“Marksans Pharma Limited Q2 FY2022 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Q2 FY2022 earnings conference call of Marksans Pharma hosted by Centrum Broking Limited. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Cyndrella Carvalho from Centrum Broking Limited. Thank you and over to you, madam.

Cyndrella Carvalho: Thanks Margaret. I Cyndrella Carvalho welcome you all on behalf of Centrum Broking on the 2Q FY2022 earnings con call of Marksans Pharma Limited. At the outset I thank the management of Marksans Pharma for giving us this opportunity to host the call. From the management team today we have with us Chairman & Managing Director - Mr. Mark Saldanha; Chief Financial Officer – Mr. Jitendra Sharma.

Now I hand over the call to the management for their opening remarks. Over to your 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 Q2 FY2022 earning call. Let me try and keep the prepared remarks short, so that we can spend some more time in taking your questions.

We had a challenging half year in the backdrop of geopolitical issues impacting shipments and inputs. We had a revenue growth of 3.3% led by increasing penetration in the EU and the North American markets.

On the cost front almost all our costs have had sharper increase impacting our EBITDA margins however our net cash balance resulted in a reduced finance cost and also we had the benefit of a lower tax outflow hence our bottom-line grew by 8.8% in H1 FY2022. I would like to confirm that our forward integrated business model with a strong global presence is differentiated in nature. In line with this we continue to make investments in our manufacturing and distribution capabilities. Our Goa plant expansion by adding new manufacturing lines is on track. Our R&D is working on a basket of over 12 ANDA's for the US market and around 15 Rx products for the European and UK market. These steps will in turn drive our revenue to beyond Rs 2,000 Crores in the next few years.

With this I would like to turn it over to Jitendra Sharma, our CFO who will give you an update of the financial before we start our Q&A. Thank you.

Jitendra Sharma: Thank you boss. Let me start with the financial highlights for the first half of the year. Operating revenue was Rs.710 Crores, a growth of 3.3% as compared to Rs.687 Crores in H1 of FY2021. EBITDA was at Rs.137 Crores as compared to Rs.153 Crores in H1 of FY2021. EBITDA margin were at 19% in H1 of FY2022 as against 22.2% in H1 of FY2021.

PAT stood at Rs 108.9 Crores a growth of 8.8% year-on-year. EPS for the first half year was up by 8.8% to Rs.2.6. From a geography perspective US & North America was the highest contributor at Rs 306 Crores and witnessing 1.2% growth in H1 FY2022. EU UK formulation market recorded 6.7% growth at Rs.305 Crores in first half of the year. Australia, New Zealand formulation markets recorded 0.5% growth at Rs 69.8 Crores, Rest of the World was almost constant with sales of Rs 29.1 Crores in H1 of FY2022.

As Mr. Mark has mentioned, the quarter was characterized by higher raw material, freight, and packaging material costs. I would like to give a context to these costs and other challenges, which have impacted the margins. Some of the raw material costs like Paracetamol have more than doubled, many packaging costs are at all time high, freight costs have also more than doubled due to container shortages and increasing crude oil prices. However our improved product mix, reduced financial costs and lower tax outgo helped us to neutralize, the same resulting us to grow our bottom-line by 8.8% in first half of the FY2022. Our R&D spend was Rs.14.4 Crores that is at 2% of the sales and Capex for the same period was Rs.25 Crores. We continue to remain debt free as on date and our cash and cash equivalent in the books was at Rs.322.7 Crores as of September 2021.

Our return on equity was almost constant being 22.2% as on September 2021 compared to 22.8% in September 2020. Similarly our return on capital employed was 26.4% in September 2021 as against 28.9% in September 2020. In light of the above stated uncertainties, we are unable to give any forecast; however we are positive about the business prospects in the medium to long-term.

With that, I would like to throw open the floor to question and answers. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Yogesh from Arihant Capital Market. Please go ahead.

Yogesh Tiwari: Good evening sir and thanks for taking my question. My first question is basically how do you see the freight cost and the raw material cost coming up in this quarter and going forward.

Mark Saldanha: So looking at this see the cost impact or the cost increase has been a phenomenon which honestly is beyond anyone's control, but I do not see things improving in the third quarter in terms of the cost factors, we do see volatility still in place, the crude prices have not improved neither is material coming out of China or the issues that China facing or global issues have not improved so I do see the third quarter also being a very challenging quarter in terms of bottom-line, but if the trend continues in this manner, I would assume eventually the pricing in terms of the final product will correct and it will be passed down to the consumers so it is only a matter of time. Obviously if things change for the betterment it is great otherwise the correction will eventually take place, but the third quarter just to answer your question specifically, the third quarter seems volatile and I do not see much of an improvement at least from a cost perspective point of view.

Yogesh Tiwari: Thank you sir and my next question is we are looking for about Rs 2000 Crores of topline in the next three years. So we will be maintaining the margin of about 24% operating margin in the next three years i.e. FY2025.

Mark Saldanha: So Yogesh we have maintained our market share, we are growing, we are optimistic about the future, our business model still remains intact our efforts to ensure we hit our objectives and the roadmap is still very clear, we still do believe we will achieve those milestones. In terms of profitability, obviously like I said, this is like a global phenomenon which is beyond anyone's control we do not control the crude prices or anything and had this not happened I mean this we are talking about happening in the last three to four months which has spiraled out of control and it has a cascading impact on the bottom line which honestly there is nothing you could do within that short span of time so obviously if things improve then great I mean if this phenomenon had not happen we would have still hit our margin line the fact that it happened it did impact the bottom-line if this continues like I said correction would be taking place we are working towards transferring part of this cost to the end user or to our client it is a process by itself so I would assume the market will correct eventually. So if the market does correct the profitability will be back to what it was. But it is important, it is important for the market to correct or this cost to come down, it has to be one of the two.

Yogesh Tiwari: Sure, Sir. I have just one thing this is like not maybe in the short-term but this target which we have for Rs 2000 Crores so what are the range of margins in the long-term which we are comfortable with what will be the range like for the operating margin.

Mark Saldanha: See of course like we are looking at a range say between 22% to 25% I think that is the normal margins and we will get back to those margins once situation normalizes.

Yogesh Tiwari: Sure and finally one question like the target which we have for this Rs 2000 Crores so will this be driven by the major markets US and Europe, UK, who will be the major driver for it.

Mark Saldanha: I think all our markets will equally contribute to hitting these objectives we do see obviously US being the growth driver, but as competitive it is our UK and Europe front is also doing fantastically well, our filings and new product launches are basically it is not a market incentive we do file in Australia, we are filing in Europe, we are filing in UK and we are filing in US. So we do see all these investments that we have done globally to yield results and to make us achieve our objectives.

Yogesh Tiwari: Thank you sir. That is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Nishit Jain from Jain Family Investments. Please go ahead.

Nishit Jain: Hi good evening. I have a query like as we see the result, there is an increase in employee cost. So can you throw some light for a specific reason if there is a tremendous increase in employee cost.

Jitendra Sharma: Yes, sure. So this increase has come from India and from the US balance sheet and like you know the reason of course we have hired like additional employees in the US. So we have increased our head count as we are gearing up for like a US$ 100 million plus kind of numbers from US market. So we have increased number of employees in US, in India also of course last year being COVID like we could not increase our salary of our people, this year we have given them increments as well. So this increase was the result of both these actions.

Nishit Jain: And the second thing is this is basically increasing due to the production side employee or you can say maybe marketing employees so we see a higher production or something.

Jitendra Sharma: It is across the board, so both marketing and production people we have increased the salaries.

Nishit Jain: And is a management confident in front of the when we see the operating margins to maintain like 24% to 25% operating margins in coming quarters.

Jitendra Sharma: Yes.

Nishit Jain: And one more thing I just want to check like is there any dividend or something declared by any of the subsidiaries in this current year.

Jitendra Sharma: Our UK subsidiary had declared dividend of I think around £1 million.

Nishit Jain: Okay that is the one which is reported in the results of this quarter, September quarter.

Jitendra Sharma: No, it was declared in the first quarter itself.

Nishit Jain: Okay Sir, that is all. Thank you.

Moderator: Thank you. The next question is from the line of Kamal Jeet, an individual investor. Please go ahead.

Kamal Jeet: Thanks for taking my question, and my question is, Sir what is the plant utilization as on date for the last quarter as well.

Mark Saldanha: Are you saying plant utilization?

Kamal Jeet: Yes, Sir.

Mark Saldanha: Yes, our plant is basically at 70% utilization.

Kamal Jeet: And is there any new filing in last six months or already we are waiting for the existing filing from the regulator.

Mark Saldanha: So we have filed a couple of ANDAs and we have a vision for like over 10 to 12 ANDAs in the next 12 months and we are at the same time expecting approvals so hopefully we should receive some approvals before March again commercialization may take a bit more time once we get an approval but we are expecting at least two ANDA approvals hopefully before March.

Kamal Jeet: Sir how much freight and raw material is impacting the margin in the sense of either on quarter-on-quarter basis or year-on-year basis or in a normal quarter.

Mark Saldanha: I did not get it what do you say.

Kamal Jeet: The freight rates are high due to shipping charges and raw material how much it is impacting to the margin and how much we are passing to the customer as well.

Jitendra Sharma: See freight costs have literally been doubled and normally we have a freight of around 4% like of sales or our freight expenses, but now due to this hike it has gone up to somewhere around 7% to 8%. So definitely freight is impacting the overall margins and on material front it is again like it is a mixed bag like our gross margins have come down by almost 300 basis points in this year. So that is the impact of increase in the raw material costs.

Kamal Jeet: Sir in last 30 days the shipping charges has been down across the region in a sense across the globe so do we expect there will be less shipping charges during this quarter and going forward.

Jitendra Sharma: See we have not seen that happening in the sea freight as of now so yes from China we have been hearing that the rates have started coming down a bit but from India so far that has not happened but I think let us see we hope that from this quarter onwards it should start tapering down a bit.

Kamal Jeet: And, Sir, on the new investment which has already come to the company. So can you share any plan or anything which is already discussed or like you are working inorganic or organic growth how it will be.

Mark Saldanha: Yes, we are we are basically working towards M&A strategy we have been in dialogue so we are looking at expansion in geography so I do believe we will need resources and funds to consummate any transaction and definitely we are looking at expanding our manufacturing capabilities in India at the same time expanding our geographies in Europe so definitely we would need funds to consummate those transactions.

Kamal Jeet: And Sir last one is like how many products we have a pricing power in the market as compared to our competitors.

Mark Saldanha: Pricing power.

Kamal Jeet: Yes, pricing power of our product as compared to our competitor.

Mark Saldanha: Yes, when you mentioned pricing power you are saying in terms of which products are we…

Kamal Jeet: Yes, pricing power in the sense of like if you are hitting down by the raw cost still you are increasing the cost of our product and then still it is in the market.

Mark Saldanha: All our products are still in the market what is happening because of the volatility of the price increase happening of raw materials, packing materials, freight everything is having an impact before we can pass it down to any of our end users we need that to stabilize because we cannot keep going back to our clients every week or every month. So once it stabilizes because every week every fortnight the prices are still going higher and at some point it will stabilize and probably start tapering down, but when it stabilizes we can then look at transferring some of that cost impact to the end consumer but right now we are absorbing that and that is where the bottom-line is being impacted.

Kamal Jeet: Sir, what is the attrition rate as of whether any major attrition rate for the technical stuff or management staff going on.

Jitendra Sharma: No we do not have any major or significant attrition going on in any of our geographies.

Kamal Jeet: And whether the company is preparing themselves for technological destruction in the sense of or it is helping in the sense of to enhance the efficiency of the deliverable.

Jitendra Sharma: Yes, it is an ongoing process so definitely it is like work in progress it is always there.

Kamal Jeet: Thanks sir.

Moderator: Thank you. The next question is from the line of Arun Vaithianathan, an Individual Investor. Please go ahead.

Arun Vaithianathan: I had a couple of questions due to various external factors the bottom-line is affected, but I just wanted to understand regarding the revenue growth so compared to the last year similar quarter the revenue growth is also less so I just wanted to know how we are planning ahead.

Mark Saldanha: Yes, the revenue growth will correct itself or we do believe we will show or we will hit our objectives in this year in the second half of the year. The third quarter in terms of revenue growth will be better than the second quarter or the first quarter and that is historic trends which we see because of seasonal impacts in the global market. We basically are in Europe and in US and we will normally see summer always lower and winter always higher, but again this is a part of the cycle phenomenon and we would see a better revenue translation happening but one more thing one more point that we need to take into consideration when this global issue is happening we were a bit more skeptical and we tried to push out as much as potential sales starting or contract starting to as late as possible so that obviously when the cost is very high you do not want to jump into something which will have a tremendous impact on your bottom-line. So that is there partially where you are hesitant to get into a contract or a business deal which where uncertainty of cost is playing presently and you do not know how long this phenomenon will last and that is what to some level of degree we have to push back contracts as far as possible.

Arun Vaithianathan: Yes, so as you said that we may not be sure at this point till what time this phenomenon will last. So since we have various molecules, so the molecules where the competition is less is it not possible to pass on some of the cost.

Mark Saldanha: It is possible definitely and it will happen that is where in my earlier replies to individuals we need the market to first stabilize we are seeing price increases happening pretty much on a weekly basis, on a fortnightly basis we cannot go back to the clients every week and say well now the contract has to be changed to this the contract has to be changed to that unfortunately it does not happen and it does not operate that way so effectively we have to basically be more so we have to wait for it to stabilize and we are working towards passing the cost down to the end user, but it is a process by itself and at the same time we needed to stabilize before we know what the price is because you go at one price increase and you change the price and then before you know after another 20 days or 30 days the price has gone up by another 20% and then you are taking further impacts on your bottom-line so we want to stabilize before we translate and if it does not correct if the cost does not correct then eventually the selling price will correct.

Arun Vaithianathan: Just one final question in the last call we discussed regarding the backward integration into API so just wanted to know some update on that.

Mark Saldanha: Products are under development we have basically so far developed about three products we are working on validation batches so it is a work in progress and we are working towards backward integrating of our core molecules into API, I would assume our efforts are on and I would like to believe that maybe 12 months down the line we would achieve some objectives of that.

Arun Vaithianathan: Okay, thank you.

Moderator: Thank you. The next question is from the line of Yogesh from Arihant Capital Markets. Please go ahead.

Yogesh Tiwari: Thank you for taking the question again. Can you give a guidance on what would be the effective tax rate for FY2022 and 2023?

Mark Saldanha: Yes, I think effective tax rate should be in the range of 22% to 23%.

Yogesh Tiwari: And can you throw some light on how is the competition in the US market as of now.

Mark Saldanha: Did you mention competition in the US market.

Yogesh Tiwari: Yes, Sir.

Mark Saldanha: It is close. Somehow it is obviously, it is getting desperate but at the same time obviously everyone is trying to juggle with this cost and that is where it is getting from bad to worse when there is a destabilization happening in terms of cost impacts and pricing impacts or it is a catch 22 situation as to who blinks first and when you go for a price increase that is where you are opening the potential of other companies who are sitting with material or who believe they are sitting on finished product to enter into your contracts. So it is not the ideal scenario to be right now and that is where the US market is highly volatile presently. I do see this volatility continuing for the third quarter because again this is the time when you actually, if cost does not come down and you want to translate that into a price revision that is where competition basically comes into play.

Yogesh Tiwari: So in the US market are you seeing some significant pricing erosion.

Mark Saldanha: Pricing erosion no, but there are price challenges happening because of oversupply on certain molecules which are not impacted in this pricing war, there are price challenges happening and definitely maintaining market share with this volatility becomes more challenging because like I mentioned when you are looking for a price increase there is someone always there with sitting on stocks and with a short-term objective to basically destabilize you. So we are now very much in the US market so we know the nature of the beast you could put it that way we know how the sentiments of the prevailing markets and the clients so we are basically keeping a close watch on that.

Yogesh Tiwari: Sure and just to understand about your raw material cost structure so it would be helpful if you can share some thoughts around it in terms of which are the top two components in your raw material as you told Paracetamol so what would the top two components in your raw material and any proportion of cost what would be their proportion of cost for raw material.

Mark Saldanha: A product like Paracetamol constitutes maximum proportion of the cost so it does…

Jitendra Sharma: I think see Paracetamol and ibuprofen in the pain management. Pain management is the largest contributor for us in terms of the revenue and in that pain management Paracetamol and ibuprofen are the molecule which has a larger share. So I think of course Paracetamol basically we do around 15% to 17% of the total revenue comes from Paracetamol API and I think another around 20% odd comes from ibuprofen. So these are the two ones which are the largest ones.

Yogesh Tiwari: Okay and as you told that Paracetamol is almost doubled in recent times. So is it still the prices are increasing like what would be the trend like?

Jitendra Sharma: Yes, the trend is, it is increasing further so right now it is very volatile.

Yogesh Tiwari: And any view or how it will like what would be a timeline for such increase will it settle around in maybe one, two quarters or…

Jitendra Sharma: It should start settling from fourth quarter onwards. So basically we were expecting prices to stabilize by December but again in China there are newer challenges which are coming up and prices in fact have gone up further after this news of the power shortages in China came on so I think fourth quarter is something it should start stabilizing or we will have a bit of more clarity that how it is going to behave in coming quarters but we believe that fourth quarter onwards it should start coming down.

Yogesh Tiwari: Thank you sir and last question on any capital guidance for 2023 and going forward.

Jitendra Sharma: Right now I think it is not the right time to give guidance because of this volatility which wherein we are right now.

Yogesh Tiwari: Fair, Sir. Thank you very much.

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

Shyamal Patel: Good evening Mr. Mark good evening Mr. Jitendra, nice hearing but not fully satisfied so I just want to ask you a question you may feel as blunt are you happy with the share price.

Mark Saldanha: Honestly we do not have much control on the share price and we cannot say we are happy but we understand the sentiments, we understand the volatility that is happening but again everyone would like a better valuation definitely but we are going to a turbulent time and I can understand the sentiments to some extent.

Moderator: Thank you. The next question is from the line of Manoj Mathew Jacob, a Retail Investor. Please go ahead.

Manoj Mathew Jacob: Congratulations team. I have just got two questions to you. One is on the shipping do you have contract rates or do you go by spot rates.

Mark Saldanha: So normally we do have contract rates and yes so normally we prefer a contract rate we avoid the spot.

Manoj Mathew Jacob: And the second question is from what you said earlier it seems that as regards the API backward integration we are going by ourselves we are doing it by ourselves we are not going into acquisition.

Mark Saldanha: We are basically developing the product by ourselves but M&A is a huge possibility and if the ideal target comes in, in play then yes we are open to that too.

Manoj Mathew Jacob: The last time you spoke you said 12 to 18 months so right now we can say six months is over can we say another 12 months.

Mark Saldanha: I would like to believe so yes.

Manoj Mathew Jacob: Thank you. Thank you very much.

Moderator: Thank you. The next question is from the line of Vainatheyan B T, an Individual Investor. Please go ahead.

Vainatheyan B T: Good evening sir. Just wanted to ask you OrbiMed joined hands with us like for a better purpose do you foresee any thing coming out of it because as such we were doing well but it made business sense maybe behind the scenes to join hands at all we met but seeing the current their investment and the share price also falling down and things not looking too good as of now do you foresee any challenges in that.

Mark Saldanha: No I do not foresee any challenges see OrbiMed does not come for a short-term basis and they have a Board seat, we had discussions they understudy they are into the pharmaceuticals industry globally, they are not here to look at immediate outlook but they are looking at the growth of the company and investing time and resources to make sure in the three-to-five-year horizon the companies shapes up differently and that is what our objectives are. Pharmaceutical is an industry which basically you have got to invest today to see returns for three years and we are aware of that they share the same vision of what we are trying to achieve so volatility in terms of this global phenomenon in terms of pricing of the share pricing and all will continue to happen but if the company performs and continues to be on the right track it will correct by itself and the company will give the valuation based on I mean the market will get the valuation based on the company's performance.

Vainatheyan B T: And my second question this raw material dependency on China how dependent are we in terms of percentage or so, please.

Mark Saldanha: We source most of our raw materials globally and quite a substantial amount of it either comes from China or from India the problem with China they control they monetize not only the raw materials but the chemicals that go into the raw materials the intermediates are going to the raw materials so even if you are buying the raw material from India the intermediate prices are the chemicals that go into or making that the Chinese have monopolized it and are basically holding the world to ransom and basically have increased the prices of that thereby driving prices of even the Indian manufacturers were supplying raw materials. So dependency on China although I am sure the talks have always been there to be less dependent on China and make India as a manufacturing hub but it is presently we are still far from achieving that objective of not being dependent from China so we are directly or indirectly still dependent materials coming from China.

Vainatheyan B T: So is there any timetable or a plan without being met or held through indirect acquisitions or direct acquisitions to ensure over a period of now I am talking about a period of say three to five years as you have put it. To ensure that we are not as dependent on outside sources for our basic products and for our future growth which obviously the products which would come into play, would that be the same that would be the road map to our next level of growth, please.

Mark Saldanha: Our level growth is in multiple areas it is not restricted on raw material supplies definitely raw material supplies are backward integrating to raw material makes us stronger as a company as a supplier as a generic supplier in the market it definitely gives us a mix is much stronger but our growth strategy comes from different geographies from organic inorganic expansion into different geographies and obviously manufacturing capabilities our strength has always been manufacturing and servicing; low cost manufacturing based out of India so our growth has basically come from like I said multiple points which have to be addressed and which we are working on parallelly. So in the backdrop irrespective of what you may not see because of this volatility and bottom line we still are working on R&D, we are still spending our money on R&D, you see R&D expenses essentially have gone up and that is again to basically look at our global presence to increase our product portfolios in the global market and basically ensure revenue happens organically in certain markets all these need the resources all these need the money and that is where we are working on that and OrbiMed is in tune with what we are doing at all stages they basically also, they also had shared that like I mentioned the same vision of what we are trying to create and looking at our track history of how we have progressed and evolved as a company I do not think there is a doubt or I have a doubt in anyone that we would not continue growing in the same passion. So if you look at us five years back and you look at us today as a company we have evolved as a company and if you look at our size down the line we will still evolve as a company compared to where we are today.

Moderator: Thank you. The next question is from the line of Suyog Mirashi, an Individual Investor. Please go ahead.

Suyog Mirashi: Good evening Mark, good evening Jitendra. Thanks for giving me the opportunity to ask a question. I have got a couple of questions, first is that we are right now doing about sales of about Rs 1,400 Crores during the year and you said that you have plans of taking it to Rs 2,000 Crores I just wanted to know what kind of, you said even in a few years so I just wanted to know what is the timeline for that maybe like two years, three years or what kind of timeline are we looking at and what would be in terms of geographies like USA, UK is that where the growth will come from or, New Zealand or rest of the world which are the markets or which you are looking at.

Mark Saldanha: So we do see US being the growth driver like I mentioned, Europe is also going to be contributing in this growth so when we talk of Rs 2,000 Crores is basically every all our business strategies emerging markets Australia, Europe and UK will contribute if you want to know which market will contribute more obviously I do believe US would be the growth driver followed by UK and Europe and then the rest of the geographies.

Suyog Mirashi: And in terms of you said that as I said we are at Rs 1,400 Crores roughly are at Rs 1,400 Crores of sales, annual sales like if you have to take it to Rs 2000 crores like in how many years like do you have to see it again a couple of years time, three years time, what kind of a timeline are we looking at.

Mark Saldanha: So we have a benchmark within, we will reach there within three years we do believe we will cross that mark, but it may happen in two years also I mean it all depends on approvals, it all depends on business model shaping up. So we are confident that we will achieve those objectives within the timeline so it may be most like it could very well be much faster than what we say but on a comparative basis yes within three years or within two to three years I think we should have achieved these objectives.

Suyog Mirashi: Okay final question. OrbiMed has made some investment in the company right. So I just wanted to know in terms of what would be, is there anything like how does investment of OrbiMed helps Marksans to what is their role, do they have in terms of are they either there is an independent director I think who is part of the team but in terms of what you call what is their contribution in the company.

Mark Saldanha: So, they obviously have a wealth of experience we have Board meetings, their contribution and our interactions with them on a monthly basis, the global networking that they have for us to explore and identify M&As in different geographies so they do have expertise which over the years they are into the pharma space they have their connectivity in markets which would add tremendous value to us. So obviously we do see a lot of tangible and intangible values coming from OrbiMed and they are great fun to be with and they are holding a Board seat and they are adding value in all discussions that we have with them.

Suyog Mirashi: So like are they based in the US or …

Jitendra Sharma: Yes, they have headquartered in US but then they have office in Bombay also.

Suyog Mirashi: Okay, thank you.

Moderator: Thank you. The next question is from the line of Kamal Jeet, an Individual Investor. Please go ahead.

Kamal Jeet: Just please confirm what is the wage hike for management staff as well as non-management staff.

Mark Saldanha: Can you repeat again, please.

Kamal Jeet: So recently you have done the wage hikes the salary hike for the staff. So what is the main average for management staff and non-management staff?

Mark Saldanha: See for management staff it was in the range of around 12% and for non-management staff it was between 8% to 10%.

Kamal Jeet: So as organization we thinking about organic and inorganic growth and what is your hiring plan for next one or two years like how many employees want to be higher if it is either way depending upon your strategy.

Mark Saldanha: These are need-based decisions so depending on the growth and the additional infrastructure what we are in the process of creating the hiring will take place.

Kamal Jeet: Okay and sir like what management is doing for supply risk management perspective at strategic level obviously if a situation sustained like that so what is the management view on strategic level how they are managing their supply rate as there is a lot of risk going forward.

Mark Saldanha: See we are adopting various mechanisms here so ideally definitely we are trying to get into long-term contracts with the suppliers but unfortunately our experience here was that China even after having a contract in place they are not honoring their contracts. So these are the kind of volatility or experiences which we are having but then anyway basic idea here is to have a long-term association, to have a long-term contract so that we can reduce the volatility.

Kamal Jeet: Okay Sir, thank you. Sir whether OrbiMed is helping or like assisting in existing operations efficiency as well or not.

Mark Saldanha: No they are not involved in the day-to-day operations. Their involvement is more into the strategic areas.

Kamal Jeet: Sir like whether I think the organization has received the fund from the OrbiMed whether utilization has been started for the fund?

Mark Saldanha: No basically we have not started utilizing the funds which we have received from them.

Kamal Jeet: Okay sir, thank you.

Moderator: Thank you. The next question is from the line of Yogesh Tiwari from Arihant Capital Market. Please go ahead.

Yogesh Tiwari: Thank you once again Sir. Just to understand what type of margins are there in prescription and OTC products not for Marksan Pharma in general but in general at the industry level the margin range for prescription and OTC products.

Mark Saldanha: Yogesh it is difficult to answer your question because again it depends on the molecule to molecule again the prescription products are highly volatile it is a prescription products basically evolve around the demand and supply and based on that the prices go up and down price challenges can happen any time in the OTC path it is much more stabilized you have contracts so again it depends on molecules to molecules so it is difficult to actually pinpoint an average of both sometimes the prescription product even you cannot even sell it at cost so and sometimes you can make a lot of money on the prescription product. So that summarizes everything.

Yogesh Tiwari: Sure so just to understand the OTC products they will be having a lower margin than prescription products.

Mark Saldanha: I would thought in general thumb rule that is the outlook but I would not say so I think it is a different segment and you have to view it differently like I said some prescription products you cannot even sell it at cost so which one is better so in those cases you will save a lot of use better but some of the prescription products you can select at a much higher price and in that case you may say prescription is better so it just depends on timing molecules and market dynamics.

Yogesh Tiwari: Sure as of late actually the OTC component the mix of OTC has increased while the prescription products that it has declined so any reason or what are the drivers for it.

Mark Saldanha: There is no reason we are seeing more traction in the OTC we are more focused on that our product baskets are bigger and historically we were very evenly based in terms of 50%, 51% Rx and OTC 49% or sometimes the OTC 51% Rx 49% but we do believe the OTC will see up to 60%, 65% and Rx will be around 35% to 40% and that is again sometimes it is product portfolios which create that difference and obviously market penetration that happens in certain molecules and our focus also because we are basically growing as a company and we do see traction in that segment.

Yogesh Tiwari: Sure and one your views on basically what we understand that you are looking at asset acquisition that is one thought behind the management so if you can give your top two priority areas where you will be looking for acquisition, asset acquisition with the top two or three priority areas.

Mark Saldanha: Are you talking about areas or you talking of…

Yogesh Tiwari: I am talking at a company level.

Mark Saldanha: So like I said we are looking at when you look at M&As we look at the objective is number one to increase manufacturing capacity capability so we are looking at that as one objective the second objective is obviously to look at geographies and Europe is a part of our geography that we want to expand it was discussed in the previous con calls also that we are looking at different geographies so definitely looking in prominent geographies is we are seeing a churn not saying that we may also get M&As in different geographies but right now our Wishlist will be Europe and obviously manufacturing capabilities.

Yogesh Tiwari: Sure and we did an acquisition TimeCap Labs which is a few years ago where we wanted to actually cut the distributor chain so just want to understand if you can share any synergy, the synergy we are getting from it and has it led to increased margin in the US business because of cutting the middleman basically.

Mark Saldanha: It helps us to achieve objectives of market presentation and dependency and be more independent creating a footprint in the market so a lot of intangible values have come in terms of margins I think with that a lot of cost comes involved so I think when you acquire a company and an infrastructure you need to look at a longer objective you do not look at a short term objective and say what I just want 50 million or I want to do 100 million we want to go 200 million so you have to keep increasing your infrastructure base to achieve those objectives but it is helping us in terms of our front end that is helping us in terms of market penetration it is helping us in terms of an identity into a market that we want to establish and grow.

Yogesh Tiwari: Sure and lastly just one confirmation like since we have, now we have OrbiMed so it is like they would be very that would be one of the main drivers for like they will help us in taking vision on M&A and other things that would be their major contribution like since we are looking for acquisitions so there would be a major consultant in terms of that, that would be the idea.

Mark Saldanha: So Yogesh OrbiMed is working closely with the company let us get existed that said and done they are not going to work for the company but they are working closely with the company they have global networks they add value in terms of connections, in terms of identifying potential M&As but that does not mean we are just going to do what OrbiMed says, it is a teamwork they are on the Board we do brainstorm everything that is available to us whether they have got it or whether we have got it that is not the criteria it is basically looking at geographies and what the company needs but definitely OrbiMed networking is absolutely fantastic and good and I think that will help.

Yogesh Tiwari: That is very helpful. Thank you.

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

Mark Saldanha: Thank you everyone for participating. I know it is a busy weekend, I would like to thank everyone out here including Jitendra and Cyndrella for organizing this call. I would like to wish you all a great weekend and hope again you and your family are safe and be safe at all times. Thank you.

Moderator: Thank you. On behalf of Centrum Broking Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.