"Poly Medicure Limited Q4 FY '23 Earnings Conference Call"

May 11, 2023

MANAGEMENT: **MR. HIMANSHU BAID – MANAGING DIRECTOR – POLY MEDICURE LIMITED**
MR. NARESH VIJAYVARGIYA – CHIEF FINANCIAL OFFICER – POLY MEDICURE LIMITED
MR. AVINASH CHANDRA – COMPANY SECRETARY – POLY MEDICURE LIMITED

MODERATOR: **MR. ROHAN JOHN – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY '23 Earnings Conference Call of Poly Medicure Limited 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 touch tone phone. Please note that this conference has been recorded. I now hand the conference over to Mr. Rohan John from ICICI Securities. Thank you and over to you, sir.

Rohan John: Thank you, Jacob. On behalf of ICICI Securities, I welcome you all to the fourth quarter and full year FY '23 earnings 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. I thank the management for giving ICICI Securities the opportunity to host this call. With this, I hand over the call to the management for opening remark. Over to you, sir.

Himanshu Baid: Thanks, Rohan. First of all, I apologize to everyone that, I was a little late due to some medical emergency. Now everything is fine. I really appreciate your time today. I'll take you through the first Q4 earnings. So in Q4, the revenue of the company was INR306 crores and the standalone revenue was INR292 crores and the consolidated revenue was INR306 crores. And if you look at the quarter performance, March quarter versus last year's March quarter, the revenue has increased sharply by around INR56 crores. And also the margins have improved as, I had informed in the last call that, as the raw material prices have started cooling, you will see a margin improvement. And that has already started, to show in the results.

Also EBITDA margins are improving now. And if you see in quarter 4 of March, our EBITDA have gone over 25%. It's now close to around 27%. And there's improvement from December quarter of around 250 bps plus. And from last year's March quarter, there's a significant improvement. Also the PAT has increased sharply as, we compare from March '22 to March '23 from INR36 crores to INR58.81 crores. And there's also margin improvement in terms of PAT margin from 14% to 19%. This was on March '22 versus March '23. If you compare with December quarter, there's improvement of around 1.5%.

So if you look at the revenue, the export revenue was around 68%. And domestic revenue was around 32%. And domestic sales last year grew by around 15%. And export revenue has grown by around 23%, 24%. So, overall, the guidance, which was given for FY '23, was for around 20% plus growth. So, we have done an overall growth of around 20% plus, close to around 21%. And we maintain a similar guidance for FY '24, for a 20% plus growth, in the full financial year.

There are few important highlights. The first important one is, the company crossed the revenue of INR1,000 crores. So this was a big milestone for the company that, in its 25th year of operation, a week of close of milestone of INR1,000 crores. And second very important news, I want to share with all, we won the call, that company has now received the two FDA approvals, which were pending. Approvals have just come in last few weeks. And now hopefully in quarter two, we should be able to start selling products in the US market. That's our expectation right now.

So this is again a big milestone for the company, of getting the US FDA approvals and starting something in the US. So this will now accelerate our growth in the US market, which is a very important milestone for the company. Also, we are seeing some important things, which were three, four new plants which we had mentioned in the last call. So first plant has gone live already, this month. And the other two plants, other three plants will go live between quarter two and quarter three. So that will add up extra manufacturing capacity, in the company.

So we hope that whatever capacity, we have now as of today, the capacity will almost double. Let’s say, and when we go live fully with all these plants and this plant go fully operational, in three years, we should have almost double the capacity of, what we have today. And this is again important for us to scale up manufacturing for India market, for European market and for the US market. Three important geographies, which are very important for the company, going forward, for the next three years.

The next big update is on, the new medical device policy, which was recently announced by the government of India. So this was a long awaited decision, which had to be taken by the government of India. And the important highlights of this policy are, there's a new export promotion council being formed for medical device export promotion, which is a very important milestone for the industry. And the second important thing is that, the regulation will long fall under single window. Because earlier the regulations were done at multiple places, it was at state level, at zonal level and as well as, at the central level. Now there will be a single window clearances, for all new applications. And this is a big ease of doing business for the med-tech industry.

For Poly Medicure, it's very significant because we were one of the architects of this policy. We have suggested a lot of things to the government to implement. And most of these things have been implemented. Also, there will be a policy for incentivizing R&D in med-tech space. So that is also another card. Though the fine print of this policy is still not available, it will be formally launched by the Honorable Minister, Mr. Mandaviya on 26, May. But the initial contours are very clear that, it is going to support manufacturing in the country. It will also support reduction of imports, which currently stands around 70%, in the medical device industry.

So overall, whatever decisions are taken by the government through this policy, should benefit the company, in long run, to accelerate manufacturing. Also, there is a push towards Make In India, where through a preferential purchase plan, companies which are manufacturing in India, as they have more than 50% local content, will be treated as a class one supplier, and they will be given preference in government purchasing programs. So all in all, it's positive for the company and positive for the industry.

Another area I would like to touch is, the dialysis business. So last year, as a whole, the dialysis business has grown by around 40%, but it was linked to PLI. Though we did not qualify for any PLI incentives. But nevertheless, there were some headwinds because of cheap China's imports coming in, regulatory framework, not being there for these kind of products. Only from 1, October ‘23, the regulations have started, for most of these dialysis products. So maybe during the year, we will see some support from the government in terms of, bringing some quality control orders to restrict Chinese imports.

And also, we see certain policy interventions with national dialysis policy coming in, which government is going to start soon. And there is also a one nation, one dialysis policy on the cards, which the industry recommend to the government that, which are similar outcomes. So we want to prohibit re-use of these kind of products. Because currently, there's a re-use between 6x to 8x. And that is our major cause of infection, in patients.

We are also proposing the government to stop re-use of these kind of products. So that patients can have a better life. Because currently in India, the life of patients under dialysis is, between two years to three years, whereas in the western world, in developed countries, it's between eight years to ten years. So, if you can control the re-use through this new dialysis policy, that will help us, to maybe sell more products. So that is what, we are recommending to the government.

And our machine installation base continues to increase. And this year, we plan to install close to 200 machines. That's the plan. And most of those machines will be indigenously manufactured. We have already had very good reports of our indigenously manufactured machine. Four machines are currently under operation with various hospitals. We have done close to 500 cycles already. And we have an excellent report. We have been able to match the machines with the top machines, which are being currently sold in the market from top manufacturers. So this is also very good news, I want to share with all our shareholders.

So, currently the business this year, our focus will be to go and develop strongly the US market after receiving the FDA approvals. A strong growth is forecasted for India because our penetration in corporate hospitals continues to increase. So we will focus more deeply in the chain hospitals. We expect that, we should increase, especially in the corporate chain hospitals at least by 30% to 40% this year.

We also will focus more on Europe because we see also some traction coming from Europe. Last year, the European revenues grew by around 25%, in the export basket. So, we are continuing to see that same momentum this year also, on the export front. On the domestic front, renal business probably should go between 30% to 40% also this year, though the base is small. But we hope that, again we will have the same momentum of 30% to 40%, in spite of all the headwinds, we have seen. And rest of the business should grow between close to between 15% to 18%.

So that's the plan for the whole year, with new plans coming into operation. We will have enough capacity and capability, to handle new businesses, which we are currently targeting. We have also launched a new division, which is a critical care division. So currently our products are mostly sold in operation theaters and surgical rooms and wards. But now through critical care division, we will target ICUs, intensive care units, where we see more high end products being used. And a lot of new products, which we have developed today, can be used in the ICUs. And that is what we are targeting now. And that will also help to upscale the business and compete with large multinational, which are operating in the segment.

So these are some of the highlights, I wanted to share. And if there are any questions, I am happy to take them. Thank you again, for patiently listening to me and again apologize for being late. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Jaiveer Shekawat from Ambit Capital. Please go ahead.

Jaiveer Shekawat: Thanks a lot. And good evening, Mr. Baid. Firstly, sir, on your PLI scheme, you mentioned that, you could not qualify under the PLI scheme this year. Could you just specify the amount of revenues that, you have done under both the schemes separately, for this year and the amount of investments that, you have already done in terms of capex and also, what would be your aspirations over the next four years? Till the tenure of this scheme? That's my question number one.

Himanshu Baid: Yes, so can I answer that first? Yes. So for the PLI scheme, the first scheme, our annual revenues stood close to INR75 crores. So we were short of target by around INR30 crores this year, around INR25 crores to INR30 crores. I don't exactly remember the number, but that was, what we have envisaged. And for the second scheme, which is for diagnostic product, we have already qualified for that scheme and we will receive incentive during the year. Regarding the investment, under both the schemes, the investment is close to around INR45 crores.

Jaiveer Shekawat: Okay, that's the amount of investment that, you've done currently. But, I believe the minimum investment should be around INR100 crores, if I'm not mistaken.

Himanshu Baid: Yes, that is correct, absolutely correct. So we will continue to invest because as we increase our capacities in both the, so this is the only last year, the first year for the scheme. And so we continue to invest and there are thresholds, we have to meet. Anyways, last year, our capex was above INR200 crores. And this year also, we're doing a capex of between INR175 crores to INR200 crores. So already a large capex is planned and out of that capex, some capex will be allocated for PLI scheme also, which will be close to INR15 crores to INR20 crores.

Jaiveer Shekawat: Understood sir. Anything you can highlight on your aspirations, over the next four years?

Himanshu Baid: The aspirations are very clear that, we want to reach the target, of INR300 crores, which was laid out in the PLI scheme for renal business. But again, if the business is not profitable and, we still see headwinds, then we will definitely, scale it down a little bit. But so far, let's see how government, reacts to the new medical device policy. So we have a lot of, expectations on this policy.

Jaiveer Shekawat: Understood sir. And just a follow up, would you also be looking to export these renal care products, even these can also be met…?

Himanshu Baid: Absolutely correct. So we are already now, we have met most of the regulatory challenges, which were there and we are in process of registering our products in some of the markets. And hopefully, within this year itself, we will start exporting some of the products.

Jaiveer Shekawat: Understood. And from moving on, you also highlighted that, the Europe region has done very well for you. So is there a pent up element to it given that, there was a pile up of preventable surgical procedures during COVID?

Himanshu Baid: No, that's not the case because, in Europe, one important, which we can see is high energy cost and a lot of manufacturing is kind of stalled in Europe right now. And because of that, we are seeing that, many customers are leaning to India and also China Plus One is also one of the factors that, many companies now want to diversify their vendor base. And also we are able to win more customers also in Europe. So, that's also very important thing.

Jaiveer Shekawat: So by customers, do you mean, are you adding more distributors there?

Himanshu Baid: Yes, of course, distributors and again distributors are selling to hospitals. So we also engage our distributors, who we train them, so that, they can go to hospitals and present our products there.

Jaiveer Shekawat: Understood. And so on your capex, you mentioned that, probably this year also, it might be a capex intensive about INR150 crores, INR175 crores. And in FY '23, you have already done about INR240 crores of capex. So what would this INR150 crores, INR170 crores of capex, this year would be for?

Himanshu Baid: So the four new plants, we are setting up, so the infrastructure is ready. Now it's mainly on machinery side and adding up capacity, we are adding in critical care products, so we are getting into some new technologies. So all that is, will be part of the whole capex, but it also includes maintenance capex and other operational capex also.

Jaiveer Shekawat: Understood. And so lastly on the margins outlook as well, given that most of the benefit of RM moderation has already played out this quarter, you expect further room and also you mentioned that, renal care business may not be as profitable. So could you just help us, in terms of margin differential?

Himanshu Baid: Anyway, it's factored in, the renal whatever is there, still factored in the current P&L. So there's nothing extra, which is going to happen. So let me see the yearly mark, this year, the whole year as a margin. So in fact you remember in the Q3 call, I had mentioned that, once the price is softened and we see a margin improvement. So we are now back to, let's say, 25% plus margin. And that margin should continue unless and until, there is something more happening globally.

Jaiveer Shekawat: Understood. Thanks a lot for asking my questions, all the best.

Moderator: Thank you. The next question is from the line of Rashmi Sancheti from Dolat Capital. Please go ahead.

Rashmi Sancheti: Yes, thanks for the opportunity. Sir, can you just clarify the sales break-up, you said, 68% export and 32% domestic. This is, for the quarter and is the 68% of the standalone sales or consolidated sales?

Himanshu Baid: So 68% is for annualized. So 68% of the business comes from the infusion and vascular access business.

Rashmi Sancheti: That is your export business, which you mentioned?

Himanshu Baid: Yes, this is for the whole year, ma'am.

Rashmi Sancheti: Okay. And that 68%, when I just, if I just want to put the break up, it is 68% of your standalone annual sales, that is INR1,068 crores. And out of this. export infusion therapy, was what composition?

Himanshu Baid: Infusion therapy has maximum composition around 80% to 85%.

Rashmi Sancheti: And in domestic infusion therapy composition, was how much?

Himanshu Baid: Around close to 45% to 50%.

Rashmi Sancheti: 45% to 50%. And related to the renal segment, I didn't understand one thing. You mentioned that, we are planning to install 200 machines or we are going to ramp up to 200 machines, by this year?

Himanshu Baid: So last year, we have installed around 140 machines and this year, we target close to 200 plus machines to be installed.

Rashmi Sancheti: Okay. And you are aiming 500 machines, say, next two years, three years.

Himanshu Baid: That is correct. That is how, we want to ramp it up.

Rashmi Sancheti: Okay. But one, we must mention that, four machines are under operation. So what does that mean?

Himanshu Baid: So these are fully, indigently developed machines. Now we are doing fully locally made machine. And that time, the import content were around 70%. Now the import content is reduced to less than 50%.

Rashmi Sancheti: Okay. So whatever technology and everything, which is used to manufacture this particular machine is all, it's all basically outsourced locally.

Himanshu Baid: No, it's all not outsourced locally. It is all made in-house. So components and parts are outsourced. Let's say, the PCBs, the LCD screens, these are outsourced. Earlier, we were getting it from suppliers in Taiwan and Korea. But now, we are able to find PCB suppliers in Bangalore and also, some other components, which were available outside, now available in India.

Rashmi Sancheti: And whatever machines, which we had installed, is it like, it's installed Pan-India or currently, we have more…

Himanshu Baid: It's Pan-India.

Rashmi Sancheti: Okay. And sir, can you just talk a bit on the pricing, where we are pricing these products and what is the kind of operating leverage, whether it is, more than the company level or it is currently, lower than the company levels?

Himanshu Baid: See, currently as this business is just a few years old business. It's just three years or four years old business for us. And as I mentioned last time also, and this time also, we have certain headwinds for this business because of cheap Chinese imports coming in. But we are waiting for the new medical device policy, what the government is going to do. And they are pretty concerned about, what is happening today in the import front. So if there are certain policy initiatives like bringing a quality control order for imported products and benchmarking their quality with BIS standards and all that. So that should be a game changer. So we are just waiting for that. So I don't have a definitive answer for this.

Rashmi Sancheti: Okay. And sir, when you say that, you will be planning to register your products from the renal segment for the export market, which are the markets are you targeting…?

Himanshu Baid: I will not disclose this, please. This is confidential.

Rashmi Sancheti: Understood. And sir, the products, which you are targeting, that includes, machines also or it is more of a dialyzer and we will continue that?

Himanshu Baid: There will be more of consumables ones, dialyzers and other products. Machines will be later on because machines also need a service setup. Because not only, we have to install a machine, we also put service people on the job. And because the machines can't be under breakdown for any reason. So we don't have a team outside India, right now. So we don't want to do that. So we will focus more. Because India itself is a 4,000 machine market.

Rashmi Sancheti: Understood. And so the team which…

Himanshu Baid: There is enough headroom in India to grow this business, in long run.

Rashmi Sancheti: Okay. And so the teams, how many people, just for the service, we have hired for this machine?

Himanshu Baid: Including technicians and service team, we have close to around 25 to 30 people.

Rashmi Sancheti: 25 to 30. And my last question is on gross margins, as you said that, because of the softening of input cost, this quarter, we have done almost 66% gross margin or the exit run rate. So this 66% is something that, we should be missing that, it is sustainable for the full year in FY '24. Or you believe that, probably whatever 63% to 64%, which we have done for the full year, that is something the right number to model in, for the next year?

Himanshu Baid: Started the year, again, there was a pressure on raw material pricing. And we started also, there was supply chain constraints, with the huge, delay in materials coming in. And the freight cost had also increased considerably. So now everything has softened. If this trend continues, then we should probably be in that 65%-66% range. The current trend, we see in the raw materials, from January-February. But if that trend changes, we don't know, because it again depends on the global supply chain, oil pricing, everything. But so far, the trend says, it should be in that range.

Rashmi Sancheti: So in the optimistic scenario, we are able to sustain the Q4, across…

Himanshu Baid: Absolutely. This is a realistic scenario, not even optimistic means, it will further change. But this is a realistic scenario right now.

Rashmi Sancheti: Okay. Thank you sir. That's up, from my side.

Himanshu Baid: Thank you so much.

Moderator: Thank you. The next question is from the line of Nitin Gosar from Bank of India Mutual Fund. Please go ahead.

Nitin Gosar: Hi. Two questions. How big is the corporate chain hospital for us, in India?

Himanshu Baid: See currently, the corporate chain business should be between INR80 crores to INR100 crores.

Nitin Gosar: Okay. And we are expecting this to scale up?

Himanshu Baid: Yes. We are expecting. There is a huge potential, because let's say in every hospital, we may have 25% to 30%, maybe 20%, 25%, 30% of coverage. So we can increase this coverage and we can maybe increase it by 30% - 40% easily, with new product addition. Once we have a relationship, it will be easier to get into new products always.

Nitin Gosar: Okay. So we are saying the product bouquet which we are right now present with can be further expand?

Himanshu Baid: Absolutely. Like few hospitals, we have only three products, four products. So we can try Poly Med has around 150 products in the product range so we can get more products in the same hospital basically, in the same relationship.

Nitin Gosar: Got it. And dialyzer business, if one way to understand, when we are talking about the national policy on dialysis, then effectively we are also talking about government trying to subsidize this?

Himanshu Baid: Yes. So under Ayushman Bharat, there is already reimbursement under dialysis, which was started last year. Which was close to INR1,500 to I think INR1,700, which was not there before. But again, the centers which are doing there is very limited. We still need more centers to register under Ayushman Bharat to do this. Lot of state governments also providing dialysis under PPP mode. So we are going to the service providers like NephroPlus or DCDC Healthcare or some other Apex kidney dialysis center. These are service providers. So we normally will touch base with service providers to sell our products. And they provide the full service to a patient including dialysis and everything.

Nitin Gosar: Got it. And how does our pricing change if we were to supply to service provider who is supplying to?

Himanshu Baid: So our pricing remains the same. There is no pricing differential because the product is the same.

Nitin Gosar: Okay. So the pricing, it doesn't change?

Himanshu Baid: Yes.

Nitin Gosar: Got it. And from raw material perspective, just trying to reiterate, you're saying it's linked to crude oil, right?

Himanshu Baid: It is linked to crude oil. Definitely all plastic because we use a lot of plastics. All plastics or their derivatives or chemicals are linked to crude oil.

Nitin Gosar: Right. And if the dialyzer sales goes up, does it pull any kind of pressure on margin?

Himanshu Baid: No. There will be no pressure on margin because it's all uniform. Basically all spread out.

Nitin Gosar: Okay.

Himanshu Baid: And that business is very small. The renal business is only INR75 crores of the total INR1,100 crores business.

Nitin Gosar: Yes. I was just trying to imagine if the policy framework were to turn out positive?

Himanshu Baid: I hope there is a positive thing because we still are waiting for the fine print. India government announces policies but the fine print comes only. The minister himself is going to launch the policy on 26, May. That's what we have heard.

Nitin Gosar: Got it. And last one on critical care. I think we don't have a material present out here. Does it require different kind of skillset?

Himanshu Baid: Yes. You're right. Absolutely. So for critical care business, we need more clinical specialists because these are the people who will go and talk to doctors and nurses directly. And to get the products approved. So we are just the reason we are building this whole critical care team. And that's the reason we have launched a new division because I think we are in the hospitals, but the ICUs work differently than the wards or the OT theaters. So that's what we want to do and go more directly and connect with the doctors and nurses.

Nitin Gosar: Got it. And one final question. Are you disclosing the two products approval that you received in US?

Himanshu Baid: Not yet.

Nitin Gosar: Yes. Okay.

Himanshu Baid: Yes but we have received the two approvals which were pending.

Nitin Gosar: Okay. Got it. Thank you.

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

Pankit Shah: Hi sir. Good afternoon.

Himanshu Baid: Yes. Good afternoon.

Pankit Shah: So on the US business, the opportunity what you had mentioned earlier of $15 million to $20 million…

Himanshu Baid: Correct. Yes.

Pankit Shah: It has change or something?

Himanshu Baid: No. So nothing has changed. We are just waiting for the FDA approvals and once, now they have come already. So which is a big milestone for the company. And I think this will now, we go with more stronger portfolio and once you get few products in then it's very easy to get more products inside. Because now we know the route how it has to be done, the clinical data, the technical specs, the biocompatible studies all that we have already gone through that grind.

Pankit Shah: Right.

Himanshu Baid: So once the customer approves few products then they will also start looking at other products and then we will-- now the chain has started. So maybe next two years, three years we'll have maybe five or ten more products.

Pankit Shah: Right. So this is basically approval for two specific product?

Himanshu Baid: Yes. Product categories. This are two product categories.

Pankit Shah: Right. And we'll be applying for more product categories?

Himanshu Baid: I hope so sir.

Pankit Shah: Right. And you just mentioned about the cheap Chinese imports which are happening?

Himanshu Baid: Which are with India 70%, 80% import dependent anyways. You must be reading all the data.

Himanshu Baid: Which are available in India, 70% -80% import dependent anyways. You must be reading all the data.

Pankit Shah: Right. Of course. So specifically, if we look at the dialysis segment. So how competitive are, we what could be the price difference?

Himanshu Baid: **See, t**he price difference between us and Chinese would be around 15% or so. But the problem, what is happening is, it's a very low duty product in India, number one. The duty is only 7.5%. And the second problem is, most of the Chinese are using misusing the FTAs. So they are taking the product to Malaysia or Thailand and relabeling and sending to India, at zero duty. So, that is what is hurting the Indian industry today. Every sector, this is happening. Because our ASEAN FTA was signed long ago. And it's all duty free import. It doesn't give India, the access to market to those countries. But it gives access to those countries into Indian market. Which is a kind of structural issue problem.

Pankit Shah: Right. But then, we are dependent on the government only now. Is that time, way to come out of this?

Himanshu Baid: We are not dependent on this, Poly Med is not dependent on any government policy. For example we didn't get some, that's on the PLI front. We didn't get an incentive, last year. But it doesn't matter. It has not impacted our P&L. It has not impacted our guidance.

Pankit Shah: Right. So I agree. I am talking specific to this example, dialysis segment. Where we will be more competitive only, when this government move regulation seeking…?

Himanshu Baid: It depends, what it needs. See time will tell, because now foreign currency is also an issue. Let's say, the dollar continues to say increase against the rupee. Let's say, in coming, that's a few months or years. So then definitely import will get more and more expensive. So, it's a waiting story. So, it's a business and a new business. We have started it but we will see, how it goes. We are pushing 100% from our side. But once, you have headwinds, you have headwinds. You can't do much.

Pankit Shah: Yes, we are coming to margins. When the time was difficult, the raw material pricing pressure was there. We tried and passed on majority of the rupees rate. So right now how does it work? Do we have to now pass on the benefits of lower raw material cost?

Himanshu Baid: No I don't think so. So most of the contracts, we did not, in fact, increase the pricing. Mostly economies was clear to achieve, through internal process improvements. And we refrained from, so we increased prices may be around maybe 25%-30% customers. And the rest of the customers still had the same pricing. So basically, we don't see any claw-back or plow-back.

Pankit Shah: So, you are saying there is no demand from customers also, to probably reduce the price?

Himanshu Baid: No. Because, we have a product, which are already established, already in the system. It's not every day, we are not getting a new business or new order. It's all through a very fixed arrangement and we have very long term arrangement, with our customers.

Pankit Shah: Right. Okay and sir, the last point is that, we've been seeing a lot of push from the government, right, for lowering the imports and also focusing on the exports and all. So how is it now, impacting our thought process? Because this aggression, has been coming in since last one year -1.5 year or so...?

Himanshu Baid: So our aggression is also very clear because we are trying our best, to create that infrastructure. So what we have done is, what we created in the last 25 years, of our operation, we are creating the same infrastructure in next you know 2.5 years. So one year has already gone by and next and within this year, four new manufacturing facilities, which almost double our capacity. And in three years, we will have double capacity. When we start running full steam, it will double our capacity. So that is, what we saw. We are already emphasizing that, what can happen in next three years to five years. And based on that, we have planned that investment.

Pankit Shah: And also we will need to buckle-up our investment into R&D, for newer products?

Himanshu Baid: We are already, that the process is simultaneous. So into creating infrastructure, developing new as we said, we are getting into critical care products and you will hear more during next few quarters what new products, we are going to launch. So that process is continuous.

Pankit Shah: Yes sir. Great sir. Thank you so much. All the best.

Himanshu Baid: Thank you very much.

Moderator: The next question is from the line of Vishal Manchanda from Systematix. Please go ahead.

Vishal Manchanda: Thank you, Sir with respect to this dialysis machine installation. The different color on, which are the customers. So are these private dialysis service centers, government and or any other category?

Himanshu Baid: No. So we are only catering private centers. We don't cater to government centers. It is all private centers, where we cater to. India has quite a large, let us say India is around close to, installation is around 35,000 machines to 40,000 machines today and every year, we are adding 3,500 machines to 4,000 machines because some machines get obsolete, the older ones. So, these are mostly coming in private PPP mode, if government is also putting, it's on PPP mode or if it is coming in private, mostly it is coming in the chains or private centers. For example, Nephroplus would be buying, DCDC would be buying or Apex would be buying or all, that of private centers are buying, a lot of trusts are buying dialysis machine, the trust, which provide dialysis service at very subsidized cost, so it is a standard structure of sale.

Vishal Manchanda: So, are these players initially, not reluctant to kind of buyer…

Himanshu Baid: That phase is over, they have already installed more than 200-plus machines, 200-plus machines are already installed.

Vishal Manchanda: Yes, that is actually, a very large number to look at…

Himanshu Baid: Yes, So at least now, we have machine is running for the last two years in different centers. So there is already installed base and there is already a reference.

Vishal Manchanda: And sir, you look to install another 200 machines this year incrementally?

Himanshu Baid: Yes, exactly, that is, what I am planning. Maybe more than 200 machines.

Vishal Manchanda: And the challenge, we are facing is on the consumable part of the retail market…

Himanshu Baid: There is no challenge on the consumable part, especially on the dialyzer and bloodline part.

Vishal Manchanda: Is this market dominated by the MNC players and also the Chinese imports or it is only the MNC players, who dominate the dialyzer?

Himanshu Baid: No, not MNC's are losing market share to Chinese players now, big time, last two years, three years. Because this product was not regulated. So there is a free import and it was duty free also, for very long time. Only last year in March '22, duty was put in, on the product, 7.5%. And there was still no regulation. Regulation will be effective from 1, October, '22. Whereas any Indian company, Make in India has to qualify for the regulation. So get our approvals from CDSCO or DCGIs office. Whereas all imports were without any regulation. Only now, the regulation has come in. So hopefully in next maybe six months to a year, lot of things will clear up with new policy coming in, more push on local manufacturing, local procurement. So things will change little bit.

Vishal Manchanda: Understood. Yes. And with respect to the capex, the four new lines that, will be coming up this year. So would this be, largely the infrastructure would be ready and the machine install based on…

Himanshu Baid: Infrastructure is almost ready, on all the four plants. And we are building, so first plant is already ready in quarter 1. This is already live now, in Jaipur SEZ. And the three other plants in Faridabad, are going live between quarter 2 and quarter 3. We were just pending, waiting for some final finishing and final regulatory approvals. So once they come in, then we will be, because every plant needs a separate regulatory approval. So once these are done, then we will just scale up manufacturing. That's what we want to do. So one is already done.

Vishal Manchanda: Right. That's gone live now.

Himanshu Baid: Exactly, that's gone live in Jaipur SEZ.

Vishal Manchanda: Okay. Got it. Thank you very much.

Himanshu Baid: Thanks.

Moderator: Thank you. The next question is from the line of Sapna Jhawar from Kotak Life. Please go ahead.

Sapna Jhawar: Yes. Hello.

Himanshu Baid: Yes, I can hear it, but there's some background noise.

Sapna Jhawar: Oh, sorry. So, before I go on mute, I just, quickly ask that, probably, we are yet to produce the product category that, we received in the US market. How are you contracting the, will it be via distributor or will we directly, or, are we directly negotiating with the plants there?

Himanshu Baid: No, we don't sell directly anything to hospitals or something. We don't sell anything anywhere directly to hospitals. All supply chain is managed by distributors. So we'll be negotiating with the distributors and they will be further placing the product to hospitals.

Sapna Jhawar: So this will be the same or, the conversion model, will be based on the order?

Himanshu Baid: The same model, we have for Europe or India or anywhere else. The same model.

Sapna Jhawar: Sure. And are the previous in line with the contract for $15 million-$20 million?

Himanshu Baid: Yes. We hope so.

Sapna Jhawar: And this is spread over, what time period, sir?

Himanshu Baid: We are not disclosing any contract. There's nothing about any contract. This is about the business we are going to develop. And the guidance we have given is $15 million to $20 million for next three to four years.

Sapna Jhawar: Got it. And you did mention about doubling the capacity over the next three years once we get all the facilities up and running at optimum utilization. So what asset terms are you expecting from these facilities? Will it be similar in going to what we have been doing in the past?

Himanshu Baid: I think industry, if you look at it in general, asset turn of 1.3 to 1.5 is a good asset turn that is what we are looking at. And we have one of the best asset turns in the industry today.

Sapna Jhawar: And, finally, you did mention about, growing very strongly in India. And India has also been one of the focused markets apart from the export. Now will it not dilute our margins? Because normally Indian markets, which give you lower margins. And I think…

Himanshu Baid: No, that's not the case. Though we don't disclose margins separately for India and export business. But overall, I think when India business grows and with the same team, we are able to perform better. And when we go more in critical care business, the margin will definitely get better only in India. And India business will still stay at, let's say, one-third versus two-thirds exports. So you see, last three years, four years, five years trajectory, they are maintaining a very similar trajectory. India business goes from 30% to 35% and exports goes from 60% to 65%, plus minus 20% here and there.

Sapna Jhawar: Okay. Finally, one question from Naresh. Naresh, I just wanted to understand the working capital cycle. In the last two years have we seen, which is abnormal in terms of stretching of the working capital? Or if you could just, share your vision there.

Naresh Vijayvargiya: Sorry. Your voice is not clear. Can you please repeat your question?

Himanshu Baid: No, she's talking about working capital cycle. Do you see any stress in working capital cycle over the last couple of years? That's what the question. Am I correct Sapna?

Sapna Jhawar: Yes, sir

Naresh Vijayvargiya: Working capital requirement is moving in line with the turnover. So there is no additional impact on working capital. We have slightly increased our working capital facilities because we are increasing our revenue. So it is in correlation with the revenue.

Sapna Jhawar: And do we have a target, a hotstop that this is the limit that we are comfortable with?

Naresh Vijayvargiya: Sorry, your voice is not clear.

Himanshu Baid: Your target. Do we have any target for working capital? That's what she's asking. Any targets?

Naresh Vijayvargiya: No, we continue at the same level, today level. It will be plus minus 5%, 10% basis the increase in revenue, but no major shift in the working capital cycle.

Sapna Jhawar: Sure, all right. Thank you so much.

Moderator: Thank you. The last question is from the line of Achal Phade from ICICI Prudential Life Insurance. Please go ahead with your question.

Achal Phade: Yes, hi. Thank you. My first question was on the US market. So if you can give us some color on what is the structure of the US market currently as in who are the present dominant players within the consumable space, there are Chinese players present there as well. And would your clients be GPOs or are these distributors who will then deal with the GPOs? I need to understand.

Himanshu Baid: So, I'll tell you, the US market is currently dominated by large GPOs and large metric companies like BD, B Braun, then Smiths Medical who are in our consumable business basically, Cardinal Health, and then large GPOs like McKesson, Medline, PSS, Henry Schein, they dominate the market. So we are focusing both the streams. We are also targeting distributors and GPOs both because distributors have some different reach, GPOs have a different reach.

And each has a different model. So some GPOs go directly to larger hospitals. Some GPOs only go to smaller hospitals, which are day surgery centers. So we'll have to look at different models in the US market. There cannot be one size fitting all.

Achal Phade: So, what would be the role of Chinese players in the current market?

Himanshu Baid: See 100% sourcing comes from China. That's the role of Chinese players. So any manufacturing which is outsourced out of the US either happens in Mexico or China. So Mexico has a labor shortage. Mexico has a cost issue. China, again, everybody is looking at diversifying from China as a base. And today that's the reason you see a lot of companies trying to bring manufacturing into India. And I think that advantage, once we have, which we have created ready infrastructure that will give us advantage to scale up manufacturing in India. We are the faster base compare to any other player

Achal Phade: So if I understand this, a Baxter selling in US would be manufacturing themselves in China and procuring.

Himanshu Baid: Or Mexico, or they may have planned anywhere. So we don't know of that.

Achal Phade: We are not targeting to make Baxter as a client. We are trying to sell on our own.

Himanshu Baid: We are trying to sell our own manufactured product, our own design product. So we are not getting into contract manufacturing today. So we are going with our own design, own manufactured product. Contract manufacturing means somebody will give you a raw material also. Somebody will give you the costing also. This is my costing, give me at that costing. We don't want to get into this kind of, and Polymed doesn't have any contract manufacturing business today. And that's not our model.

Achal Phade: Yes. And my second question was the policy that we spoke of the coming 26, May. Would it really have anything to do with the import duties or custom rates, because shouldn't there be another separate representation to the government for that and a different committee will set up the antidumping duty?

Himanshu Baid: See the policy is still at 30,000 feet level. Because we don't know the real fine print, which is only going to be available on 26, May, when the government unveils the whole policy. The announcement, the cabinet has cleared it as we all heard a week ago. So what we see as a fine, what we understand so far from the government is there is a push towards Make In India, a more stronger push. And to do that, they will probably take certain steps and measures. But at least there is a policy now on the card. And we are now recognized as separate sector, which was never there before. We were still under the drugs and cosmetic act. We were still under the pharma ministry. All that is still, was very hazy.

Achal Phade: Right. And lastly on margins, if I'm to look at it on a long-term basis. So margin structurally seem to have gone up from 20%, 21%. What we used to do probably seven years, eight years back to, now we are doing 27%. We are talking of things remain the same. 25%, 27% would be the range. What has changed in this for margin expansion? So is it...?

Himanshu Baid: One is the product mix, because as you go more into, let's say, because see our exports have, increased in Europe. So that gives us a better margin at the end of the day. That's number one. Number two, in last couple of years, the raw market prices were still very high and the whole disruption in supply chain. So that was also kind of a little substitute. Though in FY '21, we had a spike because of a lot of products which were respiratory link products. And those products have gone now away, and also the costing came down because expenses came down drastically and that happened for every company. We were not the only one.

Achal Phade: So if I'm to ask you ten years back in FY '13, what would have been your export versus domestic mix?

Himanshu Baid: Same mix. It was always similar. But the contribution from Europe has increased dramatically. Now one third revenue comes from Europe which was not there ten years ago. That is exactly the answer to your question.

Achal Phade: Right. And if time permits, can you please give us an opportunity size or a market size for the dialysis market in India in terms of consumables per se? So what would be the market size?

Himanshu Baid: The total market is around, consumable market would be around INR800 to INR900 crores in India.

Achal Phade: Dialysis specific.

Himanshu Baid: And then we also sell close to 3,500 to 4,000 machines and each machine is between INR5,00,000 to INR6,00,000. So there's another INR200 crores to INR250 crores market for machines. So total market size would be INR1,000 crores to INR1,100 crores. That's our estimation.

Achal Phade: Right. So when we talk about...

Himanshu Baid: So we already have a 6% to 7% market share in India today after starting three years ago which is not bad looking at them. But again, we think that with some more support for local manufacturing and with some curtailing in Chinese. Because Chinese, they want to destroy the market and every market they enter.

Achal Phade: Okay. And a very mature question I would say, but if machines are being dominated by some other company, dialyzers, how easy or difficult is it to penetrate?

Himanshu Baid: We are considering more dialyzers than machines. So these are universal -- they adapt to any machine. It's not necessary that we have to sell the machine to sell the dialyzers.

Achal Phade: Sure, sir. Thanks for your time.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing remarks.

Himanshu Baid: So I'd like to thank everybody for their time today and really the questions were very useful to us and thank you again for guiding us all the time and look forward to staying connect. And I'd also invite some of the people who want to visit our plant. They are most welcome to come and see how we manufacture products and how our plants are made as per global standards. So thank you once again and look forward to staying connect.

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