, so wherever the markets have gone bit slow, so we want to reactivate and would like to focus more and more in all the continents which have not been able to perform well.

Then, coming specifically to the product, what are the products which are contributing:

As I shared that Montelukast was one product which has contributed very well, so there is a growth of 65% in the Montelukast in the revenues. So, of course, most revenues are coming from the domestic market, so therefore there is a pressure on the margins. So, Montelukast is sold in the domestic market as you would appreciate domestic markets are not that profitable, so we have to have some compromise in the margins which is obvious in our results and Loratadine which is our core product which is again US FDA. Montelukast is also US FDA, so there first two quarters are very tight. There was a little decline, but the decline we have been able to recover in the next two quarters. Loratadine, overall there is a growth of only 1%, even though globally the market has not grown, there is a bit slowdown in Loratadine because people are using mask, people are fully vaccinated, so there is not much flu happening, it is used for like allergies and flus, but still we have been able to recover there is a growth of 1% and Atorvastatin has grown by 18% and new molecules which are very small in number, they have grown by almost 689%, so basically the major growth is coming from Montelukast, Atorvastatin and Loratadine and as we had shared earlier also that we have got a leadership position in

Loratadine and last year our market share out of India, we cracked the export of all the company out of India. So, our share of export out of the India is 68%. I won't say it is a lion share, it is almost more than two third of the shares is ours, so if we have an export of 300 kg out of the country, 200 kg is going out of our unit and 68% is this year, last year was 60%. Even though the market has not gone up, our share in the market has gone up, we are 68% of the market and of this particular Loratadine, of course this was the first US FDA we had got back in year 2000. 88% of our products is exported, so technically I would say may be more than 90-95% product is exported, but 88% is direct export which we count in our books, but many times, some customers take delivery in India through their own subsidiary, but products goes outside, but we do not include that because our prudence says if the invoice is raised in the international name only then it is counted in export, but still we have 68% market share which is commendable to the R&D team and the QC team, we have been able to retain the market share and of course there are pressures on the profitability, but we have been able to match the prices so far.

The next big molecule what we have as I shared Montelukast. So, last year our share in the export market was 30%, now this year has gone up by 49%. So, we have increased our share in the export market, we have increased our share in the domestic market, both place, so this has become one of the large products and this has become rather, I would say, little bigger than Loratadine because the growth was exponential, so we expect that this product will continue growing more and more and as we go forward we will try to acquire some more market shares. We certainly want that we should be more than 50%, now it is 49.2% market share. So, this product, 41% is exported and 59% is domestic, so domestic is more. Other than this, we have products like, we shared that Fexofenadine, Rosuvastatin, then there are new molecules, some products are still under patent and small shipments are going for R&D purposes. Some products are going up patent in the coming few months, so wherever the sales of these new molecules, certainly we will come back to you. So, we have as a company our key focus is in generating and focusing more and more on intellectual property getting US FDA approvals, so your company has got all the approvals from all the regulatory authorities of US, Europe, Japan, Korea, Taiwan, Australia, of course China, rather it in US FDA, EDQM, PMDA Japan, KFDA, EUGMP, PGA Australia, so the plant is fully approved and as a company we have never got any negative feedback or any warning letter from US FDA and any product recall. We have a history of NIL 483 and your company is proud to share that we enjoy a very good reputation before the FDA from a compliance point of view and we have not got any negative observation from the FDA inspectors. So, your company has got 140 patents filed, 130 DMFS and of course there are both drug licenses in China, 13 of them and 33 new products our R&D has developed. So, there is a lot of backend which is more of a virtual property or an intellectual property which is not visible in the balance sheet, but your company is sitting on this huge wealth of talent and patents which our R&D guys keep working. So, that was an overall view about the API business.

So, medical devices business is the next. So, you might be hearing all of the year that the medical devices business had been quick and are very high speed and thanks to lot of pressure from COVID, people have started using these meters and BP monitors and sugar testing. It has become almost routine of every household and now people are a bit scared of the health and they are testing sugar very regularly, so there is a 46% increase in the medical devices business. Though in the first two quarters when COVID was actually happening, so certainly the sales were higher, we had grown almost 88% in the first two quarters and the rest of the two quarters is little low, but year as a whole if we look from Rs. 287 crores, we have gone to Rs. 419 crores with 46% growth and I would say that during the COVID, there were all the limitations, there was supply issue, there was price issue, there was cargo issues, labor problems. In spite of that we have been able to do it as around 75 to 80% of the business is coming from our own manufacturing of the sugar machines which is both Glucometers and Gluco Strips.

Now, coming to the products:

This major growth is coming here in the two categories, one is Glucometers and second is the BP monitors. Glucometers, we have grown by 54% which is a large growth against our large against large pace. So, almost out of Rs. 419, Rs. 287 crores is Glucometers only. Then in this financial year, there is a huge growth on the BP monitors also and the first time we have crossed the number of 1 million meters, so we have almost 1.9 million meters in the start this year in the BP monitor. Coming specifically to the Glucometers, from Rs. 180 crores, we have grown to Rs. 279 crores, there is 59% increase in the Glucometers in the whole year. During the quarter, it was 10%. So, we have 7.2 million meters already installed in the market, so against 7.2 million meters, 2.17 million meters have been installed in this year. Last year, it was 1.69 million meters. So, we continue installing meters in the market irrespective of COVID or no COVID, markets are slow or bad, so our meter installation is going and as a company we have collected more than 900 million strips, we have sold more than 900 million strips, may be another 10% in the market. Around 800 million tests have already been done and during this year, we have sold 300 million single test strips for the sugar testing and this year BP monitors have also gone up from Rs. 63 crores revenue to Rs. 84 crores revenue. Last year, the revenue was more than double, from Rs. 29 cores to Rs. 63 crores, it was more than 100% growth and now from Rs. 63 to Rs. 84 crores. If you look in 3 years, the revenue has grown 3 times, so this is immense performance, and I would like to say that there is 47% CAGR while in Glucometers the growth was again almost 44%. So, all the categories, category as a whole has gone CAGR of Glucometers at 44%, BP monitor at 47% CAGR. So, CAGR indicates that growth after growth, on a higher number on a large base, almost every year, we are adding 40 to 45%. That is broadly on the two main products. Other than that, we had some miscellaneous products where we have nebulizers, thermometers and we had noncontact thermometers, oxymeters and oxygen concentrators. So, these were I would say cyclic products. In FY21, we had sold some thermometers, noncontact thermometers around Rs. 13 crores. This financial year, we had some sale of oxymeters, but these sales I would say are cyclic and temporary in nature, so it was Rs. 56 crores of revenue, wherein nebulizers, oxymeters, oxygen concentrators saw there is a 28% growth, but this was, I would say is not a very happy state of business because in the second wave there was a lot of pressure on both oxymeters and oxygen concentrators. So, we have gathered a lot of large inventories of these products, which we are still holding, God forbid if the

COVID comes again, so we have the inventories, but maybe we may have to incur some losses whenever the products are not disposed of in next few quarters. So, that is all about the medical devices business.

And then if we look at finished dosages business which I was telling that it has come back now, so last year it has reduced Rs. 138 crores to Rs. 131 crores, so from Rs. 131, it has grown by 28%, so it has become Rs. 169 crores, so there is 34% increase in the revenue in the quarter, 28% for the year as a whole. So, here if you look at the categories that what are the segments which are grown and what is the disease segments, antibiotics have grown 66% and you would appreciate that because of the prevalence of COVID, there are certain antibiotics which are commonly used, so there is a 66% growth. So, then there is a 46% growth in the probiotic and gastro reach. We have done a very high-class probiotics, which are imported from Belgium. There is a 46% growth. Then, we have good range of nutrition products and multivitamins which are recommended by the doctors. There is a 31% increase there also and another 40% growth coming from other common products. So, good growth in antibiotics, gastro and nutrition.

Now, coming to the last segment which is Dr. Morepen which is more of I would say excitement in the market on the OTC side, here we have grown by 23%. For the first time, the OTC numbers have grown up by Rs. 106 crores. Here, other than the trade, we have grown up extensively in the online business also. Trade has grown just by 10%, but online business we have started investing in the online business wherein we have marked a range of a product which are available only online. So, on a small number, there is a growth of 273%, but as a company, the online business has started moving up. After the total sales, 19% of the company's business in the OTC has become online. So, those are the main two things which have grown very nicely and Dr. Morepen as a brand, which include devices, finished dosages and OTC, so we have become almost Rs. 685 crores brand, Rs. 685 crores topline brand, so you can imagine the value of this. The brand has grown by 36%.

So, just to touch base quickly, our R&D spend has grown by 34%, primarily API 47%, finished dosage 46%. I know time is looking short, but I will quickly touch the financial highlights. As we talked, our net revenue for the quarter has gone up by 28%, expenditure including cost has gone up by 36%. There is almost 5% increase in the cost of the raw materials because of the two reasons, one is that because of the supply disruption, so the increase in prices of raw material from China and from other markets because of the heavy cost of cargo also. Secondly, our main core business of API, where our sale has increased primarily from domestic market. So, the domestic market is not very highly profitable, so there is a pressure on the margin, so of course, taking into account, both the things, the quarterly profit is not very I think great so that is why there is a pressure, but if we look at the operating ratio, our debtors have gone up from 1.63 months to 1.70 months because we are doing more sale, little lower recovery in the debtors. Inventory turnover, inventory has gone down from almost 5 months to 4.65 months. Current ratio has gone up because more inventory, more debtors and operating margin has shrunk a little from 8.36% to 7.66% and net margin has also gone down by 1.5% almost, 150 basis points and if you look at the consolidated ratio and consolidated numbers for the year as a whole, net revenue of 30%, EBITDA 13% up, profit before tax 29% as we talked earlier, profit after tax 5% up, EPS 5% up. During the year, the capital has also gone up. Promoters have subscribed to Rs. 2.8 crores shares which the warrants were there which we had subscribed, so capital hike gone up by 6% and Reserve & Surplus have gone up by Rs. 160 crores, that equity ratio is very minimal because we have no debt in the company and if we look at proportionately the return on capitals, so these have also been changing.

That is broadly the numbers and now I would leave the call open for the question and answers if anybody has any specific question, but before we step into that, but I would like to generally say that though the market has a few challenges, we have been able to maintain our market share. Even some time we have to compromise in the margins, but we have been able to garner the market share and growth and we hope to continue with the sustained growth in all the different segments and our focus remains on our core activities of API, devices, OTC, even though we have some growth plans on various sectors, but depending upon how the markets behave and how the investment criteria remains, so we are open to look for investment opportunities looking the best interest of the company, best interest of the shareholders that at what segments, at what return, how much should we dilute and what stage should we dilute, so we remain open, but we haven't closed any investment proposal so far. Thank you very much. Thank you very much for the patient hearing, so the call is open for the questions. Ananya, over to you.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Hiten Muchhala, an Investor. Please go ahead.

**Hiten Muchhala:** Sushilji, my first question to you would be that certainly we have grown in terms of revenue, but when it comes to operating margins, the operating margin for last two quarters have been consecutively falling. We have been maintaining operating margins of around 10-11%, third quarter was around 8% and this quarter is around 5%, are we compromising margins at the cost of gaining larger market share or increasing our business? The second question is that for this year, our EBITDA shows around Rs. 130 crores, but when it comes to cash from operations, it shows a negative Rs. 58 crores, so would like to explain me on this, where is the cash, how has it been adjusted in the business, why so much of difference here? And the third question is about the dividend, I think shareholders you would agree have waited for long many years, we have paid back all our loans and we are out of the woods, we are earning good profits, when do we expect dividend to get announced?

**Sushil Suri:** Thank you for showing interest and studying the numbers closely, so question number one, regarding the operating margins, I think like you said that is there any compromise on the margins, I would say that I won't use the word compromise, I would say that we have to be competitive in the market. The markets, obviously first two quarters are aggressive because of the pressure of the COVID, even though our API product, nothing is related to the COVID, but there was a pressure in the market. There was some sort of panic mind and people were sitting on the inventory, so people are gathering inventories, I would say and similarly, in the domestic market also if you would have noticed in the second wave, everybody was out of stock, retail was out of stock, everybody was little panic, people are buying, even when your domestic groceries you are buying in excess, but now what has happened is that market is overstocked. So, we have to give some time for the market to settle, but now as a company we have to maintain as a listed company, we have to maintain the revenues, we have to maintain the expenses, we have to pay the salaries, we can't say by the way we are waiting, now we are going for the sabbatical and on the other hand if we have taken say few years to develop our customers, sometime it take 3 to 5 years to develop a customer, so if the customer is wanting for a better price, if they are looking for our helps, we have to support them, so not that to gather more share, it is only in the domestic market in one product, in Montelukast the demand was high and of course the China prices were also high, supplies were also costly, the cargo was costly, shipments were costly, but here we had to continue the supplies because if we have to break the chain, somebody else will come in the market and we will be out of market. So, sometime, it is important to get market share, but many times it is not only but market share. It is only about the market dynamics. In case, the prices are increasing on imports, the customer is not going to increase the price in the same way. So, sometime there is a lack, so as a company we have to sit, we have to wait, but ultimately we service the customer. If we sign a contract we have to bother it. So, these are the few things which have affected the margins on one side. Secondly is that in the second quarter, in the third quarter and fourth quarter, if you might have noticed we have started making investment in the advertisement and marketing also, both in terms of medical devices also and Glucometer, BP monitors, we have started small base but not very high, so Mr. Boman Irani and with Kareena for our pregnancy items and of course another ad for the Glucometer also. So, we had 3-4 advertisements planned for the medical devices and of course in general since our domestic sales have gone up, domestic sales the margins are not very high. We would appreciate exports are our better margin and in export also our major margins come from our key products like Loratadine which are like 30 years old. So, there the sales was, if I was to compromise the sale was not there at all. First two quarters, there was no sale, we recovered something in the few quarters. There are 3-4 reasons, but I would say still it was important to maintain the market which we have been able to do.

So, coming to your second question, I think Ajayji would be able to refer better. Ajayji, on the EBITDA and cash flow you can take the call.

**Ajay Sharma:** Yes, regarding the cash investment, as we are doing more of domestic business, so our receivable are going high, that is number one and secondly, we are also building the inventories both in the diagnostics as well as the API segment, so keeping in view the supply chain constraint, so that our plans are running on schedule and we are able to deliver to our customers, so these are the two components which are basically we are investing our money into making supply line lubricated all the time. I think that is the investment into the business that will have effect in the coming time and then we are able to assure our customers that we can deliver them on time and as and when they demand. I think we are okay on this. Definitely, the cash is going into the business, but that will give future growth to us and we will have better margins.

**Sushil Suri:** Third point I think is dividend, so we fully understand and appreciate that like I shared with you that the first time we have started paying tax and it is in sufficient quantity, so obviously the next item is dividend, but technically we have little barrier still on the table. We are waiting for conversion of the preference shares of the bank, so till there is a default, technically it is a default and once we convert that we will be free to use our cash flows efficiently. So, even though we have set those profits now, so we are expecting approval from the stock exchanges any time, so once we get approvals, so in the forthcoming AGM, shareholder's meeting, it will be decided by you guys only that what should be the dividend policy. Certainly, we are getting ready for that, but I cannot give any forward-looking statement, but yes we are getting ready, so whenever the board decides and shareholders approve dividend would be declared.

**Hiten Muchhala:** Do I understand Sushilji that the operating margins will start improving from Q1 onwards of this year or will it remain at around 5% of Q4 levels?

**Sushil Suri:** Our Q4 certainly was at an appraisal, but all along I think in the previous quarters if I look at it, it has been 7 to 8, it has gone from 8 to 10, so obviously we want to quantity maintaining that, but it all depends how the markets behave, how the markets are behaving in the coming months, but so far so good, we do not see much erosion of the market, but certainly we will keep updating you, but we are confident that we will maintain the last year's average margins, not the Q4 margins.

**Hiten Muchhala:** And coming to the CFO's response to my question, I do understand that there would be slight increase in the inventory, but when I see the debtors, it doesn't show much increase in the debtors days, so I am not sure how exactly Rs. 130 crores of EBITDA is transferring into a negative Rs. 58 crores of cash from operations, I would like to hear a little more on this?

**Ajay Sharma:** If you see the outflow on debtor account, it is Rs. 68 crores and then followed by inventories of Rs. 100 crores. What I am saying is, if you see our two-item relating to the sales thing, one is trade receivable and second is the inventories. So, on inventories front, we are investing Rs. 100 crores more and the debtors it is around Rs. 68 crores. So, in our Rs. 168 crores is going out of EBITDA it is outflow from operation side, whatever we have done it is going primarily into these two things. I think that explains the primary concern that we are adding around 168 into these two items. I think that is the basic reason that.

**Hiten Muchhala:** Because these figures are quite high do we expect an improvement on this?

**Ajay Sharma:** We definitely have improvement because as in the first quarter, this inventory will definitely ease out in the first quarter and then we are sure that as well as debtors as well as inventory, both will have impact in the first quarter and the cash flow will release from these two items in the coming quarter.

**Hiten Muchhala:** And Sushilji, you wanted to say something?

**Sushil Suri:** Yes, I was saying that since the operating margins when you say from our cash from operations, exactly base that if we earn something from the operation, we invested something, so that figure is net figure that we earned X amount, we invested Y amount, so the net may be minus, so sometime the figures are not I would say as good to look at, but the fact remains that whatever we are earning is being invested, rather we have invested little more than that. And I would like to add that a point in the favor of the CFO that all these growth is coming without any working capital, we are proud to say we are a zero-debt company, we do not have any borrowings. Normally, what happens is in case our has grown by 30%, so there is an increase in working capital by 30%, if not 30, maybe 25%. So, our growth is a big constraint because we are depending only on the profits and that is why we do not have even less CAPEX because whatever we are investing that is going to the working capital. So, everybody has a question, where is the cash flow, cash flow is sitting in the working capital. So, ideally we should get working capital from the bank and we should not invest our hard-earned cash into the working capital, it should go to the CAPEX, but unfortunately because of our CDR tag because of our preference capital thing, banks do not encourage and we are also not in a mood to the heavy interest rates, but let us see how things go by. That is where when we look at growth strategy, we have to find a solution for the growing working capital needs also.

**Hiten Muchhala:** Sir, I take your point, and coming back to dividend, would you like to announce some sort of dividend distribution policy, now that we are getting quite close to announcing dividend perhaps very soon, it would be good for shareholders like us who have waited for so many years to see how, what is the kind of policy that we are looking at?

**Sushil Suri:** Hiten, I said that I will not be able to give a forward-looking statement, but.

**Hiten Muchhala:** No, it is not able forward looking, it is just about dividend, when would you like to think about dividend distribution policy at what level and when would you like to announce it?

**Sushil Suri:** In the coming AGM, once we are clear with our preference share matters with the bank, hopefully within this quarter, so before the AGM we will have a clarity that in case this preference thing is out of the table and we are free to distribute dividend technically, so we are I would say whatever board meeting after that we will take the call on the dividend.

**Moderator:** Thank you. We will move onto the next question that is from the line of Abhishek Bera, an Investor. Please go ahead.

**Abhishek Bera:** Hi, Mr. Suri good evening and congratulations to wonderful set of number. I have few questions like, are you confident on the 30% CAGR for the coming FY? Also I understand there are many APIs which are in pipeline, but what about the diagnostic business, what is your growth story there for the next FY if you could enlighten on that?

**Sushil Suri:** Of course, on the medical devices as I shared earlier, our core business in the medical devices is still Glucometers and BP monitor and the major growth had been coming from these two devices only and other products whether it is oxymeters, oxygen concentrator or nebulizers, these contribute hardly 10% to the profitability, 10% to the revenue. Since the core business and the medical devices still come from Glucometer and BP monitor, I would say for next at least 3-4 quarters, so the major growth would come from BP and Gluco only, of course BP monitor we have had a huge growth this year, but 33% jump in the installation of BP monitors and 54% in the glucomonitor, but certainly we are adding more products which we already have on the scale, but actually we have to see the production line, we have to see the capacities and of course the licenses, so nebulizer license we are still working, already we have a product in the weighing scale, air purifiers are there and another few lines which are not disclosing like that but you will see in the market, may not this June quarter, may be in September quarter you will see those. So, I would say, products are there, but 90% topline is still from these two products. So, I won't give you much hopes about any other products in one or two quarters.

**Abhishek Bera:** So, successfully, would you be exploring international market other than India in next FY?

**Sushil Suri:** Yes, Abhishek, international mark is on the card and if you remember we talked in previous call that for international market we have to go for a fee certification of the facility which is equivalent to the ISO 13485 which we already have, but for international certification there is an audit. Because of the COVID, the international audits were stopped, not happening I would say, may be anytime now since the markets are opening, travel is opening, if the audits are open, our facilities are ready, anybody can come and inspect the facilities. So, once we get a fee certification, we can export to practically any market, whether it is Australia or whether it is South Africa or it is Bangladesh or Cambodia or Vietnam, so we are open to that, but it will take I would say at least 2 to 3 quarters before we start again export business. In actual sense, we are exporting small quantities to Nepal, where no approvals are required, India stand is okay.

**Abhishek Bera:** Sir, I have another question that Sitagliptin is going out of patent, I think in June, so should we see that Sitagliptin getting added to the product portfolio this year itself or it is going to take more time?

**Sushil Suri:** Abhishek, since product is still under patent and we are talking, so I won't comment much, but I would say that it is going off patent in July and we are free to sell after July and we already have technology, we already have processes, we already have tie ups, but since product is in at patent, so I would like to keep quite.

**Moderator:** Thank you. The next question is from the line of Ranvir Singh from Sunidhi Securities. Please go ahead.

**Ranvir Singh:** Sir, just a broad question because for last 2 years, FY21 and FY22, we had elements of some abrasion in performance due to COVID, so we lost somewhere, we gained somewhere, now in Q4, visibly the operating profit margin is very relatively weak, so just I wanted to understand is going forward in each of segment like API, the formulation and medical devices business, how the growth is likely to pan out, now it is open ended and answer may be a little longer, but just broadly I wanted to understand what kind of revenue growth we should take on a consistent and recurring basis and what kind of profit margin, though you explained some average profit margin will continue, but if you could give just a little longer for next 2-3 years, what is our target where we want to go?

**Sushil Suri:** Ranvirji, I must appreciate that it is a very balance and very matured question that exactly what is happening and where are we leading, I think at my table also this is the same question because quarter-on-quarter, month-on-month, there have been questions, there have been answers and we are all focused on quarterly numbers and being a listed company there is a lot of pressure to perform on quarterly basis, but if I look at the macro picture, I would say health as a scenario and pharmaceutical as a business, these both things are rocking, everybody is conscious about health, government is conscious about health, our family is conscious about health, your employer is conscious about health, your neighbor is concerned about it, everybody is concerned about it. So, health business, pharmaceutical business is going to stay, it is going to grow, it is growing exponentially. Rather, I would say from a pharmaceutical, the more word has come in healthcare, health services, by the digital services, hospital services, pregnancy, delivery and even the so-called fertility market, everything is booking. So, therefore we do not see any downfall or shortfall in the market per se. Now, the question is only of these quarterly logistics or quarterly maths because business doesn't work on the so-called long-term thing. Long term we are working on API, we are working on power integration, new segments to be added, export of API, ANDAs to be filed, 100 things we are working, but for quarterly numbers, I would say maybe it has taken 2 quarters for the business to stabilize, it may take one or two quarters more for the numbers to come back to the growth we want. So, that is the hard fact that it may take one or two quarters more for the numbers to stabilize, but long term, everything is good, this business is not going to die, it is increasing, it is expanding, exports is increasing and particularly where the vision of our Prime Minister, Made in India story, Make in India story and the PLI schemes, I think we are the pharmacy of the world, we are the hub of the world to export. Whether it happens in one year, whether it happens in 5 years, they are going to rule the world on this pharmaceutical space, so that is the broader view and coming specifically what products we will add, what number we will add, I would say this is the rat and mouse game, we will keep on playing, markets will keep on reacting, competition will keep on coming, you would notice that all the large groups of the country, everybody is opening healthcare sectors, pharma is getting into pharmacy, somebody is getting into hospital, somebody is getting into digital spaces, so that is a very encouraging news for us that it is happening. Earlier pharma sector was a very quiet sector. Now, it is happening. That is the broad state.

**Ranvir Singh:** And another one, on warrant side, when the remaining portion of warrant we are planning to convert?

**Sushil Suri:** Ranvir, we have time till I think middle of September, since this is an 18 month window, some warrants were to be closed before March, we had subscribed to that. We have window till September, so any time before September we will do that.

**Ranvir Singh:** And that would be utilized for, because you do not have any major CAPEX, so where that money will go?

**Sushil Suri:** It is primarily working capital only because we are not as I shared earlier that we do not have any bank loans and we do not borrow working capital from the bank. Whatever growth is coming that is coming from our internal accruals and or whatever capital we made, but there is an ongoing CAPEX also, but I would say this will get divided between CAPEX and working capital.

**Ranvir Singh:** And what is the contribution of Fexofenadine in this quarter?

**Sushil Suri:** I do not have product wise number with me but may be around 14-15 crores.

**Ranvir Singh:** And that would be entirely in domestic market, right?

**Sushil Suri:** No, Fexofenadine in the export, because we got US FDA approval in November, so export has started this quarter, 70% is export. We usually do not give product wise number because these reach to the competitor, so we try to give broad means of commodity.

**Ranvir Singh:** No, just right sir, because this is an important product and we have 2-3 more products in pipeline in this side, so I thought may be?

**Sushil Suri:** Yes, from a product point of view, we try to contain whatever information we can share, but we have to keep in mind that what information is sometime good for competitor also, so try to save that information, but in our internal presentation, if someone comes to our office and one on one, we can share that.

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

**Sushil Suri:** I would like to thank everybody for interactive presentation and interactive session and thank you asking these interesting questions. We look forward to seeing you soon in the next call. Till then, just stay healthy, stay safe and I would only repeat like every time, COVID is here, please wear mask, maintain social distancing. Our life is important, life of all our colleagues, partners, family members is important. Take extra precaution. Thank you very much.

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