Date: 08.11.2023

National Stock Exchange of India Ltd.
Exchange Plaza, Bandra Kurla Complex,
Bandra (East), Mumbai- 400 051
Symbol: MOREPENLAB

BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai- 400 001
Scrip Code: 500288

Subject: Transcript of Earnings Conference Call – Q 2 FY 24

Reference: Disclosure under Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations")

Dear Sir/Ma'am,

Please find attached transcript of Earnings Conference Call organized on Friday, 3rd November 2023 at 12.15 P.M. (IST) subsequent to declaration of unaudited standalone and consolidated financial results for the quarter and half year ended 30th September 2023.

The aforesaid transcripts is also available on the website of the company *viz.,* www.morepen.com

Kindly take note of aforesaid into your records.

Thanking you,

Yours faithfully,

For Morepen Laboratories Limited

VIPUL KUMAR SRIVASTAVA
Digitally signed by VIPUL KUMAR SRIVASTAVA
Date: 2023.11.08 16:10:34 +05'30'

Vipul Kumar Srivastava
Company Secretary

Encl.: a/a.

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"Morepen Laboratories Limited
Q2 FY '24 Results Conference Call"
November 03, 2023

MANAGEMENT: **MR. SUSHIL SURI -- CHAIRMAN AND MANAGING DIRECTOR -- MOREPEN LABORATORIES LIMITED**
MR. AJAY SHARMA -- CHIEF FINANCIAL OFFICER -- MOREPEN LABORATORIES LIMITED

MODERATOR: **MR. GOPAL CHANDAK - KIRIN ADVISORS**

Moderator: Ladies and gentlemen, good day and welcome to Morepen Laboratories Limited Q2 FY24 result conference call, hosted by Kirin Advisors. 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 star, then zero on your touch-tone phone. Please note that this conference has been recorded.

I now hand the conference over to Mr. Gopal Chandak from Kirin Advisors. Thank you and over to you, sir.

Gopal Chandak: Thank you. On behalf of Kirin Advisors, I welcome you all to Morepen Laboratories Limited Q2 FY24 concall. From the management side, we have Mr. Sushil Suri, Chairman and Managing Director, and Mr. Ajay Sharma, Chief Financial Officer. Now I hand over the call to Mr. Sushil Suri. Over to you, sir. .

Sushil Suri: Good afternoon, all the friends and shareholders. I'm very happy to be back with the investor conference after some gaps due to some logistics reasons. So, I must say that this is the right time of the year to have the calls and have the results because the festivities have started, the country is booming, and of course, in Delhi the winter is already there. You can see the cloudy weather already outside, but good fun.

So we had already shared the results yesterday on the Stock Exchange, and I'm sure you might have a chance to go through. So I'll just give you a running commentary, what is going, and of course, after that you can ask questions. If you look at the quarter, this was a phenomenal quarter as compared to the previous years.

So the quarter as a whole had been very smooth. Against the INR403 crores last year, INR404 crores, we have INR 425 crores. On the revenue side, it looks like there's a 5% increase. So though at a number of INR 400 crores and INR425 crores, they don't look very big, 5% increase in revenue. But if you look at the individual business segments, when we will go further, you will see that there's a lot happening.

The interesting point here is that the phenomenal 5% increase in the net revenues, our profit after tax has gone up 34%. You can imagine before tax, it's naturally much more. So after tax profit is 34% increase from INR15.82 crores, it has jumped to INR21.26 crores. So that's the net summary of the quarter. But if we go further and look at the half yearly results also, there is a wonderful improvement in the results. So we have from INR707 crores moved to INR828 crores in the half year. There's an absolute increase of 17% for the half year. Last quarter was around 33%. This year is around 5%, an average 17% increase in the half year.

But sometimes, we are in a B2B business, most of the business is B2B. So sometimes the customer buys material in one quarter. Sometimes the shipment goes to the next quarter. So quarter on quarter variations are obviously covered when we look at the half yearly results. On a half yearly basis, there is a 17% increase in the revenue, including all segments.

And the profit has jumped almost by two-thirds. There's a 67% growth in the profit after tax in the first half of the year as compared to the last year. Here I would say though the numbers are small from INR21 crores to INR36 crores, but important here is that, last year the business was not very, I would say, buoyant and there were surplus inventories in the market, there was a price crash, and there were too many things happening around because the market was stabilizing.

Thankfully, for the last two consecutive quarters, the business has stabilized, and it is on a growth track. Of course, the travels have started, and our teams are visiting customers, and of course there are exhibitions happening, whether in Thailand or China. Now recently it was in Europe, Barcelona. Now there's an exhibition happening in India, CPHI in November, it is happening in Noida. So I would say all around there's a happy, happy situation.

And overall, from a 5% in quarter one, 17% in H1, that's the starting point. If I look at the highlights, which is already there in the presentation, the domestic revenue is up 26% in the first half, in the quarter, and 31% in the first half. This, the domestic revenue has gone under INR280 crores. So this itself shows that there is much improvement, but major improvement here in the domestic revenue is coming from medical devices.

Because in the API, export is up by 14%, and domestic is down by 13% in quarter-on-quarter. So in the API segment, we have tried to avoid domestic sales, and tried to push more towards exports. But yes, we have to cater to both the markets. But as compared to the last year, the domestic market has declined. And of course, in the overall API segment has grown 5% in half yearly. Medical devices, like I said, had a jump of 41%. It was a huge jump in this quarter. And in the H1 also, for the half year also, medical devices have grown by 44%.

So I would say it's a phenomenal growth, and the team is working very hard for the better reach, and of course, better production. The Finished Dosage market, which is our domestic formulations, this has been growing consistently. In the first half, it has grown by 12%, while in the quarter, it has grown 16%. So very good growth, very stable growth.

Now the interesting point is, after all the upsides and downsides in the sales, EBITDA has grown up by 24% that is what comes to the bottom. That is what is adding to the bottom line. And for the first half, H1, EBITDA is up 44%. Of course, there is an upside in the percentage, but amount also. And more important is that there is a lot of control in the expense side also.

So we are very confident that going forward, we will be able to continue and maintain these EBITDA levels. So of course, the nice EBITDA is giving us a good jump in the profit, 29% in the Q2, and 61% profit up in the first half, which is phenomenal again. And PAT, which is the profit after tax, there is an increase of 34%.

So on the whole, if we look at it, all parameters are positive, and the company is on a growth path, even though we had a little slowdown in the previous years. This year, comparing with the previous years, actually the numbers are looking very healthy, but major is that there is a stabilized growth. And if we look at the top line, quarter and quarter basis, so last year, spring quarter was almost INR400 crores, and then INR350 crores, then INR360 crores, then INR403, crores then INR425 crores.

We look at the bottom, if the bottom was last year, third quarter. From there, we have grown up almost 20%, but quarter to quarter also we have grown 5%. Year on year also we have grown 5%. But if you look at the half year -- half year the revenues is 17% growth. Now in the half year, our revenue is INR828 crores, while last year, half year was INR707 crores. So we have added almost INR121 crores of business in first half.

And if you look at the CAGR of the company as a whole, company has been growing at 19% CAGR. So 19% CAGR on a compounded annual growth rate is pretty good in today's market, while the whole world is crying here and there are so many turmoil happening, sometime in China, sometime in Israel, sometime in Russia. But we have been consistently growing at CAGR of 19%, so that speaks volumes about efforts the team is doing. This is on the overall performance.

If we go to the individual segments, as you already know that we are an integrated company with most of the forward integration and backward integration or everything under one company, our core business is API, which is in the parent company, then medical devices. Medical devices also, as of today, is still in the parent company, but there's a plan to move it to the separate subsidiary. Between API and medical devices, this is like 80% to 90% of the business.

Then formulation business, till last quarter it was in the same company, in Morepen Laboratories Limited, but in 15th of August, it has been moved to a separate subsidiary, Morepen RX Limited. So now this quarter, half of the sales is clocked in the parent company, half is clocked in the RX – Morepen RX Limited in the subsidiary, but everything is consolidated in the parent management, that's 100% subsidiary.

So over the counter, which is the OTC, Dr. Morepen products, Burnol, Lemolate, ORS, all those products, those are already in the subsidiary. So we have two active subsidiaries now. Other than this, we have one passive subsidiary, Total Care, there's no business in that. And then there is a US subsidiary, which is just a frontend of Morepen for API, so there's no extra business, only the sales of US is handled through that US subsidiary. So that also consolidates back to parent company.

So that's about different segments, but if we go further down and see which segment has grown, which segment has grown less or more, API business, as I shared in the first half, has grown by 5%, but during this quarter, this is technically down by 13% by revenue, but if you look at micro details, API revenue is down, but API volume has gone up by 25%.

The number of tons or number of kgs material produced is up 25%, but there is a reduction in the sale price, because last year there was a lot of increase in the cost of raw materials. Because of increased cost of raw materials, we had to increase the prices also. We were not able to pass on fully, but there was an increase, but now our prices are softening, and benefit is being passed to the customers.

So as compared to the last year, there's a 28% reduction in the sales realization. Because of this, we have to produce more quantity even to maintain the same level, but all the customers have ordered the same goods, they have been able to maintain the same gross margin, but on the face of it, it looks like the realization is low, but going forward, as the market firms up a little better, we'll have better realization and better numbers to show.

But good point is that the volumes are growing, we are increasing capacities, and as we shared in our last quarter and during our AGM also, that there's a lot of pressure in the production, we are falling short of capacity, so we have to enhance capacities, so when we come to product-wise product, we'll explain you what is happening at that level.

Second segment is medical devices. As I already shared, there's a 41% increase in medical devices, 44% in the half year, 16% in the quarter, and 12% in the half year, and OTC is 22% increase in the quarter, and it is almost quite, when we talk of half year, it is minus 3% in the half year, that's the segment-wise thing. And if I now look at the API revenues, now I'm going segment-by-segment, API revenues have been growing by a CAGR of 20% so far. Now we have clocked INR415 crores already, and as compared to INR394 crores last year, there's a 5% Y-o-Y growth, year-on-year growth. And similarly, for the quarter also, it has a 5% increase, quarter-on-quarter, last quarter it was INR203 crores, now it is INR212 crores.

But here, as you will see in the presentation, which is already there with you, that there is almost a stable at INR200 crores, INR200 crores, INR215 crores, so this is where I think we have to find, we are trying to look at more products and more capacity enhancement, otherwise we don't see much growth happening around, but while we stabilize the growth at this level, now we see that, okay, how do we go higher from this in the API business.

If I look at the continent-wise sales, this is an interesting development that the US market share has gone up by almost 2.5%, from 12.9 to 15.3%, because US exports have gone up, because of a new product approval, Fexofenadine that's Allegra in the US. Europe market, this first half hasn't done very well, some of the countries have not been able to reply, you know the reason, Europe was very disturbed because of that Russia thing, and lately also it is disturbed. So Europe market, we have lost almost 5% market share within our own division.

Asian market has also been down from 21% to 19% something, because of the China factor, and of course, certain other Middle East countries are also down in the MENA market, from 12.1% to 9%, but there is an upside in Indian market, from 30.6% to 34.8% the Indian market has gone up, South American market has also gone up. So if we see on the whole, India has gone up, South America has gone up, US has gone up, so these are the three major markets which have gone up. So in the first half, let's see, if there are two other quarters pending. Here as a whole we will review, how does it, if things fall forward.

If you look at the major products which are contributing to the eight API growth, so as I shared in the US market, it is Fexofenadine, there is 413% increase as compared to last year, Rosuvastatin, that's anti-cholesterol, cholesterol reducing agent, 26% increase, Atorvastatin again for cholesterol, there is a 12% increase, and another Sartan, which is a cardiac product, Olmesartan, so this is 172% increase. These are the major products, which have contributed to the increase.

And certainly, one must say in case, there is a 400%, 200% growth, in the products, why is the sales only 5% increase, so in one of the products Loratadine, which is our major product for US market, so there is a decrease in sales, because the customer did not get tendered, for this particular year, so it was based on government supplies, maybe they get a tender late in this year, or maybe next year, so there is a gap there. But as a whole, US market is growing.

Coming to the core of the API, and if you track the social media, like LinkedIn, or other platforms, the company is getting very active, in the filing of DMFs, and in filing of the patents, and filing of the CPs, and registration, so the company is already approved, by US FDA, EDQM, EU GMP, and PMDA Japan, ANVISA Brazil, KFDA from Korea, then TGA Australia, then China, and of course, the WHO GMP.

So we have go all the approvals, as it stand today, we have 543 patents, there are 26 US DMFs, there are 11 CPs for the European market, then for the China market, we have got 8 import licenses, and non-US DMFs for all other countries, whether Europe, or Asia, or South Africa, or Tanzania, so we have 185 DMFs filed for the various products, and we have launched 41 new products, in the last three years.

So this is a big work, which our regulatory and RA team is doing. So if you look at the new DMF filings, so we have filed new DMFs for Desloratadine, Loratadine, Edoxaban, Rivaroxaban, Montelukast, Linagliptin, Metagliptin, for different form of Linagliptin, and then there is a Saxagliptin, so there have been various filings of the DMFs. And on the new patents, we've got new patents for Rivaroxaban, Fexofenadine, Dapagliflozin.

So there are activities happening, basically this is what the company's future is. The more products we launch, the more DMFs we have, the more patents we file, so this gives us an opportunity to interact with the customers, and customers get comfort level, that we have got an IP in this segment.

So as I shared, that we have been developing new products every quarter, so there is an interesting product Tafamidis, which has been developed, basically it is used for cardiomyopathy, so basically. Once the heart has got -- muscles get hard, and it cannot pump more blood, so we use Tafamidis, so it will basically soften those muscles. And another product is, Ticagrelor. Ticagrelor is more of an anti-platelet, basically whenever you have any, clots in the blood, so they give you Ticagrelor. So these are the two important products, which have been recently launched. And we are now looking for more customer acquisition in these two products.

As I shared that, we are falling short of the capacities, and the customers are asking more-and-more material, even though the prices are lesser, so we have started a new production block, P11, and please don't get confused, with the name P11, we already have 10 production blocks, P1, P2, P3, P4, up to P10, so P11 is a new production block, there is P11A also, so this is the 11th production block. Because we have 60 acres of land parcel, which is a new production block come up.

Then we have increased the capacity, of Montelukast from 55 tons to 66 tons. So this is also because of the increased demand. And as I shared earlier that, there are more supplies to the domestic market, so Indian market consumes more Montelukast, than the European and US market. So there is a lot of supplies going in the country.

So now coming to the interesting, medical devices, or diagnostics business. This has been growing at a CAGR of 25%, year-on-year. For the last three years, it has been growing. Now this year, the growth is 44%, now you can imagine, against 25% CAGR, we are already at 44%. So in case we continue, even we get 30%, 35% growth per year, so that would be a good growth. And looking in quarter-on-quarter also, as compared to the first quarter, the second quarter, 16% growth.

And we compare the quarterly results, we compare quarter-on-quarter, because there is a sequential thing. But when we look at the yearly, then we look at the average number. So on quarter-on-quarter also, there is a 16% increase, and on the CAGR basis also, there is an increase, medical devices as a whole, is doing very good. We are already at INR248 crores, so last year total was INR327 crores. So maybe this year we will easily cross INR400 cores.

So within medical devices, our major business is Glucometer, which has grown by 42%, we are almost INR200 crores already in the meters, glucometers and strips. Quarter-on-quarter, it is 12%, and for the half year it is 42%. So there is more-and-more meters being installed, and we have a happy customer base of 10.6 million numbers, so almost 11 million customers, satisfied happy customers, who buy our strips regularly. And of course, this number keeps on increasing.

So we have sold almost 1.4 billion strips, which is almost equivalent to population of India. So in case, I mean just to give a reference, every Indian use one strip, so many strips we have already sold. Now there are 11 million active users, and customers who place orders regularly, and they buy other products also. We have sold in the first half 1.26 million meters.

Then coming to the next products, which is BP monitors. This is also doing very nicely, and there is a 52% increase in the first half itself, as compared to the last year. So it is as good as the COVID level. During COVID time maximum was 84 crores sales, for this product, now in half year we have clocked 44 crores. So quarter-on-quarter it has increased 17%. So BP is growing, glucose is growing, rest are small products.

Coming to the typical formulation business, which is our doctor prescription, formulation manufacturing, institution supplies, supplies to Jan Aushadhi, and supplies to other government schemes, so there is a 12% increase year-on-year, and for the quarter-on-quarter, there is a 4% growth. So very stable business, very regular business, and we are here expanding the team, increasing the team slowly, and this is one of the major area of expansion we want to focus. Here our growth had been pretty slow, till date, CAGR is 10% as compared to 18% in API, and 29% in medical devices, it is only 10% CAGR. So this is our focus area for the future.

And in the formulation business, the growth had been more from the antibiotics, 24% is antibiotics, vitamins haven't grown much, it is only 1%, 52% growth is coming on the gastro products, and 135% growth on the other small products.

Then coming to Dr. Morepen OTC, which is our brand, I would say, our darling. So Dr. Morepen is a very nice brand, with most popular brand like, Burnol and Lemolate in it. So it has grown 9% quarter-on-quarter, but while for the half year, it is almost flat, from INR49 crores to 48 crores. So 1% or 2% up or down, but it has been growing consistently at CAGR of 13%. So all businesses have been growing consistently, when you look at the overall. But last couple of years, because of this COVID, pre-COVID, post-COVID, there were a lot of fluctuations, but now things are stabilizing thankfully.

In Dr. Morepen OTC, the major growth driver was Burnol and as you know, Burnol is a very prestigious product, it's a 75 year old burn product. This is the only one burn cream in the country, and which has the highest recall, and other than using Burnol, people use Burnol for having a lot of other means also, and a lot of political jokes are cracked around Burnol. So it's a very good brand recall.

Then ORS is a very good product for us, Oral Rehydration Salts, so this is 76% growth in that. Then General Health, wherein we have a generic basket of products, 38% growth, but here there's one category, which we are strategically declining is online. We were investing a lot of money in online, during COVID time and post-COVID also, but we have seen that the online business, consumes a lot of capital, and needs a lot of marketing spend, and it is more of a valuation game, and not a profit game. So we are strategically reducing our spending on online, and there's a 31% reduction in the sales also.

Then coming to the last slide, on the financial highlights. As I already shared, net revenue up 5%, EBITDA 24%, profit before tax is up 29%, profit after tax 34%. That's on the quarterly basis. If you look at the half yearly basis, net revenue up 17%, EBITDA up 44%, profit up 61%. And I think we have discussed that, profit after tax up 67%, these are the two main financial slides, then in the presentation, you can have a look, we have talked beyond numbers also, because numbers are only the result.

But who is producing the numbers, so naturally there are people behind it, there's a talent behind it, there's a whole journey which happens day in day out, so we are adding a lot of fresh talent, and with diverse experience, and of course with huge potential coming up, so we have on-boarded a lot of senior members of the team, so we have a chief growth officer in APA now, Lalit Baregama, he has 20 years of experience with companies like Cadila, VIMTA Labs, and Pramod Singh has recently joined, he's from Centrient, DSM Sinochem, 25 years of experience, Mr. Mahesh Tiwari, again a Territory Growth Head, 17 years of experience, Manish Gupta, again a Territory Head, Jubilant, Sun Pharma, Biocon, so basically we are getting the best talent in the market, and more and more people are happy to join a winning team.

And on the formulation side also, we have a Senior AVP, Mr. Ashutosh Sharma, with 29 years of experience, with Netco, Cadila, Torrent, and Mr. Puneet Chawla has joined as a National Sales Manager for the Rx, again 21 years of experience, MSN, Biocorner, Astro, so we are getting talent from the industry, on the plant side, we have recently had Anju Singh, as our DGM HR, and she's also having 20 years of experience, Mahindra, and Eduoriens, and on the corporate communication side, we have added Nitika Saini, who is our corporate communication manager, she works for the NGO called CARE, and she has all the international experience, basically we are growing on all fronts, and adding good talent, and as a company we are seeing that, as a company is growing, and I'm happy to share that we've got more than 3000 people on board now.

So we have to have a lot of employee engagement, team work, and team spirit, so around 6 months ago, we started our weekly feature of Bubble Chat, wherein, it's a company in-house talk show, wherein we interview the senior people, industry leaders, and slowly, slowly, in the season one, we had a weekly show, now we have moved it to monthly, so here, more and more people are given a chance to interact with the industry, with the seniors, seniors from the plant, seniors from the head office, and even the industry experts, like Dr. Ram Charan, who is our global CEO advisor.

And we had invited Mr. Shiv Khera once, and we have some medical tips, some kind of nutrition tips, basically the whole idea is to interact with the people, and understand them, and connect with them, and of course, these days, now it has gone a little bit further, and now we do a live streaming of Bubble Chat, so that people can join from the outside also, whosoever has interest in that.

And as a second effort, we are doing mentorship programs for the team, for their knowledge enhancement, skill development, and we had a Masterclass this month, early this month, the last one, 3rd of October, with Dr. Ram Charan, and of course, again, it was 150 people who attended that Masterclass. Then the company has been working hard on the employee motivation, and development, and teamwork, and we have been awarded the best company to work for in 2023, by Tradeflock, so their team has visited 2-3 times, they did all the survey and research, and of course, interviewed the people, and were awarded a prize for the best company to work.

Of course, miles to go, but a lot of activities happening to keep the team motivated, so as advised by our masters, and our third party consultants, to keep pace with the change, we are trying to have a better connect on digitization and technology, so we have done three, four initiatives lately, so there's a program called Connect 360, so this is our in-house program, wherein we have a lot of initiatives to connect with the team members, through technology, one-on-one talks, relationships.

So that we keep the team motivated, and for the fast communication, and to avoid any conclusions, other than email, we have started a process called Slack, so this is more like a combination of, I would say, WhatsApp and email, it works like WhatsApp, but it is more regulated, and controlled, and secret, and controlled, and also, it sits on the company's server, and there's no privacy issues, so nobody can delete the data, so even if someone leaves the data, and it's shared, it's not with the company

So we have initiated that, and lately we have activated a consumer-front salesforce, so salesforce is a package for CRM, which is a Customer Relationship Management, so this is also one of the best ones, given the best software, which is available in the world, so of course, then, a lot of other activities happening, within the company, to keep the employees motivated, and overall, I would say, we carry on the team of connect, communicate, and collaborate, so this year, that's the theme, last year, we, post-COVID, our theme was love heals, because everybody needs more love, and more human connection.

So now it is connect, communicate, so there's a lot of effort going on, connect and communicate, and of course, ultimately, collaborate, so I would say, this is the broad commentary, on the results, so of course, I can keep on talking more, but I would leave it for you guys, to open for the question and answer, or if you want to throw some light, on the numbers and results, or if you want to try to say, any questions on that,

Ajay Sharma: The numbers are already covered, so we can take up the questions, whenever it comes.

Moderator: Thank you very much, we will now begin, the question-and-answer session. And the first question is from the line of Darshit, from Robo Capital, please go ahead,

Darshit: Hi, so thank you for taking my question, I just wanted, like a basic overview, for the next two, three years, what are the plans, how are we moving forward with them, and if there are any key drivers, or if you can give some idea, on revenue and margins,

Sushil Suri: Darshit as, I already shared that, all businesses are at growth path, but certainly, we are very positive and bullish, that the current growth, of CAGR of 15% to

20% will continue, so of course, within each segment, some segment may be up one quarter, or may be down next quarter, or depending on the market season, and availability of materials, because there is a lot of, dependence on imports earlier, so I would say, outside 20%, 15% bare minimum, CAGR.

We would expect to clock continuously, and as we keep on growing, so our margins, are certainly will go up, as you have seen that last year, it was around 6.5%, now it is 8 point something, so on an average, 2% or 2% margins have gone up, net EBITDA margins. So since the expenses are already there, of course we are -- rolled out expanding the teams also.

But the basic things are covered, so any increase in the revenue, is going to add up to the bottom line also, and as we go forward, from an overall perspective, the growth drivers, if we say, the API will continue growing separately, medical devices is already growing fast, it will grow faster, and finished usage is one of our other areas, we are going to focus, OTC is going to remain, quiet, because it needs a lot of investments. So we are expanding the capacities of API, and the finished usage.

Darshit: Okay, so do we see the margins, the biggest margins of say, 11% to 12% anytime soon, or probably in one or two years?

Sushil Suri: Yes, I would say it is a slow process, and actually we have seen last year, that if you have any aggressive growth, in any particular area, that is not good for anybody. So we are going very slow and steady, and we are actually not making any, so called fast moves, to get fast bucks, because we are very traditional brick-and-mortar company, so we have to set up plants, machinery, R&D, regulatory, environment, so we will keep on doing that, and we certainly expect EBITDA margins, to be in two digits, in the next financial year.

Darshit: Okay, in the next financial year?

Sushil Suri: Yes.

Moderator: Thank you. The next question is from the line of Saurav Bhutra from IIFL Securities. Please go ahead.

Saurav Bhutra: Good afternoon, sir. Thank you for taking the question. I just want a color on the API businesses. What you see in the API businesses, in the upcoming, say one to two years, and what will be the margin, in the API businesses? Can you give the color on this?

Sushil Suri: Yes, Saurav, as we have shared multiple times, that our core is API, our DNA is API, so we are certainly pretty strong, and very bullish on the API. Yes, there are basically two main things. One is the regulatory part, which is the regulatory skills, like FDA approval, and filing of DMFs and patents, which we proudly say we are good at, and we shared in the forums, that FDA approval, we have a hat-rick of NIL 483, so we are pretty good on that. Now the second part, other than the regulatory and compliance part is the capacity.

So the companies with large capacities, and huge capacities, and infrastructure, certainly they will be able to compete better, because the whole world is looking at India as a resource center, as a sourcing hub, and that is against China, I would say. So China has got huge capacities, but they are very weak in the regulatory. That's why I mentioned regulatory setup as the first thing.

So as an India market, we are very strong in regulatory, but certainly we have low capital base, and we do not have large capacity, so that is, as a company, our strategy would remain that we keep investing in the capacity, and we are investing as we go. So we see that API to be very bullish, and the manufacturing hub, China has already crossed that hub, and they have become the manufacturing center, but naturally now the world is looking at an alternative. So India is the second alternative.

So certainly API has got certain challenges with the environment factor, and that is the polluting industries, so we are going for zero liquid discharge. So we are hopeful that once we are able to handle those things, so API would remain very bullish, and we continue growing at 15%-20% CAGR.

Saurav Bhutra: Okay.

Sushil Suri: Then API, we have to talk about the new molecules. So when we say as Morepen, when we say API, we are not talking of traditional APIs, we are not talking of paracetamol, and ceflexane, and amoxicillin in the world. We are talking new molecules, with high-gross molecules.

Saurav Bhutra: Can you show the color on this? What is the pipeline in the API businesses? How many drugs and molecules are there in the pipeline?

Sushil Suri: 41 products, which are already currently live. Around 7-8 products are being regularly sold, and around 30 products are the new products. Within around that, maybe 5-6 products are, I would say, off and on, some countries are expired, in some countries they are not expired while there are 20 products, which is like a pipeline.

So the total size of the pipeline, the products that we already have in hand, is $67 billion, formulation market. As you would appreciate, formulation market is actually highly priced. So even if the market discounts at 70%-80%, even 90%, we expect $6 billion, $7 billion dollars as the residual market size. And even if we get 10% market shares we are home, for the other products that we sell now, for example, Loratadine we have 70% market share. For Montelukast we have 48% market share.

So on the same scale, 10% market share, so $500 million to $600 million we can easily get in the coming years. Most of the products expire after 2025. By 2025, there are $67 billion market.

Saurav Bhutra: Okay. Number three question is on the OTC. Sir, from the last few years, if you see the business of OTC, your bottom line and top line has been very stable and has been rapidly growing at a very slow pace. Can you throw the color on this? What is the reason behind that?

Sushil Suri: Saurav, OTC, as I said earlier, OTC basically is a branding business. And branding business, you would appreciate that we have very high tariff as per the newspapers and TV channels. And of course now, all these e-commerce players are competing for the space even in the social media.

So we had certainly planned that, okay, maybe online is the way to go. But we have seen that even in the online market, the cost of customer acquisition is very high. So we are purposely keeping ourselves a little shy of the market because its need in all digit high spends, but doctor Morepen is brand we are getting a priority in the medical devices.

There we are getting a business of, say, INR400- INR500 crores without much investment. There are nominal investments, but without much investment. It's a strategic call. It's easy to burn money and throw money, but naturally we don't have our so called investor's money to burn like our other startups are doing. We are a bit conservative, but certainly there is a brand. So we are looking for some tie-ups in there also, where we can get, we just share our so-called logistics hitch is that our main brand like Burnol, they have got a very good reach and thing, but they are very, I would say, focused only for the burns.

So we can't grow that category. Burns is not a big category. So we are doing some strategic calls, but another two to three years' time, so we are planning that Dr. Morepen has to go big. It's an independent company, and it is an IPO candidate. But certainly we need some good volumes. We are almost at, like you said, stable business at INR100 crores. Till it goes to INR200 to INR300 crores, we can't go to the market. So we'll keep investing, and keep, I would say, putting house, in order, and once we see that, okay, there's a big game, so we can always say that.

There are a lot of tie-ups available, people who want to sell products under Dr. Morepen brand and actually we don't have to invest in the branding part, they would invest in the brand also. There are certain foreign companies who want to tie-up with Dr. Morepen. But we are a bit slow in that, because we are evaluating what is our growth path for us.

Moderator: Thank you. The next question is from the line of Madhur Rathi from Counter Cyclical Investments. Please go ahead.

Madhur Rathi: Yes, thank you for the opportunity. Sir, with so many new drugs and APIs in our pipeline, what kind of capex in both our API as well as medical devices division are we looking for in the next two to three years?

Sushil Suri: I must say, in the API division, so without the corporate expenses, without head office expenses, API is giving us EBITDA of 14% to 15%, and medical devices around 12% to 13%. But after adding corporate expenses and other things, going forward, we are expecting between 10% to 12% EBITDA in the coming two to three years' time. But on the whole, corporate expenses are doing very good and make good money.

Madhur Rathi: Sir, what kind of capex are we looking for in these two -- what type of topics? Our Capital expenditure, are we looking to expand?

Sushil Suri: In capex, certainly we have a capex plan of INR125 crores for API's business which we certainly have to go for funding, either through debt or through equity. We are preferring debt because our equity is already very high. And on the medical devices side, there is another capex requirement of INR50 to INR75 crores. So that we are not going out and we have internal cash flows which we will be using for the medical devices. For the API, as of today, we are spending between INR3 to INR4 crores from internal cash accruals. That is why there is a shortage of working capital also.

And since we have not borrowed any money for the past 25 years, we are generating –capital, capex only from the internal cash flows. So there is -- actually, there is a slow investment but we have huge plans for the capex. So maybe once we have a better capex in hand, so we can grow much faster.

Madhur Rathi: And sir, what kind of asset turnover are you looking from the investment going forward?

Sushil Suri: Asset turnover, if we look at today, it is very high. It is five to six times. On an asset block of INR200 to INR250 crores, we have INR1500 crores top line. So going forward, I would say three to four times the bare minimum we look at. Because now these assets are old assets which are depreciated. But going forward, if you buy a new asset, between three to four times asset turnover that is expected.

Madhur Rathi: Okay, sir. And your final question would be in our API, Glucoses Monitor business, what kind of precenting revenue is recurring in the form of strips -- from the strips segment?

Sushil Suri: In the Glucometer end, what is that?

Madhur Rathi: So what kind of revenue is recurring in the form of strips that we sell on a recurring basis? Since we sell 10 million meter, so what kind of strips revenue can be generated from that? That's what I am asking.

Sushil Suri: Yes, Glucometer, our half yearly sale is INR195 crores, almost INR200 crores. And INR103 crores is the revenue for the quarter. And last year, full year was INR250 crores. Now in half year, we have done INR195 crores. So this is Glucometer. Like I said, we have 11 million customer base. So that is the recurring revenue that's we kept. Of course we keep on selling new meters also, but we keep on selling the strips also.

Madhur Rathi: And sir, what kind of percentage from this revenue comes from strips and new meters?

Sushil Suri: Look, we actually do not distinguish, but meters of course we keep selling and keep placing. Usually meters are placed at a discount to the customers so that they keep buying strips. But strips is the regular business, so we can't distinguish which are old customers, which are new customers because chemists do not share that data.

Madhur Rathi: Okay, fine. Thank you, sir and all the best.

Sushil Suri: Thank you, Madhur. Thank you.

Moderator: Thank you. The next question is from the line of Kunal Prakash Shah from SS Bharat. Please go ahead.

Kunal Prakash Shah: Sir, we have some questions. First of all, I was looking at your balance sheet, sir. Constantly, your OPMs are increasing, but they are increasing at a very slow pace. And against that, your products are such that you are saying that your sales are growing very fast, but the revenue generated, or the final net profit conversion is not visible. Can you tell us about that, sir?

Sushil Suri: I will tell you one by one. Like we said in API, for example, in API, 13% of our revenue is down, sales are down. But despite that, half year, there is no extraordinary thing. In diagnostics, it has increased by 41%. In formulation, 16% is yours. If we go to the category, like we said in API, our tax sales growth is plus or minus.

We have growth in four products and negative in USA, India, South America, Europe, Asia, and it will be go down in MENA Market and Arabian Market.so obviously there is going in some part of plus and some part of minus. The number what we have giving as a whole. And if we talk about medical devices, there is growth in revenue and also in total, there is a growth in medical devices, and glucometer. Formulation is very stable. 4% quarter-on-quarter, 12% CAGR. If you see year as a whole, CAGR is If you specify, I can see it. So any specifics so I can share with you.

Kunal Prakash Shah: I am able to understand in your presentation, it is the same. It was just that where your growth is increasing, if you count in these dollar terms, then there is no appreciation in this quarter, it has been a week in rupee dollar terms, so according to your opening, it seems a little less, so I am making this specific second time point out. Your OPM is less in this quarter. That is why in

December 2020 to September 2021, your OPM is above 10. After that, it drastically OPMs came down. That is why there is difference in EPS. Specifically, that is why I asked. Second one is, employee cost is increasing. Can you tell me about it? You have already said, employee cost is nearly INR74 crores on quarter.

If you have 3,000 employees, it is INR2,40,000 expenses for three months. On those expenses, the returns we see are not up to that level. I asked you, where the problem is. We have heard the previous forecast from Sushil sir…

Sushil Suri: Our CFO Ajay Sharma sir, he will tell you. Let me shift the phone

Ajay Sharma: This is Ajay. What we are talking about API. In API, what our Chairman had discussed, our Loratadine is less selling. Loratadine, in last year first half, the top line was INR130 crores. This time, it is at INR69 crores. It was giving us 60% plus margin. In return, as compare to it, the rest of the products have sold more but their margin is only 40%. So this the reason for API's top line getting affected and it getting impacted on bottom line.

So, if we look at the margin of API, then the average margin is 40%. So, this time because of the change in the margin, the margin has decreased. So, it has an impact on the top line and bottom line. If we talk about the other divisions, in the formulation, let's talk about devices first.

In devices, our averagely EBITDA level is 10% to 11%. So even today it is maintained. And formulation, because we don't have a top line, so in the three segments of the formulation, like the Rx business, the branded generic business, which doesn't have a top line, so, we have a branded generated business, which is not at the top. So, we generally face losses.

So, the API generated, the devices generated at the lower level, the formulation, because it has some losses, the impact of the API plus devices generated is not fully effected. So maybe in the next year when our formulation revenue will increase, so the formulation revenue which has hit INR4 crores-INR5 crores in this quarter, so that will take care that next financial year onwards, you will have better bottom lines.

As far as you are saying, employee cost. Employee cost, if you see last year, overall basis was 10.9%. If you see H1 basis, it was 10.5%. So, employee cost as revenue will grow, it will come down because number of people will generate more. And though in API business we are adding more sales teams who has to increase this revenue because that we are focusing.

Same way in the formulation business, we have added new teams in the formulation business as well. So, I think maybe next year will be a transition year where top line will also grow, expenses will also grow but it will take shape. Like financial year 2021- 22 was a great year. 22- 23 was not that good, but 24- 25 will be better. So, you will see this growth and bottom line getting improved.

Kunal Prakash Shah: I wanted to ask you one question for that reason. Can we see your double digit growth in the next year?

Ajay Sharma: Yes, definitely.

Kunal Prakash Shah: And all your companies will contribute in a positive way?

Ajay Sharma: All will be positive but the formulation business is giving us a little hit. The formulation business will be also get stabilized. So, all your businesses, the double digit you are talking about, we have complete faith in it and you will see in near future.

Kunal Prakash Shah: Okay. **A**nd would you like to give any specific number on that or in which range you will see in near future?

Ajay Sharma: Okay. As we grow, we want to give you confidence that the number we are giving today, tomorrow we will give you a better number.

Kunal Prakash Shah: Yes. But in double digit, your peers are doing very good. Actually, sir. I mean, they are already in double digit and they are far ahead. In API also, they are doing very good. I can understand that because of the remaining companies, you are facing problems but I want to know, when will all the guns start firing and when will we get a good bottom effect and when will it be converted into the result. I want to know this from you?

Ajay Sharma: This financial year will be very much improved from last year and next financial year will be more improved than that. So, this year, as you have seen the improvement in the second quarter, in the third quarter, the improvement will be even better and next financial year, it will be even better. So, now you were saying, what to put in the numbers. So, we will see in the next two quarters and we will be in a better position to put the exact number as well.

Kunal Prakash Shah: So, in the next two quarters, are you expecting double digit growth, sir?

Ajay Sharma: Yes, granular growth is -- definitely we are expecting double digit growth.

Kunal Prakash Shah: Okay, sir. Thank you very much, sir.

Ajay Sharma: Thank you.

Sushil Suri: Thank you, kunal. Thank you very much.

Moderator: The next question is from the line of Chinmay Rane from Kojin, Finvest. Please go ahead.

Chinmayee Rane: Yes. Just wanted to understand, do we have any presence in the contract manufacturing by any chance?

Sushil Suri: We have.

Chinmayee Rane: Yes, so how much is that proportion, in terms of revenues and how are the margins over there?

Sushil Suri: Contract manufacturing for which products?

Chinmayee Rane: For which products we have the contract manufacturing, do we have a segment in each per se and if it is yes, then which segment we are doing the contract manufacturing?

Sushil Suri: In contract manufacturing, we do some contract manufacturing for the finished processes. So basically, there are two types, one of course is the institutional business, which is actually done under the company's label, but there are a few companies who get contract manufacturing done from us.

So there we do under their brand name and of course third division is our own generic division, so technically we count that also from a factory point of view contract manufacturing because it is a separate division, but otherwise other than formulation we do not have any contract manufacturing.

The formulation business, if we say, it is hardly 5%, 5% formulation sale, and total it is not less, not more than 1%.

Chinmayee Rane: And how, in total, sir?

Sushil Suri: On the total, it is not more than 1% of the total sale of the company, in the formulation sales it is around 10% is for contract manufacturing.

Chinmayee Rane: Okay, and so do we have any product launches in the next one year?

Sushil Suri: Product for?

Chinmayee Rane: Product launches in the next one year?

Sushil Suri: Yes, we have many new drug launches, API also, in the formulation also, in the API of course there is a strong pipeline, it is there in our last quarter presentation, it is there on the website also, and I can share those things, and in the formulation also, there are many new products which are coming up. Particularly we are working on some products where in, this is the first time in the country for API approval, but certainly first broad base our team.

Our team now is very small on the formulation, so we have to first expand the team and then talk of those big products, and certainly there has to be a balancing act. So we keep the growth momentum right, and keep on expanding the team, and then slowly keep on adding the new products.

So, there is a three way balance which we have to do, production, team and the new products. R&D center has been developed, and of course formulation export facility is also coming up, so next 18 months the new export facility would also be up and running. So lot of efforts going on and on, so investors have been very patient.

Chinmayee Rane: Okay, and what will be the timeline for this? Like add new people, team, production, what will be the timeline for this, or this is a continuous process?

Sushil Suri: This is a continuous process, this is not a one particular project, we have a full-fledged R&D department, they keep on working on new products, new patents, NDDS, and certainly new capacities expansion we recently did in the last quarter. And some things are still going, and you would see the formulation sales going up from next quarter onward, Q4 or I would say next quarter, this is already in Q3, but next quarter onward formulation sales would also start going up.

Basically I would say lot happening in the capacity side, we still have to work on the market side, adding teams. We have to work on the ground level, a lot of work has to be done on the formulation side, and the API of course, we have very strong backend and R&D, frontend we have added as you have seen in the presentation, so frontend is being expanded.

Chinmayee Rane: Okay, so how many number of scientists are working currently?

Sushil Suri: How many?

Chinmayee Rane: The scientists working with us currently?

Sushil Suri: We have around 36 people in the R&D team.

Chinmayee Rane: 36 people. Okay sir, that's it from my side, I will come back in a queue.

Sushil Suri: Thank you, Chinmayee.

Chinmayee Rane: Yes, all the best.

Moderator: Thank you. Participants who wish to ask questions may press star and one. As there are no further questions from the participants, I now hand the conference over to Mr. Gopal Chandak for closing comments.

Gopal Chandak: Thank you. Thank you everyone for joining the conference call of Morepen Laboratories Limited. If you have any query, you can write us at info@kirinadvisors.com. Once more, thank you everyone for joining the conference.

Moderator: On behalf of Kirin Advisors, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

Sushil Suri: Thank you, guys, thank you everybody. See you next quarter.