



“Morepen Laboratories Limited  
Q3 FY2024 Results Conference Call”

February 01, 2024



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**Moderator:** Ladies and gentlemen, good day and welcome to Q3 FY2024 Results Conference Call of Morepen Laboratories Limited hosted by Kirin Advisors Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Vaishnavi Ambokar from Kirin Advisors Private Limited. Over to you Madam!

**Vaishnavi Ambokar:** Thank you. On behalf of Kirin Advisors, I welcome you all to the conference call of Morepen Laboratories Limited. From the management side we have Mr. Sushil Suri, Chairman & Managing Director and Mr. Ajay Sharma, Chief Financial Officer. Now I hand over the call to Mr. Sushil Suri and Ajay Sir. Over to you Sir!

**Sushil Suri:** Good afternoon, everybody. This is the end of the month and of course the beginning of the new month as it coming, so heartiest congratulations to everybody and Happy New Year we are meeting for the first time and now is an opportune time that the industry is doing very good, country is doing very good and India is doing very good, so the best time to meet these days. So fortunately for us this year beginning was very good, we have started the year with celebration of our 40th anniversary, so just to share with all the colleagues and shareholders today that the company has been in the business for the last 40 years. We started the celebration on January 1, 2024, so the struggle for 40 years was huge I would not to say that it was less, so this was a journey of courage, conviction, authenticity and we kept on insisting and that okay we have to survive and as a small promoter driven private limited company just started with Rs.40000 and now we have built an organization worth Rs.2000 Crores to Rs.2500 Crores going for a billion dollar dream, so it was a very good journey. So thank you very much all the shareholders for being a part of the journey and I would like



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to share a few pivotal moments while we in this 40 years there are three, four critical moments but I would like to thank all the shareholders for supporting us. The first one of course when we all connected with you guys were back in 1992 when we had our IPO in November 1992, so IPO was one of the first pivotal moments what we had during our early days. Before that it was just a family company with all dependents in the banks and loans, so you made us walk together and the company that we got into a financial exposure. Now with the grace of God and with all the team members taken together we have more than three lakhs shareholders now, so we are a big family now, so that was one big critical moment and second thing immediately after the IPO of course it was a small IPO at that time the second thing with the company did big in 42 years was that earlier the company was started with one product Ampicillin. Slowly, we expanded into Ampicillin, Amoxicillin, and other similar antibiotics, so one of the major moments was IPO we did was that we looked for diversification and started investing on R&D, started working on new molecules, and of course slowly start a whole line of antibiotics. Now we are 100% exclusively a new molecule company. We do not have any routine run of the mill products, we produce only high value products and that is one reason our productivity in the industry is very high because nominal capacity we have very large sales values as compared to our peer groups.

So on the new molecules, we started with one or two products, Loratadine, Cisapride, Ketrolac and Omeprazole, but of course now we have a range of over 50 products now and we are catering to the global market over 80 countries and of course with all the latest molecules, so there is a big opportunity so that was I would say the second pivotal moment. The third thing which after four or five years after the new molecules is we launched a brand called Dr. Morepen, so that is the first time that as a pharma company we thought of getting directly talking to the consumer and connected to the consumer, looking at the international trend, we could see

that in the Indian scenario most of our pharma companies are limited their reach only up to the doctors and the consumer is not connected and of course the laws were not very flexible, so now with our brand called Dr. Morepen we are present in the whole country with our OTC bands like Burnol and Lemolate and more importantly our medical devices. So Dr. Morepen has reached every household, so this was a big move which we took in our journey and of course after this Dr. Morepen brand the major move I talked about the medical devices. This was a big thing. Most of our Indian companies they focus only on the medicines, but we focus on the diagnostics also and started with import of the medical devices, slowly started manufacturing in India, so now we are the largest manufacturer of medical devices in India particularly glucometer and BP monitor we are the market leaders. So this is all about I would say brief journey of 40 years, we had wonderful time and through this call and through this platform I would like to thank everybody, all the shareholders and gratitude and thanksgiving to all the people who have been part of this beautiful journey.

Now coming specifically to the quarterly results and before I step in with the results I would like to say that after the journey of 40 years, which was more of I would say follow up of I will use the word courage and conviction, but now we are moving more towards excellence and as a motto of the company, so we have rebuilt our core values around excellence and of course the basis of excellence is special which we are always filled off and of course the fire in the belly we need a drive and commitment what we are always full of and then the second thing is the action which is naturally more related with the execution and more to do with the speed, more to do with the results and only passion will not do we have to have an action and the third thing is which is the present day need is innovation, so these are the three things. Without innovation, without technology, without digitization, and without R&D we cannot build the future. So taking together on our field of excellence through action,

passion, and innovation we have started the New Year and here we are in front of you presenting Morepen 2.0 with the Q3 results of course first for the New Year.

So quarterly results numbers have been circulated already yesterday I am sure most of you might have seen. If I quickly review the numbers, which was an awesome quarter, amazing results and the team had worked very hard on all the fronts. The net revenue has grown up by 28% to almost Rs.100 Crores from Rs.350 Crores to almost Rs.450 Crores. It is a Rs.100 Crores jump in revenue in one quarter is pretty wholesome, so it directly adds I would say gross margins to the bottomline, so another Rs.30 Crores to Rs.40 Crores is added. Then accordingly the EBITDA number, all the addition, the gross margin is directly getting added to the EBITDA, so EBITDA had jumped from Rs.22 Crores to Rs.55 Crores so this is Rs.33 Crores increase in EBITDA which is like 151% increase in EBITDA margins for the company. This is one area which the company was lacking and struggling and trying to find ways how do we increase our EBITDA and certainly the pressure was to increase our revenues on the gross because most of the expenses are fixed expenses, so we have been able to crack it. EBITDA for the first time after a long gap is in the double digit, so it is around 12.18% EBITDA margins, so it is almost double as compared to EBITDA margin last year. Last year EBITDA was 6.22% so now this year EBITDA is 12.18% which is pretty good and pretty encouraging for the whole team and I am happy to share the shareholders that after a nice EBITDA certainly we do not have much interest as you know we are a debt free company. So all of the profit is almost out of Rs.33 Crores Rs.30 Crores is going to the bottomline profit before tax from Rs.14 Crores to Rs.44 Crores so the wholesome growth in the profit before tax and of course the similar numbers are visible in the profit after tax. In after tax also from Rs.9 Crores to Rs.32 Crores Rs.24 Crores is going to the bottomline, profit after tax has increased by 256% in the quarter. So it is almost three-and-a-half times the 256% increase and I do not have to add

that. Accordingly, the EPS for the quarter has also jumped. EPS for the quarter is now Rs.0.63, so if we try to extrapolate, we have to be close to Rs.2 plus EPS for the whole year if we are able to continue this streak. Even if we keep, I would say Rs.0.60 as a base so be it, it should be a good number in the coming quarters. So last quarter we were insisting that okay yes, we have been able to maintain or reclaim our Rs.400 Crores mark, but this time from Rs.400 Crores to Rs.450 Crores in the revenue that is a good jump. Interestingly, once we have a good EBITDA number and good revenue number, the PAT percentage profit after tax has also jumped. Profit after tax has gone up 2.5% to almost 7.13%, so this is also phenomenal and of course a lot of factors have gone into it, lot of I would say one-on-one item line-by-line underwritings have been done to achieve this, which we will come one-by-one as we go forward and based on this awesome quarter the nine months numbers are also fabulous and we are happy to share that there is 21% increase in revenue, there is a 79% increase in EBITDA margins which is 79% increase in the total EBITDA value. So there is almost Rs.50 Crores addition of EBITDA and then net profit is before tax has almost doubled from Rs.44 Crores to Rs.93 Crores. EPS is 123% because profit after tax is also 123% up from Rs.30 Crores to Rs.67 Crores for the nine months. Now if you look at the EBITDA for the nine months this is also 9.39% so hopefully it will continue on the same streak. So maybe for the year as a whole we may be able to cross 10%, but keeping fingers crossed, so far so good. We are on an exciting journey and the team had been working very hard and of course the markets were a little different and they were choppy so what we have been able to score it well.

So coming specifically to the numbers and I assured that Q3 revenue at Rs.449 Crores is up 28% and nine months revenue is up 21%, so nine months also we are at a growth. Domestic revenue is up 27% and for the nine months period domestic revenue is up 30% the total revenue is up 28% and domestic revenue is up 30%. If you see in detail the API revenue

Rs.253 Crores is up 20% on year-on-year basis but on the year as a whole for the nine months so API revenue is up 10% so API is adding substantially. It is a bigger chunk so even 10% increase in nine months is a lot. The point I would say relief is that the growth of the API is coming from exports, so 31% increase in the exports while the domestic business has grown only 1%. That is one reason that everything is getting added to the bottomline because exports is more profiteering and within exports these are all exposed to the regulated markets more particularly in the US market, particularly a product called Fexofenadine (Allegra), so which we had got USFDA a few years ago during COVID time we had got approval. So supplies have started going in nine months we have done good exports to Fexofenadine into US market and that is adding to the bottomline and as you might have seen in the result medical device business is back on its high growth journey with 24% growth in the revenue in Q3 and 37% jump in the nine months that is awesome and of course the market had been responding very well. The demand is going up and of course our team has been working hard. We have increased the distribution, so we will explain when we come to those slides. So the new element which is added to the revenue is formulation business. Again, our formulation business was struggling and having nominal growth 2%, 3%, and 5% but we had a phenomenal 40% growth in this quarter and for the nine months we have growth of 22% in the formulation business. So thanks to our increased capacity, our capacities have almost gone three times from our 30 million per month capsule tableting capacity to 90 million we have gone and certainly some capacities are still yet to be showing the results in Q4, but it has already started showing colors. We have huge supplies starting with Jan Aushadhi in the generic business. So we are getting traction and maybe this will become our third growth path after the API and the medical devices. This is broadly on that point and of course financial numbers I shared that EBITDA margins have gone up almost doubled from 6.22% to 12.18% and nine months time also EBITDA is very high. PAT margins have gone up from 2.57% to 7.13%. EPS of course is Rs.0.63 which is

256% from Rs.0.18 in the last quarter and all this is I would say good start of the year and I said that is our journey toward excellence had just began and we are full of passion, action and of course the innovation.

Now coming specifically to the numbers of the topline and the bottomline, so during this quarter we have almost added Rs.100 Crores in the topline from Rs.350 Crores to Rs.449 Crores Rs.99 Crores we have added and there is a 28% increase on quarter-on-quarter basis as compared to the last year and of course this includes all the business segments API, medical devices, formulation and OTC. The point to be seen here is that during this quarter and of course during the period of nine months also the API business; all businesses have gone up except there is a small lag or correction in Dr. Morepen. In API in the quarter we have grown 20% and in the nine months time we have grown 10%. So this is a very positive statement that last couple of quarters there are ups and downs but now we are seeing that three quarters consequently the API is growing up. Devices have been growing up consequently for the last three quarters. For this quarter devices is 24% increase in the business and it has delivered much better and for the nine months devices is 37%. Formulation business as I shared is 40% up in this quarter, 22% up in the nine months. OTC and Dr. Morepen business we are doing some cleaning so there is a correction of 3% during the quarter also and for the nine months also it is almost flat. So if you look at the overall growth, 52% of the growth is coming from API, another 25% from devices, and another 23% from formulation. So there is a very balanced growth which is coming from all angles.

Now specifically coming to the API business, so the API revenues for the quarter are up 20% as I shared with you, so as we say that the API business is growing, so there is a particular trend which we always see, but this time the trend is being bumped and the US market is increasing. If you look at the continent wise share the US market share has gone up by 5% from 12.9% to 17.9% in the US market share and of course the Asia market

share also gone up which does not include India. The Asian market has gone up from 22% to 27% so both US and Asian markets have improved. India market is slightly up 2.5%. There is certainly a significant reduction in the MENA market, which is Middle East and North African markets there is a reduction in there, but on the whole if you see the major growth if we look at the continent wise and the country wise, so the countries which have registered a growth is USA, Columbia, Israel, Korea, Jordan, Turkey, Syria, Macedonia, Oman and Japan. So other than US if you see then of course Israel is there, but after that it is all Asian countries, Japan, Korea, Malaysia, Turkey, Syria, Oman and Japan, so there has been growth all around and all countries. So we have been spending lots and lots of man hours and investment in terms of people and resources in cracking new markets. So during this period of last one year we have added 55 new customers at a global level. We have added many more countries where we were not present earlier. We have added two more countries where we are not present earlier and we have added 55 more new customers in this period and of course new customers are being added in India, Asia, Europe, South America, South Africa, Middle East, and all countries we have been adding and there are some customers who are giving 50% to 60% growth, but there are some customers with small numbers, so they have grown even like 200%, even one customer has grown in Europe by almost 1000%, 10X growth is there, but those we have to see the average out. So if under API if we talk at a macro level the whole idea is to reach to more and more customers and to have a better reach in terms of one-on-one relation with the customers. If we talk of a particular product Fexofenadine or this Allegra is the one product which has been leading. We have 180% growth during this quarter and of course during nine months also there is sufficient growth. Rosuvastatin is growing, Atorvastatin is growing, Montelukast is growing, Rosuvastatin by 80%, Atorvastatin by 15%, and Montelukast by 20% so there has been growth all around and certainly there is a reduction in I would say pressure in the market on the pricing part, so if you look at the sales value and sales volumes so there is a lot of

debate that, okay, is the market going up or is market going down. So we see that our quantity produced in last nine months has gone up 37%, so almost 40% increase in the production. So thanks to our increase in the capacities so our capacity has gone up and 40% increase in the production and rates have gone down the sales prices have gone down. Now prices is going down and quantity is going up it only means that there is a demand, but the demand is not at a higher price demand is at a certainly lower price but thankfully we have been updating our shareholders. In the earlier representations that the China supplies are unpredictable and there is a price pressure and margin pressure but thankfully this quarter the China prices have softened, we have been able to negotiate better with our vendors in India and in China and overall, our sales have grown up by 10% in nine months in spite of the reduction in the sales prices. If there was no reduction in the sales prices we would have gained 40% increase in the revenues which was last two quarters we suffered, but this quarter we have reclaimed. So that is I think the overall picture in the API but if we go forward in the API and see that, okay, what each product has been contributing and which are the key products as we have shared earlier multiple times that we are the market leaders for Loratadine, we have 65% market share of Loratadine when it comes out to exports out of India. So any \$100 export out of India \$65 is going from Morepen and of course another product Desloratadine both have USFDA approved, so there again 47% share is ours and Montelukast we have 43% share. So we have the major players in Montelukast and Desloratadine and Loratadine of course we are the kings and then Atorvastatin, Rosuvastatin and Fexofenadine we have between 8% to 18% market share here, but we are improving as we go and the large molecules so we feel that okay, we will keep on increasing, we are increasing the capacities of these shares and these products and when you look at the new capacities we have added capacities for Atorvastatin, we have added capacities for Montelukast, and we have added capacities for Fexofenadine. So when we started the year we have 310 Kilolitre capacity, but we are closing the year with almost 400



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KL capacity so we have added almost 90 Kilolitre of capacity, which is showing up in our increase in the revenue. If we would not have added the capacity we would not have been able to service the market, so going forward we had planned to add another 100 KL by another six to nine months time by June or up to next year up to September, so which we are doing from internal accruals, but our overall plan is to increase 250 KL capacity in the next 12 months time and of course as we go and close our fundraising plan, so we are depending more I would say we will be creating more and more capacity and we will be more available to the customers. The market is huge, we have a good product market and the product basket of course is ready for extension. We have developed four more products this time. We have developed Bilastine, Imeglimin, Tapentadol, and Ticagrelor. More and more new products are coming and you might have noticed there is a lot of action happening on the DMF side so the company has filed seven more DMFs in this quarter. We have filed six more patents in this quarter. So regulatory team is doing its best and the customers are responding for that. The last quarter we had the FDA approval, we have PMDA approval and we have ANVISA approval. So lot of approvals were happening so thankfully this was a very comfortable quarter we had there was not much happening on the approval side the team was busy on the business side, of course we had multiple audits. So we have shared with you the total intellectual property of the company. We have 147 patents with us, 26 US DMFs, China DMFs, and other DMFs, so things are very bright and shining on the API side and once we increase the capacity of the API we see more and more people joining the bandwagon of the supply. So we see more and more tie-ups. So since company has not added any new capex since the last couple of years, I would say almost two decades, no new plants have been done, so we are looking forward for more expansion in the API side.

Now coming specifically to the medical devices, I think we already shared that the growth had been phenomenal. So in the glucometer side, the major

growth in the medical devices coming from glucometers and BP monitors and of course there is 37% growth on year-on-year and 23% growth in the quarter and if you look particularly for the meters, so we have now 11.23 million meters installed in a way we have 11.23 million satisfied customers who buy strips from us. So this is like a printer cartridge model, we sell the meter and then we supply the strips. So if we have 11 million meters it is almost 1, 1.5 Crore meters and you can look at the population of the country out of 140 Crores only 1 Crore people have got meters and of course similar numbers would be there with all other people together. So we have a long way to go. So even if we target 10 Crore meters 100 million meters in next five years, so all our factories would be busy because so many meters we must supply strips also. We have already sold strips for almost 1.47 billion, so it is almost more than population in the country so we have sold the strips, but it is doing pretty well. In the BP monitor also we are seeing a good traction. In BP monitor in nine months we have had a revenue of Rs.64 Crores and the number of meters sold is already higher than the number of meters sold last year, so there is a little bit of price increase also in the BP monitor also and glucometers also. Both the things are doing pretty well. They were not happening in the medical devices and in the R&D labs but we will come to you once we have some good news to share.

Coming to our third line of business, which is formulation as I shared that during the quarter we had 40% increase on a year-to-year basis and of course within that if you look at the breakup the branded business has grown up by 7%, which is more to do with, okay, you appoint more people, more team, add new states, and launch two more headquarters in Hyderabad and Chennai two more headquarters in the branded business, but a major growth is coming from institutional business that is Jan Aushadhi, so it is almost three times from Rs.11 Crores to Rs.32 Crores, so 196% increase in the institutional business. Of course the generics business has increased 15% and then in Dr. Morepen where we have in nine months

time Burnol had been doing very good, Lemolate had been doing very good but we are reducing our focus on our investments I would say on the online business because online business consumes a lot of capital upfront and we have to do a lot of upfront marketing which we are trying to avoid because trying to have limited resources, but within the limited resources we have been able to maintain our top.

That is all about the different businesses and just to recap of the financial numbers, net revenue increased 28%, EBITDA 151%, profit before tax almost 200%, after tax 256%, and the good news to share is our EBITDA is in double digits now 12.18% for the quarter and PBT of course is 9.8%, it is almost pretty close to the two digit number and if you look at the nine months number also 21% increase in revenue, 79% increase in EBITDA, 100% increase in profit before tax, and 123% increase in profit after tax. As I said the celebration time, celebration quarter and as I said we started the New Year journey very happily with the new slogan, new core values of excellence and now we have an excellent quarter and so this call I would like to say thanks to all the shareholders for your support and the beautiful journey of 40 years which we had together. Thank you very much and I am here to answer if anybody has any questions please.

**Moderator:** Thank you very much. We will now begin the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. We have our first question from the line of Darshit from Robo Capital. Please go ahead.

**Darshit:** Good afternoon and thanks for taking my questions and congratulations on the superb quarter. So my questions firstly is how do you see the mix of all these like four segments as you call it, API devices, formulations and Dr. Morepen evolving like, is it true that API will remain to be a key driver followed by devices and then formulations and do we see like Dr. Morepen revenue is flattish in the near future like say two to three years or one to two years?

**Sushil Suri:**

Darshit I think this is a very valid question and I am very happy to share that as it stands today, so we are seeing growth all around, API of course is growing at a CAGR of 17% to 18% and of course medical devices growing much faster medical devices growing 25% to 26% on an average including the flips and flops together but 26% growth in medical devices and as I shared that now as we go forward formulation also is inching up, so going forward what we see that API share will reduce from 60 to maybe 50 because medical devices are growing faster and formulation of course will grow a little faster now with increased capacities. Of course we will keep investing in the capacities, but more important than percentages and number I would like to share that it is a part of the overall strategy that we have to go forward integration. If you look at the most pharma companies where they have high EBITDA margins 20% and 25%, they have high gross margins of up to 70% to 75% because of the formulation, branded formulation, but at Morepen we started as a API player and we have a strong API. Now we have good 40 to 50 products in our API basket. If we do our own formulation whether for Jan Aushadhi or for US market or for exports so we see a lot of advantage that if we have our own API we can excel in formulation also, so slowly, slowly the formulation things will go up and I am not saying immediate it may take three to five years for the formulation business to go up, but we are confident formulation will go up. Devices certainly are growing pretty comfortably. So API I would not say that it will grow low, but it would not grow at 30% or 40%. API will keep going 17% to 18% I would say up to 20% and we are I would say quite happy on that and the second thing is the Dr. Morepen as an OTC. Dr. Morepen is an independent OTC plate. It has to do with the consumer market, so of course there the whole connect is with the consumer, so it has nothing to do whether I have my own API, whether I have my own formulation or whether I sell devices or not. So Dr. Morepen, we are still evaluating that okay how should we talk about the growth of Dr. Morepen because it involves a lot of media spends. So we are working closely on

that. Certainly at appropriate time we will come with the strategy on Dr. Morepen also.

**Darshit:** I missed the part when you talked about EBITDA margins of formulation, how much was it?

**Sushil Suri:** As of today the gross margin I am saying, the gross margins in formulation industry, the branded formulation is very high it is between 60% and 70% but in our case the mixed formulation because of generics and Jan Aushadhi and everything, our gross margins is around 30% to 35% which is very low. So as we keep on investing on the doctors, as we keep on increasing our reach in the market, so our gross margin will go up there also and second of course is the scale. If we just have a scale of say Rs.100 Crores or so the numbers look small, but now this year the formulation will be around Rs.230 Crores to Rs.240 Crores so it gives us substantial number and maybe in the Q4 itself we will have some better margin, gross margin and then of course maybe it will be positive. So far we have been investing behind this business and we are comfortable that okay, the margins of the company would also go up.

**Darshit:** I just like to summarize my understanding that API is will relax a bit and grow at the 17% to 18% CAGR, formulations will be the new driver, the hydro segment and following that will be devices and then Morepen we will see how it pans out correct?

**Sushil Suri:** Yes, API is certainly is aggressive. For API 20% to 25% growth at a large base is huge and of course we are happy over there also. Yes, the license will be growing faster than API and that is why the share of API will go down, not that growth will go down from 60% it has already come to 55%.

**Darshit:** How do you see the blended EBITDA margins panning out we talked about formulations margin increasing so with that?

**Sushil Suri:** 12% this quarter and we hope that we keep on adding 20 to 30 basis points every quarter. So I am sure we will be able to maintain a double digit number regularly between 12% and 13% blended EBITDA in the coming two years time.

**Darshit:** Alright and is it possible that you can give a margin breakup for each segment?

**Sushil Suri:** I do not have the numbers with me now, but normally when we made these quarterly presentations, those are revenue numbers but yes whenever we have some private calls with investors and others, so we do share those numbers and we would appreciate that in our business some competitors are looking at each other's numbers.

**Darshit:** I totally get that. Thank you so much and all the best.

**Sushil Suri:** Thank you Darshit. Thank you for sharing interest.

**Moderator:** Thank you. The next question is from line of Gunit Singh from Counter Cyclical PMS. Please go ahead.

**Gunit Singh:** Congratulations on a great set of numbers. Sir first of all I would like to understand your capacity utilization across segments for the company currently?

**Sushil Suri:** Yes capacity utilization, I would say we are at the peak capacity utilization in both the segments. I will say all the three segments so in the API I told that we are already increasing capacity and we are side-by-side expanding capacity and using it. We are operating at more than 90% to 95% capacity, which is an optimum for any process industry. In the medical devices we were short of capacities during COVID time and we were depending on lot of imports also, BP monitors we were not able to supply from our own plant we have to import and there was a lot of pressure on oximeters and oxygen concentrators but now last one to one-and-a-half years we have

been investing on the capacities. We have added a new line for the glucometers and strips actually, we have added in a new line for the BP monitors and we are doing backward integration for our chip packaging unit SMP-9 so there is a lot happening just to keep up with the pace of the production. So that is one reason that now the medical devices business is around Rs.425 Crores expected within this year. So from Rs.400 Crores if you have to go to Rs.1000 Crores we have to invest more and more on the capacities also because we were all home grown businesses and need to invest in the capacities, so the third business of course formulation and as I shared that we have started investing in the capacities and of course there are old machines which are not having high speed machinery. So we have increased the formulation capacity almost three times which certainly was not fully operational in Q3. So this quarter it should be fully operational and whenever it is fully operational we will be doing 75% to 80% because it operates on a change over and other things so good capacity utilization I would say. We are at optimum capacity utilizations.

**Gunit Singh:** Alright Sir. So what is the revenue potential of the additional capacity that we have added in formulations?

**Sushil Suri:** Yes formulation, as I shared that that will become a new growth driver because in this quarter itself it has grown 40%, so next quarter it will grow almost 60%, so we are expecting that formulation business give or take one year here or there it will become Rs.500 Crores in the coming three years time and today it will be around 230 to 240 this year it will close so it will double the value and of course it will take some time for refining the EBITDA margins but going forward we are seeing a lot happening on the foundation side.

**Gunit Singh:** That is great to hear and considering the topline and bottomline numbers of this quarter and you mentioned that we will be maintaining a double digit margin for the coming two years can we consider this quarter to be the run

rate going forward or do we see any seasonality in the business in some of the quarters?

**Sushil Suri:** Yes Gunit we all wish and I do not say that we do not want it we all want it but that all depends ultimately the market. So like I said the last couple of quarters I would say almost one, one-and-a-half years there was a pressure in the pricing from China. China is increasing prices now they have softened out, maybe if the trend continues and of course our team has also worked to reduce the cost stream so if everything goes well, this is what we all want, but overall what we are doing is a strategic change. Strategic changes is that yes, API, we increase new products and new reach. In the medical devices we add more distributors and better reach. We are spending on the brand building. Formulation we are adding on the marketing part and adding on the capacity so overall margins are going up. So we are comfortable that we should be able to maintain, but the answer is positive but I do not say that yes we will get the same numbers next quarter so I cannot publically say it.

**Gunit Singh:** Alright Sir but considering that we are in the second month of Q4 so I am sure you must be seeing some confidence that is why you are saying that we will see increase in the margins so that is very heartening to hear and Sir do we have any aspirations and growth numbers for FY2025 in terms of growth in topline and bottomline or some scientific margins that we are looking at for FY2025?

**Sushil Suri:** Gunit normally we do not give any guidance or results or predictions but I can only say that we will keep on growing at the same pace as we are growing or maybe a little better and that is why we always talk about the CAGR so we are expecting 16% to 17% growth this year while we end the year. So obviously if we continue the same path you can imagine that around 20% growth we should get. So then slowly, slowly as we build in capacity the growth may be a little more, we can go to 20% to 25% but I

would say between 20% to 25% is our growth target and like you said it is more of an aspiration and we want to build about that.

**Gunit Singh:** Steady state operating margins?

**Sushil Suri:** Operating margin, of course EBITDA is the operating margin. We do not have any interest or not much depreciation as of now, so we will be in the early double digits I would say.

**Gunit Singh:** Alright Sir. Wishing you all the best. Thank you very much.

**Moderator:** Thank you. The next question is from line of Yashwanti from Kojin Finvest. Please go ahead.

**Yashwanti:** Congratulations for the good set of numbers. Sir just wanted to know if we had expanded our capacities in some of our verticals like API, devices, formulation so what has been the capex spend and talent addition for the period and the quarter period till date?

**Sushil Suri:** Look our capacity spends so far had been all from the internal accruals. We have spent around Rs.50 Crores in the capex in last nine months time and everything has been done from the internal accruals and that is the reason that whatever cash flow is being generated it is either going in the capex or it is going in the working capital. So we are always tight on the cash flows because of these things and going forward we are looking for our capex plan in between Rs.125 Crores to Rs.150 Crores for the API, there is another Rs.50 Crores for the medical devices and of course another Rs.40 Crores for the formulation, so we have a capex plan planned out and of course some working capital requirement also. So that is where we are planning to have a better fundraising plan depending on how the markets pan out and depending on how the results do because we are putting a pressure on the team that okay we have to perform first. So first we perform and deliver and then we ask.

**Yashwanti:** The margin profile you said we will be maintaining around 12%, so is it possible to sustain this?

**Sushil Suri:** Yes but looking at the product mix we should be able to sustain it because there is nothing unusual with this time and of course export percentage is almost same. One product was not doing well Loratadine so some other product has taken over but the export percentage it remains the same and API margins. Medical devices are a very stable business and formulation as we increase our capacities so our expense percentage goes down as a percentage. For example in the beginning of the year maybe the salary percentage of the plant was like 27% to 28%, but at the end of the year the salary percentage has come down to 15% to 16% because the production has doubled, so if we have better machines, more fast moving machines, and a little investment in the capex so we can get better utilization of the manpower also.

**Yashwanti:** Sir is it possible for you or is it the right forum to explain the vertical wise margin?

**Sushil Suri:** Yes you can write to our CFO he can share with you at [ajay.sharma@morepen.com](mailto:ajay.sharma@morepen.com)

**Yashwanti:** That is all from my side. I will come back in the queue.

**Sushil Suri:** Thank you very much !

**Moderator:** Thank you. The next question is from line of Saurabh Bhidhala from IISL. Please go ahead.

**Saurabh Bhidhala:** Good afternoon Sir and congratulations for a good set of numbers. Sir the question has been asked almost, I just wanted to ask on the margins so what kind of a margin in FY2025 and FY2026 you will be maintaining can you throw the color on this?

**Sushil Suri:** Yes, like you said that we have almost talked about margin multiple times but broadly speaking if we continue the same streak and the same set of numbers the way we are doing certainly the margin profile will keep on going up. Our EBITDA for this year as a whole if we are able to cross in two digits so certainly we will be adding 200 basis points next year, then next year and then next year. So we will keep on adding and say 150 to 200 basis points year-by-year and based on the set of same assumptions and once there is a good addition to EBITDA since we do not have much interest component I think everything will add to the bottomline and the PAT numbers which are very low now which are around 6% expected by end of the year naturally those will add another 150 to 200 basis points maybe from 6 to 8 to 10. So in the third year onwards we are saying that okay, maybe we should have a double digit PAT also. The third means FY2026.

**Saurabh Bhidhala:** Number two Sir your OTC brand is under very much pressure can you throw the color on this, what kind of a trajectory do you see in this?

**Sushil Suri:** Saurabh I will be frank that basically OTC needs lot of upfront investments and basically in terms of marketing and branding and everything, so we are presently not investing much in promotion and advertisement without any, I would say either investor or a strategic partner, so we are basically looking for that okay what is the right mix because last to last year during COVID time we started investing online so online was again bleeding exercise because there is a lot of upfront investment on the advertisement and customer acquisition so we are going a bit slow but certainly we have a lot of opportunities there and certainly you will hear some new products being launched so we are looking for more and more innovative products there and up to motion budget but otherwise Dr. Morepen as a company and as a brand and we shared in our previous calls also so Dr. Morepen is a consumers darling so it is basically a market friendly product so it deserves its own IPO and it deserves its own freedom but once we resolve things at

a corporate level then Dr. Morepen will come out on its own, raise its own capital and go for its own IPO and go for market promotion and whatever, so we are trying to conserve cash and not invest on the advertisement that is the broad strategy as it stands today but as we go forward certainly we are looking for more innovative products so I am not disclosing the product now, but certainly in the coming quarters you will see some new product launches.

**Saurabh Bhidhala:** Okay, number three are you needing to raise some fundraising program or are you increasing the stake in your companies can you throw this on the color?

**Sushil Suri:** We are working on the resource augmentation. Of course, exactly as I shared that while we are doing capacity expansion and working capital extension and of course even if we are normal 20% to 25% growth so we need a huge working capital augmentation. So we have various plans which are being discussed internally but we have not given any final shape to anything, so we are still at an evaluation stage.

**Saurabh Bhidhala:** Okay, thank you.

**Sushil Suri:** Thank you, Saurabh, thanks a lot!

**Moderator:** Thank you. The next question is from line of Raaj from Arjav Partners. Please go ahead.

**Raaj:** Sir if I remember it right there was an EC approval pending for our plant so any status update on that?

**Sushil Suri:** EC approval?

**Raaj:** Yes.

**Sushil Suri:** Environment?

**Raaj:** Environment, yes.

**Sushil Suri:** We have a running matter which is there with routine pollution department. The departments are very active, they were online monitoring and they visit our factories almost every week, but for the new project we have got a single window clearance and of course somebody had filed a case in NGT which is going in routine and regular dates but there is nothing pending, pending as such, but business as usual is going, but yes we are working on the zero liquid discharge ZLD they call and zero liquid discharge is being worked out which is we have achieved physically on sight but the department is yet to approve finally and they want some video call or they want some live demonstrations but that is a routine matter.

**Raaj:** Alright understood and one more thing I wanted to ask about your capex plans I skipped the point on the segment wise capex which you intend to do?

**Sushil Suri:** Segment wise as I shared that we have a capex plan for different, different divisions. For example for API we are looking at around Rs.125 Crores capex and of course including working capital and then for medical devices around Rs.50 Crores and for Rx it is more of working capital and then OTC is as I shared that we will be going slow, so around Rs.133 Crores for the cap, for the API around Rs.50 Crores to Rs.60 Crores for the medical devices and for the formulation. So these are three to four I would say basically between Rs.200 Crores to Rs.250 Crores is capex plus working capital in the next two to three years time. So let us see how what the financial team may come out with and we are open to discussing and of course we have been approached by many multiple banks or any debt raising because we are debt free company, so certainly we are open to discussion of that. We are evaluating the various options.

**Raaj:** Thank you. That is, from me.



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**Sushil Suri:** Thank you.

**Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to Ms. Vaishnavi Ambokar for closing comments.

**Vaishnavi Ambokar:** Thank you everyone for joining the conference call of Morepen Laboratories Limited. If you have any queries, you can write us at [research@kirinadvisors.com](mailto:research@kirinadvisors.com). Once again thank you everyone for joining the conference. Thank you.

**Moderator:** On behalf of Kirin Advisors Private Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.

**Sushil Suri:** Thank you guys. Thank you very much. Thank you for joining.