



“Marksans Pharma Limited Q1 FY-22 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Marksans Pharma conference call Q1 FY22 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 know to you, ma'am.

Cyndrella Carvalho: Thanks, Mallika. I, Cyndrella Carvalho welcomes you all on behalf of Centrum Broking to the first quarter of FY22 earnings call of Marksans Pharma Limited. At the outset I thank the management of Marksans for giving us this opportunity to host the call. From the management team today, we have with us Managing Director and CEO – Mr. Mark Saldanha; Chief Financial Officer – Mr. Jitendra Sharma.

Now I hand over the call to the management for their opening remarks. Over to you, management.

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 Q1 FY22 earnings call. Let me try and keep the prepared remarks short so that we can have more time to take your questions.

The key highlight I would like to bring to your attention is the OrbiMed's investment in Marksans Pharma. We are very happy to have OrbiMed, a long-term investor as our financial partner. I am confident that OrbiMed's global reach and resources will enable us to make rapid strides in our business for the future.

We remain excited about Marksans' forward integrated business model with a global presence and are committed on driving value creation to all our stakeholders. Moving on to the business highlights. Our regulated market focus has paid off and we have achieved a sales of Rs. 349 crores in the first quarter of this year despite the pandemic lead disruptions. We remain focused on organic and inorganic expansions in our key markets of US and Europe.

Our ongoing plan for backward integration into API is on track and will offer us a leverage in terms of improving margins in the future. We are confident that our unique front-end presence and our capacity built up at our back end will keep us on path of achieving a turnover of Rs. 2,000 crores in the next few years. With this, I would like to turn it over to Jitendra, our CFO who will begin to give you a brief update on financials before we start our Q&A. Thank you.

Jitendra Sharma: Let me start with quarterly highlights. Revenue from operations for the quarter was Rs. 349 crores, a growth of 5.4% on yearly basis. The growth was led by regulated markets. Despite pandemic induced disruptions EBITDA was at Rs. 77.3 crores, EBITDA margin expanded by 110 basis points on year-on-year basis to 22.2% in Q1 of FY22.



On account of increased operating efficiencies, Profit after Tax was Rs. 62.6 crores an increase of 26.8% on YoY basis. PAT margin was 17.6%, an increase of 270 basis points compared to the corresponding quarter. EPS for the quarter was at Rs. 1.51, a yearly increase of 25.9%.

We continue to remain debt free as on date, and our cash and cash equivalent in the books was Rs. 225 crores as of June 2021. Our good results have been on account of increasing market penetration and higher operating leverage. We are cautiously optimistic that this momentum will continue and that margins will remain stable over the foreseeable future. The said margin expansion combined with lower interest outgo has considerably increased our PAT margins and consequently the return ratios.

Our Return on Equity increased by 460 basis points on a yearly basis and stood at 25.4% as on June 30, 2021. Similarly our Return on Capital Employed also expanded by 370 basis points and stood at 30.7% in Q1 of FY2022. We incurred a CAPEX of Rs. 9.9 crores for the quarter ended June '21. We still continue to invest in enhancing our capabilities and making ourselves ready for the future.

India is witnessing gradual unlocking amidst reduced number of COVID-19 cases in the second wave and a higher vaccination rates. As a result, our fiscal forecast is stable, and I am cautiously optimistic that we will be able to maintain the pace of conducting business as we move ahead. With that, I would like to throw open the floor to Q&A. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Nimish Sheth from GT Advisory. Please go ahead.

Nimish Sheth: I just have a question relating to the fundraising that you have done. You have issued these warrants and received the money, is that what has happened?

Jitendra Sharma: We have received the money. Since it is warrant, we have received 25% upfront payment already.

Nimish Sheth: Okay, so now the question is, what is an optionally convertible warrant scheme? If they do not want to convert, do we have to return the money to them? It is like a debt instrument?

Jitendra Sharma: No, it is not optionally convertible, it is compulsorily convertible warrant, and it will be converted within a period of 18 months. It does not have any debt obligations.

Nimish Sheth: And what are we going to use this money for? Because we already have a very large cash pile, so we now have a total of nearly Rs. 600 crores, the Rs. 365 crores that we have raised from them, we would not count the money that Mr. Saldanha will give, but and the cash that is already lying on our books. So, what are we going to do with all this money?



Mark Saldanha: So, we we are exploring inorganic growth strategies, we are also investing substantially on CAPEX. As we speak, we are in dialogue for acquiring a plant. So, we have also our API integration that we are talking about.

So it is on multiple folds, again, it is the fundraising is to get us to another level to basically ensure we have the resources to basically fuel us for our next growth strategy, which will basically involve both capacity, backward integration and as well as inorganic acquisitions. In terms of rupees, it sounds very large. But in terms of dollars, it is still very small.

So, I mean, acquisitions do not come cheap. And even if you look at plants or we look at manufacturing capacities today, we need some deep pockets to basically get us to that level.

Nimish Sheth: But the focus of the company will continue to be an export oriented pharmaceutical company. We are looking to continue with that current strategy?

Mark Saldanha: Yes, I mean pretty much 100% of our revenue does come from the export market and we will continue doing that for the next three years.

Moderator: Thank you. The next question is from the line of Surabhi Saraogi from SMIFS Capital Markets. Please go ahead.

Surabhi Saraogi: Sir, my question is that in your press release, you have mentioned that we have achieved a sales growth of 5.4%, despite pandemic induced logistics issues. So, I just wanted to know how much sales growth we would have achieved minus the effect of pandemic induced logistic issues?

Mark Saldanha: It is difficult to extrapolate, but obviously we have challenges that we had to overcome. These are, when you talk of a pandemic, you talk of logistic issues, these are things which are beyond our control. It would have been a much more robust quarter in terms of sales, then what it is a bit subdued. But at the end of the day, we are still very optimistic on our roadmap.

We are still very bullish on our goals and targets, but definitely for the quarter we did have some challenges in terms of the pandemic situation that is revolving around logistics and everything.

Moderator: Thank you. The next question is from the line of Anupam Agarwal from Lucky Investments. Please go ahead.

Anupam Agarwal: Sir firstly, I wanted to ask you about it on your earlier comment you made about reaching Rs. 2,000 crores in a few years. In the earlier calls, we have had interactions about the timeline of reaching out or touching this Rs. 2,000 crores. Given the fact that we have touched Rs. 350 crores odd in this quarter, do you think we will be touching this number by the middle of next year itself, or probably by the end of this year, if things normalize in the next nine months?

Mark Saldanha: I mean, I would like to have a bit longer duration in our outlook. If we do achieve it, it will be great. It is difficult to see how things unfold. There are certain circumstances or certain



situations, where are not within our control, the pandemic situation coming. I mean, we are in uncharted territory out here where certain countries are coming out of the pandemic, but still are going back into a third wave.

So, a lot of inventory management, a lot of logistics, a lot of supply chain challenges remain in demand and supply situation. So, it is difficult to actually predict because these are not normal times. And I think it becomes difficult to predict how the market trend will be. But I do believe that things are only improving if one has to look at it as compared to two years ago, when we got into a pandemic, I think there is a bit of clarity.

But the second and third wave, the Delta variant has put us into a bit of a tailspin as to uncertainties, but at the at the same time, we do believe we are on path of achieving our objectives. Our growth strategy is still very, very much there. Our business outlook is still very robust. And we do believe we will achieve those objectives. We have always maintained that we will hit those numbers within the next couple of years.

So, I would not want to give a statement that we will do it in the next 12 months. If it happens, it is great. But at the same time, our focus is on Rs. 2,000 crores.

Anupam Agarwal:

Right. Just in addition to this, I mean, do not we have order book visibility because you just mentioned a few points on order book for the balance nine months or whatever we have. Also secondly, I wanted to ask you about the gross margin contraction for the quarter. It has come at about 300 basis points lower than last year. I understand might be some raw material price challenges, but have you been able to pass on if at all, yes or no? And if yes, then is it with a time lag?

Mark Saldanha:

So, the gross margin has reduced. I mean we saw some great gross margins last year, but the gross margin has reduced. We have always predicted it to be around the 50% to 55% range. Anything above that is always a bonus, but it has come to a level of 50% to 53%. And that prima facie is because of the cost of material, cost of raw material, cost of packing material being inflated. I do not know whether I do believe it is a short term, because oil prices have gone up.

So, there are a lot of intangible things that have inflated prices of packing material, raw materials and all that stuff. But I do believe it is not going to be a long-lasting thing. So, it is difficult for us to pass on something which is going to be short term unless it drags on for longer period, then we will have to reevaluate it at that time.

So, but right now, we are at the gross margin that we have declared, but we do believe it will be range bound between 52% to 55%.

Anupam Agarwal:

And sir, the order book visibility if at all you can check something on that?



Mark Saldanha: The order book, I mean, our order book is pretty much we will hit our I mean objectives like when we talk of US, we are basically looking at \$100 million, our order book is over \$100 million.

So, we are expecting to hit those numbers. So, the order book looks like we will be on the growth path. I mean, we will achieve a growth, maybe this year of maybe 15%. If things go well, but again, these are very early days to give a year end statement.

Anupam Agarwal: So, just a clarification. This 15% is on overall company level growth?

Mark Saldanha: Yes, I mean, I would assume it will be overall company level, it may touch 20%.

Anupam Agarwal: Sir, last one if I may just squeeze in. You mentioned in your opening remarks that lot of this 5.5% growth has been led by market penetration. If you could just give a sense of how much market share we have across our products or a basket of products in the US and Europe?

Mark Saldanha: We have got over 300 products globally. In Europe we have got over 100 products. It is difficult to actually give you a percentage, but there are certain products in UK where we enjoy even 60% -65%. There are certain products we enjoy 5% or 10%. But we have got into market penetration. Obviously, our focus is on to all products.

It is not only we are not dependent, it is quite a diversified portfolio we have. So, it is not dependent on any single molecule. US as a matter of fact, we have got a long way to go in terms of market penetration, which makes us more optimistic that there is a growth potential as and when we do penetrate the market.

Moderator: Thank you. The next question is from the line of VP Rajesh from Banyan Capital. Please go ahead.

VP Rajesh: My first question is, in the first wave in the US, I believe we sold a lot of pain management medicines. So, with the Delta variant being very, very pervasive in the US right now, are we seeing an uptick on that side? And what is the color on that, if you can just talk about that particular trend?

Mark Saldanha: No, I do not think there is a big uptick on any particular segment, there is a big movement as a matter of fact. I mean, if you compare it to the previous years, although there is a Delta variant case, but more people are vaccinated out here. So, in the US and effectively while cases are going up, but I do not think they are hitting all time high compared to the previous years when the pandemic actually broke out. The number of serious cases are much lower than what historically it was.

So, I guess you do have milder cases happening and you do definitely have most serious cases. The Delta variant is much more, I mean, the people who are not vaccinated are much more

vulnerable on that. But I do not think the offtake has increased, any offtake demand presently. So, I think it is pretty much normal.

VP Rajesh: Okay, and then the second question is that some of the companies are reporting pricing pressure in the US. And since that is a very large market for us, if you can tell us whether we are seeing that as well, or why we are not seeing and some of these guys are seeing it?

Mark Saldanha: Again, it just depends on the focus. But we are not insulated or protected by market dynamics. If everyone seeing it, then obviously, everyone is finding the pressure. I mean, so are we. But, at the end of the day, I believe, I am more optimistic, I do believe this is a passing trend.

And this is the nature of the beast, and it happens in year-to-year, period-to-period. But it is like a wave which comes in and goes, and we just have to take it within our strides. But we are more focused on to our potential. We are not saturated in terms of our market penetration; we are on a growth path.

So obviously we do not have that impact. Because we are looking at a big leap in terms of our sales, or at least we are aiming to hit another milestone in our revenue. So, I think for us, we would like to be more positive and more focused on to our strategies than to get bogged down into things which are pretty normal in this industry.

VP Rajesh: I see. So, we did not see any price deterioration in the last quarter, in the June quarter, is that what you are saying? I just want to confirm is this right?

Mark Saldanha: Pricing pressure is always there. There may be a couple of molecules here and there that have got into pricing pressures. The cost of material definitely has gone up for the quarter. And again, like I explained to the gentleman before that these might be short term things that are because of circumstances revolving around it.

So, but there is definitely been cost impact in terms of raw material, packing material, even the freight cost has gone to an all time high because of the oil prices. So, these all have impacts on bottom line. In terms of topline while pricing pressure maybe there on couple of molecules, again, depends on your basket. You may just be lucky that you do not face it.

VP Rajesh: And my last question is on the EBITDA margin side. Given, what we posted in the June quarter, what is your outlook for the rest of the year?

Mark Saldanha: I have always presented an EBITDA, anything above 22% is a great EBITDA. And if we are, I do believe we will maintain that, or we may slightly grow on that. But obviously, we have seen some great EBITDAs last year. But I would like to be a bit more conservative and reserved when I say we should be able to do 22% to 24% EBITDA.

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

Riddhesh Gandhi: Just a couple of questions. On given our product mix which is more OTC hence focus etcetera. Is there a little bit less pricing pressures in what some of the other companies will be experiencing?

So, I think the question was given focus on OTC and soft gels. Is there a less likelihood of us facing the pricing pressure than some of the other players out there?

Mark Saldanha: No, I think pricing pressure is a normal phenomenon in this industry, but definitely certain molecules may witness higher pricing pressure. Again, depending on which company has got more exposure on to what molecules.

And based on that, you may have a molecule where you are very dependent on in terms of revenue. And if that molecule does come on pricing pressure, then obviously, it gives an impact. But I think, again pricing pressure, no one is spared, or no one is insulated where there is a pricing pressures and pricing pressure normally comes with supply chain issues, which, again, like I mentioned earlier, the pandemic because it all depends on demand and supply situation.

When the country is coming out of a pandemic, or coming out of with, I mean, the cases were very all time low out here in the first quarter. So, the feelgood factor was there and people were not sick, people were vaccinated. So obviously, cases came down. So obviously, there was less demand and over supply. And, again, now we are talking about the third wave.

So again, there is a bit of a mixed basket on how to act and react. So, it does have a supply and demand situation where then the pricing pressure does come in. But at the end of the day, again, it is more molecule specific, as is more item specific. I cannot say for certain which item may find a pricing challenge tomorrow. But again, I do believe it is a part and parcel of this industry.

Moderator: Thank you. The next question is from the line of Danesh Mistry from Investment First Advisors. Please go ahead.

Danesh Mistry: Just a couple of questions from my end. One is that if I were to see quarter-on-quarter, your gross profit margin has come down. You did allude to some raw material pressure. But is it also anything to do with a product mix? That is number one. And number two, is that if you could give us a sense on, which kind of geographies, aided in our growth and where do we see growth coming from in the future? Is it part of our UK operations, which have been doing really well or is it from our US operations?

Mark Saldanha: So, I do believe all our territories, all our markets have performed well. So, the UK, the US everything. The growth driver, I do believe US will still be a growth driver moving forward. But at the end of the day, the gross margin is not exactly related to a segment specific issue. When you talk about packing material, packing material goes into pretty much any segment.

And we had are packing material costs going up by nearly 20%, 30%, we had so many other inputs costs, excipients costs going up. So, I think that has some impact on the gross margin,



definitely. Whether it is going to be a short term, it is going to be a long-term issue? Obviously, these are all more driven by oil prices and petroleum products, which are basically driving up this cost. Tomorrow, if oil prices come down and you will probably see the correction all over again.

So, I do not believe it is product specific that has led to this reduction in gross margin. But I do believe it is more of a phenomenon that we are seeing out here of increase of all round costs, including freight, which is not exactly the gross margin, but everything has gone up.

Danesh Mistry:

Also, if again, squeeze in one more question is that, each geographies which are there, are we launching any new products or new molecules, where we could see ramp up in our revenues? That is it.

Mark Saldanha:

We have, I mean in US we have a target of filing of about five ANDAs per year. This year we will be launching towards the fag end of this year, we plan to launch at least three new products.

In UK we have launched two products and we have another five or six more products that we plan to launch. We have a basket of over 20 products in the pipeline for UK where we are filed and are awaiting or in the process of filing. So, we have a whole segment in UK that we are now focusing on, which we do believe in the next two to three years will add tremendous value to our bottom line and top line.

So, we are working on all round strategies in terms of fueling our growth in these markets. And then we also are pursuing different geographies and expansion in different territories and geographies to basically get us to another level.

Moderator:

Thank you. The next question is from the line of Viraj Mahadevia, an individual investor. Please go ahead.

Viraj Mahadevia:

A question for you, Mark and Jitendra is, you mentioned, there is some escalation in some of these line items that are beyond our control, particularly freight and packaging. But what about the raw material price escalation?

Can you throw some light on what happened in this quarter? And then number two, what are the Strategic initiatives we are taking to address this in the future to manufacturing or getting into APIs? And when does that benefit actually kick in timeline wise?

Mark Saldanha:

In terms of raw materials, obviously, it is quite a substantial amount of raw materials have seen a price increase. Paracetamol, acetaminophen, raw material is one part of it, a lot of excipient costs have gone up.

I mean, there must be like 40 or 50 items that basically that go into making a tablet cost has gone up. These are way beyond anyone's control. And this is more of a global phenomenon. It is not country specific. It is not India specific or something all that stuff, we are seeing it all over the



place. Packing material is again something starting from bottles to IFCs, to cartons to blisters, to everything foil, everything has gone up.

So now this is again I would like to say it is a demand and supply situation, it could be also because of petroleum products or because of oil prices going up, freight has gone up. We can only address certain things which are within our control and that is the active raw materials that we are backward integrating ourselves into. We do plan to file two DMFs in this financial year.

And we have maybe three more DMFs that we are planning to file by early next year. That would basically, so you are looking at 2022 i.e. towards the early part of 2022. We will probably be fully backward integrated or fully integrated with our own raw materials. That would help us to leverage some pricing. I mean, help us to get a better pricing and more important it will help us to have more sustainability and reliability on sourcing.

Viraj Mahadevia: So FY23 onwards I guess once all of this kicks in, Financial Year '23 is when you will have potentially more stability around your gross margins and less influenced, at least by external raw material environment. Is that correct?

Mark Saldanha: Yes. That is correct.

Moderator: Thank you. The next question is from the line of Anupam Agarwal from Lucky Investments. Please go ahead.

Anupam Agarwal: Sir, coming to US, if you could just mention what is the concentration on top 5 or top 10 products right now?

Mark Saldanha: I would like to more restrict on segments. So, our main segment is still our pain segment. Because within the segment we have like 30 odd products that we actually focus on. So, pain segment is still our major focus on presently. Then obviously, we are getting into gastro segment. And that is again, we do plan to grow and focus on to that, DI segment basically. And, then last but not the least, and we will come to the cough and cold part of it.

Anupam Agarwal: So, if I mean overall basket level, if you can just quantify top 5 products or top 10 products, they have a major concentration on the US top line?

Mark Saldanha: There is no single product that stands out. We are pretty much even in terms of, you talk of products doing \$10 million, \$12 million range, and you are pretty much there with all products contributing equally.

So, we are not very dependent on any single molecule or there is nothing that stands out which says, this particular molecule gives us 50% of our revenue. So, there is nothing that actually stands out presently.



Anupam Agarwal: Sir, from a capacity standpoint, if you can tell us what is your utilization right now, and do we need capex? So, basically, in the last earlier calls, you mentioned about Rs. 200 crores of CAPEX that will go to either Rs. 80 crores of backward integration, Rs. 120 crores of formulation sales. By when should we expect these CAPEX to come on stream and is this going to be taking our top line to Rs. 2,000 crores or it is going to be fueling growth over Rs. 2,000 crores?

Mark Saldanha: Both. It is going to assist in getting us to Rs. 2,000 crores and fueling our growth to Rs. 2,000 crores. But it is going to assist on basically debottlenecking some of our capacities because obviously, it will put a strain on to our present infrastructure if we do not take action, but it will also fuel us beyond Rs. 2,000 crores.

So, we are looking at a manufacturing plant based in India and that manufacturing plant once we acquire it is again regulatory approved plant. We need to invest money to increase capacities, we would like it to eventually replicate in terms of what we are doing with our main plant in Goa, we would like to have the similar capacities.

So, when you are investing into that plant after acquiring it, then obviously you are looking at revenue beyond Rs. 2,000 crores. But it is not an overnight thing because once we acquire a plant, we need to do site variations, you need to basically get our product developed out there or stabilized out there, stability may be conducted. So, it is a bit of a process that one has to go through.

And it is not something that we acquire something, and we will achieve our objective in six months. So, it is basically a year, year-and-a-half over a year-and-a-half outlook.

Anupam Agarwal: So is this acquiring new capacity over and above Rs. 200 crores or is this part of the Rs. 200 crores?

Mark Saldanha: No, this is a part of Rs. 200 crores.

Anupam Agarwal: Sir, earlier also, so basically, I just wanted to understand so after all the OrbiMed money comes in completely and with the operating cash flow and cash value that we have. We will be having roughly around Rs. 750 crores to Rs. 800 crores of cash in the balance sheet. Earlier you had alluded to roughly around Rs. 1,800 crores to Rs. 1,000 crores of CAPEX, R&D, backward integration all those initiatives and that will be taking us to a topline of about Rs. 4,000 crores.

So, I mean if you could just give some sense that the longer timeframe that I am talking about, but if you could just give us some color as to whether are we talking about these numbers, or it is just?

Mark Saldanha: So, this is obviously a quarter earnings call, and one has to be more focused on to the quarter and the year. When you talk of Rs. 1,000 crores of investment and all this is a bit more longer-term outlook where we will need to invest into multiple forefronts of getting into infrastructure, into inorganic strategies to get us to another level.



So, that investment is needed for us to hit any numbers beyond Rs. 2,000 crores. And that is where the fundraising was done with that outlook of taking us to another level. So, when the fundraising was done it is basically done with the outlook of beyond Rs. 2,000 crores.

Anupam Agarwal: So, sir, if you can just give some color as to, what sort of acquisition are we talking about in terms of either the size of the target, or the return profile as a target? Are we looking at 30% ROCE business or if you could just as in geography or other kind of therapies that the target company has, if you can just in color that please?

Mark Saldanha: So, we do not have anything concrete to discuss, presently. So, it is difficult to speculate. But definitely geographies we are planning to expand and evaluate. We are looking at Europe, Pan Europe markets. We are looking in geographies besides Europe to expand our presence and establish. But it is difficult to give you a return-on-investment outlook presently when we have nothing concrete to mention. But every acquisition has its own integrations, challenges, and everything. We have done quite a few in the past.

And they have all done pretty well over time. So, but if something comes up, then definitely we can, we will basically discuss this with in our next con call or whenever it does come up.

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

Deepak Jindal: I just have one question around the sales growth. So, we just said that the pandemic has kind of brought in a lot of issues on logistics, which kind of impacted the sales growth. So, the question is, has pandemic would not have been here what would have been the kind of sales growth that would have we achieved?

I mean, not on the quantification of this but may be a bit of a color around that, had it been a normal quarter the sales growth would have been higher than this?

Mark Saldanha: Had it been a normal quarter, it is difficult to predict how the outcome would have been, but it would have definitely, we would have expected at least a double-digit outlook growth on year-on-year basis, maybe 15% instead of a 5%.

Deepak Jindal: Okay. And sir, I mean how exactly this, I mean, what sort of logistic issues were there? I mean, was it an unavailability of containers or I mean, there were some logistics issues from the US front as well?

Mark Saldanha: Logistic issues is again, availability of containers, availability of transportation, cost impact, availability of material reaching on time, raw material reaching on time. Logistics I mean, actually it is a little broader than logistics. It is basically supply chain also involvement out there, where it has an impact on if material comes late because of containers coming in from, let us say, China or Europe or whatever. Definitely it has impact on production and deliveries, according to that.



So, it has a bit of a supply chain involvement along with the logistics. It is not just simply shipments.

Deepak Jindal: And sir, did the situation improve month-on-month? Let say you know how was the situation trending in July and August?

Mark Saldanha: The situation is, is pretty fragile. But we do believe a better quarter in July in the second quarter than the first quarter. We do believe it is going to get better. And I think assuming that the second quarter will be better, I think the third quarter will be better than the second quarter.

Moderator: Thank you. The next question is from the line of Shanthi Patel from Shanti Patel Investment Advisors. Please go ahead.

Shanti Patel: Sir, my question is, our second quarter may be better in terms of revenue. But then in terms of cost, it might not be better because as you told the prices of all the raw material has gone up. So effectively our margins will get affected, our PAT margin will get affected and ultimately the profit will be affected. Is it okay, correct?

Mark Saldanha: You have a valid point. And it could very well be that. But we would like to be more optimistic in terms of things improving, but if yes, if things do not improve, there will be impact on bottom line. But again, we are more optimistic that things will only get better.

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

Viraj Mahadevia: Mark, now that you have OrbiMed on board, how do you see yourself using them in terms of strategic direction or decision making for growing or taking Marksans to the next level? Will they help you source acquisition targets in the developed world where they are very strong and have strong networks? Are they helping you source technologies and platforms for novel drug delivery or the likes? Can you throw some more light on that please?

Mark Saldanha: Obviously, we are very hopeful on acquisitions because of the global reach like you rightly said. They are present in markets that we are very keen on. So, their global networking would come in handy for our inorganic growth strategies. But it is also the intangible benefits that they get onto the table in terms of brainstorming, discussions, advising strategically on M&As as well as, financial planning and fueling our roadmap.

So, they being on the board I think it gives us it strengthens our board outlook. And I think they will get a lot of their global influence in terms of evaluations and experience onto the table, and it does help. It adds tremendous value. And we are hopeful that we can leverage a bit of their strengths into our main objectives of inorganic strategies.

Viraj Mahadevia: And lastly, given the spare cash and the fact that we do not currently have acquisition targets in mind, we continue to generate cash even if we deploy an API or plant or whatever else, is a



buyback some point down the line or dividends on the agenda? I know you may not be able to buyback immediately given your recent share issue but returning cash to shareholders. Is that something on the agenda?

Mark Saldanha: Yes, I mean, we are not averse to it anything and we have discussed this internally also. So, I think it is only a matter. It is basically timing but definitely it is something that we are not averse to it, and we will take appropriate steps at the right time.

Moderator: Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: Just a few around Softgel. So, what is the current share of Softgel in the overall revenues? And what is the utilization of our Goa plant?

Jitendra Sharma: The share of Softgel in overall revenues, right now it is around 25%.

Sameer Baisiwala: Okay. And what is the utilization of Goa plant?

Jitendra Sharma: Capacity utilization of Goa plant is around 70%-75%.

Sameer Baisiwala: Is the same 2.4 billion unit one that we are talking about for Softgel?

Jitendra Sharma: Yes. Basically we are increasing it to 3.6 billion by this year.

Sameer Baisiwala: And in terms of US ANDA filings, can you talk something about are there any complex niche or high value items there and specifically any Softgel ones?

Mark Saldanha: We are getting into niche delivery systems. Out of which Softgel based, there are only a couple of them, but there are more solid oral tablets or pelletization, pellet products, which are extended release by layered type of delivery systems. But definitely we are getting into a little more complex molecules, but at the same time, it is more segment focused. So, we are working on those grounds.

Sameer Baisiwala: And these two oral solid modified release that you mentioned are they large categories or low competition large categories or anything can share about their economics?

Mark Saldanha: They are big value drivers. They are not small molecules. So, we are hopeful at least one of them will be there among the top two or top three to market once it is operative. The other one has generic market but because of the complexity of the molecule, we would like to be more prominent out there.

Sameer Baisiwala: And when do you expect the approvals for these?

Mark Saldanha: We are looking at somewhere around maybe third quarter of '22.



Sameer Baisiwala: That is calendar '22 or fiscal?

Mark Saldanha: Calendar '22.

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

Mark Saldanha: Thank you all for participating on this con call. Please be safe. And my regards to everyone. Take care.

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.