"Poly Medicure Limited
Q3 FY 2022 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Poly Medicure Q3 FY'22 Earnings Conference Call hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing star and then zero on your touch-tone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Mitesh Shah from ICICI Securities. Thank you and over to you, sir.

Mitesh Shah: Thank you. Good afternoon, everyone. On behalf of ICICI Securities, I welcome you all to Q3 and nine-month FY'22 earnings conference call of Poly Medicure Limited. We have the senior management of the company with us today, represented by Mr. Himanshu Baid-- Managing Director; and Mr. Naresh Vijayvergiya-- CFO. With this, I will hand over this call to Mr. Baid for the opening remarks. Over to you, sir.

Himanshu Baid: Thank you very much Mitesh. And thank you and good afternoon to everyone who joined the call today for Q3 earnings call for Poly Medicure. First of all, I'd like to apologize for the delay in the call as both my parents were down with COVID and only just couple of days over they became negative. And we had some issues so I mean I had to take care of them. But now we are here and I'd like to apprise you of the company's performance for quarter 3 and nine months so far and then take you through some highlights. And then from there, you know, we can then have Q&A session from our investor community and friends.

So, in quarter 3, if you see the revenue increase from INR 194 crore to INR 220 crore. There's around 13.5% increase but there was a drop in EBITDA margin from 28.7% to 23.2%. And mainly due to impact of sharp raw metal price increases, supply chain disruptions and invert transportation costs. And if you see the total increase in raw material over last one year where we are comparing one year ago quarter, there is an increase of around 50% in all critical raw materials, whether it is plastics, whether it is chemicals, whether it is paper packaging materials, there's a massive increase in the pricing.

We have managed to get price increases from most of our customers and it is still in progress but if we actually see the real impact of raw material increase on our business, it would-- we had no increase in pricing from our customers who would have been impacted with the margin by 12% to 14%. But because we had an ability to get price increases from customers and many contracts have that provision and you know, it is still a work in progress exercise, were able to you know only you know have a 4% to 5% impact on the profitability.

If we look at nine months revenue, revenue has increased from INR 544 crore to INR 635 crore, there's an increase of 16.5%. We maintain our guidance for 17% to 18% growth for the whole of FY'22 with a consistent quarter-on-quarter growth. EBITDA margin changed over nine months, it has dropped from 28.5% to 24.5%. So, overall there is a just a 4% drop over the year, one year. But again, the reasons I've explained, you know, just a few seconds ago, those are the main reasons. But the absolute number there's a PAT increase from INR 92 crore to INR 107 crore. So, there's a 15% increase in the PAT.

We expect to end FY'22 with the EBITDA margin of 24.5% to 25% overall. So, in nine months, we have done 24.5%. So, we expect that this quarter, we will have around 8% to 10% of quarter-on-quarter growth over quarter 3 and with that growth in mind, I think there will be a small improvement on EBITDA margins. So, we should end between 24.5% to 25% overall for the financial year FY'22.

In quarter 3, the domestic businesses contributed to around 34% and exports have contributed to around 66%. If you look at nine months, the domestic business which was in 32% has grown to 35% and exports has dropped from 68% to 65%. So, in absolute terms, domestic business has grown over 30% in nine months and export business has grown around 10% in nine months. And the major reason for exports not growing is because of a huge shortage of containers globally and we see a huge delay in getting these containers to ship products to our customers worldwide because Polymed has customers in over 110 countries and it's sometimes, we are finding very difficult to get containers in time and ship the products and even the freight cost has gone sometimes quadrupled from the original level, one year ago.

So, that is also kind of delaying, you know, customers from getting containers in time. Sometimes they want to have their own nomination for shipping companies. So, they are trying to renegotiate the prices and that also causes a delay. And-- but we expect currently what we are seeing right now, this problem should still continue for 4-6 months of this container shortages. And I think it is across the industry not only a Polymed specific issue, but it's across the industry. And-- but we are trying to find best solutions and trying to move on.

So, this year, there's a reason they will be a mutated growth for exports but on the overall scenario we see, I think domestic business has grown quite well. And we hope that we will continue with the same momentum. Company has received a second PLI scheme approval for the diagnostic sector. So, for every incremental sale we do INR 1 crore in diagnostic business, we will receive a 5% incentive from FY'22-23 onwards, this is additional to the first PLI scheme approval received by the company for dialysis products, where again, by meeting minimum threshold levels in sales, we will receive 5% incentive from FY'22-23 for five years.

In recent union budget, government increased duty on dialysis products from 0% to 7.5% plus health tax bringing them at par with other medical devices. This is a big boost for Polymed as this will make our products more competitive in the domestic market. There are only two companies in India making full dialysis products and Polymed is one of them. One is a Japanese multinational company and we were both suffering because of zero duty of these products and there was a huge you know, dumping by Chinese companies for Indian market and there was also no quality standards for this product defined.

But from first November 2021, all medical devices have may now been designated as drugs and you need a license or a license application to import the products. So, with that in mind and plus the duty structure coming in for dialysis products, I think we will have a lot of advantage now to push up revenue for this business and take advantage of PLI scheme.

And PLI scheme becomes operational from 1st April 2022. So, whatever revenue would incremental revenue do, we do every year the target is INR 60 crore. If we do incremental revenue of INR 60 crore in dialysis products, including export revenue we will receive a 5% incentive on that. We are also giving our guidance for Q4 revenue which will be around 8% to 10% growth over Q3. And this is what we see now we are already one and a half months already in this current quarter. So, we should be able to achieve a growth of 8% to 10% over past Q3 quarter.

For FY'23, we are we will see a margin improvement of 200 to 250 pips due to price improvement from customers and contribution coming from incentive schemes and growth in export revenues in excess of 12% to 15% because currently, we see export revenue in current financial year by going only 10%. But with the new contracts, we have received a new customer additions we have done in last few months. We are seeing expecting a growth of around 12% to 15% in export business in next year. So, with that in mind, I think we are looking at a margin improvement of 200 to 250 pips during the financial year'23.

Revenue guidance for FY'23 is approximately 20% over FY'22 as new plant in Faridabad and in SEZ Jaipur will become operational by mid of FY'23. So, we will have partial you know manufacturing starting in these plants by mid-year, mid of financial year '23. So, that will also add to additional capacity and also lead to some growth in revenue. So, we are expecting a higher growth in FY'23 compared to FY'22 from 17%-18% we should move up to around 20% and over in FY'23.

To keep this expansion momentum continued, we are investing in one more new facility which will be operational in FY'24-25 and land for this new facility has already been secured and we will be doing some backward integration and some forward integration in this plant. And mainly this is mainly for sterilization and other activities related to dialysis business.

For our US business, our applications are made in July-August last year. We are expecting we had some queries but we are trying to resolve these queries. And I think hopefully by April, we will send answers to all our queries which require some additional testing of the products as per US FDA requirements and we expect that the first approval should come in June-July of 2022. There's a delay than what we anticipated earlier but I think due to current COVID pandemic, the applications have been, you know, pending there and nothing they are taking some extra time to review the applications. But we are in touch with some new customers in the US.

And with our new R&D head who's based out of Minneapolis which we hired Steven in September 2021 and with his help, we are looking at some developing some new products for US customers. So, that process is also on. So overall, I think, you know, for US, we have work in progress but actual results, yes, will start coming. We already have a revenue of around a million dollars from the US currently. But I think as and when we have more FDA approvals and more projects rolled out, we expect this mark business to grow multi-fold in coming years.

Our step down, we are also targeting to enter animal healthcare business in US which has also very high potential. And most of these products use animal health are closer to human health business. So, I think it's a much easier part to enter. And I think we are already, you know, talking to few companies out there to develop this business. Our shutdown subsidy in Italy Plan 1 Health is also expanding its business and receive new registration in Russia, Brazil and some EU markets, like UK, Spain, for his oncology range of products. So, year 2022 will be good growth year for this company and we have also done some expansion last year in capacity. So, this company which is specialized in oncology range, cancer care treatment products should do well in coming years.

Europe continues to be a key focus market for exports. So, one-third of the revenue, export revenue comes from six countries which is UK, France, Italy, Germany, Spain and Sweden. So, we see total overall exports of Polymed, from that one-third is contributed by these six countries which are very highly developed markets and you know, basically in these countries, only if you have high quality products, then only you can export. So, they are not concerned about price. They're more consumer quality and efficacy of the product and whether it meets the clinical standards or not.

So, just wanted to inform our esteemed shareholders and friends here that Polymed operates in very highly regulated markets and has a good presence in those markets. And we're actually growing our business in this country. In fact, even this year in FY'23, we will also see a good growth in revenue in these six countries where we will sign some new contracts with some customers in UK, you know, Germany and Spain. And I think that will also add to more business in this country.

We entered the vaccinations syringe market in December last year and we have already received orders from the government for to supply for certain vaccination programs. And this was a new product addition which we did in a very short time. In six months, we added this product got approval for this product very quickly from the government and we have started selling this product. And I think we see that the demand continues because WHO has already predicted a shortage of 2 to 3 billion syringes in the world.

So, I think though we entered a little late but I think we still entered at a time where there's a demand and we will also you know increase our range of syringes from safety syringes to we already to prefilled syringes, insulin syringes, so we'll have a full portfolio of syringes, I think that will also help us to increase domestic market play and also in some countries we will be able to export this product also in times to come.

So, we're already working on some new product lines and some new product you know growth areas in syringe space. We are also entering into some safety needles and allied products which will help us to even increase our revenue for syringes.

We have a robust pipeline of new products for next one to two years. We are already investing in you know diagnostic business, we have got a PLI scheme for that and I explained on the last call also we are already working on cardiovascular consumables business which includes you know, angiography catheter, some dialation catheter, balloon catheters guidewires, India is importing 100% of these products and we are trying to also look at products which can be import substitutes. So, we are working on that.

Our dialysis machine which we are developing indigenously is under trials right now. And hopefully, in quarter 1, we will be launching a machine which will be fully indigenously developed dialysis machines. So, not only we're in consumer business, we are trying to develop our own machines and equipments, you know and move into the market and again, challenge a market which is dominated by multinational companies.

Today, where there's 100% import of this equipment, nobody makes them in India. So, again, a new area for us to expand and once we see the success of this machine and we see the demand going up, we'll start probably developing more equipments which are allied with our current business may be infusion pumps, syringe pumps which go with our vascular power range or some equipment related to blood banking which goes with our blood bank. So, this is what our plan is for future next two, three years to expand in the same vertical but getting it with equipment also, so that we do the full therapy and when we go to a customer we are able to offer the full therapy a range of products.

And same thing we are going to do in diagnostics. We are starting with some consumables and some kits and later on we will get into equipments so that we can once we go to a lab and approach for to sell our products, we'll be able to offer complete solutions. So, next two, three years the target is to build up a pipeline of products in this four ranges where we operate and try to increase offering by combining consumables and equipments.

Our R&D team is doing a fantastic job. I think what we have heard from the Government of India is they are coming with a new R&D policy for pharma and med-tech sector, they are trying to bring out certain incentives. The draft policy has already been shared with the industry and I think, though there is no clarity on incentives till now, but Polymed being you know, one of the pioneer companies in R&D space in med-tech field, as you all know, we already hold over 300 patents as a company. So, I think for us, we are waiting to have this policy implemented.

Maybe in the long run, maybe government offers certain incentives for companies who are developing new innovative devices in the country or bringing an import substitutes. So, we are currently on a wait and watch mode, but we have seen the draft policy which talks about certain incentives, but does not quantify them.

So, constantly, you know, as a company, we are working on new ideas, new product developments, new improvements and these new ideas help us to you know deliver a better value and care to our customers, especially, patients in hospital, we are trying to increase our presence in corporate hospitals where we are trying to go more deeper in these hospitals by bringing in more products.

Today, at least Polymed brand is very well known with every hospital, important hospital in the country. That is what we have done in last few years.We have put a lot of emphasis on brand development, going more clinical deeper into the clinical part of the business where we talk about critical advantage of the product and why this product should be used over other competitive products, what advantages brings to the hospital, mainly to the patient. So, these are the things we are adding and we continue to add more people.

We are this year we have planned to add another in FY'20 will add another around 75 to 100 salespeople in the organization across different verticals, whether in clinical side, sales side, marketing side and product management side. So, that is the plan going forward.

And, you know, from now, I think I'm happy to take questions from our friends on the call. And I thank you once again for joining this call and you know, patiently listening to me. Thank you very much. Mitesh over to you.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touch tone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants also requested to use handsets while asking a question. Anyone who has a question may press star and one. Ladies and gentlemen, we will wait for a moment while the question queue assembles. Our first question from the line of Nikhil from KRIIS. Please go ahead.

Nikhil Chawdhary: Thank you, sir. Thank you for the opportunity. I had just one question, I wanted to understand like I did speak to a few distributors on ground. There is a, we lack central pricing in Bombay like I understood probably Gujarat is having some different pricing for their dealer, Bombay have some different pricing for their dealer and in Bombay also Mulund, which is a town which has got different pricing, Thane has got different pricing and this is actually distorting the market. We have got a very good review for your products like Romsons you your products are definitely much better than Romsons' but somehow probably due to this price discrepancy, they are not able to probably give it to the market at good prices. So, that is what I was just wanting to understand why is there a discrepancy? Why can't we have a central pricing like the other players?

Himanshu Baid: I think this is a very typical question. We, see basically pricing depends on customer's buying capacity. So, for example, somebody is buying only like 100 pieces for a product and will have a different price. For somebody who buys 1000 or operate, who does the annual rate contract will have a different pricing you know will have a different let's say ability to you know get a better pricing because of the sheer volume they draw. So, I'll take your feedback definitely and see what you know it's a good feedback, that has come from a ground level. So, we will try to see if there is any discrepancies. So, what we are trying to do this year that's a good point. We are trying to bring with one corporate hospital price list. Currently, every hospital has a different price list because we get different price increases different price point quotations made at different times. So, there are different prices which are applicable. So, what we are trying to do from 1st April is to have a separate corporate hospital price list. So, then any hospital which buys will have one price list but based on the volume take off, they will get a discount on that, as well as for a smaller hospital or nursing home, there is a separate file dictated by the distribution partners who around in that area. And also, pricing depends on the payment terms. A lot of hospitals pay between six months to nine months the bad ones, good ones pay in three to four months. So, also the distributors adjust price because on the payment terms also.

Nikhil Chawdhary: Understood. And sir one more thing thank you for taking the inputs. One more thing I wanted to understand. Say for example, there is a distributor, three or four distributors in Bombay. Are they not having an access to all the products and our CNS is having the I understood dialysis is available with our CNS and it is not available with the distributors, so, wanted to understand the reason for that because we understand that we are probably only Indian makers of this machine and it has got a good potential. We were just trying to put the product and they were not having access to products. So, wanted to understand is there a separate

Himanshu Baid: Every distributor has a different skill set. The person who is good in referring vascular buy hospital products is not good selling products and dialysis centers. So, as the business is growing, see in our infusion vascular business now we have appointed multiple distributors in every state. Earlier we operated only one distributor. Now we operate to multiple distributors, we're also operating with distributors aligned to one hospital for example. And dialysis also, we are doing the same thing. For every chain, we will put one distributor in place because it is very difficult to supply from central warehouse in Delhi or Faridabad. So, we are also trying to now bring in more distribution partners in play and not necessarily there will be same distributor for this for different range of products. So, diagnostic will be separate distributor, blood banking will be separate so that's how it would work because you need specialization in every area.

Nikhil Chawdhary: Okay. Understood. Okay, Understood. Thank you for this. I will get back in the queue.

Himanshu Baid: Thank you. Thank you so much for your question.

Moderator: Thank you. Before we take our next question, we would like to remind participants to ask a question, you may enter star and one. The next question is from the line of Devesh from DS Investments. Please go ahead.

Devesh: Yes. Hi, good afternoon. Thank you for the opportunity. Quick question on a little longer-term perspective.

Himanshu Baid: Yes.

Devesh: If we look at 3 to 5 years, what are your aspiration to maintain in terms of export versus domestic, I know this year has been little down on export front but just wanted to get your thought.

Himanshu Baid: See, I think if you see a 3 to 5 years horizon, yes, for us domestic market and we have a lot of people out here. So, we have around 250 feet on the ground versus in exports between India and outside India, we only 30-35 people. So, our focus is definitely domestic market. My ideal situation would be let's say 5 years from now, have 40% 45% domestic business 50% 55% export business, I think that will be an ideal scenario.

Devesh: Okay.

Himanshu Baid: Because again, export is to 100 countries. So, you know, the market is growing, the product range is growing, so and the same customer is buying more products. So, that will continue to go. And that is growing, you know, let's say at its own rate but domestic market is where we are trying to feed with lot of clinical information, a lot of data, a lot of fieldwork, a lot of doctor requirement, lot of training programs we are doing. So, domestic definitely and as I was explaining earlier, percentages change from 32% to 35% this year. So, every year, if we can increase by 2% 3% so I think that will be something is my aspiration today.

Devesh: Got it. Thank you for that detailed answer. In this journey as we go through and plus, you know, you called out a couple of PLI incentives and things like that.

Himanshu Baid: Yes.

Devesh: I think I didn't catch the margin trajectory from next year to let's say, next 2-3 years. How would a margin look like for our us?

Himanshu Baid: The PLI is only based on a certain product category. Right. So, it's mainly on renal business which is currently let's say this year we'll end around INR 60 crore, maximum maybe around INR 100 crore plus, so I'm getting on the incremental revenue of INR 60 crore to PLI scheme. So, that is INR 3 crore on the total P&L, let's say for dialysis. For let's say diagnostic this is a INR 25-30 crore business I'll get 5% on that so it is around INR 1.5 crore. So, this INR 4-5 crore input so which if you look at in the long run maybe on PAT terms it is around 150 pips 200 pips addition there, but we are not factoring in that as a you know, gain. I think what is the bigger gain is how can we get more deeper into the market with a bigger market share.

Devesh: Got it. So, at least we should be able to hold our you know the past margin trajectory because

Himanshu Baid: That is the whole idea that whole tipsy turvy or you know you know situation in raw material pricing is kind of really crazy right now with crude also hanging over 90. So, all plastic get impacted, all global supply chain is impacted. So, we are trying our best to protect our margins, get a price increase from customers. So, we are doing our best. Hopefully, we can get back to that, you know, happy situation or 27% 28% again.

Devesh: Got it. Understand, totally understand and the second was dialysis equipment sounds really interesting. In your opinion, what is the opportunity size and you know, again over mid-term what are our aspiration in market share?

Himanshu Baid: So, if I tell you the market size, so India currently to look at last two years data and currently there are 40,000 dialysis machines operating in India as per the information we have.

Devesh: Okay.

Himanshu Baid: And every year we are adding 3000 to 4000 dialysis machines, maybe 3000 and average life of a machine is around 10 years.

Devesh: Okay.

Himanshu Baid: So, on that there is redundancy then there is the new machine addition. So, we are looking at around 3,000 to 4,000, 5,000 maybe once the market gets better because a lot of the patient went off dialysis during COVID times because of infection and they are low on immunity. So, if they visit dialysis centers, they catch COVID. So you know, a lot of people were not even taking dialysis treatment. So, I think once COVID gets over, the dialysis will take off more further and with government program of Ayushman Bharat INR 1500 reimbursement happening and reuse slowly. Now I mean today, in Mumbai itself, you know, there are 10 to 12 times use of dialyzer in a let's say charitable institute, where we are trying to lower the cost by reusing the product which is completely prohibitive, not even allowed but they are doing it just to reduce the cost. So, in my view, there's a market for 3,000 to 4,000 machines. So, even if we get 10% to 15% market share, let's say in 2-3 years, that will give us a runway for 300 to 500 machines and as the market grows, I think we will also grow that business.

Devesh: Got it. And what would be the cost of these machines, a range would be you know, just to get idea?

Himanshu Baid: INR 5 lakh to INR 6 lakh, they start from usually INR 5 lakh and then depend on a model, you know, INR 5 lakh to INR 7-8 lakh.

Devesh: Great, okay, sounds good. That's about it from my end and hopefully parents are feeling better.

Himanshu Baid: Oh, thank you, thank you Devesh. They are better they just got but just got from dad and you know, he had some cardiac issues, but he's fine.

Devesh: Okay, thank you. Take care. Bye.

Himanshu Baid: Thanks.

Moderator: Thank you. Our next question is from the line of Pankaj Shah from Dinero wealth. Please go ahead.

Pankaj Shah: Good afternoon, sir.

Himanshu Baid: Good afternoon, Pankaj.

Pankaj Shah: So, my first question is on the congratulations of the diagnostics in DNA. So, can you brief us more on the theme like what is your timeline and what is the peak revenue and by how much time can we do that?

Himanshu Baid: Yes, so Pankaj what we're trying to do is get into this you know, alyzer based kits and you know, RT PCR base kit, of course, there are a lot of players in the market but we think that as we have the vacutainer then we have needles where we already supply some diagnostic products to labs and we also have VTM kits and all that stuff. So, that gives us some power to go to these labs and also sell other products and what we are seeing is these diagnostic products cut across our other two verticals also. They cut across our dialysis vertical because cut across our blood transfusion vertical, where every blood sample which is taken is tested for HIV, hepatitis and everything. So, all these products are used there. So, if I'm supplying my blood bags. I'll also supply this testing you know kits, so that they can test the blood bag, test the blood before putting into the blood bag. Similarly, in dialysis center, they do some blood tests. So, they need these kits and in also diagnostic space, where we operate you know, sell vacutainers and tubes and needles and some other you know, kits, they also need this product. So, what we're seeing is these problems will cut across all the segments and we have a reach to labs and hospitals. So, we are expecting revenue next year maybe INR 25-30 crore and if we can grow this 30% 40% every year because diagnostics are very growing field and you're already seeing this industry has grown in last 5-7 years multi-fold. So, I think there is a room for a company like us which is more in organized sector to go and you know sell. So, today we sell to you know Thyrocare, we sell to you know Vijay diagnostics, we sell to Path Kind and so we are selling some products already there. So, we can then enter with some more products.

Pankaj Shah: Got it. And another question is on price rise. So, you have taken some time rise on some part of the growth which we have if I compare it because of the price increase

Himanshu Baid: Yes.

Pankaj Shah: So, I want to bifurcate that how much would be the volume growth and how much will be the price increase?

Himanshu Baid: The total we have seen is around so I think that's a good question. So, I think if we look at see if I divide that 17% growth, 16.5%-17% growth which we have done in nine months, so maybe around 5% 6% has come maybe to price increase, maybe around 12% would be around from volume.

Pankaj Shah: Okay. And you've guided 200 to 300 pips margin improvement that is on the EBITDA side right, for the next year?

Himanshu Baid: So, EBITDA side that's correct.

Pankaj Shah: And I'm sure, of course, we are taking some prices rise in new contracts, as you said, but it's the crude, crude is on constant rise like how we are seeing currently. So, how will be the margin of that?

Himanshu Baid: So, I think it's a continuous exercise in a business where you do cost cutting measures, you do process improvements, you go for a price increase with customers. It's a constant exercise. So, it's a story which continues forever, you know, you can't just stop saying, okay, from today, I'll not increase my price. At least you create the demand and pull towards yourself, then the customer is coming back to you and then asking for a product even at a better price, higher price. It's a constant, you know, cycle. So, this cycle will never stop in my view.

Pankaj Shah: Okay, thank you. Thank you so much and all the best.

Himanshu Baid: Thank you, thank you Pankaj.

Moderator: Thank you. Before we take our next question, we would like to remind participants to ask a question, you may enter star and one. Our next question is from the line of Nikhil from KRIIS, please go ahead.

Nikhil Chawdhary: Yes, thank you for the opportunity, sir. Sir, wanted to understand, probably in few products MRP plays an important role if I'm not wrong.

Himanshu Baid: Correct. Absolutely correct, Nikhil. Absolutely correct.

Nikhil: Yes. So, I understand in few products, our product quality is extremely superior but probably the pricing is less and that is why that is probably hampering

Himanshu Baid: You're right absolutely, absolutely right.

Nikhil Chawdhary: And we have

Himanshu Baid: See NPPA dictates that you're on the National Pharmaceutical Pricing Authority now, which also oversees medical devices, it clearly dictates that you can't increase your prices over 10% a year, MRP over the year, if you do that, you have to pay the differential to the government. So, for example, if my price was INR 100, competitor's price is INR 200 as they put on high MRP on the products, I can actually only make INR 110, I can cannot jump to INR 200.

Nikhil Chawdhary: Oh, Understood. Understood.

Himanshu Baid: Yes. So, that prohibits you know, from increasing your pricing. And you're right, but I think what is happening is one good factor is happening is that insurance is now calling the shots. Today, let's say when you go to a hospital, let's say I want a hernia operation to be done. So, they'll say okay, your package is INR 1.5 lakhs, there our MRP doesn't matter at all. So, there's a package. So there, the hospital is bound to use a good quality product at a good price. They're not looking at MRP because they're not charging the patient at MRP. They're charging the patient at the package rate but whenever there is an itemized billing, whenever the patient is paying by cash, that is where MRP comes into picture. For example, NRI patient who doesn't have an insurance, he'll pay cash. Cash means out of, you know, out of pocket or some old patient who doesn't carry an insurance, old age patient, like our parents, my mother got a valve replacement, you know, in December but she did not have adequate insurance. So, we had to pay the differential to the hospital and it was a cash payment.

Nikhil Chawdhary: Understood, understood.

Himanshu Baid: So, there they're adjusting on MRP but wherever there is insurance coming or Ayushman Bharath there, you know, there the whole package rate comes and then MRP doesn't matter.

Nikhil Chawdhary: Okay, so, Yes sir go ahead.

Himanshu Baid: The market is changing now. So, let's say five years ago, it was 75% MRP based 25% insurance. Now, I think probably in five years it's 50%, MRP, 50% insurance, where in my view, another five years, it will be around 75% insurance and 25%, MRP.

Nikhil Chawdhary: Underserved, underserved. Also, sir probably I understand we are the formidable player in the domestic market competing with the large MNCs, are we gaining market share, like wanted to understand your sense on that.

Himanshu Baid: Yes, definitely. See, we don't have to fight in a market at the lower end of the spectrum, you want to fight at the higher end. See the juice is at the higher end of the spectrum not at the lower end of the spectrum. If I take a market share from a fringe player, it is not going to impact my P&L it is going to affect my P&L also affect my you know by branding. So, today we are also creating a branding. I think Nikhil you've done a lot of good you suggested some good point I think we have done some ground checks. So, it is very important to have a very good brand and good perception about the product. And once you have that then you can definitely give a good run for the money to multinational companies.

Nikhil: Chawdhary: Yes, thank you so much, sir. I actually like want probably UI to just take care of this minor thing because our products are definitely very superior, just your few points here and there probably can propel our growth in the domestic market to north of whatever we are seeing today.

Himanshu Baid: Thank you, Nikhil. I think that really encourages me a lot.

Nikhil Chawdhary: Yes, thank you so much sir. I will come back in the queue. Thank you so much.

Himanshu Baid: Thank you Nikhil.

Nikhil Chawdhary: I wish you all the best.

Himanshu Baid: Thank you, Nikhil. Thank you so much.

Moderator: Thank you. We'll take the next question from the line of Mitesh Shah. Please go ahead.

Mitesh Shah: Thanks for taking my question. Himanshu sir, I just have a question about your consumables and equipment mode, so equipment is a totally different market compared to consumers, size is more and the also realization is more. So, can you elaborate more about the strategy of how would you sell and the how would you market and the about your MR and you expect to increase for that? And what would be the receivable days difference on that?

Himanshu Baid: See, I'll tell you, you're right absolutely, the equipment business very different. Now what we are getting into is not pure equipment play, we're getting into products which are complementary to our current product range. So, for example, if I'm making dialysis consumables there is a reason, I'm making a dialysis machine because wherever I sell a machine I have my consumer will reused. So, that is what we are trying to do. So, we are not trying to get into like say X ray machines or CT machines or ultrasound machine. We are not getting into non-related business, we're only getting into equipment which is will help us to expand our current consumable business, that's number one. So, even if you see 3-4 years from now, it will still be 90% 85% consumables and it will be 10% to 15% equipments. So, that is where you know, we are heading in that direction in next 3 to 5 years horizon, if you look at that horizon and then in terms of receivables, I think it's not going to change because we have a very strict policy on receivables. So, our receivables, the average if your across the company are between 65 to 70 days. And we maintain a very constant watch on that and ensuring that they don't increase beyond that level in most and only delay we see is in government sales where the receivables sometimes become longer. But in our trade business or distribution business or sales are well within 40-45 days.

Mitesh Shah: Got it. Second question I have about the export markets like every industry, every country is looking to de risk from the China and the I think during the COVID period, the China's overall medical device size increase from around $30 billion to $100 billion itself because of the huge demand during the COVID times.

Himansh Baid: It exploded to $220 billion masks.

Mitesh Shah: No, no entire medical device industry

Himanshu Baid: No, medical mask are medical device. I'm just trying to explain you that.

Mitesh Shah: Right. Right. So, I just have a data.

Himanshu Baid: So, ventilators and you know, even you know, the diagnostic kits all was being exported from China only. In the beginning, they were the only country which were able to scale up to that level.

Mitesh shah: Right. So, my question is about that the de-risking opportunities we can see substantially in the medical device as well as you can any from this opportunity as well in the future?

Himanshu Baid: We are so that is the reason you can see some growth and plus, you know, Government of India is Make in India policies also helping us. This public procurement orders which favour domestic manufacturing that will help us in the long run. So, all that impact will come step by step. So, you can't stop imports on day one because healthcare products. Globally also, you know, companies are looking at India but of course, India doesn't have ecosystem. We only have a handful of medical device companies. Today, probably there are only one or two listed company only this year, I think one or two companies got listed which are also not in the same area where we operate today, much smaller. And some other companies which were about to list did not get listed they didn't go for an IPO. So, India is still very nascent for med-tech. So, first we have to sell brand India, then medical devices because people don't see India as a medical device hub. So, we are today present in 100 countries, we're trying to expand that business also. So, I think as time and we might get bigger opportunities as time progresses. We are in talks with some companies but it takes time to mature but I think there are good because that's the reason we are building manufacturing infrastructure. So, we should not be caught in a situation where we don't have manufacturing infrastructure and we can't make products. So, we're thinking ahead of time I've said in the beginning of the call that we have now acquired land for one new plant which will be operational in 2024-25. So, we're thinking that far to ensure that we have enough manufacturing infrastructure to cater for additional demand which may come in from India or for China from one strategy

Mitesh Shah: Got it. Thanks a lot.

Himanshu Baid: Thank you.

Moderator: Thank you. Our next question is from the line of Kamlesh from Max Life Insurance. Please go ahead.

Kamlesh: Hi, am I audible?

Himanshu Baid: Yes, you are.

Kamlesh: Sir, a couple of questions on PLI scheme, we have renal and now the second round of CLI, which is announced

Moderator: Sorry to interrupt Kamlesh, if you're on speaker mode, can you switch it to handset please your voice is kind of muffled? We can't hear you clearly.

Kamlesh: Yes, so my question is on PLI scheme.

Himanshu Baid: Yes.

Kamlesh: So, on this second round of PLI scheme approval and diagnostic? What is the total CAPEX for the entire CLI you'd be doing?

Himanshu Baid: So, for renal business, I think we have a plan to invest closer on INR 70 crore to INR 100 crore in renal business and maybe another, around INR 20-25 crore in diagnostic business. But in two or three financial years, these are not immediate expense.

Kamlesh: Understood, understood. Sir, just trying to understand what kind of IRR are you expecting from this investment, or at least if you can share some sort of margin in let's say, for 3-4 years, you will be reaching in these two businesses on a steady state basis

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Himanshu Baid: See again, when we look at overall business let's say this year, as I told you, we are looking at a better quarter let's say quarter 4, 8% to 10% growth. So, if we did INR 220 crore in quarter three, we're looking at around close to INR 240 crore during quarter 4. So overall, we are looking at standalone revenue of INR 875 crore plus in this financial year. So, out of that currently, the renal only contributes INR 60 crore. So, it's still a very small business for us comparatively and diagnostic only contributes around INR 15 crore as of now. But as we move on, I think it will probably take 2-3 years to really see the real, you know, revenue IRR coming into this business but because it's the import substitute business, especially renal business and because government putting a duty now in this current budget of around 14% you know, 7.5% plus 5% health tax, I think there you will start see currently it was just to gain market share and come into a new business new line and to develop the products which are completely in both substitutes, this is going to take a while to you know, very make this business more profitable. But in overall scheme of things, it will continue to improve margin as we achieve more volumes, economies of scale and once we double or triple our production. I think in year three, we're looking at around from now till 2025 we're looking to around was around INR 150-200 crore in renal, I think that is where we will see you know, good steady margins, maybe close to around 50% to 20% of EBITDA margin coming with business.

Kamlesh: Understood and sir, just my next question on the syringe business which was mentioned. How big is the opportunity for you?

Himanshu Baid: Syringe is a very large business portfolio and I think one is vaccination, one is curative markets. So, this is a very large portfolio and we're also prefilled syringes. So prefilled is generally is an import substitute in India. We are only manufacturer in India today for prefilled syringes which is used for flushing and Becton Dickinson the only company which is selling in India which is importing it and we see a huge global opportunity for this product, especially in Europe and in nearby countries even in South America. So, we have started exporting already. And then this vaccination during this depends on government of India's vaccination program. So, we have now visibility up to next six months to sell to the government. And then it depends how government wants to look at the third dose of booster whether they want to do it or not do it and they want to open it to general public, they will demand continue otherwise, we'll move the same line into curative market. So, there is also very limited players in syringes spaces for curative market like this one is only market leader with around two thirds market share. So, there is enough ample room for a new player to come in and expand capacity. So, India probably has like INR 1000 crore syringe market. Globally, it runs into billions of dollars and we are a company with exports also globally. So, there is an opportunity everywhere.

Kamlesh: Understood. And how much of this opportunity is in government vaccine opportunity would be there in this particular quarter?

Himanshu Baid: Quarter, this particular present quarter I think we are spending close to around 2 crore in government, 2-2.5 crore, INR 75 lakhs a month.

Kamlesh: Okay INR 75 lakhs in a month.

Himanshu Baid: Yes, which at one point of time was number of vaccinations done in a day.

Kamlesh: And for the export opportunity in this particular field, how would the CAPEX entail? Would there be further CAPEX or

Himanshu Baid: Consequential there is the demand will invest in more expanding the capacity depends on you know how we get demand from overseas markets, so we have to get brand registrations, product approvals. As and when they come through, we will continue to expand. Today customers are coming from far off countries, you know, and they want to enter Europe, they want this product revenue will expand capacity because we have to we have a pipeline of customers. The only thing you have to put more products in the same funnel.

Kamlesh: Understood. Sir, just a little clarity considering we have PLI and all these opportunities are along with the animal healthcare business, which you just mentioned. Next year 20% top line growth, which you just kind of stated, just trying to understand, beyond FY'23, how should we look at this I mean do we have any clarity because not all

Himanshu Baid: We have not already guidance, ma'am, for further here. But, you know, if we are, you know, reaching between 18% to 20% growth between now and next year, I think that same momentum will continue across Indian market expanding with PLI coming in and with you know, export business growing, more products coming in, at least you know, the stage we are in I think we should easily be able to reach that 18%- 20% growth every year, I think that is probably the minimum we should be doing.

Kamlesh: Understood. Sir, my last question would be on margins, if you could just help us understand some sort of guidelines with respect to maybe three years or five years perspective.

Himanshu Baid: I don't have visibility on environment depends so much on current crude oil becomes $200. All my projections will be going haywire. So, I think it's a very long haul to say that. But I think if we continue in that 25% band on EBITDA plus minus 1% to 3%, I think we are good.

Kamlesh: Understood. Thank you so much.

Himanshu Baid: Thank you.

Moderator: Thank you. Our next question is from the line of Girish Jain from KJMC Capital. Please go ahead.

Girish Jain: Thank you for the opportunity. And happy to learn that your parents are have recovered from the COVID infection.

Himanshu Baid: Thank you Girish Ji.

Girish Jain: So, Himanshu my question will ask two questions.

Himanshu Baid: Yes.

Girish Jain: We have raised I think INR 400 crore last year.

Himanshu Baid: Yes.

Girish Jain: How is the cash position and how is the debt position now if you can just

Himanshu Baid: So, Girish ji currently we hold for we also had other than INR 400 crore, we also had more cash in the company. So currently, we have around INR 375 crore in cash which is, you know, year-marked for CAPEX expenditure and for other, you know, opportunities and I think we have around close to INR 75 crore on long term debt which is all in foreign exchange which is between 1.5% to 2%. So, that's the reason it's not been retired, I'm still in the company.

Girish Jain: Okay. And

Himanshu Baid: Then we also have around INR 40-45 crore of working capital debt which is also a mostly in foreign currency.

Girish Jain: Okay, they're also foreign currency. And you mentioned about the new CAPEX, so, if I just if I can just get some clarity, I think Faridabad unit number three will go online on statements in somewhere in July '22.

Himanshu Baid: Yes, so, there are, you know, one plant NSEZ which is and we are expecting both those plants to be operational, partially operational by October 2022. And then full operation will start bobbing, you know, maybe Q1 of, you know, FY'24. But this quarter 3 of this next financial year, they should be partially operational, we will try to start from production in this month.

Girish Jain: So, this is a Faridabad 3 and Jaipur is number two, right?

Himanshu Baid: Yes, correct. Faridabad is number four and NSEZ is number 2.

Girish Jain: Okay, NSEZ number two, and you also mentioned about a new further new CAPEC for which you have bought the land. Yes. Very, very that like

Himanshu Baid: It is also in Faridabad and this plant basically, it's a bigger land, we will be probably looking at establishing correlation facilities, and maybe, you know, expanding more into dialysis business, maybe we need it for manufacturing expanding the dialyzer capacity or machine capacity and as a reason looking at you know, what we see with Make In India focus, I think there will be a ramp up in demand for this product.

Girish Jain: So, for example, five will be for sterilization and dialysis if I have to say.

Himanshu Baid: Yes, more in that direction.

Girish Jain: Okay, thank you and all the best.

Himanshu Baid: Thank you, Girish Ji. Thank you.

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

Himanshu Baid: Thank you very much all the participants. There a lot of good questions and I think some good ideas for me. So, you know, I will definitely, you know, consider some great ideas today, you know, heard from people and thank you and look forward to stay connected with you. And I think these really points really help us to improve further and you know, deliver better to our shareholders and to our customers who are patients in the hospital. So, thank you again for your support. All the best. Thank you.

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