“Poly Medicure Limited

Q3 FY '23 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Poly Medicure Limited 3Q FY '23 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rohan from ICICI Securities. Thank you, and over to you, sir.

Rohan John: Thank you, Seema. So good afternoon, everyone. On behalf of ICICI Securities, I welcome you all to the Third Quarter and Nine Months FY '23 Earning Conference Call of Poly Medicure Limited. Today we have the senior management of the company with us represented by Mr. Himanshu Baid, Managing Director; Mr. Naresh Vijayvargiya, CFO; and Mr. Avinash Chandra, Company Secretary.

Over to you, sir.

Himanshu Baid: Thanks, Rohan. Thank you everybody for joining this call. Really appreciate your time today. I'll take you through the Q3 earnings for this quarter. So if you look at the numbers, revenue on a standalone basis stood at INR 271 crores and consolidated revenue was around INR 285 crores. So there is a if you look at a quarter-to-quarter performance, Q3 to Q3 performance, then we have a growth of around 23%. Similarly, the margin improvement is also there.

In terms of EBITDA from INR 50.85 crores to INR 66.27 crores on standalone basis, and on a consolidated basis from INR 51 crores to INR 69 crores. And PAT has increased from INR 34.21 crores to INR 47.54 crores on standalone basis and on consolidated basis INR 34.51 crores to INR 50 crores. So first time the company has reached a PAT margin of INR 50 crores in a quarter. And I think that's a good healthy trend which we are seeing now.

And if you look at the performance of different sectors, so exports and domestic, so exports from Q3 of previous year to Q3 of this year has grown from INR 146 crores to INR 180 crores, so 23% growth in exports. And domestic sales has grown from INR 74 crores to INR 92 crores, which is 24% increase. So overall blended there is an increase of 23.5% over Q3 to Q3 numbers if you see from previous year to this year.

If you look at the nine month of previous FY and the current FY, so the revenue has increased from INR 634 crores to INR 774 crores on a standalone basis. And in terms of consolidated numbers, INR 665 crores to INR 808 crores. So there is an increase of 21.5% in nine months revenue compared to the previous year. Similarly, EBITDA margins have grown INR 155 crores to INR 187 crores on standalone basis and INR 157 crores to INR 186 crores on consolidated basis. PAT margin has gone from INR 107 crores to INR 121 crores on standalone basis, and in terms of consolidated numbers, INR 110 crores to INR 120.47 crores. So these are the numbers basically. The company continues to grow over 20% as per the guidance given in the beginning, if you remember, that's the guidance we had given. So we are well above the guidance number. And currently, if you look at Q4 numbers, we are on track to deliver the guidance which we had promised in the beginning of the year. So the growth will be over 20% as we close the financial year in a couple of months. And if you look at going forward, the next financial year also we are looking at a number close to about 20% in terms of guidance for revenue for FY '24.

The raw material prices started cooling down and we'll start seeing the impact from, let's say January onwards because the raw material price came down in August, September period, and we do carry inventory of two months. And by the time we received this new pricing of raw material it was almost December. So we will see some positive impact. Freight cost has also come down and that will also make a positive impact. So we are seeing an improvement of margin a 100 bps to 200 bps in the coming quarters because of raw material and freight cost impacts.

Europe continues to be a positive growth driver for us, still 40% revenue comes from Europe. We have also gained some new contracts in Europe and we see big traction due to the current geopolitical situation in China Plus One situation what we see in Europe. We participated in two major trade shows, one was in November in Germany, Medica Exhibition which is also one of the largest in the world, and just last week, we were in Dubai for Arab Health.

So in both the exhibition we have seen a great traction being built up for Poly Med products from the global customers and we're seeing good demand from Middle East from the current show and also from the European markets, a lot of push is coming from Europe. So overall, we continue to grow in these two geographies.

In the current quarter or even nine months if you look at the revenue mix, it's one-third is India and two-thirds is export and probably this will continue even in Q4, as is the trend today.

The new Drug and Cosmetic bill 2022 was announced sometime in August, September, I think, July, August and the government has already received more than 9,000 comments from different stakeholders. And after collecting this information, the bill is scheduled to be tabled in the Parliament this year. So this will be a major game changer for the medtech industry because medical devices will be carved out from Drugs and Cosmetics. Currently, under Drug and Cosmetic Act 1942, and with this new bill, there will be a separate chapter cast out for medical devices and a separate set of rules and which will also help us to distinguish ourselves from drugs.

And a lot of these laws which are applicable on drugs will not be applicable on medical devices. So that's a positive development for the industry.On the regulatory front, the European MDR which was a big challenge for all medical devices companies which were selling products in Europe, the new regime was to come in effective from May 2024, but recently, there is a development because many products are currently short in Europe, and due to this European government has taken a view to extend the old MDD by another three to four years.

So that's a positive happened for us, and also for the whole industry that we can use our existing certifications to sell products. Nevertheless, Polymed has already applied on the new MDR from more than 70 products to be part of the new regulatory regime in Europe and we are very confident that by the end of this year, we'll have our clearances under MDR. But that does not impact any business right now because the old medical device regulation is extended by another four years. But this gives us an added advantage, obviously we are registered on the new regime, this will give us an added advantage over our competition and that is what we are looking forward to.

In the recently presented Union budget by honorable FM, it was announced that government will be setting up institutions which can offer dedicated multidisciplinary courses for medical device to ensure availability of skilled manpower. So medical devices has gained some traction with the government. And in NIPER's basically, which are based out of Ahmedabad, Chandigarh, Hyderabad, Guwahati and a couple of other places, they will also offer courses on medical devices. And there are some budgetary allocations on this regard with a special focus on innovation and R&D and medical device field so that we can get trained people from these institutions in future which can be absorbed by the industry. So this is a very positive development for us.

In terms of USFDA, there were some testings which are yet to be completed and due to COVID delays because still in US November, December, January were by impacted -- FDA was impacted due to COVID cases in US. So our final testing is now getting completed maybe in next few days and reports will be submitted to FDA in coming week. And we expect the final approvals to come in 60 to 90 days. There is a delay. In my last call, I had mentioned that we will be able to file in end of November or early December, but there has been a delay of almost two months because of delay in testing by laboratories done in the US due to COVID backlog.

We are expecting the US business revenues to start from Q2 of FY '24 and already, the products are developed, they are being tested as we speak in clinical settings. So we are very confident that we'll be able to start revenues in Q2. But nevertheless, we continue with the 20% growth which we have already committed for FY 24.

For manufacturing plant, the SEZ plant will be operational in Q4. It's in the final stages of approvals. This will add capacity for export for EU markets. This plant is based in Jaipur. The Faridabad EOU plant expansion is in full swing. There has been a delay in construction due to stoppages of work in NCR due to pollution issues. But I think we'll be able to start partial operations by March 2023 and full operations by July, August 2023. So we are already on track. We are in the final stages of both the plants.

Our expansion in IMT, Faridabad plant is also in full swing. Again, there are some delays due to construction issues. But we will start partial operations by June 2023 and full operations by September-October, 2023. So, in the three full large scale plants, we are almost adding 7 lakh square feet of manufacturing space across these three plants that will help us to scale up manufacturing and also add new customers as we go along in next one to two years.

There is a bit slowdown in the dialysis business due to some dumping of products by Chinese players. And this zero duty FT agreements with Thailand, Malaysia, Japan, so many of these Chinese companies are misusing this FT agreement, and rerouting the products to Thailand, Malaysia, and Japan, and that is probably hurting currently our growth in dialysis. So instead of growing by 60% to 70%, which we had announced as in the beginning of the year, they will grow between 40% to 50% in this current financial year.

Machine installation base continue to increase at a rate of 10 to 12 machines per month this year. But next year, we see the ramp up to around 15 to 18 machines once our machine production will start, already two machines are under final trial and testing. We have done almost 200 sessions on our own indigenously developed machines. And hopefully, we'll be able to start commercial production in April-May for the full indigenous developed machine, which will have 50% local content.

Looking at the expansion plan, I think we already invest -- deployed close to INR 300 crores over last two years, since we raised the money through PLI. Almost INR 300 crores have been deployed for capex in FY '22 and FY '23. This will help the company to ramp up capacity for domestic markets, for EU and US markets and also maybe a little bit in the Middle East. So that's an ongoing process, and some results are already visible where we can see increase in productivity, we can see a lot of money has been spent on automation and adding machines with machine learning and some AI and also we have almost around more than 55 rewards in manufacturing. So a lot of work has been done in terms of manufacturing infrastructure.

And I would also invite investors who are based in NCR or coming to NCR region, please come and visit our facilities, and we'll show you around what we have done in past three or four years in terms of building the infrastructure and spending money on automation to improve quality and consistency of the products in the long term period.

So these are the updates from my side. And over to you Rohan, again, for further questions from the people who have joined the call. Thank you very much once again.

Moderator: We will take the first question from the line of Rashmi Sancheti from Dolat Capital. Please go ahead with your question.

Rashmi Sancheti: Yes. Thanks for the opportunity. Two bookkeeping questions. Your other income during the quarter was pretty high. What was the reason for it? And even your interest cost for quarter on quarter has gone up. So if you can elaborate on both these things, why the numbers were pretty high?

Himanshu Baid: Yes. So other income is basically on the investments the company has. So we have close to INR 300 crores of investment lying in different instruments, which are FDs and for mutual funds, so the other income is coming from there. And also maybe share of associates -- some profit from share of associates, the associate company which -- companies in our company -- associate company in Egypt. And the interest income because, yes, there is a use of working capital. So we have taken enhanced limits from the banks for -- as the company is growing and we are almost adding INR 200 crores of revenue this year. So there is an increased need of working capital and that's the reason we have taken some borrowings from the banks. But the increase is only maybe INR 4 crores or INR 5 crores, it's not too much.

Rashmi Sancheti: And sir, another thing, on Infusion therapy segment. As a segment how much has it contributed in your export business and how much has it contributed in your domestic business, if you can tell the contribution separately? Also, as you mentioned that the renal therapy this quarter was slightly muted compared to the previous quarters. Was the infusion therapy the major growth driver for the domestic business because domestic this quarter has 20% growth?

Himanshu Baid: Yes. So infusion therapy, yes, it's a core business of the company. The fluid management is a core business of the company, infusion therapy, which falls apart with a larger portfolio of fluid management. So that brings in around 90% and we have a lot of patents in this space. So 90% of our export revenue comes from infusion therapy business. And in the domestic market, almost 70% of the revenue comes from infusion therapy.

And in terms of growth, yes, I think major growth has happened. Of course, renal business also is growing parallelly, this year it is still grown by around -- between 45% and 50%. But still, I would say that Infusion will -- in future will also drive -- will be a major growth driver for us.

Rashmi Sancheti: Okay. And sir, last question on dialysis machine, I think you had given some numbers in the -- your comments, which I have missed is last first half or here we mentioned that we have installed around 150 dialysis machines. But because of Chinese dumping, the machine installation was close to -- how many machines in nine months have been installed and how much are we expecting in fourth quarter and what is your target potential?

Himanshu Baid: Yes. So I did mention it initially, but sure I will repeat that again. So till September we installed 140 machines and there is a plan to install another 60 machines, at the rate of 10 to 12 machines every month till March. And from next financial year, our target is to increase this run rate to 15 to 18 machines. So the anticipation is to install around 200 machines next financial year. And then we ramp it more to maybe around 350 to 400 machines in subsequent years. India market is close to around 4,000 machines right now and you will see 1,000 to 4,000 machines because average machine life is 10 years. So we hope that in next let's say next two years, we will have more than 10% market share in this business going forward.

Rashmi Sancheti: 10% market share by what time, sir?

Himanshu Baid: In two years.

Moderator: We take the next question from the line of Mitesh Shah from Nirmal Bang Securities. Go ahead with the question.

Mitesh Shah: Thanks for taking my questions. And congratulations for the good set of numbers. Starting with the operational parameters. I think you -- the gross margin was strong as we indicated, the raw materials are cooling down. But your other expenditures are high despite you said that the freight costs are also coming down. What is the reason majorly for this?

Himanshu Baid: Other expenditures, a lot of expenses are there. R&D and internal. So internal transportation has increased now. So earlier, last year people were not traveling, we are 300 people on the ground in India, I mean sales reps. So they are moving in the field and they have started going to hospitals. And so again that whole process has started. Till last financial year, this was not there because all working from home and especially because of COVID issues. So now people are on the ground. So that is one of the key major reasons that travel costs have started increasing.

A lot of international travel has started. Earlier there was no international travel because we were all working from home. And now we are participating in all major conferences, as I said initially on the call that we were in Germany in Medica and in Dubai last week in Arab Health and we have gone to all major shows and we're also doing a lot of conferences in India. We are trying to increase the brand visibility today. So a lot of money is being spent on brand visibility today. We are in every possible major show in the country and any conferences which is there on medical, health which is covering our product range. So we are trying to cover that. So that's all mainly for brand building and also for corporate communications.

Mitesh Shah: Sir that could be a one-time I think that would be…

Himanshu Baid: It's not one time, it will be a recurring cost. It will not be a one-time cost, it will be a recurring cost. Because these costs are not there earlier in previous year because due to COVID as no travel was there and no conferences were happening. So now everything has started.

Mitesh Shah: Actually my question mainly because the sequential also have jumped a lot. It's 8% up, so —

Himanshu Baid: What is up, sorry. Could you repeat that again?

Mitesh Shah: Sequential other expenditure also jumped by 8%. So definitely sequentially won't be comparable, but it's quite high.

Himanshu Baid: No, are you talking about quarter to quarter? Q2 to Q3?

Mitesh Shah: Yes, Q2 to Q3.

Himanshu Baid: So Q3, there are major trade shows happening in Q3. Yes. So that is also one of the reasons. But that doesn't have a material impact on the results because the results we still are maintaining a 24% close to that number EBITDA margin. Yes. And we continue to improve that as time progresses. Because I think that impact we will see in coming quarters once the raw material prices are lower, which we already have started getting the lower pricing into our system. So I think that will help in future also.

Mitesh Shah: Right. And the gross margins again coming back to very strong number, around 64%. As you said that still you're facing some raw material price increase in…

Himanshu Baid: Yes. I certain cases, a lot of companies have also increased prices, because we have very -- we have almost 200 vendors outside India. And a lot of -- there has been a scarcity of materials and in many cases, the delivery times have gone up by at least three to four times. So that also created some pressure on the costing initially. But the major raw materials like PVC, polypropylene, HDPE, all -- LDPE, all these have started coming down. So I think that will help us in the long run.

Mitesh Shah: Got it. And the -- you said the China dumping has started again with the different route. But the regulation, as you mentioned about that the regulation came for the medical devices…

Himanshu Baid: 1st October '22.

Mitesh Shah: Right.

Himanshu Baid: A lot of companies have dumped products in the market before the regulatory regime started actually. Yes. So the Chinese how they have destroyed our industry, so at least in the Renal field not in any other business, but in the renal field earlier it was very low duty and even the IGST on the product is only 5%. And for us, all inputs at 18%, if we manufacture the product locally and there is an inverted duty structure. And on the finished products, it's only 5%. So when the Chinese import the finished goods into India, they pay a 5% IGST, whereas we are paying 18% on the raw material.

Mitesh Shah: So it would be like more than three months implementation of this new regulation. So would you be still…

Himanshu Baid: Yes, and we have also requested the government that for every Chinese product coming into the country there should be a checking of quality because there is no check of quality of any product which is coming into the country. They are just freely allowed to import. So we have also requested the government to bring a quality control order where they can start checking each lot for quality.

See, today when we export our products, let's say to any country, we are exporting to 120 countries, our products are subject to testing in those markets, they really test the product, every lot sometimes. But in India, we don't test anything in the country, which is coming inside the country. So we we have made some representations with the government, at least in certain like if you remember, in steel industry, there is a quality control order. So every steel which is coming into the country has to go through the BIS checklist.

And when the BIS is certifying the product, then only it can be sold in the market. So, similarly, we are asking the government which has made standards to 1400 medical devices that every product which is coming into the country should be regulated and tested before it is released into the market.

Mitesh Shah: But as you mentioned, is it possible or when you expect that, that would be coming? Is government reacting on that?

Himanshu Baid: For example, till last year there was zero duty on dialysis products.

Mitesh Shah: Right.

Himanshu Baid: And in the last previous budget, not in this budget, but in the previous budget, the government put some duty on dialysis products. So we are taking some steps slowly, but that will happen. So we are not dependent on those things as a business. The business continues to grow. We are still showing a growth of 45% in our renal business. But we wanted a growth of 60%, 70%, that's the wish-list. We are not able to fulfill our wish, but the point is, if those measures are in place, it will help the local industry to grow faster, that is the point, which is happening in every industry. You will see toys industry, automobile, in mobile phones, everything it has happened.

Mitesh Shah: Right, right. And then my next question is regarding your export. And the export, you said one third is from the Europe and the one third from the other RoW market. Can you just give the bifurcation between the white labels and your branded business on the export market?

Himanshu Baid: So India is totally into branded. So there is no white label in India, there is no zero. And in exports, we do now close to around 75% branded and 25% white label.

Mitesh Shah: And most -- Europe would be majorly, I mean like equal distributed because I think developed market?

Himanshu Baid: No Europe is more favoured towards own branded.

Mitesh Shah: Okay. Okay. So that means white label majorly are coming from the developing market?

Himanshu Baid: No. It is coming from pocket, depending on the customer. We have customers in 120 countries. I can't put it on a call record right now.

Mitesh Shah: Right, right.

Himanshu Baid: Yes. But it is scattered, very scattered.

Mitesh Shah: And in Europe, what would be the key growth driver for you? It's like a geographical expansion. Also, you said you had tie up with some local manufacturer as well or the local distributor as well to expand these.

Himanshu Baid: Currently, the geopolitical situation in Europe is very different, with the energy costs increasing in Europe. So manufacturing is becoming more and more difficult in Europe. And I think most of the companies are moving away from, let's say, manufacturing, which was done in let's say Russian dominated areas or from China basically.

So there is a shift towards India. Though it's not coming in that big way, but we are seeing that traction because we already have existing customers. So if I have customers buying 10 products from me and 50 from China, so we think that another five or seven can be added into Poly Med's basket in next maybe one year or so, depending on what we can offer them. So we are seeing that huge change and shift coming towards our side.

Mitesh Shah: Got it. So what would be the driver, it's like I understood that shifts are coming. But what would be the key driver for us in next three to five years in the Europe, basically?

Himanshu Baid: See one is our direct presence in the market. So we have a direct presence, we have a CEO, we have our sales force there, and we are adding more people in our sales team in Europe. So that's number one. Number two, I think when we look at product parity, see today, our products compete with the top brands in Europe. So for us, I think that is important, because the customer recognize that we can offer very high quality product and at parity with existing brands. So that is helping us to gain market share in Europe. So these -- yes.

Mitesh Shah: Yes. So infusion therapy would be your biggest….

Moderator: I'm sorry to interrupt, Mr. Mithesh. May we request you to join the question queue, sir?

Mitesh Shah: Will come back on the queue.

Moderator: Thank you.

Himanshu Baid: Thank you. But I can answer it, don't worry.

Mitesh Shah: Sure.

Moderator: We take the next question from the line of Mr. Dheeresh from White Oak Capital.

Dheeresh: Yes, thank you. Himanshu, I think you mentioned something about US being delayed. Sorry, I didn't catch that properly, maybe if you can just repeat it again that why you…

Himanshu Baid: Yes, sure. Absolutely. So in US, we had applied for USFDA last year, but when we got our submission done and when we got our first queries, they had asked us to completely test the product for genomic testing which our products don't get into that. Because genomic testing is done for products which are for long duration in the body. Let's say, when they are in the body for more than a month or two months or three modules, especially the implants. Whereas our products remain inside the body between five to seven days maximum. But because it's changing and this was not picked up by our consultants -- USFDA consultants in US, this point.

And we were also very surprised when they put up this point to us, that why are you requesting us for the test, which is not mandated. But of course, there is no way to argue with the regulator. So we had to get the whole retesting done which took more than five months. And now we are submitting these -- they were only two testings to be done, but these take long time because it's a genomic testing, a long duration impact of the product inside the body. So the reports have already come in, already, we have seen the draft reports and these are done -- the testing that's been done in the US laboratories.

Dheeresh: Okay. Has it been submitted now?

Himanshu Baid: Yes. So we are in the process of submitting right now.

Dheeresh: Okay. So you expect in the second half —

Himanshu Baid: Yes. So I think it takes 60 to 90 days because now these are only specific, two queries which are to be answered. Rest all have been answered. So there is only -- there is two specific queries to testing and hopefully, in next 60 to 90 days, we should have clearance.

Dheeresh: Okay. And is there a milestone that you have in mind that in the first full year, how much do you expect to do from the US market?

Himanshu Baid: So I think I've given a guidance for three to four years, I think -- and honestly, again, like what I spoke about Europe few minutes ago, same thing is happening in US, many companies like large ones want to diversify the supply base to China -- to India. But I think once we have FDA approval on products and once the company sees the visibility, they see our listing on the FDA website, so I think we will see more traction.

And with the existing also where we have signed a contract with one customer, they've already got eight to nine projects working on right now. Hopefully, we are very hopeful that we'll get two or three additional more projects for them other than what we have today. So already there is momentum, which is building up in favor of India, Hopefully, it continues and we will see -- and what happened, day before yesterday, the shooting of balloons I think China is not favored anymore.

Dheeresh: Certainly. So when you say eight to nine projects, Himanshu, you mean, these are eight to nine products that we are —

Himanshu Baid: So I mean project means they are product. See, because any product which is sold in the US has a different specification than what we sell today, because US market is very different from rest of the world. Because they have their own —

Dheeresh: How many products in US have you got tested for genomic testing? So you would know, right, how tests you are submitting for these products?

Himanshu Baid: So, correct, yes. So they are two product families in the infusion therapy, I will not name the products, because its confidential. But the two products which don't require genomic testing which are Class 1 devices which are already listed, but these two will go parallel because once they start, they just start for everything. So that is what we are looking at right now. And so most of these products, which we are getting genomic testing are Class 2 products in the USFDA. And Class 3 are the implants.

Dheeresh: You will have a portfolio of Class 1 and Class 2 devices that you are filing for in US, is what you're saying?

Himanshu Baid: Yes. That is correct. Absolutely.

Dheeresh: Okay. So Class 1 would not need genomic testing, so those are already being filed?

Himanshu Baid: No. That will start parallelly.

Dheeresh: Will start. Okay. And two Class -- two devices needing Class two —

Himanshu Baid: Two product families, yes.

Dheeresh: Two product families which are under Class 2 genomic testing that you've already done, and you're going to submit now?

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

Dheeresh: Okay. And on -- one thing on this renal this thing. So, you mentioned the market for machines is 4,000. What would be the dialyzer market in terms of numbers of…

Himanshu Baid: Dialyzers, again India is a big reuse market, but from the -- because in some places, we use single, use some place 4 times, 8 times, 10 times. Like if you go to Mumbai and go to dialysis centers, most of them are using it 10 times. Whereas globally -- pardon me, I've got a bad throat. So globally, the norm is around single use. So India, see that margin is between, I would say 80 lakhs to 1,20,00,000 dialyzer per year.

Dheeresh: 80 lakh to 1 crore.

Himanshu Baid: Yes, 1,20,00,000.

Dheeresh: And how many are we selling per month?

Himanshu Baid: That number we are not disclosing. I'm sorry, I cannot say that, it's confidential. We don't want information go to our competitors.

Dheeresh: Okay. And what is the duty structure? So you said that there was dumping and there was FDA from Thailand, Malaysia, and Japan. Is that route not -- or that is still…?

Himanshu Baid: No, FDA is there. FDA was signed in 2009-'10 for almost everything which is coming from Malaysia, Thailand, and Japan, and some other Asia, South Korea. So anything produced there comes on zero duty in India.

Dheeresh: Sir, so that barrier will always be there, right?

Himanshu Baid: So that barrier will be there. But the government has said that we can't change the FTAs now but -- and which is really strange that, they have FTAs for imports into India, but they don't have FTAs for exports into those countries. It is very strange. Because India continues to sign FTAs, but I don't understand what advantage Indian companies are getting because of those FTAs.

Dheeresh: Okay. So this FTA expires which year? And till then you have to continue?

Himanshu Baid: I don't know about these FTAs when they are going to expire, but anyway they doesn't impact the business. But what I'm trying to say is, the growth is kind of muted, because the plan initially was this year to grow at 60%, 70%, we grew only at 45% as a business. Yes. It's not that it's going to impact or hurt anything, which is nothing in whole scheme of things.

Dheeresh: So our larger revenue right now, are we getting from machines or we getting from dialyzer?

Himanshu Baid: No. Larger revenue comes from dialyzers.

Dheeresh: Dialyzers. Okay, Himanshu. I'll get in the queue. Thank you.

Himanshu Baid: Yes. But this is not too much of a revenue because nothing, we still continue that growth number of 20% to 23% overall.

Dheeresh: Okay. Thank you.

Himanshu Baid: Yes.

Moderator: Thank you. We take the next question from the line of CA Garvit Goyal from Invest Research.

CA Garvit Goyal: Hello, good evening, sir. Am I audible?

Himanshu Baid: Yes. Please go ahead. You're audible, sir.

CA Garvit Goyal: Sir, can you spend just two minutes of time giving the overview on the overall growth drivers? Like you are mentioning, the company will grow at a rate of 20% going forward, as such. So what can be the growth drivers for next two to three years? And what are the downside risks do you see for these growth drivers, sir?

Himanshu Baid: See, there is always a risk in every business. So I think being a medical device business now for 25 years, and company almost touching a revenue of INR 1,000 crores, I think, we don't see too much of a risk, because today we're present in 120 countries. So we have a great geographical spread, plus in terms of business, one-third is in India, two-third is outside India, so we have a great mix. So, there is a currency risk, we don't have currency risk because we are export driven company. So, overall we are able to balance that very well. So if you look at the growth possibilities, today the growth possibilities are in India. Because India is still only penetrated, I would say we have just presented India 3% to 4%, so India easily we can go up to 10% to 12% in terms of market share in next three to four years.

And plus Indian market is growing, maybe at the rate of around 10% to 12%, if we see the healthcare industry growing in that. And maybe once we see more investments in the private sector, the industry may go between 12% to 15% also. So I think that is one big traction for us in India. Europe continues to grow, I've just spoken about Europe. The changes which are happening in Europe in last one year and the kind of response we're getting and major part of our export revenue is in Europe. And then the next go drivers will be US, once we get our FDA approvals, I think US will be a major growth driver. So these three geographies will be the core market for us going forward in next three to four years, and they will drive our growth. Notwithstanding that, other businesses in other countries when we look at South America, Middle East, South East Asia, they will continue to grow. But I think the focus will be more on these three geographies.

CA Garvit Goyal: Okay. And sir, you are already selling to US, right?

Himanshu Baid: Yes. Already we have a revenue of over $1 million in the US But once we get the FDA approvals for Class 2 devices, I think we will see an uptick in revenue and we'll add more products there.

CA Garvit Goyal: And by when do you expect this FDA approval?

Himanshu Baid: I just mentioned on the -- I think we are expecting most probably in 60 to 90 days from filing which should be done in next one or two weeks. And hopefully, in Q2, we should start getting additional revenues from the US

CA Garvit Goyal: And sir, you were mentioning some demand traction for Europe. Can you put some light on the size of opportunity and will this traction be a permanent one?

Himanshu Baid: Yes. The traction is permanent because we have been slowly building. So the Europe share in our export, let's say around five years was only 10% to 15%. But today, it is around 40%. So over five years, once appointed a CEO way back in September, October 2017. We have seen the good traction building up, we put sales force and we have an office there. So this has really helped us to grow and make our presence felt in the European market. And continuously, we are seeing traction in Europe.

We are adding more products with the same customers, like customers buying three, four products we are adding more products in the same basket as we have a large range of products, which we can offer. So our product basket, our pipeline of new products, which we are launching that is helping us, plus we are able to take because we are ramping up the capacity, we have put an additional investment of INR 300 crores in infrastructure, that will help us with the new manufacturing capacity which we have built up. So all that will help us to take more market share in Europe.

CA Garvit Goyal: No, I was talking from the side of that energy crisis thing.

Himanshu Baid: See crisis is not permanent, number one, we don't know that, when it's going to stop. But overall, we have seen that shift and I think that China shift is a major one which is happening all across. And that has nothing to do with the crisis with Russia. The China shift is something which every company is looking at moving some production out of China and moving to market to de-risk the business. I think India -- it is not only Poly Med, I think overall India should get benefit of that across different product categories.

CA Garvit Goyal: Understood, sir. And what is your view on the EBITDA margins going forward, sir?

Himanshu Baid: I think we will see an improvement of 100 bps to 200 bps as raw material prices have softened and as currencies have also stabilized to certain extent. So I think we would see an improvement in the margin in coming quarters.

Moderator: We take our next question from the line of Saptarshee Chatterjee from Centrum PMS. Please go ahead, sir.

Saptarshee Chatterjee: Thank you, sir. Thanks for the opportunity. My question is as you were talking India should be gaining market share because of China Plus One strategy. Can you please quantify like in Europe, in US, what would be the market share for India? And within that, what would be the approximate market share for Poly Medicure?

Himanshu Baid: So I think Europe, it's very difficult to quantify because Europe and US are two largest economies in terms of the percentage of medical devices. America is probably 25% to 28% of the global medical device consumption, and Europe maybe around 10% to 15%. So they are very large geographies. So as we move up the value chain, as we start adding more products in the pipeline in both the geographies, I think the opportunity is huge. Because when we start comparing with large peers in our industry, Becton, Dickinson, B. Braun, Becton, Dickinson is today $20 billion company in revenue.

B. Braun is around $8 billion or $9 billion revenue. And there are a lot of mid-sized companies which are $3 billion, $4 billion. So there is huge traction available for Poly Med to get into different segments and follow these market leaders. And in my view, opportunity is infinite, the number is only in the mind. I think for Indian companies I think if we continue to make good quality products, I would say and continue to invest in new technology, I think in every sector, not only medical devices even any engineering product, I think there is a huge opportunity for us.

Saptarshee Chatterjee: Understood, sir. Very helpful. And sir, if you can talk about in terms of like in the infusion therapy, which is our key core product. There who would be our like major competitors on the customers that we serve and what would be the like pricing differential between us and our competitors?

Himanshu Baid: It's a good question. So the biggest ones are B. Braun and BD again which are present in Europe and US, and also to a larger extent in India because they are very deep down in those markets. And if you look at the pricing differential, could be between 15% to 20% depending on the market-to-market. The US is a very high price market. It's one product which is sold by BD at let's say around $1 in Europe, the same product is sold at $3 in the US So the markets are very different. Japan will be $3, Africa will be $0.25 for example. The same company has different pricing for different markets, depending on the user capability to buy the product.

So in my view, I think for us, major competition and major revenue, let's say drivers will be Europe and US because there we get better pricing. When we compare ourselves with the largest competition in the market and also there is an appreciation to quality. These markets they are not buying the product because of low price. They are buying -- so 70% weightage is given to quality and to performance of the product and 30% is to price. So if you fail the first two criteria, price is never a criteria for them. Only when you qualify for the first two quadrants, then they bother for the third one.

Saptarshee Chatterjee: Thank you, sir. Thank you for this detailed answer. And just on the customer part, like if you can talk about in terms of let's say customer concentration top five customers would be contributing to how much percentage of revenue?

Himanshu Baid: I don't have a number off hand, But I think top five customers will contribute around maybe between 20% to 25% of the revenue.

Saptarshee Chatterjee: Great, sir. And just last question, any capex guidance for next year?

Himanshu Baid: For next year, the capex will reduce now, because most of these plants will be operational, the three major plants. So there will be a taper down on capex, between the two financials FY '23, we have done a capex of close to INR 300 crores. So I think for the next year, I think the capex will taper down to around maybe I don't have the right number today, but I think we should be between INR 75 crores to INR 100 crores.

Moderator: Thank you. We take the next question from the line of Sumit Gupta from Motilal Oswal.

Sumit Gupta: Hi, sir. So I just wanted to understand on the overall segmental mix. So by the like next two years, like how much consumables contribution do you see in the overall mix? So currently, I presume it is like more than 95%, right? So between consumables and equipment —

Himanshu Baid: It's 99%. Over 98%,

Sumit Gupta: 98%, right. So in the next two years dialyzer and dialysis machines are also coming —

Himanshu Baid: So dialyzer is still a consumable, dialysis is only a machine. So dialysis machine even if we sell 200 machines, it will be 5 lakh machines, so it is not more than, let's say INR 10 crores next year. And the following year, it may be around INR 15 crores to INR 18 crores. So that's not very big number in terms of whole scheme of things.

Sumit Gupta: So consumers still be like the major market for us?

Himanshu Baid: Yes, major business.

Peaker Gupta: And sir, second question is regarding the EBITDA contribution. So can you give us like guidelines of how much each segment contributes? Like major segment? We don't have a segment-wise breakup. So I can't give you that and we don't share that also. So, yes, but of course, when we look at domestic versus export, that guidance I can give. So domestic export EBITDA is almost around 30% plus and domestic is around 18% to 20%.

Sumit Gupta: And do you see it changing?

Himanshu Baid: I don't think, no.

Sumit Gupta: Domestic EBITDA increasing?

Himanshu Baid: It may increase, as the revenue numbers increase, but again we are adding more people, we still want to increase our network as we go forward, as we have only 3% to 4% penetration. So we'll have to add more people, we have to go deeper into the network. So even if we maintain that, I'm happy with that number. I think overall, we will see improvement over a period of time in next one to two years, for sure as the revenue increases the margins will definitely increase. And even this year, we have more than 20% increase in revenue, next year guidance is also 20% plus. So once we see the top line number increasing, I think the margins at the bottom will definitely increase by 100 bps, 200 bps every year.

Sumit Gupta: And sir, within exports, so like Europe versus US, if we compare in like next two years. So Europe would still be around, like how much margin is there for Europe? And how much do you expect…

Himanshu Baid: We don't have a specific country-wise margin. So I can't share that number with you.

Moderator: We take the next question from the line of Mr. Mahesh from UAMC.

Mahesh: Sir, would like to know your commentary on the volume growth. As far as the price are concerned, I mean you would be -- with the strong commitment you have on quality, so prices wouldn't be a concern for you. What will be a commentary on your volume growth?

Himanshu Baid: See, I think volume when you see an increase of around 21.15%, let's say, revenue growth in nine months, so volume has also grown by around 20%. Yes. So it's almost a correlation there because you see euro and pound sterling have been very steady over last one year because there was a small drop, but they have come back to original level which they were one year ago, dollar has -- rupee has depreciated against dollar little bit. But I think overall when we see that number, I mean, you also have India revenue, almost one third of revenue is in India. So overall when we see that, I think almost 20% is volume growth.

Mahesh: And you feel this could be sustained and even higher can be achieved?

Himanshu Baid: Yes, yes. Absolutely, absolutely.

Mahesh: And sir, one thing I would like to know from you, is there any commentary on dual chamber bags which is one of the companies had come out with recently. So how —

Himanshu Baid: Could you repeat that? Sorry, sir. I couldn't get you, Mahesh your point.

Mahesh: One of the medical devices sold dual chamber bags. I mean are you also looking to enter into that area?

Himanshu Baid: No, no. So we only do blood bags. So and -- blood bags don't have dual chamber. So, blood banks is a different product. Dual chamber may be for IV applications, mainly for IV bags. So Poly Med is not into IV bag manufacturing.

Moderator: Thank you. We take the next follow-up question from the line of Mitesh Shah from Nirmal Bang Securities. Please go ahead, sir.

Mitesh Shah: Yes. So my question is regarding your export business in China. I believe that China is more on outsourcing and supporting to the larger players. So would you be expecting that that opportunity will be increasing because of the China issues, China Plus One opportunity?

Himanshu Baid: Yes, I think that's what I said initially, that today when we talk to purchasing groups or the purchasing manager of large companies, most of the companies are talking openly about moving their supply chain from China. And of course, the first buck is gone to Vietnam that is very clear. All low technology production has moved to Vietnam and there is no doubt. India could not grab the opportunity, unfortunately, we did not have favourable policies as a country.

But after the introduction of PLI schemes and certain favourable tax regimes from the government, I think now I think there is a traction to building towards India. And I'm not talking about medical devices, across all sectors, I think. So I think -- yes, so there will be I think a lot of new business coming to India because of China, and especially for companies which are already present in those markets in Europe, USA, so they will benefit more than the new entrants.

Mitesh Shah: Sir, actually my question is more about, we always have focus on the branded business than the outsourcing one to the larger players. And the China opportunity is coming through the outsourcing to the larger players, like…

Himanshu Baid: Yes. So yes, you're right. I think -- sorry I missed this point. Yes, Poly Med is more into branded business. But I think in US also and Europe also, we have seen that due to change in regulatory regime a lot of companies are moving from their own branded products to products which are made by companies under their brands due to change in regulatory practice, especially in Europe, there is a big change in Europe right now. So for us, that's a big advantage and our own brand is today going in market -- UK market, Germany or Spain or Italy or in France, so that is the biggest advantage for us going forward. US is more, yes, towards white label but it will still have products manufactured by Poly Med because of the new FDA requirement. So we'll have to balance it, somehow we have to balance it. Yes. There's always a balancing factor like what you want at the end.

Mitesh Shah: And regarding your dialysis machine. So we are manufacturing entire dialysis or did you just take a plant from import or the domestic market and we assemble that?

Himanshu Baid: No, no. So dialysis machines are 50% local content.

Sumit Gupta: Definitely, we just have recently started. So…

Himanshu Baid: Yes. It is just an initial phase and it will take time to build up the confidence of the users. And Fresenius has almost 80% market share in the business. So it will take some time. We can't get the share on day one. So slowly, we're building it up, I think that's what I've also mentioned earlier.

Sumit Gupta: So how much -- we are burning cash in that business and the…

Himanshu Baid: No, we're not burning cash. Poly Med never burns cash. We are positive cash generating company. So we will never burn cash in any business. So we're always very careful that we only will get into businesses where the gross margin is good enough for company to sustain and grow the business and have innovation in that area. So we never pickup like gloves or syringes or common products where the margins are very, very low and very commodity price driven. So we always work on products where we have incremental innovation, we have R&D factor so that keeps us with good profit, healthy profit margins, and good cash flows.

Sumit Gupta: Yes, absolutely. But dialysis machines just we have recently started and we just put the setup…

Himanshu Baid: Every business has a three, four-year gestation period. So I think that we all have to understand. So yes, you can't get the best numbers out in the first two, three years. The best numbers will come only in let's say the third, fourth year. That's how it will go.

Sumit Gupta: Right. And the US, I think it's -- number of almost two, three years delayed. And now genomic testing we are doing. So how confident we are that now…

Himanshu Baid: No, we have very confident. We spent a lot of money for testing, so we are very confident. We already have contracts in place. So we are very confident. Just waiting for the final testing to happen.

Sumit Gupta: And how many employees we have over there in the US?

Himanshu Baid: So US, we have two people. But mainly we are working with large distributors and they have been managing the relationship because the CRM will be maintained by the employees there. All supply chain distribution will be done by the companies themselves. And we'll add more people, as we grow. This is the initial phase of the US as we will put -- as we have more business coming on the US, we'll start adding more people.

Sumit Gupta: And we are adding around INR 300 crores in capex and new plants will be starting next year. So what is the capacity currently and how much it will increase our capacity by next year?

Himanshu Baid: So basically the turnaround is around 1.5 times to 2 times. I think that is what we're targeting right now. So we should be able to add around INR 500 crores of revenue from that INR 300 crores expansion we are doing.

Sumit Gupta: I think I need one on one from you when you have time.

Himanshu Baid: No. Sure, you're most welcome, you can always drop an email and whenever you're coming to Delhi, please come and also visit the plant. I think you'll get more perspective about the company when you see the manufacturing. We are a hardcore manufacturing company. So you will see how the product cycle is from basic concept to development to manufacturing to final finished product and how we do clinical testing, how we put the product in the market by doing clinical research also. So it's a full cycle basically. And it's not easy because you can see today, there is not a single-listed company in this space in 25 years.

Moderator: Thank you. We take the next question from the line of Pankit Shah from Dinero Wealth.

Pankit Shah: Yes. So you just said that on domestic side, we currently are at 3%, 4%, the market which we plan to reach say 10%, 12% over the years.

Himanshu Baid: Yes.

Pankit Shah: So what is the plan you have? How are we planning to do this? Is it purely through distribution or are you planning to get into newer areas?

Himanshu Baid: See I think, the domestic market is divided into two parts, one is Tier-3, Tier-4 cities which is driven by the distribution network because we don't have field force very deep in those Tier-3 and Tier-4 cities. So in Tier-1 and Tier-2 we go directly where we are already 300 people, we go directly into hospitals and our team would get the product approved, and then they will go in the hospitals and the supply chain management distributors. So we are adding more people in Tier-1 and Tier-2.

And I think on the corporate side, we are seeing that more traction being created because of the new -- like today, most of these corporate officers are dominated by large multinational companies. So that change is already we are seeing in last two, three years after COVID, where supply chain disruptions happened and we see more alignment with the large corporates, like Apollo's and Max's and Fortis, or Manipal's or Aster DM. Now you can see Poly Med products in all large major hospitals, that is Breach Candy or whether it is Hinduja or whether it is Leelavathy, you will see in every hospital.

So now it is now and we have a basket of 150 products. So we have three, four products you have entered the hospitals, we opened the doors, so now it's time to add more products in the same basket with the hospital. So that is the work we have to do. And if we are able to -- and probably we'll be adding another 200 to 300 people in next two, three years in field force because it's a business which needs a lot of physical interaction, with clinicians, with doctors and with nurses. So we will build that up. And that's the rule, we see available. So top 500 hospitals in the country they can actually counter give us a good sizable revenue. Let's say, these hospitals can give us INR 20 lakhs to INR 30 lakhs of revenue every month. So that is what we need to work on.

Pankit Shah: And sir, if I can understand how this number of hospitals have grown over the years. What has the count been and what are we —

Himanshu Baid: Very difficult, tough question from your side. I think I think to give a very generalistic idea. So in India, there are around 17 lakh hospital beds to my knowledge: 7 lakh are in the government sector, central and state level and autonomous institutions, and around 10 lakhs are in the private sector. Totally there are -- if you see, total we are around 15,000 to 20,000 hospitals which over

50 beds. Total number of hospitals maybe 50,000 but there are five bedded hospitals, ten hospitals in remote areas. But if you see sizable, 50 bedded hospitals it will be around 15,000 to 20,000.

Pankit Shah: So our target would be that 15,000 to 20,000?

Himanshu Baid: I would say we will target the top five first.

Pankit Shah: Okay.

Himanshu Baid: It terms of valid approach. And through distribution network, maybe another five, that's through the distribution channel.

Pankit Shah: Right, sir. Sir in one of our old presentation where we talk about our reach, so there, it's mentioned that you have 275 plus sales executives and 6,500 plus hospitals reach.

Himanshu Baid: Yes.

Pankit Shah: So how should we read this?

Himanshu Baid: Yes. So, yes, you're right. So we have 300 people on the ground that is correct, absolutely correct. As I said earlier, a few seconds ago. And yes, we are reaching to 5,000 hospitals, which are top 5000 hospitals. And the balance are reached by through our distribution partners. So every person who is in the company let's say 300 people, their task is to reach to around 15 hospitals, 15 to 20 hospitals. And then the balance is taken care by the distribution network, because we would know also at the end where the final product is being used.

Pankit Shah: Right, right.

Himanshu Baid: We will always keep track through distribution partners also.

Pankit Shah: Got it. And you are saying there is 200 to 300 executives, you are planning to add another 200 medical executives…

Himanshu Baid: Yes. We will have to add. Because if you have to grow and go deeper, will have to add more people. There is no choice.

Pankit Shah: Great. And sir, last question on the margin side, I think you were earlier saying that you can -- our target is to reach to 30% margins.

Himanshu Baid: Yes, that's a wishlist. And I hope, of course.

Pankit Shah: Right now, everything falling in place raw material prices also freight cost also.

Himanshu Baid: Yes. So I think in future quarters will see that, of course, that is our vision to be there in that range. We have seen 27% also during the COVID time and the cost went down because of many costs were not there as everybody was working remote. But of course, I think we are maintaining a steady margin of 23%, 24% EBITDA. But I think we will see some improvements, I think in coming quarters. I think that will set up the trend. And as we access more markets in Europe, US, I think the margin levels suddenly improve. So hopefully we should reach that. But keeping our fingers crossed, let's see what happens in two to three years.

Moderator: Thank you. Ladies and gentlemen, that was the last question for the day. I would now like to hand the conference over to the management for closing comments. Thank you. And over to you, sir.

Himanshu Baid: Thank you very much, everyone, for logging in, and I think, thank you for very detailed questions. And kindly keep on asking us good -- detailed questions that will also give us more motivation to do better. So thanks once again. And from our side, we'll keep on the growth path -- the growth track, which we have already mentioned to you that the guidance of 20% this year and 20% plus next year and with everything in place in terms of infrastructure, new approvals, I think there is no reason that we should not be to do. So thanks once again and looking forward to talk to you in near future.

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