



“Polymedicure Limited
Q2 and H1 FY2022 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the Polymedicure Q2 FY2022 Results conference call, hosted by ICICI Securities Limited. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing “*” and then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Mitesh Shah from ICICI Securities Limited. Thank you and over to you, Sir!

Mitesh Shah: Thank you. Good afternoon everyone. On behalf of ICICI Securities, I welcome you all to the Q2 and H1 of FY2022 earnings conference call of Polymedicure Limited. We have with the senior management of the company with us today, represented by Mr. Himanshu Baid, Managing Director, and Mr. Avinash Chandra, Company Secretary. With this, I will hand over this call to Mr. Baid, for his opening remarks. Over to you, Sir!

Himanshu Baid: Thank you Mitesh. Thank you everyone. Good afternoon to everybody who is on the call today and to all the esteemed shareholders and friends. I would just like to take you through the earnings of Q2 and the highlights of H1 of the current financial year and just wanted to update that the net sales of the company grew by around 11% from quarter-to-quarter from 199.63 Crores to Rs.223 Crores so there is an 11% increase. When we look at H1 to H1 growth, we grew the revenue from 350.85 Crores to 415 Crores with an 18% increase. So, we are in line with our guidance for the whole year of 17% to 18% growth, which we had initially committed in the beginning of the year. We continue to stand by the guidance that our overall growth would be 17% to 18%. Of course, there are lots of headwinds right now, which we face, as a company and challenges are also on the supply chain.

The current supply chain is badly affected because many imports, Polymed has around 190 vendors, overseas vendors and we import a lot of our, 70% of our raw material which we use is imported, from the 190 vendors which are around the world. So, we are facing a lot of disruptions right now of raw materials getting delayed and of course the prices are all time high right now because lot of our raw materials are crude dependent and a lot of prices have increased, 50%, 70% in many cases and even the packaging material which we use, like the paper, carton boards, and everything, which we have to use for packaging of our products, that has also almost doubled. So, we see a massive price increase but we have also done a lot of cost rationalization, cost optimisation, we have also increased pricing of customers sequentially so that is helping us to maintain our margins, which is what we had maintained right now.

Of course, there is a pressure on the margins. Our raw material cost that we see in the quarter itself has increased from close to 33% to 36%, which is overall of the sales price. Export incentives have almost close to zero right now because MEIS last year, we had MEIS till December 2020 after that RoDTEP has been introduced but currently the percentage allocated to RoDTEP is 0.5%. So, this is very, very low compared to the MEIS that we were getting earlier.

Of course the packaging material cost has also increased from 6% to 7.31% on the sales value. So, there is a cost increase and that is the reason we have seen a dip in EBITDA margins from close to 27% to 28% to around 23.22%, but overall if we see H1 to H1 comparison, from 28% of last year EBITDA margins, the margin has dropped to around 25.17%. So, for the H1 margin drop is around 3%, but if you look at quarter-to-quarter comparison, we were 5%, 4.5% difference EBITDA margin and mainly it is due to raw material cost and the supply chain issues we have, all our inward freight costs have increased dramatically.

In fact, what we were paying let us say to get a container from let us say China or Korea or from Malaysia the costs have almost tripled or quadrupled or from Europe or USA. So, these were major, major change in that. Also when we export our products, I think, we are also facing some headwinds for exports because there is a very big difficulty in getting containers in time. In fact, today if you ask for a container the price is changing every day. So, the freight for let us say Brazil is \$10000, so tomorrow the freight cost will come to \$11000 and next day \$12000. So, this is changing so rapidly that sometimes it is very hard to even book the containers and get the goods out of the country.

So there is a big challenge. So overall if we see, the export growth has been around close to around 10.5% in H1 to H1 and domestic business has grown by around 35%. So, there is a big jump in domestic business because our focus has been to grow the domestic business though it is slightly lower profitability is there in the business but we think as we grow the domestic business more and more, our overhead costs will keep on coming down, and this business will also become equally profitable as our exports business. So, we continue to grow that. We have put in a lot of new resources, in domestic business. So, we continue to grow that. We have put in lot of new resources in domestic business. We have also hired a new Head for our vascular business, which is our biggest business. Arun Sondhi has joined the company from Dabur and he has got an experience from Biocon, Dr. Reddy's and Wockhardt and a lot of other big pharmaceutical companies. He has joined the company on September 1, 2021. Also we are also getting a new head for our diagnostic business. He is joining us on November 15, 2021. So, a lot of new additions is happening at the top leadership level to grow the domestic business.

On the export front, we have grown only by 10% from 241 Crores the revenue has gone to 266 Crores but I think the biggest chunk has come from Europe. In spite of the fact that whole of Europe was impacted because of COVID in the last and even today, you can see in Germany, UK, Russia and all large countries they are again impacted by COVID fourth wave, but in spite of all those things, the business is growing and we hope that once things settle down we will see a further ramp up in revenues in this market. We are also working on a few new contracts, and hopefully by the end of the year, we will be able to close this contracts and it will further help us to increase our revenue in Europe.

Our Italian subsidiary this year will show a positive revenue. Last year there was a dip in revenue, because of COVID minus 5%, but this year it will be revenue growth of over 25% in the Italian subsidiary because they are stabilised now and now they are seeing the growth back

slowly. So, we see that. In US we have already applied for US FDA, as I told you on the last call, we are waiting for the clearance to happen by the end of the year or early next year. We have also hired more people. We have hired a new R&D head, who has joined the company on September 1, 2015. We have also hired a new sales manager who has also joined the company on September 1, 2015. Kim Schelble, we have hired last year as a CEO of the company. We have formed a new subsidiary company called PolyHealth Medical Inc., and this company will be responsible for business in US and we are already building the whole organization there and we are already in touch with a lot of large GBOs and once we have our FDA approval we should be able to start getting some revenue out of US early next year.

We have introduced some new products already. This year, last four, five months, we have introduced our new Huber needle for oncology use, we have added some test kits to our portfolio in the diagnostic range, we have also launched AD, Auto disable syringes which are used for vaccinations. So, this product will start commercial production in November from now and we have already received the first order from the government, it is a small order of around 2.5 Crores, but I think as time progresses we see next year once we ramp up capacity, and once we ramp up more, we will see more business coming for new products and may be also there is export potential to go forward.

We are going to launch EC electrodes by the end of this year and this is also a product which is used widely in hospitals and in clinics and we have also launched Dialyzer machine early this year and that is also now commercially available. So these are some of the new products, where lot of other products in pipeline. So, we plan to launch around seven to eight products every year and we wish to have many products in pipeline and on the development through the program. In terms of the company's rating, company's rating has also changed in the current financial year. The rating has changed. So CRISIL is rating the company. So our long-term previous rating was A and now it is upgraded to AA- and short-term previous was A1 and now it has been changed to A1+ and rating watch outlook is stable.

On the capex front, we are still investing in the two new plants. So they are on track, though there is a certain delay because of COVID issues in April, May, June but since then the construction is in full swing of the two plants one is Faridabad and one extension in Jaipur and till September 30, 2021 we spent close to 48 Crores from April 1 to September, in expansion and we plan that in the next 12 months, we will spend another 150 Crores once these plants are ready and fully ready for manufacturing.

Currently, the money raised through QIP some money was used to retire from high cost debt which we have done already 61 Crores of debt has already been retired in the company and that is the reason you will see the interest cost dropping substantially and also 48 Crores has been used in capex. Of course, we have some increase in debtors and also the raw material stock inventory levels have increased in the current first six months and main reason is there is some delay in payments on the governments right now and also I think in the private sector we saw some delay in payments from major hospitals and also some export payments people are looking

for longer cycles and the supply chain issue has also kind of precipitated this crisis of little delay in payments, so our debtors have increased from 66 days to around 75 days, which is still under control, but I would say that it has impacted us around 25 Crores to 30 Crores in terms of cash flows. But hopefully in the next three to four months, we should bring it back to the normal level of 65 to 66 days.

Also, we have increase in inventory right now because the cost of materials have increased because of the change in raw material pricing and also in anticipation we knew that the prices will increase, so we have been sequentially buying some additional raw materials, over the last six months and because there was a disruption in supply chain whatever inventory we needed, we always ordered around 25%, 30% extra because we knew there were delays happening in transit time. So, because of that we have bid in certain inventories and that is the reason we see a slight dip in the inventory around 35 Crores to 40 Crores, but I think year end, this levels will also normalize at some point in time.

So, overall the company's operations are satisfactory. We are moving as per our plan. We continue to bring new technologies. Our R&D expenses have also started increasing because we had new R&D head in US and this R&D head is now helping our team in India to look for design, new products, new things, which we are doing. Next year we are going to also bring some cardiology related products. These are all consumables, nothing to do with stent pricing, but these are all consumable catheters which we currently do lot of these catheters products. So, this is an upgradation of the current product range which we have and it is mainly used for in cardiology applications. So, our US R&D head and the team in India are working together to develop the syringe. Hopefully by middle of next year, we will also have this product. This is an extension of our vascular access portfolio. So, we have moved from infusion vascular to cardiovascular range. So this is all an extension of the portfolio. But we have more value added products, more critical care products, so this helps us to further increase revenues in very niche areas for the company. Definitely these products are high margin business compared to let us say normal vascular products.

This is what we have right now. Now I am happy to take any questions from you and answer anything what you want to understand more about the company. Thank you very much once again for being on the call.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. We have a first question from the line of Devesh an investor. Please go ahead.

Devesh: Good afternoon. Just wanted to check, your view a little long-term-ish in the sense that in three to five years, once all the new capacities come online and US also starts contributing, where do you see Polymed in terms of the overall size and focus of the products and growth prospect?

Himanshu Baid: I think, it is a difficult to answer. It is a futuristic question and we have not issued any guidance for the coming years, but what I think gives me a very let us say a general view I think, industry is growing at 11%, 12%, overall and globally it is growing at around 5%, 6%. Our target is to

grow let us say close to 17% to 18% year-on-year for the next three to five years and of course domestic business will grow faster compared to export business in terms of percentage but if you see the breakup currently domestic is 35%, export is around 65%. So I think that ratio will remain around 65%, 35%, but the growth rate in domestic will be faster which is what we see because our penetration is increasing right now and we are getting into a lot of new products and technology so I think overall if you look at organic 17% to 18% is something what we see is pretty much feasible in the next three to five years. I hope Devesh, I have answered your question?

Devesh: Yes, you did. Thank you. That is about it.

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

Pankaj Bhupesh Shah: Good afternoon Sir. I wanted some clarification on the PLI revenue. So, when do we see this PLI revenue starting to flow in?

Himanshu Baid: PLI will start from next financial year. So, it is starting from FY2022-2023 to FY2026 over the next five years.

Pankaj Bhupesh Shah: So, you are saying that plants will be commissioned by next year beginning?

Himanshu Baid: Plants will be commissioned within this financial year. PLI is also for the existing renal business. So that is what we are scaling up in our existing IMT plant in Faridabad. Additional capacities will come in the new plant in Faridabad also where we are building one new plant, so additional capacities will come and PLI is about five years. So there is an incremental revenue every year happening.

Pankaj Bhupesh Shah: I was saying that are we confident of hitting the same revenues as in the micron revenues for which we are eligible for the product?

Himanshu Baid: Yes. That is the reason we are focusing very high on domestic business and especially the renal business and renal business is now contributing close to around 20% plus which was last year around 7% to 8% only of the total revenue. So we are scaling up this faster, growing much faster than any other business right now.

Pankaj Bhupesh Shah: What is the ceiling revenue which we will be doing in PLI?

Himanshu Baid: Ceiling revenue is 300 Crores in FY2027-2028 and every year we have to do an incremental revenue of 60 Crores to hit the target for the renal business, which also includes exports for this potential.

Pankaj Bhupesh Shah: Is there any update on the PLI scheme which was here in the diagnostic product, which we are talking?

- Himanshu Baid:** No. There is no update anything on that. In the first one, they took nine months to announce the participants or the winners so out of that 28 slots which are available only 14 was filled. So, 14 slots were still vacant actually for the first PLI scheme.
- Pankaj Bhupesh Shah:** When do you see this PLI under diagnostic products coming in?
- Himanshu Baid:** Maybe early next year, in fact, they took one and a half years to announce the medical device part. Now only last two, three weeks ago they have announced four medical device part. So, one is coming in UP, one in MP, one in Himachal and one in Tamil Nadu.
- Pankaj Bhupesh Shah:** Do you see the opportunity size will be equally large of what we are seeing in current PLI?
- Himanshu Baid:** No that is a different. See, diagnostics is different, so we are more in the consumable part of that business, so this will be a smaller size and in diagnostic PLI it is based on incremental sales. There are no targets. So, for every 1 Crores, the increase in sales there is an incentive allocated.
- Pankaj Bhupesh Shah:** Sir, my last question is I want to understand on margins front. How do we see this margins getting back to the earlier levels of say 26%, 27%?
- Himanshu Baid:** I think there is a pressure everywhere because of the commodity price. Only once the commodity prices especially crude oil prices started to cool down then only we will see the plastics prices coming down. Now plastic is a major raw material for us.
- Pankaj Bhupesh Shah:** But you are not able to pass on the same to our customers?
- Himanshu Baid:** We are passing on otherwise if we had not passed on the cost, the margin would have been down by at least 10% compared to the previous quarters and you cannot pass on the cost immediately. Say for tomorrow if I am changing my pricing, because in many places, we have rate contracts, we have fixed pricing to hospitals, which are announced for one year, so it will take some time, but gradually we will pass on. A lot of our international customers have already customers have announced that we will be doing a price increase from November, December, January so it is already work-in-progress.
- Pankaj Bhupesh Shah:** I think by the end of this year, we should be at the normalized margins?
- Himanshu Baid:** Not really. I would not commit that. It will take still bit more time, I think it depends on the current, today let us say crude goes to \$100 anyway back to square one. It is a very relative question, right now because it depends on all this cycle because today the paper prices have gone from Rs.25 to Rs.50 for a virgin craft paper, which we use for making the cardboard boxes. So, prices are almost gone up by 60%, 70% for boxes only, cartons. In chemicals we use, the silicon we use, different materials, everything has gone up. The steel we use in manufacturing of our tools, moulds, everything has increased.
- Pankaj Bhupesh Shah:** Last question is you have said that 17%, 18% is the crude price for the next three to five years?

- Himanshu Baid:** This is what we are currently, yes.
- Pankaj Bhupesh Shah:** So one thing is that PLI will contribute say incrementally 8%, 10% or something every year from next year? And what are the other growth drivers on the revenue front?
- Himanshu Baid:** US business, European business, India, rest of the business in India. All these businesses are there, current India business. That is going to grow across all the verticals we are working, we have four verticals. Next year we are adding something in cardiology. So that will also start giving some revenue.
- Pankaj Bhupesh Shah:** Is there any target like you said that you are introducing currently new products every year. So, is there any target this new products will contribute say x percentage of revenue?
- Himanshu Baid:** See, typically when we look at internally, we have set a target that at least 15% to 20% revenue should come from new products which were launched three years ago. So that is what we monitor normally as a company.
- Pankaj Bhupesh Shah:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Girish Jain from KJMC Finserv Group. Please go ahead.
- Girish Jain:** I wanted to just get some more flavour on the US business. If you can share anything in the public domain, in terms of which products are we concentrating, or going to concentrate on and like you mentioned some FDA approval is expected by the end of the calendar year, right?
- Himanshu Baid:** Correct. Our focus will be on infusion products first because that is our core portfolio and core business, which is in vascular products, because 70% of revenue comes from that business, totally which is overall revenue of the company. So, we are going to focus on that segment first and then we have identified certain products, which are let us say Class I devices which does not need a very stringent US FDA approval. So, we will be focusing on those kinds of products. So that is also on the cards, and then of course we are developing some new products, which we think could be suitable for the US markets special catheters and this will take some longer time, maybe 12 to 18 months. We have already started working on those kinds of devices also. US because US was shut down for the last 18 months there was no face-to-face meetings, so it was hard to meet customers, new customers and you know let us say if you look at our products or something and nobody was receiving any parcels or consignments so, I think US has started opening slowly now. So from early next year we will start having customer visits even our team is which is eagerly wanting to go to customers they are refusing their visits to offices right now. No external visits. So it is going to take some time and we have lost nearly a year because of COVID but hopefully early next year we will start seeing some good results coming out of US.
- Girish Jain:** So, we expect revenues to start clocking in from first quarter of next year? Is it a fair assumption?

- Himanshu Baid:** I cannot guarantee you that but hopefully I imagine maybe yes Q1 of next financial year in Indian balance sheet?
- Girish Jain:** Yes, Indian balance sheet?
- Himanshu Baid:** Yes, definitely. That is sure.
- Girish Jain:** On the new products, you mentioned some products like Huber needles for oncology and auto-needle for vaccinations and EC electrode, these new products, what is the contribution margin or the gross margin you expect when you launch these products?
- Himanshu Baid:** Girish, I cannot assure you the margin details on new products specifically on product wise, but these products are like for example, syringes again it is a mass market product, Auto disable syringes. Just to give you an example, a normal syringe is sold at around Re.1.75 paise, and Auto disable syringes is Rs.2.25 paise in the market. The government is buying for Rs.2.25. So, there is a delta of 0.40 paise, 0.50 paise higher than the normal syringe, whereas the cost of raw material manufacturing is similar. So that is the reason you have gone into a slightly let us say critical product in the market because that is an auto-disable syringe and that will get a better margins than a normal syringe and we have always refrained from getting into a normal syringe business. All our competitors do this normal syringes like HMD or Romsons or BDs or B. Braun all make normal syringes. We never went into this business because of low margins and Huber needle again is a very specialized product, used in oncology issues. When they put a port, in a cancer patient, they will use the Huber needle to infuse drug into the patient. So this is something which we did not have in the portfolio so this will also add and will help us to sell these products especially in Europe and Latin American markets.
- Girish Jain:** Couple of more questions, if I can. Any update on the inorganic opportunities that you might be looking at?
- Himanshu Baid:** We do not have anything right now, but if I have something, definitely I will inform all our esteemed shareholders.
- Girish Jain:** But is it safe to assume that we are looking for acquisitions outside India?
- Himanshu Baid:** Yes we are. India there is nothing available which we think is suitable for us and so we are looking for especially for technology based acquisitions, which will be in Europe or in US.
- Girish Jain:** Last, a housekeeping question; what is the current debt level? I think, you have used 100 Crores approximately from the fund we have raised through QIP?
- Himanshu Baid:** Yes. We have used 100 Crores. So the current debt if you see, including long-term and short-term I can give you maybe an idea on long-term and short-term both. So, the current debt if you see on, I will just fit the numbers, because Naresh is not with me, because he is on leave, some family issues. So long-term debt is currently close to around 75 Crores and short-term debt is

close to 40 Crores and long-term is basically the ECBs which we have raised are two years ago and that is exactly at 1.35%, the ECBs raised and we will have to pay over the next three years and working capital is close to around 40 Crores basically.

Girish Jain: We would be having some 300 Crores in the balance sheet cash limits?

Himanshu Baid: Yes, correct. We have around 350 Crores plus of cash.

Girish Jain: Thank you so much. All the best.

Moderator: Thank you. The next question is from the line of Vinay Bafna from ICICI. Please go ahead.

Vinay Bafna: Thank you for the opportunity. Good afternoon Himanshu Sir. Sir, you said an interesting point wherein you said that if you had now taken a price hike, then the impact on the margin level would have been as high as 10% during the quarter because of the jumping cost that we had. So, what I want to understand is what would be the lead like so take for example, if the prices jump from 10% today then how much time that they take for you to take the price hike and pass it on to the customer?

Himanshu Baid: Basically price is not increasing immediately. So it is basically every month, you see an increase in prices of raw material and you never know where it is going to stop, so you have always like for example, price of PVC were \$1000 a ton in the beginning of the year, today it is around close to \$2000, so we do not know where it is going to stop. So, you cannot just increase every month to a customer. You are always watching and absorbing. In most of the contracts, we have a provision where we say that it is a major change in the raw material pricing, we can increase the pricing, every year to a certain number. Some contracts are 10%, 15%, some are 5%, so we have all these provisions in the contracts. So that is on a final stage price. Today let us say the raw material prices let us say is around 35% of my sales price basically. Not everything is increasing, only let us say basket portion is increasing, some other things are increasing and as I mentioned – to you for example, if you look at raw material cost let us say in Q2 of last year was around 33%, in Q2 of this financial year it was 36% of the sales price. So there is a delta of 3% only.

Vinay Bafna: I understand that. The reason why I was asking is because you yourself highlighted that the prices are very volatile at the moment. Say for example over the next three months, the prices jump another 25%?

Himanshu Baid: We have a provision to go to our customers to increase the pricing. So, there is no fixed formula for this. It was 60 days, 90 days, 30 days, depending on the contracts we have with the customers, so we have to always pre-announcement to our customer. For example, in domestic market we had intimated already last month October 15 that we will be increasing the prices from November 15. Like we gave a 30-day notice so for example we give to all our customers in Europe a notice, let us say we told them in the beginning of October that in November 15 to end of November we will be increasing pricing by 8% to 15%.

- Vinay Bafna:** So, we notify our customers one month in advance that we will be taking certain number of price hike?
- Himanshu Baid:** One month, 60 days depending on the contract.
- Vinay Bafna:** Understood. Now what I want to understand is how much time do we wait before we announce it? For how long do we absorb the cost before we take it to the customers to take the price?
- Himanshu Baid:** There is no said formula in the business. You will have to wait and see how much you can absorb. Sometimes you have a cost increase you try to mitigate by bringing in more efficiencies in manufacturing, you churn the portfolio little bit so that you still sell high margin products and you lower the lower margin business, you keep it aside, you store it down a little bit, so you have to always keep on churning it.
- Vinay Bafna:** That is what basically I wanted to understand. The only reason why I was trying is because the prices are so volatile, because say for example, we are announcing a price hike for the next 12 months but in the next one month if the raw material prices for that particular product as a segment jumped another 30%?
- Himanshu Baid:** These are based on let us say today I am basing a price increase let us say based on certain assumptions that PVC may go to \$2200 then we also watch future, global future what is happening in global future, so if we see the futures coming down, we know that then the price is probably at the peak and the futures are coming down. So that means then there may be a softening on pricing. So we have to see everything to balance at the right cost.
- Vinay Bafna:** That was very helpful Sir. Another thing what I wanted to understand is because of this COVID, now there have been recent surges in pockets in Europe and US of COVID cases, so do you see that in our forecast for the next three to five years where we are assuming 17%, 18% growth do we see there is a possibility of an assumption over there, means purely because the rising cases of COVID?
- Himanshu Baid:** I think first of all we have to see that the impact of COVID is not severe as it was last year. The number of hospitalization have reduced, the number of deaths have reduced to a certain extent. Look at India for example, everybody was saying that you will have a second wave of COVID in October, everybody was announcing it in June, July, but as we have passed the touchwood, we have passed October, we are almost in first week of November and we still maybe 10000 cases from a peak of 4 lakhs cases a day. So, I think the number of hospitalizations has reduced. Today if you see around in Mumbai, Delhi, large metros, the number of COVID patients are very, very low right now. Nobody also, I think, most of the people who are getting COVID now are vaccinated and many of them are getting COVID so the impact is lower. So, in my view, and also a lot of new drugs are coming for COVID, Pfizer and all, Monet and all, some other companies and all, so I think, once we have it could probably turn into a normal flu going forward. So the impact of COVID probably is by the end of this year, will kind of minimized. Particularly from next year onwards, we will start seeing a normal growth whether it is India, whether it is global

markets, we will start seeing a normalcy coming back. There is a lot of pile up of elective surgeries globally. If you look at Europe, US, India, lot of pile up of elective surgeries. Two years of continuous COVID I think there is a huge pile up, so I think the hospital sector is also going to see a good growth and if hospital grows I think our business will automatically grow.

Vinay Bafna: One last question is that what is your take on the syringe market in general, the demand for the syringe market once these COVID fills come into full force.

Himanshu Baid: I think one thing we have to understand is that we all have to be vaccinated maybe once every year that is for sure and you have already seen booster doses being administered patients in Europe and America, already they have started it. So, that is within six months, eight months of the vaccine efficacy is going down and you need a booster dose. Going forward we might need a booster dose every year, all of us.

Vinay Bafna: Actually that is where my question was, because of the oral drugs come into play?

Himanshu Baid: See, today I do not know like for example I take a flu shot every October, November, just to cover all the spectrums of flu. So there is always a new let us say spectrum which covers, 21, 22 flu and then you take a booster dose to ensure that you are protected from flu, different flu which we have today in the world. So, every year we will have to have some kind of a vaccination to ensure that we do not have flu or COVID, so I think India is very underpenetrated right now. We are probably using 5 billion syringes over a population of 1.3 billion population. In my view, the demand would jump to around 10 billion syringes in maybe next five, six years, which includes vaccination, because the vaccination awareness is increasing now. Today, at least 60% to 70% of the population they do not have access to any vaccination in India. So the awareness for different vaccines is also increasing now. Government's budget on healthcare is also increasing in vaccination drive. So overall I think I would say the demand will increase rapidly for syringes.

Vinay Bafna: Thank you. This is very helpful. Thank you Sir.

Moderator: Thank you. The next question is from the line of Mr. Mitesh Shah from ICICI Securities. Please go ahead.

Mitesh Shah: Thanks for taking my question. Regarding the raw material, raw material price has increased, do you face any issues about the availability in the container as well.

Himanshu Baid: There is a big problem. Today let us say a container we are getting from Korea, used to come in 20-25 days to Faridabad. Now the same container comes in 60 days to 75 days. Same thing is happening from all our suppliers around the world whether it is USA, whether it is Europe, whether it is Far East, any country in Far East it is actually bad right now.

Mitesh Shah: Are you doing any provision in increasing inventories for the raw material?

- Himanshu Baid:** That is what I said, our inventories have increased by around 35 Crores to 40 Crores and that is the reason we have taken that call to have an extra inventory of materials and gradually we are building up that inventory so that if there is any fall out in global supply chain at least we are protected with these kinds of situation. That is what till now we do not have any problems, but I cannot tell you what is going to happen after two months or three months.
- Mitesh Shah:** About your export, the container availability is an issue?
- Himanshu Baid:** Big issue, big, big, big issue.
- Mitesh Shah:** Regarding your 17%, 18% what would be the capex you are looking for this next two to three years?
- Himanshu Baid:** I think we are already planning to invest close to 200 Crores in the new plants and in the existing plants, 150 Crores goes in two plants and 50 Crores goes in the existing plants. So, this is already planned for the next let us say 18 months, from April 2021 to let us say September 2022, but going forward this industry is a heavy capex industry. We continue to bring in products, automate, so around 80 Crores to 100 Crores capex will happen every year as we grow also.
- Mitesh Shah:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Tanuj Mehta an individual investor. Please go ahead.
- Tanuj Mehta:** Well, my question pertains to two things, first thing is that you are present in the consumable parts of the medical devices sector as a whole, and here we are majorly being competed by the unorganized sector because especially in country like India or China, where unorganized or unbranded players have a major hold because of low pricing or quality or whatever we say, so how do we counter them on a global level and for the time being in India as well, because right now we have threats not only from China, but also from among the unorganized sector present in India?
- Himanshu Baid:** I think there are two parts to this question, first I will tell you is that we are in a business for last 25 years, almost 25 years. So these threats are not new or something which has come up today or they were not there yesterday. So this is an ongoing process and ongoing industry. What changes have come in first I will talk about the industry local industry. So now from October 1, 2021 all medical devices have come under regulation. Earlier only 35 medical devices were regulated and now 3000 devices are under regulation and in the process of regulated and if you go to C&D website, you will see how the government has come in as a stage regulation that let us say within this year all critical care devices which are class C&D regulated and another one year so by 2023 September all medical devices will get regulated in the country. That means all unorganized imports and unorganized manufacturing will stop like the pharma industry. Pharma last 10 years ago, when this whole industry was regulated, all unorganized sector has kind of vanished. So same thing will happen in Medtech sector also and I also chair the CII National Medical Forum

and I also do a lot of efficacy work with the government and we have been pushing very hard for regulations to come in for medical devices. That is number one. Number two as a company, I think, no company in India make the kind of margin we do in our business in spite of the fact that today just because of the size and still we are doing around 24%, 25% EBITDA margins, not a single company in Medtech field does that kind of margin because we are today 300 patents on products and technologies. So that kind of patents and technologies help us to really stay ahead of the competition and we are able to drive a better margin on those products.

Tanuj Mehta: Thank you for that explanation. Sir, I had another question like in the current business pie that we are present, what is our growth potential there because I was just looking at the industry as a whole and as per various reports it is said that the other electronic devices which is on medical devices that pie of the sector is expected to grow faster and all of that. So, how is our field, the pie in which we are present?

Himanshu Baid: We expect the growth to be in the range, let us say the industry is growing at a range of around 11% to 12%, our growth depends on a number of hospital beds being added in the country. So, typically what we are seeing right now almost 80000 to 100000 hospital beds are getting added every year, which is around from 14 lakhs beds which are currently present in the country, hospital beds around 80000 to 100000 beds are getting added every year, so with that increase 6% to 7% increase and plus the increase in let us say a reduction in hospital stay of the patient where many surgeries are going to day surgery, are today with less number of hospital stays today, I think overall the industry is growing around 11% to 12% and that growth will definitely be there plus as we are growing as a company and earlier already informed our esteemed shareholders that this year the first six months we are growing around 55% in the domestic business. So, definitely we are growing at a much higher rate compared to the industry growth. So, we are taking more market share from organized players or unorganized players and I think for us that is huge delta available and the market is huge probably we have reached only 25% of the market today in India. So, there is still 75% open.

Tanuj Mehta: Just a followup question; so when we do business in India and then we do a business as we are planning to do in US, the business model remains the same that is through hospitals or there is some change in we doing business?

Himanshu Baid: No. India is very different. India we have our own reps. So, we have close to around 275 people on the ground in India that are directly employed by the company, which are reps, clinical experts, and ourselves and even doctors and overseas we work with large distribution partners. We do not have any people on the ground.

Tanuj Mehta: Thank you Sir. Good luck for the upcoming quarters.

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

Himanshu Baid: Thank you once again everyone for being on the call. If you have any followup questions, please do send an email to our company secretary or to our CFO, Mr. Naresh Vijay and we will be happy to answer them. Thank you again for your support and confidence in the business. Thank you all.

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