"Marksans Pharma Limited Q3 FY2022 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Marksans Pharma Limited Q3 FY2022 Earnings Conference Call hosted by DAM Capital Advisors Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for 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 Mr. Nitin Agarwal from DAM Capital Advisors Limited. Thank you. Over to you, Sir!

Nitin Agarwal: Thank you. Good afternoon everyone and a very warm welcome to the earnings call of Marksans Pharma's Q3 FY2022 Earnings Call, hosted by DAM Capital Advisors Private Limited. On the call today, we are represented by Marksans Management Mr. Mark Saldanha – Founder, Chairman & Managing Director; and Mr. Jitendra Sharma - CFO. To start the call, I will request the management team to make some opening comments and then we will open the floor for Q&A. Mark please to go ahead.

Mark Saldanha: Thank you, Nitin. Good evening, friends. Hope you and your families are safe and doing well. It is my pleasure to welcome you to the Q3 FY2022 earnings call. Let me try and keep the prepared remarks short so that we can have more time for taking your questions.

We had a challenging nine months in the backdrop of pricing and demand pressures and also geopolitical issues in our key markets, we had a revenue growth of 2.6% led by increased penetration in EU, North America and Australian market. We have seen increased cost pressure across the board reducing our margins however our net cash balance sheet meant lower finance cost and with the benefit of lower tax outflow it resulted in a bottom line remaining more or less constant as per last year.

I would like to reaffirm that a forward integrated business module which has a significant global presence is quite unique we are continuously investing in our manufacturing and distribution capacities to ensure sustainability. The development of our GOA factory which includes the addition of new manufacturing lines is on schedule. We expanded our portfolio this quarter by launching three new products in the US and one in UK. R&D is working on several new products for the developed market summing it for the developed market. Summing up I would like to reconfirm that we remain focused on reaching our 2000 Crores target over the next two years along with margin improvement.

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

Jitendra Sharma: Thank you Sir. Let me start with financial highlights for the first nine months of the year. Operating revenue was 1073 Crores a growth of 2.6% as compared to 1046 Crores in nine months of FY2021. EBITDA was at 195.2 Crores as compared to 244 Crores in the corresponding nine month of FY2021. EBITDA margin was at 18.2% in the nine months of FY2022 as against 23.3%in nine months of FY2021. PAT stood at 157.2 Crores being almost flat on a year-on-year basis. EPS for the nine months was almost constant at Rs.3.82.

From a geography perspective US, North America was the highest contributor at 463.5 Crores and witnessed 2.9% growth in the nine months of FY2022. EU and UK formulations market recorded 2.6% growth at 454.1 Crores. Australia, New Zealand formulation market recorded 4.3% growth at 108.7 Crores whereas the rest of worlds recorded 5% decrease the sales of 46.5 Crores in nine months of FY2022 on account of the geopolitical issues.

Similar to the last quarter we did see elevated input costs and increased freight and packaging material costs. A slightly redundant factor is that these costs are now not increasing at the same rate as earlier and we should be able to see our margins stabilizing over the coming quarters as we pass on these elevated costs. However our improved product mix reduce financial costs and lower tax outgo helped us to utilize the same resulting our bottom line being almost constant as stated earlier. We continued to invest in capacity expansion with our Capex being at 32.8 Crores for the first nine months of this year. Our R&D spend was 21.7 Crores that is almost 2% of the sales for the period and then we have to launch four new products as take it benchmark. We continue to remain debt free as one day our cash and cash equivalent in the books was at 323 Crores.

In the light of the above stated uncertainty we are unable to view any forecast however we are positive about the business prospects in the medium to long-term.

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

Moderator: Thank you very much, Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Subhankar from SKSSPL. Please go ahead.

Subhankar: Thanks for the opportunity. Just wanted to get a sense on our, I mean, what all has hit the margin in quarter three if you can give some color to it.

Mark Saldanha: Well we had a substantial amount of increase in freight we had our packaging, raw materials all these inputs which have gone up obviously a lot of material coming in from China which is again resulting in increase in cost the freight from overseas from China itself has gone up. So it is basically amounting to all components going into a product in addition the freight which has gone up by nearly three quarters.

Subhankar: Where are we in terms of those cost pressure in current quarter in terms of rate and in terms of the other raw materials.

Mark Saldanha: Well in my previous quarter I did mentioned it is going to take some time for it to come down or to even get better I do not see the last quarter rate improving or raw material or packaging material cost improving as Mr. Jitendra said it has stabilized it is not rising the way it did rise in the last three months so you do see a bit of stability and with that we do expect from here it may start improving or tapering down but I do not foresee this happening before March or April.

Subhankar: Finally so I mean basically we started the year I mean March 2021 we started with a very positive note we were expecting a 15% kind of revenue growth not so much on the margin because I can understand there are a lot of factors which is not in your control but in terms of the revenue growth it seems like we are going to end with a low single digit or kind of no growth here FY2022.

Mark Saldanha: Yes, I mean, because of the volatility in the market and the pricing that you can see we have to take conscious call at times where we had to ensure that we do not lose out on our profitability or the margins. So we took conscious calls or if we had to let go of certain contracts so that we do not bleed in terms of profitability. So we did give our priority to profit more than the top line and that is why we could manage to sustain what numbers you see or at least show a decent set of numbers out here.

Subhankar: All right thank you so much.

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

Viraj Mahadevia: I had a question related to passing on some of these cost increases I mean there has been enough of rhetoric in the wider media about cost escalations over the last six to nine months. So my first question is have we started passing these on and when do you think most of that will start to reflect on the revenue side to compensate for these cost escalations by Q4 or Q1 in the next financial year.

Mark Saldanha: We were able to do some cost increase with respected clients some have started on the 1st of Jan we have some cost increase which is going to come effective on 1st of April and some which are going to happen in the 1st of June it all depends on when we were awarded a contract certain clients need six months certain clients need three months but we have basically pushed him for a cost increase that said at that note of caution is we are all hopeful that this cost increase which we are seeing in terms of freight, in terms of raw material, in terms of all the other dynamics have stabilized and does not go northwards from here on obviously you see the geopolitical issues that are happening across the borders and what is going on with Russia, Ukraine which are beyond our control and any of this could escalate oil escalate cost further. We all hope for the best but I do believe there will be a stability in cost.

Viraj Mahadevia: Understood so Mark you are saying that of the existing cost escalations obviously we cannot predict what will come what shocks will come down the line of the existing cost escalations we have started to pass them on in a phased manner and most of this will be done by sort of Q1 of the new financial year.

Mark Saldanha: Yes that is right.

Viraj Mahadevia: Some of your input costs if I look at players like Solara etc., who are big players in Ibuprofen they have reported very disappointing results apart from other reasons. So it seems like the RM costs in some of these key products is also going down which should favor you from a gross margin perspective going forward is that right.

Mark Saldanha: We have not seen material costs go down actually most of the material costs are more related to oil or your petroleum products and we have not actually witnessed that fall in raw material if it has gone down maybe ibuprofen to some extent but the Paracetamol or the Acetaminophen which has gone through the roof we have Metformin cost which is going up so all India is very dependent today on intermediates and chemicals coming in from China. China for whatever reason has basically increased their pricing or the benchmark of pricing and at the same time has created this shortage which is basically which is again prices up pushing prices up so all these factors are led to even Indian manufacturers of raw materials to increase their prices. So I have yet to come across something which has not gone up maybe one or two items here and there may be the odd ball out but otherwise most of it has increased.

Viraj Mahadevia: Lastly Mark any sense on the net cash balance I repeatedly asked this as I have other shareholders over the last year now our cash balance is 330 plus Crores we are in a very comfortable cash position I know you have highlighted in the past several initiatives on the acquisition M&A front maybe even multiple of them but do you think now that our cash balances are where they are and hopefully we have hit sort of bottom cycle in terms of performance you can allocate and return from this cash back to shareholders either through dividends or buybacks.

Mark Saldanha: We have been discussing this at length and we are open to whatever you mentioned and it is on our radar…

Viraj Mahadevia: Mark we have done a primary issue to investors at Rs.74 a share your share price today is at 51. There is no mathematical reasoning or justification to not do a buyback at these prices with this kind of cash balance.

Mark Saldanha: Absolutely and we have allocated resources of what you see out there we have allocated over 100 Crores just on capex and we have started the capex part of it expanding our capacities and infrastructure we have allocated some more resources for M&A's which we which we are exploring so there I mean why you see 300 Crores into the cash balance but a decent amount of it is already allocated for growth of the company but that we have done we do take a point that there is a possibility of free cash flows to be allocated into buyback or something of that stuff and we have discussed this and we are exploring the possibility also.

Viraj Mahadevia: It will be great if you can give it another look given what is happening in the markets and where the share prices come to now and also you are obviously still generating free cash flow every quarter so it is not like 330 is a static balance so maybe if you can allocate 50 Crores to 100 Crores for a buyback I think that would be a very shareholder positive friendly move.

Mark Saldanha: Okay noted thank you.

Viraj Mahadevia: Thank you. All the best.

Moderator: Thank you. Next question is from Yogesh Tiwari from Arihant Capitals. Please go ahead.

Yogesh Tiwari: Thank you Sir for taking my questions. I wanted to understand basically the revenue, the regional revenues so to begin with if I look at the US and North America revenue and I do a backward calculation it looks like that in Q3 versus Q2 of FY2022 there has been a decline of about 9 to 10 Crores so about 157 Crores in Q3 versus 168 Crores in Q3 FY2022. But what we understand is we launched three products in US so if you can help me understand why there is a decline what would be the factors behind the decline in the US revenues.

Jitendra Sharma: To add to what Mark mentioned earlier basically because of the pending dynamics we have considered like giving up on certain contracts because they were not profitable enough for us to continue. So on one side there was a de-growth coming on these products on those contracts and but then that was compensated by some new businesses some new launches so overall like we could sustain our numbers and we have grown in the first nine months the new launches which took place during the quarter again they will take some time to pick up in terms of revenue and we believe that these products have good potential we will definitely penetrate into the markets to get reasonable market share of these products in coming quarters. So in coming quarters definitely these new launches will pick up and we will have incremental revenue coming from these products.

Yogesh Tiwari: So can we expect the quarterly revenues to grow from here for US and in spite of the price erosion.

Jitendra Sharma: Yes, we believe so.

Yogesh Tiwari: What would be the quantum of price erosion it looks like the quarter-on-quarter degrowth in US revenue is about 5% to 7% so we can take that to be the price erosion 5% to 7%.

Jitendra Sharma: That is single high digit number.

Yogesh Tiwari: Pardon Sir.

Jitendra Sharma: Yes it is single high digit number it is around 7% to 8%.

Yogesh Tiwari: And the next is on the Europe revenue so what our calculation says is like there has been an increase about 3 to 4 Crores in Europe revenues on a quarter-on-quarter basis so about 2% to 3%. So is this because of the new launch we had Loperamide in UK is that the factor.

Mark Saldanha: Basically again I think it has contributed to some an exchange but again not a very large number so we have maintained the volumes of our UK business so I think from an extent we can say yes, it has contributed subsequently.

Yogesh Tiwari: But, this growth which we are seeing in Europe of 2% to 3% that is like volume led is there any big factor behind that growth.

Mark Saldanha: See it is a flat number so it may be like we have maintained the volumes but yes I think some incremental volume in few products definitely has 50 plus numbers.

Yogesh Tiwari: Sir if you can just discuss throw some color on the industry with regards to these two product launch these Cetirizine Hydrochloride tablet and the Loperamide launch if you can tell what would be the market size what is the competition over there and what is your targeted market share in these two products which you launched.

Mark Saldanha: Well these products have a market size see the second thing we have launched in US it has a market size of over $50 million and I think in few quarters time you will be able to achieve at least 10% of the market share that is what we believe and Loperamide in US I do not have the exact market size but it is literally a smaller product but we expect to achieve anything between £1 to £2 million in this product.

Yogesh Tiwari: What is £2 million in what timeline?

Mark Saldanha: In UK within next one year and then Hydrochloric Chloride will be like in three quarters 10% market share.

Yogesh Tiwari: And Sir one more thing like regarding the gross margin so on a quarter-on-quarter basis there has been an improvement in gross margins from 51% to about 53% so do you think we can maybe in the next one, two quarters we can reach the 55% gross margin.

Mark Saldanha: See we are definitely trying to pass it on to customers and as we are doing that it is helping us to improve our gross margins. So definitely we are hopeful that has been improved in coming quarters.

Yogesh Tiwari: When I come to the other cost. In the other cost in Q3 we had about 71 Crores versus 60 Crores last year and you told that mostly the increases because of the freight cost. So this 11 Crores difference which we are having on a quarter-on-quarter basis how much would be contributed by freight cost.

Mark Saldanha: Substantially I think about 90% will be compressing.

Yogesh Tiwari: Okay and as you told that you are seeing normalization in freight costs so can we expect this 71 coming down to the 60 and those normalized levels in the next quarter maybe coming quarter.

Mark Saldanha: What market intelligence we have got is that this will bring in a bit volatile for at least next two quarters so we really do not expect if that comes at least two quarters.

Yogesh Tiwari: Regarding the effective tax rate this quarter it was lower compared to last quarter so what would be the reason for it the effective tax rate I think so it is about 20%, 21% something compared to last quarter which is lower. So the factors driving it.

Mark Saldanha: See our overall effective tax rate will be in the range of 22% we have operations in UK, US, Australia and India and UK US basically are having 20% tax rate Australia is having around 18% if it is impact 19% and India is having a 25% so on a blended basis our effective tax rate is coming somewhere between 21% to 22% and that is what we believe will remain…

Yogesh Tiwari: One question on the raw material cost so this quarter the raw material cost was about 170 Crores versus 113 Crores, this quarter it was 133 Crores versus 170 Crores last year so basically on a quarter-on-quarter basis there has been decline above 40 Crores so is it because of certain arrangements you have made with your suppliers or it is because compared to Q2 there has been some decline in some raw material prices.

Mark Saldanha: So basically there is some improvement in the gross margin so that definitely shows that the material costs have come down a bit as compared to last quarter.

Yogesh Tiwari: But do you see prices of like last time I think so you told that Ibuprofen and Paracetamol forms about 40% of their raw material cost. So is it because of their prices coming down to the extent of 10%-20% because the difference is about 40 Crores on a quarter-on-quarter basis?

Mark Saldanha: See the Paracetamol prices have not come down but Ibuprofen cost definitely have come down a bit so the ibuprofen cost has come down say around 5% to 8% and Paracetamol costs actually are high like last quarter, this quarter we do not came to this so it is high.

Yogesh Tiwari: Last quarter actually our gross margin was among the lowest about 51% which has improved in the range of 53%, 53.5% so you think that that was the bottom end we will at least sustain 53% in the next quarter and going forward.

Mark Saldanha: Yes we do so.

Yogesh Tiwari: Lastly on the EBITDA margins as mark told that we will be looking at expanding the margins and in the last con call it is like we were targeting that in the long-term that 22% EBITDA margin this quarter we had about 16% so what would be like the view on margin how do you see that coming up in the next one, two quarters.

Mark Saldanha: I think the moment rate starts stabilizing we expect at least 2% to 3% increases in the EBITDA margin just on account rate itself then the raw material prices stabilization right now we are taking a gross marginal rate of almost 400 to 500 basis points so there also we see some improvement so I think the moment market stabilizes a bit we are very confident that we will increase our EBITDA margins will increase by at least 400 to 500 basis points.

Yogesh Tiwari: How many products we launched four products during this quarter so what is the expected launch in this Q4 and Q1 of next year the new launches.

Mark Saldanha: Yes, this quarter we are expecting one launch and for next quarter it will be a bit early for me to comment right now but this quarter we are planning basically one number of launch.

Yogesh Tiwari: One launch in US.

Mark Saldanha: Yes.

Yogesh Tiwari: One question on your on the NZ basically Australian NZ so that region has done quite well in this quarter it is like it has increased by about 7 Crores from 32 to 39 Crores about 7%, 8% so any particular driver any success on any product over there.

Mark Saldanha: I think we have taken some incremental market shares and in Australia our Australia business is 100% into OTC which has done relatively better in all other geographies.

Yogesh Tiwari: Do we expect this momentum going forward?

Mark Saldanha: Yes.

Yogesh Tiwari: Thank you Sir. If there are any questions I will get back in queue. Thank you very much.

Moderator: Thank you. Next question is from the line of Kamaljeet who is an individual investor. Please go ahead.

Kamaljeet: Thanks for taking my call so my question is what is the synergy going on, on OrbiMed and how much fund has been used so far.

Mark Saldanha: We had issued them warrants wherein we have got 25% subscription money from them so overall we have received Rs.90 odd Crores from them and we have not started utilizing those profits so far.

Kamaljeet: Sir your R&D expenditure right now including quarter four it is 2% or it is till date it has been already 2%.

Mark Saldanha: Our R&D cost we have started spending a bit higher amount as compared to earlier years. Earlier years those were in the range of 1.2% to 1.5% so already this year in the first nine months we have crossed 2% and I think by the end of March it should be somewhere around 3% to 3.5% eventually by next year we plan to spend somewhere around 3.5% to 4% of our revenues. So it is going to go up we have definitely started get this R&D spend and we intent to file new products in our regulated markets wherever we are present.

Kamaljeet: Okay so because in financial year 2017 it is 0.6% to the sales right now in financial year 2021 it is 1.4% so can we expect in next three years the R&D experience will be more than 3%.

Mark Saldanha: Definitely it will be more than 3% in next three years I think it should be 5% or so.

Kamaljeet: So in which area like we are expanding that in the existing domain or we are like doing some R&D from any other domain.

Mark Saldanha: We are doing an existing domain we are spreading of course into newer segments liver delivery systems, liquid Rx, we have a huge number of products in pipeline ointment is another segment where we are getting in soft shell of course we are spreading our market of products, in terms of a seratopical mix also we are basically selecting products what was in wider therapeutic segment.

Kamaljeet: Our key material as used how much it is in domestic percentage to our import one in the sense of it.

Mark Saldanha: You need to say import budget, import percentage.

Kamaljeet: Yes, the raw material which we are procuring how much it is from the domestic market and how much it will be from the import from the China or somewhere else.

Mark Saldanha: I think we are importing around 40% of our total material requirements and 60% comes from the domestic players.

Kamaljeet: So 40% is for our key material that is a Paracetamol, PCM and some Ibuprofen or including all.

Mark Saldanha: Including all 40% is including Paracetamol, Ibuprofen, and Metformin.

Kamaljeet: Sir it is still eight months we are not used orbit or we made a amount and when we can expect there will be any news, like any news from the company side about like we have done something because since last eight months nothing has been happened on those it is okay it might be planning and strategies has been workout but it is just only 10 months left out to redeem all these warrants so when we can expect some good news.

Mark Saldanha: Definitely as Mr. Mark has said that we have allocated funds towards land utilization and we are working on these areas we expect the fund utilization to happen in next year.

Kamaljeet: Okay thanks Sir, thank you.

Moderator: Thank you very much. The next question is from Manoj Matthew Jacob investor. Please go ahead.

Manoj Mathew Jacob: My question to you is simple the diluted EPS is it 1.2 or is it 1.11 because on dilution you will have 45 Crores shares.

Mark Saldanha: No I could not get your question can you repeat that.

Manoj Mathew Jacob: The EPS diluted EPS is it 1.2 that is what you report that on the net profit of this quarter it should have been 1.11 because when OrbiMed's new issue comes and also Marks new capital comes in the share capital will go to 45 Crores?

Mark Saldanha: Yes, so see the OrbiMed right now they have subscribed to the warrant I have not been calculated here right now because we have not pay full money also here we have just 5% of it. So right now if you were keeping the shares which are miniscule post the merger.

Manoj Mathew Jacob: The next question is has the freight stabilized at the last quarter has it increased in February.

Mark Saldanha: You are talking about…

Manoj Mathew Jacob: The freight cost.

Mark Saldanha: Freight costs have been stabilized but then again they keep coming up with the GRI. The GRIs are general rate hike integration so I am taking on this so though there is no increase in last say three months but you never move upon it like so both that being go further and eventually they will start coming down definitely it will take some more time but at least for the time being they are stable.

Manoj Mathew Jacob: The last question from my side is with Brexit in view do you think our marketing in Europe will be affected because we only have a UK approval.

Mark Saldanha: No, we were not having any impact of Brexit because as it is our UK centric and post this impact we have grown like I think there was a negative impact in our business which is impacted.

Manoj Mathew Jacob: No my question is we do not have the factory in Goa, EU approval we only have a Great Britain approval.

Mark Saldanha: Yes, but it is valid it is the UK approval is valid for EU.

Manoj Mathew Jacob: EU and in spite of Brexit.

Mark Saldanha: Yes even after in spite of it.

Manoj Mathew Jacob: Thank you that is all.

Moderator: Thank you. Next question is a follow-up from the line of Yogesh Tiwari from Arihant Capital. Please go ahead.

Yogesh Tiwari: Thank you Sir for taking my question again there has been an increase in employee cost on a quarter-on-quarter as well as on a year-on-year basis. So any particular reason behind the increase in employee cost.

Mark Saldanha: See our employee cost has risen by almost 2% in this year as compared to last year and we have basically increased like our overall head count in India even in US also so that was the primary reason we have started with an API division also in our company so we have hired people for API business and R&D as well. So yes there is an increase in employee cost also.

Moderator: It seems we lost the line for the current questioner. Next question is a follow-up from the line of Viraj Mahadevia an individual investor. Please go ahead.

Viraj Mahadevia: Mark just to stress Mark, Jitendra you can see the slightly lower participation on this call and I think it goes back to investors level of confidence in what they have seen so again I urge you to use some of your cash balances do a buyback it is a financially attractive proposition if the future prospects of your business look good there are doubts regarding authenticity of this cash and cash flow and I think some of that will be put to rest when you use it physically for payouts for M&A and or buyback. Thank you.

Moderator: Thank you. Next question is from the line of Jaimin and individual investor. Please go ahead.

Jaimin: I want to know about growth perspective with a viewpoint of three to five years.

Mark Saldanha: Well like I said in the beginning of call or in the introduction we are very confident on our trajectory of touching 2000 Crores within the next two to three years. I do believe we are progressing in the direction I think that could be the first benchmark you can take from where we are today.

Jaimin: Thank you.

Moderator: Thank you. Next question is a follow-up from Yogesh Tiwari from Arihant Capital. Please go ahead.

Yogesh Tiwari: Thank you for taking my question sorry Sir actually I was disconnected I just wanted to know on the increase in the employee cost if you can please repeat increase in employee cost.

Mark Saldanha: Yes, so we have increased our head count the number of head counts in India operations and in US operations as well we also have started with an API division in our company so we have employed more people there also in R&D also we have increased the number of people so this all has resulted in a 2% increase in our employee cost over last year.

Yogesh Tiwari: And this API division is like a backward integration your focus on backward integration. So will this has an effect on expansion in the EBITDA margin going forward.

Mark Saldanha: See, it is work in progress and it will definitely take couple of quarters before we start using having our own captive consumption but once it happens definitely it will improve our EBITDA margin.

Yogesh Tiwari: So if I take a one-year horizon investment horizon what would be the approximate impact on EBITDA margin because of the API division getting functional.

Mark Saldanha: It will take anything between one to two years time it is difficult to basically start predicting a number here but definitely it will give us incremental gross margins of 5% plus kind of numbers once we are fully integrated.

Yogesh Tiwari: So we can expect a 5% improvement in gross margins maybe two years down the line because of the API division coming in.

Mark Saldanha: Yes, absolutely.

Yogesh Tiwari: Sir one thing on the other cost so what I understand is like we would be passing on the freight cost to the clients right to the customer we will not be taking it.

Mark Saldanha: Right and basically the pricing the cost will be passed on in terms of in entirely including the material cost increase the freight costs increase everything put together. So when we pass it on we consider all cot increases.

Yogesh Tiwari: Lastly can you give any outlook on how what would be the approximate growth in the Europe and US markets going forward if I take a two year view what would be like the growth in these two markets.

Mark Saldanha: See we are targeting to grow 18% year-on-year both in Europe and in the US businesses.

Yogesh Tiwari: Thank you very much, Sir.

Moderator: Thank you. Next question is a follow-up from Kamaljeet an individual investor. Please go ahead.

Kamaljeet: Sir what is the plant utilization as of now.

Mark Saldanha: Plant utilization in India as of now is around between 70% and 75%.

Kamaljeet: Whether it is optimized one or it is just the standard one historically pre-COVID and post COVID.

Mark Saldanha: Can you repeat your question.

Kamaljeet: It is 70% to 75% is the ratio of plant utilization is the standard one as expected or it is can be of up to 90% depending upon the raw material or demand in the market.

Mark Saldanha: No it is standard there is no impact of COVID on our plant utilization.

Kamaljeet: From the raw material perspective as well.

Mark Saldanha: No.

Kamaljeet: Nowadays like the inventory of the raw material how much we are holding the essence of period of earlier some of the pharma companies increase the raw material for a duration of six month to nine months so what is our state Sir.

Mark Saldanha: See we have also increased our inventory levels if you see our September balance sheet numbers which we had published the overall inventory we had was in the range of three to four months and we still continue to hold that level of inventory.

Kamaljeet: So like what will be that probable reason to hold three to four months or it will be normalized as expected pre-COVID after some taking market conditions what would those reasons.

Mark Saldanha: See right now the overall supply chain situation is pretty volatile so we definitely intend to continue with this level of inventory for at least next one year.

Kamaljeet: So like as everyone is saying supply chain destructions and all how much it can be a delay from a normal course if you can let me know some ballparks you have five days, ten days whatever it will be.

Mark Saldanha: See the normal shipment time from India to US earlier it used to take around 30 to 35 days nowadays it is taking more than 50 days so that way definitely the overall turnaround time have increased by three to four weeks.

Kamaljeet: Thank you Sir.

Moderator: Thank you. Next question is from the line of Aditi Kasbekar an individual investor. Please go ahead.

Aditi Kasbekar: Thank you for the opportunity to speak. I just wanted to sort of reiterate an observation which has already been raised on the call I think by a couple of participants who already talked about the use of cash on the book so just wanted to reiterate even in the past we have seen a bunch of companies which effectively then live with the stigma of not rewarding the shareholders for long enough and not putting the cash which has been raised to use on an appropriate basis within a suitable kind of a time frame so really urge you to sort of take a shareholder friendly move in terms of either announcing a dividend or I mean buyback would possibly be the best thing to do here that is just a request that is all I wanted to say thank you.

Mark Saldanha: We appreciate, noted. Thank you.

Moderator: thank you. Next question is a follow-up from Yogesh Tiwari from Arihant Capital. Please go ahead.

Yogesh Tiwari: Thank you Sir. One question on the definition so there has been an increase in depreciation for this quarter so is this related to the Goa facility which you are ramping up.

Mark Saldanha: Yes it is a normal depreciation increase on account of the capex which we are doing so every year we are doing incremental and that is resulting into higher depreciation. So it is coming from Goa it is coming from our other two plants also in UK and in US. Okay so what would be a quarterly run rate for this depreciation it would be in the 8 to 9 Crores.

Yogesh Tiwari: Yes, it will be in the range of 8 to 9 Crores.

Mark Saldanha: One more thing in your presentation you have highlighted the long-term growth of the company wherein you have put in three, four factors one is through capacity expansion inorganic growth and other factors. So can we quantify that how much do you think so it is like if you are looking for 100% growth in the revenues how much percentage will come from inorganic how much from capacity expansion how much from new product launches if I can get that summary about these drivers if we can quantify that.

Yogesh Tiwari: See we are projecting a organic growth of 15% which will come from our existing markets, existing products of course new launches will help us to achieve those numbers in terms of the incremental growth definitely new launches will contribute significantly at least 50% growth will come from these countries as well. In terms of related growth definitely it is difficult to comment right now.

Yogesh Tiwari: So basically that target we have the 15% that will be driven by the organic group.

Mark Saldanha: Right.

Yogesh Tiwari: It will be like 50% would come from new launches 50% from existing products approximately and any other incremental will basically confirm in organic and acquisitions about 15%.

Mark Saldanha: Absolutely.

Yogesh Tiwari: Sir lastly on if you can throw some color on the US pricing erosion so what are the inventory levels now with the distributors in US and how it is affecting the price where do you see it bottoming going forward?

Mark Saldanha: See the pricing pressure is on twofold one is when you talk of Rx it is normally on the price itself. When you are talking of profitability you have the cost increase also happening out there. I do believe the pricing as long as there is no uncertainty in the global market or there is stability in the global market I do not see the pricing moving beyond what it has already moved today that said and done in the Rx 400 in US it is a highly consolidated market and hence it just depends on demand and supply situation when there is low demand and excess supply then you do have volatility in pricing but beyond that I do not see price increases that will take place in terms of cost.

Yogesh Tiwari: In terms of inventory levels with the distributors in US do you see a quarter-on-quarter decline in those inventory levels which will support prices going forward do you see those things in quarter-on-quarter level.

Mark Saldanha: Yes I do see that.

Yogesh Tiwari: So the inventories for distributors has actually gone down.

Mark Saldanha: Inventories have gone down obviously again it just depends on the wave of COVID during the COVID time distributors tend to basically fill up their inventory and now that the wave is basically dying out you would see they are not buying for certain amount of time and liquidating the excess inventory they kept during the COVID time you were set nearly a million cases a day once upon a time now it is come below 300000 cases a day. So obviously it is basically coming down.

Yogesh Tiwari: Sure and this 8% approximate price erosion which we had in Q3 what would be the corresponding approximate number in Q2 if I would like to compare it.

Mark Saldanha: Probably the same.

Yogesh Tiwari: So do you think it is a bottoming or it is like it will come down in the coming quarter it has bottomed out or it will persist for a few quarters around that point only 8%.

Mark Saldanha: It should remain around there for at least a quarter and then you may see a difference happens.

Yogesh Tiwari: So once it stabilizes it will most likely come down into, three quarters.

Mark Saldanha: Yes.

Yogesh Tiwari: Okay sure thank you very much, Sir.

Moderator: Thank you. Next question is follow up from Kamaljeet an individual investor. Please go ahead.

Kamaljeet: Sir one question related to right now employee cost has been increased so it includes the employee salary height for management as well or it is just the new hires or something. So we had normal increment also during the year for all employees which we give every year to our people.

Mark Saldanha: Increment like in...

Kamaljeet: Sir what will be the median salary of employee to the management.

Mark Saldanha: In terms of the increment you are asking.

Kamaljeet: Increment in a ratio wise also.

Mark Saldanha: See it is between 5% and 10% on an average.

Kamaljeet: The medium in the sense of.

Mark Saldanha: I do not have that number right now with me.

Kamaljeet: Sir one point here in the sense of once one side we are saying there are inventory with our distributor there another side we are saying that there is a shipping cost increase so how it will be a margin effect if one side distributor have a lot of inventory and that is getting decreased and one side we are saying that, oh we have to send a lot of material and that is impacting our margin.

Mark Saldanha: I could not get your question.

Kamaljeet: Sir take example of USP in the sense of system I follow colleague he is asking the questions so take a container nowadays is 50 days and there is a freight rate high but already distributor have some inventory of three to four months or five months. So our margin should be segregated or could effect only on the material which is we are passing through rather than the material which is already there why we have to send that material there.

Mark Saldanha: No see this is based on the forecast and the orders which distributors are facing with us so once they place the order we have to deliver it to them and so they cannot stop the shipment or the flow of business so that will continue as it is but definitely there will be some inventory adjustments which will keep happening based on the demand supply based on the inventory levels so that will always be there like and those moments will always be there at any given point of time they will be making adjustments if the inventory levels are high on their side then definitely they will slow down placing new purchase orders once they purchase orders we will have to deliver them those materials.

Kamaljeet: Okay thank you Sir.

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

Mark Saldanha: Thank you everyone for taking your time on a busy day. I wish you have a pleasant a great day and be safe. Thank you very much.

Moderator: Thank you very much. Ladies and gentlemen on behalf of DAM Capital Advisors Limited that concludes today's conference. Thank you all for joining us and you may now disconnect your lines.