



# Marksans Pharma Ltd.

Date: 19<sup>th</sup> February, 2021

**BSE Limited**  
Corporate Relation Department  
Phiroze Jeejeeboi Towers,  
Dalal Street,  
Mumbai - 400001.  
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Exchange Plaza, C-1, Block-G,  
Bandra-Kurla Complex,  
Bandra (East), Mumbai - 400051.  
Symbol: MARKSANS

**Sub: Outcome of the conference call held on 10<sup>th</sup> February, 2021.**

Dear Sir,

This is further to our letter dated 8<sup>th</sup> February, 2021, regarding intimation of schedule of conference call held on 10<sup>th</sup> February, 2021. We enclosed herewith the transcript of the said conference call.

You are requested to note the above in your records.

Thanking You.

Yours faithfully,  
For Marksans Pharma Limited

Harshavardhan Panigrahi  
Company Secretary

Enclosed as above.

**Marksans Pharma Ltd.**

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“Marksans Pharma Limited  
Q3 FY2021 Earnings Conference Call”

February 10, 2021



**ANALYST:** **MS. CYNDRELLA CARVALHO – CENTRUM BROKING LIMITED**

**MANAGEMENT:** **MR. MARK SALDANHA – MANAGING DIRECTOR – AND CHIEF EXECUTIVE OFFICER– MARKSANS PHARMA LIMITED**  
**MR. JITENDRA SHARMA – CHIEF FINANCIAL OFFICER – MARKSANS PHARMA LIMITED**



**Moderator:** Ladies and gentlemen, good day and welcome to the Marksans Pharma Limited Q3 FY2021 Earnings Conference Call hosted by Centrum Broking Limited. This Conference Call may contain forward-looking statements about the company which are based on the beliefs, opinions, and expectations of the company as on date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. 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 “\*” and then “0” on your touchtone phone. I now hand the conference over to Ms. Cyndrella Carvalho. Thank you and over to you, Madam!

**Cyndrella Carvalho:** Good evening everyone. On behalf of Centrum Broking, I, Cyndrella Carvalho, welcome you all on Q3 FY2021 earnings concall of Marksans Pharma Limited. I take this opportunity to thank the management of Marksans for giving us this con call to host today. From the management team today, we have with us Managing Director and CEO – Mr. Mark Saldanha, Chief Financial Officer – Mr. Jitendra Sharma and Christensen’s IR Team. It is our pleasure to have Mr. Mark today on this call. Now I hand over the call to Mr. Mark for his opening remarks. Over to you Mark!

**Mark Saldanha:** Thank you Cyndrella. Good evening friends. Hope you and your families are safe and doing well. It is my pleasure to welcome all of you to the Q3 FY21 earnings call. I am delighted to be addressing the investors on our quarterly updates and outlook going forward.

It has been a challenging but exciting quarter for our company. Maneuvering through a pandemic is something no one prepares for but yet one needs to adapt in order to sustain and survive. The speed at which our company can achieve that will finely define the capabilities to grow and strive in difficult times. I believe our company’s performance for the quarter says it all. It shows our strength, our capabilities to adapt and deliver and most importantly the robustness of our business model in challenging times.

Marksans has a very differentiated business model as compared to most of the standard Indian pharma companies. When I say differentiated I mean in terms of outlook, strategy and implementation. The success of which can be measured from how we evolve from ground zero to where we are today, a solid foundation and presence in the toughest and largest regulated markets. Unlike other company’s we differentiated ourselves by venturing out to the Western regulated markets and creating platforms which are at par or may be even better than some of the top 10 companies. This is what I call creation.

Our biggest markets are the US and UK which contributes 85% of our revenue while 10% comes from Australia. We have manufacturing facilities spread across three continents in India, UK and US offering a variety of dosage forms including tablets and sustained release tablets, liquids, ointments, and softgels. We service variety of therapeutic segments that address lifestyle disorders. I believe we shared all this information in our investor presentation.



Our ongoing investment into our front end gives me confidence that this performance is only a start and there is more to unfold which will secure our robust growth. The first nine months, we have done a revenue of Rs. 1,046 crores and if one extrapolates the trend of the last three quarters and plus Q4 we can safely say we are on the path to reach close to 1400 crores in this financial year. We have a robust business model which will ensure growth in the coming years and I do believe the outlook is strong and visible for our company to achieve its next milestone which is Rs 2,000 crores in the next few years.

With this, I would like to hand it over to Jitendra to dive into the financials before we can start the Q&A.

**Jitendra Sharma:**

Thanks Mark, Let me begin with our quarterly highlights. Revenue from operations for the quarter was Rs.358 crores which was a growth of 24.6% on year-on-year basis. EBITDA was Rs. 91.1 crores. This translates to an EBITDA margin of 25.4% which was 897 basis points improvement over the corresponding quarter. Profit after tax of Rs. 58.9 crores showed a 99% improvement year-on-year. PAT margin for the quarter was at 16.6% an improvement of 632 basis points on year-on-year. EPS for the quarter was Rs 1.42 as against Rs 0.71 in the corresponding quarter.

On a nine-month basis revenue from operations for the 9MFY21 was Rs.1046 crores which was a growth of 30.9%. EBITDA was Rs.244.2 crores. This translates to an EBITDA margin of 23.3% which was 795 basis points improvement. Profit after tax of Rs. 159 crores showed a 103.9% improvement. PAT margin for nine-months was 15.2% an improvement of 543 basis points year-on-year. EPS was Rs 3.83 as against Rs 1.86 in Q3 of FY2020.

The cash and cash equivalent in the books was Rs. 195.6 crores as of December 2020. We continue to remain debt free and our free cash flow of December 2020 was at Rs. 91.3 crores.

I am happy to state that our EBITDA margin over the last five quarters have been consistently increasing. This has translated to the PAT margin also increasing from 10.3% in Q3FY20 to 16.6% this quarter. The improvement in EBITDA margin is due to variety of factors; increase in revenue coupled with operational efficiencies and improving product mix are some of the key factors.

As you all know, we became debt free in Q4FY20 and hence our interest burden has drastically reduced, and this gets reflected in our PAT margin also. The balance sheet ratio also has shown a steady improvement. ROE which stood at 2.6% in FY17 closed at 24.5% for the nine months ending December 2020. Return on capital employed also showed a similar trend improving from 3.2% in FY17 to 31.6% currently.

The outlook for the coming quarters remains steady and I am confident that we will be able to continue the momentum as we move forward.





With that, I would like to throw open the floor to Q&A. Thank you.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ayush Mittal from Mittal Analytics. Please go ahead.

**Ayush Mittal:** Good afternoon Sir. First of all, congratulations to the team to deliver substantial improvement in performance of the company over the last two three years and it is also good to see a concall being conducted and Mr. Mark being present. I have few questions, first, given this substantial change in the numbers wherein our turnover has doubled in the last five years and our profit has grown multifold, I would like to have a quick commentary wherein if you can share with us what has been the key steps which were taken for such a substantial improvement for the company to happen, if you can share some incidences or some strategies that we adopt which got a such a big change also the kind of margin profile we are seeing today is substantially different from what the company has had over last five years to seven years, so what makes you confident that the current margin profile profitability might be sustainable largely, broadly going forward, what are we doing towards that and why it should get sustained, that is my first question?

**Mark Saldanha:** Basically the key steps that we actually took is it is not so much as key steps, it is our business model that is unfolding as we mature into a market, in the pharma space we need to invest a lot and we need to invest today to see returns after couple of years, it does not happen overnight and that exactly what has happened. We have pursued our business model, we have kept faith in the business model and as our business model is unfolding we are maturing, we are growing in territories and markets, definitely our acquisitions that we have done in various countries including the US, the integration was complete so obviously we saw better result and better value addition once integration was complete in the US, so all these factors basically contribute to what you see today in terms of penetration, in terms of product portfolio expansion, in terms of product mix happening and obviously in terms of integration that has been done with our front end companies. In terms of margins basically obviously once as our revenue grows and are as our sales grow operating leverage kicks in and profitability increases and it is much more stable once you achieve that magnitude of sales. So, we do anticipate that the profitability will have much more consistency than the previous years.

**Ayush Mittal:** When we look at your company versus the peers, you say that I have forward integration in the developed markets that is what most of the other company also have, also when we talk about the margins, that there has been a substantial increase in the gross margin while our R&D investments are very low, so how do you compare with the peers wherein our investments seem to be lower but our margins have improved quite a lot and how will this unfold going forward?

**Mark Saldanha:** I think in terms of margins and peers every company has a different business strategy, business model, we have a mixed basket of molecules obviously we have some very commoditized or time tested molecules but we have another set of basket which are very niche molecules, so I think it is a combination of many things that arrive to what you see today but it is also the success story of what we have done over the years in terms of investment, in terms of pursuing inorganic



growth strategies as well as integrating successfully with our front ends and we have seen success, we have seen growth, we have seen market penetration in basically what we have done so that is differentiated us and obviously we are like in the beginning of my speech, I did mention these are our strengths, these are our differentiation points where we basically launched our companies in the Western market at a very early time and these are markets that we have well aware and well versed with so basically our understanding of the market is good. Our basic business model is quite robust because of the mix diversified portfolio, the product mix that we have and combination of both niche molecules as well as time tested molecules.

**Moderator:** Thank you. The next question is from the line of Viraj Mahadevia, Individual Investor. Please go ahead.

**Viraj Mahadevia:** Mr. Saldanha, congratulations to you and your team on fantastic results. I just had a couple of questions, one is can you give us sense in terms of the detail when you entered the US market, how many products did you have then, how many customers or touch points did you have back then and fast forwarding to today, how many do you have today, so just given sense of where you are in a market like that and what your evolution has been?

**Mark Saldanha:** We actually entered the US market somewhere around 2010-2011 and our business model was different at that time although we filed our ANDAs by the time we commercialized and launched it might have been 2012. During those days, our business model was pretty much supplying bulk to the US market, and it was then repacked by importers and distributed on their labels. We had never had a front end, so obviously while our products evolved in the US market many people were not aware of us because we did not have an identity at that time. In late 2015, middle to late 2015 we acquired Time-Cap Labs in US and obviously we pursued our belief and our business model of going direct to the consumer or to the source of sales and that is where we started integrating the Time-Cap and basically creation of our own labels and creation of our identity and then moving into the retail market as well as tapping on clients, so if one has to look at how we have evolved definitely we have evolved from you could say from CRAMS strategy to an independent strategy and today we are quite widespread, we have products in all the three retail outlets, all the three major outlets if you could think of an Rx as well as in OTC all the big clients obviously during this space US markets have consolidated because basically over 90% is controlled by three major wholesalers and that consolidation happened only post acquisition so we have a range of clientage both like I mentioned in Rx as well as OTC and we are in the top clients so definitely in terms of clients there is no comparison to how we have started, so we have evolved as a full-fledged company. We are trending today in the US 600 crores but based on the trend we should be touching very close to US\$ 80 million in US and our present order book status is very close to \$100 million if one looks at it, so for our next year we are starting at a very strong order book status.

**Viraj Mahadevia:** Fantastic, you essentially evolved from like you said CRAMS, backend India manufacturer no front and presence or brand to operating under the Time-Cap's label which has relationships, logistics, warehousing and manufacturing and then finally taking greater share of wallet of your



existing customers, what is your next step from here, is it more products and a greater bouquet to existing customers, is it greater share of wallet of existing customers, is it new customers that you have not tapped where will the other growth engines come from in US?

**Mark Saldanha:** It is pretty much everything that you spoke off because the US market is huge. We have not even scratched the surface, so when I say because our product portfolio is obviously expanded also we have nearly about 50 odd products in the US market but none of the products that we have are anywhere close to what I would say or what I would like to boast having a substantial market share so we got a long way to go to in terms of market penetration and market share which in a way gives us confident and hope that definitely we have potential of basically growing within our portfolio and then definitely new products coming in will add the icing to the entire kitty.

**Viraj Mahadevia:** Right, the UK market you recently came out and there is a shortage of critical products on reserve by the UK government, products such as Paracetamol and Ibuprofen, given that they are positioned with an entity in UK with manufacturing on the ground with backend supporting India, are we sort of playing to cater to those tender opportunity to the UK government which can be fairly sizeable in some of the product categories including Ibuprofen and Paracetamol?

**Mark Saldanha:** We are very active in the UK market. UK was one of the few countries where again we have evolved from a CRAMs to a vertical integrated company over there. We have two front end companies, one is Bells which is prima facie into the OTC market and as a manufacturing plant which caters to liquids being there for over a century and half when we acquired it, so definitely great brand equity, reliability and obviously we have Relonchem basically caters to the high end Rx business model. Presently, we are trending at some around 65 million pounds and we are ranked amongst the top five Indian companies in the UK market, so we do have substantial presence, great depth in terms of M&As and product portfolio and market penetration and we are the preferred choice in terms of suppliers out there in the UK market.

**Moderator:** Thank you. The next question is from the line of Sunil Kothari from Unique investments. Please go ahead.

**Sunil Kothari:** Thanks for opportunity and a lot of thanks to Mr. Sharma and Mr. Saldanha for being on call and first time you are doing this concall with the investors and hope you will be continuing with its practice because it is using so much clarity and confidence about strategy the way Mr. Saldanha has explained the journey so far. Great and congratulation for this. My question is on this capital allocation policies, we have up to now grown by acquiring different marketing set up front end companies and so what will be your next three/five years strategy, will it be making ourselves a backend stronger R&D stronger and using existing front end or will be again some bigger or may be sizeable acquisition, so some thoughts of yours for next three-five years point of view will be very helpful?

**Mark Saldanha:** That is a very good question. Actually, we have a plateful as far as that is concerned. We do plan to invest into all the areas that you spoke about R&D specifically but more than R&D we are in





investing into capex, into infrastructure, into expansion of our capacity so as to meet with increasing demand, so these are factors that we are looking at and we are exploring very seriously and working towards this. We are also looking at backward integrating ourselves on key molecules into API, so definitely capex has been allocated towards that too and then inorganic strategy is something that we cannot predict but we have always pursued it as and when an opportunity comes at the right value.

**Sunil Kothari:** Great Sir. My second question is I think our US operation is now reaching profitability or reasonable or acceptable margin because of the very high fixed cost, so I think we were expecting in a year or two years, US operations giving profitability like UK operation, so how in those journeys we are and as we progress, we have reached from \$80 to \$100 million, how it will unfold, if you can share some thoughts?

**Mark Saldanha:** Definitely you are spot on there, you talk about cost being high, so when costs are high, it is important we drive our growth and once you reach that magnitude then operating leverage kicks in and as your sales grow higher then your profitability definitely goes up, so we are very optimistic and positive on that part.

**Sunil Kothari:** Thank you Sir. I wish you very good luck.

**Moderator:** Thank you. The next question is from the line of Prashant Shah, individual investor. Please go ahead.

**Prashant Shah:** Congratulations on excellent set of numbers. One of my questions has already been answered regarding capital allocation. Just across our existing facilities what would be the approx. capacity utilization that was one question. The second question is in terms of working capital, if you can throw some light on where we are, I mean in terms of cash convergence cycle, what days are we standing and what is the target going forward?

**Mark Saldanha:** In terms of capacity utilization Prashant, we are at 70% capacity utilization, but we are one step ahead, we are in a continuous process of investing into capex and growing our capacity as we speak, we are increasing our capacities in pretty much all our plants, so investments are going on and we will be ensuring there is enough capacity, to fuel our next year's growth. In terms of working capital, I will just hand it over to Jitendra to explain to you the micro details of that.

**Jitendra Sharma:** Our current working capital cycle is of 120 days and definitely I think this is amongst the like a better optimal cycle which we can have because of the front-end distribution model we need to keep higher level of inventory, we need to service our customers, they keep being honest to us and we need to ensure that we deliver in time and there are no delays or defaults in our service levels. So, we need to ensure that we have sufficient level of inventory at our front ends. In terms of manufacturing also, we manufacture a large part in India, we export to our subsidiaries, so our overall working capital cycle is a bit longer, and it is at present 120 days.



- Prashant Shah:** Thank you Sir and just a suggestion, going forward if you can put EBITDA to cash flow conversion in your presentation that would help and wish you all the best for the coming quarters.
- Moderator:** Thank you. The next question is from the line of Pratik Kothari from Unique AMC. Please go ahead.
- Pratik Kothari:** Thank you for the opportunity. Just one question regarding the capex plan that we mentioned, any numbers that you can share with us for next one year or next three years?
- Mark Saldanha:** Let me give you a forward-looking statement where we plan very close to Rs. 2 billion in terms of capex in various forms of expansion growth that we spoke about including backward integration into API.
- Pratik Kothari:** This is your next three years?
- Mark Saldanha:** Yes, next three to four years.
- Pratik Kothari:** Rs 800 crores is what you said?
- Mark Saldanha:** No, 2 billion that is Rs 200 crores.
- Pratik Kothari:** Yes, fine. Thank you, Sir. All the best.
- Moderator:** Thank you. The next question is from the line of Ratheesh, individual investor. Please go ahead.
- Ratheesh S:** Good evening Mr. Mark and Good evening Mr. Jitendra. I am speaking on behalf of the scores of Retail Investors I believe. I have a couple of queries. The first one is like you have mentioned in your investor presentation that around 23 ANDAs are filed till date and also that around 4 to 5 new products will be launched in the US market in the current financial year itself also 6 new approvals are awaited in US, 20 new ANDAs filed in UK etc., can you tell us about this status of the approvals whether we could hear some good news anytime soon may be FY20- FY22 itself?
- Mark Saldanha:** We are expecting few approvals in FY21. Obviously, we expect approvals every year. Timings we do not speculate on because we do not have much control on the timings and that is something that we try to avoid but we do expect approvals coming in towards fag end of this year and obviously mid of next year. In UK, the same situation definitely the COVID, the pandemic situation slowdown happening at all levels of people and processes but we do anticipate it going as per prediction and we do expect our product portfolio to grow in the next three years.
- Ratheesh S:** That's a good news, that approvals also coming this year itself. One of my questions was already answered. It was regarding the inorganic growth plan. My second question is also more concerned and about the investors retail investors especially because whenever we see that the results are good etc., it is not actually reflecting in the share price because we know there are so



many markets dynamics, market players factors coming in but it is also felt that there is some excess amount of free float, so whether the management has any plan to reduce the free float through some buyback or possible reverse payment etc., so that we improve the investors confidence in the stock, I am speaking mainly about the retail investors?

**Mark Saldanha:** We are not averse to buy back but frankly we would allocate these funds or reserve funds only once we achieve objectives of our growth strategy in terms of, we have to invest into like I mentioned capex. So, that will fuel growth eventually if we have free flow cash lying with us and at that particular time un-utilized then definitely we could explore that but today we got our plate full in terms of all our facilities are at 70% utilization so, our first priority is to expand manufacturing capabilities to ensure we fuel the coming years and the coming demand growth, and obviously we have like I mentioned earlier we have other plans to invest capex in. That if definitely we have reserves which are being un-utilized, we can always explore it at that time.

**Ratheesh S:** Okay, thank you and final question is whether Marksans has any conclusive deal or tie up or in any intention to manufacture market COVID-19 vaccine?

**Mark Saldanha:** No, presently no we do not make any vaccines we are into solid oral doses and liquids, so we are right now not into injectables or vaccines.

**Ratheesh S:** Thank you. Thanks a lot and all the best.

**Moderator:** Thank you. The next question is from the line of Sachin Kasera from Swan Investments. Please go ahead.

**Sachin Kasera:** Congratulations on good sets of numbers. One of things you mentioned regarding the capital allocation was acquisition so to pass to that question, Firstly what the areas are we are looking in terms of acquisition, geographies, capabilities, ticket size, and secondly last time when you were at that time to acquisition it took us quite a bit of time before we could get it integrated and we could finalize the results. So, are we going to ensure this time that the acquisition pay back is much faster and the time taken to turn around to do it is much easier?

**Mark Saldanha:** Like I mentioned today in acquisitions we do not have any thing outlined in terms of target to discuss on. In terms of capex, I have already explained couple of times where our capex allocation and priority remains. In terms of acquisition our inorganic growth strategy as and when we do get an opportunity that comes across, we would definitely look at it at that particular time. Going from our past history an acquisition would always take time, they always come with different requirements or different challenges and I guess integrating our business model with the target and with whatever we do acquire takes it as to unfold within the due course of time because there are regulatory approvals, there are different complexities that we have to overcome. So, we have definitely some of our acquisitions have taken nearly five years to actually see returns because of various reasons and some have given returns within three years or three year to four years. So, I think it is to be realistic that one should look at a horizon of





minimum three years to five years if we ever go down the road of an acquisition but today our capex is more focused on to enhancement of capacity gives basically quick returns.

**Sachin Kasera:** Sure, but are there any specific gaps that you are looking to fill by acquisition either in terms of some front-end presence or certain technical capabilities and is it in ticket size that you are looking at that, this is the ideal ticket size that you are looking for the acquisition?

**Mark Saldanha:** So, since we do not have any acquisition on our plate it is difficult to answer that but if we ever go down the road, we will look at expanding geographies or facilities. But as on today we do not have any big ticket, and we have never done any big ticket deal, so we do not go down that floor of big ticket deals we are very conservative as that is concerned.

**Sachin Kasera:** Sure. Thank you.

**Moderator:** Thank you. The next question is from the line of Ritesh Gandhi from Discovery Capital. Please go ahead.

**Ritesh Gandhi:** Hi! Sir, and congratulations on your numbers. Sir, I just wanted to get an understanding as to the amount of capex we are expecting to do every year versus next two years and in terms of your internal hurdle rates either in terms of net payback, equity IRR, ROCE or any incremental expenses like capex that you do, and is it going to be the green field or is its brown field. Just give us some indication.

**Mark Saldanha:** So, we are planning to invest around Rs.50 crores to Rs.60 crores a year, pay back is we are looking at a year to year and a half in terms of what we are planning. Today, we are not exploring green field projects because it is time consuming and it takes too long and it has to overcome various hurdles. So, our first approach is to expand the existing facilities. We will automizing, modernizing, construct and expand the facility in whichever way we can, to take care of the next two years requirement. Definitely if an opportunity does come by in terms of pursuing or acquiring of facilities, we always explore that because that will basically take care of the next five years of our requirements.

**Ritesh Gandhi:** Correct, thanks that is helpful. The only other thing is that look we have got Rs.200 crores of cash on book. We are generating a large amount of free cash flow and given the capex is also not a reasonably a large amount and with regards to M&A at least the typical suggestion would be that the cheapest available in our view would be your own stock given the price at which your stock is trading. So, you could just may be consider a buy back, that's just a suggestion. Thanks and all the best.

**Moderator:** Thank you. The next question is from the line of Venkata Subramanian from Organic Capital. Please go ahead.

**Venkata Subramanian:** Thanks for taking my question. One is question regarding our cash flow generation along the lines of previous question. We have may be something close to about Rs.700 crores – Rs.800 crores possible cash generation over the next four years – five years, only Rs.200 crores out of which actually is going towards capacity building etc., so, what are the four-five opportunities that you would see, I mean having ruled out any inorganic opportunities just now. What is the four-five priorities that you have just now?

**Mark Saldanha:** I have not ruled out any inorganic strategies because like I said nothing is on our plate right now and it is obviously, we would like to build a virtue to pursue in all kind of strategies at the right time on the inorganic model of the lifetime. But inorganic strategies can even involve in terms of acquiring a facility or obviously a company would be a wishful thinking at the present with this COVID situation, but the fact still remains that you are right the Rs.200 crores odd is going into various capex, R&D and different things that we always mention. At that particular time, I am sure we would evaluate our requirements in terms of infrastructure if our growth will overshoot our expectations and our capacity evaluation has to be done at the right time and if we have that much of reserves at that particular time, we would definitely push into an inorganic strategy to again pursue our global vision.

**Venkata Subramanian:** Sure. Now, cash flow apart what are the four-five priorities that you have for the next four – five years?

**Mark Saldanha:** Anything is a priority for me. Obviously, my next goal is basically to see us achieve our next milestone like I mentioned, and I do believe the visibility and the roadmap is that for that to happen. It is easier said than done we need to invest into infrastructure into various things to make sure that we basically are equipped to not only hit the milestone but move beyond that because in the pharma industry you got to invest today to see returns after three to five years. So, we have to now look at beyond our next milestone as to the growth part and the growth strategy that we need to do in which markets and how we have to go out there. So, it is lot of discussions are, lot of thought has gone into the next phase of where you would like to our company to be and that would obviously need deeper pockets because we are expanding at a faster pace. We did whatever time we took to reach Rs.1,000 crores in one-third of the time we plan to be Rs.2,000 crores so, that requires a lot of resources working capital everything that goes into actually ensuring that we achieve these numbers. So, right now we would in terms of priority our first objective is to get into capex to fuel our next two years growth and obviously strengthen our sales and distribution to ensure we get market share and at the same time fuel our R&D pipeline so that we can actually launch products may be two years down the line or three years down the line.

**Venkata Subramanian:** Mr. Saldanha, I hope you realize how much your presence helps in a conference call and I hope you do realize how much good it will do for everyone to do this on a quarterly basis. I hope you will keep this going.

**Mark Saldanha:** Thank you.



**Moderator:** Thank you. The next question is from the line of Shikhar Mundra an Individual Investor. Please go ahead.

**Shikhar Mundra:** Sir, congratulations on a good set of numbers. So, most of my questions have been answered. Just wanted to understand about the margins like how does we achieve with such margins 25% because if I compare it with peers, I think our company in the pharma space reigns at margins typically have a very high R&D spend and how did we manage such margins with I think the OTC products we have and how sustainable are they?

**Mark Saldanha:** So, like I mentioned in my earlier discussion is the mix basket of everything. It is we have some niche molecules in various countries that obviously help us in terms of the margins. Obviously, we have low manufacturing base also we are operating leverage that has kicked in and I must give some weightage to the COVID situation where we get better price realizations also and this is also coupled with cost reduction or price correction of raw materials especially, we have seen in some price correction happened in one of the raw materials of Ibuprofen which has come down from its old highs. So, definitely this has nearly about 20% - 25% it has added on to the profitability. So, it is basically everything put together is we are seeing a favorable profitability right now.

**Shikhar Mundra:** Alright, and regarding capex I understand our target is around Rs.200 crores in the next three year to four years. So, how much of this will be for backward integration making API's or is it this entirely for the formulations part of the business?

**Mark Saldanha:** Right now, we have allocated a very small portion for the backward integration around Rs.50 crores odd but we may need some more at a later time. So, we are still at a very early stage where that is concerned.

**Shikhar Mundra:** That is, it from side. Thank you.

**Moderator:** Thank you. The next question is from the line of Shyamal Patel an Individual Investor. Please go ahead.

**Shyamal Patel:** Good evening Mark. Good evening Mr. Jitendra, I am one of you share holders from a long period of time and I obviously feel that you must not be happy with the share price which is going on like me. When the EPS is 2.5 I could see the share price at 110 and now the EPS between 5 to 7 and I am seeing the share price at Rs.50 despite robust results. Do not you think a good enhancement like promoters holding are being increased or a good dividend policy? Because even with your capex at Rs.200 crores or even if you add a little bit of debt which is not a problem at all in my opinion, having done the set of business & debt free and would. But having a little bit of the active increase in the profitability and the turnover of the company basically share holders would be happy. The proof of pudding houses lies on its eating mark till we do not get the pudding and we taste it whatever these questions all are good, everything is best, everything is nice, your theme is even very good, your company is even very good with





everything being good why then not being reflected in the share price. The minimum share price which I could see from my opinion being an investor from the last 45 years, I would like to see the share price at Rs.117-Rs.118 based on these Monday's results such things I am not seeing. So, just help me my understanding I am going wrong somewhere?

**Mark Saldanha:**

Obviously, our focus Mr. Patel was basically to grow the business, to fuel the business, to ensure the fundamentals speak for it, while you are right in terms of comparison of the previous EPS versus the multiple previously versus today. The multiples were ahead of its time today we are not selling dreams we are selling reality so; I think the facts speak for itself which is good that you have noticed it. In terms of correction in price I cannot actually say much about this because I do not have a lot of control on that, but I guess the market will need time to evaluate it and it will correct it by basically looking at fundamentals and it will be at peer, but you have got to just give it some time I would assume. Beyond this we do not want to be looked into as a company that will get into something patched up. But I think the fundamentals will speak for itself investors will take note for itself and you will see a correction happening in the prices when then that unfolds. We just need to give I guess investors time to digest all that.

**Shyamal Patel:**

Yes, but you did well, but you do not know what investors are passing too, it is good you have good thought for your investors but what when they see the markets in our Mark it is you do not understand tears keep on flowing like a river and still nothing happens. I keep on seeing everyday that when you will make an announcement you had made an announcement 16 years back when you bought the shares of Marksans in at 120 if I remember correctly. I was waiting for a time say okay, you could even do this it was not that you could not do this. I was waiting for a time when you could be declared dividend of 25% on your profits, it is not much it is nothing even if you have to borrow to give dividend every company does that. It is just the investors, once you see in the eyes of the investors Marksans will be a totally different company marked. I am holding for six years, I have talked to you even about this, I feel very sorry Mark I feel very sorry with that Robust numbers every day at night I sleep to see a good opening tomorrow and I see the stocks being back to their normal. Nothing comes of Mark I try to console myself; I try to control I cannot control if it were not doing well and if I have told you something, I could have understood that the company itself is not doing. I waited for the company to do well and when it did do well nothing the share holders got. When the market goes up Marksans comes down, when the market goes down Marksans down, when the pharma index goes up Marksans comes down, when the pharma goes up Marksans comes down.

**Mark Saldanha:**

Shyamal, since this is quarterly discussion, I am sorry I share your feeling in terms to whatever level, but honestly, I do not have much control on that. But if you can discuss on numbers or fundamentals or the company performance likewise, we said we are doing well. I really do not know how to address that question of yours because it is something that we think about it is something that will unfold by itself.

**Moderator:**

Thank you. The next question is from the line of Manoj Jacob an Individual Investor. Please go ahead.



- Manoj Jacob:** My questions are answered. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Kapil Bhat an Individual Investor. Please go ahead.
- Kapil Bhat:** Hi! Thanks for arranging the concall and thanks for the opportunity and congratulations for a very good set of numbers. Most of my questions are answered, just I have few questions. So, in the last four quarters our revenue has not increased in a which been stable of like about Rs. 340 crores – Rs. 350 crores. So, can you give some guidance on the revenue for next few quarters and can we say confidently that we can maintain the current margins on the profit and the EBITDA?
- Mark Saldanha:** So, I would like to discuss in terms of the year as a whole like I mentioned in my earlier statement that we should close this financial year very close to Rs.1400 crores instead of talking on a quarterly number because we will probably have this discussion again in the next quarter. But we do believe the sustainability and the growth path is still there that said and done we do believe that moving forward the robustness of the business model I have already highlighted in my earlier talk. So, I would like to just mention one has to have a yearly look more than a quarterly look.
- Moderator:** Thank you. The next question is from the line of Dilip Rao an Individual Investor. Please go ahead.
- Dilip Rao:** Hi! Good evening. A great set of numbers; I just wanted to understand the geographical mix of the business is 50%, 35% and 10% in US, UK, and Australia. So, next three to five years down the line do we see that mix continuing that is the first question? The second one is, now in the recent budget the Indian Pharma industry, the domestic industry has been given a lot of fillip. So, do we see ourselves focusing on the growing Indian market also? Thank you.
- Mark Saldanha:** Our presence in the Indian market is limited but we are planning like I said to backward integrate ourselves and expand the presence at least from an infrastructure point of view. With regards, did you mention the mix the percentage of the markets?
- Dilip Rao:** Yes. The USA, UK and Australia have a 50%, 35% and 10% contribution to the business. So, 85% would that remain the same in the next three to five years down the line?
- Mark Saldanha:** I think US would be the growth driver definitely; UK should remain in same proportion so I do believe these statics will remain the same.
- Dilip Rao:** Okay, and margin wise Mark do we see the highest margins coming from UK only or would US overtake that?
- Mark Saldanha:** US the operating leverage is kicking in and as the sales grow you will better profitability coming in and hopefully if it unfolds the way we anticipate it to unfold then you could see very similar type of numbers being reflected. But that said and done, I think we have to be a bit cautious



where the percentage is concerned because there is some added advantage of COVID situations, but I do believe we should be very close to what we are doing, or we should be able to repeat in terms the EBITDA margins.

- Dilip Rao:** Okay, thank you so much.
- Moderator:** Thank you. The next question is from the line of Vishvanatha an Individual Investor. Please go ahead.
- Vishvanatha:** This is Vishvanatha from Bangalore. I really looked into your investor presentations and all. I am so happy about that the company has having zero debt, good visibility and that is why I can see the CRAMS business in your website, right. So, you have any CRAMS business currently like how many numbers of the companies are clients?
- Mark Saldanha:** No, actually we have evolved from the CRAMS business we do not have much of it and might be less than a percent if I can recap but honestly because this CRAMS have been with us for the last many years in the sense; we were into that we have just maintained it. We just maintain it but otherwise per se I would not say we are into CRAMS business model anymore.
- Vishvanatha:** So, do you have any future plans in near for the CRAMS business?
- Mark Saldanha:** No, I do not foresee as going into CRAMS in the future too.
- Moderator:** Thank you. The next question is from the line of C. Shrihari from PCS Securities. Please go ahead.
- C. Shrihari:** Thanks for the opportunity and congratulations on the good set of numbers. Firstly, on the backward integration of projects that you are talking about, if you could please highlight the highlight the molecules that intend to backward integrate and secondly, I would like to know if you any unique or large opportunities if you take a medium-term perspective? Thank you.
- Mark Saldanha:** Sorry, I did not get the full question, but I believe you are talking of backward integration?
- C. Shrihari:** Yes, the molecules?
- Mark Saldanha:** Okay, so for backward integration our aim and objective is to basically use it for captive consumption. So, with that said and done all the top 10 molecules or top 15 molecules that drive our growth strategies we are planning to backward-integrate so that we are more independent and less dependent on volatility that is present in the market. So, there is a big list of molecules that we are exploring.
- C. Shrihari:** Can you please highlight at least the key ones?



- Mark Saldanha:** There are quite a few of them. So, I think if one goes through our entire presentation and looks at our website you will know which are the molecules that are basically big and those molecules we definitely will be backward integrating.
- Moderator:** Thank you. The next question is from the line of Chetan Cholera from Pragya Equities. Please go ahead.
- Chetan Cholera:** Hi! Congratulations for good set of results. I just have one question, regarding the material cost in slide number-10, why there is so much fluctuation percentage of material cost compared to revenue?
- Jitendra Sharma:** Material cost, primarily it is coming out from API and the product mix also plays a role here. So, basically depending on that the gross margin keeps fluctuating. But if you see last five quarters, we have been consistently having our gross margin above 50%. So, I think volatility which was there eventually over a period of time we are stabilizing, and gross margins are improving consistently.
- Chetan Cholera:** No, gross margin is improving but the material cost compared to percentage of revenue is quite fluctuating it was 48% in Q320 it went down to 42%, it went up to 46% now again it is at 39.5%?
- Jitendra Sharma:** Yes, exactly. So, the revenue minus the material cost gives you gross margins. As material cost is now coming down our gross margins are improving.
- Chetan Cholera:** Okay, regarding the wish list from the investors I have one suggestion which surely can at least I see the promoter's stake is 48%; you can do 5% by creeping acquisition every year. If you can show some indication on that; I think market will appreciate that?
- Mark Saldanha:** We will look into that and revert back.
- Moderator:** Thank you. The next question is from the line of Sarvesh Bodani an Individual Investor. Please go ahead.
- Sarvesh Bodani:** Hi! Sir, I wanted to understand our strategy in the US generics market. So, what we understand that this is a very highly competitive market is there anything we do like what is the briefing to the front end team and what kind of measures have we taken so that we do not have any substantial margin erosion going ahead say in about three year – four years?
- Mark Saldanha:** There is no crystal ball to secure those answers; I think margin erosion is basically market dynamics. So, basically the molecules like I mentioned earlier they are quite saturated, time-tested molecules at the same time we have niche molecules which basically add to our basket of profitability. But obviously from our front-end point of view we are relatively small, so the front end i.e. the sales team is very clear that they have to go and take market share.
- Sarvesh Bodani:** Okay, sir. Thank you.



- Moderator:** Thank you. The next question is from the line of Abhishek from Padmaja Investments. Please go ahead.
- Abhishek:** Yes, a small suggestion Sir. A small buyback of around Rs.20 crores or so I think? That is all from my side.
- Mark Saldanha:** Sure, we will take that one.
- Moderator:** Thank you. The next question is from line of Ayush Mittal from Mittal Analytics. Please go ahead.
- Ayush Mittal:** Sir, you mentioned that some of which could have got some tailwind due to COVID and some of our products like Ibuprofen and pain management portfolio. Can you quantify what should be the portion of such medicines?
- Mark Saldanha:** Could you repeat the question again because I could not get the first part of it?
- Moderator:** Sir, the current participant has left the question queue.
- Mark Saldanha:** So, I could not get the first part of it but, is he talking about the COVID and the product mix. So, Ayush, basically the product mix is I didn't mention any specific product but effectively the product mix due to COVID there has been some better realization in few of the products. I mean you are talking about a handful of products but beyond that it is very regular sales. So, I do not foresee any price erosion or price difference happening either in post-COVID on other products.
- Moderator:** Thank you. Ladies and gentlemen that was the last question for today. I would now like to hand the conference over to the management for closing comments.
- Mark Saldanha:** Thank you my friends, it was great talking, understanding, and exchanging our thought processes for the Quarterly Earnings. Hope to see all guy's again next quarter. Take care be safe and be well. Thank you.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Centrum Broking Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.