

Marksans Pharma Q3 FY23 Earnings Conference Call

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Host:

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MANAGEMENT:

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Sidharth Agarwal

Good evening, everyone, and a warm welcome to Marksans Pharma's Q3 and Nine Months FY23 Earnings Call. Please note that all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the opening remarks. Please note that the conference is being recorded. The results, press release, and investor presentation are available on the stock exchanges and the Company website.

I would like to now introduce the management team today on the call with us, Mr. Mark Saldanha, Founder, Chairman, and Managing Director, and Mr. Jitendra Sharma, Chief Financial Officer. A cautionary note that some of the statements made on today's call could be forward-looking in nature and actual results could vary from these statements. A detailed intimation in this regard is available in the Investor presentation, which is available on the stock exchanges and the company's website.

I will now hand over the call to Mr. Mark Saldanha for the highlights. Over to you, sir.

Mark Saldanha

Thank you, Sidharth Agarwal.

Welcome everyone and thank you for joining us on our Q3-FY23 & 9M-FY23 earnings conference call. I'm pleased to announce another quarter of strong performance across all our regions led by volume growth and market share gains in existing products. Strong revenue growth of 32% YoY was also reflected in the similar EBITDA growth. Our EBITDA margins YoY were stable at 16.0% despite high inflation, input cost pressures, and pricing erosion of a high single digit in the US. The supply chain pressures and freight costs have softened in the quarter compared to last year, which is a silver lining for us.

Before we discuss our performance in the quarter, I am pleased to highlight that on January 20th, 2023, we completed raising Rs.372.40 crores through the conversion of warrants into equity shares by OrbiMed Asia and Promoters at Rs 74 per share. With this transaction, OrbiMed Asia now owns a 10.88% stake in the company. We are confident that our strategic partnerships will be bolstered through OrbiMed's deep global healthcare experience.



Marksans strives to strengthen the best governance practices. We continue to value the expertise of OrbiMed's representative - Dr. Sunny Sharma on the Marksans Board. We have MSKA & Associates, affiliates of BDO International, as our auditors. BDO is the fifth-largest global auditing firm.

In Jan-2023, we also completed a buyback of 64.74 lakh equity shares for a total value of Rs 32 crore

Looking ahead, we see growth potential in OTC and Rx markets, especially the switch from Rx to OTC. We remain confident of our growth journey driven by volume growth, market share gains, and new product launches.

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.

Jitendra Sharma:

Thank you, Sir.

Our operating revenue was Rs. 479.8 crores, an increase of 32.3% compared with Rs. 362.6 crores last year. The US and North America was at Rs. 217.0 crores, representing a 37.8% increase year-on-year basis. EU and UK formulation market grew by 25.4% to Rs. 186.8 crores. Australia and New Zealand formulation market recorded 27.6% growth to INR 49.6 crores. The rest of the world saw a 52.0% increase in sales, to Rs 26.5 crores in Q3FY23.

Gross profit was Rs. 240.3 crores, up 23.2% year-on-year. Gross margin declined by 371bps from 53.8% to 50.1% in Q3FY23 due to the pricing pressure and input cost inflation. EBITDA was Rs. 76.6 crores, an increase of 32.6% year-on-year. EBITDA margin was stable at 16.0%, with operating leverage offsetting the impact of high levels of inflation. Profit after tax was Rs. 62.3 crores, compared to Rs. 48.3 crores in Q3-FY22, a growth of 29.1%. EPS for the quarter was at Rs 1.56, 30% growth on a year-on-year basis.

Taking you through the 9 months' performance,

Operating revenue was Rs. 1,366.2 crores in 9MFY23, up 27.3% year-on-year. The gross profit for the first nine months of FY23, increased by 21.3% year-on-year to Rs. 688.6 crores. The gross margin was 50.4%. EBITDA for the nine months of FY23 increased by 17.7% year-on-year to Rs. 229.8 crores; however, EBITDA margin declined by 138 bps, from 18.2% to 16.8% in the first 9 months of FY23. Cash generated from operations was Rs 208.6 cr.



For the first nine months of FY23, PAT grew by 16.2% year-on-year basis to Rs. 182.6 crores. The earnings per share grew by 18.7%, to Rs 4.54 per share.

We spent Rs. 24.5 crores in 9M-FY23 in R&D, which amounts to 1.8% of the sales. We continue to remain debt free; we had a total of Rs. 417 crores of net cash position as of 31st December 2022, which we plan to utilize for capex funding and our inorganic growth strategies. This excludes the 75% warrant subscription amount of Rs 279 crores received in January 2023.

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

Sidharth Agarwal

Thank you, sir. We can now open the floor for questions. Participants may use the Raise hand function or come in by introducing yourself and your company. We would request You to kindly introduce yourself and your company since we need it for record purposes. We will wait for a few minutes till the question queue assembles.

I have the first question from Riddhesh Gandhi. Riddhesh, could you please introduce yourself?

Riddhesh Gandhi

Sure, hi. This is Riddhesh from Discovery Capital and congratulations on your numbers. Sir, just wanted to understand, we are showing revenue growth, despite you indicating high single-digit price decreases. Just wanted your view on, if you see these price erosion to continue in the future or you see it actually abating. And also, just to get an understanding of the reason, we've been able to gain share, is it because we have kind of reduced our pricing, or is there is something else which is led to an increase in our share

Mark Saldanha

Yeah. Hi, good evening. So, basically, the pricing pressure, price erosion, still continues in all the first-world countries, especially US. We do see it stabilizing at some time. The scenario is highly volatile where raw material prices are also on the decline. So that again raises all the questions of pricing pressure. Our market gain has been obviously because of service, because of our new product launches because of our positioning, and our product basket that we offered now in those markets, especially in the US. So, we are the preferred choice, and we are catering to

segments in total. So that's where we have achieved the market penetration, reliability, and sustainability. So that's where we basically have succeeded and actually gaining some market share, overall.

Riddhesh Gandhi

That's helpful. And sir, if you could also throw some light on, do the backward integration, you guys were looking into API, and any timelines on to that?

Mark Saldanha

Yeah. So with regards to the backward integration, what we have done is, besides doing our R&D as work, we are going with the CDMO our strategy presently, because we have our hands full there. Obviously, we are working on the Teva integration and the acquisition and the integration of Teva will be our immediate focus. So we are actually working on the CDMO strategy, but we do plan to file our DMFs in the calendar year of 2023, that's this year.

Riddhesh Gandhi

Got it. And then effectively we would be looking at commercialization then would still be, let's say three years away, two years to three years away?

Mark Saldanha

Commercialization will be relatively fast, but there is a process because once we file our DMF, we still need to get that DMF onto our licenses. Actually, that process is longer than actually developing and filing a DMF. So, because you know getting an active raw material onto a license could take anywhere between six months to nine months after we file the DMF. So we are working on parallel grounds, but you are looking at a year-and-a-half in total.

Riddhesh Gandhi



And the last question with regards to effectively going ahead, do we, can continue to be able to see this kind of growth trajectory? And is there, hello, any sort of abatement in terms or the inflationary pressure, and therefore potentially coming back to that 18% to 20%, the EBITDA level?

Mark Saldanha

So, I think we will maintain our growth trajectory. Like I've always said in my previous calls, we are poised to cross 2,000 crores in the next financial year. I think, so we are moving in that direction. I don't see any hurdles coming out there. I think with regards to pricing pressure, it's just the nature of the beast that we are into that. So, we know the nature of the game very well by now. But I don't foresee any challenges appearing from that angle. So, we should be pretty much as per what I mentioned in the last couple of quarters.

Riddhesh Gandhi

Right. Thank you, sir, and all the best.

Mark Saldanha

Thank you.

Sidharth Agarwal

We'll move on to the next question, CAO Capital. Could you please introduce yourself and ask your question.

Agastya Dave

Yeah, am I audible?

Mark Saldanha — *Managing Director and Chief Executive Officer*

Yes, you are.

Agastya Dave

Yeah, hi, this is Agastya from CAO Capital. Congratulations for the great numbers. I think in the sector you guys have probably delivered the numbers. I could be wrong, but great performance.

Mark Saldanha

I'll take that compliment.

Agastya Dave

Yeah, because these numbers were really bad in the sector. And thank you for hosting this call over Zoom. Last time, we had requested you to do the same and you guys took the suggestion. Thank you very much for that, as well. Sir, my questions are kind of an extension of what the previous participant was asking, but I'll concentrate more on the cost side. So, there are so many moving pieces, as of now, as you mentioned that raw material prices are coming off and freight costs are also coming off, yet, there is an element of inflation, right. So how long do you see inflationary pressures continue to reflect in our P&L? Because I'm pretty sure on the margin, costs are coming off, but you must be sitting on some inventory, and there will be some lag effects. So, on the cost side, when can we expect some sort of stability? Do you have any visibility on that?

Mark Saldanha

Agastya, that's a very good question, yes, you are right, we are sitting on some material and especially because if one noticed in the month of October, November, and December, China had all these issues of lockdowns and there was absolutely a standstill with China and at that time, obviously, we decided to increase our inventory holdings, so that we can service our contracts and everything on that stuff. So the position is very fluid, but one positive silver lining, like I mentioned earlier is the freight cost has come down and that is some relief.

Agastya Dave

Okay.

Mark Saldanha

But the raw material situation is that we are sitting on very close to six months of inventory on raw materials or finished products which are at a high cost, But we do see, now that the China has opened up and now that things are cooling down or coming down. We do see the raw material situation to further improve and this impact or this advantage you could see maybe post six months.

Agastya Dave

Would we see a couple of quarters of some inventory losses? Are the finished goods prices falling fairly steeply?

Mark Saldanha

No, no, because we have contracts. So basically the finished goods prices will not change overnight. But however, the margins will also not improve overnight. We'll see some better days like I mentioned, once the new raw material pricing come down, but I must caution you that while raw material prices do come down, as and when you go for new contracts there will always be a correction in pricing or pricing pressure happening.

So, the market, the market is in, especially in the US is, just coming off a pandemic, it's coming off the flu season, it's coming off the virus, that was a there. The virus that was prominent. So, what happens is, there is always a correction in the distribution channel. And doing that correction distribution channel, you do see a slight slowdown happening

Agastya Dave

Yes, yes.

Mark Saldanha

Honestly, companies get a bit desperate in terms of pricing. But that said and done, we are confident of achieving our objectives and hitting our forecasted, numbers.

Agastya Dave

Right. Sir, I was coming to that point also, can you give some idea as to what kind of channel inventory is out there as of now, because I would say, it was very rational of the company to stock up on inventory, given the situation in China in October, November. But I'm pretty sure that channel would be filled with inventory as well. And also along with the freight, transit times are also compressing. So that also has this result of just liberating a lot of material in the supply chain, right, which was earlier getting caught up in transit. So given all of this, do you think there is any risk of significant channel destocking? Or do you think those situations are under control overall? And we should not see any significant slowdown in primary sales?

Mark Saldanha

In primary sales, the only slowdown can happen more seasonal or more because of COVID, or the lift up, or the distribution channel, basically being overstocked due to like I mentioned, the flu season, the COVID or the viral outbreaks that happened in the last quarter. But with regards to destocking and with regards to Access stocking, I don't see that having a materialistic impact in movement, in terms of units being sold or distribution or value being eroded presently.

Agastya Dave

Great, sir. And one question to your CFO. Sir, I just wanted to reconfirm the cash that you guys have received post-conversion of warrants is INR279 crores, over and above INR417 crores of cash as on December?

Jitendra Sharma

Yes, that is correct.



Agastya Dave

INR279 crores. And sir, can you also share the final fully diluted share count now after the warrant conversion and after the end of the buyback?

Jitendra Sharma

See, the final, the share, issued share capital is around 45 crore shares now.

Agastya Dave

Okay.

Jitendra M. Sharma

We have intimated the exact numbers to the stock exchange.

Agastya Dave

I'll check it again, sir. Thank you very much, sir. Thank you. I'll go back in the queue. Sir, I may have a few follow-up questions, but I'll go back in the queue now. Thank you.

Jitendra M. Sharma

Yeah, thank you.

Sidharth Agarwal

Utsav Jaipuria, DAM Capital, please go ahead

Utsav Jaipuria

Yeah. Hi, thanks for the opportunity. So my first question was on the US business. So Q-o-Q also it's been about a 12% growth. So is this largely because of the flu season?



Mark Saldanha

I think there is some flu season involvement out there, but it's how the products move in certain seasons, how it moves in certain markets and certain timings. We do plan to show this type of growth, basically year-on-year. So, we don't foresee any hiccups on actually showing growth in the US, and in the next financial year. We should be able to maintain that growth per say, and that will be because of new product launches also that takes place and certain contracts that are being commercialized, which are awarded maybe six months back. So I think it's coupled with a lot of factors.

Utsav Jaipuria

Thanks for that. So on the contract, so this would really be largely in the Store Brand segment, right?

Mark Saldanha

Yes.

Utsav Jaipuria

So what is your typical length of a contract in that segment?

Mark Saldanha

It's normally two years.

Utsav Jaipuria

Okay, two years. And is there any sort of a switching costs for our customers in that?

Mark Saldanha

I didn't get you, could you repeat that.

Utsav Jaipuria

Is there anything that prevents, let's say, a customer from switching to a competitor after two years?

Mark Saldanha

After two years, nothing stops them. You will probably have another bid that comes around and then you have to pitch for the business. But over time, you develop a relation, you have a reliability factor, you have a consistency factor, you have the support factor that comes into play, and it's basically the confidence that they have on you, which puts you in a stronger position to win the contract next year.

Utsav Jaipuria

Okay. That's fair. So I had a question on the Teva plant as well. So what sort of a breakeven timeline, ramp up timeline, are you expecting from this plant? What sort of a payback period are you expecting?

Mark Saldanha

About nine months give or take, maybe slightly here and there. So, we do see the first nine months, obviously, the consolidation phase happening, integration happening. We are growth bump in a lot of money into capex and increasing capacity. So, but I would say, probably take us nine months to breakeven.

Utsav Jaipuria

Okay. So, thanks for answering my question.

Sidharth Agarwal

Now we have Viraj. Viraj, could you please introduce yourself, your company.

Viraj

Hi. I'm an individual investor. Hi, Mark, Jitendra, congratulations on stable results. Couple of questions for you. Mark, you mentioned about this Rx to OTC switch, can you educate us a little bit about what's happening in the end markets, particularly in markets like the UK, which is leading to an increase in OTC, due to this switch?

Mark Saldanha

Yeah, I mean, these are opportunistic moments that one looks for, but products coming out of Rx going into OTC, it's all about timing. And how fast you can actually foresee that and develop your product to file it and get approval on pretty much the same date. But these are opportunities that give you pretty much better value than a normal generic. These situations where our product which was initially an Rx item, but still has high usage goes into OTC, which becomes basically reachable for the consumer who goes to a grocery to just pick it up. So obviously, in such scenarios, the volumes grow much higher than reading for a prescription. So it is an area where, I mean, we are not inventing this, which has always been there

Viraj

And it's driven by the local regulator, healthcare regulator?

Mark Saldanha

It is driven by local regulator and companies, basically, companies who basically propose, show evidence. And obviously there is something called, the regulator obviously does a risk assessment evaluation, they look at the grandfather status, how long the molecule has been in the market, time-tested, the clerical, the risk factors to consumers, of over dosing everything. So there's a lot of factors that go into it, but ultimately it's a regulator who decides that this product qualifies to go into a consumer more of a OTC.



Viraj

Understood, understood. Second question is regarding freight costs. Freight costs have come off meaningfully, have you had the benefit of the freight cost reduction in this last quarter, or is it likely to kick-in Q4 onwards, because there's probably a lag effect.

Mark Saldanha

There is a lag effect, and it will kick-in, in Q4 onwards.

Viraj

Right.

Mark Saldanha

But it's a relief, because —

Viraj

Yeah. Absolutely.

Mark Saldanha

That was a big burden, which was difficult — because freight is a very variable factor. So it's difficult to pass it on to our client or something of that stuff, because it may go up and may come down. So you can't keep going into the client saying, well, it's gone up one day, it's come down the other day.

Viraj

Sure.

Mark Saldanha



So it was a huge drag in terms of the margins.

Viraj

And your record margins will go up by 1% on account of these freight cost reductions going forward or –?

Mark Saldanha

Yeah, slightly one plus percent.

Viraj

One plus percent, okay.

Mark Saldanha

Yeah, one plus percent.

Viraj

Okay, good. And lastly on this API question that the first participant, Riddhesh asked your strategy of going with the CDMOs, now you're not going to acquire an API plant or you're going to have this partnership with existing API players, what does that mean for your margin expansion, because you obviously now going to pay it out as supposed to do in 100% in-house.

Mark Saldanha

Yeah.

Viraj

So do you see your margin expansion as you file these DMFs, and go to the CDMO route, and by how much?

Mark Saldanha

We do see our margin expansion because we would be sourcing the intermediates, we would be sourcing the chemicals, we'd be probably paying them the conversion cost that the only thing. Now that conversion cost, if you run a plant, you'd probably have the same conversion cost itself. And gestation time to break-even a plant from a greenfield project or from an acquisition would be much longer, assuming. Due to a great extent prevent in taking any immediate losses or burden, in terms of the learning curve that you go through in trying to integrate a manufacturing plant of especially into API.

Viraj

Right.

Mark Saldanha

So obviously reason is because we have the Teva acquisition there, which we have done. And we'll be integrating this acquisition on 1st of April. So there were too many things to juggle. So we decided to go down this route, number one, I do believe it will be more economical. And number two, we do see margins improving because we would be in control of the cost factor. Many a times when there is a surge in demand, mostly, you'll see the raw materials price is not going up that much, but a lot of time API companies exploit the situation and increase the price.

Viraj

So more stability in your RM, and hence the margin expansion over time.

Mark Saldanha

Yes, yes.

Viraj

Okay, great. All the very best. Oh, sorry, one last question, but let me come back in the queue.

Mark Saldanha

Okay. All right. Thanks.

Sidharth Agarwal

Thank you, Viraj. Next question is from Prerit. Prerit, could you please introduce yourself and your company.

Prerit Choudhary

Yeah. Hi, I'm Prerit Choudhary from Green Portfolio. So I have some questions related to the numbers. So we are saying that we will be supplying some of the products from the Teva plant to their existing customers till the end of financial year '23. So in the current quarter, did we reward any revenues from the Teva plant?

Mark Saldanha

No, in this quarter, obviously there won't be because we are getting into the Teva plant on 1st of April.

Jitendra Sharma

So the revenue from the Teva plant will start from the next year.

Prerit Choudhary

Okay. All right. And second question is, how much was the revenue from the Access Healthcare business?

Jitendra Sharma

For the first six months, it was INR19 crores

Prerit Choudhary

Alright. And so now, OrbiMed is our — become a key shareholder in the company. So, I mean, how would OrbiMed be helping our company in growth. If you can talk about a little bit.

Mark Saldanha

So, obviously OrbiMed gets a lot of intangible values onto the Board, besides intellectual and discussions that we have strategic discussions that we have. Their exposure and experience in the global market and especially in the healthcare is absolutely valuable to us. Our business model revolves on both organic and inorganic strategies. So, they are exposed to a lot of companies, clients where they do get to us opportunities for exploring our inorganic strategies, it is very helpful to use their strengths and basically help us in our growth strategy, which partly depends on inorganic. That's why we raised the resources or the funds. Over and above that, obviously, having an investor with so much of knowledge in the healthcare does add a lot of valuable discussions that we have in the Board on a regular basis on a monthly basis, on a quarter basis. So, definitely they are adding a good value on to the Board and to the company.

Prerit Choudhary

All right. Okay. So the next question is, so company has a cash balance of INR417 crores, and through warrant subscription INR279 crores. Now we have around INR700 crores in cash with us. So, what would be the breakup. How would we be using these funds in the future?

Mark Saldanha

Yeah, obviously, we have a capex plan, which we have discussed over the last quarter, number one and we still have topay for the Teva deal. So, we'll be paying for the Teva deal maybe in the next couple of weeks. And over and above that, we would have to spend onto the capex plan of Teva. And then we have the inorganic growth strategy that we're pursuing and we are in dialog

few firms, but nothing concrete. But we still need capital to consummate these deals. So that's where we look at a decent amount of capital going.

Prerit Choudhary

Okay, I understood. So the last question is, what would be the guidance of our revenue and margins for the next financial year?

Mark Saldanha

So, obviously we do like I have always said and I repeated same thing in the beginning of the call, we are looking at crossing 2,000-odd crores next year. So that's — that is pretty much what we say there in the last few quarters. Our trajectory is, if one extrapolates the numbers, you can easily get variable line for next year. And based on that, we are confident we will cross 2,000 crores in the next year.

Prerit Choudhary

And on the margin front?

Mark Saldanha

Margin front, I think we will maintain a margin, if not slightly.

Prerit Choudhary

All right. Okay, that's it for me. Thank you.

Sidharth Agarwal

Yeah. Thank you very much, Prerit. Next question is from Vishal Manchanda. So, Vishal?

Vishal Manchanda

Thanks for the opportunity. This is Vishal from Systematix Institutional Equities. So, on Teva, when it is integrated next year conveniently, will we see an impact on your operating margins , as you might take time for you to get the approvals from the clients? Is it fair to assume the impact on margins conveniently?

Mark Saldanha

We do have CDMO contract with them — a CMO contract with them on the existing products that we need to ship out for the next 12 months. But that said and done, I don't see the margins having too much of impact overall. But like I said, the breakeven scenario, we are looking at nine months once we enter the plant — it will take us about nine months-to basically breakeven our operations are there in the plant.

Vishal Manchanda

Will it lead to incrementally invest in the facility?

Mark Saldanha

Definitely we will have to invest in the facility in terms of capex, which we've always said, we are planning to expand. I mean, increase their capacity, their capabilities in different dosage forms. So we are planning to put in a lot of resources out there to scale-up the operation. So I mean, yeah, from that angle, investment will go into capex, but that will also give us additional revenue, So we are looking at Teva giving us a decent, sizable revenue maybe 12 months down the line.

Vishal Manchanda

So can you share a number as to how much they need to invest in the Teva brand over a period of time

Mark Saldanha



So we have budgeted about INR200 crores in overall capex for the Teva plant.

Vishal Manchanda

That include the upfront payment we would make to acquire the facility?

Mark Saldanha

Yes.

Vishal Manchanda

That includes.

Mark Saldanha

Yes, that's included.

Vishal Manchanda

Just need to understand price erosion a bit better. So what I can see is when your portfolio, you also have aging products like Ibuprofen. So do you still see price erosion in such product categories?

Mark Saldanha

Yeah, because price erosion in such categories, obviously, it will be very limited because it's already eroded substantially. But that said and done if raw material prices keep falling down, then obviously competition do try to exploit that situation and towards different pricing. So from that angle, you can look at price erosion happening, but relatively it's a much more stable molecule in terms of volumes, in terms of value, in terms of everything that we have seen so far.

Vishal Manchanda

So is there a thumb rule say as we have seven or eight players in a product category, it may be so that price erosion may not be incrementally happen versus lower competition will remain prone to price erosion?

Mark Saldanha

So price erosion happens when, like I said, when the pricing of materials change, If the material prices are very stable, then price erosion does not take place to that level. But if material prices start going down rapidly, then pricing pressure comes into the finished product also.

Vishal Manchanda

And just with respect to our Rx to OTC Switches, are you targeting any product categories in the US?

Mark Saldanha

We are working on few categories. It's too early to discuss that right now on this forum. But we are working on few items and products, both in Europe as well as in the US.

Vishal Manchanda

Is the Rx to OTC switch, driven by the company or it is driven by the regulator?

Mark Saldanha

It is driven by the regulatory primarily, but it's a push from bigger companies that go on, and instead of waiting and watching, you need to be more alert as to what's happening in the market, and obviously regulatory bodies evaluate, like I mentioned earlier, a lot of other parameters before they actually approve it. And based on the probability factors, we need to start working well in advance, so that we don't miss the bus on the early-to-market strategies.

Vishal Manchanda



Thanks. That's helpful.

Sidharth Agarwal

Yeah. Thank you, Vishal. Any more questions?

Vishal Manchanda

That's all.

Sidharth Agarwal

Yeah. I believe. Lalit was there in the queue, but his hand is not raised. We have Yogansh Jeswani. Yogansh, could you please introduce yourself. Yogansh Jeswani, are you there on the call? Okay, we move on to Jessel. Jessel, are you there? Okay, we'll move on to HN. I guess HN is also not there.

Hiral

Hiral, this is Hiral, an individual investor.

Sidharth Agarwal

Hiral, okay, fine. Yeah, Hiral, please start.

Hiral

So my question was answered. So I just wanted to thank you for your plan to utilize that INR700 crores and more about the Teva facility or the time lines. I think both the questions got answered by the previous participants. So I'm done with that. Thank you.

Mark Saldanha

Thank you.



Sidharth Agarwal

Yeah, thank you. I guess we have Dipesh on the call, Dipesh Sancheti.

Dipesh Sancheti

Hello?

Sidharth Agarwal

Yeah, Dipesh, could you please introduce yourself, your company name?

Dipesh Sancheti

Hi, I am Dipesh Sancheti, and I am an individual investor.

Sidharth Agarwal

Okay, yeah, please ask.

Dipesh Sancheti

I wanted to understand, are we getting any accumulated losses, which will be useful for a tax advantage from Teva?

Mark Saldanha

No.

Dipesh Sancheti

There won't be, okay. And also wanted to understand what is the additional — I mean, what is the risk of additional competition coming in from other Indian companies into the OTC market, which we are in US as well as in UK?

Mark Saldanha

Sorry, could you repeat that?

Dipesh Sancheti

I'm saying what is the risk of additional competition coming in from the other Indian companies into the OTC markets of US as well as UK?

Mark Saldanha

Well, this is not a new market, so I mean, we live with that and we live with competition and like I said, it's the nature of the beast. So we just got to work with that.

Dipesh Sancheti

Because you mentioned that the cost advantage, which we have is the marketing cost in the presentation.

Mark Saldanha

Yeah. I mean because we do not have to increase our marketing team, we don't need to overleverage ourselves, our reinventor cycle all over again. So that's where our advantage arises, but beyond that, I would say that it is — competition will always be there. New players may always come in. While new players come in, some old players exit. So it's a balancing act.

Dipesh Sancheti

Okay. And where do we see our growth coming from in the coming years? Will we see us maximum from Teva

Mark Saldanha



So growth will come from all geographies, Teva with the plant — which we've acquired from Teva, that will help us to service and basically fuel revenue for whatever we produce in the plant, so definitely it's going to service our global demand that is going on and newer markets that we venture out into. So it is very important strategic acquisition that we've done at a decent price.

Dipesh Sancheti

And the 8 billion capacity expansion, which you are planning to do, will maximum happen in Teva? I mean, how much of it will happen in Teva?

Mark Saldanha

I mean, all of it will happen in Teva.

Dipesh Sancheti

All of it will happen. And approximately INR200 crores is the capex which we have budgeted, right?

Mark Saldanha

Yes.

Dipesh Sancheti

Okay. Yeah, thank you so much.

Mark Saldanha

Thank you.

Sidharth Agarwal

Yeah, thank you, Dipesh. We have Mandhan on the call. Mandhan, would you be having a question? Anupam Agarwal?

Anupam Agarwal

Yes, good afternoon. This is Anupam from Lucky Investments. Congratulations on good numbers. So my question firstly is on the number of filings that you have mentioned, basically the pipeline for US and Europe. If you can give some color as to the overall market size, the potential number of competition in those products?

Mark Saldanha

Well, in the UK, we have planned over 34 new filings what we are planning in the next three years. Out of which, nearly seven are planned only in this calendar year 2023, 16, products have already been filed previously or waiting for approvals. So it is a huge product portfolio. It's a huge basket, the same thing in the US. We are looking at only 32 products which are in the pipeline. 20 of them on solid oral, there are some in ointments or some in creams, some in soft gels. It's difficult to narrate the segment and the value of each of them, but these are our future growth drivers that we do believe will add value. It is quite expensive to go and file our ANDA now in the US. So we only undertake that when we feel there is enough of returns and value to be generated from the product. So we are looking at the futuristic growth. But that's said and done, this is not going to happen in one year. So when I talk of 32-odd products, it's over the next couple of years.

Anupam Agarwal

Yeah, my question was not on product-specific answers. I'm asking, basically that 75 products which are in pipeline, which will fructify in the next three to four years. What will be the overall potential of those products?

Mark Saldanha



See, market size will be huge, couple of billion dollars, but that has no relevance because obviously then you have a lot of players in it. If it's a digestive item than a single molecule could be a billion dollar. But do you may have four or five players. You may have players that are very prominent into those segments. So definitely they can give us a good revenue jump, help us to at least get us to a double revenue over time, let's say, in the US, help us to achieve that objective of doubling our revenue over time, if all those molecules do see light.

Anupam Agarwal

Understood. In terms of capacity utilization, how much would that be for the Goa plant currently?

Mark Saldanha

So you are talking now Goa obviously, we have to consider two plants that we have. And with our plan to expand Teva plant to get us 8 billion units that plant will basically be generating more volume than our current existing plant. Slightly more volume in terms of our current existing plant which is very close to 8 billion anyway. So you can just add the numbers of what we are doing presently today, and you can double that from what will come from that plant. So we do see a larger revenue pie coming from the other plant.

Anupam Agarwal

Fair enough. Lastly, just wanted to understand on this Rx to OTC switch. So is it going to be marginally accretive for us and is it going to take time for that to happen or is there going to be with a one quarter, two quarter lag?

Mark Saldanha

No. So Rx to OTC is a long-term plan. So these are items which are, like I said in my to the previous people on the call, these are determined by regulatory authorities and months of visibility comes, you should be ready to file it. And then after filing it, wait for approvals to



happen. So you don't want to file it when it's an Rx item you have to file it when you see visibility happening in the OTC so when it's been switched over an OTC part of it. So these are long-term game plan, like I said, we are not into parafooperating challenges, but these are opportunities that we look out for.

Anupam Agarwal

Got it. Lastly, again on the capex, so INR200 crores capex for the plant and balance would be inorganic acquisition, is it right?

Mark Saldanha

Yes.

Anupam Agarwal

And at what stage of discussions or negotiations are we on that front and what location are we looking at the acquisition to happen?

Mark Saldanha

So it is in different geographies like I've always stressed that we are looking at expanding our footprint into Europe. At what stage, it's too early. There is nothing concrete to put to discuss on this forum right now, but these acquisitions will take additional amount of resources or funds to consummate it. Like I said, there is nothing I can't basically discuss on what stage it is presently because it's too early.

Anupam Agarwal

So the size of the acquisition will be INR400 crore, INR500 crore kind of acquisition or?

Mark Saldanha



No, can't comment right now because it all depends on at what valuation expectation and agreements that we would eventually conclude on. So it's very vague to speculate on that right now.

Anupam Agarwal

Fair enough. Thank you so much. I'll wish you all the best. Thank you.

Sidharth Agarwal

Yeah. Thank you, Anupam. Next question, we have from Manoj Mathew. Manoj, could you please introduce yourself.

Manoj Mathew

Hello. Can you hear me?

Sidharth Agarwal

Yeah, loud and clear. Manoj, could you please introduce yourself?

Manoj Mathew

Okay. I'm an investor and my question is, has the warehousing charges from the US gone up?

Mark Saldanha

Warehousing charges?

Manoj Mathew

Warehousing charges.

Mark Saldanha



Warehousing charges, I mean, we normally have our own warehousing in the US.

Manoj Mathew

Okay, not public warehouse.

Mark Saldanha

No, we don't do 3PL warehousing over there.

Manoj Mathew

Okay.

Mark Saldanha

You're asking of real estate prices have gone up, yes. The answer is yes.

Manoj Mathew

Okay. The next question. So you're talking of some acquisition. Probably, let's guess it's Europe, but definitely it should be consummated within the next financial year, because of course OrbiMed will be getting restless with their funds with you.

Mark Saldanha

Well M&A is a very tricky thing, but if past history has taught us anything, I mean if you look at our track records, we have done over four M&As over the span of a decade and a half. And so we are exploring, we are in talk OrbiMed is involved in everything that we do. Also, so we do have very — we have marathon discussions that puts valuable because they do give us insights of the company, the financial backgrounds, and analytic evaluations that they run through. So they are pretty much involved in tune in-hand with us on M&As, and they are also getting quite a few potential clients to us. And we evaluate it as a team. And then obviously, then that's only the starting point, right. From there, it goes through the entire nine yards. But presumably,



today there is nothing concrete. We are in dialog with a couple of companies, but there is nothing concrete to discuss as to whether there'll be consummated or whether they will go through and the timelines of that. If not, we will keep continue our search and we will continue exploring the possibility.

Manoj Mathew

Okay, again back to the warehouse, you ship to the East Coast, West Coast, Gulf Coast off the US, okay. So in all these three places you have your own warehouses?

Mark Saldanha

No, we ship to the East Coast and from East Coast, we distribute it to the rest of US.

Manoj Mathew

So you have some arrangements with some truckers?

Mark Saldanha

No way, we have our own — I mean, we don't have our own logistics, but we have companies that basically either collect programs or if you're dealing with large client, they have collect programs, where they pick it up from our warehouse.

Manoj Mathew

Okay.

Mark Saldanha

Or sometimes we ship it directly to the customer.

Manoj Mathew



Okay. So you'll be shipping to New York most probably.

Mark Saldanha

Yes. And we have all state licenses. So we don't need to walk on a 3PL for anyone else.

Manoj Mathew

Okay. And you own a warehouse in New York, that's what you're telling me.

Mark Saldanha

Yeah, we have one own warehouse. And we have long-term lease warehouse.

Manoj Mathew

Okay. Fixed lease for long-term.

Mark Saldanha

Yeah, long-term.

Manoj Mathew

Okay. Thank you. Thank you very much.

Sidharth Agarwal

Yeah. Thank you, Manoj. Our next question is from Bilal. Bilal Khan, could you please introduce yourself? Yeah, Bilal, are you there Bilal? Okay, Yogansh, YoganshJeswani? Yogansh, do you have a question? Okay, our next question, Vishal Manchanda.

Vishal Manchanda



Yeah, thanks for the opportunity again. In your presentation, you also had your own label brands. So can you say what percentage of your OTC business will be or what level?

Mark Saldanha

What percentage?

Vishal Manchanda

Yes.

Mark Saldanha

So our own label is around 15% to 20% right now.

Vishal Manchanda

Has the prices in your own label brands stable and do they fetch better realizations versus the rest of the business?

Mark Saldanha

Yes, they do to some extent, yes.

Vishal Manchanda

But are they moving so like as I understand, private labels are gaining market share than own label brands. So are there brands stable in terms of market share?

Mark Saldanha

They are stable, they are niche products, and they have potential of growth.

Vishal Manchanda



Okay. And which categories, these are the therapeutic categories that you have own label brands valued at or those are wellness brands?

Mark Saldanha

No, they are in the same categories that we are into pain ,in digestive and cough and cold. So, our product portfolio revolves around those type of products presently. We focus on to these three segments presently on that.

Vishal Manchanda

So one thing that we're thinking about fortifying your existing business is backward integrating into API. Which are the other molecules which maybe large part of your business and we're going to backward integration?

Mark Saldanha

Well, we have a couple of molecules which have become really large, cetirizine is one of the items that we are backward integrating ,some of the digestives we are backward integrating, so we are working right now on 10 DMFs presently. We do believe at least two or three of them would be filed in 2023.

Vishal Manchanda

And these DMFs will be filed from third-party businesses?

Mark Saldanha

No, the DMF will be on our name, will be filed by us, but we'll be only are using their facilities.

Vishal Manchanda

Right. So 200, 300 basis point expansion, is that fair to expect on account of this backward integration process?

Mark Saldanha

Yeah, sure. It's reasonable to expect that.

Vishal Manchanda

So like — currently it's 50% your raw material for us, would it be fair to assume about 80% of that would be API?

Mark Saldanha

Yeah, substantial amount will be active, yes.

Vishal Manchanda

Thank you. That is it.

Sidharth Agarwal

Yeah, thank you, Vishal. So we have our few investors left. I'll just take them one by one. You have Yogansh. Yogansh your question is done, or you would like to ask?

Yogansh Jeswani

Am I audible now?

Sidharth Agarwal

Yeah, Yogansh.

Yogansh Jeswani

Yeah, I'm so sorry about the — I had some trouble.

Sidharth Agarwal

Yogansh, could you please introduce yourself?

Yogansh Jeswani

Yeah. So I am from Mittal Analytics PMS. Mark, my question to you is on the inventory side. So, could you share the December ending inventory number for us?

Jitendra Sharma

Yeah. Hi Yogansh, see as of 31st December, we had inventory of around INR449 crores, say INR450 crores.

Yogansh Jeswani

Okay. So if we just look at your inventory in terms of inventory days, couple of years back, it used to be I think somewhere in the range 120 to 150 days. While in last two years, it has gone up to 200 kind of days. So going forward, what is the trajectory like, do we think that once these things normalize, we will be back to our 150, 120 days or that is a challenge now?

Jitendra Sharma

Our revenues have also grown. So we are expecting to do around INR1,800 crores plus in this financial year. And if you see our overall working capital cycle, so as on December — like you know, we had a working capital cycle of around 150 days. So we think that this kind of like numbers will remain in the business and with the absolute sales going up, the working capital will also go up. So these levels, I think, will continue in business from now onwards, because we need to — the inventory consists of raw material in the previous products. Since we are directly distributing the finish products, we have to high level of inventory days.

Yogansh Jeswani

Okay, understood. So just one clarification on that part, so earlier, the finished products used to not be on our books is the warehousing thing that you were mentioning to one of the participants, is that something recent that we started to see last two, three years?

Jitendra Sharma

See, we haven't hovered if you get the business. We are directly marketing these products to end consumers. So our revenues, 100% revenues are coming from B2C segment before acquiring Time-Cap in US, we used to distribute it through third-parties or through repackages. So at that time, of course, the finished goods inventory like you know, used to come in their books, not in our books. But now since we are distributing directly, once we export the products to US, it will be with us till we deliver it to the customers, end customers.

Yogansh Jeswani

Okay. Understood. So that was helpful. Just one question, not even a question, I just wanted to know your management's thoughts on it. So our company has been performing very stably for last many quarters now, and we are doing a lot of right things like we did a buyback a good time. We have also put in money in terms of orders and bringing in a strategic partner, while if we still look at the kind of valuation that the company is getting in the market is really low, so what are your thoughts as a management on this and what are you thinking of in terms of unlocking more value for all the shareholders?

Mark Saldanha

So there's no magic wand, except working hard and performing. But over and above that, obviously, the sentiments of the market play a very vital role in what you see. With COVID that took place, I think sentiments were not very favorable when we exited the tough scenario and got into normalcy because a lot of other industry starting to coming back into the play. But that said and done, we are looking at our long-term outlook and our performance will speak of the numbers that will come. So I think our numbers will be a reflection of our performance and that's what I believe from a long-term one has to evaluate it from that angle.



Yogansh Jeswani

Right. That should be helpful, Mark. And I wish you and your team all the very best. That's it from my side. Thank you.

Sidharth Agarwal

Yeah, thank you, Yogansh. We have a question from Forum Makim. Forum, could you please introduce yourself? Forum, are you there? Okay. Bilal, do you have a question? Bilal Khan? Okay. TanujKhiyani, you have a question?

TanujKhiyani

Yeah. This is TanujKhiyani from Ventura Securities. I actually had a question on Ibuprofen shortage that was going on recently. So how is the situation like and do you have any material impact on the same?

Mark Saldanha

Well, the shortage was very short-lived because obviously of the impact of what happened in China in the last quarter. Now, with China opening up, I don't foresee that having any material impact.

Jitendra Sharma

But of course, we can have a good amount of inventory, Ibuprofen raw-material lying with us. We don't foresee any challenges at least so far as we are concerned.

TanujKhiyani

Okay. And I think Caplin Point has also done with its capex in the softgel segment. So do you see — how do you see them and like how would be competitor do in regards to our company?

Mark Saldanha



I can't comment on somebody else's company. But we don't evaluate it from that angle. We are more focused on what we do and how we grow. So, I don't see that being a concern right now.

TanujKhiyani

Thank you. That answers my questions. Thank you.

Sidharth Agarwal

Yeah. Participants, in the interest of time, this was the last question. And for follow-up questions, we request participants to write to ir@marksanspharma.com. So sincere apologies for this, yeah, as we have restricted the questions, so we may now conclude the call. I will now hand over the call to the management for their closing comments. Over to you, sir.

Mark Saldanha

Thank you, Siddharth, and thank you, everyone, for giving us this time opportunity. I know it's a busy day of the week. So, thanks a lot for coming on the call, and I hope we answered all your questions. Have a great day and be safe.

Sidharth Agarwal

Thank you, On behalf of Marksans Pharma and Systematix Institutional Equities. That concludes this conference. Thank you for joining us, and you may now disconnect Your lines and exit the webinar. Thank you.

Note:

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