



Marksans Pharma Ltd.

**Q2 FY23 Earnings Conference Call
November 16, 2022**

Management Participants:

Mr. Mark Saldanha

Chairman and Managing Director

Mr. Jitendra Sharma

Chief Financial Officer

Analyst:

Mr. Nitin Agarwal - DAM Capital Advisors Ltd

Moderator

Good evening, ladies and gentlemen. I'm Krithika, moderator for Marksans Pharma Q2 FY23 earnings conference call hosted by DAM Capital Advisors Limited. As a reminder, all participants will be in 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 touch tone telephone. Please note this conference is recorded. I would now like to hand over the floor to Mr. Nitin Agarwal from DAM Capital. Thank you and over to you sir.

Nitin Agarwal

Thanks Krithika. Hi, good evening everyone, and a very warm welcome to Marksans Pharma's Q2 FY23 & H1 FY23 earnings conference call, hosted by DAM Capital Advisors. On the call today, we are representing Marksans management Mr. Mark Saldanha, Founder, Chairman & Managing Director and Mr. Jitendra Sharma, Chief Financial Officer. I will hand over the call to Mark, to make the opening comments and we will open it for questions.

Mark Saldanha

Hi, Nitin, thank you and welcome and thank you everyone for joining us on our Q2 FY23 & H1 FY23 earnings. I'm pleased to announce, that we have had a strong financial performance, and a high double-digit growth across all the regions in the quarter. Our robust growth comes from regions which were supported with obviously, volume growth as well as market share gains in existing products. A strong revenue growth, and a focus on cost efficiencies, resulted in an improved margins of 17.7% in the quarter.

Moving on to the operational environment, it continued to remain tough with high inflation, supply chain challenges and pricing pressure. We witnessed high single digit price erosion in generic Rx business in the US. Our focus remains on sustainable growth. Manufacturing and innovations are a strategic pillar for growth. In October 2022, we acquired a manufacturing facility from Teva India, that has a potential to scale up our manufacturing footprints in India, by an additional 8 billion units per annum, over the period of next two years. This will drive our transformational growth journey moving forward. We plan to produce and manufacture tablets, hard capsules, soft gelatin ointments, creams, and liquids from this plant.

This plant is in addition to the three existing manufacturing facilities in UK, US as well as in India, which we already have. This plant is basically spread across 47,597 square meters. It has approvals from EU health authorities, the Health Canada, and the Japanese health authorities. We are expecting this transaction to be finalized by April 1, 2023, subject to the usual closing conditions. In our previous calls

we've always mentioned, and we are still moving forward, to backward integrate ourselves into API manufacturing on our core molecules for captive consumption. That will potentially have cost synergies and potential gross and EBITDA margin expansion of 500 bps.

Our focus on R&D remains, with a product pipeline being very strong we plan to launch several products with high value in the next two years. R&D expense was 2.1% of the revenue, at Rs. 18.7 crores in H1FY23. We further aim to increase R&D spends, between 4-5% of sales in the coming years. We are confident that our market share gains, the volume growth in the existing product portfolio, supplemented by new molecules, will drive our growth journey in the coming quarters and years. We do see potential growth demand in Rx and OTC, and in the segments that we are already existing in various markets, and especially the Rx to OTC switch which obviously is very lucrative.

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

Jitendra Sharma

Thank you, Sir. I will explain the financial performance of Q2 FY23. For Q2 FY23, our operating revenue was Rs. 452.6 crores, an increase of 25.5% compared with Rs. 361.2 crores last year. US and North America was at Rs. 190.3 crores, representing a 13.7% increase year-on-year basis. EU and UK formulation market grew by 32.6% to Rs. 193.5 crores. Australia and New Zealand formulation market recorded 39% growth to INR 43.9 crores. Rest of world saw 56.4% increase in the sales, to Rs 24.9 crores in Q2FY23.

Gross profit was at Rs. 229.4 crores, up 23.4% year-on-year. Gross margin declined by 80 bps from 51.4% to 50.7% in Q2 FY23 due to the pricing pressure. EBITDA was at Rs. 80.3 crores, an increase of 33.6% year-on-year, led by operating leverage. EBITDA margin improved by 110 bps from 16.6% in Q2 FY22 to 17.7% in Q2 FY23. Profit after tax was at Rs. 60.1 crores in Q2 FY 23, compared to Rs. 46.3 crores in Q2 FY22, a growth of 29.9%. EPS for the quarter was 1.52, a 36.3% growth on year-on-year basis.

Operating revenue was at Rs. 886 crores in H1 FY23, up 24.8% year-on-year. The gross profit for the first six months of FY23, increased by 20.4% year-on-year to Rs. 448.3 crores. Gross margin was at 50.6%. EBITDA for the first six months of FY23 was increased by 11.4% year-on-year to Rs. 153.1 crores; however, EBITDA margin declined by 210 bps, from 19.4% to 17.3% in H1 FY23. This was mainly on account of increase in cost of materials, freight costs in the last quarter.

In the first six months of FY23, PAT grew by 10.5% year-on-year basis to Rs. 120 crores. The earnings per share grew by 14.1%, to Rs 2.99 per share. We spent Rs. 18.7 crores in H1 FY23 in R&D, which amounts to 2.1% of the sales. We continue to remain debt free; we had a total of Rs. 335 crores of cash and bank

balance as of 30th September 2022, which we plan to utilize for capex and funding our inorganic growth strategies.

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

Moderator

Thank you, Sir. Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please press * and 1 on your telephone keypad, and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again.

The first question comes from Madhav G., from Shastra Capital Private Limited, please go ahead.

Madhav G.

Greetings, good evening and congratulations for the good numbers and thanks for the opportunity. So, my question is regarding the new acquisition what we made for the Teva Pharma. So, the acquisition cost is Rs. 200 crores, and so over and above that, what would be the expected Capex amount on this facility, Sir?

Mark Saldanha

No, the acquisition cost basically, the amount we plan to spend including the acquisition cost and Capex is Rs. 200 crores

Madhav G.

Okay, thank you, and one more thing, what is our plan for US sir, are we going to make it for the US market?

Mark Saldanha

Yes, obviously we will have to get this plant registered in the US, but we do plan to obviously utilize infrastructures for both Europe as well as US.

Madhav G.

Are we able to use any of the products and start getting revenues from this plant, Sir?

Mark Saldanha

Did you say when will we get the revenues?

Madhav G.

I'm saying, this is business from Teva. So, they may be supplying some products on this manufacturing facility to Teva Pharma.

Mark Saldanha

So, we would have a supply arrangement with Teva, spanned out for the next 12 months after the acquisition is closed. After that, we will be taking a call on extending the supply arrangement, if need be. But we do plan to also produce our products for various markets.

Madhav G.

Okay, Sir can be from the first year, will it be EPS accretive.

Mark Saldanha

So, the Capex will obviously be within the next two years, it's not going to all happen in one year, because there's a lot of capacity expansion that we have to work on. But we will be doing some revenues in the first year itself, which will be supply arrangements with Teva, and some of our products that we'll be producing in that plant.

Madhav G.

Okay, one last question. Is there any plan to ship some of the products from the existing Goa facility to Teva?

Mark Saldanha

Basically, there will be some products, but we'll have to only move products which have European approvals, because Teva presently has European approvals. So, we will be probably leveraging the Teva plant for those products which are required for UK and rest of Europe.

Madhav G.

Okay, okay. Thank you very much. All the best.

Moderator

Thank you, Sir. Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad. I repeat, if you have a question, please press * and 1 on your telephone keypad.

We are having a question from Prerit Choudhary, from Green Portfolio. Please go ahead.

Prerit Choudhary

Thank you for the opportunity. The first question I have is, we acquired Access Healthcare in June 2022. So now in this quarter, we would have the full effect of this Access acquisition. So, if you can just give me the breakup of how much revenue that we made from Access in the current quarter.

Jitendra Sharma

Hi, this is Jitendra here. So, see the AHC is a relatively small business. For this Q2, we have achieved a revenue of AED 5 million, which will be translated into equivalent of Rs. 12 crores.

Prerit Choudhary

Okay. My next question is, so we are planning a API backward integration project. So, what is the numbers for Capital Work in Progress, I'm not seeing any update? So, if you can just explain a bit about when this project would start? And what would be the sources of funds for this.

Mark Saldanha

So basically, the API, obviously, we plan to file our first DMF, because it's a long process, it still needs approval, it still needs to come on to our license. So, we plan to basically file a first DMF in the mid of 2023. So, I do believe any upside in terms of leveraging of profitability, will happen only towards the end of FY23-24, next financial year.

Prerit Choudhary

So, once we start making the API are we planning to sell it to the outside market or only use for captive?

Mark Saldanha

It is solely for captive consumption.

Prerit Choudhary

So, my next question is, in the balance sheet, I'm looking at is goodwill has grown from 300 million to 470 million, if you can give some explanation of why we have grown the goodwill?

Jitendra Sharma

This goodwill was on account of acquisition of Access Healthcare. So around Rs. 17 crores has gone into goodwill, on purchase price allocation of what consideration we have paid for the acquisition of the company.

Prerit Choudhary

So, my last question is, in the accounts, we have around Rs. 18 crores as restricted cash balance. So, what will be the use of this money?

Jitendra Sharma

Basically, this restricted cash of Rs. 18 crores is into escrow account, which we have kept towards the buyback of shares, the buyback program is going on right now. And as per the SEBI requirement, we have kept 25% of the overall buyback budget into the escrow account.

Prerit Choudhary

Okay. Thank you, that's all from my side.

Moderator

Thank you, Sir. Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad.

I repeat, if you have a question, please press star and one on your telephone keypad. We will wait for a moment while the question queue assembles.

We are having a question from Nitin Agarwal from DAM Capital, please go ahead.

Nitin Agarwal

Mark, on the US business, while you are ramping up your filings, what is the kind of filing target that we have in mind over the next couple of years?

Mark Saldanha

We have very close to 30 odd products that we are working on right now, and we are expecting as a matter of fact, approvals every year and probably, every half yearly, we will see approvals coming in 2023. I think 2023, we'll probably see about five ANDAs getting approved. And then, on an average, maybe seven, eight products approval per year. So, we are targeting about 30 odd products for the US market.

Nitin Agarwal

In terms of composition of these products, what will be the split between OTC and Rx products in the approvals that you are expecting?

Mark Saldanha

Yes, so obviously it will be about probably 65-70% will be in OTC and the balance will be in Rx.

Nitin Agarwal

Okay, and on that account on the current portfolio that we are marketing, what is your assessment, how much of the incremental sales potential do we have in the current sort of portfolio of ANDAs?

Mark Saldanha

Well, obviously, it's just at the tip of the iceberg, we have not penetrated anything significantly, but we are still doing decent numbers. I do see next year, our growth drives happening from the US, because we have been awarded items, and we do plan to commercialize by March of 2023. So, we do see a much more healthier roadmap for next financial year. And with this our market share will slowly start growing, I think we have a tremendous growth potential in terms of market penetration, market share on our existing product portfolio. Obviously, the new products will just be the icing on the top.

Nitin Agarwal

We've seen a fair amount of disruption, which has happened on the generic side, prescription side of the business in the US. There have been a lot of questions around the price erosion which has happened, how has been the business on the OTC side, the market environment on the OTC side, has the pressure been as severe in the OTC business?

Mark Saldanha

Well, the OTC, in terms of pricing pressure, was not as bad, because you know OTC is more on private label more on, it's a much more sustainable business model. But there was obviously, profit margins because of cost of inputs going up, and freight going up, everything of that stuff going up. So, obviously the advantage of the OTC is, while you have better visibility, you have a sustainable business model, you have contracts for a longer duration.

The negative side is you're stuck with a contract, and you've got to honor it and if you're costing or pricing or other intangible costs goes up, because of various issues, it does have an impact on the bottom line.

But that said and done, now we see the freight costs coming down, we see a lot of raw material pricing being eased. So, we do see a better profitability being generated, and revenue growth is anyhow quite stable, and moving in a positive direction where OTC is concerned.

Nitin Agarwal

Last one on that Mark, so when you are typically competing for these bids, with these retailers in the US or with the customers in the US, what is the typical nature of competition that you have to contend with, how many typical players and are there players from India, because typically on the generic side, prescriptions is where essentially bulk of the problem for the industry essentially originated from.

Mark Saldanha

So, obviously the players are, you have all the big guys out there, most of the big guys have entered into the foray of OTC. So, in terms of the largest player, you'll obviously have Perrigo, but beyond that, you have a lot of Indian players that are into the OTC. A lot of top Indian pharmaceutical companies which have entered into the OTC foray. So, competition is there in every area, the only difference between OTC and Rx, is Rx, the distribution channel has consolidated tremendously, and that consolidation has affected competition and price erosion, which has taken place as a cascading impact of that, while OTC is still fragmented and diversified, where that is concerned.

Nitin Agarwal

Thank you. Last one is on the UK market, this seems to be going pretty well in H1, has anything really changed in the market for us, and given whatever is happening in the continent or out there, what do you see is the outlook for our business in the next couple of years?

Mark Saldanha

I think outlook is only going to get stronger, because of the product pipeline that we have and the nature of the products that are getting approved. So, we are looking much more healthier, much more stronger. We also penetrating into the market, we have become very prominent players over a period of time, consistent deliveries. We have a much bigger product portfolio in the UK market, as compared to the US.

So, Relonchem must be having over 100 plus market authorizations, while Bells has got about 60 odd market authorizations, so much more diversified and wider product portfolio in the market, in the UK market. And that has given us obviously, an advantage to basically cater to a much more diversified portfolio, as well as we are more consistent and preferred source of partnering with. So, we are seeing definitely better market share. But all said and done, I do believe there's a better visibility, better growth potential because of the product pipelines that are coming into that market in the next 12 months.

Nitin Agarwal

Thanks, Mark, I'll join back in the queue

Moderator

Thank you, Sir. So next question comes from Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave

Thank you very much for the opportunity, Sir. I missed probably 90% of what you have said, because the line was just terrible. And I'm pretty sure it was not from my end. So, I'm very sorry, if my questions are slightly repetitive.

Sir, one thing is that this quarter, I was expecting some sort of a hit on the FX side. So, was there a hit? If not, then will we get a hit in the next quarter? How have you managed cross currency risk? That's the first question.

Jitendra Sharma

Hi, this is Jitendra here. So, fortunately of course, like you know the rupee has weakened in the first half of this year. Our revenue are 100% export oriented so, we have gained, of course there is a foreign exchange gain only.

Agastya Dave

Sir, adjusted for that, what would have been the EBITDA margin? Any adjustments that you can provide?

Jitendra Sharma

Not significant.

Agastya Dave

Okay. So, next question is that, we have been talking about margins going back above, close to or above 20%. So, given the pipeline and given the strength that you are seeing and the new filings, when can we expect that 20% margin for the entire portfolio, for the company as a whole?

Jitendra Sharma

The guidance we had given earlier for this year was around 15% EBITDA margin and yes, we are doing better now. For the first half, it's almost over 17%. So, with the trend like you know, which we are seeing now in the input cost price reduction, and the freight costs also have started coming down. So, we expect to do better in this year. Hopefully, if this trend continues, we will see that number next year.

Agastya Dave

So given the price movement, because raw material prices are correcting, my guess is that some of the finished good prices will also come off, but then if there are new launches which are happening, and there is a natural tendency of pharma products to lose some of their pricing. So, if I look at the combination of everything and I look at Q2 revenues of Rs. 453 crores, this portfolio what you have today, what kind of growth are you expecting over the next two years? The current portfolio, I'm not talking about the new filings.

Mark Saldanha

So, we are trending obviously, this year we are trending at Rs. 1,800 crores revenue and we do believe this product portfolio will see us crossing Rs. 2,000 crores in the next year. So, we do plan to achieve what I have always committed, in all our discussions in the previous conference calls, that we are moving in the path of crossing Rs. 2,000 crores in the next financial year.

Agastya Dave

And just to be repetitive here, but this is coming from the existing portfolio and existing like, pure organic growth of the existing portfolio.

Mark Saldanha

Yes

Agastya Dave

Okay. And then the filings that you have, the OTC and the Rx filings, what kind of market potential do you see there, and how rapidly will they grow? So, my guess is that anything will launch in UK will obviously grow very fast. Anything you launch in the OTC will grow very fast. But on the on the Rx side, what would be the ramp up that we'll see?

Mark Saldanha

So basically, obviously our first objective, our first milestone is Rs. 2,000 crores, but I've always maintained that, now that we have got the platform, we've got a lot of product pipeline, I do believe, we will after crossing that milestone of Rs. 2,000 crores, I think, we should be moving towards probably the next milestone of Rs. 3,000 crores within 1/3rd of the time that took us to jump from Rs. 1,000 to 2,000 crores.

Agastya Dave

Okay, so final two questions. I did hear you were talking about your backward integration project. So, can you please repeat what you said? And the last question would be that you were also looking at probably acquiring something on the front end in in the EU markets. So, any progress on that?

Mark Saldanha

Well, just to address your backward integration, obviously, this has been a longer project than we had planned for. And we are planning to file a couple of DMFs in the mid of 2023. These are again molecules, where we have captive consumption, and where we are growing by strength. So, we will be seeing some obviously after filing DMFs, we still need to get it onto our licenses, because they all ANDA products. So that that takes about six to nine months to get it. So hopefully, we are expecting by the end of 2023 or early 2024, we should see that profitability kick into the system, the cost advantage kicking into the system. And that's where we do see our margins also improving slightly from a cost efficiency point of view.

With regards to the EU, we are still pursuing that part of it, we do plan to expand in our geographies, it's always been our aim. We are looking, we are exploring different M&As. We have been in active dialogue over the last couple of six months, and some dialogues are closer than the other, but nothing concrete to put pen to paper or nothing concrete which is worth talking of, because these are at very initial stages. But you know, we will keep pursuing it, and we are hopeful that we will come across some M&As, which will add tremendous value to the company and the shareholders.

Agastya Dave

So, nothing imminent as such, as of now?

Mark Saldanha

In M&A, it can happen within a couple of months or maybe in a year's time. So, it's difficult, but we are actively looking at it.

Agastya Dave

I get the point. That's about it. Thank you very much. I would really appreciate it, Sir, whatever your opening remarks were, if they can be posted on the exchanges. It would be nice to go through whatever you have said, I couldn't hear anything. Thank you very much. Congratulations for a very good quarter.

Moderator

Thank you, sir. Next question comes from Manoj Matthew Jacob, an individual investor, please go ahead.

Manoj Matthew Jacob

Hello, congratulations, Mark and Jitendra. My first, my first problem was, I couldn't connect to you because I had a problem with the line. In fact, this con call was the worst ever concall by DAM, by the people who coordinated the concall. Okay, so my first question, my first question is, is your buyback over?

Mark Saldanha

No, the buyback is still going on. We have completed about 50% plus of the buyback.

Manoj Matthew Jacob

I know, but there has been no buyback for some time. I mean, that's why I was asking, is it over?

Mark Saldanha

No, it's not yet over.

Manoj Matthew Jacob

Okay. Question number two. As you had said earlier, from your present product portfolio, you will be doing Rs. 2,000 crores. But how about, with Teva coming in? Would you be doubling this Rs. 2,000 crores?

Mark Saldanha

So, I would like to say, that's a very good question actually. But Teva basically, we have to work on expanding the capacity of what we are acquiring. So, we do have, we have projected a spend of nearly Rs. 200 crores into this project, which includes the acquisition cost and the Capex, I do believe that once we achieve that objective, Teva would basically be doubling our present capacity, if not more, of what we presently have in our present plants.

So, with new capacity of that magnitude, and that volume, will definitely give tremendous potential for growth, and that's where we are, you have to invest today to see returns tomorrow, and that's where we do believe that with what Teva basically opens up, the potential what it opens up, we can definitely increase our revenue and reach the next milestone, maybe Rs. 3,000 crores.

Manoj Matthew Jacob

Okay. The next question is, is this turnover of Rs. 452 crores, has it come because of the forex benefit, or has it come with drive in volumes?

Mark Saldanha

Sorry, I didn't get that.

Manoj Matthew Jacob

The Rs. 452 crores you did this quarter, was it because of the forex depreciation, the rupee depreciation or was it because of the drive in volumes?

Mark Saldanha

It's a drive in volumes, prima facie. We have grown in terms of revenue in all the continents and all the geographies that we're doing.

Manoj Matthew Jacob

Okay. And the next question, Teva, as from April 1, will belong to Marksans. So as of today's capacity, what volume do you expect from Teva, as of today's capacity?

Mark Saldanha

From April, the Teva capacity, prima facie is not very large. So, it's probably one and a half billion tablets maximum.

Manoj Matthew Jacob

Okay. So, in one quarter can we add Rs. 100 crores?

Mark Saldanha

No, Rs. 100 crores per quarter is not possible. I'm talking of, a billion and a half tablets for the whole year. So, that's not a very large volume, but we are going to increase it, and we are working on Capex

aggressively out there. So, then obviously, we will achieve, maybe Rs. 200 crores once we hit our objectives of increasing capacity, we probably achieve maybe Rs. 200 crores per quarter, if not more.

Manoj Matthew Jacob

Okay.

Mark Saldanha

Right now, the capacity is low. So, we have to increase our capacity on that.

Manoj Matthew Jacob

Okay. Thank you, and congratulations once again.

Moderator

Thank you, Sir. Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad. I repeat, if you have a question, please press * and 1 on your telephone keypad.

We are having a follow up question from Madhav G. from Shastra Capital Private Limited. Please go ahead.

Madhav G.

Thanks for the opportunity. What is the current status of input prices, like freight costs, the input RM prices? Is there any reduction are we seeing in the current quarter, in the future also?

Mark Saldanha

So, the freight cost has come down definitely from what it was historically high. And that is helping our bottom line, which was actually eroding a lot of our bottom line. So, I do see some better profitability in the coming quarters. But the input cost is slightly, I would not say high but slightly improved. I mean, it has cooled down from an upward trend, we are seeing it coming in a downward trend, but it is at a very slow pace. So again, but the global market scenarios are so volatile. With the war still raging in Russia and Ukraine, no one has a crystal ball to see as to what impact it will have. Obviously, China has got its own challenges of lockdown. So again, we are very cautious in terms of giving any forward-looking statement, but as of today, it is looking positive, it is improving to that level.

Madhav G.

Okay, so do we have any regulatory audits from the last concall to today, Sir?

Mark Saldanha

I didn't get you. Could you repeat that?

Madhav G.

Any regulatory audits in all the three sites the last three-four months? Do we have?

Mark Saldanha

I mean, in UK, we have had audits, UK audits, our UK plants have been audited. But out in India, audits can happen anytime. So, it does not matter whether you've been audited or not audited, they can come anytime.

Madhav G.

Was there any audit on the US facilities Sir?

Mark Saldanha

I didn't get you. Could you repeat that?

Madhav G.

We have one facility in the US as well. Right?

Mark Saldanha

Yes. So that that gets audited very frequently, obviously, once a year, twice a year, but in US is different, they come in anytime, because it's a local audit.

Madhav G.

So, there are no critical observations, we are through in all the audits as of now, right?

Mark Saldanha

Again, US audits can happen anytime. So, you have to take note of that. Yes, as on today, we have a GMP status. We are working on it. There are no observations, and obviously we work towards a brighter future tomorrow.

Madhav G.

And then last was that I think so we are well prepared. Actually, we are launching, we are actually accelerating our momentum into the regular markets. 34 filings means there's a very good number for the size of Marksans. I think at the leadership level, the facilities and the filings, I think this facility will be taken care, and I think properly teams are establishing in terms of getting things rightly done? Am I right Sir?

Mark Saldanha

Thank you. I didn't get most of that. We are moving in the right direction, because as a company, we are evolving, and we've reached a stage where visibility and growth is much more stronger and better out here.

Madhav G.

Only one thing I'm processing Sir, because of when actually we are accelerating the filing pace, so definitely there will be certain regulatory issues may crop up. What I'm saying is that so I think the leadership sectors are properly placed, to see that things will be going smooth functioning, that's what I'm expecting from your team Sir.

Mark Saldanha

Well, we are working hard to basically achieve all objectives.

Madhav G.

Thank you, Sir.

Moderator

Thank you, Sir. Next question comes from Utsav from DAM Capital, please go ahead.

Utsav Kedia

Hi, Sir. Thanks for the opportunity. So, I wanted to know about your plans in the Australia and ROW markets? That's my first question.

Mark Saldanha

So, the Australian market, obviously, we had a bit of a challenge in terms of pricing pressure in terms of profitability part of it, for the first time actually, because of freight and because of disruptions, supply chain disruptions. But we do believe that the Australian market will grow. We are seeing growth, we have evolved over the many years. It's a smaller market, population is small. So, obviously, in terms of the absolute numbers, it will always remain small, but I do see a growth happening there.

The other emerging markets, I think we are doing fairly well. We do see us doubling our revenue in the next couple of years. So, it is getting strong, we are expanding into different geographies, and our product portfolio is getting stronger. So, we do see that adding value both in the top line as well as the bottom line. So, I'm quite optimistic where that is concerned.

Utsav Kedia

Okay, thank you for that, Sir, and my next question was around the distributor model in these markets. So, where do you have a front-end presence? Do you have a front-end presence in any of these markets?

Mark Saldanha

Obviously, Australia, we do have a front-end market. The rest of emerging markets, presently we do distributors market and marketing collaboration with front ends.

Utsav Kedia

Lastly, Sir on your M&A plan. So, you spoke about some M&A transactions on the call. So, can you explain what kind of areas would you be looking for markets and if you'd be looking at some vertical integration in other markets through M&A, so if you could add some colour on that?

Mark Saldanha

Well, presently in M&As, we are exploring the pan Europe market. Now, they will be obviously front-end market authorizations, pretty much what we have in UK, we will be expanding into other geographies of Europe. But that said and done, that is right now on the horizon that we are pursuing. We are actively in discussions; we are talking to various companies. And that's a geography of interest for us right now.

Besides that, we don't have anything on our plate, any other geographies on the plate to discuss, but again, M&As are somethings which sometimes opportunities come and then we have to explore it, at that particular time.

Utsav Kedia

And what would be the potential size of a deal? I mean, what's the total potential target size?

Mark Saldanha

It's difficult to say because we don't have a target right now in hand, so it's difficult to actually put a potential target. But again, we are looking for a platform to launch our products, we are looking for a platform where we can have distribution channels, and where we can add value.

Utsav Kedia

Thanks for answering my questions.

Moderator

Thank you, Sir. Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad. I repeat, if you have a question, please press * and 1 on your telephone keypad.

We are having a follow up question from Prerit Choudhary, from Green Portfolio.

Prerit Choudhary

So, couple of questions. You said at the new Teva plant, you will be producing 1.5 billion units per annum. But if I look at the document, the existing capacity of that plant is around 6 billion. And the total capacity is 8 billion. So, would it require to ramp up that capacity? Or how should I look at it?

Mark Saldanha

So basically, we are talking of 8 billion with the expansion capacity that we are working on. So presently, their capacity volumes are low, and it will take us a good six to eight months after we get into the plant, to actually achieve part of that objective. That's where we have given a two-year window period for us to achieve that objective of touching 8 billion capacity.

Prerit Choudhary

Okay, just a follow up question on the API side. So how we will be funding those projects?

Mark Saldanha

It will be through internal accruals only.

Moderator

Thank you, Sir. We are having a follow up question from within another one from Nitin Agarwal from DAM Capital. Please go ahead.

Nitin Agarwal

Thanks, Mark just on the Teva portfolio we have been talking about, for filling up the entire 8 billion target capacity, would you require a significant share of contribution from a newer set of products, or the current set of products can take you to a significant distance there also?

Mark Saldanha

So obviously, since our geographies and our product portfolios are increasing, our market share is increasing, we do need additional capacity. So, I do believe this 8 billion will be more from an additional capacity requirement point of view, that is pretty much double than what we are presently doing with our present facility in Goa. So that will obviously generate that equivalent revenue spurt. And that's where we are very optimistic, after we cross the Rs. 2,000 crores, that's where if we produce more, we can sell more, and definitely, that will be your growth for the next milestone.

Nitin Agarwal

In your assessment, by when do you start reaching optimal capacity utilization of the newer asset?

Mark Saldanha

You're talking of our present plant?

Nitin Agarwal

No, the Teva plant, when will you hit the optimal capacity utilization on the assets or how many years will take you to utilize optimally?

Mark Saldanha

It will be happening parallelly, so today, we do believe whatever capacity we do in, to activate or to start or whatever, presently, they have a very small capacity. So that's where we are taking, obviously 8 billion, to scale up from 1.5 to 8 billion is not going to happen overnight. But as and when we scale up, let's say the first objective will be to get it up to 4 billion, and then we'll do 8 billion, but by the time we touch 4 billion we'll probably be sold out in terms of the capacity of 4 billion, and then we'll be moving towards 8 billion. So, I do believe that we won't be having, we won't keep any spare capacity lying around.

Nitin Agarwal

And lastly, on an overall business mix, what would be, at a global level our share of between OTC and prescription, on an overall global level and how do see it going forward?

Mark Saldanha

So, we have I think OTC is about 65%, Rx is about 35%. Historically it was 50-50, with OTC now taking a little larger share of 65-35, moving forward I do believe it will remain that way, give or take a percentage point here or there, but I do believe it will probably remain in the same mix. May be 65-35.

Nitin Agarwal

Thank you.

Moderator

Thank you, Sir. Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad. I repeat, if you have a question, please press * and 1 on your telephone keypad.

We are having a follow up question from Madhav G. from Shastra Capital Private Limited. Please go ahead.

Madhav G

Thanks for the follow up question Sir. In OTC we are having 65%, from this what is our own label share?

Mark Saldanha

When you mean own label, are you talking of our controlled labels, like Bells or you're talking of a private label?

Madhav G

I'm talking about, we are selling through e-commerce platform, I'm talking about that.

Mark Saldanha

The e-commerce platform is relatively very small, because we've just launched it, not even a year. But it is growing, so obviously in terms of the overall business, it is relatively very small, maybe single digit.

Madhav G

In your presentation I saw that there is store label and own label, so what is the difference between store label and own label?

Mark Saldanha

Well, store label is what we supply to retail outlets, own label is like you said we do the e-commerce and a few of the retail outlets, we promote our own brands.

Madhav G

But the presentation, pie chart was showing somewhere around 25%. That's the reason I'm asking this question. The presentation that was uploaded to the BSE website, that was showing that the own level somewhere close to 25%, the pie chart.

Mark Saldanha

Yes, in UK so own labels we also do Rx in our own labels, not only OTC. All our Rx is basically in our own labels.

Madhav G

Ok sir got it, Thank You.

Moderator

Thank you, Sir. Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad. Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad.

Ladies and gentlemen, this concludes your conference for today.

Thank you for your participation and for using Door Sabha's conference call service.

You may disconnect your lines. Thank you and how pleasant evening thank you.

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- Note:**
1. This document has been edited to improve readability
 2. Blanks in this transcript represent inaudible or incomprehensible words.
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