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POLYMED

Date: 31st July, 2024

Scrip Code: - 531768

The Manager,
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Department of Corporate Services,
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Scrip Code: - POLYMED

The Manager
National Stock Exchange of India Limited
Exchange Plaza, Plot No. C/1-Block-G
Bandra Kurla Complex, Bandra(E),
Mumbai-400051.

Subject: Submission of Transcript for Q1-FY25 Earning Conference Call under the SEBI (Listing Obligation and Disclosure Requirements), Regulation, 2015

Dear Sir/Madam,

Pursuant to Regulation 30(6) of SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015, we hereby submit Transcript of the investor Meet/Call held on 24TH July 2024, on the Unaudited Financial Results of the Company for the quarter ended 30th June, 2024, on Standalone and Consolidated basis, which were considered and approved by the Board of Directors of the Company, at its meeting held on 22nd July, 2024.

This is for your information and record.

Thanking You,

Yours Sincerely

For **Poly Medicure Limited**

AVINASH CHANDRA
Digitally signed by AVINASH CHANDRA Date: 2024.07.31 12:33:00 +05'30'

POLY MEDICURE LIMITED New Delhi

Avinash Chandra
Company Secretary

Encl: As above

"Poly Medicure Limited
Q1 FY '25 Results Conference Call"
July 24, 2024

MANAGEMENT: **MR. HIMANSHU BAID – MANAGING DIRECTOR – POLY MEDICURE LIMITED**

MR. AVINASH CHANDRA–COMPANY SECRETARY–POLY MEDICURE LIMITED

MODERATOR: **MS. NISHA SHETTY – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to Poly Medicure Q1 FY'25 Results Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Nisha Shetty from ICICI Securities. Thank you and over to you, ma'am.

Nisha Shetty: Thank you, Anjali. Good afternoon everyone. On behalf of ICICI Securities, I would like to welcome you all on Q1 FY '25 Earnings Call of Poly Medicure Limited. Today on this call we have the senior management of the company represented by Mr. Himanshu Baid, Managing Director and Mr. Avinash Chandra, Company Secretary.

I would like to thank the management of Poly Medicure for giving us this opportunity to host this call. And with this, I will hand over the call to the management. Over to you, sir.

Himanshu Baid: Thank you, Nisha. Really thank you for hosting this call. And good afternoon, everybody. It's my pleasure to talk to you again about the progress of the company for the previous quarter. I will take you through the earnings of Q1 FY '25. The revenue of the company when we compare from Q1 of FY '24 to FY '25 we increased from INR320 crores to INR385 crores, roughly, almost increase of 20%. EBITDA margin also increased from INR87 crores to INR104 crores again, an increase of around 20%. And PAT margin increased from INR62.7 crores to INR74 crores, an increase of 18%.

So we have actually progressed as per the guidance we had given earlier. And the company is on track to perform this year as per the guidance given earlier of 22% to 24% growth and also improvement in the EBITDA margin of 100 to 150 bps. We have done our capacity expansion. Our first phase is over. And we have added new plant and machinery over the four plants where we have expanded in last 12 months ,18 months to 12 months.

The capacity now has increased from 1.2 billion units to 1.5 billion units per year. And by end of the year, we will further increase the capacity to around 1.7 billion to 1.8 billion units for medical devices. So there's a rapid increase in capacity by over 50% over the year because the infra is ready now and mostly the capacity addition is happening through the plant and machinery which we're adding in each plant step by step.

Of course, these are all special purpose machines. So it takes time to get these machines from the vendors because delivery time is between 12 months to 18 months. And as we are seeing the traction for each product line we are building capacity and capability across those product segments. And basically the more expansion which will happen in the transformational segment which we had talked about earlier renal, cardiology and critical care. These are three important segments we continue to expand faster than we were doing in the previous years. And most capex has been done for these three categories.

Renal business in Q1 has increased by over 40%. So this is something very heartening to note. And we are on track to grow from INR90 crores to INR140 crores, INR145 crores in the current financial year. So this business which was lagging last year, we were able to bring back it on track. And of course the regulation which was enacted on 1st October 2023 that has really helped us to ensure that only good quality devices are sold in the country. And whatever were parallel imports coming for non regulated products, it has stopped now. And I think this is a good progress for us.

And similarly on the dialysis machine side also we are seeing a good traction. We have now a good order book as we have told earlier in the year. This year we plan to sell close to 400 machines and maybe even go up to 500 depending on how this order book matures, but we have a good traction and we are on track for this kind of growth.

We have added 40 plus sales associates in quarter 1 which is in line with our plan to add 100-plus people in the current financial year and these 40 people have come across mainly in the new verticals of critical care and cardiology. And we continue to expand the team and the reach, so that we can reach out to more and more hospitals for these products.

Our gamma sterilization plant is under construction right now and should be live by early next year. This we have done especially to ensure that we have full control on the sterilization process. And this is more safer process compared to the ETO gas which we use today. And knowing that the gas is a little hazardous, a gamma plant is more safer, as all safety safeguards are in place. Currently, we use third-party services. But once our own plant is ready, we'll be able to move most of our sterilization to this plant, which we outsource today to other vendors.

On the export business side, we have grown in Q1 by over 25%. Domestic business has grown only 6% to 7%. And there's a reason for this. In FY '24, early Q1 we had some government orders for auto-disable syringes which was for a vaccination program. That program is now almost over. So we have seen that drop in requirement from the government. But on the other side, the trade sales has grown by 25%.

Government business is maybe overall around 20% of the total domestic business. So there was a drop of 50% there. But overall, trade business has grown by around 25%, which is the balance 80% of the business. So hopefully by the end of this year, quarter 2, quarter 3 we have a good visibility on the domestic business and we should grow by around 20% plus in the next few quarters.

Cardiology and critical care business has taken off well. We have launched four to five products in each category. And for the next few quarters, we'll be launching another four or five products to expand the range. Current focus in critical care is toward oncology field which is mainly for cancer drug delivery. And we see a good traction here. We are using the technology from our Italian plant to grow this business. And also a lot of products have been locally developed to augment the whole range of products for drug delivery.

Q1 capex was close to around INR70 crores. This is in line with our annual plan of INR250 crores which we announced earlier in the year. And most of the capex as I mentioned earlier is happening in these 4 new plants where we are adding new production line to expand the capacity.

The company is also investing in AI-based tools for upgrading technical skills of sales people. And these are some new tools which we have seen in the market. We have tested them, and actually, this will help to enhance the capability of the salesperson when he is going to a hospital or to meet clinicians. And we will also do a lot of training programs to our international clients, and also a training program for nurses and doctors through this AI-based tool. So we are already working on this.

On the US business update the first sale of infusion products has started. We are ramping up production capacity by adding new equipment. We are very hopeful that this new equipment will be ready by end of the year. But meanwhile, we'll continue to manufacture with the pilot equipment which we have established earlier.

We already have four FDA approvals which have been obtained right now. And we are in the process to get 8 to 10 new approvals in the next 12 months or so. So with this, almost 12 to 14 products will be FDA approved and that will give us a good visibility for the US market and US business, which we are very hopeful that it will grow as we have projected earlier between USD15 million to USD20 million in the next 3 years' time.

PLI there's not much update, as the current scheme was not favourable. Even in the current budget the outlay for PLI is only INR85 crores for existing companies which have taken PLI. So more or less, the scheme has not worked well for MedTech industry, medical device industry. And we have been pushing the government that if they can come out with a new scheme which is more favourable to the industry and which really supports Make in India. So there's a constant work in that direction, but we haven't heard anything on the current budget.

On the new product development side, we are already on track to launch 10 to 12 new products every year. But the most important thing is that we continue to expand our R&D base, expand our product lines across all verticals not only focusing on those three transformative verticals, but we are also focusing on transfusion and vascular where we will keep on adding more and more products just to address the whole basket, the whole therapy in that segment.

In the budget nothing important has come for the MedTech industry. Only positive news that government will rationalize duty structures across GST and custom duty platform over the next 6 months. Currently, we have varied GST rates of 5%, 12% and 18%, and probably, in some cases, we have inverted duty structure. So I think what we heard as an announcement that government may look at those issues and maybe rationalize this rate.

On the yearly outlook we continue to guide as I said earlier 22% to 24% revenue growth for FY '25 and 100 bps to 200 bps margin improvement over this current financial year. This is based on the current traction we see in both domestic and export business. And even when we look at the new transformative business, renal, cardiology, and critical care which are ramping up right now.

These are also businesses which will add more margin to what we have now. So they are probably, when you look at critical care and cardiology, they are higher-margin businesses for us. And as we ramp up, I think we will see some improvement in the margin profile of the company. On the export front, I think I will look at the total growth of the company.

Last year, exports were around two-third exports, one-third domestic market almost 67% and 33% ratio, but in first quarter the ratio has changed. We have 70% exports and almost 30% domestic sales. So because of the high growth in exports, we were able to improve that ratio to a certain extent. And probably in the current year, this ratio would probably remain in the range of plus/minus 1% or 2% or 70% and 30%.

Europe continues to outperform for us. We have grown over 30% in quarter 1 as compared to the previous year. And this is pretty heartening because in spite of all the global challenges and headwinds in the global supply chain and the sea freights kind of increasing again, there's a huge shortage of containers, which is impacting actually the business in the short term. So still, we have grown the export business.

And as we hear from industry sources that this container shortage or export freight rates will only come down by October, November. So next two months, three months it's challenging. But we are very hopeful that we will be able to mitigate this risk and continue with the good growth here so far in the export business.

Company also received the Export Excellence Award for FY '22 and '23 as the largest exporter of consumable medical devices from India from PLEXCONCIL. I'm also proud to say that from last 10 years, the company is a leader in this category. We were also recognized by Economic Times as one of the best health care brands for 2024. So these are some of the accolades the company has received in the past few months.

We are also eagerly waiting for the new Drugs and Medical Device Act 2024 which will reshape the regulatory pathway for medical devices sector and segregate largely the medical devices from drugs. This is very important, because currently all the drugs regulations apply on medical devices. And sometimes we get caught up with the issues which are there in the pharma industry, which are not related to us.

So I think it's important that we have this new regulation or act enacted soon, so that the whole sector can be carved out of pharma and drugs. There are also a lot of other government initiatives like supply chain establishment for manufacturing, expanding scope of PPO orders, so that more Make in India products are procured by the government. So a lot of initiatives are happening parallelly especially to support Make In India.

I'll just take you through the other aspect of the fund raise which we have recently announced. The Board recently gave approval to raise up to INR1,000 crores through QIP process which was done through a board meeting end of June. And most part of the funds will be used for capex. We plan to build three, four new facilities in the next 24 months to expand manufacturing capability as we see a good traction and some new projects we are working on. Probably, this will help us to scale up faster.

We also plan to deploy part of the funds into an organic opportunity for technology enhancement and also to shorten the product development cycle. Currently, it takes 3 to 5 years to launch a new product after a proper clinical trial and regulatory approval across global markets. So I think to shorten this cycle to add products much faster in the whole basket, we will have to look at certain inorganic opportunities.

We are not sure what it is right now, but as soon as we know we will definitely reach out to you and explain you the rationale for doing those inorganic, let's say, technology transfers or where we are going to invest money in the long run. We are seeing a keen interest from foreign domestic funds in the MedTech space in last 2, 3 years which is a great sign for the industry. Pre-COVID this industry was capital-starved and probably very few people knew about the MedTech industry. But now with proper recognition, capital flow has eased out a lot in the industry.

So this is what we see in the long run. Industry is getting recognition. More and more companies are expanding faster and more capital is available for the industry to grow, which is a good sign. Our overseas subsidiaries and JV company remain profitable. They continue to expand operations in Egypt and Italy. China plant we have not added anything new. And as I've explained earlier due to cost structure reasons in maybe next few years, we may curtail the operation or even maybe completely shut it down. But again, that decision will depend on global external factors.

This is all from my side. I'll be happy to answer any questions from people on the call who have joined. And thank you for your time once again and thank you again for your participation and support.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Jaiveer Shekhawat from Ambit Capital. Please go ahead.

Jaiveer Shekhawat: Sure. Thanks for taking my question. Mr. Baid first question on the domestic business. You alluded to the fact that there were certain onetime orders from the government that you lost during the quarter since the last year. What was contribution of that for the rest of the year, 9 months FY '24, the remaining 9 months?

Himanshu Baid: So it was for a very special product, which was for vaccination programs, some auto disable syringes. So we have already discontinued the product after the end of last quarter, first quarter of last year.

Jaiveer Shekhawat: Understood. So there is no other reliance for the remaining part of the year?

Himanshu Baid: Yes. Because this was mainly for the auto disable syringes and we had started this business only because of government's insistence because there was a huge shortage of supply at that time.

Jaiveer Shekhawat: Understood, sir. Yes. On the US business given that you've already announced tie-up with a couple of GPOs there. So what kind of access does that provide to the medical institutions that are there in the US market for you?

Himanshu Baid: See, basically, they will be placing the product directly into the market, and they have their own sales teams to do that. So our job is limited to manufacturing in India and maintaining those quality standards and regulatory requirements and training those people initially on this product line. But beyond that, I think mostly the business will be managed by them locally.

Jaiveer Shekhawat: And sir do you believe that the given that those GPOs sort of provide to tens of thousands of medical institutions in the US, do you get access to all of those with respect to your products, or are there specific institutions where your product is supplied?

Himanshu Baid: They will be probably starting with a few institutions to begin with and then they scale up basically. The scale-up will happen maybe in few years. And already, there will be existing contracts with existing suppliers and manufacturers. So it's not going to change overnight. But that's the reason we are saying that there's a ramp-up period and maybe in the next 3 years, we'll see that ramp-up. That's what we have been calling out.

Jaiveer Shekhawat: And sir similar to Europe wherein you have more of your direct presence in the hospitals, are you looking to sort of build a similar thing in the US as well over a period of time, so that you get direct feedback from your customers and possibly.

Himanshu Baid: We already have a team out there. We have a couple of people in US right now. But as time progresses, we will also maybe build some clinical resources so that we have a direct access to the market and information what's happening out there.

Jaiveer Shekhawat: Understood. And you recently had your Vision 2030 Strategy Meet. So could you talk about some of the targets that you have set for yourselves and the vision that you have?

Himanshu Baid: See, I can't talk about future numbers so much. But yes, I think the opportunity size and I think Vision 2030 is mainly focusing on Indian market, that what is happening in India and how we can actually outsmart the growth, which is 12% to 15%. And can we do around, let's say, 22% to 25% growth in India. And I think with all the ideas we have got from our team, I think we're pretty sure because these new two verticals will do well in India, because there's a lot of gap between imports and local manufacturing. So that is where we are trying to focus.

Renal seems to be very promising. And overall, the opportunity size is too big, because market is growing at 12% to 15%. We are still not present in every hospital. We still have only 40% coverage. And we also have to go deeper in each account where we are operating today. So when we look at this leverage, I think the opportunity is quite big actually. I can't give you the numbers, but it's quite big.

Jaiveer Shekhawat: Totally understand. Sir, lastly, on your capacity expansion, the new three facilities, as and when they come up, what kind of overall capacity increase does that lead to? And then what do you think would be the peak revenue potential from all the 15 capacities that you have?

Himanshu Baid: Jaiveer, you're asking the same question in another way. But again the idea is with these 3 or 4 new plants which we established between '23 and '24, we were able to increase almost capacity by 50% from 1.2 million almost to 1.8 million by the end of this year. Similarly, with these two new plants which we'll establish sorry, next four plants we're looking at expansion. And this expansion is more focused towards, I think, cardio or critical care. So there the numbers may not increase, but the value would increase. So again increasing it by another 40%, 50%, that's the plan.

Jaiveer Shekhawat: Right. Because my question is in terms of continuing to reinvest in your capacities. I mean, does that leave you with a lot of capacities which can possibly give you a 20% plus growth for the next 5 years without much capacity investment?

Himanshu Baid: No, we have to keep on investing. I think this industry needs a tactical investment every year and I think that is what we need to do and because there's a lot of technology. This is something which is not static, that you start something. it's not like a steel plant that you invest once and then you are done. Here every year you are adding new technology in the existing product also. So you have to keep on investing to upgrade and look at new areas. So investment will continue.

Jaiveer Shekhawat: Sure. And sir with respect to the inorganic opportunity, it's my last question, are you also looking to get into any related medical equipment as well?

Himanshu Baid: I can't answer that, sorry.

Jaiveer Shekhawat: Sure. Thanks a lot and all the best.

Himanshu Baid: Thank you.

Moderator: Thank you. The next question is from the line of Harshi from Bee Capital. Please go ahead.

Harshi: Hi, sir congrats on the great numbers. I just wanted to understand this point you made on how PLI has not worked very well for medical devices in India. So just wanted to know the road blocks that are coming in?

Himanshu Baid: See what has happened is, government called out four categories of products in PLI. But they equated everything on the same parameters, equipment, implants, consumables on the same parameters where you need to do incremental revenue of INR60 crores every year, starting from 0 and from first year onwards do incremental revenue of INR60 crores every year.

And I think in certain industries, it's not possible. Even the equipment industry is struggling today. So every year you can't almost double your business or increase by 60%, 70% in that category because it takes time to establish the product and especially when you are supplying to government you need 3 years of market standing. So that was not well thought of. And even government department is asking for certifications which are like CE, U.S. FDA certifications on machines.

So that takes 2 to 3 years to actually get one regulatory certificate like that. So from day 1 you can't get. So most of the companies are not able to comply with that incremental revenue. And because of that, there's no incentives even being distributed. So this year, if you read the budget fine print, only INR85 crores have been allocated to medical device sector for PLI. The whole scheme was for INR3,420 crores. Year 3 would have been the peak year, which is the year 3 this year, FY '24-'25.

And in the peak year which is third year we were looking at INR1,000 crores of incentives to be given to companies, but the only incentive paid will be INR85 lakhs which is budgeted in government's document. So even that budget will be there or not nobody knows.

Harshi: Understood. Thank you.

Moderator: Thank you. The next question is from the line of Prem from Dolat. Please go ahead.

Prem: What is the infusion sales contribution in domestic business if you can.

Himanshu Baid: Sorry could you repeat that question. There is some disturbance in the line.

Prem: Just a moment. Can you hear me now?

Himanshu Baid: Yes it’s better.

Prem: So want to know that infusion sales contribution in domestic business is how much?

Himanshu Baid: Infusion products though we don't call out separately, but it should be close to around 60% to 65%.

Prem: Okay, sir. And what about the gross margin as the contribution from export is high, so do you maintain the guidance of what you've given for the full year?

Himanshu Baid: Yes. Again in the beginning of the call I already said that we are maintaining that guidance which we have given of a revenue growth of 20% to 24%. And even the margin we have spoken that there will be an improvement by 100 bps to 150 bps in the current financial year when you look at the year as a whole.

Prem: Okay. And sir you have guided for 20% to 24% of export growth.

Himanshu Baid: Total growth not export. Total revenue growth of the company.

Prem: And any guidance for domestic growth? Do you maintain that growth or no changes?

Himanshu Baid: Domestic growth as I said earlier we are looking at between 20% and 22% overall growth for domestic business in the current financial year, but export will be slightly higher. So then the blended growth will be 22% to 24%.

Prem: Okay sir.

Himanshu Baid: Thank you.

Moderator: Thank you. The next question is from the line of Bino Pathiparampil from Elara Capital. Please go ahead.

Bino Pathiparampil: Just a question on capex. What's the capex plan? How much are you going to spend on capex this year?

Himanshu Baid: This year we have already given a guidance of INR250 crores which we have already spent around close to INR70 crores in the first quarter. And for the rest of the year we'll be spending around close to INR180 crores or something in that range.

Bino Pathiparampil: Okay. And that is going to substantially go up in the next couple of years?

Himanshu Baid: Yes, it will go up because, first of all, we are going to set up 4 new plants. So that is something which we are already working on right now. And this current capex is happening in the existing plants, which we set up in last couple of years.

Bino Pathiparampil: Understood. So if I roughly put your capital raise plans and this together roughly INR250 crores, INR300 crores of maintenance capex plus another INR300 crores, INR330 crores of new plants, so roughly INR600 crores roughly per year capex for the next 3 years is something of a rough back of the envelope calculation?

Himanshu Baid: No. The maintenance capex will end by, let's say, middle of next year. Because these plants will be saturated and then we will not be putting any new investment other than minor, but there is no major because these plants will get saturated. But the new capex that we're planning would be a run rate of INR300 crores to INR350 crores. That is what we are seeing. And then maybe another INR100 crores to INR150 crores of maintenance capex.

So you will see something between INR400 crores and INR500 crores of capex happening in the next couple of years of further accelerated growth.

Bino Pathiparampil: Understood. Yes. Okay. Thank you.

Moderator: Thank you. The next question is from the line of Harshi from Bee Capital. Please go ahead.

Harshi: Sir, I just wanted to know how is the dialysis business coming along like we are on a target of INR500 crores for the year. So if you could share how is the Q1 been?

Himanshu Baid: Yes. So Q1, we have seen a 40% plus growth in revenue. The target for the whole year is between INR140 crores to INR150 crores. We have already ended over INR30 crores in the first quarter. And the traction is quite strong, because as we have localized production for the machine, we have also expanded, expanding capacity for our dialyzer production and other products. So we're pretty hopeful that for the year, we should be in between INR140 crores and INR150 crores which probably will give us around a 50% growth over the previous year.

Harshi: Okay. Thanks.

Moderator: Thank you. The next question is from the line of Girish Jain from KJMC Finserv Group. Please go ahead.

Girish Jain: Good evening Himanshuji and congratulations on a good set of numbers. Just a couple of bookkeeping questions. Could you give us some idea about the current debt of the company and the inventory the company is carrying given that last year we were facing some logistic issues?

Himanshu Baid: So Girishji typically we carry two months of raw material inventory in the company because of the current supply chain crisis, because a lot of raw material is imported. Almost 60% to 65% raw material is imported, coming from different suppliers across the world. We have almost 250 suppliers for different kind of raw materials, parts, components which are used in critical manufacturing.

On the finished goods side, we don't maintain any inventory on the export front which is 70% of our business because all is made to order. And for the domestic business we carry probably 1 month of finished goods inventory. So that is the current cycle. On the debt side the long-term debt in the company is at this moment close to around INR7.5 crores which is going to be over by end of October. That's the final tranche of payment. It's an ECB which we had taken a few years ago. And working capital, that would be around INR150 crores to INR160 crores.

Girish Jain: Okay. And if I have time, I'd like to add one more question. On the capex plan we had four new plants which have now become operational. And in the further fundraise which the company is planning, the entire money of INR350 crores which will be put in these four plants or some new locations are being envisaged?

Himanshu Baid: No. So what we are doing is in the current plants whatever capex we are doing right now, in the current financial year and partially in the next financial year is being funded from internal accruals already. And whatever new fundraise we are doing these are four completely brand new locations. And I'll also call out these locations. So there's a new location, which is outside of Faridabad and one in Haridwar and one in Jaipur.

Of course, it is in close proximity to existing plants, but not really attached to the existing plants. And then maybe a fourth location we are scouting right now. Maybe we'll get into one of the medical device parks which are being set up either in UP or in MP. We are already looking at some properties in that area and the existing medical device parts.

Girish Jain: And the balance remaining out of the fund raise could probably be used for working capital and or inorganic opportunity?

Himanshu Baid: Yes. Absolutely sir.

Girish Jain:’ Okay. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Harsh Shah from Dalal & Broacha Stock Broking. Please go ahead.

Harsh Shah: Just a follow-up on the previous participant's question. So if you could kind of say a ballpark figure how much of the amount from the fund raise would be used for an inorganic acquisition or a technology transfer, if you could call out?

Himanshu Baid: So though we have not finalized anything, but we may keep 25% or 30% of that amount for that opportunity. Majority of that will be going for capex.

Harsh Shah: Okay. So the new 4 plants or the location that you were saying, so would that be only in cardio and critical care or something else is also.

Himanshu Baid: See mostly because these are new businesses we have just started last year. So we need to have scale-up in these businesses. So we are going to mostly spend money in that area, because these are very deep technology businesses where we have to invest deeply into manufacturing and equipment. The infra is very different from the current infra.

Harsh Shah: Got it. And lastly if I take a 5-year or a 6-year view, is it possible that our EBITDA margin can exceed 30% or do you think it's more far-fetched?

Himanshu Baid: It is very difficult to answer this question right now. Let's not speculate, but I think yes we are trying hard. And in fact this year also you've seen margins are close to 27%. So stretching another 5%, 7%, 8% is not a big difficulty from that 27% number. So hopefully we should be there in a few years, but I can't give you a correct time line on that. But that's what we would probably aspire to do.

Harsh Shah: Got it. That's it from my side. Thank you.

Moderator: Thank you. The next question is from Shivam Saxena from ICICI Bank. Please go ahead.

Shivam Saxena: So just two questions. What is the current capacity utilization of the plants currently? And secondly, how much time it takes for a plant to become operational? So suppose if you do a capex for a new plant, so when it will give revenues?

Himanshu Baid: Yes, sure. So the current capacity utilization is close to 75% and maximum we can go is 80% because of the variability in the products which we manufacture. And on the, let's say, the second question was on, sorry, can you repeat that.

Shivam Saxena: Yes, sure. Basically how much time it takes for a plant to become fully operational?

Himanshu Baid: So I think on the plant side, it takes typically 2 years to build a plant and then get all the regulatory approvals. Once the plant is ready, then only you can apply for a product regulatory approval, which could take another because you have to undergo clinical trials and regulatory approvals, it may take around 6 to 12 months depending on the product complexity and the criticality of the product.

And that is India-only specific. And then once you go to global market, then you need another 12 to 24 months depending on the country where you are applying for the registrations. So that is the typical life cycle of starting to build a plant, to be fully operational and functional, maybe between 4 to 5 years.

Shivam Saxena: Okay. And the current hiring that you have done, so what is the purpose of that hiring of people?

Himanshu Baid: Hiring is for sales. These are salespeople.

Shivam Saxena: Only for sales no.

Himanshu Baid: This is addition in the sales team. Of course, we have also added maybe around 75 people in the plants across different you know, in regulatory, quality, manufacturing R&D, and other services. But mainly we are calling out more on the sales side because this is something we want to build more strongly.

Shivam Saxena: Okay. Thank you. All the best.

Himanshu Baid: Thank you.

Moderator: Thank you. The next question is from the line of Girish Jain from KJMC Finserv Group. Please go ahead.

Girish Jain: Himanshuji in your opening remarks you mentioned that the China plant is not doing great and you may in the future consider closing those operations. Did I understand correctly? And if yes, what could be the impact on the revenue and the profitability?

Himanshu Baid: Look so China plant is a very small plant with less than 40, 50 people and the revenue is under USD2 million from China plant. And the reason we will probably close it down is because of current cost structures in China are much, much higher as compared to India. And also, the plant lease is expiring in the next 18 to 24 months.

Initial lease was around 20 years, so we are almost at the end of the lease period. And I think the management team and the Board probably have taken a call, there's no point in extending that and taking another 5 or 10 years. And I think now there is no such advantage coming out of being in China. Because I think in India we have already grown in a good way, which will actually make China factory almost redundant.

Girish Jain: So will it be correct to assume that the impact on revenue will be less than USD2 million whereas on the PAT, there might be a positive impact?

Himanshu Baid: Yes, because ultimately all that cost goes away and 2 million is nothing if you take USD200 million revenue company.

Girish Jain: Thank you so much.

Moderator: Thank you. The next question is from the line of Nitant Darekar from Bonanza Portfolio. Please go ahead.

Nitant Darekar: Congratulations to the management on a good set of numbers. I just had a bunch of questions. First on the over US FDA approval for the current year. So in what therapeutic segments are these FDA filed?

And the second would be the guidance on the new plants that we are planning to set up. Any geographical guidance of where these plant would be and thirdly are there any new therapeutic segments or devices that we are willing to explore in the coming next few years?

Himanshu Baid: So on the first question it was not very clear. Maybe you were too close to the mic. So maybe if you can repeat that. The next two, I've understood, but the first question if you can repeat on the U.S. FDA. It was not very clear.

Nitant Darekar: So like currently you have signed four US FDA and like the total sector is going to be 8% to 10% for the whole current year. So in what therapeutic segments are these FDA side in infusion therapy?

Himanshu Baid: The main products where we are applying for FDA would be more on the vascular access and critical care. These are two important areas we are focusing on. Vascular access is the core business of the company. So we will focus there, because we have a good global competence in that area. And the next segment we'll be focusing will be more on critical care.

And on the new plant locations, I've already mentioned a few minutes ago. The plants will come in Jaipur, Haridwar and Faridabad, outskirts of Faridabad. And the fourth plant we have not decided. We are still contemplating if to go to a medical device park. And on the segment side, I think for the next 4 to 5 years, we'll continue to focus on the current 6 segments we are into.

But whatever adjacency we see maybe when we do renal, we could probably look at urology side of the business or when we do critical care, we can also look at maybe gastro side. So these are some of the adjacencies we will look at, but I can't tell you anything what we'll do in 5 years from now in terms of business, new product areas, but currently we have enough to do in the current segments itself what we are doing.

Nitant Darekar: All right. Thank you.

Moderator: Thank you. The next question is from the line of Shivam Saxena from ICICI Bank. Please go ahead.

Shivam Saxena: Yes. Thank you for taking my question again. Just wanted to understand what is the frequency of price hikes in this sector, do you think it is easy to take price hike in this sector?

Himanshu Baid: No. If there is a big change in raw material cost then definitely we'll take a price hike. And overall we have experience of now 27 years of running the company. So what we have seen is that prices are more or less steady because we don't see too much changes. As our gross margins are pretty high so we are able to manage any raw material shocks which come in the market.

So more or less the prices remain stable. And if there is an untoward change in global pricing, global raw material, let's say, supply chain, then definitely we go back to customers and ask for a price hike. But it depends on the contract, it depends on business to business. So there is no set formula for it.

Shivam Saxena: So how is the competition i high in the sector, competition point of view?

Himanshu Baid: Sir, there is high competition. There would be many players in the market. Many medical device companies will be talking to them.

Shivam Saxena: Okay. And another thing, you said that it will take 3 to 5 years to pick up revenues for the new plants. So what would be the revenue growth drivers till that period, if you can.

Himanshu Baid: So for that period we already have established four new plants in the last 2 years and most of these plants will get populated. So by 2027, these plants will probably get exhausted in terms of capacity and capability. And as a result we are now planning to build 4 new plants which will get operational by '26 and '27 and that will help us to again scale up revenues for the following 3, 4 years.

Shivam Saxena: Thanks.

Moderator: Thank you. The next question is from the line of Harsh Shah from the Dalal & Broacha Stock Broking. Please go ahead.

Harsh Shah: Thanks for the followup. You mentioned in the opening comments that we have grown about 30% in Europe. So I mean it's a commendable growth, but just wanted to understand is it just cost difference that is helping us to win more market share in Europe?

Himanshu Baid: See basically it's about market penetration with more and more products that is important, because as the funnel is now open. So let's say with the same hospital, with the same distribution partner we have been able to add more products. So that's number one. Because we have a very wide range of products which we offer.

Of course, when you're making in India, you have to be cheaper, because there we are competing with local players or with global international players. So definitely if you are matching on quality and performance and there is a price delta definitely then we have a better chance of supplying those products.

Harsh Shah: And what would be the price delta ballpark?

Himanshu Baid: See, It depends on product-to-product very hard to say what is the delta. But I would say, maybe 20%, 25% price differential for sure between Indian companies and large multinational companies.

Harsh Shah: Okay. Got it. And lastly in terms of risk share in the export market what could be that risk share? Obviously right now we are facing that container availability issues and stuff like that, but other than that what is the.

Himanshu Baid: This issue was also there in 2022. So it is not new and maybe also prior to that whenever there is a crisis global. Geopolitical situation always the trade imbalance kind of kicks in. So I think that is always kind of mitigated. Yes, sometimes you have to pay higher freight or customer has to pay for a little higher freight. But again, over a period of cyclic, so it comes back to normal.

I think to me the biggest risk I would see in the export business would be if we are really making bad quality products, but which we are not, because we have 27 years of experience in selling into overseas markets today now. And we are in more than 100 countries today selling our products. So we are very well diversified on the geographical side. We are very well diversified on the product portfolio. So all these things and we have run multiple plants. So all this helps us to mitigate that risk which can arise because of one product or one country.

Harsh Shah: Got it. And just lastly on I.V Cannula. So what percentage of revenue would that be contributing?

Himanshu Baid: Between 25% to 30%.

Harsh Shah: And that would be mainly in Europe, right?

Himanshu Baid: Not really. It's a global product. We are the third largest manufacturer in the world. We have almost 10% global market share on that business in terms of volume.

Harsh Shah: Sorry what market share did you mention?

Himanshu Baid: Almost 10% market share global volume.

Harsh Shah: Got it. That's it from my side. Thank you.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Himanshu Baid: Again thank you everyone for your time and I think a lot of good questions asked. This really helps us to do better and your thoughts which are coming from outside really give us a very different view on the business. So continue your support and have participation so that we can do better every time when we talk. And thank you again and looking forward to speak to you in the future.

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