



Marksans Pharma Ltd.
Health Care in Safe Hands

**“Marksans Pharma Limited's
Q4 FY'21 Earnings Conference Call”**

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**MANAGEMENT: MR. MARK SALDANHA, MARKSANS PHARMA LIMITED
MR. JITENDRA M. SHARMA – CHIEF FINANCIAL
OFFICER, MARKSANS PHARMA LIMITED**

**MODERATOR: MR. ABHISHEK JAIN, ARIHANT CAPITAL MARKETS
LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Marksans Pharma Q4 FY'21 Earnings Conference Call hosted by Arihant Capital Markets 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 Mr. Abhishek Jain. Thank you, and over to you, sir.

Abhishek Jain: Thank you. On behalf of Arihant Capital, I welcome every one of you on this Q4FY21 Earnings Conference Call of Marksans Limited. I would like to now hand over to the management for the opening remarks.

Mark Saldanha: Thank you, Abhishek. Good evening, friends. Hope you and your families are safe and doing well. It's my pleasure to welcome all of you to the Q4 & FY'21 Earning Call.

I am pleased to be addressing the investors on financials for the Quarter and Year update and the outlook going forward. Our company has had a challenging but yet rewarding quarter. Adapting to a pandemic is something no one anticipates but yet it's necessary in order to survive and succeed. We have conducted our business with determination as the phase of a lockdown being reimposed in several states in India. But at the same time, we have put in place adequate safeguards to ensure safety and minimal disruption of people and good movement.

Marksans has a unique business model compared to the other peers in the sector. Unlike other companies, our focus is into the western regulated market space which are tough to enter from a regulatory perspective. The United States and the United Kingdom generate around 85% of our revenue while Australia accounts for the 10%. We have production facilities in India, United Kingdom and United States that produce a wide range of dosage forms including sustained release tablets, liquids, ointments, soft gels. We provide therapy to wide range of lifestyle-induced problems. All these contents have been included in our Investor Presentation which has been uploaded.

Our continued investment in our subsidiaries gives me confidence that this is just the beginning and there is more to come. As stated in the previous quarters, we have achieved a revenue of Rs.1,376 crores for the full year. We have a strong business strategy and a model that will enable us to grow in the coming years and I am confident that our company will reach our next milestone of Rs.2,000 crores in the next few years.

With this, I like to turn it over to Jitendra, our CFO, who will give you the brief update on financials before we begin the Q&A. Thank you.

Jitendra M. Sharma: Thanks, Mark. Let me start with Quarterly Highlights. Revenue from operation for the quarter was Rs.330.2 crores. EBITDA was at Rs.95.4 crores. EBITDA margin expanded by 830 basis points on year-on-year basis to 28.9% in Q4 which was our highest EBITDA margin ever. Profit after tax was at Rs.79.5 crores, showed remarkable growth of 86% on year-on-year basis. We

recorded highest PAT margin of 23.6% in this quarter which expanded by 1,090 basis points. EPS for the quarter was Rs.1.93 as against Re.1 in the corresponding quarter.

On a full year basis, our revenue from operations was at Rs.1,376.2 crores which was a growth of 21.3% on year-on-year basis due to greater market share in existing products, coupled with new launches. EBITDA was at Rs.339.6 crores which translates into record high margin of 24.7% compared to 17% in FY'20. Profit after tax of Rs.238.5 crores showed a 97.5% improvement on year-on-year basis. PAT margin for the year was at 17.2%, highest ever with an improvement of 660 basis points year-on-year. EPS for the year grew 2x to Rs.5.76 as against Rs.2.86 for FY'20. Cash and cash equivalent in the book was Rs.212.3 crores as of March 2021. We continue to remain debt-free and our free cash flow for the year FY'21 was at Rs.132.3 crores.

I am pleased to share that we have consistently expanded our EBITDA margin for last six quarters which is a result of operating leverage kicking in and changes in the product mix. We are cautiously optimistic to continue this traction or keep the margins at current levels in coming quarters. Since we became debt-free in Q4 of FY'20, reduced interest burden has helped expand PAT margins. This has also led to better return ratio with return on equity at 26.3% in FY'21 as compared to 2.6% in FY'17. Return on capital employed also showed a similar trend improving from 3.2% in FY'17 to 32.6% in FY'21.

India experienced the second wave of COVID-19 leading to a lockdown across country. We are now seeing the COVID curve coming down in India with lockdown rules being relaxed in different parts of the country. Also, in our key targets of US, UK and Europe, vaccination is taking at record pace which has enabled removal of lockdown restrictions there. Further, the same also lowers the risk of third wave.

With this, our outlook for the coming fiscal remains steady and I am cautiously confident that we will be able to continue the momentum as we move forward.

With that, I would like to throw open the floor to Q&A. Thank you.

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.

Riddhesh Gandhi: It would be great if you could just highlight in terms of the growth drivers you guys are looking at to effectively reaching Rs.2,000 crores aspiration and how long you would expect to reach that in? And also, effectively, if these numbers are sustainable into FY'23 or is there any benefit which we have because of this COVID?

Mark Saldanha: So, we have not enjoyed any undue benefits in COVID. Obviously, lift-up of a medicine has been much higher than in the normal, but otherwise, there is no one-off benefit that we have seen coming out a while, there are certain molecules which did better but there are certain molecules which didn't do better. So, I would not basically give much weightage, I would say that I don't

think COVID actually benefited us in any big way for the last financial year. Coming to our roadmap of Rs.2,000 crores, we expect obviously a growth in all our subsidiaries, we are focused into the regulated space, and we expect a better market penetration and a better product mix basically to generate and fuel the growth. We are looking for a long way to go in most of the markets and we do see our growth drivers being in the US, followed by UK and then the rest of the world.

Riddhesh Gandhi: You guys are generating a reasonable amount of operating free cash flow. If you could just highlight some of the usage of the free cash flow and effectively with the current returns, we expect to be able to generate on the reinvestment of our free cash flows?

Mark Saldanha: We have some CAPEX in plan. We are looking at expanding our manufacturing capabilities and footprints. This is again taking into consideration the next couple of years, our growth outlook to touch the new milestone. We would need additional infrastructure to produce and support the futuristic revenue. So, our focus is into expanding our infrastructure where manufacturing is concerned. We are also looking at backward integrating into raw material. So, we need some resources and funds to fuel that expansion plan for the API.

Riddhesh Gandhi: And you guys would be announcing the next CAPEX plan also soon, is that on the drawing board?

Mark Saldanha: I think we have already mentioned that in our investor presentation, and we have the plan, we have put nearly Rs.200 crores within the next couple of years to be invested into infrastructure and CAPEX and that would be partly organic CAPEX in terms of our manufacturing facilities or like acquisition, it may include both, whichever gets us their faster. Presently, we are looking at expanding our manufacturing capabilities and infrastructure.

Moderator: Thank you. The next question is from the line of Venkat S from Organic Capital. Please go ahead.

Venkat S. Hi, Mark. We have practically nothing to complain in terms of performance, but I do have a comment to make. All free cash flow of over about Rs.150-odd crores and after earning over about Rs.6, if the distribution is of 10 paise and 25 paise, etc., it acts as a little bit of a tokenism. It's not as though dividend hands is any better than in your hand, but the numbers will not look good. What are your thoughts?

Mark Saldanha: So, we had internal discussion with the board when we declared our dividends or what we are planning for this particular year. The dividend guidance that we had given is a general guidance based on the free cash flow basis but obviously year-to-year the dividend will be decided based on performance on actual. This year obviously the dividend has been declared although it is a big improvement over the previous years, but it's nearly 100% from where we paid last time our dividend. So, it's in the possible direction, but we have to take into mind the CAPEX plan and the funds required to basically fuel the growth of the company. So, based on that, we arrived at the dividend. Obviously, we are at a growth phase and we are at a stage where we need to

basically take the next leap, let's put it this way. So, a lot of resources and funds would be needed to basically create that infrastructure to get to a next objective.

Venkat S. You are the best judge on this, Mark, but if a company that makes over about Rs.6, 7, distributing 25 paise, it really doesn't add up and it doesn't give a good image. And frankly, it's in everybody's interest. I think you probably need to consider.

Mark Saldanha: Okay. Thanks.

Moderator: Thank you. The next question is from the line of Ayush Ray from Mittal Analytics. Please go ahead.

Ayush Ray: My first question is on our pain management division where we have seen an exponential growth in FY'21 of around over 70%. So, firstly, we would like to know are there any specific products that have contributed to this growth or was there a one-off in this and can we see the numbers going on or what really led to this growth in the pain management division?

Mark Saldanha: Pain management, which is the highest contribution, there is no one-off in that. We have been focusing on the segment to growth. It is our strong segment that we have penetrated the market with. So, just to answer your first point, there is no one-off out there and it is quite diversified in terms of the portfolio. So, I do see this segment basically leading the rest of the portfolios at all given stage in the next at least two to three years, we will always see the pain management segment contributing substantially to the company's revenue.

Ayush Ray: What would be the key product in this segment if you can name a few?

Mark Saldanha: Starting from Ibuprofen to Paracetamol, so there are quite a few products that basically fall in this segment, including some gels that we are launching for pain, but again, it is related to pain.

Ayush Ray: Just to follow up on this, we can assume that most of it would be from volume growth and not just realization growth?

Mark Saldanha: Yes, we have volume growth only and market share basically.

Ayush Ray: Like you mentioned that your focus is on the segment, but that has led to degrowth in three of our segments if I can put that way, cardiovascular, cough and cold and anti-diabetic. Your thoughts on that and how the company is feeling about these divisions as well because we had a good amount of revenue share from the divisions as well and they have degrown quite a bit in this financial year?

Mark Saldanha: Again, this I think is just a phase basically. I would not say that we have degrown to that level. It is again a matter of traction; it is a matter of market penetration into certain segments and obviously we have to look at price erosion also that takes place in certain segments that basically give you the value. So, it is a mix basket. So, I would not put much stress -- I do believe that

these are sustainable numbers, and these will only improve in the years but obviously compared to pain management, the pain management will always be in the forefront. We do not have a huge portfolio in cardiovascular. So, I would not say that cardiovascular is going to go ahead of the pain. But I do believe it will sustain and it may show improvement from hereon.

Ayush Ray: Jitendra, we see a lot of variability in our expenses. So, if you see our employee cost has gone up sequentially quarter-on-quarter, our other expenses have gone down a lot and then depreciation has always been a concern because it keeps like jumping up and down. So, if you can throw some light on these two-line items and how can we see them fairing up in the coming years?

Jitendra M. Sharma: Employee cost increased in Q4 was mainly on account of increments which we have given and also the incentive given to the management team out in US, UK, and India. So, it is a function of both increment and some incentives. Yes, the quarter-on-quarter employee cost has increased because of the growth and expansion, we are hiring more people onto our payroll. So, that is also another reason. We have also started API division in Q4 wherein we have got the employees, they have also added to the number. So, basically this is a result of all these initiatives. Your other question was with other expenses which basically have shown a decrease in Q4. Actually, there is as such no decrease. There is a bit of reclassification here. We used to add freight expenses in other expenses. Now we have bifurcated freight into freight inward and freight outward. Freight inward expenses, we have reclassified into the purchases element which has gone into gross margin side and freight outward expenses are continuing as other expenses. So, in Q4, there was a figure of around Rs.28 crores which has gone in purchase figure as freight inwards.

Ayush Ray: Your comment on depreciation?

Jitendra M. Sharma: Depreciation expenses, this is because of change in accounting policy of goodwill. So, instead of amortization, now onwards we will test goodwill for impairment and there was a reversal of an amount of around Rs.6.5 crores which we have charged in Q3 numbers, which got reversed in Q4.

Ayush Ray: We can see some sustainability going ahead?

Jitendra M. Sharma: Yes, of course, it's a policy change. So, now it will continue like what we have in Q4.

Moderator: Thank you. The next question is from the line of Aejas Lakhani from Unify Capital. Please go ahead.

Aejas Lakhani : Could you explain us the distribution strategy that you have across geography, how do you distribute products feet-on-street, all that and the pricing intensity and you mentioned in your remarks that you are seeing pricing pressure in a couple of markets, so how is the pricing competitive intensity right now?

Mark Saldanha: Obviously, we have our subsidiaries in all the markets. Our subsidiaries handle the sales and distribution onwards. And our aim is always to distribute products to the end user if possible. If not, it goes via wholesalers or the distribution channels which are available in certain markets. So, again, every market dynamics are different where distribution is concerned, but our subsidiaries are doing their own distribution and we don't use a third-party for any distribution. In terms of pricing pressure, obviously, we are in the generic space, volatility will remain and especially during a pandemic, while we may see ups in certain molecules, we may see downs in certain molecules. But this is the nature of the business, and we are in that market for some time now. So, we have, let's say mastered that art in terms of ensuring that we are competitive, at the same time we hold our market position.

Aejas Lakhani: The marketing reps, the feet-on-street who are actually helping you reach out to the end consumers, could you mention about what is their break-up in terms of how many are there in the US, UK, any numbers for the rest of the world, how are they incentivized, a little bit on that?

Mark Saldanha: The sales team is always incentivized based on performance and budgets and targets. In terms of the number of people again, it varies from country-to-country, territory-to-territory, and segment-to-segment. We have different people for different segments, like OTC we have different people, for Rx, we have different people. And it is nowhere near what do you see in India in terms of medical reps or something of that stuff. Because we are in the generic space, but we still do have sales people in US, in UK and in Australia. So, we do have our sales representatives in all these countries that basically need accounts and facilitates the distribution channel.

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

VP Rajesh: Just wanted to understand this 200 crores CAPEX that you've mentioned. How much of that is directed towards API and what kind of API are we getting into?

Mark Saldanha: Basically, we have allocated very close to 40% to 50% of that funds into API. You're talking of between Rs.100 and Rs.120 crores, we have allocated for formulations and the formulations part of it is obviously we are looking at a new facility because of increasing demands and meeting the requirements. We've just started the API part of it. And obviously, we've got a long way to go, but the idea of getting into API is to basically backward integrate, and for captive consumptions, on molecules, which are big for us, whether it might be anti-diabetic, whether it might be pain management. So, we are working in that direction. So, definitely we do see funds needed from a CAPEX point of view where API is concerned. Again, these are not funds that we will exhaust in one year, because we don't have Rs.200 crores sitting in a bank right now, but we do have a plan for the next two years.

VP Rajesh: My second question is on the EBITDA margin. We posted very strong margins both in Q4 as well as for the whole year. So, are these 24%, 25% margin sustainable, and if you can just provide some guidance around that?

Mark Saldanha: The EBITDA, obviously, of the Q4 was great. And these are basically operating leverages, forex related. I do believe that it will be unrealistic to expect the same percentage every quarter, but I think if I were to try to put up a number in the coming quarters, it should be somewhere around 23% to 25% EBITDA from an outlook point of view, but definitely we had operating leverage kicking in, in the last quarter which helped us in achieving these objectives. We also had some forex gains in the pound and everything which also helped us in terms of getting the percentage to what we see.

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

Anupam Agarwal: Sir, my question firstly I want to start with the CAPEX that you've outlined. So, this 100, 120 crores CAPEX into formulations, what sort of revenue will this generate once this starts to begin and once we reap the optimal utilization?

Mark Saldanha: When I talk about formulations performance, we are looking at a new plant by itself. So, I would assume that plant in terms of size and capabilities would match our footprint of what we are generating from our Goa facility. So, you could expect another 500, 600 or plus crores coming out from the plant. But again, I'm not saying that this is not something that will happen in in the next 12-months, it is a period of next 24-months that we are looking at. But once we get the plant, and we have machineries to install the qualifications to be done -- so it's a lot of work, in pharmaceutical, you got to invest today to see returns after three years or two years. So, we are at a stage where we want to basically fuel our growth beyond two years. So, that's where the investment requirement is today.

Anupam Agarwal: So, when will this plant be commissioned, I mean, will we take two years to optimally utilize it?

Mark Saldanha: So, the commissioning of a plant just depends on the progress -- and obviously COVID does not make things easier. So, we are looking at what is the fastest way to facilitate and to basically ensure we complete our objectives at the earliest. So, it could happen in a year, it could happen in two years. So, it's difficult to actually give accurate timeline about that is concerned, but we definitely would get into an expansion mode into a new facility that we are planning to get into. So, I'm hoping within maybe next 12-months to be aggressively optimistic, but otherwise on a worst-case scenario looking at 24-months.

Anupam Agarwal: So, just to rephrase my question, this CAPEX is to help us grow beyond Rs.2,000 crores or this is to help us to reach Rs.2,000 crores



- Mark Saldanha:** This is to both, to ensure that we touch Rs.2,000 crores and the capacity that will be available will take us beyond Rs.2,000 crores. But it is something that it will help us to facilitate towards the fag end of getting us to Rs.2,000 crores.
- Anupam Agarwal:** So, second question on the API. We're going into backward integration. So, just wanted to understand some color on gross margins. We've done about 57%. With backward integration into larger molecules that we are present in, what kind of cost savings can we do and what is the sort of gross margin we can achieve after we backward integrate into these molecules?
- Jitendra M. Sharma:** Anupam, see, it is a bit too early to really comment on how exactly backward integration will help us in terms of the cost savings. The broader idea definitely is very clear that this will definitely reduce our costs. How much? I think it's a bit early to really comment on this.
- Mark Saldanha:** But the idea of backward integration is also to ensure stability in supplies and less volatility. So, definitely from a positive angle, at least our predictability will be there as to no surprises of cost going up or something of that stuff. So, control costs and to ensure less volatility is there in in your P&L, I think that's where the backward integration is going to add value as on today. In terms of absolute bottom line value addition, when the project gets completed, we'll come to know exactly where we will land in terms of cost saving.
- Anupam Agarwal:** So, just a clarification on your comment you made that we may go into organic CAPEX or an acquisition. Can you give some color as to what sort of acquisition are we looking at? -- is it going to be in the same focus area that we are present in, which markets we are going to be?
- Mark Saldanha:** No, that I meant for infrastructure like manufacturing plant, we may go greenfield or we may acquire a manufacturing plant, I meant from that angle.
- Anupam Agarwal:** Last clarification, Jitendra sir, you mentioned about depreciation maintaining at Rs.1.5 crores per quarter or is it --?
- Jitendra M. Sharma:** No, see the average should come to what we had in Q3 as such. So, there is the reversal for the first 3 quarters accumulated figure. So, the figure of depreciation will remain what it was there in Q3.
- Anupam Agarwal:** Lastly, I would close my comments saying that we have a good cash flow generation. So, consider a good dividend or a buyback if at all there is a possibility. Thank you and all the best, sir.
- Moderator:** Thank you. The next question is from the line of Viraj Madevya, an individual investor. Please go ahead.
- Viraj Madevya:** I was keen to understand a little bit more about your API strategy, particularly the plan to file DMF that you've already done and plan to file seven more DMF over the next two years. Given that we don't have our facilities just as yet, are we having them contract manufactured elsewhere?

And what is the benefit of this approach -- is there a cost benefit or the ability to transfer those DMF to your new site as you have it?

Mark Saldanha: We are looking at API relatively new recently. We have started the R&D part of it. The R&D we are talking of lab scale, the validation part of it. So, while infrastructure has been created, I felt we don't need to wait because there is a huge gestation time from ground zero to actually commercialization. So, we felt it was strategic importance. Why wait till infrastructure is created? We get the DMF ready, and we file it very close to the facility that we are planning to construct or within that same campus, we can have a pilot plant and do it. So, we have mixed approaches on the entire portfolio because no single R&D center can actually do so much of work. So, we are contracting it out for the development part of it, partly we are contracting out and partly in-house we are developing it. And we will file the DMF depending on the facility readiness, or if need be, we will contract it out to file the DMF and inside ready it.

Viraj Madevya: And as you contract it out versus source it, as you're currently doing, do you see an improvement in RM pricing to your benefit?

Mark Saldanha: The idea of getting into API, obviously, we do believe that there will be an improvement in the bottom line. We can't quantify. Obviously, the volatility is very high in the last 12 months. But the idea of getting into backward integration is basically to have stability in supplies, less dependency on China or volatile markets to have a much more dependable supply to fuel our formulations. And in a way, when there is predictability and dependability, then definitely it gives you some stability in the P&L and the profitability. In terms of improvement, obviously, it all depends on the timing of what the chemicals cost and all at that particular time. We do believe that it will add to the bottom line, but we can't quantify it right now, it's too early to quantify.

Viraj Madevya: The gross margins have improved meaningfully. Mark, you mentioned there's some one-offs including FOREX gains, etc., What do you think of the stable gross margins – 58% to 60%, you think going forward are possible?

Mark Saldanha: I would like to say 55%-plus above could be a reasonable task to see a gross margin.

Viraj Madevya: But given that you've done 60%-plus in the last two quarters, UK is half or 40% of your revenues and UK currency versus INR has strengthened massively, you will continue to have the tailwinds there, dollar is stable, so I guess 55%-plus is acceptable, but more likely given that you've done 60% to 62%, can we see a 58% to 60% going ahead, because that has a big bearing on your operating leverage and EBITDA margins and being north of 25%.

Mark Saldanha: So, operating leverage will kick in, but most of our revenue comes from the export market. So, predicting foreign exchange, global scenarios is very difficult. If you're asking me a statement, I can give you a forward-looking statement, which is pretty much not one, two months or three months or four months, but I can give you a general statement to say that 55%-plus, it could be 60%, it could be 65%, it could be 68%. So, I think the 55%-plus is a reasonable target.

Viraj Madevya: And this concentrated push you had around pain management, has it largely come from new contract wins in volumes? And do you have now similar target for other therapeutic areas that you're taking on?

Mark Saldanha: Yes, we have similar targets for various other therapeutic areas. Obviously, we have to achieve those objectives. Pain Management is not something that we have achieved overnight, it's something that we have been working on and we have nurtured it to see the success today. So, the pain management has blossomed out basically based on the strategy that we have adopted and the focus that we have put on that segment and it is an intentional focus and we are seeing traction and more market penetration, let's put it this way. So, it's not a one-off thing. I would always believe that pain management will lead our portfolio.

Viraj Madevya: Some of the other attendees have mentioned, given your CAPEX of Rs.200 crores for the next two years, and your current cash balance of Rs.200 crores which is only going to grow from here with steady performance, you're more than covered to fund your CAPEX for the next two years and you would have spare cash, so, any kind of buyback or dividend would be much appreciated from a shareholders point of view.

Mark Saldanha: Definitely, we are always contemplating on that, we are not averse to it, and again, based on the free cash flow, we will definitely consider that.

Moderator: Thank you. The next question is from the line of Pawan Kaul. Please go ahead.

Pawan Kaul: So, just want to understand in terms of the mix, would it be the same that you're planning on with the formulation facility that will come on line in a couple of years? And which regions would you kind of target, again pushing into the same region?

Mark Saldanha: Yes, the formulations plan that we are targeting is again in a solid oral dosage form. So, yes, it is in the same segment of what we have, because that's where our demand is, that's where our focus is right now. So, we are basically in the formulations looking at solid oral expansion. That does not mean that we will not diversify, we will have enough space in that facility to expand and diversify into a different dosage form if need be. Obviously, we have a five-year plan to basically get into different dosage forms too. But, as on today, the CAPEX that has been allocated is to meet our increased demand of solid oral dosage. The markets that we are present today are the markets that we are strong into. There will be expansion of markets and geographies. And again, the CAPEX of new formulations plant will help us to service or to cater those increased demands.

Pawan Kaul: If you could comment on the competitive position that we have in the UK market, if I understood correctly, in the last kind of the year, you could take a centerfold position for one of the products in the market, where you replace the competitor, because they were kind of out stock in the market. So, how do you see the UK market trending over the next kind of one year -- do you see the competitive positioning being the same?

Mark Saldanha: So, the UK market is highly competitive. But we have evolved as a company, we've got over 130-odd market authorizations in the UK, and we are growing every year with new product portfolio. So, we have diversified in terms of dependency and reliability of single molecule. Yes, maybe a year or two years back, it might have been that case. But today, we as a company, we have a diversified portfolio in UK. So, we do see the numbers maintaining in terms of the sales and the traction, but we also see new revenue being generated from newer molecules being approved. And that gives us confidence because we are investing into that market. And even as we are growing as it is doing well for us, we are still investing. And we still have a three-year plan to take it to new heights.

Pawan Kaul: And coming back on your API expansion, I just have one clarification, so you've mentioned the stability of prices and improvement in gross margins being the rationale for the CAPEX. So, I wanted to understand is the volatility in prices is actually being caused by the KSM that you kind of procure in the API. So, what kind of portion of margins would you capture when you kind of backward integrate, because even with the backward integration, you would still have to be faced with the brunt of the volatility in the KSM prices, right?

Mark Saldanha: Yes, obviously, when you get into API, you will get into API from the KSM stage by itself. We have seen over the past three years. Because we are into formulation, we have contracts, we have commitments, the volatility into supplies has gone pretty much out of control. And this is basically more fueled by the China and the way this policy evolve from that country, but, obviously, the world is taking the brunt of that. So, we would like to basically be less dependent on external factors and be more independent. And that was the main aim of getting into API is basically to secure the molecules which are strong with us and basically to fuel our objectives and growth. And yes, we would like to be as competitive as possible and we would not like to lose that competitive edge due to the volatility, or we would like to prevent any unforeseen costs that could result into cutting our revenue. So, obviously, last two years, I believe the API prices become very unrealistic overall.

Moderator: Thank you. Next question is from the line of Abhishek Sharma from GYR Capital. Please go ahead.

Abhishek Sharma: My question is, if we look at the year-on-year numbers, so, our profitability has gone doubled, but when I look at the cash flow, our cash flow has gone down, so, earlier in 2020, it was Rs.210 crores and this year it is Rs.179 crores. Now, if you look at the cash flow from operating, major amounts has been allocated towards inventory. So, is it something like inventory which is getting piled up because even in inventory turnover, it's gone down a little bit, so, can you just highlight over it?

Jitendra M. Sharma: There is no pile up of inventory as such. If you see the numbers for March '20, inventory was of around Rs.242 crores and in March '21 it has increased to around Rs.400 crores. So, we have to go back to March '20 numbers and the March '20 number itself was actually on the lower side, because there was a lot of panic buying in the month of March '20 itself due to the COVID in all

our geography and March '20 inventory got depleted. So, that number which is there in March '20 books was actually on lower side. Now, we needed to build up this inventory level back to a safe level, wherein we can service our customers in time. See, our business model is front-end driven and we service our end consumers directly in US, UK, like we have to ensure that we keep at least three months of finished goods of inventory. Because it's a very cumbersome process of distribution, wherein they keep placing orders every week and we need to ensure that we deliver without any failure, otherwise, there are penalties. So, we need to maintain a level of inventory of at least three months of finished goods in all these geographies. So, this is definitely one of the areas where our inventory levels have gone up. Last year, of course, due to the COVID-related challenges in logistics, the shipment times have almost doubled, like there were a lot of congestion at the port levels, the products which we were manufacturing from India and shipping to UK, US earlier, they used to take around 30-days' time to reach now they have started over 50-days to reach. So, that's another reason, we need to have a safety stock at these locations. At raw material level also, the supply situation was bit volatile, and we needed to have sufficient level of inventory in the system. So, yes, inventory levels have gone up, but there is no pile up and of course these levels will continue. In last Q3 con-call also we had estimated our working capital cycle of around 120 days, and we are at 128 days in March '21. So, I think these levels will continue. There is no pile up as such.

Moderator: Thank you. The next question is from the line of Ronak Singhi, a retail investor. Please go ahead.

Ronak Singhi: A few questions starting with revenue. It has been mentioned that the revenue has been flat year-on-year and quarter-and-quarter because there have been some delay in shipment. So, if we can know the value of sales which got delayed because of the shipment, it will be helpful. And also whether this part of the current quarter, which is Q1 FY'22, whether there'll be a spillover effect, because of the spillover from the previous month and previous quarter, as well as growth in the current quarter will be actually a bump up, which will again be a spillover effect?

Jitendra M. Sharma: Ronak, if you see our revenue growth in FY'21, it was 21.3% as compared to FY'20. So, we have grown in terms of our revenue over last year. Now coming into Q4 revenue, of course, there were few shipments which got delayed because of the logistical issues because Goa was under lockdown, we couldn't get containers in time. But again, that value is not very high; I think that is around \$2 to \$3 million kind of value which we could have got in March '21. So, beyond that, of course, it is normal business for us.

Ronak Singhi: Around Rs.15 crores to Rs.20 crores is what you're referring to?

Jitendra M. Sharma: \$2 million to \$3 million.

Ronak Singhi: If I see last five quarters trailing growth, which is broadly within the range of 330 crores to 350 crores on a quarterly basis. And what is the trajectory which you are expecting, I'm just taking the cue from your last statement in the previous question that the Rs.400 crores inventory is basically a three-month kind of a revenue which is a forward-looking revenue which you are

seeing, so, are we expecting somewhere the trajectory to go higher from Rs.370 crores to Rs.400 crores in this upper quarter on the revenue side?

Jitendra M. Sharma: Ronak, we are looking at growth in current financial year also. Definitely, the revenue will keep growing quarter-on-quarter. So, far as the inventory of Rs.400 crores is concerned it is all inventory including raw materials, work-in progress and finished goods, it includes everything.

Ronak Singhi: If you can share the split of what is the finished goods and what is raw material and WIP?

Jitendra M. Sharma: I think somewhere around Rs.150 crores is on account of material work-in progress and the balance inventory is on account of finished goods.

Ronak Singhi: One question which is broadly around the API capacity expansion. A lot of friends have already asked a lot of questions around it. But I'm just trying to relate it to the last annual report, around Rs.74 crores of foreign exchange expenses are made, were they related to API imports, or are they were something else and what is the percentage of import in INR APIs or which are directly or indirectly related to the China factor?

Jitendra M. Sharma: Those Rs.72 crores definitely count of API and largely coming from China. And this figure, is between 80 to 90 crores in FY'21. And in terms of our overall, I think imports from China percentage, we import around 25% to 30% of our API requirement.

Ronak Singhi: That would include, direct and indirect imports?

Jitendra M. Sharma: I am talking of direct imports.

Ronak Singhi: With this API investment, because our gross margin which is basically the direct expenses are around Rs.600 crores in this year, which will be basically raw material, so, what will be basically replacing from the API capacity as we go live, how much would be our own contribution from internal API manufacturing facility and again what will continue to be a third-party dependent?

Jitendra M. Sharma: Ronak, see, we have already answered this question. It is bit early right now on these numbers, because right now after I started this process we are in development. In terms of the quantum, I think once we near our commercialization, then we will have a better idea, because the cost dynamics are pretty volatile right now. We cannot comment on numbers just for the sake of giving any number.

Ronak Singhi: I understand that we are expanding the capacity on the formulations side and the revenue would be around Rs.400, Rs.500 crores. Of the existing facilities, what will be our revenue generation -- would it be around Rs.1,800, 1,900 crores where we will peak out or max out?

Jitendra M. Sharma: No, no, it will all depend on the product mix. See, the current capacity utilization is around 70%. And how much we can go? Again, it's a large factor of product mix. So, really can't comment on exact number here.



- Moderator:** Thank you. The next question is from the line of Anupam Agarwal from Lucky Investment. Please go ahead.
- Anupam Agarwal:** Question is again about earlier participant's question on capacity utilization. You mentioned 70%. And I was going through my earlier notes, so you mentioned that on a current asset that we have on the ground, we'll be able to touch about Rs.2,000 crores in three years' time. So, is that visible as of now on the product that we have right now and where can we achieve this number and when can we do this?
- Jitendra M. Sharma:** It is achievable. And we are also increasing capacities of our existing three facilities. So, that factor also will have to be considered. So, definitely it is achievable. And in terms of the timeframe, again, bit difficult, but I think within two to three years, it is possible.
- Anupam Agarwal:** Secondly, can you give a color as to what percentage of R&D we'll be looking at going forward?
- Jitendra M. Sharma:** Last year, we spent around 1.5% of our revenue, but we are increasing it. In terms of our internal budgets, we will take it to 3% of our revenue in the coming years.
- Anupam Agarwal:** That's like a multi-fold jump in R&D expense. We've done about Rs.10 crores last year and Rs.30 crores this year.
- Jitendra M. Sharma:** We will be doubling.
- Anupam Agarwal:** Just a clarification I wanted to understand what is sitting in this finance cost as we have just about Rs.20 crores of gross debt, and the finance cost figure is about Rs.8 crores, so, what is included in this number?
- Jitendra M. Sharma:** Anupam, we have preference dividend, which gets classified as finance cost, then actually, see, we have a huge working capital limit which we have kept with us. So, we have LC charges, commitment charges, and we open a lot of letter of credit for import. So, those LC charges are also included. They are as such finance cost only.
- Anupam Agarwal:** These are basically factoring that we do?
- Jitendra M. Sharma:** No, no, factoring, it is the LC which we open to import materials, we don't do any factoring.
- Moderator:** Thank you. The next question is from the line of SB Paya, an individual investor. Please go ahead.
- SB Paya:** I've got some clarification on your consolidated figures. Have you changed your business model because last year purchases from our side were minimal, only Rs.7 crores or so and this time it has jumped multi-fold. So, is there a change in the business model, purchases of finished goods have jumped up?

- Jitendra M. Sharma:** No, see, actually, whatever exports we are doing from India to our subsidiary company, so the purchase of all material actually gets classified as purchases of stock-in trade in our subsidiary books, it is just that, there's nothing else.
- SB Paya:** But last year it was only Rs.7 crores and this time it is Rs.140 crores. So, is there a change in that?
- Jitendra M. Sharma:** No, there is no change in that. I think you need to look at all three figures together to arrive at the exact numbers.
- SB Paya:** I was looking at the three figures. If you go through the consolidated profit and loss account, purchase of a stock-in trade for this quarter is Rs.147 crores whereas last year it was only Rs.7 crores. So, I'm referring just to that. So, in case you can provide some color to it?
- Jitendra M. Sharma:** This is how the subsidiary companies have accounted the purchases from parent company
- SB Paya:** I think in consolidated it gets offset against while you consolidate?
- Jitendra M. Sharma:** No, sales get negated, purchases remain as it is.
- SB Paya:** Inter purchase from subsidiaries to parent, you mean to say doesn't get offset?
- Jitendra M. Sharma:** No, they will purchase it and then they will sell it, so that then...
- SB Paya:** Then how come year it was only Rs.7 crores and this year it is Rs.147 crores? So, there must be some change in the manner you are accounting for it, something must be there.
- Jitendra M. Sharma:** Sir, that is why I'm telling you, you please read it the three figures together, then you will have a clarity; the cost of material consumed, changes in inventory of finished goods, work-in progress and stock-in trade.
- SB Paya:** So, that means there is some change in the manner what you are accounting as cost of material consumed and purchase of stock-in trade?
- Jitendra M. Sharma:** It is a presentation.
- Moderator:** Thank you. The next question is from the line of Krati Rathi from Perpetuity. Please go ahead.
- Krati Rathi:** I have a question about US and UK both on the constant currency terms. So, in US this year, we had a revenue of around \$80 million, 33% growth. So, how do you see that over the next two years in constant currency terms? And similarly for UK we had £60 million of revenue, which was like around 8%, 10% growth. So, if you can give constant currency terms how can we see this business is progressing?

- Jitendra M. Sharma:** It will become a bit of forward-looking statement in terms of how much revenue exactly we will have. That growth momentum will continue. That much I can tell you right now.
- Krati Rathi:** What is the reason of subdued growth in the UK region where we just saw a high single digit kind of growth in constant currency?
- Jitendra M. Sharma:** UK has grown by 14% year on year. And again, the focus on UK is on margins; we have improved our margins in UK. So, I think rather than having top line growth only without having improvement in margin doesn't make any sense. The focus in UK remains on bottom line growth.
- Moderator:** Thank you. The next question is from the line of A Devraju, an individual investor. Please go ahead.
- A Devraju:** I just want to know about the free cash flow that is being there and where it will be invested and how the amount is being managed?
- Jitendra M. Sharma:** As Mr. Mark has already discussed, we are looking at CAPEX, we are looking at investments in new formulations facility into API as well. We also are looking at aggressive R&D spends. So, I think the CAPEX will be the major like new area, where we will deploy our cash. In terms of where it is lying, we have a cash balance of around Rs.212 crores in our books which are lying in bank as fixed deposits right now.
- A Devraju:** Sir, I just want to understand the CAPEX, will it be a backward integration or forward integration?
- Jitendra M. Sharma:** It will be both.
- Moderator:** Thank you. Next question is from the line of Arun Kumar, an individual investor. Please go ahead.
- Arun Kumar:** I have three small questions. So, my first question is with the entire world going on a lockdown for last more than a year and probably we'll see the entire calendar year also will be in a semi lockdown, so do you think that being in the lockdown, that makes people very inactive, do you think that people at large in the entire world will be more tuned towards diabetics in the coming year?
- Mark Saldanha:** As a matter of fact, yes and no, because again, diabetes is genetic as well as lifestyle, both put together. So, again, you got to understand from where the person is originating and what is the cause and why was the cause. But definitely, in terms of lockdown, opening up, not opening up, we do see an extended version, people talk of second wave, third wave. People are more cautious, more literate, more educated in terms of medications. COVID has taken a toll on people with different ailments and especially diabetes is highlighted out there as part of the issue related with COVID and the mortality rate involve with that. So, people are ensuring they take the medications on time, and they should take it and they also can ensure they have enough stock of

diabetic medication with them so that they do not run out of stock. I'm not really sure whether I've answered that question because it was a very broad question exactly because, again, it's difficult to know how the world will play out during this COVID times.

Arun Kumar: My next question is based on to the response of the first question, that your revenue of last financial year compared to '20, you have grown by 21%, but your anti-diabetes has degrown from 18.4% to 10.9%. So, if we put that thing into numbers, so probably there have been a loss of Rs.100 crores of business in diabetic segment in the last year. So, is it that the people have become less diabetic or people have taken less diabetic medicine or probably as a company, there's some business losses there or something, can you throw some light on that?

Jitendra M. Sharma: See, we had Metformin Recall in US during last year, and this was because of the NDMA content in the Metformin ER tablets, most of the pharma companies had to recall their products. So, we had to readjust like we have worked on our processes, our formulas. So basically there was a gap in between wherein the sales have slowed down. So, now it has picked up and in this year, we will do much better in anti-diabetic segment.

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

Pranav Vambi: You mentioned in your investor presentation that you have filed 23 ANDAs in the US? Could you update us on the process and how many new product launches you expect in the US this year? And also for the UK, you said you're working on receiving US FDA approval for your Southport facility. So, what stages are that right now? And if that approval does come, what impact will it have to the overall business?

Jitendra M. Sharma: See, we are expecting three to four launches in the US in this year. And we plan to file around 12 ANDAs in the next two years. So, far as getting our UK facility approved in US, we are working on that. So, we are working on a large basket of RX liquid products. And it's a strategy which will pan out in coming years. So, definitely that will help us in taking our UK sales growth to another level once we achieve that target. So, it's an ambitious plan which we have, and we are working on that.

Pranav Vambi: So, just to clarify, we've not filed for US FDA approval, it's something that is an objective for us.

Jitendra M. Sharma: Yes, the products are in R&D stage right now.

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

Divesh Rataria: Do you have any revenue target for the current year?

Mark Saldanha: Well, all I can tell you is we will grow. I can't give you a short-term projection or a forward-looking statement for sure. But we do have plans, our business model does take us to a Rs.2,000 crores within the next couple of years. So, that is something that we are pursuing and it's in play right now. But we can't give outlook quarter-on-quarter basis or the next financial year basis.

Divesh Rataria: Is there some shortage on the raw material side of pain management molecules, as in for ibuprofen is there is a shortage of raw materials or something?

Mark Saldanha: There's always a shortage in this pandemic. I think we have adapted. It's a new normal, I would like to put it. So, there's always a shortage, if not in this molecule and something else. Yes, there was a shortage in some of the molecules in pain management, but we have huge inventory. And that is part of why our inventory buildup is also there because we anticipate the pandemic issues and we took calls to consciously keep good enough of stock and inventory so that we don't get badly impacted during this pandemic times. But that's pretty normal right now.

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

Suresh Agarwal: The new facility which we are going to commence, it will take around two years. And in your press release you have mentioned that the capacity expansion at US facility is completed with addition of packaging and manufacturing lines and in Goa undergoing capacity expansion for soft gel capsules. So, what kind of CAPEX we have incurred in both this expansion and what kind of sales growth this expansion can give to the company?

Jitendra M. Sharma: We have the CAPEX of around Rs.40 crores in these two facilities during last year. Additional lines are being constructed. So, in terms of revenue, bit difficult to quantify exactly, but definitely, will be a decent amount wherein payback period on these investments will be just less than a year.

Suresh Agarwal: Higher prices in para-aminophenol KSM used in the Paracetamol, this increase is two, three times. So, are we are also facing that hit?

Jitendra M. Sharma: The prices have gone up, but there is no shortage of material as such. And we are sitting on inventory. Basically, our understanding here is that this is a temporary situation and maybe within next three to four months' time, the prices will again regularize and will come back to its old levels.

Suresh Agarwal: One more thing like our consolidated revenue from operations for FY'21 was around Rs.1,400 crores. If you want to do Rs.2,000 crores of revenue in FY'22 then with this investment and with this 70% capacity utilization, just 30% is there, so, we can keep this Rs.2,000 crores with this facility or other than this expansion are we going to have any CAPEX in our existing facilities in this year for additional growth?



Jitendra M. Sharma: I have already answered this question. It all will depend on the product mix what kind of realization we can have with this capacity. It is possible and as we talk, the CAPEX at the existing facility is an ongoing process and we keep increasing capacities, we keep upgrading machines in terms of replacing low-capacity machine with high-capacity machine. So, this is the ongoing process and we continuously keep investing in our existing capacities. So, yes, it is possible to achieve much better revenue from this capacity. It all will depend on product mix.

Moderator: Thank you. That was the last question. I would now like to hand the conference over to the management for closing comments.

Mark Saldanha: Thank you, everyone, and be safe.

Jitendra M. Sharma: Thank you.

Moderator: Thank you. On behalf of Marksans Pharma, that concludes this conference. Thank you for joining us and you may now disconnect your lines.