"Poly Medicure Limited
Q4 & FY2022 Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Poly Medicure Q4 and FY2022 Conference Call 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. Mitesh Shah. Thank you and over to you Sir!

Mitesh Shah: Thank you, Seema. Good afternoon everyone, on behalf of ICICI Securities I welcome you all for the Q4 FY2022 and the full year FY2022 Earnings Conference Call of Poly Medicure Limited. We have our senior management of the company with us today represented by Mr. Himanshu Baid - Managing Director and Mr. Naresh Vijayvargiya as a CFO and Avinash Chandra as a Company Secretary. With this, I hand over this call to Mr. Baid for opening remarks. Over to you Sir!

Himanshu Baid: Thank you very much Mitesh and thank you everyone who is on the call and thank you for your time. I will just take you through the journey of Q4 and also tell you about the highlights of the quarter and then we can talk about the financial year as a whole. The highlights for this quarter was that the revenue almost jumped by 20% if you compare from Q4 of FY2021 to Q4 of FY2022 and the major contribution came from India and export markets both. If you look at the percentage of sales, export was around 55% in Q4 and 35% revenue came from India business. In terms of EBITDA margins, margins were close to around 23.5%- 24% and we have seen that there was still a lot of pressure because of raw material pricing and high supply chain cost, also there has been acute shortage of material due to disruption in far east in China and some other countries, and globally the whole supply chain has taken a back seat in terms of delay in supply from most of our major suppliers. As you all know that we have almost 200 suppliers of raw materials outside India and that has been a cause of concern and that is the reason for the last six to eight months we have been building on higher inventory for raw materials and we are trying to maintain our stock of at least two months of raw materials and that is the reason on our balance sheet you will see also increase in inventory in terms of raw material, so this is one of the major reasons for that. Looking at the current scenario where we are not sure when the goods arrive and even the shipments are getting delayed at ports and the transit time has increased by at least 50% in most of the cases. Even when we are exporting products, the products are not going direct to the customers. They are reaching by two-three via modes and there has been a delay even in customer receiving the goods at their end and that is also causing some kind of a pressure on re-ordering from the customers. But overall I can say that the guidance we gave for the year as a whole was between 17% to 18% growth, we have maintained that so the total income of the company in FY2021 which was Rs.766 Crores standalone basis has increased to Rs.918 Crores and in terms of consolidated basis the total income has increased from Rs.804 Crores to Rs.960 Crores. There has been a good increase as we had planned. In terms of EBITDA margins, yes, we have taken ahead in fact in my previous Q3 call, I had mentioned that the total EBITDA for the year FY2022 will be between 24% and 25%. So, if you see year as a whole FY2022 EBITDA is around 24%. Though we have been able to pass certain costs to our customers but because of this changing scenario where the costs are increasing for plastic materials, for papers, for steel we use, for needles, for every commodity, every product there was a cost increase. Now, at this moment we see softening of the prices a little bit, maybe they are dropped by around 5%-7% raw material prices in the last few weeks and if this trend continues maybe in next three to four months we will see maybe normalization of prices to maybe mid 2021 levels where the prices had stabilized a bit. Also global inflation is also a worry where currencies are also taking a bit of a hit. We have seen dollar appreciated by a few percentages in last few months. Though this is positive for the company, if you look at our exports 75% of our exports are dollar denominated which is good for the company that if dollar appreciates we will get some additional 2%-3% margins on our export product and that may also mitigate to certain extent the drop in EBITDA margin which we have seen in the last financial year.

When we look at the domestic sales, in FY2021 domestic sales were around 30% and export sales were 70%, but in FY2022 domestic sales was around 35% and export sales was around 65%. So, there is a healthy increase in the domestic business, almost there is a growth of 30% in domestic business whereas the exports business has grown by around 11% or 12%. We have been launching a lot of new products and I am happy to announce to our esteemed shareholders that our new dialysis machine, which is indigenously manufactured machine, we have already two machines in two different centers. They are undergoing testing right now and we will put them for test for around two to three months. Once everything is in order and the performance is satisfactory and has been validated, we will be able to launch commercial production by July of this year, a locally indigenous manufactured machine. In the government programs wherever they are buying dialysis machines they will prefer the locally made machines and we see a good traction in future for our dialysis machines. We were part of two PLI schemes, PLI-1 and PLI-2. In PLI-1 our dialysis portfolio was covered and PLI-2 our diagnostic portfolio was covered. In PLI-1, we have committed investment of Rs.70 Crores and in PLI-2 investment commitment is Rs.50 Crores. Though we will do much higher investments but rather the minimum commitment we have made to the government. In terms of revenue, in PLI-1 Y-o-Y we have to increase the revenue of dialysis product by Rs.60 Crores a year and in that Rs.60 Crores it is domestic sales and export side. So, we are also building our portfolio for export business, we are adding some more product categories in dialysis business which will help us to get into export markets because today our products are being exported to more than 120 countries. We have a customer base, we have the market, so all we need to calibrate our products as per the export market and then we will be able to look at those opportunities available to us.

In PLI-2 we have diagnostic kits, like ELISA-based kit for HIV, SVB, HbA1c or dengue or malaria case and also blood collection tubes and other VPM kits and everything. We have already developed all the products, already we have started commercializing most of these products. All these schemes have been operational in terms of revenue recognition from first April 2022. So, it is just the beginning, and we have a five-year runway for this. Hopefully, if we are able to meet all the targets which are laid out in the scheme, in PLI-2 on every incremental revenue of Rs.1 Crore we will get 5% incentive, in PLI which is for dialysis products for every Rs.60 Crores incremental revenue we will get a 5% incentive. This seems to be a very lucrative scheme and all investments have been done, everything has been finalized, we hope that if we meet this target at least it will help us a little bit in some margin improvement during the year and in coming years.

When we look at guidance for FY2023, guidance is between 18% and 20% sales growth for FY2023. Exports should increase by around 15% in the coming financial year and we are also seeing domestic business to increase by 25% to 30%. In domestic business, we are recruiting almost close to 100 people in sales and clinical team. This is already happening as we see and from the current level of 275 people we will end the financial with around 375 people. So, we are trying to increase our reach into corporate hospitals, we are trying to increase our reach into tier-2 and tier-3 cities, even in tier-1 also we are increasing our penetration and today most of the large chain hospitals are using PolyMed products and we continue to engage with them more deeply and we are trying to push more and more business with these hospitals and we see that volumes are increasing in corporate hospitals, also in tier-2, tier-3 cities in standalone also we are able reach out and push our products there. In terms of the business overall, if you look at exports business 60% business is in developed countries mainly in Europe and North and South Americas and we are hopeful that this will further grow in the same ratio as other businesses are growing. We are also expecting USFDA by August, most probably August - September that is the timeline we have right now. We will start with a few products and then we have more products in the pipeline where we have applied for FDA and hopefully by end of the year we will have at least four or five products with USFDA cleared and we will be able to sell in the US market.

Our step-down subsidiary in Italy Plan 1 Health has clocked us 30% increase in revenue last year, the base is small which is mainly for oncology products. In FY2023 also we are expecting the revenue to increase by 30% and we have a good traction in the last two years because of the pandemic the sales for oncology products the demand was not as high as we had expected initially, but we have grown last year by 30% and this year also we should grow over 30% through our subsidiary in Italy. We are launching some new products for this year, we have a plan to launch around 8 to 10 new products, already we have shared in our website and in the presentation the products are there, and there are still a few more products which are under development. So, our target is to launch 8 to 10 new products every year and from consumable companies also trying to get into equipment step-by-step and our plan is that in the next couple of years we will launch more equipment which will complement our consumer business. The idea is that wherever we get locked out today because of equipment we cannot offer, today with our consumables, we are trying to look in those areas and then bring out equipment mainly through the focus and infusion vascular access and in renal business.

Government of India is also working on new medical device policy today, we have already seen the draft policy. Recently we were called the Rajya Sabha committee, the medical device industry, and they are looking at issues which are faced by the Med Tech industry and also what policies we need to make India self-reliant and there are certain suggestions being made by us, especially keeping in mind the R&D focus which is completely missing in India. Though the company today has more than 300 patents and we have almost 100 patent applications pending but if we have robust R&D policy for this sector I think we will be able to probably invest more in R&D and also collaborate with more academic institutions in the long run.

I am also happy to announce that the company was selected as medical device leader of the year by Government of India Department of Pharmaceuticals, we got the top prize again for the year 2021 performance and this award was given by the Minister of State for chemicals and fertilizers, Mr. Khuba, and that is a big honor for the company. In 2018, we were medical device company of the year and 2021 we were given medical device leader of the year award. Again, when we look at the current year only a few challenges which I see is the raw material cost and the supply chain disruption, but if somehow when we see a little bit of cooling down in the economy and in Q2 there is already some prediction that Europe and USA will have some demand slowdown because of that raw material prices will start coming down and even on the supply chain side once the demand of containers, better availability of transit times from India to other countries for exports or even for imports. All that will help us during the year to maybe bring back the margins. Our target for EBITDA margin for FY2023 is around 25% as still things remain where they are today. We will see margins close to around 25% and the guidance is around 25% for the whole year. In terms of business our order book is already good, we have long-term contracts with our customers, mainly in Europe we see a good traction, developing in Latin America, larger economies like Brazil and Mexico, in Argentina we have a good market share, and we see more products being introduced in those countries.

When we look at our exposure into CIS countries, especially Russia our exposure was around 1% to 1.5% of total revenue. We are not impacted at all with exposure into Russia. Currently we still export our products to Russia, medical devices are exempted, even our products are going to Ukraine because there is a green channel for medical supplies to get into Ukraine. So, we see no impact of war as such in terms of demand. There is no demand disruption because of war from either Russia or CIS or other countries in the neighboring facilities. The demand continues to be robust for Europe, India and also for Latin America markets, so we see continued demand from those markets. The new products we launched last year especially our pre-filled syringes have got a good traction. We are already seeing good demand building up in Europe for this product. In India also we have captured almost 25%-30% market share because we are the only manufacturer for this product in India. It was a 100% import substitute. Today our clear focus is that whatever product we develop mostly it will be kept in mind that they are import substitutes and also we see a global market for those products. We are also strengthening our R&D team, we will be adding at least 20%-25% more people in the R&D team in current year and that will also help us to also roll out products faster. Today because of the regulatory changes which are happening globally it is taking more time to launch new products. Earlier for example, two or three years ago, we could launch a new product maybe in 24 months to 36 months. The timeline has now moved to 36 months to 48 months especially because of the regulatory delays happening in registering products in overseas markets. Whatever products we have registered in last two-three years we are seeing already a good traction; we are already seeing a good response and we are seeing demand created for these products and this applies to everybody. All companies which are selling in the highly regulatory countries, the regulatory regime is overloaded and also there has been a delay in processing documents and files for our new products. For new product launches there has been certain slowdown in terms of getting regulatory approvals, but whatever we have launched so far we are already seeing a good traction. Overall, we do not see any disruption in terms of sales from new products which we have launched so far as on today, but in future what we will be developing completely brand-new products, we will see some lag in terms of getting regulatory approvals and this is a global situation because of the pandemic for two years there is a lot of backlogs being created in most of the countries. For example today to register a product in Mexico it takes almost two years or even to register a product in Europe to get a C-mark earlier it used to take six months to 12 months now the timeline has moved from 18 months to 24 months. The biggest concern I would say for us today is regulator backlog, though we may come with new products and try to speed up our R&D and pipeline of new products, but regulatory delays may affect a little bit in terms of launching these products in highly regulated markets though we have been able to sell these products in India because in India the regulatory regime is much faster because of the new changes which have happened, but in overseas markets we will face some delay.

These are the comments from my side, and I am happy to take more questions and from our friends who are on the call. I thank you once again for joining this call and for patiently listening to me. Thank you again and Mitesh over to you!

Moderator: Thank you, Sir. We will now begin with the question-and-answer session. [operator instructions]. We have the first question from the line of Sumit Gupta from Mirae Asset Capital Markets. Please go ahead Sir.

Sumit Gupta: Good afternoon. Thank you for giving me the opportunity. I have a few questions, first is regarding the infusion therapy segment, it has contributed around 63% to total sales in FY2022 while it was around 70%-71% in FY2021, like renal segment has taken the share from this segment from 4%-7%. So, do you see like renal taking more share from the infusion therapy segment contributing to the total sales and how do you see renal?

Himanshu Baid: Our total sales is also in renal market, because of PLI scheme and because of the expansion we are doing, our new capex is happening mostly in renal space right now. We think that renal will contribute more in future, let us say for FY2023 we are seeing renal to contribute close to 9% to 10%. Because we cannot be focused on one therapy segment too much and that was the reason that we have started renal and we also have traction in this business. We think that infusion therapy will be close to around 60%-61% and renal will contribute around 10%.

Sumit Gupta: Okay, this is for the next two to three years or what?

Himanshu Baid: I think I am talking more about FY2023 but as we move to 2024 and 2025 renal will move to maybe towards close to around 12%-13%.

Sumit Gupta: Okay, understood Sir. And regarding the other segment it has also increased drastically from 8%-12%, so what all segments are there within the others which have contributed to this 4% increase in the share?

Himanshu Baid: Other segment is also diagnostics which where we are also got a PLI scheme, and we are investing in that area also. That will also start contributing and then of course we have oncology, we have respiratory care, a lot of other segments as part of that others group.

Sumit Gupta: Right, Sir. That is what I am asking regarding the renal and these diagnostics and everything in the other segments, these are expected to have more share going forward. Infusion therapy segment it will come down to around 60%-61% and going forward in the next three to four years can it come to like 58%-59% also?

Himanshu Baid: I do not think because that is our core business and as we will be adding more products in the core category and because we have a specialty in this area. It is very hard to make this judgement for very long-term but for short-term as we have focused more on renal right now and especially India because renal is more focused towards India. The growth is mainly happening in India right nowbecause of the import substitute and part of PLI. We can safely assume 61%-62% right now let us say for FY2023-FY2024.

Sumit Gupta: Understood Sir and a follow up question on this, our dialysis machine is under the MBT trials right now. How is the response being from the end customers like is it comparable to other competitors products?

Himanshu Baid: Of course, the features have to match. Today we do not want to repeat the ventilator story in India, you have seen that many ventilators were supplied by local companies to government, almost there was a 40%-50% failure rate in those ventilators, as they were not performing as per the specs which were laid out from the imported ventilators. We are very clear because what we did was for last one-and-a-half years we sold machines which we were importing from outside and we developed our own technology side-by-side and we have matched feature-to-feature ensuring that whatever performance is there in an imported machine it is also there in our machine.

Sumit Gupta: Can you give us the wind from the US business how was the progress been doing in both the infusion segment and the animal healthcare?

Himanshu Baid: In US animal healthcare business is steady. It has a steady run-rate but on the human side we are waiting for FDA approval, hopefully we are expecting our first approval by August-September and once we get through then probably by end of the year we will start seeing some revenues starting from US business.

Sumit Gupta: Okay, so what kind of revenue can we expect from the US business?

Himanshu Baid: Very hard to say right now because we are working on certain contracts right now from large customers. As and when this these contracts get through probably then we will have more visibility on that. USFDA does not mean that you can get business, USFDA means you have a license to sell in the US market, but then to sell to someone. US works very differently compared to any other part of the world. US market is managed by three-four large GPOs and that is what we are trying to get into one of these GPOs and then probably that will be for us the initial start and that is what we are working on, and those peoples are also waiting for FDA to happen. They do not want to sign any contracts till we have our FDA clearance.

Sumit Gupta: Okay Sir and in Q3 call Rs.250 Crores was the guidance for FY2022 and FY2023 for the capex, now it has increased to Rs.300 Crores so additional Rs.50 Crores. Where do you plan to invest all this?

Himanshu Baid: Additional Rs.50 Crores we will be setting up new plant which was not in the earlier plan. Now we have acquired a new land and we will be setting up gamma sterilization plant and that is the main reason that additional Rs.50 Crores of capex investment. Because a lot of our new products are gamma sterilized and we do not have a facility nearby our plants, and we want to have a captive unit so that we have a control on quality and the quality of sterilization. Of course, this plant is for the next 15, 20, 30 years and this is a controlled radiation plant. This is where we are investing and that will give us kind of sterilization security otherwise we have to depend on outside vendors and sometimes the quality of the product is compromised.

Sumit Gupta: Okay, so that land acquired is near INT plant in Faridabad?

Himanshu Baid: Correct, yes it is in Faridabad.

Sumit Gupta: Okay, and last question from my side, regarding obviously the crude and logistic costs have definitely impacted, have we taken any price hike?

Himanshu Baid: We have taken price hike, if we have not taken a price hike the margin would have been dropped by at least 7%-8% further. We have taken price hike for most of the customers in the range of 5%-7% already during the year, but the customers have double whammy. First, they are seeing a price increase because of freight cost. This has almost quadrupled in last one year. For the same product, they have to higher freight and then of course there is a price hike from our side, so they are also suffering because of that. It has to be a graded approach, we cannot just go all out and then do the price increase at one go and they also see a freight increase, so they almost get a double impact. Graded approach, every six months we do a price negotiation, try to increase couple of percent points and that is what is important and sometimes we also get advantage because of currency also. As I mentioned you a rupee has been devaluated by 3%-4% in last two-three months maybe that will also help because our two-third business is exports.

Sumit Gupta: It will help the raw material supply and you are procuring raw materials from China and everywhere else also in that case it will offset the advantage also.

Himanshu Baid: But we have more exports than imports. We have a positive flow of dollars compared to the imports which is a small percentage, whereas export is very high. It is not setting off. We have surplus dollars, so we will have a better traction. Somewhere we will be helped for imports and on the other side wherever we have open dollars for higher exports, more positive currency that will help us to get a better evaluation.

Sumit Gupta: Okay, so have you added any more customers in this quarter both in India as well as abroad?

Himanshu Baid: We do not track customer addition. For us, even the same customer if he is taking more products from us that is more important because we want to use the same funnel, same pipe to put more products in. For us more important to put more products to same customer, like a hospital today I do not want to spread too much into hospitals but if I today Apollo is buying five products we will try to sell them 10 products. Because the supply chain is established, the relationship is established, it is more easier to sell to the same customer than to sell to a new customer. Mostly growth comes from existing customers. It is very hard to quantify but majority of the growth will come from existing customers.

Sumit Gupta: Understood Sir, okay. Sir last question regarding the US business only. How do you see this US business going forward in the next four to five years? Can you give us any numbers in terms of revenue or margins?

Himanshu Baid: It is very hard to give a number right now, the idea is to build maybe a business of $15 - $20 million in the next four to five years.

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

Pankit Shah: Good afternoon. My question was on the US market, for some time we are just seeing delay for the US approval and FDA. I wanted to understand what the issue is out there?

Himanshu Baid: The issue is on the examination of documents and this is taking more time because of the COVID pandemic that is the main issue, otherwise there is no other issue. So, we are just waiting for them to give us a final green light and from our side we have submitted all the documents, whatever additional documents required we have submitted everything. Hopefully now we are in the final round, so we are expecting this to happen soon now and as I said August-September and we are maintaining that consistently and we have not changed any timeline.

Pankit Shah: Last time you said that you are planning to launch in the second half of FY2022.

Himanshu Baid: Exactly, the USFDA approvals are expected in July-August that is what I had mentioned earlier.

Pankit Shah: Okay, and other than that my question basically was on your volume growth. How has the volume been shaping up, because you have been taking continuous price hike, if see our raw materials have increased by 33% as compared to last year, the sales has been growing by 16% to 18%, so majority of the growth has been through our price increases?

Himanshu Baid: No, not in every segment we have a price increase, only with some limited segments we have price increase. With volume growth versus price increase I think the ratio could be 25% : 75%, so 25% will be price increase and 75% will be volume growth.

Pankit Shah: Okay, because I was of the view that across products the prices have been increasing?

Himanshu Baid: Not everywhere.

Pankit Shah: Okay, and if I was not wrong that you mentioned the EBITDA margins of 25% for FY2023?

Himanshu Baid: That is the guidance we have at this time.

Pankit Shah: Right, so it is what as how currently things are?

Himanshu Baid: Things have started softening a bit right now, we are seeing a little drop in raw material pricing right now and also freights have started softening a little bit. So, hopefully if this trend continues and in next three-four months we will see some stabilization of pricing. For the last eight-nine months it was just one-sided growth.

Pankit Shah: Right, considering second half to be much better and we have already taken price increases?

Himanshu Baid: Yes, we have taken price increases and of course the situation is very volatile, it is very hard to give a very concrete reply that what will happen after six months. It is just based on current trends; inflation trends, current consumption trends and globally what is happening.

Moderator: Thank you. We have the next question from the line of Vivek Ganguly from Nine Rivers Capital. Please go ahead.

Vivek Ganguly: Thank you for the opportunity. Himanshu, I have two questions, given the registration law for medical devices that was enacted, all medical devices that are domestically produced or imported they have to be registered by the end of next year. So, what is the status there, are we seeing some amount of imports or domestic products falling off the shelf and that wide space opening up for us or it is something like that likely to happen and if yes, then what is the kind of scope there?

Himanshu Baid: It is a very deep question I would say. Yes, all medical devices sold in India now have to be registered that is very clear from October 1st, 2021. Earlier it was voluntary, now it is compulsory. Today, if you want to import something into India or manufacture you need to register with CDSCO or with Indian FDA. Now, there maybe a fall out but the fall out will be for fly-by-night operators. Today, somebody who is a running a restaurant let us say importing oxygen concentrators, you do not want that situation to happen, you want a regular company let us say Honeywell or Phillips to import the concentrators and sell in India which are more reputed. So, you will see market being filtered out where a lot of un-regulated players will move out from the market and there will be only place for regulated and better-quality products. Also, we have now standards of 1400 medical devices, BIS standard which was not there earlier. With new standards coming in, regulation coming in, it is like pharma where pharma sectors upgraded in last 15-20 years, so same thing will happen in Med Tech. We were just waiting for the regulatory regimen to happen, to come in and help us to bring more quality products in the market and of course the opportunity will open for us because as government is pushing more for local manufacturing you are seeing a lot of traction happening in Med Tech sector in local manufacturing. That will definitely add as an advantage for us because when we bid for any business which is government business they are looking at Make in India products, especially if we are meeting the standards and quality there and if there is an opportunity for import substitution today, our dialysis business was import substitution, our pre-filled syringes was import substitution product, our oncology range is import substitution. We are picking the product areas where we think there is import dependence and we can make the products in India and sell in India and also for global markets.

Vivek Ganguly: Okay, what guidance that we have been look for is like 20% of the market is likely to open up or something like that, but on longer-term basis we understand a lot of the fly-by-night and weak companies will fall off the radar, so that is the real thing happening?

Himanshu Baid: I am not sure whether 20% will fall out or not because definitely there are many companies importing products without any license, without any regulatory approvals. So, all those products will disappear from the market. Only companies which were selling let us say which have quality products, they will sell, they will probably gain market share. For companies like us which operate in the regulatory environmental already let us say outside India for us that is the reason in last year we have seen a 30% growth in India business. Earlier we were growing only 10%-15%, last year we have seen 30% this year as I spoke earlier we have given a guidance of 25%-30% growth for India business.

Vivek Ganguly: Right, part of the reason might be just disappearance of the weaker companies?

Himanshu Baid: And definitely the larger companies will start gaining more market share. In pharma also same thing has happened, if you see in 10-15 years larger companies have got more market share and smaller companies have kind of disappeared. Similar phenomena should happen here also that is what I expect, but of course it is hard to predict right now because we have just at the cut of change of regulatory regime.

Vivek Ganguly: So, Himanshu my second question is regarding given the white label or the private label products that you all make and supply to customers in the US, I presume you all will be supplying to the US. So, when you are going to supplying to US?

Himanshu Baid: We have a few customers where we supply to US. Currently, some of our class-1 devices and veterinary products go to US.

Vivek Ganguly: Right, would that not mean that FDA would have done your plant inspection?

Himanshu Baid: We have had two plant inspections already in 2010 and 2015 but since the last five to six years there was no plant inspection. As we add more products we will definitely see and we have to be ready any day.

Vivek Ganguly: Earlier in the conversation you mentioned that you are awaiting USFDA inspections and approvals?

Himanshu Baid: Approval is on the product side because you need a 510(K) approval. In medical devices if you have a substantial equivalence of a product which is already sold in the US market and based on substantial equivalence principle and based on documentary evidence you can get a 510(K) approval which is a USFDA approval, especially for class-2 and class-3 devices. Mostly our products fall under class-2 and class-3. Based on that approval you will be able to sell in the US market. Now, during the period of approval USFDA can come any time and inspect the plant. Plant inspection is not mandatory to give a 510(K) approval.

Vivek Ganguly: Right, got it. so, even on documentary evidence you all can get an approval and start selling?

Himanshu Baid: Yes, absolutely and we have been already selling some products, so we know how it works.

Vivek Ganguly: The third question and if can just squeeze that in, you said that 30% odd that you all sell to third party for OEM and private labeling, going forward as you call get these approvals this percentage can shrink, is that fair assumption to make and most of it will then get sold under your own brand name?

Himanshu Baid: The target is to sell more and more under PolyMed brand, let us say in FY2021 it was 70:30, now it has moved to 72:28. Our target is move to as close to 80%, we cannot avoid white label in any case. There will be certain customers who would need white label because if they are very large company they will want under their own brand. Our target is, if you have an 80:20 ratio I think we are happy with that. Currently it is 72:28 which is also a good thing, at least our brand is going in so many countries and so many markets.

Vivek Ganguly: Right and you are spilling up your capacity.

Himanshu Baid: Yes, exactly.

Moderator: Thank you. We take the next question from the line of Sumit Gupta from Mirae Asset Capital Market. Please go ahead.

Sumit Gupta: Thank you. Sir, I had just one question regarding the price hike that you talked about. What all products we had taken the price hike for, like clinical products only in both abroad as well as Indian markets?

Himanshu Baid: The price hike is mainly for vascular products because that is where we have a core competence and there are certain products we have taken price hike. I cannot disclose more information, it is competition to company's business.

Sumit Gupta: Okay, understood. Thank you.

Moderator: Thank you. We take the next question from the line of Mr. Venkat from 3Sigma Financials. Please go ahead.

Venkat: Thanks for the opportunity. I just have a couple of questions. My first question is on the increase in sales that we achieved is it due to increase in footfalls in hospitals or are we gaining market share? How do you see, what is contributing to the rise?

Himanshu Baid: That is great question Mr. Venkat. Today, if you see hospitals and I think a lot of hospitals are listed today, the healthcare sector is growing around 10%-12%. Now, in India business we have grown by 30%, so definitely we are gaining market share from other companies.

Venkat: Okay, are we gaining market share from limited basket or is it like are we growing across?

Himanshu Baid: It is across, we have gained market share in renal business, in vascular business, in blood transfusion business, diagnostics, so across all the segments.

Venkat: Coming to US sales, when I look at some of the large brands, how are we going to actually compete with the large brands in US and that too we are having some 15 million targets in the next four-five years. Are you really excited with this number or are you thinking that we can target more, 15 million may translate to something like 110 or 120 Crores, so is it the target we are looking at the US market?

Himanshu Baid: It is a buildup, it can go more also but we have to start somewhere, so we have to set up certain realistic number as target and we have already hired as we informed earlier we have a CEO, we have a sales manager there. So, for the last two years nobody was meeting in the US. I am sure you have connects in US, everybody was working from home and nobody was even ready to change vendors. Now, things have opened up, we have started seeing conferences again, we have started seeing people meeting again and of course there is a delay in getting USFDA approval. So, everything combined together delayed our whole US launch. Now, with everything opening up, we already made investments in the US. We opened a subsidiary last year in the US, 100% step-down subsidiary in US because we wanted the business should happen through the subsidiary because we need insurances in US, we need maybe warehouse in the US. So, we have planned everything, but the only thing is now execution is waiting, as we get FDA approval we will start executing that plan. It can move from zero to 100 also, now the question is how it moves, how people foresee India as an opportunity, because today still India is not seen as a medical device manufacturing base by many US companies. It will take some time to build that confidence even for us and for the customers but once it builds up, today our revenue if you look at our exports almost 40% and over exports are coming from Europe because people have confidence in our products, we have office there in Europe, we have a CEO, so we are able to do that very well now.

Venkat: And you also have a R&D facility in Europe, right?

Himanshu Baid: Yes, and we also have our Italy company which is manufacturing and doing new product development also there. So, in the last four-five years we have good experience of building Europe business from less than 15% to almost now 40% of our total exports.

Venkat: Sir my next question is you were talking decrease in raw material prices, rather softening. So, are you seeing softening of raw material prices particularly in PVC or something like that?

Himanshu Baid: Yes, PVC we have seen, the last quote we received was around 7% lower than the previous month. Now, we are seeing slight softening like, before this it was around $1580 a metric ton in Mumbai and now it is $1480 per metric ton, there is some drop already.

Venkat: Okay, how will this impact our raw material though our inventory, it looks like have decent inventory?

Himanshu Baid: Generally we maintain two months inventory.

Venkat: Okay, so that will not impact our competitive prices?

Himanshu Baid: Whatever they are quoting is going to come to us only after two months. It is not going to come immediately. Because this month they will put in on the ship, it has transit time, delivery to us, it almost takes two months.

Venkat: Okay, in the presentation you have mentioned about fast staging in PLI and all, if you can just elaborate, sorry I joined late because I was attending another call. Can you just elaborate? If you had already elaborated sorry about that, what are we doing in PLI?

Himanshu Baid: We have two PLIs basically, one is for our dialysis products which was awarded to us earlier, which are all import substitutes and where we are going to make dialysis machines which we have already launched our first trial machine in the market indigenously manufactured. Then we have the second PLI which is for diagnostic products. Under first PLI we have to do incremental revenue of Rs.60 Crores a year to have a 5% incentive against the second PLI we have to do incremental revenue of Rs.1 Crore and on every Rs.1 Crore incremental revenue we will get 5% incentive.

Venkat: Okay, so are we the only manufacturer because we already have the filters, right?

Himanshu Baid: In the dialysis products there are two companies which have got PLI, one is a Japanese company called Nipro which is based out of a manufacturing plant in Pune, and we are the second company. There are only two companies in India making dialysis products right now, and of course there are many companies for diagnostic products. But again the current basket we have in terms of blood collection tubes, blood collection needles, so we are already catering laboratories right now but then with more products which we are adding in the pipe I think we will be able to get more market share.

Venkat: Okay, whatever money we have collected as part of the CIP that we are going to deploy here or are we going to do some additional lending?

Himanshu Baid: Mainly, what we are collecting through CIP is going mainly in capex, as I mentioned earlier we are going to spend between FY2022 and FY2023, in two years we are going to spend close to Rs.300 Crores. Earlier the plan was Rs.250 Crores now we are going to spend Rs.300 Crores. So, we are already building two new plants which will be operational by end of the year and we will be putting two more additional plants which include one gamma sterilization facility which will be operational by FY2024.

Venkat: Fantastic. Thank you very much Sir, and best of luck.

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

Mitesh Shah: Thanks for taking my question. Sir, about the infusion therapy going down from the 71% to 63%, I can see that your growth is around 5%. So, is that reason because of the slow-down in the export market or is there other reason for that?

Himanshu Baid: Exports have grown only 10%-11% last year and of course there are various reasons for that slow-down, because of global supply chain disruption, container availability issues, goods reaching late to customers. I mentioned sometime goods are reaching in three-three months, four-four months to destinations. The repeat demand kind of gets slow-down a bit, but of course our focus has been more domestic market, in the last two-three years we built the team, we have built new division, we have hired a lot of people in domestic market. So, domestic is more dialysis focused, more diagnostic focused, so we have seen more growth there basically in those segments over the last year.

Mitesh Shah: Going forward also you are expecting the infusion therapy will be a slow growth?

Himanshu Baid: Slow growth, it is not going to be like, for example US will be only infusion. Europe is only today infusion in business only. There is no dialysis or no diagnostic business in Europe.

Mitesh Shah: So, that increase will drive the infusion sales?

Himanshu Baid: Basically once we get more traction and the logistics channel stabilizes we will see infusion. But 62%-63% is a good number for infusion and rest of the businesses, because we are also going to diversify the portfolio a bit.

Mitesh Shah: Got it, and also the price increase most of you have taken in the vascular that will also support the growth, right?

Himanshu Baid: Yes, price increase already happened partially, we have taken already partial price increase last year. Now, we are waiting to see raw material prices where the trend is, it is just the beginning of the year and of course you always try to tell your customers, okay order in time, give us forecast or otherwise we will see a price increase trend. But as the prices started softening down a bit I think we will have to stabilize somewhere at the end.

Mitesh Shah: Sir, about diagnostics, how much diagnostic contribution in this year?

Himanshu Baid: I do not have the number right now, but the diagnostic contribution is close to around Rs.35 Crores to Rs.40 Crores.

Mitesh Shah: Okay, and we are expecting that to substantially grow?

Himanshu Baid: Yes, and plus we see demand in kits, we see demand in blood collection tubes and needles, so we are building our portfolio.

Mitesh Shah: Okay, you already have a four-month of inventories for raw materials?

Himanshu Baid: Raw material inventories we have two-month inventory.

Mitesh Shah: Right, so it would be softening in the raw material then also your Q1 could be impacted?

Himanshu Baid: Q1 and Q4 are similar.

Mitesh Shah: And are you expecting that the margin would be increased to 35% by FY2023?

Himanshu Baid: By the time we end the financial year we think that for the whole we should look at the margin of around 25% that is the guidance we have today and as per the internal working, because last year was a very difficult year because of the logistic cost, nobody has anticipated that a container which used to cost $1000 will cost you $10,000 for shipping whether inward or outward.

Mitesh Shah: And about the export market you already have challenges in FY2022 because of the growth slowdown and you are still expecting a 15% kind of growth?

Himanshu Baid: We are, because we have got some new products which have been registered in certain markets and the number is based on the business plan. Because every year you create a business plan, customer wise business plan, product wise business plan. We are already seeing that commitment and number ahead of us.

Mitesh Shah: I mean to say was it a conservative 15%?

Himanshu Baid: Mitesh, again we do not know other supply chain situation globally but I think 15% is a decent number in exports to grow actually.

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

Girish Jain: Just a couple of questions: you mentioned about the new medical device policy, can you give a broad sense how this will be helpful for the company and by when do you think it can be implemented by the government?

Himanshu Baid: The government has already come with a draft policy and what I see is at least a policy certainty because this whole industry was unregulated. There was no policy that what will happen to medical device industry, whether we will be a part of pharma or we will be a part of drug industry, so now there is a carve out of separate industry segment. Earlier we were part of health then we were pushed to pharma, so now there is a new segment which created for medical devices and when we have a policy then at least you know the government’s expense and what government will be spending on medical devices. For example government has made a plan of 2.5% GDP on healthcare that is what the plan is, they may be spending only 1.5% also. But at least they have a plan which is created for 2.5%, and for medical devices also there will a plan, there will be a layout of plan that this is the purchase we will be doing, this is the kind of consumption we see, what is the policy for software, what is the policy for medical equipments, going forward what the country is looking at, whether we are looking at 70% import dependence or if we are looking at 50%, so all these will be part of the policy. You get a guidance that what is going to happen in future. There will be some certainty and that helps to make your own business plan. For example for PLI I pushed the government for PLI for dialysis products because I told that 100% import is there for this product and how can we will be fully dependent on imports for dialysis which is a very critical treatment. Tomorrow, if India has certain situation and there is no dialysis product the dialysis will stop and so many people will die, so that is how they have brought out the scheme for PLI for dialysis products. Similarly, with that policy, you have a dialogue with the government. What should be done, how should be done, what are the challenges we are facing, what product should be technology dependent, in certain areas government is also trying to make a technology pool and then we pass it on the industry.

Girish Jain: Right, the next point I wanted is a clarification, you mentioned earlier in two- three calls that the capex was Rs.250 Crores now it has gone up to Rs.300 Crores. This includes the Faridabad unit number-4, Jaipur unit number-2, and even the Faridabad unit number-5 and the new gamma sterilization facility, and out of these, two are expected to become operational by the end of the year?

Himanshu Baid: Operational by the end of the year and then two more facilities by FY2024.

Girish Jain: In your guidance of 18%-20% of this year is including the operationalization of these two facilities?

Himanshu Baid: Originally, operational only by end of the calendar year, so we will only start seeing commercial production happening from Q4.

Girish Jain: Okay, the impact will be seen in the next financial year?

Himanshu Baid: Lot of expansion has currently happened in the existing plants, like the IMT plant in Faridabad we have almost double capacity for dialysis products. We have added capacity for diagnostic products, we have added capacity for pre-filled syringes and vaccination syringes, so all that investments have happened in existing plants. A lot of automation has happened in existing plants.

Girish Jain: Right, and the last point is can you just give some idea on the debt profile of the company, how much is the long-term debt and working capital debt, because there has been some increase in the net working capital, right?

Himanshu Baid: Of course, hospitals do not pay in time and also because of global supply chin delays the products are not reaching in time to customers. Earlier we could ship products to Europe in 20-25 days now it takes almost about two months. The number of vessels have reduced from Mumbai or Mundra port for example. Earlier there were about two ships for Europe every week, now there is only one ship every ten days for example. Because of those delays the payment cycle has become a little longer, the hospitals are paying a little delayed, plus there is also increase in business and if the business has increased 17%-18% definitely the working capital involvement will become a little more than last year, on the raw material side, inventory side or finished goods inventory side or let us say debtor side. On the long-term debt, the long-term debt is reducing we are close to around Rs.50 Crores only for long-term debt which is also in foreign exchange at a very low amount of around less than 2% interest bearing. We have cash in the company but we are maintaining because there is a pre-payment penalty also there and though it is such a low rate then there is no point in paying it off and there is no reason to do that.

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

Himanshu Baid: Thank you very much everyone for being on the call and there were a lot of good questions, so for us also a lot of things were interesting. We will keep on updating our esteemed investors and shareholders as and when we have more information about our US business and expansion plan and new products. Thank you very much once again everyone. Have a nice day.

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