"Poly Medicure Limited Q4 FY-21 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Poly Medicure Limited Q4 FY21 Earnings Conference Call hosted by ICICI Securities. 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. Sriram Rathi from ICICI Securities. Thank you and over to you sir.

Sriram Rathi: Thank you. Good afternoon everyone. On behalf of ICICI Securities I welcome you all to the Q4 FY21 Earnings Conference Call of Poly Medicure Limited. We have the senior management of the company with us today represented by Mr. Himanshu Baid – the Managing Director and Mr. Naresh Vijayvergiya – President Finance and Strategy. With this I will handover this call to Mr. Baid for the opening remarks. Over to you sir.

Himanshu Baid: Thank you Sriram. Good afternoon friends. Trust everyone is safe and healthy. Welcome to Poly Med Q4 and FY21 earnings conference call and thanks for joining today.

Last few months have been very challenging to all of us due to COVID19 and as an industry we have felt a lot of pain in terms of increased raw material pricing, massive increase in freight cost whether it was inward or outward or also supply chain disruptions which happened during the pandemic. Earlier it was in Europe and now in India.

So, I think but this crisis has given one clear indication to everybody that India's healthcare infrastructure is really inadequate and there is a huge need for increasing hospital bed capacity across the country. Not only that even in existing hospitals we have to increase the ICU bed allocation for critical care patients because today even in Delhi we have very limited ICU beds at this stage also today when the other beds are empty. I think that also needs to be augmented in a big way. India as we all know 75%-80% import dependent on medical devices and equipments and first-time last year Government of India has recognized the importance of this sector and the healthcare supply chain.

As this industry was greatly unregulated, there were large numbers which brought substandard products and sold to customers. Also, the disparity in MRP versus actual cost of the product also favored unregulated players in the industry. From last 12 months there are important changes and decisions announced by the government to monitor and regulate and focus on Make in India.

Firstly, the PPO order came for procurement of medical devices from indigenous manufacture for government procurement.

Formation of standards – almost 1400 new standards are now developed by BIS for medical devices.

All medical devices prices are now monitored by NPPA from 1st April 2020 and I mean price monitoring so that no company can increase the prices by more than 10% in one financial year or preceding 12 months.

Our devices are now will be regulated in next 2 years by CDSCO by 31st March 2023. Currently only 35 medical devices are regulated and now there is a work in progress to regulate more devices.

Government announced the PLI scheme for promotion of medical devices in the Country. Unfortunately, out of the slots available only 14 companies could participate in which there were couple of repeat companies also. So, I hope that there is a next version coming in very shortly and more companies will participate, so we can see more manufacturing in next 3 to 5 years in country because of government's push towards PLI.

Still 4 new medical device parks are yet to be announced, it was supposed to be announced last year but we have not been finalized. I don't know the delay, but we are eagerly waiting as an industry that wherever these parks come, the industry will go and invest in these new areas and for new manufacturing opportunities. Government of India has also planned to spend 65,000 crores in healthcare infrastructure over next 5 to 10 years. I personally think it's a quite inadequate right now looking at the current situation and current scenario, but I hope this money comes in and goes to rural and semi urban areas where there is a dire need of healthcare facilities. We have already seen in TV and many areas in UP, Rajasthan, Bihar, MP and other states the healthcare facilities, healthcare infrastructure in dire state.

On the negative side Government of India has removed all export incentives. In FY19 MEIS incentive on export was 4%, and it was reduced to 2% by FY20 and now it's zero from 1st January 2021. This has impacted our P&L by 7 to 8 crores in FY21. The new RoDTEP scheme which is currently not implemented is yet to be notified completely and we are not sure what kind of incentive will be available under RoDTEP scheme, but we hope that government could bring in some reasonable incentives for exporting companies.

Polymed was awarded the new PLI scheme for Renal products in February '21. The scheme will be operational from FY23 to FY27 and if we meet the requisite sales targets, we will be able to get an incentive of 5% on incremental sales of Renal products over these 5 years. The base year has been the financial year '19-20 for revenue recognition. As a company we expect that we will be getting incentive of over 40 to 45 crores over next 5 years from FY23 to FY27. But again, it depends on the incremental revenue we generate but this is our guesstimate right now.

In last 12 months company's focused only on Renal and Diagnostic consumable business. Though the first few months of this FY21 were challenging as there was lockdown in the country and we were operating at a very nominal capacity but later on we picked up the pace and have achieved a growth of 15% in revenue as per our guidance in the beginning of the last financial year. India business has grown by around 17% and exports have grown by over 14% in FY21. All our plants outside India also shown good progress specially our joint venture in Egypt has done exceedingly well. It has clocked revenue of $15 million with a net profit of close to around $1.8 million.

For FY21, your company's export revenue was 69% and domestic revenue was 31%.

Major growth of exports came from Europe and Middle East countries. Europe contributes to over 40% of our exports and is the most potential market for us today. New product registrations are underway, and we expect Europe and America will be our new growth drivers for next few years.

India business has been progressing well. We have clinical advisory team comprising of eminent doctors across the country. Also, we will be hiring at least 50 more people in sales and marketing this year and India business is expected to grow in the range of 25% to 30% in FY22 due to an increase penetration of our products in large chain hospitals, Path labs and Dialysis centers.

Export business is expected to grow in the range of 10% to 12% as many economies are yet to recover from the pandemic. Overall growth guidance for FY22 will be in the range of 17% to 18%.

US business is on track. We have already developed few customers for our human health and animal health business and currently are in discussion with few companies for distribution opportunities.

We expect our USFDA approvals to come between Quarter 2 and Quarter 3 of the current financial year and we can start seeing US sales growing step-by-step from next financial year.

In terms of margin, we have improved by almost 3% over FY20. We will continue to maintain similar margins in FY22 also. For Q4 there is a small drop in margin by 200 bps mainly due to higher raw material and logistic costs. We all know that logistic costs have increased almost by 3 times, inward and outward, freight charges for international import and export. Even most of our raw material cost has also increased by 50% to 70%. All the plastic raw material prices have increased very sharply in last 4 to 6 months. We expected a bigger drop but due to lean manufacturing and increased productivity we were able to mitigate that risk and maintain a reasonable margin on our operation.

The company is constantly investing in new technologies and new products. In FY22 we plan to launch at least 9 to 10 new products. Over the next 2 years, we plan to invest 250 crores in CAPEX. We are building a new facility in Faridabad to expand our Renal business and diagnostic business. We are doing a Phase-3 expansion of a SEZ facility in Jaipur to ramp up our capacity for export business.

Our R&D pipeline is already very strong today. Company currently holds over 300 patents over 10-12 product families and strongly maintains its leadership position in Vascular and Infusion business.

During last few months we have ramped up capacity of our Respiratory care products and we see an extra demand due to COVID pandemic and currently we are working on couple of new devices. We also developed a new Y connector which we made on open source; this can help to connect one oxygen cylinder to two patients simultaneously. This connector was launched around 2 weeks ago and we have supplied rapidly to many customers around India and at a very reasonable price because our motive was mainly to help patients and we priced this product at very low price of Rs. 10 just to cover our material costs and to NGOs this product has been supplied free of cost. I hope it is a pretty helpful, we have tested the product, many hospitals have liked what we have been doing and we continue to supply this product at a very low cost, I would say no profit no loss.

From the current fund raise which we did around 2-2.5 months ago, we plan to invest as follows over next 18 to 24 months:

250 crores have been set aside for new CAPEX, 100-250 crores for inorganic opportunity. We are looking for opportunities in India and overseas.

50 to 75 crores for CAPEX in existing plants and 50 crores mainly for working capital and partial term loan debt repayment. Currently our long-term debt on the balance sheet is 88 crores in form of ECB and FCNR (B) loans with an average interest rate of less than 2% and some working capital debt of 38 crores mostly in foreign exchange, as export packing credit and CC limits and cash credit equivalent. Currently in the company we have cash and cash equivalents and investments at the tune of around 420 crores. It’s mainly because of the QIP we did and of course there was existing cash in the company.

Inventory had slightly gone up due to extra stock but it is just maybe 10 to 12 crores more than last year but as the revenues has increased by over 100 crores from FY20 to FY21, we also maintain a little larger inventory looking at the supply chain disruptions and the issues which we saw during the first wave of pandemic.

Our long-term debt is payable over the next 2.5 to 3 years. ECB will not be able to pre-pay so we will have to still carry it in our books.

Our constant focus is to reach more hospitals in the country and also deepen our relationship with large corporate chains. We have done many digital outreach programs with our domestic as well as international customers in last 1 year. From last few years our key focus has been enhancing our clinical efficacy of our products and hiring more clinical specialists. Today we have full-time doctors employed in the company, we have an advisory team of doctors and we have clinical specialists in the team. We are focusing on new technology in fluid management and infection control prevention area because that's our core business and we continue to excel in that area.

In every business verticals we are operating, we have added people in Infusion, Vascular, diagnostic Renal, Respiratory care, we are hiring more and more people who are more knowledgeable and who have been part of this industry for a long time. Recently we have hired one person who was ex-MD of a MNC company in India to lead our Renal business in India and overseas markets. We are constantly looking for new people, new talent in the organization so that we can scale up much faster.

We expect that in next 1 to 2 months hospitals will see increase footfalls of non-COVID patients and also increase in elective surgeries which will help us to grow business of other products which we saw a dip during COVID times.

There are a lot of learnings from last 2 years from COVID, last two waves I would say. We have learnt to ramp up capacities of certain products in a much shorter time as compared to past due do flexibility in our production process and production lines. All marketing activities have gone digital and in future we see this a new way of doing marketing and sales activities. Most of the conferences have gone digital so I think now we can participate in more and more conferences, reach out to more people through the digital medium. Sales calls have become more selective by field staff. Also, since last one year if we see for almost 6 months field staff has been sitting at home and were not allowed to visit hospitals. Even now they are working from home, so I think the important to note that there is stickiness with the customers. Without making a single visit outside India, we were able to generate 400-500 crores of export business and we continue to ramp up that business. Most of our sales people and people who are posted outside India have not traveled at all actually.

We have seen that stickiness with the customer, that's a very important sign for this company and the Government of India, Make in India focus will further drive the sales of the medical device in India and to my estimate it should grow between 15% to 16% in next 3 to 5 years. It will take some time for companies to start up, build manufacturing plants and get approvals, necessary regulatory approvals and start manufacturing in India. But I expect that next 3 to 5 years we should grow around 15% or more. For us 5 Southern states are very important. AP, Telangana, Kerala, Tamil Nadu and Andhra Pradesh, as they have almost 40% of the hospitals capacity of the country and we are strongly focusing there to increase our penetration. Traditionally it was a weak area for us but now from last 6 to 8 months we have been focusing very deeply in Southern India and we have penetrated a lot of key accounts like Columbia Asia, Manipal, Narayana. Most of these large Hopsital chains are now customers of Polymed. Polymed continues to look for strategic partners for new technologies inside or outside India. Our Plan1 Health acquisition in Italy has done well. Of course, last year been strong pandemic in Italy for a long period. The company had almost flat revenue but this year we expect the pent-up demand coming up and first 4 months have been quite encouraging for us. Similarly, our China plant without any new investments in last 4-5 years has made a profit over 2 crores.

So all our overseas operations have been doing well and India is also has done well in last 12 months. There are further growth opportunities.

We are looking at new business areas and as and when we enter new areas, I definitely will inform all our investors, all our stakeholders and I think whatever cash the company generates or whatever cash the company has raised, we intend to invest resources very judiciously and in the right areas so as to give optimum return to our shareholders and stakeholders. With this I conclude my opening remarks and look forward to your responding to your questions.

Thank you once again and please keep safe and be healthy.

Moderator: Ladies and gentlemen we will now begin for the question-and-answer session. The first question is from the line of Ashwin Krithik from DS Investments.

Ashwin Krithik: In an earlier call you had mentioned that the US would be your final frontier and you have also made some top-level hires and made product registrations as well. As you see things today could you just give some qualitative points on why this particular market and the US distribution has been difficult for us to crack considering in other developed Western and European markets we have been doing pretty well and what are you doing to address this?

Himanshu Baid: US is a very different market compared to rest of the world because in US what we have seen from our earlier experience is either you need to align with a very large player or you have to go direct in the market. If you recall in the last call I had mentioned that we have appointed a CEO for US business Kim Schelble and unfortunately for last 1 year, he is not been able to work because 98% of the people in US are working from home and most of the companies are closed and we are not able to connect with any major customer. But we have reached out to many folks there and to many distribution companies as I updated on the call and we have already applied for 510 K approval for USFDA. There are certain delays there due to COVID pandemic but we hope that between Q2 and Q3 we should receive approvals for some products and by early next year we should be able to start selling more products in the US market. We will strengthen our team there. So, Kim will be appointing more people in the clinical and sales side and hopefully by early next year we will have a reasonable team to start operating in the US market.

Ashwin Krithik: If I look at the first three quarters earlier on the previous financial years the Renal Care segment has been contributing nearly 6% of revenues upfront 2% of revenues, we had 3 years back. Now just considering that in the segment your products coming up like the dialyzers and the dialysis machines etc. I am hoping to understand what this focus on the Renal Care segment would do for a gross margin from the current level of nearly 65%-68% and also if any qualitative inputs that you have on like to provide on the runway ahead and the competitive intensity in the segment?

Himanshu Baid: If you look at the complete Renal landscape, India is around a 1000 crores market for renal consumables and equipments right now as per our estimate. And currently 95% of this is served by imports coming from different countries. The market is growing at a rate of around 15% on CAGR basis. If you look at the next 5 years, the market size should be close to 2000 crores and our target is to capture between 10% to 15% of this market share of this 2000 crores. That is what we are targeting over 5 years.

Moderator: The next question is from the line of Deepak Khatwani from Girik Wealth Advisors LLP.

Deepak Khatwani: I wanted to understand the capacity utilization that you are running on right now and after all the CAPEX is done let us say in a couple of years what is the kind of revenue that you are expecting from expanded CAPEX and your current capacity?

Himanshu Baid: If you look at the current scenario we may be operating around 65%-70% capacity because of the COVID pandemic and we have also reduced the manpower in the plants due to the current challenges we face due to COVID in Northern India. But I think once the situation normalizes we will be back to our pre-utilization of around 80%-85%. Typically that's our peak utilization levels in manufacturing activities. In our industry typically if you invest a rupee, we reach the capital to turn over ratio of around 1.2 to 1.5 times. We will see revenue ramp up in that ratio going forward.

Deepak Khatwani: What is your expectation of the margin going forward given that you are launching these new products and I am assuming that these will be higher margin products compared to your current product profile? Correct me if I am wrong there.

Himanshu Baid: We always target to improve our margins every year and that is what we have been doing since past years. You are absolutely right that margins improve from new products and new launches in developed markets. Our ultimate goal is to reach a magical number of 30% of EBDITA margins maybe in next 2 to 3 years.

Moderator: The next question is from the line of Venkat from 3Sigma Financials.

Venkat: You were saying that the logistics costs have gone up. So, have they kind of normalized or when do you think these will normalize and we will see better gross margins actually?

Himanshu Baid: Venkat ji the problem is if you look at overall industry, specially shipping industry, it is quite a challenging time due to shortage of containers. I am sure you have heard that from other companies too. The freights rates have increased 3 to 4 times, whether it is inward freight or outward freight. That impacts the business to certain extent but I have no answer to this question right now, when they will improve because it is a global situation and hopefully we see some light at the end of the tunnel but presently I think we are at the same level. In fact, they are still increasing I would say.

Venkat: No if that is the case, are you not passing this cost to your customers?

Himanshu Baid: We are passing the cost to the customers but even if you see the other prices, the raw material also increased by 70% to 80%. All the plastic prices, if you look the index of plastic materials, from last September to now there is a 70% to 80% increase but still we are able to maintain reasonable margins. We have even passed a lot of costs to our customers also but this is always a tricky situation.

Venkat: The next question is on where are we on USFDA? Have we filed or how would that happen? Can you kindly explain the process? We are aware of how it happens in pharma but this could be different right?

Himanshu Baid: Yes, this is different, absolutely. I will explain you the process. Basically, when you are filing for a medical device USFDA certification you go to a third-party reviewer, which is an FDA approved auditor. They review the technical file or the medical device Dossier and once they review it then they will file the same Dossier to USFDA authorities, and they take maybe between 4 to 6 months to approve. Our documents have already been reviewed and we are in a process of filing now and should take between 4 to 5 months to get the final approval for our initial three to four products from USFDA. These are all Class II devices which need 510K registration.

Venkat: H2 is when we can start looking revenue front?

Himanshu Baid: Q3 is when we can start looking for some revenue, maybe as I mentioned earlier from next financial year, we would be more growth coming from the US.

Moderator: The next question is from the line of Sapna Jhawar from Dolat Capital.

Sapna Jhawar: You did explain about the CAPEX part that we plan to do some 250 crores of CAPEX in FY21. Will this be entirely on…?

Himanshu Baid: It will be combined over next 18 months

Sapna Jhawar: Will this be completely focusing on the PLI scheme or do we have anything apart from that as well?

Himanshu Baid: Sapna, 100-150 crores will go for PLI scheme expansion under Renal business and rest will go over other products.

Sapna Jhawar: And the rest will be our normal part of the CAPEX, that will be.

Himanshu Baid: Other new products we are developing or ramping up capacity, including our existing product range.

Sapna Jhawar: So, the newer capacity that we had just started a few months back on the two plants. Have we completely started and are we seeing traction in those plants because?

Himanshu Baid: Yes, you are right. The expansion of IMT Faridabad is complete and it was operational on November 2020 and in February-March '21 SEZ plant Phase-2 was ready. But Sapna it takes around close to 18 months to 24 months to build a new plant and get the all-regulatory approvals and that's the reason we have started building these new plants so that our new capacity will be available to us in next 18 -24 months.

Sapna Jhawar: These the newer capacity that you will be putting up for the products, will you focus on any particular therapy as in, will it be a targeted one or if you could give us some idea?

Himanshu Baid: Other than Renal we would continue to focus on Infusion and Diagnostic business

Sapna Jhawar: So, will oncology also be a part of our process any oncology devices?

Himanshu Baid: Oncology is done by our subsidiary in Italy, Plan1 Health, so they have a separate CAPEX plan it is not linked with Polymed's CAPEX plan.

Sapna Jhawar: But do we supply those products also in India or elsewhere?

Himanshu Baid: Plan1 Health sells these products to India and Polymed is distributing those products in India.

Sapna Jhawar: Second question is on the Dialyzer that we have recently launched in India and so how was the traction there and will be we only launching this product in India or have we also started exporting it?

Himanshu Baid: We have started exporting some renal products already. We just hired a new business head for dialysis business, he joined around of April and now we are doing a ramp-up of manufacturing capacity and going deeper in the market. The one challenge we faced in this business is that this product is duty free in the country. We have requested the government that there is sufficient capacity to meet the local demand. On all other medical devices there is a duty of 7.5% and 5% health cess. The government has to push Make in India products but on these products there is no regulatory requirement to sell in India right now, so many Chinese and other companies are dumping products in India. So, we are requesting the government to first make registration mandatory for this device and these companies should be audited who are selling products in India from China and other countries. Because today if we want to sell a product in China, we need 2-3 years to register the product whereas the Chinese or other companies need no regulatory approvals to sell in India. That's the reason you see today Oxygen concentrators and other products been dumped into India which are substandard quality. So, that is the reason we are pushing the government to bring in regulation very quickly and also put a protection for the Indian companies otherwise the some companies are going to dump the product like you have seen in other industries and destroyed the manufacturing landscape in India.

Sapna Jhawar: Any response from the government that you've received so far?

Himanshu Baid: They have responded back, we have had few meetings with the government and as I heard in the recently presented budget that the government is looking at in bringing some kind of a protection for around 200 products and Madam Nirmala Sitharaman, FM announced in the budget that in October they will review certain tariff's and then they'll decide. But what we are requesting the government that today any medical device which is used in India you need level playing field. We are pushing the government to put a strong regulatory mechanism and protection mechanism for the domestic industry.

Sapna Jhawar: Also, on this front now when we did mention that we'll be launching our products in the US, starting the second half of this year. How much investment in terms of have we done any investment in terms of marketing our products, in terms of going will it be a B2B business, Will it be a B2C business? Any details if you can share.

Himanshu Baid: So, again we have already appointed a CEO there, who has been working for a year now and doing all the preparatory work for business development and let's say by end of this or early next year we'll be able to share more details with you once we are up and running there.

Sapna Jhawar: One last question on the renal category where from the earlier participant also asked is that it is today 6% of our business of our total sales and with our focus plus the PLI scheme coming in, where do we see this business over the next 3 to 4 years will it become like a double-digit contributor?

Himanshu Baid: I mentioned that as the current Renal business opportunity in India is 1000 crores and by next 5 years should be become 2000 crores and we aim to take 10% to 15% market share from that number. I can't give you any more detail or futuristic numbers or details beyond this.

Moderator: The next question is from the line of Vinay Bafna from ICICI Securities.

Vinay Bafna: I have actually two questions first I want to understand what was the benefit from COVID, which you had in FY21 and did you see a declining trend in Q4 and what kind of an outlook be expect from coming quarter?

Himanshu Baid: We did not benefit much from COVID because if you see certain product sales dropped because they were no elective surgeries happening in the hospitals. So, that business dropped a little and some products which we were able to ramp up in terms of capacity, we were able to sell more during that period like our VTM Kits or some respiratory products. But I think from Quarter 2, Quarter 3 and Quarter 4 onwards we had a steady business from which is we had in the previous year FY19 or FY20. So, I think it was more important for us to maintain a steady business Even in this current quarter what we are seeing is increase in demand for respiratory products and diagnostic products but there's a demand drop for some other products which are used in surgeries. We have balanced revenue due to large product portfolio. We have flexible manufacturing lines, so we are able to balance this very well in terms of our product mix and offer whatever is needed.

Vinay Bafna: But is there an opportunity going ahead maybe in terms of supplying syringes for large scale manufacturers for COVID?

Himanshu Baid: We have just uploaded our presentation few minutes before the call, sorry couldn't do it earlier but we have very clearly said that we are going to make syringes and our target is to start manufacturing by Quarter 3 of this financial year to supply to vaccine companies or directly the government.

Vinay Bafna: So, what kind of an opportunity do you see there?

Himanshu Baid: We are not going to start making millions on day one, we will have to ramp up capacity step by step. But I think again if you look at any large global medical device company everyone is having syringe in the portfolio like BD, B Braun, Smiths, Cardinal. So all large companies carry syringes in their portfolio. So, I think we realized that as we have syringes like insulin, prefilled syringes in our portfolio, we decide to make generic syringes. So, we are going to increase capacity step by step. Vaccination will become more important going forward every year and we have the same distribution channel partner to whom we are selling this product. We plan to launch this product in next 3 to 6 months.

Vinay Bafna: Another question that I had is I was just looking at the presentation. So, you plan to launch a lot of diagnostics kits and devices in FY22 which are COVID and non-COVID related also. Maybe you can probably give some outlook to what kind of revenue contribution you had in FY21 and what is your output?

Himanshu Baid: The revenue for these products is not factored in right now because these are completely new products and will be launched in the next 4-6 months. We have already test marketed these products and received approvals for our RNA kit and RTPCR kit from ICMR. We already have drug license from CDSCO already for these products. In the current business plan and current revenue guidance we have not factored in these products because there is limited sales planned in the current financial year, maybe less than 10 crores or so, but next financial year will be better for these products. The direction is very clear that we want to go deeper into the diagnostic stream because we have the blood collection tubes and Needles which are used for blood collection So, we will be approaching path-labs which have been buying our products. It becomes more interesting for us to fill the same pipe with more products.

Vinay Bafna: And just one last thing, so among the newly launched you have also highlighted the COVID Antigen Kit, what I want to understand is will we have enough capacity or capability to export this, because I think recently Singapore has announced that they are going to use an antigen kit for anyone who is coming into the countries. So, do you see that as a large opportunity?

Himanshu Baid: Initially our focus will be on India, as for next 12 to 24 months in India there will be a greater need for these kinds of products. Later on, we will start exporting as we have a strong export base; currently we are selling our products in 110 countries. We would like to sell in India, first develop the competence and then go to global markets.

Moderator: The next question is from the line of Girish Jain from KJMC Finserv Group.

Girish Jain: I have only two questions, in the opening remarks if I heard correctly, you mentioned that part of the money which the company has raised will be used for inorganic acquisitions. Have we made up any strategy on which segment this acquisition could be and in which geography we would be looking at?

Himanshu Baid: We are looking for opportunities but we will focus on our core business activities whether it is renal or infusion, because these are two business areas the company is focusing other than diagnostics. We will stick to our current competence and look opportunities in these areas. We are geography agnostic right now, it could be US, it could be Europe, it could be even India. We are looking for a good product mix which can fit into our current range of products and we can complement our current business together with the new business. When we acquired Plan1 Health in Italy, vascular products has been our core business from last 20 years. It was very easy to piggy bank on this new product range and go to our global customers with the new range of products.

Girish Jain: Just one bookkeeping question, could you just repeat the debt figures as on 31st March and are we looking to raise any further debt for the CAPEX being planned?

Himanshu Baid: We currently have long-term debt is around 88 crores, which was an ECB we have taken 2 years ago alongwith FCNR (B) loan. The ECB amount is Rs. 74 crore which is around at 1.2% interest rate and we can't repay it due to certain restrictions we have on the end use of the fund. And then we have a working capital debt of around Rs. 36 crores on the books as of 31st March. We plan to repay all our working capital debt by this year and have a zero working capital debt from the bank. In terms of long-term debt I think this debt will sit in the book for another 2.5 to 3 years till we reach to the tenure of these loans. Otherwise, we have cash and cash equivalents and investments of around Rs. 420 crores in the company from the QIP proceeds and previous investments. We'll be able to use these funds in next couple of years and with the cash accruals from operations, we will be able to fund everything now without any new debt going forward.

Girish Jain: Last question, when is the CAPEX likely to start showing the revenue, you mentioned 18 months if I heard correctly?

Himanshu Baid: Yes. We have been continuously doing CAPEX of Rs. 70-80 crore on an average from last few years. We have to categorize CAPEX in four categories. One is our maintenance CAPEX, upgradation of existing technologies in factories. Second is our capacity expansion; third is towards R&D CAPEX, fourth is new projects and then fifth maybe building new infrastructure. So, the CAPEX has been in so many different directions, so every year there is a CAPEX requirement in this industry and we continuously invest every year. Say from Quarter 2 or Quarter 3 of FY23, revenue will start coming from the new plants.

Moderator: The next question is from the line of Sapna Jhawar from Dolat Capital.

Sapna Jhawar: So, two questions, you did mention about your focus on syringes, diagnostic kits I mean going deeper in the diagnostics channel. I just wanted to understand how will give you margins we place because I was just going through your presentation where you actually listed a host of products or that we plan to launch in FY22 on the diagnostics as well as Alcohol Pad, PolySwab except for few products will the others have similar kinds of margins. I mean if you could just explain the profit make because we intend to maintain a margin for the next year as well.

Himanshu Baid: What we have seen in the current pandemic is that there's always been a demand of diagnostic products and going forward also we expect that testing will increase a lot. If someone has fever, first thing we suspect is COVID. Earlier if someone had fever, there was no mandatory need for testing. Now with Pandemic more testing will happen and also I think the diagnostic space will grow much faster than the rest of the industry. Vaccination may also increase every year. There are 1.4 to 1.5 billion people in India and more than 20 different types of vaccinations are available today, I think there will be a huge demand for syringes going forward there's a shortage right now. We thought it appropriate to enter this business. Also, on the diagnostic side we already are supplying products to labs, we are already present in all major labs like Thyrocare, MetroPolis, Dr. Lal Pathlabs, SRL, Pathkind.

It was important to look at more products in this category and that's the reason we decided to enter this segment more deeply. In terms of margins, I think we will have reasonable margins. I think we have already done product costing and everything will continue to have similar margins what we have for our normal business today.

Sapna Jhawar: Because so I mean as we understand in the past two quarters the demand for elective surgeries have gone down and hence our flagship products would have faced lower demands. Obviously, they would have been compensated by the other segments in respiratory and diagnostics.

Himanshu Baid: No, the last two quarters were normal quarters. Quarter 3 and Quarter 4 were normal quarters.

Sapna Jhawar: So, Quarter 4 the entire impact on the gross margins and EBITDA were surely because of higher freight cost and raw material prices?

Himanshu Baid: Yes, raw material cost has increased by 60-70%. For plastics like ABS, PVC prices have increased from $800 to $900 a ton to $1700 a ton. We use 350 tons of PVC every month and ABS we use 50 tons, a month. That was a major impact for us. Our salaries and wages in spite of increase in revenue have come down and the pure reason for that our investment in automation has really helped us a lot. That has really helped us to survive this crisis when manpower was not stable initially in the year due to lockdown and again the manpower is unstable, now All our plants are running with 65% to 70% capacity right now,

Sapna Jhawar: In our guidance we are factoring in the continued increase in this PVC prices or polymer prices.

Himanshu Baid: Yes absolutely, because we have already seen in one quarter already and we know what we have to do and that's the reason with all new products and whatever we are doing right now we will see similar margins what we have maintained for FY21 and FY22 also. We have given revenue growth guidance of 17-18%.

Sapna Jhawar: So, of our total capacity how much are we utilizing, or have we targeted to utilize for syringes and diagnostics?

Himanshu Baid: It's very difficult question to answer right now, most of these products will come only in Quarter 3 of the financial year. So, I may not be able to answer it right now but maybe when we have a Quarter 2 call, we will have better visibility on this.

Moderator: The next question is from the line of Venkat from 3Sigma Financials.

Venkat: I just wanted to know how would next quarter be, are we going to see some challenges in the numbers?

Himanshu Baid: This is a very assumptive question, and I will not be able to answer it, it is very hard to answer on such a call.

Venkat: Two months are already over so you would have an idea…?

Himanshu Baid: I personally already have an idea and I can tell you we will do much better than what we did in Quarter 1 of last year.

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

Himanshu Baid: I like to thank all the participants and all the investors and thank you very much for your encouragement and we will continue to work hard to deliver better results for the company. I think we are in a very good shape as an organization being a market leader in our space. I can assure you that we will continue to innovate and develop new products more quickly and become a larger player in the industry in times to come. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of ICICI Securities that concludes this conference call. Thank you for joining us and you may now disconnect your lines.