



“Morepen Laboratories Limited
Q3 FY2022 Earnings Conference Call”

February 09, 2022



MANAGEMENT:

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Moderator: Ladies and gentlemen, good day and welcome to Morepen Laboratories Limited Q3 FY2022 Earnings Conference Call. Joining us on this call today are Mr. Sushil Suri, Chairman and Managing Director; Mr. Ajay Sharma, Chief Financial Officer and Mr. Vipul Kumar Srivastava, Company Secretary. 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 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. Sushil Suri, Chairman and Managing Director of Morepen Laboratories Limited. Thank you and over to you.

Sushil Suri: Thank you. Hello friends, I hope that everybody is safe and comfortable post the third wave. We hope that this third wave is ending now. I am happy to see the number of cases in the country as a whole has come down to less than 100,000, it is around 70 to 80,000. As everybody has expected in India 14 to 15 lakh cases were there and we are now in control, and we are now in a happy situation and hopefully this is over and everybody will be relaxed.

Coming specifically to the quarterly results, the board has approved the results yesterday and we have already shared the numbers with the stock exchanges, a copy of the press release, quarterly results and the presentation. I am sure all of you have gone through the numbers of course we will come specifically to questions and answers, but I will give you a quick run where we are and how things have been moving. Before we get on to the numbers, I would like to update you two or three main things which have evolved and also happened over a period of last two to three quarters. As everybody know the healthcare and pharmaceutical sector has been friendly in terms of market, it has been very friendly in terms of customers and of course due to COVID we had to work extra efforts, we had to work overnight to serve our customers, we serve the doctors, this is fine. I think every company has been doing, no credits for that, but the interesting part is that on all the fronts whether it is our API division, our diagnostics, or sales or even the OTC and Dr. Morepen, we have explored opportunities and I will say eventful things happening on all the sides. Now the

only thing which the company was looking for that yes, we have come out of old problems, we have come out of the old shockers which we have been going through the last 20 years and we had a lot of debt back in the beginning and the company has gone for a very long restructuring process, it has gone for almost 12-13 years. So, we proudly say that we were debt free back in 2018 and 2019, but none of the debt which was part of our preference capital, which is technically still a debt according to the new accounting standards, so that is still remaining in the books. So yesterday, the board had approved the conversion of preference capital into the equity share so equity will be converted at any given formula which is approximately Rs. 53.72 per equity share. So, it is a very good milestone for the company that the previous process which ran almost 15 years is coming to an end and company will now be free from all the old liabilities and I would say to an extent I do not mind calling shackles. So, we will be at liberty to go out to the market and attract fresh capital. For the last few years, the company has not had any capital and we were occupied, busy rather stressed only to close the old outstanding so which we have gone through a bad debt back in 2005 in patent issues effort, but now 1.14 Crores preference capital will be regarded as equity which will be approximately 2.13 Crores. So, there will be nominal increase in the capital but our major liability will get out of the books, but more importantly would be that the company would be free to move out. We are an absolute debt free company now with support from all the banks we are thankful for all the banks for this, I would like to say that they have gracefully agreed to convert preference shares into equity at market price, that is a good benchmark. The second important thing which is not there, you cannot see in the quarterly results and numbers is the capex plan. The company has not launched many capex plans, but honestly, we had no capital to spend on its own because we have no term loans, we have no working capital and all the working capital which the company employed was self-funded and we had limited profits, so how much that self-funding can be. So, today we have working capital to the tune of 450-500 Crores all put together, but everything is funded from internal accruals, there are no bank loans and the only facility we have got from the bank is that we have some FD, and we had some early rebate which is very temporary. This is now not there because our dynamics were stopped because of this preference capital. So now I would say its a historical moment for the company. It is a real changer for the company. We can attract

capital and we can spend capital and we can have capex which was not there. So, since the business has been doing all round, we have been growing at 35-40%, year on year. Now we have a big opportunity not only to attract capital, we have the opportunity to even spend money on the capex which will take the company on a global scale. What was happening earlier was that it was only the API business where we were exporting and of course we are still exporting and 60% to 70% of the API business, but in other businesses for examples medical devices or even OTC, we have not been able to put up our best which we need for exports and even for the finished processes we have not invested any money on filing of ANDA which are required for global market, which is our ticket to the global markets, primarily the US market. So we are not at a situation that to achieve a global scale the company is ready to invest in the capex and the next three to five years capital expenses will be churning and it is going to capex cycle that we keep on investing and of course keep on harvesting. This year the budget of the Indian government, which is capex focused, so I am thinking that our budget is also capex focused for the next three to five years.

The third important thing which is happening as you would see as we grow out the numbers, the company's overall strategy and philosophy to reach more and more consumers directly is increasing day by day. Every day we are adding more customers, every day we are adding more markets, every day we are adding and reaching to more patients in new touchpoints. So thanks to our B2B efforts, which were primarily on account of diagnostic devices in the last couple of quarters and secondly lately because of Dr. Morepen wherein we already have a large portfolio, but now in online segment also the B2C segment has gone up and the company is slowly evolving. Earlier the company had 65% to 70% share in API market. The API share in the total segment I am reporting was 65% to 70%. Now it has dipped to almost 56% to 58%. So, more and more B2C customers are added. I think these are the three major things which we need to take into account when we go forward, we will explain how the company is undergoing change in the management process, we are hiring more and more talents to match the technical needs of the company and to add to the new age technologies, even the next generation which will be involved in the business, so they are also educated from best universities in the world. So,

we have the best internal talent and also the new generation which is coming up, we are basically trying to evolve the management also to a level where we can contribute more and more to the business process. These were the three or four things which I wanted to highlight.

Coming back to the numbers, which you have already gone through. For the last nine months of the year was phenomenal for the company. Net revenue of the company has gone up by 30% and just to give you a perspective, last year our total topline was around 1200 Crores, now this nine month we have already made 1186 Crores, we have almost completed the full year revenue in nine months. Very good, claps for the whole team, everyone has done a good job. EBITDA of the company has also gone up proportionately around 30%. Of course, expenses have gone a bit higher and profit after tax is 27% because from this year onwards our provision for taxation has also come up, but if you look at profit before tax, it is also 59% up. In nine months from 70 Crores to 112 Crores, there is a 60% increase in the profit before tax but honestly that 60% does not come to your pocket, some money would go to the tax, so after tax we are at 27% increase in nine months. So, nine months picture is very good but of course there are quarterly fluctuations. Q3 quarter was not very strong on account of some divisions. API division has performed very well, and API division has shown 41% growth in the quarter. API division has grown 41% in this quarter. It has done exceedingly well in the quarter and there was a huge focus on exports. Exports have also grown up; exports have grown up by 43% which is almost a matching number. In nine months, time, the API division has done 22% which is very good. When you say 22%, this is 56% in medical devices, 27% in formulations and Dr. Morepen is again 25%. Now the division or I would say the efforts where we have been lacking is primarily on the medical devices business. In the medical devices business, we have grown by 7% in the current quarter, but year as a whole there is a 56% increase. Last year as a whole, in the full year we had 287 Crores of topline, but this year in the nine months alone we have scored 351 Crores. It is like 56% increase which is humongous, but during the quarter there were shortages of chips as you all know. Q2. So, there was a lot of supply of glucometer which we could not fulfil in Q2, so we had to continue supplying in Q3. So, some of these got shifted from Q2 to Q3, so Q3 number would be high but just to tell you that our

business model is to keep investing in the meters and as a company for the last four years including the nine months for the current year, the company has invested around 132 Crores in installing new meters. So, the new meters company has to basically invest from your own pocket, so we subsidize the meters so that more and more strips are sold. So, we keep saving the future. The more meter we make, the more sales we will get in the coming years. So, this is one reason that our profit margin seemingly looks little bit depressed because we keep investing in the meters particularly in this Q3 quarter, so investment on meters was much higher so our investment on meters was 19% as compared to 7% in the last quarter, rather it was 27% as compared to Q2 which was only 10%. So there is a higher investment in the Q3 because in the Q2 because of the COVID scare and lots and lots of people were buying the strips so there was lesser of new installation of meters, the strips sales was higher than the meter sales so we could see that we could not invest in the meters much and of course there was a shortage of meters, but we see year as a whole, our numbers are pretty good. We are absolutely comfortable. Our investment in the meter is the same. Second thing with little more investment in the meter has been added that since the reach is increasing, the company has got size, the company is going to be more than 500 Crores next year only in this business, so we are increasing our reach and as I told, every day we are adding more customers, more distributors, so the company has started placing some advertisements above the line in the popular TV channels. We cannot afford the time on media, but in secondary channels and news channels we have started advertising. You might have observed some ads here and there. Mr. Boman Irani was appearing, and Gulzar Sir was also there for advertisement of BP and glucometers. So, we are now launching in this quarter or early next quarter a fertility range where Mrs. Kareen Kapoor will be there. So, the company is investing behind the marketing so the marketing spend in the quarter is little higher than usual, but it is attracting more and more customers, so the result may not be immediate but as a company we know that we are going to the next level and we are creating new markets and new customers which is the future. We are seeding the future; we are investing in the future.

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The second thing in the medical devices business is that glucometers have been growing exponentially every time, but this quarter we have set up the record even for the BP monitors. So, BP monitors we have exceeded our competing Omron and we have sold a million meters in nine months' time which is a record for us. It is the highest meter sold ever in any year. So, within nine months we have sold million meters. So as compared to the competition, of course there was a shortage of chips all over the world, we had shortages and we could not some charge and we were in better place here. Similarly, in the glucometers also, we have been creating our own new records. We have in the market now almost 6.75 million meters, we plan to install 15 million meters in the next three years. So, it is a long way to go. So, we will keep investing in the meters, keep creating the future and as we go forward, more and more people will buy strips. That is the highlight. I have shared with you on story side, the upcoming expansion plans in the devices which is already been planned to be brought into a separate subsidiary. The board has approved even the business transferring in this division and when we have the business sit in the new company, we will be spending more in the medical devices business and we want to make medical devices to have a global presence but whatever we are doing in India, we are competent and confident that we can do our work. Similar markets, whether it is our neighboring countries, whether it is Sri Lanka or Bangladesh, or I would say Cambodia, Vietnam or Philippines, wherever we get large population of India side, with economy we can have similar strategies. Of course, once we get our certification and US FDA, we can export these things also. So, in both the places whether it is API or medical devices, so the bigger play will be focus on the global markets. In the API we have shared last time that we have project which is already approved; and we were waiting for the members' approval on this so that last leg I shared that the preference capital issue has been cleared by the board now and of course it will be subject to the shareholders and regulatory approvals. So once all those formalities are finished, we will be ready to implement our capex plan for the API also wherein we have 15 molecules being patented in the next five to seven years and we have built in capacity. So presently the only thing we are lacking is the capacity. We have got the US FDA approval for Fexofenadine which we shared last time through a press release and we got our new product launched, Dapagliflozin which is anti-diabetic, and we have a new product Sitagliptin will

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be off-patent in July, so we are working on that. So, the only thing which is stopping us is the capital investments. So soon we will be adding capacities and whatever investments we are making in R&D this quarter the investment in R&D was a little higher, but everything will be put to use.

Coming back to the finished dosage I shared with you that it has grown 23% so this is where I would highlight that this business has lost heavily due to the COVID situation last year, lot of lockdowns, but this year it has recovered and now it has grown 23%, so actually I would say this is not a growth, so it is more of a recovery but we can see that the market is coming back and Morepen is getting due credit from the market, doctors are very happy. Here again we would like to see the company go to the next level. We want to file our own ANDA so we are working on a plan which we will come out in the next six months' time as to how do we take this business forward. Since we have the scale now, we have the capital window available and certainly the market is there.

Dr. Morepen as I shared has been doing exceedingly well. In Q3 it had grown 46%. Of course, last year it was depressed, so I would not say 46% is very high, but it has recovered from where it lost last year and it has also increased from the low base, so in nine months time, Dr. Morepen has grown by 25%. I am happy to share that the trade business at its regular growth where we had Lemolate and other brands, so where Fever X and Pain X, so there is 25% growth, but the major growth is coming from online which is 449% over a period of nine months. The absolute numbers are small, but if we look at quarterly growth, so in Q1 we grew by 200%, in Q2 we grew 36% and 40%, quarter on quarter 30 to 40% growth, this is very typical in online trade. So, we have launched more than 50 products online which are getting good traction. Of course, we have to invest heavily in the marketing, but we are getting a good recognition from the customers, there are repeat customers. So, the products are available on the website, they are available on the Amazon, it is available on Flipkart, it is available in other sites like Health Cart etc, so online launches have been very successful. We have the multivitamins, collagen, muscle pain, sexual wellness products, higher end probiotics, these are all new age things which the new generation is looking for and online shopping has

become the future. This is the future where our OTC brand will grow and similarly in diagnostic devices, we are focusing more and more on consumer devices, we come up with more and more products on the consumer side than what we are doing on the hospital side. We are more of a consumer company in that sense.

So Dr. Morepen is a brand which is used both for medical devices and for OTC so in nine months time we have a topline of 551 Crores, so if you just annualize it, may be it is about 600 to 700 Crores as we are sitting today, you can see the value of a brand typically in a branded market so usually topline multiplies, so I do not want to get around that, but a 700 Crores brand what would be the value. R&D spends in the quarter have also gone up by 58% during nine months from 6.5 Crores to 10.3 Crores, so primarily API and finished dosages primarily we got it. Devices there is not much spend because the previous expansion is factored when we do major capex in R&D labs. That broadly is the summary of the results, but I can quickly run the numbers again. The net revenue was up 30%, EBITDA up 30%, interest is very nominal so no discussion. Cash profit is up 42%, 133 Crores cash profit. In the quarter if you look at it, the net revenue is up 29%, expense at 31% so technically expenses should have gone down but may be 2% to 3% expenses have gone up because we had higher marketing, higher R&D spent and some higher investments in the meters, but EBITDA is down because of these 2% to 3% thing. EBITDA is still up but percentage wise it is 7% up only. Interest rate is very nominal, 0.75 cr. was interest only. Cash profit is up 9% so we have been discussing internally that if the revenue goes up, cash margins should have also gone up, but we are seeing from a longer term perspective that if we keep investing back in the market, on marketing or R&D so these are long term things, but of course COVID had virtually so many up's and down's in all companies figures, so I would say if you still look at nine months data, we are comfortable with 30% increase in EBITDA and 42% cash profit this is good. Coming to the profitability, so profit before tax is up 59% in the nine months, in the quarter it is up 14% because the tax has come down. Post tax the profit has gone down because for the first time we are proud to say that the company has been subjected to tax, so we have a provision for tax to the extent of 5.62 Crores, so after tax it looks down, but company's performance is very good, numbers are very good. That is all I have to say. As

a recap, we are all set for the phase 2, or I would say Morepen 2.0 because as we stand today, we are sort of liberated and we have cleared all the debt for all the past liabilities we may still have some sluggish litigation standing in our books but financially we are free, we get growth of capital market and of course move forward with the expansions what we have on our cards. Thank you very much for the patient hearing. I can open the floor for the questions and answers.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Sourav Bhutra from Spring The Ride. Please go ahead.

Sourav Bhutra: I just wanted to ask and congratulations for debt clearance and all the things. Number one, I just wanted to come out on the EBITDA margin. Your margin is very much low. Can you explain what is the reason for that and number two, what is the COVID related sales in this quarter.

Sushil Suri: As far as EBITDA margins are concerned, I would request our CFO to explain.

Ajay Sharma: As CMD has explained primary reason for fall in EBITDA margin is that we are investing heavily in devices business. The primary reason is this quarter, we have done almost two times investment which we have done in previous quarter. If you compare with last year same quarter, it is again 1.5x. The reason is we are investing to extend our topline in the devices business where we feel that it is very much on the horizon. It is only that short term there would be minor variations of profit but in long term it will help the company to capture the market and maintain its hold on the profitability as well. So, I think on quarter on quarter, this quarter EBITDA margins are slightly more or less the horizon for many more years. Though we are investing for the last many years on the devices business, but as we are expanding, we are getting more and more traction in the market. So, our plan is to really attend our topline in the devices business which will give permanent hold over the market and will be able to hold margins over a period of time. This is one of the things. Second is as explained we are also investing on the marketing as well. Previously we were not putting any advertisement in the television, now we are engaging Boman Irani and few more celebrities and TV artist to marketing so this is going to

help our devices business reach every household wherein our devices have already been established and it will give more hold in the domestic market and we will be able to really extend our base in that devices as well in the consumer segment because our Dr. Morepen business, the OTC business also we are centering, so it will give hold on both the consumer centric business devices as well as Dr. Morepen OTC business. That is one of the thing. Secondly, we are also investing on the R&D spend as well. Though we have been spending, but we are increasing the spends. As we are getting the increase in topline, the quantum of profit is getting higher, may be percentage lowers, but it will give us more leeway to invest in the R&D segment as well. So, process and quality improvement so all these things are basically step towards future expansion of the market, particularly when lot of molecules are getting patented, I think for the next four to five years, we are getting ready. So, there could be mild variation on quarter on quarter basis, but we should not really be worried about that.

Sushil Suri:

I would like to add that though EBITDA margins are low we on an API spend EBITDA margins are pretty good and pretty stable and they are as good as from last few quarters and we will be ranging from 17% to 18%. Medical devices also nine months as a whole it is very good. This quarter looks a little bit depressed because some of the supplies of glucometer having shifted from one quarter to another quarter some marketing expenses are there, but generally we are good on the EBITDA here also. The finished dosages we are still investing and Dr. Morepen is also done well in all three quarters, so there is nothing to worry. We are on the whole pretty good. But yes, as the size of the company would grow, and expenses remain the same we will be able to churn out better EBITDA. So, as we grow, the moment we bring in more capital and we are able to increase the topline, if the six months remain same then anything will add to the bottom. On COVID products, we do not have much focus on the COVID products except that in the first quarter we had around 19.5 Crores sales of pulse oximeter and oxygen concentrators which in Q2 had reduced to 4 Crores from 19.5 Crores to 4 Crores and in Q3 it was only 75 lakhs. So, we did not have any business in COVID, but in January because of some news about this third wave, of course it was only for two weeks, so we have been able to sell some oximeters which we were having in inventory so we could sell at cost

price only, sometimes less than cost price so that has happened in January which we will be able to share with you in Q4 results.

Sourav Bhutra: Sir if I can know, can we maintain the sale at this run rate and number two how will you do the fund raising now after the preferential is over, can you explain that sir.

Sushil Suri: If you particularly talking about sales do we have this run rate, I would say that if you look at the CAGR we are very open in our spread. In all our presentation we share what is our CAGR, compounded average growth rate. Our CAGR revenue had been 25%, it is not that we have for the first time got higher sale. Year after year we have been growing at a CAGR of 25%, this year we are already at 30% so if we see 25% to 30% rate, I do not see that as a big challenge for company as a whole, but yes in a particular segment for example if you look at medical devices, we have been growing 45% to 46%, so it was 26% and medical devices have been growing at CAGR of 41%. That I would say may not be repeated, 41% is okay at small numbers, but 25% to 30% CAGR we are comfortable with that in every business. Maybe we will grow by 25%, 30% in one year but on a compounded annual it may be 20% to 22% so we are comfortable. Because when we go from here, we are opening new markets, so what happens for us is that we can grow from where we are, we cannot sell more to the same customers, we cannot sell the same products more, we have a huge pipeline of API which is opening up. Is it fair to put up capacity, so we would say our sale would multiply, it would be exponential. Similarly for the medical devices, so we are adding more capacities, we are adding more market and we can see the numbers growing. It all depends how fast we are and how fast we all work together so we can cater to the market. That is the opportunity which is there. Second question is on how do we want to raise capital. I would say we are open for that. We have not started any formal process. We are just having informal discussion with our associates and advisors. So, we will start a formal process and whenever we have finalized a plan, certainly we will come back to you and share the plan.

Sourav Bhutra: Last three questions from my side, number one, can you explain me during the last quarter you were looking for the process for demerger of your medical

devices from API business, so are you looking for that opportunity. Number two, how much molecules are you are expecting in the coming five years horizon, can you exactly quantify this on the molecules business. Number three, how much you are capturing the market share in the API formulation.

Sushil Suri:

As far as the demerger of the medical devices business is concerned, so we have taken the shareholders approval in last September/ October and the process has already begun and I told in my commentary earlier. So we have already started the process of making it into a separate subsidiary this will be 100% owned by the company, that process is already on. It will facilitate the company to attract better capital and better customers and better talent. The second point, how many molecules are coming of patent, there are 15 molecules which are being off patent in the next seven to eight years upto 2030 for which we have already started the process, we are in the process of finding drugs and we are making batches and of course we have pilot facilities also. Some products may be off patented in this year, some expired last year, one is expiring this year and Linagliptin in 2025, Apixaban in 2025, so we have around 15 products which are expiring, the total market size of API would be anywhere between \$7 to \$8 billion, so we take 10% market share, we are happy. Secondly how much are we capturing now, I would say that is really special question as it is only for Morepen we believe in capturing the market. In Loratadine we are the market leader, we have 90% share in the global generic market, out of India we have got 64% share of exports market, 64% of any goods shipped out of India is Morepen, every 64 out of 100 kg goes out of India is Morepen. Within Morepen, 82% of our business is exports for Loratadine. For Montelukast we have 36% market share which is the largest market share in export again. For Rouvastatin we have around 18% to 20% market share, so molecule to molecule it depends. Our strategy is to do the leadership. We do not want to be just another player. Our strategy is to be leader, go from the basics and we try to control and lead the market.

Sourav Bhutra:

Okay understood sir. Thank you from my side and will be joining in the next quarter.

Moderator: Thank you. The next question is from the line of Akash Das an Individual Investor. Please go ahead.

Akash Das: Sir I have a query, in the audited statement it is written that for Morepen Devices Limited and for Morepen Inc, the auditor has mentioned that we have not reviewed the financial results of these two subsidiaries and the financial results of these two subsidiaries are based on management certified financial information, so can you just clarify what is the reason for not reviewing these two companies.

Ajay Sharma: Morepen Inc is a USA subsidiary so it has a yearly audit for this and Morepen Devices Limited, there is no business in this company so only a small capital, and as there is no business there is no review of audit had been done, because of low operations in Devices and very small amount of revenues may be a few lakhs so we get this number on yearly audit basis.

Sushil Suri: I would like to add Akash this Morepen Devices Limited is going to be the new darling of the market, this is a new company which has been formed wherein the medical devices business will be shifted. The company has to be incorporated first to get into the agreement so this is a new company so we will transfer the business and in the next two to three quarters you will see that company. That is why it was not shown in the audit.

Akash Das: I get it.

Moderator: Thank you. The next question is from the line of Avishek Bera an Individual Investor. Please go ahead.

Avishek Bera: Hi Mr. Suri good evening. Congratulations to all of you for working hard and getting where we are. Last couple of years has been phenomenal for Morepen Labs and its investors. So, I have three questions, what is the status of CE certification on the device business. Next question is given that you have got FDA of Allegra so do you think that it is going to add more growth to the API business from Q4 onwards. Third question, the device business impacted due to unavailability of chips and all those things. So given that Q4 will be normal like should we expect decent growth on the device business from Q4 onwards.

Sushil Suri: Good Avishek, I think you have got very intelligent questions. First of all, the CE certification, CE certification is a very routine process for us because we are already a USFDA certified company but unfortunately last two years because of the COVID they have not been many physical interactions and it is very difficult to get appointments of the inspectors because only few people are travelling because of travel restrictions so we have not been able to get audit for CE certification, but otherwise our facility was up to the mark of CE and these are already been approved by BSI which is British Standard International for ISO certification, so we were approved just one month before the COVID started. In February we had inspection and in March the COVID started. So, our system and processes are all according to the ISO certification and approval continues, but getting a physical certificate, it will take six months to one month depending on the travel of the officers, but we have all the systems in place and nothing to worry, but honestly as of today we do not have capacities. Our limitations are we cannot produce enough for the domestic market. Like I said some of the supply of Q2 were shifted to Q3 and there was huge shortage of meters and glucometer we were looking that we had supplies, but we do not want to be dependent on Korea and China again because we are trying to expand our capacity. Coming to the US FDA of Allegra, so Allegra and Fexofenedine we were already producing from last year, but we had no tie up with any large customers, we were selling in the semi regulated market. So now since we have got the US FDA approval, we will get to all these customers for the last 20 years who have been getting from us, so now depending upon the market and depending on the orders, we are comfortable and confident that we are the people, but Q1 onward we started, so we will start getting sales. Again, there is a constrain but we will manage it. On the devices side, like to you said that how much could be the sales and revenue, so I would say depending on the market how do we react, but normally this quarter is not very aggressive. March quarter, people were a bit silent, but trade does not take much talk, but it all depend upon the overall pickup of the market, so I am unable to give upright, but this much I know that we will be able to maintain what we are doing.

Avishek Bera: Thank you.

Moderator: Thank you. The next question is from the line of Jay, an individual investor. Please go ahead.

Jay: We are investing heavily in medical devices and there are so many new persons are coming up. Recently I have gone through an article which says one person IIT guy, is funded 500 Crores from US where he has devised a new thing whereby just putting finger on the small device we can see the readings of glucometer, blood pressure, ECG and another two to three things. So, they are starting the production from March, do not you think that something like this comes up aggressively, and strips are also not required in that. So, from March they are marketing, already they are taking orders from February and this guy got 500 Crores for this. So, if something of this type comes up what is the value for our devices business.

Sushil Suri: Yes Mr. Jay I would say that you have got the recent and most up to date knowledge of the market, it was highly appreciated, but I would say as a company, we keep an eye on all recent developments and what is happening on the R&D and what is happening in the market and I do not say that we are best and we have everything but what we understand, the way I would like to say is that our teams somehow very cautious of the Indian market. So, we understand that these types of devices are coming in the market, which I say is strip free, but I do not know what would be the price of that device. The only thing I know is these devices are priced anywhere between Rs.12000 to Rs.15000. For Rs.15000 we can buy a refrigerator, we can buy something.

Jay: Yes that is true, but initially he is taking only 1200 orders, the moment something clicks like it may come down to 5000 and then at that time he need not spend on the strips and all, he is getting everything like blood pressure, ECG everything on one small device.

Sushil Suri: I understand but basically what our experience had been, and we are aware of that. Our study is that in India, with much bigger demographics, we still need a price point anywhere between Rs.500 to Rs.1000. We are not able to sell glucometers whenever selling at Rs.2000. We have to reduce every time to penetrate the market. Now for example glucometer strips, we sell 10 Crores strips every year, we have to come to the point it has to be affordable. So

similarly simple machines, BP monitor, very simple device, but that BP monitor is Rs.5000, we were selling 10000, like I shared now we have sold one million units, if you only sell one million pieces we have to reduce and then we have to be price sensitive and we have to reach to the client. But we are not saying that these devices will not work, that is the first point. Second point is the accuracy and doctor's confirmation. In India we have a very typical problem whatever medical practitioners are not friendly with these devices because it is keeping below their belt. It affects their business, so they never recommend this quite interesting and complicated idea. If we are able to do everything at home, then who will go to the doctor. So that has been the attitude but I think thanks to COVID now doctors are saying okay you do your testing at home, you check things at home, do not come everytime to the doctor. I am a big fan of Apple watch, I have been getting Apple watches for the last six years and for the last two years Apple watch has got ECG. Honestly when I tried it first time for a trial I have then never used it. Apple watch also gives report, but that is just a gimmick. Everyone has Apple watch , but we still buy oximeter because it is question of specialization. Honestly we still can co-exist but as a company we are aware, we are also working on many things. Thank you for giving us that information but we will evaluate it.

Jay: Second one I want to ask is the 178 Crores expansion nine months back you announced, already the production has started from that unit or it is still going to take time.

Sushil Suri: There we were waiting for single window clearance; we got that last year. This year we've got the environment clearance also, and we have already started working on building plans, this is the capex that is required. Earlier we had some arrangement working with European company, so we had planned that okay the money which comes from them we will use that, but they haven't given for our project and Corinth investment also, so that is yet to take off and now what we are doing rather this investment we were dividing in two parts, some part in phase 1 we will be doing within the same complex with the same building block so that we do not invest more in the civil work but in phase 2 we will add, so we are re-visiting the total project size into phase 1 and phase 2 which we will come back when we have more details.

- Jay:** So phase 1 when we can expect production to start.
- Sushil Suri:** Phase 1 will take I would say 12 to 18 months from the day we start, but the resume of capital has not been, but we will be adding the capex in a manner that we can carry over, last year we closed around 680 Crores, this year will be 800 plus and whatever 200 to 300 Crores extra capacities are required, that we are building but we want to go from the present capacity of 300 KL to 1000 KL in three years time for which we will need some additional capex.
- Jay:** Okay sir, thanks a lot.
- Moderator:** Thank you. The next question is from the line of Narendra, an Individual Investor. Please go ahead.
- Narendra:** The question is related to the consolidated bottom line and channel on bottom line. So there is no much difference between standalone and consolidated except for 21.5 Crores. What are contributing in consolidated one, OTC segment and also do we have any other subsidiary which is contributing there or can we assume this OTC alone is contributing about 10 lakhs for the consolidated statement.
- Sushil Suri:** Yes, it is only OTC business.
- Narendra:** Which means OTC business margin is very low, may be 26 Crores of bottom line so the topline and the bottom line was there, just 0.1 Crores. Can we assume that or is there anything else for that.
- Ajay Sharma:** In OTC business as well we are investing in the marketing equities, so at this point in time we do not have bottom line but it is giving us traction in the market and it is increasing our topline so as will improve our topline bottom line will definitely improve. Basically this is a period of investment, you will see the final results in times to come. So nothing to worry on that.
- Sushil Suri:** I would like to add that in Dr. Morepen and OTC there are two separate lines of activities. One is the trade business, which has stabilized and profit making. We have premium brand like Burnol and Lemolate which are highly profitable. So, there we are adding more products to create the trade because we have huge

distribution and we already have our coverage, that is one. So whatever profits we are earning in top product we are investing behind other products so that we can capture more and more market. Second major investment we see is online part. As I shared in earlier comments, online market has increased 441% quarter on quarter we are growing 30% to 40%, so that is where our major investments are going that is online there is something called as cost of acquisition. All the marketing and whatever is done to acquire a new customer, we give them discounts, we offer them schemes and give them free deliveries, so that is the recent investment on the customer so that customer is your customer for life. So, this is the new step which the company has taken and we are one of the most forward looking company wherein we believe that the trade is going to be there where it is, the future is going to be from online. So, in finished dosages we cannot do much in online, but both in medical devices and OTC we are doing online we are going B2C and the younger generation teams what we have, the new talent what we are hiring and the family manpower from the best universities in the world, so everybody understands this business much better than the traditional business.

Narendra: A followup question on the capex, how much we spent towards capex in last nine months.

Ajay Sharma: In capex we have spent around 12 Crores and another 5 Crores is work in progress, so in all this year we would be spending around 22 Crores odd.

Narendra: API only or including the devices.

Ajay Sharma: Devices, if we see the investment, we have done around 45 Crores investment in the devices itself. Last year we did in 10 months, this year we have done in nine months. That is how is the topline.

Narendra: Is there any cash flow statement along with the balance sheet that would give more clarity on how the cash is being spent. That is where I have these questions.

Ajay Sharma: Annually definitely we will give.

- Narendra:** Thanks for that. Do you have any ANDA applied for this quarter and expecting approvals or any pipeline to be launched in next financial year.
- Sushil Suri:** We have not got any approvals, we have not done any filing but we are still setting up the plant for ABS so we have got the dossiers ready, but we have not done validation and filing is two years away.
- Narendra:** Which means the Morepen Inc, we can see some results only after a couple of years there.
- Sushil Suri:** We have big plans for that but like I have started my commentary with that, that we were stopped because of capital limitations, and we wanted to resolve that first and now we have preferential and most likely we will clear all our balance sheet and all charges from the balance sheet. So maybe we will have better access to capital.
- Narendra:** Thank you. My only concern is the capex plan and how we can achieve these for different segments.
- Sushil Suri:** It is an opportunity we will do that do not worry. As a listed company we cannot speak much, our hands are tied.
- Narendra:** Thank you.
- Moderator:** Thank you. The next question is from the line of Ritesh Vinchhi, an individual investor. Please go ahead.
- Ritesh Vinchhi:** Recently on your interview you mentioned that approval has come for Sputnik order. Can you throw some light in terms of what would be the opportunity and from which financial year the revenue will come and the quantum of revenue also.
- Sushil Suri:** Sputnik we will review the opportunity because it is related to COVID, but we all know how much we can comment on COVID. We do not know how long, how big the COVID be but the general consensus among the pharma companies and word wide that COVID is there to stay in one form or the other and so would be the vaccines in one form or the other. So basically, I would say

that we have got plant ready for the vaccine and we have got approval from the state for manufacture of vaccine, but may be instead of Sputnik component, now we hear that they got approval for Sputnik light. So, there is a big chance that we will also get approval for Sputnik and we are expecting this drug license and once we get the approval, from the Sputnik we will sign an agreement with the RDIF. We have got information that Serum would be supplying bulk so we will be producing the Sputnik vaccine and we have capacity up to 5 million per month which is about 25 million dosages per month and how much we will produce it all depends how much bulk we get from RDIF or Serum so we cannot comment how much capacity and quantity will be used but we have capacity that is what we can tell, but it all depends on the requirement which as of now Russia today is having more than 150000 cases everyday and they need vaccine for Russia and they need it for other third world countries, WHO the moment Sputnik is approved we will get so and so order. So, I would say these are moving parts so we are just keeping fingers crossed but I would just say it is a big opportunity. So, let's not get over excited about it but we are putting our efforts, let us see. I will not be able to give an estimate now.

Ritesh Vinchhi: One more question, fresh capital is it also a plan that some third-party investor will be inducted in your particular medical device business or what is the plan.

Sushil Suri: We have not started exploring on a one on one basis because anything comes we will announce, but we are open to bring equity player in the medical devices company or may be in the parent company, so it depends on how it comes because earlier we were not able to close the market, now it is a historical moment for the company we are in a situation that we can invite people to board and we are ready to partner with people, we can go for M&A, we are open.

Ritesh Vinchhi: Okay thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the floor back to Mr. Suri for closing comments. Over to you sir.

Sushil Suri: I would like to thank all the participants for wonderful and interactive session. I know you have the numbers, and everybody has gone through it and everybody understands well but it is rejuvenating to talk to you guys and get fresh ideas about market and what is happening around and we are happy to share thoughts. So, thank you very much for having an open session and love these interactive discussions. We are available anytime. If you have any questions you can write to the company secretary. COVID is there to stay please take precautions.

Moderator: Thank you. On behalf of Morepen Laboratories that concludes this conference call. Thank you for joining us and you may now disconnect your lines.