



# “Morepen Laboratories Limited Q4 FY21 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day, and welcome to Morepen Laboratories Limited Q4 FY21 Earnings Conference Call. We have with us on the call today, Mr. Sushil Suri - Chairman and Managing Director; Mr. Sanjay Suri - Head of API Business; Mr. Varun Suri - Head of Dr. Morepen; Mr. Anubhav Suri - Head of Diagnostics Business and Mr. Ajay Sharma - Chief Financial Officer.

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.

Also, we would like to remind participants that they may refer to the presentation that is shared by them on email. I now hand the conference over to Mr. Sushil Suri - Chairman and Managing Director. Thank you and over to you, sir.

**Sushil Suri:** Thanks a lot. Good evening, everyone. I hope everyone is safe at home and request everybody to maintain all the social distancing, follow the norms and stay away from the COVID as far as possible. Hope you guys have a good time ahead.

So, without wasting time, coming directly to the earnings for the quarter, your company had been doing very well. In spite of all lockdowns and restrictions and travel restrictions for the whole of the year, your company has given an upside of 39% in the total revenue and the revenue had crossed 1200 crores for the first time, we have already four digits and there is 67% increase in the EBITDA. Profit after tax has also gone 152% up and consequently, the profit after tax has jumped 189% to 97 crores. We are almost touching 100 crores and consequently the EPS has also gone up. For every share, now we are earning Rs. 2.16 paisa as opposed to 75 paisa last year and this is not only for the year, but the quarter was also very phenomenal. With the hard work of the team in spite of all again glitches, the net revenue has gone up by 40% and profit after tax has gone up 143%.

So before we slip into the details, I must add a little bit that the increase in profit is pretty significant and obviously one of the good reasons is that during this year, the exports have jumped very substantially, 39% of your company's topline comes from the exports and in the API business, which is contributing around 60% to the business, comes from the export business, so your company has better exports, better margins and of course better addition

to the bottomline, 133 crores of exports were extra as compared to last year during the year and you can imagine that since exports are at higher margins, good margins and these are all exported to regulated countries, we get good margins and the company's profitability has gone up. So, without saying that okay, export is the best, but certainly diagnostic devices also have done very well. All businesses have done very well during the last year.

If you look at the individual sectors, API has grown by 44% and diagnostic devices have gone up by 71% and Dr. Morepen OTC division has gone up by 32%. We have not been able to do very well in case of Finished Dosages, Formulations which are by doctors prescriptions. Because of the lockdown because of the hospitals closure, no OPDs were working, doctors are not meeting the medical representatives, so we are still struggling, we had lost 5%, but overall, as a company we have gained 39% in the year.

Segment wise, if you look at it, the API segment has gone up by 120 basis points from 60.8% to 62% and Diagnostic Devices had outstanding improvement of 450 basis points from 21.6% to 26.1% and it has become major, I would say more than a quarter of a company is now Diagnostic Devices. Finished dosage share certainly has come down proportionately. Now, coming specifically to the API business, the API business has grown 44% in spite of again, I would say all the issues what we had, there were cargo restriction, there were travel restriction, there were staff movement restriction, there were curfews and everything together, we still have grown 44% and CAGR is 26%. So, year-on-year we have been growing. During the last quarter, we have grown 51%, so that is a very great achievement and as I mentioned, 69% the business come from export in the full year.

During the quarter, exports have grown 48% even though domestic has also grown 59%, so total exports for this division has become 473 crores which is almost I would say it has been 500 crores may be this year. So that is a great achievement for the company, it is a high-quality business in all regulated market. We have added 103 new customers in this year, even though that there were no connections, there were no flights, no travels, no exhibition, so these all-new customer additions, they speak high about company's credibility, about the quality, the material, availability, service and also, I would say to an extent the China factor. More and more, companies are looking to participate in India and to come down to India and buy from India, adding new customers in this time of crisis was a big challenge. So we have been able to gracefully do it and company is exporting to over 80 countries and in all continents or I would say market continents we call, so we have

grown 36% in US, in Europe the company has grown 21%, Asia market has grown 48%, India of course has grown 55%, South America 70% and African markets have grown 47%. So, all around there is a growth, it is not particular one area, but all around there has been a growth. The Indian companies have also been growing and all over the world we were having flash of orders and the company have been getting orders at very good rate.

So, if we look at the top 10 countries, so of course after India, it is US, Bangladesh, Spain, China, Iran, Germany, Thailand, Pakistan, Israel and of course the list follows. Specifically, I would like to mention the API that we already have won big mega project coming for API which is the expansion project, 178 crores which was accrued by the board in the last board meeting. We are already getting approvals, we got approval from the state government, we got approval even for the environment cleaners and now the process of land transfer is going, but in addition to that we are putting up an additional R&D center also and the reason is that there is a big opportunity coming up for our API segment. There are 15 blockbuster drugs which are going off patent in the next 5 years and out of those 15 drugs, so almost 13-14 we are manufacturing, so that \$42 billion market which is opening up for everyone, so we are all geared to catch that market and we are ready with the products. As on today, our market size is only \$2.89 billion, the gross market size. This is the finished dosage market size. So, we need a capacity to build up those APIs, we are expanding the existing base also, but in the new project, we will be adding all these new molecules, so in addition to the API plant, we are adding one big R&D center also. We do have R&D labs, but now we are investing behind than R&D center around Rs. 55 crores, so that we can have R&D of the new molecules, not only the APIs, but for the Finished Dosage also.

And taking a leap forward for APIs we are going to file the ANDAs of these products also. 13 of such ANDAs are in various stages of development. 6 ANDAs are ready with up to the pilot bio and another 5 are in the process of lab screens and another 2 are in the bench scale. So, all of these 13 ANDAs related to these products and of course more ANDAs are in pipeline, more PVs being hired, and formulation development part is also happening. So, API supplemented with the ANDAs, that is where we are going. R&D remains the backbone of the company and as you understand that company has got lot of IP, the company has 135 patents and 129 DMFs filed in various parts of the world 13 approvals we have got from China IDL and of course 30 new products have been added over a period

of time. During the last year, we added 10 more patents and 18 DMFs, one IDL and of course added 5 new products in last one year and people working from home, only the branch work is happening in the labs. Senior guys are still working from home, we do not know how long it will go, but we continue working in spite of all the crisis.

So, looking at the API opportunity and looking at the growth which it had certainly the API remains the key focus of the company and we continue investing behind this. The next element which is the big element for growth in the Medical Devices. Medical Devices business grew 71% last year with 41% CAGR which is, I would say very impressive for continuously 4 years, 71% growth in one current year and quarterly basis, it grew 57%. So now, 71% growth looks high, so the question is whether it is one time, whether it continue, the answer is yes, there is high possibility that such kind of growths will continue. So what we are seeing is that there is a change in the lifestyle and the people, there is a change in the habits of the people that diagnostic spend has gone up substantially, so the people were spending few hundred rupees in diagnostics may be just to buy a thermometer may be once in a year or something, but now the diagnostic spends have gone up as I have 5000 to 6000 per month, of course, these days lot of testing is also going, but other than the common thermometer which we were carrying, maybe there was one thermometer in the whole building and you could borrow, but now people are keeping 2, 3, 5 thermometers at home and then there are oximeters, noncontact thermometers and at this time of the year when there is a huge shortage of oxygen in the country, oxygen concentrators will be in huge demand, so we have lot of pressure to supply the oxygen concentrator at whatever, I would say, crisis we can. So, there is a huge shortage of the raw material still, our basic raw material still come from China, there was a flight disturbance, and we are hopeful that even in this month, we will be able to supply between 2000 to 2500 oximeters and going forward, we will try to increase capacity in the oxygen concentrator. Oximeters will go up to 10,000 oximeters and oxygen concentrators also between 5000 to 10,000 per month depending on how pandemic goes, but pandemic or no pandemic, it looks like that oxygen concentrator is going to be a part of your house like our TV at your home or may be a fire extinguisher at home, so you need an oxygen concentrator at home. That is how people are thinking now and of course urban houses can still afford it. Hopefully, the oxygen supply in the hospitals is maintained and people do not need to panic, but we understand that this is life-saving instrument which people will like to keep it at home and we are certainly fulfill whatever demands we can in this hour of the crisis.

So last year, there were two growth drivers in the sales of the company. Glucometer grew by 51% and BP monitors grew at 117%. BP was one category which was growing so fast, but last year, obviously because of the lockdown people are sitting homes scared and of course worried about their elders and everyone, so a lot of people buy BP monitors online and offline. Glucometer sales, of course is growing very fast and if you look at the number of strips sold, last year we have sold 188 million, 8.8 crores strips we have sold last year while we have totally placed 60 crores strips. So, 18 crores strips have been sold last year. 5 million meters have been installed in the market, the more meters installed, the more strips we sell. So we shared last time that the business model of the companies to install more and more meters and as we install one meter, for every meter installed, we have an annuity sort of a thing that okay we get strips sold for rest of the life and we have extraordinary service quality which we deliver and we exchange the meters for any default which has, it is like a lifetime guarantee virtually, 99 year guarantee we give in our meters, so that people came buying the strips and it is a good service company provides.

On the devices also, we have massive expansion plans. Basically, this is happening in two ways, one is that the devices business has gone up to a critical March. We have already achieved around 287 crores, so we are seeing this business grow exponentially in next 3 to 5 years, rather I would say 3 years and the company has decided to spin this of as 100% subsidiary which will be demerged as 100% subsidiary and through an NCLT route and devices business will come up and stand in as separate company, of course 100% ownership will remain for all the shareholders. Then at that stage, we can attract, may be some private equity partners, we can attract technical collaborators, we can have a strategic partner, we can have any honored technical partners or acquisitions happening, so we are open for acquisitions in this business, and we are also looking for some light-minded people for our partnership and of course we are eager to have a joint venture for our backend technologies.

So, when we look at the expansion plans, we have two types of expansions which these division is looking for, one is into the core technology, which has a backend technology to manufacture key components. So that is more like either for example, in the glucometers we are manufacturing strips, but we still have to import the enzymes which is quoted on the strip. So, at some stage we would like to manufacture those enzymes in India. It is not only for glucometers, whether it is glucometers or maybe it is for, I would say, pregnancy

or it is for rapid test, we can do all enzymes for all the diagnostic devices. Then for all Medical Devices, you need PCB, you need SMT so these are the basic thing which we import, so at some stage in life, we need to manufacture these in India and this is where India is still suffering, we still have to import the two things and oximeters there is a special sieve which is used to filter the air, filter, I would say, nitrogen out of the air, pure oxygen is left with a molecular sieve. We are looking if in case we can manufacture molecular sieves in India. So, these are the backward integration, I would say the core technologies and second expansion what we are looking is for the connective devices, whether it is in terms of BP or glucose or your health parameters, so all these things are looking forward. So, we have an investment plan of 150 crores, some may be funded through the new money which is coming up and of course there is sufficient surplus with the company which we can invest here. It will take out 2 years' time and of course there will be robotic control and there will be some new hirings also, so this we have increased the production value up to 2000 crores in the 3 to 5 years' time. For this, we already have a land and the same land parcel at Baddi, so we have already identified the land and we had started working on transfer of land in the name of the company.

Then the next business, the third business which I already talked is touched a little bit is the Finished Dosage. There was not much growth in the business, rather there is a 5% decline in terms of the domestic business. At international level, we have filed 13 ANDAs which we are preparing and of course we are working on non-infringing processes and novel formulations of course, we are developing a lot of new combinations. And our focus is on diabetic market, we are working on 6 diabetic products, \$6.2 billion market and we have 5 cardiac products which is \$23.61 billion markets. There are lot of blockbusters coming up in the cardiac. There is one product Apixaban which is like \$19 billion, you can imagine one product, so we already have some special formulation where probably we will have a fully launch, we can think of, but still it will be launched by 2025-26. Then we are also filing ANDAs of our regular products like Montelukast, so lot of work is happening. This project will cost Rs.100 crores and of course will take 2 years' time for completion, automatic packaging, and machining line, but this will be happening in phases, some part will start early in next six months a pilot phase will start moving in soon, where there is a lot of capacity happening.

The last one of course is the OTC which have lot of special items. It is already at our **Subsidiary Company** and roughly growing independent growth, it grew 32% in this and CAGR is 20%. From the last quarter it grew by 26%, so we would like to highlight more on this, this brand has become rather I would say a house-hold brand. Last year, we launched a lot of products related to COVID, related to immunity Vitamin, Multivitamin, Vitamin C, Chyawanprash, Haldi, Kadha and all these things and then we had disinfectants, surface disinfectants, sanitizer, hand wash, but this year we could see that these things are already saturated, and many new vendors have come up and hence more and more works happening with all the younger generation. They are certainly sitting home and in general also, they were much to do the online shopping, so we have launched online shopping for Dr. Morepen, and we have a huge special exclusive online range, and we have Skin Collagens, Muscle foods, products for sexual wellness, Green Tea, Honey, Omega-3, medicines and tablets for stress, weight loss, protein shakes, common products like beetroot and Apple Cider Vinegar and many new products. Online is the future for the health and nutrition and we are seeing that new millennials are a lot to shop online and there are different products, they are not looking only products of cough and cold, looking for much better range of products what Dr. Morepen is providing now.

Of course, we have another division which is catching up very well in online sales, now we are getting 26% online sales in our custom grooming and vision, we have a brand called Gubb. And then it is only for the female grooming, so may be at some stage, we may do the male grooming also, so it is primarily for the makeup brushes and I would say combs, nail cutters, these are all grooming products, but more and more into the I would say quality hi-tech products which are usually not available in India. Recently, we have launched a beauty source also during the COVID time, so that is also doing very good. And your company has plans to launch a specialty skin care which is more based on a scientific study for cosmetology and hematology which makes a real matter to our people in India who wants to take care of the skin. It is the specialty brand, yet to be launched. We are still working on it. Just broadly I would say area that in Dr. Morepen expansion plan is around the reach and around the number of products. Basically, we have nutraceuticals, energy, aloe vera. cosmetology and of course lot of packaging innovation, which is happening, but if you look at the number of products, so for the trades we have around 100 products and we want to go to 500 products in the 3 years' time in health and nutrition online, so we already have 100 products already in the market, so 1000 products in 3 years' time and the



team is fully geared for that. In grooming, we have got around 200 products and we are going for around 500 products in the coming 3 years. Our company is all geared for Dr. Morepen's expansion which will cost total around 100 crores to be completed over 2 to 3 years including online, more set up and building social media and of course up to 4,000 crore value in terms of seeing it over the next three to five years' time.

Financials, we have already discussed, but just to wrap up, for Q4 net value of 40%, expenditure of 36%, there is 4% savings in, I would say expenditure, so as to the bottomline EBITDA is about 68%. Profit after tax is at 143 and EPS is also up around 143% in the quarter and if you look at the year as a whole, 39% net revenue with expenditure of 36%, Profit before Tax up 152%, after tax 189%, EPS is also 189%. Then we have operating ratios, debtors have gone down, inventory has gone down. Current ratio is presently up, interest coverage is standstill, operating margins have gone up by 68%, net margin of course is around 100%. Deficit ratios are also very healthy, gross surplus gone up 42%, debt-equity is up 29%, capital employed is up, return on equity has gone up by 101%, return on capital employed is also up. These are all technical side, but net debt, company as a whole, the team has been working hard all the year round and we are happy to see the challenging round, but yes, we didn't know how long this COVID would stay and as a company we are geared to work around it and see what are the products people will be needing in this current time and we would like to deliver that. That is broadly the macro view, and I would like to leave the stage open in case there are any questions.

**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 Vaibhav Vinod Soni, an investor. Please go ahead.

**Vaibhav V Soni:**

I had three questions actually, first the prevailing growth, do you agree that some part of this growth is also backed by the COVID pandemic demand and if yes, especially in diagnostic equipment, if yes, how long do you think this growth will continue and what will be the correction in our TOI growth and margin after that? Second question is, if you can please share segment wise margin, EBITDA, PAT or gross margin whatever you can? And third question is regarding expansion part, you have told us that the expansion will be funded by internal accruals and investments we have received, are we also looking out for banking debt for this expansion and if yes, how much?

**Sushil Suri:** I think you have got a very valid question that is the growth sustainable, is a fairly 1% growth in our diagnostic devices, can we sustain it, and I would say that it is anybody's guess that how long pandemic going to stay. One thing I would like to add that whether COVID or no COVID, people are now, I would say, getting serious, they are getting serious about their health. So, if you need to take care of yourself, you need to monitor your parameter, you need to monitor your oxygen...

**Vaibhav V Soni:** Sorry to interrupt, what you are saying is correct, but when I consume a medicine, I will again go out and buy a medicine, but if I buy a diagnostic equipment that is with me for the next 2-3 years, so that is not a revolving demand, so my question is from that perspective?

**Sushil Suri:** So basically, now that diagnostic consumption doesn't mean that okay the same person will keep on adding it, like I told that in Glucometer, we just got 5 million users, but market size of India is 70 million users, so even as to grow to that market even if I take 10 years and by the time, where is the marketplace. So, it is basically more reach, more penetration. As on today, we are talking only I would say tier 1, tier 2 cities, so we still have to go down and it is basically changing of the lifestyle, but yes, is the sizable demand like oximeters and oxygen concentrator, this maybe I would say to an extent temporary and that is why we are not actually banking much on this. What we are trying to do is to find equipment and devices which keep you safe for the rest of your life. And our company is specialized primarily on the home diagnostic, point of care include of course devices which you use at home, nobody thought of oximeters earlier, nobody thought of oxygen concentrator, similarly, there are 100s of things which are used in hospitals and used in nursing home, there are pressure monitors, there are onsite monitors, there are portable ECGs, there are hundred things which is like kind of point of care. So, at Morepen, your company would like to focus more and more on the point of care devices. And as I shared that the lifestyle of people is changing now, the younger generation is coming more and more to take care of their health they are used to holding the gadgets in their hands and they want a reading on their apps. This is where we are confident that demand will continue, but not necessarily the same products will continue. Segment as a whole will keep growing, but not actually anticipated. Second point is on the segment wise EBITDA that I will leave on the CFO. And expansion, do we need any debt, yes we have already sufficient cash flows in the company, and we have got equity infusion coming up. We don't have any plan to raise any

debts in the immediate future and we are already a debt-free company, we just have preference capital in the books which we have to be redeemed, other than that we do not want to get into any debt. So, Ajay ji, would you have handy segment wise EBITDA numbers with you?

**Ajay Sharma:** Yes, good evening, primarily our EBITDA is driven by API business. So, to the extent of topline, it also contributes to the bottomline as well, so we have around 67% of API business and to that extent we have more or less 1 or 2% plus minus, we have EBITDA, so same goes to the net profit level as well.

**Management:** Ajay, this question is segment wise EBITDA, I will take that question. Segment wise EBITDA if you say I think basically API division is one business, which is I would say around 12% to 13% EBITDA which may get in. Diagnostic division has delivered about 20% and Finished Dosages as a business was down hasn't contributed very well this year. In OTC, the EBITDA is still very low because there is a lot of marketing spend, we have around 5% to 6% EBITDA.

**Vaibhav V Soni:** And sir, the expansion project where we are developing all these facilities, we will focus on the API manufacturing?

**Management:** No, API, Devices, ANDA, all the three and of course, development of our brand, Dr. Morepen on the OTC side.

**Moderator:** Thank you. The next question is from the line of Ranvir Singh from Sunidhi Securities. Please go ahead.

**Ranvir Singh:** Sir, just one thing on API side, whatever we are investing, I think we have now environment clearances also and what I anticipated that once that environmental clearance comes up, then this would commercialize soon after that, but presentation mentions it will take three years to commercialize, so just want a clarity on it?

**Sushil Suri:** Basically, when you say 3 years commercialization the complete process, I would say it will take 9 months to one year for the civil work and another one year for fixing the machines and trials and the third year we will have a full production, but not all the blocks will take three years to complete and commercialize. Of course, the building is yet to be

made, this is not a plant where we are ready, and we were waiting for environment clearance. This is a new block of production which is coming up and then all the blocks may not take the time. Intermediate block may come much faster and then the other blocks will come, so you may start seeing the production from the new block may be just after 18 months one by one.

**Ranvir Singh:** Apart from this new API block, have you expanded our existing API production also?

**Sushil Suri:** Existing API we have not expanded, but there is a limitation, we are doing in the same production block. We can add one or two reactors, we may add one or two centrifuges, we may add some balancing equipment, we have added labs, we have increased the size of the QC, we have increased the size of the warehouses, but new production block from scratch has not been built up. So, this is for the first time after 20 years that we are building new production block at an attached site, basically it will make a new factory.

**Ravir Singh:** These 178 crores entirely would be commercialized after 3 years or this is stage wise we will see, part of it...?

**Sushil Suri:** No, it will be in balance stages and of course since it was being done from cash accruals and of course money coming from the promoters, now the investors' money is also there, we will be able to do it much faster.

**Ranvir Singh:** So, is it possible to give some year wise, what portion of CAPEX we will see getting commercialized in FY22 and then FY23?

**Sushil Suri:** We aren't ready at this time, so basically since last week only we had got approval from the board and waiting for the shareholders' approval, so may be in the coming board meeting, we will put forward the CAPEX plan. So as on today, these are, I would say broad contours, but exactly we have to work on year by scheduling and maybe we will be able to tell you more about that.

**Ranvir Singh:** Sir and second one, on that Corinth investment, we saw that Corinth is going to invest some 100 million of that 32.5 will come in Morepen where the rest of moneys are going to? Which sister concerns they are actually investing in?

**Sushil Suri:** Basically, Corinth is investing 32.5 million, rest is invested in other entities and 565 crores out of 750 approximate, 750 crores were expected, around 75% of the money is going to Morepen only because promoter share is also increasing. It has increased the promoter share from 33% to 44% and 9.41 would be the increase in the share of the Corinth. So basically, maximum money is coming from Morepen, that is why it is a Morepen group.

**Ranvir Singh:** So, rest of money is going indirectly to promoter, that is what you are saying?

**Sushil Suri:** No, it is coming to Morepen only, 565 crores money will be invested to Morepen because promoters have to subscribe for the warrants and the promoters have to pay 75% money of the warrants which is already subscribed and additional equity which promoters are buying, 5 crores shares, there also the funding will be done through this only.

**Ranvir Singh:** So as on date how much cash we have received?

**Sushil Suri:** We have yet to get approval from the shareholders, we had sent notices to all the shareholders, there is extraordinary general meeting of the shareholders, which is planned on 20th of May, so once we get shareholders' approval and stock exchange approval, so we will be receiving the money. Promoters have already given their 25% of the warrants which was allotted before 31st March.

**Ranvir Singh:** We had 49 crores roughly is from promoters, right?

**Sushil Suri:** 43 crores.

**Moderator:** Thank you. The next question is from the line of Umakant Sharma from EM Capital Advisors. Please go ahead.

**Umakant Sharma:** Sir, I had one question, I think you have briefly alluded to it and I will just repeat, pardon me for my ignorance for that, could you just tell me how much exactly the money has been raised in the current round? Why are the external investors as well as the promoters and what is the utilization of the entire precede and what is the timeline that you are looking at from a utilization perspective?

**Sushil Suri:** Like we added that 32.5 million would be coming directly into Morepen after the approval from the shareholders and stock exchanges that is by end of this month and rest of the

money which is coming through the promoters would be around 300 crores, this will be coming by subscription of the promoters current equity plus the balance subscription of warrants, 565 crores approximately will come to the company and as far as timelines are concerned, within I would say next 2 months' time the whole money should be in, even though warrants we have got 18 months' time to subscribe, but whatever the shares can be allotted during the year, we will try because as per SEBI norms, promoters cannot increase share more than 5% in one year, so we will see as per SEBI norm how much can be allotted within the current year, but as far as utilization plan is concerned, actually that we utilize overnight, so that is why we have four projects and some civil work is also involved in the API because it is a hard construction and then there is a diagnostic devices and formulation, so I would say it is anywhere between 18 months to 2 years' time on investment and of course, side by side we will have internal accruals, but lot of money will go to working capital and settlement of some old working capitals in the bank, that we will use faster.

**Umakant Sharma:** And sir, could you just briefly throw some color around what exactly went behind, for you to go so aggressive and raise so much of capital and deploy it in the business, when I look at the current aspect gross block that is like about whatever the number, but you have gone ahead and raise the lost money, so what makes you go so aggressive on the overall business?

**Sushil Suri:** I would rather say that we have been very slow, we haven't done anything in last 20 years and...

**Umakant Sharma:** Suddenly you are raising such a big round and what exactly transpired in the whole process?

**Sushil Suri:** Umakant ji, I think it is more of an opportunity and it is a market confidence that now more and more people are looking at India and everybody is looking for companies which have hard core technology on the backup of API and of course the R&D and certainly Morepen is the best candidate for that. We had many opportunities last time, many people were approaching us, they wanted to buy us out and of course **invest** in the market and India is the hubs of the pharmaceuticals. Secondly, our diagnostic devices business has placed an edge because of the COVID and third I would say as a brand, so Dr. Morepen as a brand is very well established. We tick all the boxes of any investor, whatever, whosoever our investors are interested in India and in healthcare, so Corinth has done complete deals

around us and of course there are multiple round of discussions, we appointed third-party outside for the due diligence including legal due diligence and they could figure out that okay here is an opportunity and of course at the right price also. Most of the pharma stocks are non-reached and you won't buy a pharma share less than Rs. 500. So they could see that okay here is an opportunity to invest and of course like-mindedness in the thought process and we are looking for multimarket and we are also looking for growth opportunities and of course there is a win-win situation, but more importantly is it sudden, no it is not sudden, it is a planned effort, we were earlier working to pay out the banks and we cleared our debt book first and now we are a debt-free company and last year in spite of the COVID and everything, there was a problem with the banking, no problem after that because at the right moment of time we cleared all our debts. So that I would say long-term plan and last seven, eight years the company has been working, we have prepared our ANDAs, we have done R&D of APIs, we have developed the APIs, we have launched brands, we have launched diagnostic devices and all these things have been done by the way or without any working capital. We had zero working capital facility, so we were waiting for the right time to look at appropriate time, at opportune time, so we have to get into the second league and it is not overnight prudent. Within Morepen, four companies which have been groomed, so all those companies have now come of it, for example, these diagnostic devices have given a critical mass, so it will be spun off as a separate company, it can have its own independent features. Similarly, in OTC, Dr. Morepen has its own independent feature. API certainly would remain the forte of Morepen. At some stage, Finished Dosage when this reached to the level, then it has its own life, so basically there are four different business segments which were being developed under one umbrella, I would say, if it answers your question.

**Umakant Sharma:**

And just one quick, one small question if I may put in, is that, you are putting everything in place, you have got a diagnostic devices in place, you are getting API for final dosages, you are hitting the bulls eye everywhere and now when I look at let us say, you are putting a CAPEX plan also to work, when I look at the numbers, let us say in 2025, what are the numbers that you guys are setting and aspiring for from a financial standpoint?

**Sushil Suri:**

Umakantji, as a listed company I will not be able to give you our guidance, but yes, I would say the trend will continue. We are fulfilled and confident that in all directions we are growing, and we have good plans and targets and thankfully the markets keep supporting

and god forbid the COVID thing, so we are comfortable, and our team is very well geared, and the market is geared, we have sustainability, we have the people, we are confident of continuing the growth trajectory.

**Umakant Sharma:** And would you say that the margin profile of the company would also change meaningfully?

**Sushil Suri:** That's right Umakantji because when we increase export and we go towards forward integration and more towards I would say even Finished Dosages, normally if we see any pharma company if you look at the API and Finished Dosage together, so typically pharma EBITDA between the 18 to 20%. We are still at 11% which is neither here nor there. So, we have lot of room to I would say grow, but since we are mid-sized company, we will need some more energy and so I would say more tonic to them with which now we are in.

**Moderator:** Thank you. The next question is from the line of Alisha Mahawla from Envision Capital. Please go ahead.

**Alisha Mahawla:** Sir, firstly, I would just like to understand that while on full year basis, you have given some phenomenal numbers, if you see on quarterly basis, your revenue run rate has been sort of coming down and EBITDA also you have sort of been in one range over the last 3 quarters, can you just share your views of different color on that?

**Sushil Suri:** Yes, Alisha, if you look year as a whole, certainly we have grown and quarter to quarter when we compare to the last quarter, it has grown very fast, but as compared to quarter-on-quarter and previous quarter, so it is degrowing technically because September quarter was exceptional and we all understand that June quarter was a complete lockdown and there was a pentup demand, we saw in several states in the month of September. So, we do not want to take September as a benchmark, but I would say that if we are doing say now 1200 crores in a year as a whole, so if we average out, so average is 300 crores, so we done 290 crores in this quarter, the first quarter very low, but September was exceptional 330 crores. So, there is nothing like quarterly business or a seasonal business and because of COVID, everything is disturbed all over the places. So, this certainly was a connection which September has shown, but otherwise other things that we are doing pretty good and it may take another I would say 2 to 3 quarters for the numbers to settle. Because of the COVID, every month situation is different, somewhere there is a lockdown in one place,



sometime flights are disturbed, sometime Europe is disturbed, sometime US is disturbed, sometime there was US election, so last year we have seen almost everything, so in spite of that I would say we are good.

**Alisha Mahawla:**

Sir, may be like you are saying in 2-3 quarters we should start seeing Q-on-Q growth also coming in and just to clarify there is no capacity constraint due to which you cannot currently go beyond this run rate, it is in the external factors, COVID and other macro factors, which is sort of causing this variance?

**Sushil Suri:**

I would say that we do not have capacity constraints, but I would say that we doesn't mean that we have unlimited capacities, but certainly we are adding up and that is not a constraint for us to deliver. In products like oximeters and oxygen concentrators, we have all the capacity constraints, but the API we do not have any limitation, Finished Dosage, Dr. Morepen Glucometers, BP Monitors, there were no shortages and the capacity is not a constraint, but yes, we want all things around... all boxes to be ticked, our team has done a phenomenal job and in spite of all the things we have been able to deliver better results.

**Moderator:**

Thank you. The next question is from the line of Saurabh from IIFL Securities. Please go ahead.

**Saurabh:**

My question is on the API team, so what you are seeing in the API team and what is the difference between China and India? Can you explain me in this?

**Sushil Suri:**

Yes, Saurabh, in the API, the basic story is that India is the leader in high end APIs wherein we work on the multistate systems, complex reactions, for example, we have a lot of efforts from greenhouse reactions, in crop reactions, fire emission, ag reaction, basically we work more on the high-end chemistry and multistate into it, while China is for the large volume, which we call three intermediates. So China doesn't have facilities which are well documented, they do not have US FDA approval, rather they are shy of even getting US FDA approval, so in case we ask for their documentation, we ask for the site master file, we ask for the product master file, they do not have and even if they have they don't give and even if they give, we do not know what it is because it is all in Chinese, so there is no reliability factor and nobody in the world wants to deal with China because of that reason. Pharma sector is very open and transparent. You have full open documentation, audit compliant software, audit compliant instruments and anytime auditor can come, inspection

can come and we welcome auditors and inspectors because they let you know what is wrong at your facility and they help you improve that, but China is close on that. Chinese, they don't have documentation, they don't have any approval system and they don't like, it is like a trading house, like typical other, in case if there is a pandemic, import from Chinese, Sadar Bazaar at Chandni Chowk so that is what China is.... So that is where our India is, we have lot of opportunities, all the international companies see India for good quality documentation, good quality or say facility, good quality of products and sustainability and there is a commitment also. You will take some order, even if we have to sell it at loss, we will do it, Chinese company will never get the orders.

**Saurabh:**

So, my two question is there, number second question is there, last 5 years we had seen too many audit from the US FDA, now this current pandemic situation is going on, so that is why the audit is not taking place on the Indian pharma, but still there is a lack of compliance on the Indian pharma company, so what is the reason behind that sir, I wanted to understand this? Sir, why Indian pharma company is lacking this? Why are they not satisfying the US FDA audits?

**Sushil Suri:**

Saurabhji, I will not like to degrade our colleagues and counterparts, I would say we are proud that India has been able to successfully leave, but yes, there were problems in the past, most of the companies have come out of that, but I am sure that at Morepen, we have never got any audit structure, we have got optimized inspections with the main 483 and zero observation and there is no pending observation, but it doesn't mean that we are perfect, so we try to match the standards and anybody who can match to the written guideline. FDA is not trying that this is what we should do or not do, there are fixed guidelines, if you follow the protocol and as a responsible company, we understand that life is important and projects are important, so more and more digitalization happening, more and more software compliance is happening and I am sure this industry will come up, but if some of our friends had not done in the past, but I am sure, there could be some issues. In general, the country as a whole we are pretty confident, and I would say we are much better than China and at Morepen we are committed to the FDA, we help, and we respect the terms and we have been committed to comply with that.

**Saurabh:**

And my last question is on the, what is the pricing stability in the API business and outside the India businesses and in the India businesses also, can you give this segment wise

revenue and what will be the promoter holding after this equity infusion from Corinth Investment Holdings AG?

**Sushil Suri:**

Yes, Saurabhji, coming to the prices, I would say technically you may say there is a pricing stability, but I can still say with “there is no price stability”, price is fluctuating because the raw material shortages, there is a price fluctuation from raw material, so similarly there is a price fluctuation for the end product also, but wherever we have annual contracts and we have long-term relationships, we are servicing those customers so I won't say there is a guarantee to market exchanging, market in dynamic and in this time of crisis, more important is to keep ourselves live and upgrade and not to fight for profit or orders at any stage, we are trying to balance out the whole industry, stay put and be available in the market in spite of I would say good, bad, every problems come, problems go, but we are here to stay, so we sometime help our customers, sometime we request our customers that in future we compromise and coming specifically to your point on the promoters equity, promoters equity will go up from 34.54% to 44.28% after subscription of all the warrants and on a diluted equity including the Corinth, Corinth will have 9.41%, promoters will have 44% approx..

**Saurabh:**

Are you planning to give the dividend?

**Sushil Suri:**

Technically, our company is now out of such so-called carry forward losses, so we can technically declare the dividend, so we will see what decision is taken at the shareholders meeting in the forthcoming AGM. Certainly, before the shareholders meeting, we will adopt the dividend policy that how much money is coming in for the future growth and how much money should we distribute, so we will try to balance it out, maybe it may take another one year, frankly speaking, in today's world, no investor is worried about the nominal dividends, but more important is the sustainable growth and return on investment.

**Moderator:**

Thank you. The next question is from the line of Hiten Muchhala, an Investor. Please go ahead.

**Hiten Muchhala:**

Sir, also congratulations for credible investor like Corinth coming into our company and that is something sir that I am not very clear on, you have mentioned in the press release says that they are bringing in \$100 million and what I understand is that they are bringing in 32.5 million directly into Morepen, the promoters are bringing in their share of money

through warrants, where is the rest of 67.5 million going, can you please throw some light on that, that is first question? And then I will ask you the second question, sir?

**Sushil Suri:**

Hitenji, as far as listed company is concerned for which we are discussing, you are right, \$32.5 million is coming, so the understanding with the Corinth and the contract filed is for \$100 million, so naturally they were insisting that we will give a total press release that as a Corinth group we are bringing in \$100 million even if we are bringing to the whole group. So as a group, we are receiving the money and out of that \$100 million, around 75% of the money is coming into the Morepen only, that is \$565 million, another \$25 million is going to another group company which are not related to Morepen, there is online and generic pharmacy which is coming up and then there is a hospital which is not in the parent company, but that is also coming up in Chandigarh so they are investing in that, they have lot of interest in healthcare in India and they are very bullish about the hospitals also, they are investing in that also. So that is why we mentioned that out of this the major portion is coming to Morepen only, so otherwise you are right, 32.5 is coming back and certainly we could not have adopted all the equity because there is an opportunity of takeover bonds and we do not want our existing shareholders to move out on this opportunity and we do not want that okay, we wish to go because someone else is coming up.

**Hiten Muchhala:**

And the second question is on the API margins and I guess your voice was not clear and probably I missed out, what is the EBITDA operating margins currently on API segment?

**Sushil Suri:**

API segment EBITDA margin is around 14 to 15%, but this would improve as we go forward, but overall company EBITDA is around 11% and then we have finished dosage and we have OTCs and we have diagnostic devices. The diagnostic devices we can't....

**Hiten Muchhala:**

So, sir, you mentioned that you are expecting the margins on API to go ahead, what is going to be the API strategy, are we focusing more on the generic side or more on the complex side which is ARB or should we look at our company as an API to formulations play which is end to end, how are we looking at ourselves, sir?

**Sushil Suri:**

Hitenji, our strategy of API is very clear as I shared earlier that our focus is on the blockbuster drive which are the leading patent in the coming 5 to 6 years where the generic market is \$42 billion which is opening up in the next 5 years and we had developed all the products, we are delivering the DMF, we have filed some DMFs in US and we have

developed ANDAs for that. So our strategy is very clear that firstly it is a highly regulated market and we are actually not into the products, we do not do antibiotics and other common products, we do high value products which is complex chemistry and multistate synthesis, so that is the core of the company and as a strategy also, we have a very clear cut product basket which is available with us and our customers know it and we are trying to tie up all those things and as a strategy if you we know that we now have a basket of 30 products, so we can have our own ANDA and we can have our own franchise in US, we have a subsidiary in US, Morepen Inc., at some stage Morepen Inc. will file ANDA and we will create our own base in US market, that is the strategy for US.

**Hiten Muchhala:** And sir, how many scientists are we looking at hiring currently in this new R&D center that we are proposing to set up?

**Sushil Suri:** It all depends on the availability and time, but I would say it is too early, so we will have this approved by investment plan, but we will come back to you.

**Moderator:** Thank you. The question is from the line of Vivek Bhargava from Wealth Bridge. Please go ahead.

**Vivek Bhargava:** Most of my questions have been answered, I just have one question on your presentation, in that you have mentioned for example for the API project, project cost is 178 crores and there is a figure mentioned 4217 crores as production value, what does this production value mean in the presentation?

**Sushil Suri:** This production value is we are going to produce in the third year.

**Vivek Bhargava:** Is it per year in a project report?

**Sushil Suri:** Yes, this is the third year after commercialization. Once production is stabilized, so that is coming from the project.

**Vivek Bhargava:** That should need a very high asset turnover ratio and I have not come across asset turnover ratio of this kind anywhere.

**Sushil Suri:** These are all high value drugs, and this is nothing to do with what is the value and of course, it all depends, we will be just doing 20 products with one or two processing, for

example, only one Apixaban is \$19 billion, in the retail markets when it goes to the direct market, that's a huge market.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Sushil Suri for closing comments.

**Sushil Suri:** Thank you everybody. Thank you, all the participants, all the shareholders, all the analysts and of course thank you to the whole team for supporting the chamber. So, we had a wonderful year, I ask all of you to stay safe, please take care of everybody at home and please do not have panic, whatever there are shortages in the market, wherever it is oxygen supply, whether it is concentrators or anything, life will come back to normal. We will forget everything after few months. Let us pray everything goes well. Have a good day. Thank you, guys.

**Moderator:** Thank you. Ladies and gentlemen, on behalf of Morepen Laboratories Limited, that concludes this conference. We thank you all for joining us and you may now disconnect your lines.