



“Poly Medicare Limited
Q1 FY2022 Earnings Conference Call”

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- Moderator:** Ladies and gentlemen, good day and welcome to Q1 FY2022 Earnings Conference Call of Poly Medicure Limited hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vinay Bafna from ICICI Securities. Thank you and over to you Sir!
- Vinay Bafna:** Thank you. Good afternoon everyone and I welcome you to the Poly Medicure’s Q1 FY2022 Post Earnings Conference Call. We have with us Mr. Himanshu Baid, MD and Mr. Naresh Vijayvargiya, CFO representing the company on the call. On behalf of ICICI, I would like to thank Poly Medicure to give us this opportunity to host the call. Over to you Sir!
- Himanshu Baid:** Good afternoon and thank you Vinay. Good afternoon all the friends on the call and trust all of you are safe and doing well. So I would like to welcome you to Q1 FY2022 Earnings Conference Call and thanks for joining in today. So I think first of all last three months have been very turbulent for everybody, I think whether it is in the healthcare industry or other industry everybody got impacted and for us I think initially the first two months, two-and-a-half months we were running at a little lower capacity than would have been usually doing it and the main reason was that we had to reduce the number of people in the plant because we were very careful about the COVID pandemic not spreading to our manufacturing facilities and we had to screen people almost on a daily basis and whoever was suspect or we suspect we had to nearly take him out of the plant and even our offices were shut down for almost two-and-a-half months. So we went through a lot of crisis. I would say crisis mode, but we were able to manage that very well and I like to complement here our team, who in spite of all the challenges we faced, we kept on running the plant ensuring that we supply products to hospitals in India in a timely way. We also developed some new products during this period, we made a new “Y” connector we developed in a very short period of seven to eight days, which could connect to oxygen lines together from one cylinder and this product we made free of pattern and we disclosed the designs to a lot of other people so that this product can be very quickly sent to hospitals where there was a shortage of oxygen so, I should complement here the team, R&D team, engineering team, which came with these ideas after seeing what was happening out in India and also I think what we realized was that for certain products, the demand really skyrocketed especially the respiratory care range products we manufacture and we were not geared for it because we never expected the demand to go up so quickly in such a huge way and we ramped up capacity for most of the products, we have oxygen masks, we have nebulizer masks, we have nasal tubes, we have ventilator circuits, which are connected to the ventilator, so all these products, which we were making in may be a more volume we had to scale up capacity in just two or three weeks and we again ramped up the capacity by three to four times in less than three to four weeks so that talks about the agility and how fast we were reactive to what was happening in the market and we supplied most of these products to hospitals in the Country. Though exports were banned for these products because the government put some prohibition because there was huge shortage in the country, but we were

able to cater a lot of hospitals with these products around the Country. In this period there were few other challenges also, which we faced. One was that the raw material cost has gone up very, very high in the last I would say six months and there was a shortage of raw material because the supply chain was completely disrupted because of lockdown and COVID pandemic, but fortunately for the company we were holding enough inventory, normally we hold two to three months of inventory for critical raw materials so we were able to function well during this period and some of the materials, which were in short supply we air-freighted them to ensure that the plants were running continuously and also on the supply chain front the freight cost also increased almost four to five times. So whether it was air freight cost, whether it was sea freight cost there was a massive jump in these costs over the last six months. Today even to find a container for export it takes almost 15 to 20 days because today there are no containers available for exports and the freight rates are changing daily. Whether you want to import raw materials, whether you want to export because we are majority an export driven company and there is a huge challenge in that front, but in Q1 if you see normally our domestic revenue is 30% and export revenue is 70% but in Q1 because there was a huge ramp up demand in the country for respiratory products and some diagnostic products so our sales distribution changed slightly in Q1. Our domestic sales were around 38% and export sales were around 62%, so I think the flexibility we have today in manufacturing and the way we can quickly turnaround from one region to another region I think that agility has actually helped the company to sustain the current level of business and of course it gives us more power in future to expand our base in India and also in the overseas markets so this is one I would say on the positive side of development but in India our market share continues to increase.

On the dialysis business, we have seen a good offtake of products because now after the pandemic earlier the dialyzers, which were used in dialysis centers they were re-used five to eight times on one patient, one patient would reuse the same dialyzer five to eight times, for two weeks to three weeks he will use the dialyzer and that was because the reason was cost and also the facilities were charging them a lot of high amount for a single use dialyzer. Now with the change in scenario because of COVID and because of infection and basically most of the dialysis patients are immunocompromized so in this sector also we are seeing more usage of single use products and that is the reason we are seeing some offtake in demand in the dialyzers and the renal care products and for us that was the right business we picked up a couple of years ago and also there was a PLI which was announced for our dialysis products and as I informed you in the last call also we were successful in getting the PLI and now we are ramping up the capacity so by end of this year from where we started let us say in the beginning of the year let us say April 1, 2021 and when we end on March 31, 2022 we will be already ramping our capacity by three times on the level when we started in the beginning of the year till the time at the end of the year, so there is a huge investment we are making in this business right now. We have a new infrastructure coming in, which will be operational next year as I told you last time but in the current plant itself we have been adding capacity and equipment to ramp up the capacity.

On the diagnostic business we are already looking at some new product areas and we think that especially for rapid tests and RT-PCR tests, which are not only for COVID for other products we

want to add that range of products because we today cater labs. During the COVID crisis even there was a shortage of blood collection tubes so many labs which were earlier not buying any products from us they immediately approached us and asked us because they were dependent on imports so they asked us to immediately supply these products to us and fortunately we had the production of these items we had enough raw materials so we could cater that demand also. Now we have got relationships, which are into bigger labs, we have good relations and we are supplying to Nephroplus and DCDC and a lot of other dialysis chains in the country and Apex so we have got inroads now in major dialysis centers, major labs and that is helping us to even grow our domestic business on that front.

On the export front, I think mainly the exports were in European region so 45% of our exports were in Europe because Europe we were easily able to find containers and able to ship materials there though the rates are also increased by three to four times but the customers had cushion and they could pay for higher freight costs and they could take the materials so Europe is recovering also as we see faster from COVID pandemic as compared to any other country more people are vaccinated there so that is also one good development. We have also now decided to open our UK rep office last time we were talking about US business I will tell you very shortly about that. We are also now opening a UK rep office, we have taken a formal board approval and we will be opening a UK rep office where we will be posting one person from India to take care of the UK business because UK also offers a great potential. Currently, we already have three to four large customers and I think we have discussions with them to further increase more products to NHS and many of our products are today going into NHS supply chain so we are hoping that we can increase business by being present there. More direct presence will help us to get closer to customers and understand the needs so that is one of the reasons we decided to do that.

On the US front, yes our CEO is relocated now to North Carolina and now we are opening an office there. We have set up a new company out there, this was decided in the previous board meeting and we are capitalizing this company as we speak and once we capitalize we will be hiring more people out there. We are also going to set up a small R&D center there to fast track polymers R&D in India so there are engineers working in US will be able to probably perform better with their guidance also. So I think whatever we saw a major lag we are trying to fulfill that gap basically and also we are hiring sales people in US so that we are now building the organization and as and when we get our FDA approvals we will do pre-market studies and pre-market testing so all these people who are getting hired they are going to help us to achieve that so that is an update on the US and hopefully next three to four months we will be able to start selling something in the US. We are also going to manufacture syringes for immunization. I have already informed you in the last call so that project is on stream and there will be a huge demand because already if you read yesterday's newspaper, Israel is going to vaccinate the third time its elderly population that means they are taking about booster dose. So it is clearly showing that the vaccine, which we are getting maybe only there for the potency of the vaccine is there for six months to nine months period and we may have to get revaccinated, so I think the demand for vaccination syringes will also be there for a long time so I think though we are a little delayed in launching this product, but I think it is a right moment because the market is there, there will be a

huge demand because they are going to vaccinate two times or three times people of India every year so there is going to be a demand of at least 4 billion syringes only for this COVID vaccination. There are almost other 15 to 20 other vaccinations, which people get from time to time whether it is flu or different vaccines which children get when they are born and when there is a clear market for syringes for normal work so there is a potential for syringes, which we did not start earlier, but we will be now, we are already setting up a manufacturing line to make these products.

On the policy front I think government has done quite a lot. At this moment, they have done risk-based classification of 2000 plus medical devices and every day we see a new list coming in from the government because they are preparing for October 1, 2021 deadline, which will make compulsorily for companies to register their products with CDSCO and currently the policy was completely missing and now the government has taken a very firm step to regulate all medical devices and by March 31, 2023 all medical devices in the country will be regulated so that is good news for companies like us because the governments intent was there but it was not being let us say implemented but now with whatever we are seeing today they are working in fast track mode to implement that process. We have also hired 172 new medical device officers so which will regulate this industry and I think that is also I would say good news for us. The third thing is our nodal ministry was Department of Pharma and we were regulated by MOH and both these ministries were not working in tandem and we were always unclear who is our parent ministry, but I think after recent reshuffle, government made it clear that there will be only one minister for Ministry of Health and for Department of Pharma so now it comes under one ministry. So there will be a lot of unification of information and also data, which was completely working in opposite directions so now at least that part will also speed up because the positive framework is done by Department of Pharma for us and the regulation is done by Ministry of Health so that unification will also strengthen the whole process of regulating the medical device industry much faster. Another area, which we see is the government capping trade margin of medical devices. We have seen that the government has capped pricing of BP monitors, nebulizers, thermometers, glucometers, pulse oximeters and a couple of other products and now the margin available in the system is only 70% the marker, early the marker was 300% or 400%, which you all have seen in the case of oxygen concentrators a product imported for Rs.17000 to Rs.18000 were being sold for around Rs.70000 to Rs.80000 in the market and there was no way government could control their MRP or end user price. So now government has come out with a policy where they have to start capping the margins for devices used even for COVID or even non-COVID cases. They are already working now, so what will this bring in this will bring in more sanity in the industry because the industry was almost out of control in terms of putting MRP, today a thermometer just costs Rs.50 to import, but the MRP is Rs.300 or Rs.400 or for example a nebulizer machine is costing Rs.600 to Rs.700, but the MRP on the machine is Rs.3000, so ultimately you are taking away the ability of the end user to buy more products because if you are going to price it four times, five times as MRP at chemist level then you are taking away the affordability and accessibility of these products to a common man, so I think with this capping I think one is regulation of the device, second is bringing it in a price level where you are increasing

affordability so the consumption will increase so I think that is also a positive move from the industry side and we were already battling from the industry side to the government that they should regulate the margins for medical devices and you also know in case of stents, a stent which was costing Rs.20,000 to Rs.25,000 was priced at Rs.1,50,000 so the government capped the price of stents also in 2017. It does not impact the manufacturers it is only the trade margins so from price to distributor to end point there is only a 70% margin now. So I can price my product at Rs.100 or Rs.200 does not matter, but suppose my price is Rs.100 to distributor my MRP has to be Rs.170 so it is not that it is going to impact our margin it is taking away the margins of the trade channel, which was very absurd and very, very high. Also there is a PLI 2.0 scheme now from the Government of India for medical sector so right now the diagnostics sector is also now covered in PLI as Polymed is already in diagnostic business so we are also looking at applying for PLI 2.0 which will cover some diagnostic products and we are pretty hopeful that once we make an application we will follow it up and see if we can successfully get this scheme. That is one of the areas for us for future growth and for future development. I will come back to the operations of the company in terms of margins. Yes, I think as we compare with Q1 of last financial year and Q1 of this financial year, our revenue grew by almost over 24% and in spite of all the pandemic issues and everything we were able to run the plant and I think I have discussed that already. Also, the profit margins if you compare Q1 to Q1 has also increased in terms of absolute numbers, yes there is a dip in terms of small EBITDA margin by 100 to 150 bps and the main reason for that is high raw material cost and high trade cost, which is having a high bearing on our input cost, but though the costs have increased in multiple times, but we were able to hold off these costs by better inventory management, better productivity and also working on a lot of cost reduction programs so we were still able to maintain a healthy margin in spite of all these challenges and of course some of the costs we have also passed on to customers. Gradually, step by step we are doing that exercise. Of course at the time of pandemic, it is sometimes not prudent to start asking customers for price increase because everybody is struggling to get products and also to struggling for cost management, but gradually we are working on this and hopefully in maybe over the years, we may be able to get some small price increase from customers to mitigate this small dip in margins we have today, but overall I think the performance was satisfactory and we see at the management level and going forward I think we still maintain a guidance for our 17% to 18% overall growth for this financial year and also EBITDA margins to be north of 25% plus and I think industry is poised for a growth. Medical device sector has got a good recognition now and today med tech industry has been a flavor of the season because if you look at last 18 months from PPE kits to N95 masks to oxygen concentrators to ventilators, so I was talking about the recognition the med tech industry has received from the government and I think because of high import dependence, I think there is a lot of focus now to make products in India and we have already seen almost 250 companies making masks in India or PPE kits or making ventilators, there are eight to 10 ventilator manufacturers now in the country. Some companies started making oxygen concentrators. So because of this pandemic I think there was a realization that India needs to be self reliant and that is the reason med tech industry has got so much attention today and I think as I chaired the CII National Technology for medical technology forum I am also in the CII Health Care Counsel, so I am doing a lot of advocacy work

also with the government to ensure that the industry is well recognized. There are incentives for the industry. We are also now talking to the government wherever we have zero import duty on medical equipments there is already a list of 97 items published by the Finance Ministry in which there are a few medical items, which were zero duty and we are pushing the government to remove the zero duty, which was to give exemption to these products and impose a duty so that in India once there is a duty, which will be 7.5% duty on these products because all the med tech products which are currently imported into a country carry a 7.5% duty only a few products were in the exempted list and we are requesting the government. I will stop here now and I think maybe Vinay you can open the line for questions if anybody has questions. Thank you very much for patiently listening to me and I wish you all good health and also wish you success.

- Vinay Bafna:** Sure Sir. Rajita you may make the announcement.
- Moderator:** Thank you very much. We will now begin the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. The first question is from the line of Sapna Jhawar from Dolat Capital. Please go ahead.
- Sapna Jhawar:** Thank you for taking my question. Himanshu Sir! thank you for the detailed presentation. Sir a few clarifications firstly when I see this quarter's performance versus the last quarter that is Q4 sequentially it looks pretty much the same so one, have we seen any incremental price hikes between these two quarters, I remember last quarter you did mention about the hike in the polymer prices and the other raw materials, but has that been stable in this quarter or there has been an incremental increase?
- Himanshu Baid:** There is an incremental price hike Sapna because if you see crude oil prices have been increasing constantly over the last three to four months.
- Sapna Jhawar:** But we have been able to maintain our growth profit or gross margins?
- Himanshu Baid:** As I told you we are doing a cost saving projects right now in terms of and we have also taken some sustainability projects inside the company and we have taken a target can we reduce consumption of let us say plastics in packaging and paper in packing can we reduce it by 4% or 5% over the whole year I think that itself will be a huge amount and I think we are talking to all the customers so if there is an extra packaging on the product and if there is an extra let us say can we increase number of units per box so that we can ship more so that overall freight cost reduces so we are working on a lot of this cost saving projects efficiencies and manufacturing so that will help us to maintain a similar margin.
- Sapna Jhawar:** Sure thank you. Sir you also did allude that the first two-and-a-half months was pretty much disruptive in terms of working so I could see that our personal cost sequentially is being in the similar lines with the other expenses though sequentially there has been some increase, but then this was largely because of, if you could explain this amount the other expenses, which was high 22% Y-o-Y basis what is this largely comprise of?

- Himanshu Baid:** Naresh can you answer this, please?
- Naresh Vijayvargiya:** Yes Sir. So this other expenses majorly the increase is only head, which is sales and distribution the outbound logistic cost so there we have seen some increase, rest more or less all the other heads like legal, professional, maintenance and all are almost flat as compared to the last quarter the only increase is just because of the outbound freight.
- Himanshu Baid:** Outbound freight and inbound freight also.
- Sapna Jhavar:** That helps. Thank you so much. Also on the investments in the US now we were hiring new people, setting up the R&D center so how much investments are we going to put up in the US market and was this already in process or this is a new development?
- Himanshu Baid:** No. This is a new development Sapna. We have hired a CEO last year if you remember and because of the pandemic Kim Schelble as a CEO was not able to function because most of the people are working from home it was very hard to manage new relationships and now he has moved to North Carolina and now because we looked at the region why we looked at the region because there is a Research Triangle Park there and as we wanted to look at more research oriented products in future and if we wanted to enter the US market we need to be very high up on the R&D scale. Currently we spend around only 2% on our revenues on R&D so we also wanted to go deeper into R&D space and knowing that North Carolina has a lot of good pool of med tech engineers it made prudent to move our future office and may be a small R&D base in that region and from the investment front I think initially we are hiring three or four people there, a couple of R&D engineers, couple of sales people and then we start building up the company so maybe in the next two to three years the investment maybe around \$2 million to \$3 million which is not very big today but that will help us to obtain at least understand the market, do clinical trials, look for new products and also develop new ideas, new products for customers with support of Indian team with 16 engineers working here, so everything will work parallel.
- Sapna Jhavar:** We will be developing products there but the manufacturing will still happen in India?
- Himanshu Baid:** Of course the manufacturing will happen in India.
- Sapna Jhavar:** We are waiting for FDA approvals so how long does this process take?
- Himanshu Baid:** What I also explained the same process last time that you have to file your documents we do it with a third party first, they review the full documentation. If there are any let us say any problems in the documents they will find out the discrepancy and they will point it out to us. So now the third party review has been completely done for one of the product categories and now we have filed the document with US FDA, so they will review, but based on the third party review that the whole process is fast tracked.
- Sapna Jhavar:** Do we have a physical inspection also here?

- Himanshu Baid:** They can come any time they want, there is no physical inspection for approval, but they can come anytime for an inspection.
- Sapna Jhawar:** Got it and once they inspect and approve our facility only then we will be able to start?
- Himanshu Baid:** No. It is not depending on the inspection. Based on the documentary approval they will give you an approval to start selling the products in the US, but after the approval is granted they can come any time to inspect your facility.
- Sapna Jhawar:** Understood. Sir any color on what type of product categories shall we be launching first?
- Himanshu Baid:** This is some confidential emission I cannot share on the call please.
- Sapna Jhawar:** I have more questions I will join back in the queue. Thank you.
- Moderator:** Thank you. The next question is from the line of Venkat from 3Sigma Financials. Please go ahead.
- Venkat:** Thanks for the opportunity. Sir we have one R&D center in Europe as well if I remember right?
- Himanshu Baid:** We have a manufacturing Venkat we do not have R&D we have a manufacturing company in Europe.
- Venkat:** Fantastic. The next question I have is how would these regulations actually help because we are already a good product the certification is like 70% of our sales comes from Europe, which itself is a validation so how is this Indian rules actually help us?
- Himanshu Baid:** If you see Venkat what is happening is today because there is no regulation the fly-by-night operators come in anybody who does not have any expert in medical device sector starts selling medical devices or starts manufacturing medical devices and then the quality is compromised so what is happening is today when I go to a hospital they say oh you are an Indian company, now there are other Indian companies, which do not have standards. I may say I have standard, but they do not even relate to that. So once everything is made as per standard in the country or imported as per standard in the country that means that there is a level playing field, which is not there today. Now it is like a pharma company making without any license a pharma product and some company a large pharma company making with license and following all the regulatory requirements so definitely there will be difference in quality and difference in pricing everything will matter a lot. Here I may follow best standards everything, but my price is higher, but somebody who does not follow it, it is price is lower and undercuts in the market and nobody understands what is happening.
- Venkat:** What will be the benefit of this one so how much revenue we might see?
- Himanshu Baid:** You cannot quantify this can you really quantify? You cannot.

- Venkat:** Got it.
- Himanshu Baid:** But the important thing is one is for patient safety, our concern is that for patient safety all medical devices sold in this country should be regulated number one. They should be standard for all medical devices sold in the country because today you may buy a thermometer is it really calibrated.
- Venkat:** Sir the next question I have is we have people like Johnson & Johnson I do not want to ask you what products you are going to launch in US, but there are companies like Johnson & Johnson who are like deep rooted into American medical system actually how do you think we will be able to compete with them?
- Himanshu Baid:** I think it is not about competing with a large player it is about the product what you have in your hand. Today American healthcare system is struggling with costs and there are around year-on-year they have deficit in the healthcare system so today lot of large companies in the US or large GPOs and for example let us take an example of Cardinal. Cardinal is a GPO they buy everything what they sell in medical devices around \$20 billion and can we get into Cardinal and say okay we can give you products these are our products this is what we have let us say these are our capabilities and can you start buying products from us and we are US FDA registered.
- Venkat:** Okay Sir thank you very much. Best of luck.
- Moderator:** Thank you. The next question is from the line of Rajiv Venkatesh an Individual Investor. Please go ahead.
- Rajiv Venkatesh:** Thanks for giving me opportunity. I have a couple of questions. Currently what is the renal division products adding to the topline and how do you see the product mix changing happening over a period of time and followup question on this do we have plans of expanding in South East Asia and like Singapore, Malaysia, and Indonesia can these markets provide us better opportunities considering the population in the South East Asia and other parts of Asia Pacific?
- Himanshu Baid:** Absolutely. I will answer the first one and then the second one. So the renal business was around Rs.35 Crores to Rs.36 Crores in FY2021 and now as we are a part of the PLI scheme and we are looking at going to around let us say at least seven to eight times from that level in the next five years that is the plan for renal business and year-on-year as we build up more manufacturing capabilities we will be putting more products in the market and I think there is enough scope today because 95% is import dependent so I think once we start manufacturing in the country and we are already doing it right now, we are already seeing a lot of traction pull being created in this business and in four to five years of course the topline of the company will also change, but probably renal will become maybe 15% to 20% of the total business going forward, which is currently maybe around 5% to 6% and so there is a lot of traction happening in that direction. When looking at the South East Asia business we are already present in Indonesia, Malaysia, Philippines, Vietnam, and Thailand we are already present, but we have a scanty presence right

now, which is not very significant, but what we are doing is we have identified key markets in the world and in those markets we will start putting more people out there. For example you heard about what we are trying to do in US, we have a presence in Europe through a manufacturing company and also we have a CEO out there, so similar things we are planning to do for South East Asia where this group of four to five countries can be managed by a regional office and they can manage sales, they can manage clinical trainings, they can manage product trainings, all that we are trying to build up in South East Asia, probably this will happen maybe in the next 12 to 18 months, but we already have a presence in all these countries through distributions.

Rajiv Venkatesh: Thank you Sir.

Moderator: Thank you. Ladies and gentlemen this was the last question for today. I would now like to hand the conference over to the management for closing comments.

Himanshu Baid: Thank you very much once again for patiently listening to me and I know this industry is new to everybody, but I think there is a lot of information, which I have given out today or in the previous calls will help you to understand this industry better and also we are also hearing that many more companies are planning to get listed in the stock market in the next four to six months I think that will also expand the understanding of the investor community about the industry med tech industry. I think med tech industry is bound to actually grow at a much higher pace in the coming years because of healthcare, the investment in healthcare infrastructure, the government bringing more ICU beds because the percentage of ICU beds is very less in hospital today maybe it is around 20% beds are ICU beds and 80% is normal beds, but I think the future in the next three to four years most of the hospitals are changing their model and trying to bring to their flexibility of going from 20% to 35% to 40% in critical care and maybe 40% in the normal bed space so with that investment happening I think the consumption will further increase and I think with the government focus on Make in India I think the India med tech industry has a great future this is what I can tell all my friends out there and we will continue to work hard and deliver and our goal is to make affordable products and keep everybody healthy. Thank you very much for patiently listening to me and wish you good health and good luck. Thank you.

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