



Marksans Pharma Ltd.

“Marksans Pharma Limited Q1 FY23 Earnings Conference Call”

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ANALYST: Mr. Nitin Agarwal - DAM Capital Advisors Ltd

MANAGEMENT PARTICIPANTS:

Mr. Mark Saldanha

Founder, Chairman & Managing Director

Mr. Jitendra Sharma

Chief Financial Officer

Q&A PARTICIPANTS:

- 1. Yogesh Tiwari** - Arihant Capital
- 2. Madhav G** - Shastra capital
- 3. Manoj Mathew Jacob** - Individual Investor
- 4. Prerit Choudhary** - Green Portfolio
- 5. Hemant Kanungo** - Individual Investor
- 6. Sachin Kaseria** - Svan Investments

Moderator

Good evening, ladies and gentlemen. I'm Kritika, moderator of Marksans Pharma Q1 FY23 Earnings Call hosted by DAM Capital Advisors Limited. As a reminder, all participants' lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone telephone. Please note this conference is recorded. I would now like to hand over the floor to Mr. Nitin Agarwal of DAM Capital. Thank you and over to you, Sir.

Nitin Agarwal

Thanks, moderator. Good evening, everyone, and a very warm welcome to Marksans Pharma Limited Q1 FY23 post results earnings call hosted by DAM Capital Advisors. On the call today we have representing Marksans Pharma management, Mr. Mark Saldanha, Founder, Chairman and Managing Director; and Mr. Jitendra Sharma, Chief Financial Officer. I'll hand over the call to Mark to make the opening comments and then we'll open the floor for Q&A. Please go ahead, Mark.

Mark Saldanha

Thank you, Nitin. Welcome everyone to our Q1 FY23 earnings call. I'm pleased to share that we had a strong start to the year with a solid growth in the first quarter across our regions. Our US region grew by 25.7%, while UK and Europe grew by 13.7% driven by a strong volume growth and new product launches. Pricing erosion continued to be high in single digits in the US impacting our generic business. However, our RoW revenue doubled, while Australia and New Zealand grew by 38%. The inflationary headwind continued in the quarter with the increase in cost of material and freight costs impacting our margins.

However, we expect the situation to improve in the current year and cost pressures to be moderate. We have also started passing price increase to our customers. We have continued to be innovative and launch products supported by R&D capabilities. We have a strong product pipeline and plans to launch several new products in the next two years. This will drive a sustained growth momentum and hopefully improve our profitability. We obviously aim to increase our R&D spend to 4% to 5% of sales over the coming years. Our low-cost manufacturing capabilities provide us with a competitive edge. We do plan to expand our capacities over the next 12 to 18 months.

This along with our backward integration plan into API for our core molecules will help us expand our margins in the near future. Our aim as a company is always to be a fully integrated company with our own API formulation, manufacturing and a forward integrated business module in the biggest markets. With this I'd like to turn it over to Jitendra, who'll update you on the financials before we can start our Q&A.

Jitendra Sharma

Thank you, Sir. I will explain the financial performance of Q1 FY22-23. Operating revenue was at INR 433.8 crore, increase of 24.3% compared with INR 349 crore last year. US and North America was at INR 173.9 crores and witnessed 25.7% growth YoY. EU and UK formulations market recorded 13.7% growth standing at INR 181crores. Australia and New Zealand formulation market recorded 37.8% growth at INR 52.6 crores. Whereas the Rest of World recorded 99% increase in the sales to INR 26.3 crores in Q1 FY23. Gross profit was at INR 218.9 crores in Q1 FY23, increasing by 17.3% YoY.

Gross margin declined by 302 basis points from 53.5% to 50.5% in Q1 FY23. EBITDA was at INR 72.9 crore, decline of 5.8% YoY due to continued cost pressures. Our depreciation was at INR 11.1 crore at a normalized level versus last quarter where it increased due to Ind AS 116 lease accounting. Consequently, our PAT was INR 60.2 crore in Q1 FY23 compared to INR 62.6 crore in Q1 FY22 and INR 29.7 crore in Q4 FY22. Our R&D spend in the quarter was at INR 8.9 crore, that is around 2% of the sales. We continue to remain debt free and our cash and cash equivalent in the books was at INR 339 crores as of 30th June 2022. With this, I would like to open the floor to questions-and-answers. Thank you very much.

Moderator

Thank you, Sir. Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask a question. If you would like to withdraw your request, you may do so by pressing * and 1 again. I repeat, ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad. We will wait for a moment while the question queue assembles. First question comes from Manoj Matthew Jacob, an individual investor. Please go ahead.

Manoj Mathew Jacob

Hello. Mark, congratulations on the results. I have just three questions to you. Question number one is, this increase in turnover YoY, is it because of the additional capacity that has come into effect in the Goa plant? Because in 2020, after the March results, you said you are

going to double the Goa plant production. So, can we expect more turnover this year or is this the turnover we could expect for the next quarters of this year? The second question is, as fast as when can we expect the API to come online? And since you said the core molecule, it will all be in the pain segment?

Mark Saldanha

Yeah, I can hear you. We're waiting for your questions. I'll reply once you finish all the questions.

Manoj Mathew Jacob

Yeah. I'm done with the questions.

Mark Saldanha

Alright. Hi. So, the increase in sales is obviously proportion to the capacity and over time we had increased capacity. Every year we spend a lot of Capex increasing capacity to meet our demand. So, we do expect to maintain this trend for this current year. However, that said and done, we have aggressive plans to increase our capacity further in the next 12 to 18 months, which will again fuel the next year's growth plan.

With regards to API, when will the API come online, it's a bit longer than expected. We're working on it, and we expect to file at least two DMF this calendar year, and maybe three in the next financial year. Obviously, once we file the DMF, we need to trigger those API onto our active licenses, which normally takes anywhere between six to nine months. So hopefully, by next year, we should have couple of products on to our licenses, they will be fully integrated on.

Manoj Mathew Jacob

Okay, my last question, okay. I remember you telling me that in January, April and July, you have your price renegotiations with your buyer with Kroger or Sam's Club and all, now the price initial is done and over. So, can we expect a better EBITDA and net profit next quarter?

Mark Saldanha

So, basically, we have asked for price increases and normally their price increases like you rightly said happens at a particular time. Some has happened in April, some are happening

now in the month of August. While that's said and done, we still continue with cost increases at the other end. So, when you do a price recommendation, you start at from one point, but if cost escalates further, it again, you're just basically it is just eroding the advantage that you would have got. But that said and done we are seeing prices tapering down, raw material prices coming down.

We are seeing oil and crude prices coming down. We do see it basically continuing in this year. But by the time it actually kicks into the system, by the time you actually see the end result of that. I have my doubts whether this financial year you will see the direct impact of all this happening. So hopefully the next year will be much better than this year.

Manoj Mathew Jacob

Okay. So, with this deal we can't expect the PAT margin of 20%, it will still be at 16%?

Mark Saldanha

Yeah. EBITDA will be about 15 to 16%.

Manoj Mathew Jacob

EBITDA. Okay. Thank you, Mark.

Moderator

Thank you, Sir. Next question comes from Yogesh Tiwari from Arihant Capital. Please go ahead.

Yogesh Tiwari

Good evening, Sir. Thank you for taking my question. And congratulations on the results. My first question is regarding the US market. So, as you pointed out, that there was a high-single digit erosion in the US market. So, just wanted to understand, because the revenue grew by about 25%, the volume growth would be about 30%. So, if you can share some highlights, which molecules contributed to this high-volume growth, what would be the contribution of new product launches and previous launches in the following year.

Mark Saldanha

So, the new product launches, obviously, you will see the impact only in the last quarter and moving beyond the last quarter into the next calendar year. So, obviously, we have some contribution coming in. The high cost increases single digits, which I mentioned is because of various factors that come into play into raw material cost, the packaging material cost, the freight cost all contributing. And those single molecules per se have contributed to this rise. It's been entire basket of products have basically performed and given decent revenues. There are a few products which have taken a backseat because of price erosions. But again, the pain segment, the cough and cold, allergy segments are our main contributors to this drive of growth.

Yogesh Tiwari

And, Sir, how is the pricing environment in the US now? So, is it similar like high-single digit, which was in the previous quarter, or it has moderated currently?

Mark Saldanha

So far, it is showing the trend, but it is showing a bit of moderation also. Now, with the raw material prices tapering down a bit. So, I don't think it will go back to the old number or whole pricing of raw materials that we saw two years back. But I do see the raw material prices getting better. It's not at least increasing further, it's coming down. That said and done the competition in US, the consolidation which has taken place, the correction which has taken place. So, it will take some time to see better numbers out there. So, challenges remain in the US. But we are moving against the trend out here and we are trying to differentiate ourselves amongst everyone else.

Yogesh Tiwari

Sure, Sir. But is the pricing erosion still similar to Q1, like in a higher-single digit or?

Mark Saldanha

Yeah, it is. It is very similar to that.

Yogesh Tiwari

Any consolidations happening in the oral solids in the US because of this challenging environment any companies which have shut down operations for maybe?

Mark Saldanha

No, actually consolidation is not happening from the company standpoint of view, because companies are getting, they are clustered capacity, and the demand is lower than what it was in the peak of COVID times. But it is obviously the impact of what you see with a lot of companies is basically the consolidation and a distribution channel which is basically having an impact in the demand and supply situation. And this is creating obviously price erosion and over-supply happening out there. So, it will take some time to correct, but I do believe eventually it will correct.

Yogesh Tiwari

Any data around what would be the inventory of pain management in the US? Because that might be one of the factors behind the price erosion. So, any data between now and previous quarter for Pain management?

Mark Saldanha

You're talking of inventory?

Yogesh Tiwari

So basically, what we understand is like, there has been some buildup on inventory in the US market, which lead to price erosion in previous quarters.

Mark Saldanha

No, I don't think that would be the right statement of inventory buildup. I think it is more with a demand and supply situation. So, there is more supply, the more capacity, more capabilities, and the demand has come down. So obviously, that's where companies tend to take aggressive stance to utilize their capacity. So that said and done, I don't have the numbers of what the inventory is, obviously. But I do believe it is mainly related to the capabilities and the capacity versus that the actual demand in the US market. So obviously, US is, although I mean, on the verge of recession or maybe going through a recession. So there has been a slowdown in the demand.

Yogesh Tiwari

And, Sir, we are looking for a price increase in August. So, what would be that quantum like in the range of how much percentage we look to increase prices?

Mark Saldanha

It's difficult to mention, because it is product specific to product specific and based on molecules where pricing has gone higher than we are basically trying to pass it down to the clients. And the molecules where price increase has not happened, then we would not be increasing, and the price wherever increases happened made negligibly, we pass on negligibly to the customer. So there is no fixed thumb rule that throughout the product or basket we are going to increase it at X percentage, we don't do that.

Yogesh Tiwari

And, Sir, lastly, on the raw material, so the raw material prices have come down, but we must be having some high-cost raw material previously. So how many months or when can we expect this?

Mark Saldanha

Yeah, that's a good question, actually. Because with such a struggling supply chain, we cannot sustain our commitment with less inventory. So, we normally keep minimum four months of inventory, three months on-hand, four months on-hand sometimes, and one month in transit. So, we are sitting on a good four-months-plus inventory at our end. So that's where even our price, even if the pricing improves, you will not see that results for another six-months-plus.

Yogesh Tiwari

Sure, Sir. Thank you. That's all from my side. I'll get back in queue. Thank you.

Mark Saldanha

Thank you.

Moderator

Thank you, Sir. Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad. I repeat, if you have a question, please press * and 1 on the telephone keypad. We're having a question from Prerit Choudhary from Green Portfolio. Please go ahead.

Prerit Choudhary

Good evening, Sir. So, my first question is related to the fall in revenue numbers in QoQ in Australia and New Zealand. So, are there any reasons for this happening or what is the reason behind it? I just wanted to know.

Jitendra Sharma

Hi. This is Jitendra here. Sorry, we couldn't get you properly. Which market you were talking about?

Prerit Choudhary

Australia and New Zealand. So, I'm looking at fall in the revenues and QoQ figures.

Jitendra Sharma

Yeah, okay. So, the last quarter, the Q4, there was a bit of incremental demand on pain management in Australia on account of the COVID fair-up. So, there was a good lift up resulting into higher sales in Q4 in Pain management segment specifically. So, that is the reason. But I think from Q1 onwards, now it is stabilizing, and I think the Q1 numbers will give you a bit of idea in terms of the trend of what we are likely to achieve in this year, so far as the Australia and New Zealand market is concerned.

Prerit Choudhary

Okay. Thank you. And my next question is related to the acquisition. So, in the last con call, you had mentioned that you would be acquiring formulation manufacturing operations and also for the land in Madhya Pradesh you are planning a Greenfield expansion. So, are there any updates for the same, what the company plans are?

Mark Saldanha

Yeah. For the manufacturing facility, obviously, we are in dialogue with companies, and we are hoping that in the next couple of months, we would be in a position to put pen to paper. With regards to the Greenfield projects, the land that we have taken. Obviously, it's all revolving around the facility, if we can close this transaction, then we will take it, we will explore. We will explore whether we move forward with the Greenfield project at this stage or at a later stage.

Prerit Choudhary

Okay. And apart from that in the investor presentation, you have mentioned a couple of acquisitions or growth plans that you have. So, if you can provide any timeline, what plans you are currently working or what could be the possible, when we can see the possible results for the same?

Mark Saldanha

So, acquisitions and M&A's are very unpredictable. We don't, unless we are nearing something where we believe there could be a possibility of signing something, it is too early to mention that. Obviously, like I've always said in the beginning of the year that we are optimistic that this year our focus is going to be to expand our geographies and our footprints and the market. So, we are working on that. But presently there's nothing much to say about it because we don't have anything concrete beyond what we've already spoken about.

Prerit Choudhary

Okay. Thank you. That's it from my side.

Moderator

Thank you, Sir. Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad. I repeat, if you have a question, please press * and 1 on your telephone keypad. We're having a follow up question from Manoj Mathew Jacob, an individual investor. Please go ahead.

Manoj Mathew Jacob

Hello. Mark, I've got one more question for you. We did INR 433 crores and 60 crores net profit, and we have INR 19 crore cash. So, the rest, has it gone into investment into capacity and expansion?

Mark Saldanha

How much cash? Because our cash.

Manoj Mathew Jacob

INR 19 crores.

Mark Saldanha

No, our cash is INR 300-odd crores.

Manoj Mathew Jacob

No, I'm talking of this quarter's cash accrued to the company. The June quarter cash with the company is INR 19 crores.

Jitendra Sharma

Yeah. Hi, this is Jitendra here. So basically, that cash, see we started the year with the cash of around INR 349 crores. And in the quarter, we did one acquisition of Access Healthcare, where we have invested around INR 30 crores. So, after utilizing that cash and the cash accrual with the quarter and whatever working capital adjustments we had in the quarter, the cash balance for the quarter was INR 339 crore. So basically, it got utilized in the working capital movements and partly towards the acquisition of Access Healthcare.

Manoj Mathew Jacob

Okay. So, when did you think you personalized OrbiMed preferential issue? Like, INR 375 crores when it comes in, they don't intend to put it in your balance sheet. Definitely you're in talks with some for some acquisition or for some CRAMS, something like that. You are not looking into CRAMS?

Jitendra Sharma

No, no, we're not looking into CRAMS. Of course, the money will come into the balance sheet. It will definitely increase our cash balance. And eventually we will plan, we are planning to utilize it for the growth-related revenues. So eventually it will get invested.

Manoj Mathew Jacob

But don't you think you have lots of formulation companies now in India up for sale? API, of course it's difficult, but formulation companies they're many I think now up for sale.

Jitendra Sharma

We are looking at various possibilities and we are working on that.

Manoj Mathew Jacob

Okay. Thank you.

Jitendra Sharma

Thank you.

Moderator

Thank you, Sir. Next question comes from Madhav G from Shastra Capital. Please go ahead.

Madhav G

Good evening, Sir, and congratulations for the good numbers. I have queries. Right now, I think the platform is well set for us, having very good cash balance and activities. So, what is actually the future growth plans for increasing the turnover from INR 2,000 crores and above?

Mark Saldanha

So, basically, obviously, our growth plan is within the same market. So, I do believe next year we should be trending towards the next milestone of INR 2000 crores. We have to do a lot of investments to grow beyond to take us to another level and for that there may be some M&A's, capacity increase and product pipelines, which will drive the growth further.

Madhav G

Is that a same kind of pipeline or something like any complex kind of working or are we actively working on it?

Mark Saldanha

No. Obviously as the company evolves, the pipeline evolves and gets more complex. So, we are working on different segments from a formulation segment, complex molecules, we are venturing into creams and ointments. So, we are getting into different segments like I mentioned. So, the formulations will get more complex as we evolve.

Madhav G

Okay. So, are we looking at something like injectables or something like or within the same ointment kind of thing we're looking, so complex [inaudible 00:26:36]?

Mark Saldanha

No. Injectables, presently we don't, at least for the next 12 months we don't have it in our near horizons. We've got our plate full of the product pipelines and our wish list of products that we want to invest our resources on. So obviously, we are trying to invest wisely. And as to ensure that we basically get best returns out of our investments.

Madhav G

Another question, Sir. Actually, when I'm going through the raw material customer is consumed. The cost of this has gone up between Q4 to Q1. So, what could be the reasons? I think about 500 basis point, it has gone up. So, what could be the reason between Q4 to Q1?

Jitendra Sharma

Hi. This is Jitendra here. See, there are various reasons here. The product mix of course plays an important role. And the pricing pressure on input, the input cost pressure, again, continues, on raw materials pricing also even during this quarter. So largely it is the product mix, where which can have the different gross margin outcome at the quarter end.

Madhav G

Okay. Can we expect it will be improved in this running quarter, means the Q2 and onwards?
So, can we expect that the Q4 kind of referralcost of commercials going to be?

Jitendra Sharma

We are expecting it to remain at these levels, at least for the next two to three quarters.

Madhav G

At Q1 level or Q4 kind of levels?

Jitendra Sharma

At Q1 levels.

Madhav G

At Q1 levels, okay.

Jitendra Sharma

Yes.

Madhav G

Okay. Thank you, sir. That's all from my end.

Jitendra Sharma

Thank you.

Moderator

Thank you, Sir. Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad. I repeat, if you have a question, please press * and 1 on your telephone keypad. We are having a question from SachinKasera from Svan Investments. Please go ahead.

SachinKasera

Yeah. Good evening and congrats for a good set of numbers. I have a few questions. One, you have mentioned in the presentation that you intend to increase the R&D from 2% to 4% to 5%. So, one, if you could give a sense, this will happen over a what period of time? Secondly, this increase that we will see, will it basically mean that we are looking to move up the curve and start filing more complex drugs or it will be more driven by that we will now have far larger number of filings?

Mark Saldanha

Yeah. Hi. So basically, yeah, in terms of R&D, I think our spend is going to gradually increase, it's not going to happen in the next six months, but we are planning to invest into more complex molecules with cost going up. Our spend in R&D we do foresee in the next two years will eventually migrate from a 2% to a 4%. And the molecules, our molecules will be in the complex category and like I said, as the company evolves, the molecules get more complex at every stage. So, we are not actually going with a philosophy of number of filings. Obviously because every ANDA costs these big sum of amount to do filings. Nowadays ANDAs are not free, so they do charge a huge amount for filings. So, you got to be very selective in your development and filing with a vision that the product can see light after two years.

SachinKasera

Sure. Second question is on gross margins. So, from what I can see in the presentation as compared to the March quarter, there's a sequential improvement in the gross margin. And you have mentioned that, because of the consolidation and the type of demand supply, which is there, there remains rising pressure. You also mentioned that we are trying to take some price hikes. It's a little confusing when we are witnessing price hikes and low demand and this pricing pressure. At the same point of time, we are seeing sequentially improving gross margins and you also talking of price increase. So, it's a little confusing. So, if you could tell us how this interplay of those two things will play out as we go ahead?

Jitendra Sharma

Hi. This is Jitendra here. See, this is a continuous process. So, on one side, we are seeing input cost pressure, varying the raw material recipient and packaging material prices is increasing. On other side, definitely we are trying to pass it on to our consumers. So, these are parallel activities, which we keep, which we are trying to do, try to work on. And so, that's

where, as I said earlier, the gross margin improvement basically in the quarter was due to the product mix, the price increase which we are seeking from our customers. So that's another activity which we are continuously trying to have with our customers.

SachinKasera

Then coming to the question it's a little confusing, on one hand, we're able to get some price increase on products and secondly, we're seeing a lot of pricing pressure. So, it's confusing for us, what is the reality.

Jitendra Sharma

See, these are the continuous activities which like we are having, so. And they are independent of each other. I mean to say the price increase, the raw material price increase is happening, which everyone knows, what is happening in the chemical and the API sector. The oil price increase has a lot of pressure on the packaging material costs also. The aluminum prices are increasing, which is the main ingredient for our packaging material. So, the price increase is one part which is happening and that is what we are trying to pass on to our consumers. So, that's where the, so, though there is a pricing pressure, but then there are few products, where definitely we are able to pass it on to our consumers.

So, it's a mixed bag, where some products are seeing pricing pressure. Some products, we are able to pass it on to the consumers. So, it all depends on the product, customer, OTC, like definitely some products we are able to pass the price increase to the customers. Rx, we are finding it difficult to pass it on. Rx, we are seeing a lot of pricing pressure, OTC, relatively pricing pressure is on lower side. So, it's a combination and it's a dynamic situation out there in the business in today's market situation overall.

SachinKasera

Sure. So, the next question is just a follow up to this, your presentation mentions that the share of OTC is increasing continuously. So, if you could tell us little bit, one, is it that in OTC the pricing pressure and the gross margins are a little better and how do we see this ratio coming? And within OTC you have mentioned about soaked at an overall level. So again, is there any margin difference between the two and how do we see this evolving the OTC share between own brands and private labels?

Mark Saldanha

No. The store brand and the private labels are the same. In terms of pricing, see pricing competition is there in every segment, in every category of our products. However, out here, the OTC obviously is more service oriented. So, they do give you some advantage out there. There is obviously a level of stability and predictability in OTC. We are very strong in OTC because historically we have always given equal importance to OTC.

So, it has, and our competitive edge is our product portfolio and manufacturing capabilities where we leverage low-cost manufacturing base, which has helped us to gain more market share on that. The volatility in Rx is obviously a different issue where pricing pressures because it's on your own label. Pricing pressures are more prominent in prescription products than in OTC. That's it. And then, OTC business model revolves on contracts. But during the negotiation of contracts, there's always a pricing pressure out there.

SachinKasera

But net-net, would you say that you get little better margins in OTC versus Rx or they are the same?

Mark Saldanha

I think they are pretty much at same. So, I would not say. Rx, the advantage of Rx is you do get short-term gains also. So, you can because Rx volatility is very high. So, when it hits bottom, it hits bottom, but when it goes up, you can see some advantage out there. So, you do see the ups and downs in Rx. OTC is more flat lined where, that is concerned.

SachinKasera

Sure. And the last question on the CapEx. There's a mention of INR 200 crores CapEx. So, this is mainly for capability building or is it that we are sourcing that we may run out of capacity, hence, we are looking to increase the capacity and that's the main reason for the investment in cost?

Mark Saldanha

So, it is both. Obviously, we have to have a forward-looking statement as to what we anticipate for next year and the year after that and CapEx takes time. So, it takes six months to get machines and put it in place everything at our stuff. So, definitely you got to invest today to see returns tomorrow.

So, that said and done, the investment includes both new infrastructures to basically meet the complex molecules, at the same time expanding current infrastructure to cater to our existing products. And it may involve a bit of M&A in terms of the manufacturing facility that we are pursuing. It may involve that too, to ensure that we get to another level.

SachinKasera

Thank you.

Moderator

Thank you, Sir. Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad. I repeat, if you have a question, please press * and 1 on your telephone keypad. We will wait for a moment while the question queue assembles. We are having a follow up question comes from Yogesh Tiwari from Arihant Capital. Please go ahead.

Yogesh Tiwari

Thank you so much for the follow up question. Sir, can you share how many products are you looking to launch in the US for this year and next year, and also for UK?

Mark Saldanha

So, basically, in US, we are looking at nearly four products this year and next year another four products, four to five products. And obviously, UK, we are filing nearly about 10 products where we do see at least three products seeing the light, the previous year's filing three to four products will see the light this year. But we have a wish list, in the next 24 months to file nearly about 25 products in the UK market and very close to 12 to 14 products in the US market.

Yogesh Tiwari

So basically, we'll be launching about 4 products in the US this year and 4 in the next year. Did I get it correct?

Mark Saldanha

Yes.

Yogesh Tiwari

And in the UK about three to four this year. And next year, any targets?

Mark Saldanha

Yeah. It'll probably be about six-odd products next year, six-seven products next year.

Yogesh Tiwari

Okay, 6-7 products. And, Sir, lastly, what if we can get in that of range what would be the margin differential between OTC, OTC and prescription products? What will be differential margin?

Mark Saldanha

It's difficult to mention that because like I mentioned in earlier reply, Rx is highly volatile. And so, while there are good days, you may see bad days also. And sometimes molecules are just not affordable because of the volatility and demand and supply situation. OTC is like I mentioned flat lined. It is basically much more stable. So, if you look at the opportunity, Rx sometimes shows you good opportunities. While OTC is no predictable and you know what to get.

So, it's difficult to actually put a number and to say the difference between the two because if the Rx is active, we make sure we don't go below our thresh point which is pretty much what we enjoy in the OTC, we ensure we launch product. We keep Rx active to that thresh point. So, we don't have a big difference between the Rx and OTC.

SachinKasera

So, normally going forward 2-3 years it will remain in the same range?

Mark Saldanha

It will remain in the same range or if the Rx comes down below that range, then we decide we will just stop for some time and we get back into the market at a different time, at a different stage. So, we try to ensure that we don't, we service accounts where we at least make our desired bottom line.

Yogesh Tiwari

And, Sir, last question on the US versus UK market. So, is the proportion of Rx and OTC similar in both the markets, the US and UK?

Mark Saldanha

Well, historically, it was similar, very similar. This year obviously because of price erosion, high price erosion and the Rx part of it, that's where mentioned on the volatility. The OTC has taken a bit of the front lead in terms of market share, but we are hoping that the Rx eventually will come back and take and gain some grounds. But I do see in the US OTC being the front leader compared to the Rx part of it. So historically, we were 49%, 51%. Now, I do believe Rx OTC may go to 60%. And so, OTC being 60%, 65%, and RX being 35% to 40%.

Yogesh Tiwari

Thank you, Sir. That's all from my side.

Moderator

Thank you, Sir. Next question comes from Hemant Kanungo, an individual investor. Please go ahead.

Hemant Kanungo

Yeah. Thanks for the opportunity, Sir. Sir, looking at the current result, can we expect similar momentum for this part in the quarter going forward?

Mark Saldanha

Yeah, I think that's our hope. And, obviously, we are in control of fully what we do. We don't have global. I mean, we don't have control on the global scenarios that happen. But we are hopeful that we will continue with this numbers in the coming quarters also.

Hemant Kanungo

Okay, Sir. And, Sir, can you when is the next US like auditing offer facilities across all three facilities?

Mark Saldanha

I don't have. I mean, I don't predict those timelines. Best it's leave it up to them.

Hemant Kanungo

Okay. But generally, it is every five years or is it just any random, like?

Mark Saldanha

It's random and it's not five years. It's normally two years or three years. It's two years, basically. But it's very random. They can come in six months also, it depends on filing, based on filings and based on what's in there.

Hemant Kanungo

Okay. So, in the year 2016 2017, like we had some issues with the US FDA.

Mark Saldanha

So, we didn't and most correctly, we didn't have any issues with the FDA. We had in 2015 with MHRA but not FDA.

Hemant Kanungo

Okay. So how better are we placed today in terms of our inspection of our facilities and everything and the measures and everything?

Mark Saldanha

We have evolved, we have progressed upon.

Hemant Kanungo

Okay, Sir. Thank you. That's it from my side.

Moderator

Thank you, Sir. Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad. I repeat, if you have a question, please press * and 1 on telephone keypad. We are having a follow up question, comes from SachinKasera from Svan Investments. Please go ahead.

SachinKasera

Yeah. Hi. You mentioned that you're looking at some core launches in US this year and next year. You also mentioned in the presentation that you're on four soft gel. So, can you tell us whether this eight launches in the next two years are the same, does they include all the four soft gel launches? And secondly, if you could give us a more granular details about this four soft gels, what is the network addressable market and what type of revenue potential it can have for us?

Mark Saldanha

Yeah, I mean, see soft gel is a part of our business module. But in terms of, they are all niche molecules, so I mean, we do basically focus on more niche molecules, we don't look at any molecule being blockbuster out there. But the approvals that we are expecting are most solid oral as well as soft gel, over the next two years. So, I mean, I would give more importance, even to a solid oral dosage molecules where because they're more complex in nature. I do believe we are getting into more extended-release products. So that gives us that again showcases or highlights our capabilities of getting into more complex molecules. So those are niche molecules, and they will play equal importance as soft gels.

SachinKasera

Sure. Secondly, on the UK market, last four five quarters over every recorded-on INR 150-155 crores. This quarter, we've gone to INR 181 crore. Is this some one-time in this or because of the new launches and better maybe market share this is an environment that we should look at?

Mark Saldanha

Well, it is better market share, new launches, basically, that is resulting into that core.

SachinKasera

So, should we assume it more like a sustainable number, this INR 180 crores a quarter and maybe you can probably improve a little bit from here, going forward?

Mark Saldanha

Yeah, I think it's fair enough to assume that.

SachinKasera

Sure. Secondly, on the RoW markets we have shown some strong growth last few quarters. So, if you just comment a bit, how is that market doing and what are excursions therein, what type of outlook you're seeing there, or any new geographies we're targeting or what is bringing this type of traction in the RoW markets?

Mark Saldanha

Well, we are targeting more products launches. Again, new products, more product launches, newer markets, we are exploring markets to add value and obviously are now with this new baby of Access Healthcare in Dubai, we do plan to tap onto the Middle East also. But, yeah, I mean, it's basically new launches and new markets that are basically fueling that growth. And, obviously, the base being very small, the growth, the numbers, when it grows, the percentage looks larger because the base value is small.

SachinKasera

Sure. And one thing on this Access Healthcare, what was the contribution in this quarter from that. And where do you classify it, is it part of RoW markets, mainly the fields of Access Healthcare geographically and what type of benefits or growth we're seeing from particular company?

Mark Saldanha

Well, we just got one month in the quarter. So, it is not a very large, so the revenue was very close to INR 4 crores in terms of what it contributed. So, because we acquired this wholly on the 1st of June, so technically, only the June month revenue came into the quarter. And yes, it falls in the RoW, rest of the world.

SachinKasera

And as you've just mentioned in the previous question that with this coming into the full, you see RoW markets doing much better now with Access under your wing?

Mark Saldanha

Yes, I do believe it will look around much more better.

SachinKasera

Sure. Just one last question. Any sense on what is the type of capacity utilization we would be running across all our plants?

Mark Saldanha

That's basically, you're looking at between 75%, we are running at 75% capacity. However, as we speak, we are investing into more capacity, more machinery expansion. So, as those issues come into play, our capacity keeps increasing. So, we are trying to stay one step ahead of the demand.

SachinKasera

Sure. And just last question on the overall EBITDA margins. If I see at the last 12 quarters, we have seen improvement from 13%, 14% to like almost 27%, 28%, and then again correct to 15%, 16%. So, what do you think? Well, there's a lot of volatility. What do you think with the type of changes you're doing to the business model in terms of getting into more complex and better markets? What do you think over the next two to three years, not from a short-term perspective, the most sustainable EBITDA margin for our company?

Mark Saldanha

Yeah, so I mean, this year, we anticipate about 15%, 16% would be more realistic. And obviously we're hoping next year we'll get better if the market scenario and our pricing pressures and a lot of ifs are there, but we are hopeful that that will ease down. And with that our EBITDA will go back to what it used to be. But it's not going to be overnight affair, it's going to take some time to migrate to that levels, which right now for this calendar and financial year, we are talking about between 15% to 16%.

SachinKasera

But over a 3 year period, do you think 19%, 20% margin is achievable or do you think that would be a very fast?

Mark Saldanha

No, I think it is achievable. And we are very hopeful that we will be out there.

SachinKasera

Sure. Thank you, and all the best.

Mark Saldanha

Thank you.

Moderator

Thank you, Sir. That will be the last question for the day. I would now like to hand over the floor to management for the closing comments.

Mark Saldanha

I thank all of you all for participating in this con call. And please be safe and my regards to everyone at home. Take care. Bye.

Moderator

Thank you, Sir. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant evening.

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

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