Tarsons Products
Q3 FY2022 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Q3 FY2022 Earnings Conference Call of Tarsons Products, hosted by Investec Capital Services. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anshuman Gupta. Thank you and over to you Sir!

Anshuman Gupta: Thank you moderator and good morning, everyone. On behalf of Investec Capital Services, I welcome you all for Tarsons Products first ever earnings call since listing. Tarsons Products has already announced nine-month FY2022 and 3Q FY2022 financial results yesterday. Today from the senior management, we have Mr. Sanjive Sehgal, Chairman and Managing Director, Mr. Rohan Sehgal, Whole Time Director, Mr. Santosh Agarwal, Chief Financial Officer. Congrats to all of you for a very good IPO. Now I will hand over to Rohan. Thanks.

Rohan Sehgal: Good morning and a very warm welcome to everyone present on the call. First and foremost, I hope that you and your family members are safe during these unprecedented times. Along with me, I have Mr. Sanjive Sehgal the Chairman & Managing Director and Mr. Santosh Agarwal the Chief Financial Officer for Tarsons Products Limited and SGA our investor relation advisors.

To begin with, I would like to thank and congratulate all our stakeholders, investment bankers and business partners for helping us achieve a milestone of getting listed on the Indian stock exchanges. We are delighted to see such a strong response for our IPO. Since this is our maiden earnings call, I would like to take you through Tarsons Products Limited, its journey so far, broad industry update on plastic LabWare and strategies going forward followed by operational and financial highlights of the quarter and nine months ended 31st December 2021 post that we will open the floor for questions and answers. We have also uploaded our latest investor presentation on the stock exchanges and I hope everybody had a chance to go through the same.

Tarsons Products was incorporated in the year 1983 and now is one of the leading Indian suppliers of LabWare products engaged in the designing, development, manufacturing and marketing of consumer goods, reusables and other LabWare products with more than three and a half decades of experience in manufacturing of trusted high-quality plastic LabWare products. We supply our products to industries across research organizations, academia institutes, pharmaceutical companies, PROs, diagnostic companies and hospitals. Today we are one of the leading Indian suppliers of life science sector with a strong brand recognition and high-quality diversified products across varied customer segments and end user industry. We have a diversified product portfolio with more than 1700 SKUs across 300 categories including consumables, reusables and benched up equipment. Our consumable categories include major product lines such as centrifuge ware, cryogenic ware, liquid handling, PCR consumables and so on.

Our reusable categories include bottles, carboys, beakers, measuring cylinders and various kinds of bench top racks. We also make bench top instrumentation such as vortex shakers, centrifuges, pipettor and so on. We currently operate through five manufacturing facilities located in West Bengal. Wide array of products are manufactured across these facilities giving us a competitive advantage in terms of technology, which we have accomplished over years of experience in the field of manufacturing, and plastic laboratory products. We believe that we are focusing on stringent quality standards across all manufacturing processes we have been able to provide a reliable efficient and cost-efficient product line to our diversified end user industry.

At our facilities, we continue to invest in automation to reduce human error and improve throughput. We are working on expanding our manufacturing capacities for both existing and new products in a phased manner through construction of a new manufacturing facility in Panchla, West Bengal. The project is on track and we target to commission the new facility by the middle of 2023. We are also planning to develop a new fulfillment centre in Amta, West Bengal to coordinate and expand our warehouse operations. At the same location, we also aim to do backward integration in the manufacturing process by building in-house sterilization centre for captive consumption. We have recently completed the land acquisition measuring approximately 6 acres for the facility in Amta and the target to complete this project will also be in the middle of 2023.

Our products are distributed to end users on a Pan India basis by our authorized distributors. We have longstanding relationships with our end customers and distributors, which we have accomplished by an on the ground sales and marketing team. As on December 31, 2021 we have 150 active distributors spread across the country supplying to various end user industries. High-grade quality products diversified product offerings alongside the trust and the brand name developed over the years for Tarsons has helped us create a strong foothold in the exports and the international market as well. Our share of revenues from exports stood at 41% in Q3 FY2022 and 33% in the nine-month FY2022. We cater to the demand of export market through branded as well as OEM sales to more than 40 countries through a network of distributors and we are very optimistic of huge opportunity lying ahead of us in the segment. As an organization, we are constantly striving to improve our environmental, social and governance parameters. Our products are manufactured using medical grade plastic that is designed to withstand critical use. We work under clean room conditions, which eliminates all chances of contamination. Productivity optimization will be done through higher use of automatization. The company directly donates to various hospitals as a part of its CSR initiatives. We regularly review and update our policies for change requirements and have whistle blower polices in place. Our key strategies going forward will be to expand our product portfolio, focus on branding and promotion, manufacture new products in the cell culture and the robotic handle consumables, leverage the advantage of "Make in India" and grow our domestic sales as well as our international business through exports enhancing our manufacturing capacities to leverage growth. We will be expanding our manufacturing capacities in various popular product categories. We recently acquired five acres of land to develop a new manufacturing facility in Panchla, West Bengal and to expand and enter into new product segments comprising of cell cultures, serological pipettes and others. Increasing presence in overseas markets, we plan to grow our international business to more than 120 countries in the next seven to 10 years by a twofold approach of both branded products as well as OEM products.

Also, we plan to enhance our operational efficiencies by using higher automation and higher throughput leading to operating leverage play. Going forward, I would also like to reiterate that with multiple growth avenues for the future like large addressable domestic market with continuous addition and product categories and addition of wallet share of the customers, huge opportunity in the export market with OEM as well as branded products, increasing skill and capabilities with in-house manufacturing and R&D, trust and reliability for our products with gaining acceptability across the domestic and international markets. We believe there is a huge runway for growth for your company and we are prepared to leverage this opportunity with expertise and experience we have developed over the years. Let me hand over the call to Mr. Santosh Agarwal our CFO for operational and financial highlights for the quarter and nine months ended FY2022.

Santosh Agarwal: Good morning, everyone and a very warm welcome to all in our maiden earning call. We have uploaded our latest investment presentation on the stock exchange for our Q3 and nine months FY2022 results. I hope everybody had an opportunity to go through the same. We are delighted to share that we have surpassed our FY2021 profitability in just nine months FY2022. On the revenue front, we would like to discuss revenue from operations for Q3 FY2022 stood at Rs.71 Crores as compared to Rs.60 Crores in Q3 FY2021 a growth of

17.3% on a Y-o-Y basis. The sales growth was driven by higher demand across end-user industries and exports. Revenue from operation for nine months FY2022 stood at Rs.216 Crores as compared to Rs.161 Crores in nine months FY2021 a growth of 34%. Revenue split between domestic and export stood at 59% : 41% in Q3 FY2020 and 67% :33% for nine months FY2020. Our export revenue for nine months FY2022 grew by 42% approx to Rs.71.4 Crores in nine months FY2022 and 54% in Q3 FY2022. Gross profit margin for nine months FY2022 stood at 79.7% as compared to 71.7% a jump of 800 basis points on Y-o-Y basis. GP margin for Q3 FY2022 stood at 77.9% compared to 76.05% in Q3 FY2021 an increase of approximately 150 basis points and down by 120 basis point on Q-o-Q basis.

Dip in gross margin on quarter-to-quarter basis is majorly due to change in product mix since we manufacture more than 1700 SKUs across 200 product categories however GP margin on quarter-to-quarter basis might vary and a more independent figures to be looked at its own annualized basis. At EBITDA level, EBITDA for Q3 FY2022 stood at Rs.33 Crores as against Rs.31 Crores or Y-o-Y growth of 8%. EBITDA margin for Q3 FY2022 was down by 400 basis points on account of increase in employee expenses, IPO expenses , more consumption of Packing Material , Fixed Expenses an other one due to change in productivity as highlighted above, which might taper off in the coming quarters. For nine months FY2022 EBITDA was Rs.108 Crores as compared to Rs.69 Crores in nine months FY2021 a significant growth of 58%. EBITDA margin for nine months FY2022 stood at 50% as compared to 42.5% in nine months FY2021. Therefore, inching a growth of 770 approx basis point on the Y-o-Y basis. At a PAT level PAT for Q3 FY2022 stood at Rs.21.5 Crores as compared to Rs.21 Crores in Q3 FY2021 a growth of 2%. PAT for nine months FY2022 stood at Rs.71 Crores as compared to Rs.45 Crores in nine months FY2021 a significant jump of 57%. PAT margin for nine months FY2022 stood at 33% a growth of 500 approx basis points as compared to same period last year. On utilization of proceeds from IPO, we have repaid the debt up to the tune of Rs. 78.54 Crores and currently we are a net debt free company, which will enhance our profitability. Also, the construction of new manufacturing facility in Panchla, West Bengal is on track and we target to commission the same by middle of 2023.

Lastly the demand scenario going forward looks robust and we are optimistic of sustaining the growth trajectory with higher profitability on the back of operational efficiencies and scale. With this, I would like to open the floor for Q&A.

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. The first question is from the line of Praveen Sahay from Edelweiss Financial. Please go ahead. As there is no response from the participant, we will move to the next question, which is from the line of Rishab Parekh from Sunidhi Securities. Please go ahead.

Rishab Parekh: Congratulations on a very robust set of nine-month financials and thank you for the detailed investor presentation. I had a few questions. Firstly, regarding the Q3 FY2022 performance what we observe is there is no growth in the domestic market in Q3FY22 versus the corresponding quarter last year, so just wanted to understand if what was going on there? Secondly, you mentioned that there was a one-off in the margin so if you can elaborate on what is the quantum was and I will ask my other questions after this.

Rohan Sehgal: Sure, thank you. If you see our numbers on Q3 FY2022, 41% of our revenue has come from the international business, but if you see our nine-month revenue in FY2022, it is in the 33% indicative of our company, which is at about two-thirds of domestic revenue and one-third of international revenue. Now since our capacities are constrained and we are expanding on newer capacities, the international business revenue is not very linear this year and it is clumped in parts and portions because we are unable to get the container availability and the vessel availability which is an issue with all across the country and all over the world so you will see a higher proportion of revenue, which is coming out of international business because of better availability of containers in this period as compared to Q1 and Q2 so if you see our proportion of revenue changing, it changes from 75:25 in Q1 to about 64:36 in Q2 to about 59:41, but on our overall nine month basis if you see it stays at about 67:33, which is indicative of our company over the last two or three years and because of restricted capacities, we have back orders in both international and domestic markets. We can only cater a certain market at a certain point and we cannot cater to everybody hence we would have not had any back orders at this point of time and hence you see a little dip in the domestic revenues and a little increase in the international revenues.

Rishab Parekh: Is this purely on account of capacity constraint that this was the case, right?

Rohan Sehgal: On the account of capacity constraint as well as more importantly on container and vessel availability constraint. We are unable to ship out containers at the right time and if you see that there are clump sales in international business. International sales are not moving more linearly. Every month there could be some really high peak months and some low months. It is all reliant on the container availability and not on the actual international customer demand.

Rishab Parekh: I understood and on the expenses front, you mentioned some, one off items, which you can just quantify.

Rohan Sehgal: We have employee expenses, which have increased slightly. The reason for that is we are investing a few quarters earlier, which we need to do as we are growing into our next phase of growth, which is a pretty aggressive capacity expansion as well as new product lines. We need to build people and teams for projects as well as build R&D capabilities so these employee costs will start wearing off over the next few quarters as the revenues start coming in. We need to invest a little bit ahead of time in employee costs. In packaging, we see a certain increase in the packaging cost because of dramatic increase in the cost of paper, which is again a very known thing all across the country. We believe that in the next financial year, we would have certain price adjustments to take care of these price increases as well as there is a about Rs.1 Crores to Rs.1.1 Crores one-time expense of IPO, which was the ideal marketing expenses.

Rishab Parekh: Is this for Q3.

Rohan Sehgal: Yes, that would be Q3.

Rishab Parekh: Okay, our steady state other expenses run rate would be about Rs.13 Crores going forward as well?

Rohan Sehgal: Approximately and similar to what we have seen in the other quarters yes.

Rishab Parekh: My second question right was on our new product basket that we proposed to introduce once our new manufacturing capacity is on stream so going through your presentation, the Indian plastic LabWare market is about Rs.1220 Crores out of which about Rs.500 odd Crores is PCR and cell culture so is my understanding correct that we are not participating in about 45% of the market right now?

Rohan Sehgal: Yes, I believe that we are not participating in about 35% to 40% of the market as over the last five to six months, we have launched various lines of PCR products and we continue to do so towards the end of this financial year. We believe with the launch of the complete range of cell culture and further product categories, which are ancillary categories in cell culture we would be catering to the entire market segment.

Rishab Parekh: What could be the competitive intensity in the new products that we would launch and who would be our main competitors and would we be competing mainly on price or a faster delivery or better quality?

Rohan Sehgal: Our competitive advantages would remain similar to what it is currently for our current product lines offering high quality reliable products with a very, very strong and trusted giving quick deliveries to our customers in India and across the globe and a brand and a product line, which they can trust so the value proposition would be similar for the new product lines as compared to what our current product lines are. In the competitive landscape, I do not see much of a change.

Rishab Parekh: Who would be our main competitors in these?

Rohan Sehgal: Global multinational players because we would be the first manufacture from India to enter into these product categories. The first homegrown "Made in India" manufacturer so mainly multinational companies from across the world.

Rishab Parekh: And would we be cheaper than them and would they be manufacturing these products in India or would they mainly be importing?

Rohan Sehgal: These products are imported as of today and yes, we would have cost advantages being producing the same in India and we would be passing on these benefits to the final customer.

Rishab Parekh: Understood and my last question right was, on our sterilization facility what was the thought process of making it in-house and since you are backward integrating what kind of margin improvements can we expect once this comes on stream?

Rohan Sehgal: Approximately the cost of sterilization today for us is about Rs.3 Crores per annum and moving forward I think over the next five to seven years that could grow by about five to six times the cost of sterilization. Having sterilization in-house could probably give us an advantage of about 100 to 220 basis points on our EBITDA margin, but we are looking at sterilization not so much on our margin perspective, although it would improve our margins, but we are looking at it more as developing a capability in-house because 100% of the future capex what we have planned and what is ongoing today is reliant on sterilization so we need to create a world class sterilization center with world class laboratories to cater to our growing needs of sterile products.

Rishab Parekh: Understood and sorry my last question was on exports. Would the export margins be similar to our domestic margins especially in the export ODM business?

Rohan Sehgal: Our export margins are similar in the ODM and branded business. On a gross level export margins are slightly lower to the tune of 5% to 7% to domestic margins. That is because it does not take into account importer margins in other countries as well as cost of larger costs of trade as well as custom duties and clearances in respective countries, but on a net level it is pretty much similar or identical to domestic margins because the overhead costs are very, very negligible as compared to overhead costs in domestic business.

Rishab Parekh: Got it. Thank you very much.

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

Pankit Shah: Good morning, everyone. The first question is on the revenue, I want to understand how much revenue is contributed by COVID-related product and as you said that do we have some capacity constraint as of now, so how does FY2023 look like as the COVID subsides the revenue will go away and we do not have capacity in place so how do we see FY2023 till the new facilities or the new capex come in place say by Q1 of FY2024?

Rohan Sehgal: Good morning. So during peak COVID we estimated that about a third or probably 30% of our revenue came from the COVID. The current wave and the current signals over the last five to six months COVID revenues have been wearing out although the cases have been high, but it is not the same as the first and second lockdown so today we estimate that our current COVID revenues already are in the mid to high single digits and continuously wearing out and more and more the regular product sales taking over. So we are in a constant process of increasing capacities in both currently in this financial year as well as next financial year so it is a continuous process and not a onetime process, which will show at the middle of FY2024. So we are very confident of a strong and robust growth from our existing as well as new product lines without COVID revenue in this Q4 of this year at FY2022 as well as the entire FY2023.

Pankit Shah: Okay, can you brief us on the entire capex program, which you were talking about during the IPO and I think the program was about Rs.350 Crores to Rs.400 Crores including Panchla, the fulfillment center and the existing facilities, the timeline, the capacity and how quickly can we ramp up these new capacities coming in place?

Rohan Sehgal: Yes, as you are right it is about Rs.400 Crores of capex plan. Rs.190 Crores has already been paid. We have started receiving a lot of our increased capacities as we have made a payment of Rs.190 Crores already. We have Rs.60 odd Crore's earmarked from our IPO proceeds, which should be paid in a phased-out manner for the construction of our facility in Panchla and the remainder of about Rs.150 Crores to Rs.160 Crores would be evenly paid by our internal cash accruals over the next 18-month period.

Pankit Shah: How quickly can we ramp up these capacities as you said you the orders are there so once the facility comes up, we can quickly utilize it right?

Rohan Sehgal: Absolutely. At least for the portion of our existing capacity expansions, the ramp up will be much quicker in terms of the newer products, there would of course be a teething period in which we launched the products and get products acceptability and slowly ramp our products to reach full capacities.

Pankit Shah: Okay. What would be our gross and net asset turnover?

Rohan Sehgal: I believe that the gross and the net asset turnover should be identical or maybe slightly better to our current net asset turnovers and the gross asset turnover maybe, we might expect a slight dip from our current gross action asset turns and that is because of the higher cost of infrastructure and construction what we faced in 2022, 2023, 2021 as compared to few years ago.

Pankit Shah: Sir if I am not wrong, our current gross PPE is at say 1.7 for FY2021? Do you expect it to reduce?

Rohan Sehgal: That is the net, and the gross would be lower.

Pankit Shah: Okay, so gross as per the old accounting standard comes at a 0.74 to 0.75?

Rohan Sehgal: Right, we believe that for our equipment plant and machinery, the asset terns would be equivalent or better because we are getting into better value-added products, but things which are out of our control which is construction and land infrastructure the costs as you know of steel TNT and cement are at an all time high so that will play into certain more expensive investments and hence the asset turn on the production infrastructure part might be a little lower.

Pankit Shah: Right. The last question actually more of clarification; in the IPO in the DRHP you have mentioned that there was a serological pipettes manufacturing facility which was temporarily suspended so what is the status there and again the status on the petri dish automated system? That project was also suspended due to COVID?

Rohan Sehgal: The first line was the serological pipette line. It was not suspended but it was more of work in progress because there were certain technologies which we were trying to develop in-house in order to perfect the product and hence it was a capital work in progress. The petri dish line is a proven, tried and tested line. It had reached us but due to COVID restrictions we needed the assistance of certain engineers, automation engineers from Europe to fly down to India to help set up the facility. This is a starting facility. When we start a new line of automation, we always need this and because of COVID travel restrictions, we were a little delayed in starting up the same however the engineers have visited us and the facility is on the verge of getting started. For the technological pipette, as I said that, we are in the midst of acquiring certain technologies to perfect our product and we are very, very confident of starting serological pipettes in Q1 of FY2023.

Pankit Shah: Great. Thank you. All the best.

Moderator: Thank you. The next question is from the line of Saket Mehrotra from Tusk Investments. Please go ahead.

Saket Mehrotra: Rohan, one quick question; on the numbers what I can see is for the last three quarters our EBITDA margins have actually been coming down? In H1 business update that you guys had talked about the fact that this margin has gone from 46% to 52% whereas what I am seeing is for the last three quarters our EBITDA margins has been consistently declining, so any reason for this? Is there some one-offs or how do we see this going forward on a sustainable basis?

Rohan Sehgal: Sure, firstly on a sustainable basis, we expect expanded EBITDA margins from what we achieved in FY2021, so on a higher level to FY2021 EBITDA margins there has been cost and inflationary pressures in terms of packaging material, in terms of transportation and other things. Being a very, very strong brand with delivering trust is what our slogan says. We generally do not change prices mid-year unless there is an absolute necessity or need or if a margin have gone completely haywire, so we generally change or reflect into newer prices on an annualized business contract saying the customers domestically as well as internationally. So we will look into what our pricing is and where we can recover some of these margins on the new financial year, which is in FY2023, but I believe that the lowering of the EBITDA margins is passed down. It is more or less a fixed-cost business so the more we sell the more margins we make. The costs are almost fixed. We do not hire more people when our sales are more and reduce people when our sales are less. On the gross margin area, you would see certain fluctuations that is only because as I explained earlier we came from domestic 75% and exports 25% in Q1 FY22 to 67%, 33% in Q2 FY2022 and to 59:.41 in Q3FY22. So most of our international business has been clumped into Q3, which if ideally divided between Q1 and Q2, it would have shown more reasonable margins and not so much of a spike.

Saket Mehrotra: Which brings me to my second question; is there some sort of saliency when it comes to the sales that come in because, if I see the last three quarters and between September and December we have seen a 7% decline. In sales so is a bulk of our revenues recognized towards Q4 in a financial year because we do not have the data for March 2021, so just want to get a sense with respect to how the saliency of our sales are when we compare it across four quarters?

Rohan Sehgal: March 2021 data is basically the nine-month ended FY2021 minus the whole year revenue, but I believe that Q4 is always the strongest quarter for the company and Q1 is always the slowest quarter because we are ending the year and we are beginning the year at Q1 so all budgets and everything are being consumed and is when you know new business strategies are being formed. But I believe that we do not look at business from a quarter-by-quarter basis we look between Q3 of this year and Q3 of the previous year because Q3 especially in West Bengal is a large festive year. We have our internal festivals which carry on for 10 to 12 days and by the time that ends, we have another festival which is Diwali, so there is not continuity of business and we lose about two and a half to three weeks of business out of the twelve weeks of Q3. So historically we have seen Q3 to be very, very similar to Q3 each last year.. So we are not too worried about the de-growth what you see from Q2 to Q3 we are looking at more from Q3 2022 to Q3 2021 perspective.

Santosh Agarwal: Just to add okay if you see the Q4 number of last year that was Rs.67 Crores. That was much higher in compared to Q3 so whatever we reported in Q3 this year if you follow the same trend then Q4 will be better little bit

Rohan Sehgal: Probably the last year Q3 numbers were looking stronger because we came from a very muted two quarters because the country was almost under full lockdown, but this year we came into Q3 with a very strong Q1 and Q2 so it was not in really an apple to apple or on a like to like comparison.

Saket Mehrotra: Okay. Final question, can you throw any color on, let us say, what sort of capacity utilization you are operating at now because when I heard you say that there were constraints with respect to supply and your orders were not being able to be met because of let us say supply side issues. So that is one and two while I understand you mentioned you typically take price hikes towards the starting of a new financial year so did we see volume uptake in our international business compared to say last year and how do you see that panning out in the future?

Rohan Sehgal: I feel that it is very difficult to actually pinpoint as I said earlier on our capacity utilization because we are running 1700 odd SKU across 55 to 60 odd machines, so although 20% to

25% of the lines are dedicated the remainder 65% to 70% are mixed lines, which can cater to various kinds of products and various kinds of molds. So we could be back ordered in 15% to 20% of our machineries and we could have spare capacities in the remainder part of our machineries, but the need of the hour is in the areas we are back ordered. So giving an accurate capacity utilization would not be possible because of the complexity of the same, and yes we do change prices on an annual basis and internationally, we see a good volume growth from our existing customers as well as constantly we are looking into newer geographies and newer territories and adding on to newer customers as well as launching newer products in the international market so we see a very positive trend moving in the international market. We believe that the domestic market has such a strong runway for growth that it would be tough to break this 65:35, 67:33 ratio in the near to medium-term future.

Saket Mehrotra: Okay. Thanks a lot.

Moderator: Thank you. The next question is from the line of Hardik Vora from Union Mutual Fund. Please go ahead.

Hardik Vora: Good afternoon, everyone. Thank you for the opportunity and congratulations on a good nine months performance. Sir my first question is actually on the gross margins? I know we have already discussed on the EBITDA level, just wanted to understand one thing? If you look at the gross margins for the first three quarters in FY2022 it is much higher that what we reported for the previous financial year, so what is the reason for this improvement and why is this persisting?

Rohan Sehgal: We believe that you know the reason for this improvement is economies of scale as well as more value-added products, newer products which have a slightly better margin than our existing product portfolio as they take over and as they increase their share in our overall basket as well as increase in revenue of sterilized products so as we see today about 25% of our revenues comes from sterile products. We are going backward integrating, building a sterilization facility and we believe most of our new capex expansion would be sterilized products. We believe this number could go to about half of our revenue. I think a mix of these factors have led to better gross margins from the 70% to 73% level close to the higher 70s touching 80 levels.

Moderator: Thank you. As there is no response from the line, we will move to the next question, which is from the line of Jaiveer Shekhawat from Ambit Capital. Please go ahead.

Jaiveer Shekhawat: Good afternoon, everyone. Just firstly on your revenue growth would you have data on the split between the volume growth as well as the pricing growth on a Y-o-Y basis?

Rohan Sehgal: No, we do not have that data off hand but we would assume that most of the revenue growth is from the volume growth with certain price changes, which were made in FY2020 but not so much in FY2021.

Santosh Agarwal: We have a 1700 SKUs spreading over 300 product segments and the price of each product sometimes it is 10 paisa and sometimes it is Rs.10,000 right, so we are not tracking our revenue on a volume basis because it will not give a right picture. We are more tracking on a revenue basis.

Jaiveer Shekhawat: Understood, so going ahead with the capex, could you specify how much you incurred on land for your facility in Amta and what could be the incremental cost for setting up this sterilization facility there?

Rohan Sehgal: We purchased the six acres in Amta and approximately the cost was Rs.20 Crores or Rs.200 million for the purchase of the land. There would be incremental costs to set up infrastructure, which is building and other utilities.

Jaiveer Shekhawat: What would be the quantum?

Rohan Sehgal: The quantum would be on our entire land and on our entire infrastructure in both Panchla plus Amta would be close to about Rs.150 Crores to Rs.160 Crores.

Jaiveer Shekhawat: We see that the other expenses have remained at an elevated level over the last few quarters and what is the exact reason behind those, roughly touching almost about Rs.14 Crores in 2Q as well as in 3Q?

Rohan Sehgal: I have explained earlier as well that there has been an increase in packaging costs and paper has drastically increased in price and we are packing intensive so we require a lot of packing products especially high quality packaging which you know adheres to meets international standards for our domestic and international customers. So there has been a cost pressure on the packaging side as well as there has been pressure on the employee salaries side because we have a very elaborate expansion and capex plan for the next 18 months, so we are trying to build ahead of time, which will be able to execute these capex plans in the right manner as well as build in-house R&D facilities, which we started for the first time in FY2020 and have been building up our R&D and research and development facilities. So I believe that over the next few quarters these costs will start drying up and will be absorbed as our revenues and scale grows up. So when we will start Amta and when we will start Panchla the cost ratio of the people to turnover of that place will take a few quarters to absorb because it is a new facility, which we are starting up and would not have the efficiencies what our current facilities will have. Since we are planning such a large capex plan, we would need to invest a little ahead in time and that is why we see pressure in the salary side and the reason we see pressures in the packaging side because the rising costs are deeper and the reason, we see pressures in the transportation side is because it is known that transportation and freight is at an all-time high. These are all factors, which are industry-related factors not related to our company. We would look to address the same when we come to our next price revision, which is in the financial year FY2023.

Santosh Agarwal: Just to add, whenever we are talking about opex tracking, we always recommend to do the opex tracking and gross margin tracking on an annual basis because when you do the analysis on a longer horizon, you will get a right picture. For example, in Q3 our gross margin is 77.9%. the nine-month number, it is 79.7% and 79.7% is phenomenal, right? The objective is to see the picture over longer time because quarter to quarter has a different variation, export sales is there, sterilization is there, and different products require different packaging so te longer the period you take, better will be the analysis.

Rohan Sehgal: There are various factors and it gets complicated so we are at 59:41 this quarter for domestic and export ratio. If we were at 65:35 or 67:33 the picture would be much different because the realization from domestic sales is higher than the realization from international sales so at the same cost level revenue would be higher and the margins would have looked a little better than what they looked today?

Jaiveer Shekhawat: Understood. I was actually looking for this. Thanks a lot for that.

Moderator: Thank you. The next question is from the line of Sonal Gupta from L&T Mutual Fund. Please go ahead.

Sonal Gupta: Good afternoon and thanks for taking my question. Just on realization on exports is low like you just mentioned, is that because it is a net realization or after taking the freight cost and everything thing or is that the gross?

Rohan Sehgal: It is also on the gross level on the EBITDA and net level the realization on exports is identical to domestic if not slightly lower because our company has grown from about 5% international business to about 30% to 32% international business with expanded margins over the last seven to eight years. So it is on a gross level because the overhead costs of doing business internationally is a fraction of the overhead cost of doing business in India.

In India, we work on the customer level. On the international business, we work on the importer level and that is the major difference.

Sonal Gupta: Right. I am just trying to understand the freight cost and all those costs are reflected on your P&L right?

Rohan Sehgal: The freight costs are borne by the customer. Duties and custom duties and clearances are paid by the customers, but the products are priced in accordance with the competitive landscape taking into account the freight, customs, clearance as well as the importer of margins.

Sonal Gupta: Basically, it is a pass through, but it will reflect on your P&L?

Rohan Sehgal: Absolutely yes. It is basically priced for the market. Like how we have price to the market in India, we are priced to the market internationally. The difference is we produce in India, we sell in India. We work on the customer level. Internationally, we produce in India. We sell to an international country and we rely completely on the importer who is importing and who is then passing it on through various channels to other distributors and sub-distributors before it reaches the customer. We have not set up shop internationally. We do not have subsidiaries and our people on the ground like the way we have in India, so this difference in cost leads to the difference in realization.

Santosh Agarwal: Financial statement, whatever revenue we are showing that is not including freight. Freight had been netted off with the freight cost.

Sonal Gupta: But then you are saying that other expenses are higher because of higher freight expanse?

Rohan Sehgal: That is domestic freight and not the international freight. We are talking about the international part at this moment.

Sonal Gupta: Right, so the international freight is not reflected?

Rohan Sehgal: It is net of the number on the invoice which is our price to the product. Our price to the customer either in Euro or US Dollars.

Sonal Gupta: Got it so the freight t and taxes will not be reflected right for international?

Rohan Sehgal: Freight and taxes will be reflected. For example, we have a company in Germany called Tarsus GMBH, when Tarsus is the importer in that country then we will have to account for the trade, the clearances and duties in that country, but today our responsibility seizes once we ship the product out of our factory, so it is the responsibility of the importer and the importer is a separate legal entity. Its is not our company, hence he looks into the account paid of customs and duties, but we must account for that in our pricing so that we are competitive in those markets and we can increase our market in those countries.

Sonal Gupta: Got you. On an overall basis, because there is clearly a lot of expansion plans, etc., but could you sort of indicate like what level of capacity because you are currently running an extremely tight capacity utilization or high utilization so for FY2023 over FY2022 what sort of growth can you expect with the capacity expansion?

Rohan Sehgal: We are looking to expand critical products as well as reusable where we are short on capacity. We aspire to become close to a Rs.500 Crores revenue company over calendar year2024 that is the aspiration we are working towards it as a company to achieve the same. And I believe that we will achieve pretty strong growth over the next two to three years to reach that number and capacities will come into place in a phased out manner so we should not believe that you will be out of capacities all through FY2023 and only commissioning of the plant in FY2024 in the middle of FY2024 when the capacities come into place. Capacities are coming in a phased manner and as we have already poured in Rs.190 Crores out of the plant, Rs.404 Crores a lot of capacities have already started coming in place. So things will continuously improve till 18 months and it will not be a one-time improve at the end of 18 months.

Sonal Gupta: Got it. Roughly, currently this year we would be Rs.280 Crores to Rs.300 Crores that will go to Rs.500 Crores in the next two years, right?

Rohan Sehgal: That is for our aspirations by calendar year 2024 yes.

Sonal Gupta: Calendar year 2024?

Rohan Sehgal: Yes.

Sonal Gupta: Just lastly what is the capex expected for this year and next year?

Rohan Sehgal: It would depend on the clients and how quickly the product lines and how quickly our automation partners and tool partners and mold partners are able to prepare our products and ship it to because the capex plan is Rs.400 Crores to Rs.410 Crores, which we have already explained, but globally just like there are issues in supply chain and issues in various parameters such as automation and a lot of parts which are required for the automation so it moves. You pay a certain advance portion and then you pay the remainder on FAE testing, so the entire capex would be consumed in the next 18 months as we have planned, but to give you identical numbers and to give you identical timelines as to how it will move will depend a lot on how our molds, machines and other various instruments are produced and prepared and sent by our vendors from across the world. In terms of the infrastructure, the land has already been purchased and the infrastructure would move more on a monthly installment basis till the end, so it would be about another 16 to 18 months of equal installments of the amount of money, which is left to build up the infrastructure for both our facilities.

Sonal Gupta: I mean like because where I am coming from is like you said Rs.190 Crores has already been paid? Out of this Rs.190 Crores being paid how much was paid till FY2021 itself?

Santosh Agarwal: Till mid of FY 2023 , we paid Rs.160 Crores approx. .

Sonal Gupta: Basically, you are left with Rs.240 Crores to be spent this year and next year?

Santosh Agarwal: we already have a Rs.60 Crores ear marked for the Panchla so the remaining we will fund from our internal accruals.

Sonal Gupta: Got it great. Thank you so much.

Moderator: Thank you. The next question is from the line of Rushil from Pioneer Wealth Management. Please go ahead.

Rushil: Good morning. Sir my question was that since CRO, CMO and diagnostic segment, which are more of quality conscious and there is a stickiness of the customers and not much of price sensitive in nature, so since we have global competitors who might have upper hand, so like what is our strategy to increase share in that segment and how we compare on those strong global brands?

Rohan Sehgal: Based on our numbers, we are one of the leading players in India and we have done this exercise over the last 10 to 15 years to build a very, very strong and reliable brand, which is probably one of the most accepted brands in the country and we believe now is the opportunity for us to add to our product basket by adding new products and increasing our wallet share with customers.

Rushil: Sir can we get like how much revenue comes from the CRO and CMO segment and diagnostic segment? Do we track that?

Rohan Sehgal: We cannot track that because we work through distribution partners and our point of sale is distributors, but we assume that diagnostics would account for about 20% to 23% of our total revenue.

Rushil: Since these are like more of customers stickiness and quality is the upmost priority so how much time it takes to convert the customer because we do it on pilot bases and they will be approved, quality department approval and all so how much time it takes? What is the lead time basically for those products to convert the customer?

Rohan Sehgal: For newer companies, it is a very, very long lead time because most of these companies are resistant to change. As you said they have a very high precedence on quality but we are an established brand into most of the large customers available in the country and hence as I said earlier, we are just looking to add to our wallet share with these customers. We are already an approved and reliable brand for most of these customers in diagnostics and CRO.

Rushil: Sir. In just on some products there are going to be some product which might be price sensitive and some might be not price sensitive and how do we balance that? Are there any products where the volume growth plays out but there is no pricing power, but there are some like where pricing power is there, but not much volume growth?

Rohan Sehgal: I think it is a mix and we approach the market based on the product, based on the competitive pressures of the product and we approach on a product-by-product basis. There could be certain products where the comparative pressures are very, very high, but the volumes are there and we act accordingly, so it is a mix of everything and what you see on our numbers is a culmination of high margin, middle margin, and low margin products everything put together.

Rushil: Sir, can you name those products which are of low margin or like where volume growth plays a lot?

Rohan Sehgal: Standard products like beakers and measuring cylinders, which are a little less critical as compared to products like PCR, liquid handling, and centrifugeware. Standard laboratory products and having standard applications would have a slightly lower margin as compared to a little more critical products such as PCR, liquid handling, and centrifuge like cryogenics.

Moderator: Sorry to interrupt. May I request Mr. Rushil to please rejoin the queue? We have participants waiting. Thank you. The next question is from the line of Anuj Jain from ValueQuest Capital. Please go ahead.

Anuj Jain: Thank you Sir. Thanks for the opportunity. I have couple of queries. First out of Rs.216 Crores of revenues, which we have done in the first nine months, what are the COVID related revenues?

Rohan Sehgal: I believe it is towards the late single digits as we have not experienced a lot of COVID revenue in this financial year. Most of the COVID revenue came on the last financial year and towards the beginning or the first two to three months or Q1 of this financial year. In the last two quarters, we have seen COVID revenue waning off very, very strongly and it is more of regular revenues to regular customers.

Anuj Jain: Understood. For these late single digit revenues, what kind of margins were there; abnormally high or low or what kind of margins if you can share?

Rohan Sehgal: We do not have a very large spike. I do not believe we have a very large spike where there is a big difference between margins, but we could expect certain products in the PCR categories having more superior margins to standard products, but on an overall basis I do not see much of a margin difference between COVID and non-COVID sales.

Anuj Jain: Understood and Sir my second question is more from like long-term strategy; as you have touched upon that, we have the aspiration to reach around Rs.500 Crores by calendar year 2024 and in the next two to three years what kind of margins we can expect at EBITDA and PAT level?

Rohan Sehgal: As we said we have fixed cost company and everything flows down from the gross margin level. We have always remained in the area of 70% to 73% gross margin, but we believe that with the new product lines and new value-added products as well as capacity expansions and increase in our ratio of sterilized products, we believe that we can have sustainable gross level margins of mid to high 70%.

Anuj Jain: And at EBITDA level?

Rohan Sehgal: As you can see, our current EBITDA levels of about closer to the 50% mark, on the late 40s is what we aspire to be towards the late first 40% touching 50%.

Anuj Jain: Understood. Basically, around similar margins, which we are doing and expecting to clock around Rs.500 Crores in next three years right?

Rohan Sehgal: Absolutely because we believe that there are a lot of cost inputs which we are putting today into the company, which we should actually iron out as our company grows in scale and size and we are very confident about this number.

Anuj Jain: Understood. That is all. Thank you, Sir. All the best.

Moderator: Thank you. The next question is from the line of Vivek Gautam from GS Investment. Please go ahead.

Vivek Gautam: Is our business branded business or is it a commodity business? are we able to pass on the price as you have the pricing power but our EBITDA margin and our net profit margins are all coming down?

Rohan Sehgal: I am not really sure about the question about branded or commodity business, but what I can tell you is that we are priced to the market and we will price ourselves against the very best in the market from multinational corporations to various able competition from within the country and it is a common practice in our industry to change prices or review prices on an annualized basis and not from a month-to-month or a day-to-day or a week-to-week basis because that is not what the industry trend is. So unless something drastic goes on where margins go upside down with a 50%, 60% and 70% change in margin where you cannot sustain, we generally do not adhere to moving into midyear price changes that is not been a norm for the company or for the industry.

Vivek Gautam: The second thing is about the geographical risk our company has because you started out from Kolkata agreed, but it is in one corner of India and the transportation cost I believe are quite high as ours is a bulky item and extension again you are doing in the West Bengal only. Does not that put us at certain disadvantages plus also the work culture with too many holidays as you just mentioned in the Q3, so any parts of diversification geographically?

Rohan Sehgal: We actually work through the standard culture all across India which is the fixed number of holidays, which is also observed in West Bengal. We believe that our know-how and technology lies in West Bengal and we would not like to spread that out across the country. We would like to keep that know-how technology among our key people in West Bengal and I do not see any reduction in margin. I think we are probably the most profitable Labware company in the country.

Vivek Gautam: On the cost actually I am talking about?

Rohan Sehgal: But I think the transportation cost is faced by other companies as well and in terms of margins after paying such transportation costs from Kolkata we turn out to be one of the most profitable companies in the country in the plastic lab this thing

Santosh Agarwal: And we follow a centralized approach. We have all the factories and warehouse in one place so we are getting the leverage of that and secondly our freight cost is not more than 5% of our top line, so it will not make much difference. And second thing is that we are also building a sterilization plant so you cannot have the sterilization in different part of the country, right? so this business model success is on the centralized approach.

Vivek Gautam: What about the opportunity size CAGR and ROE you expect in the future Sir?

Rohan Sehgal: We have already given you what we aspire to come over the next or two to two and a half years by FY2024, a Rs.500 Crores company. I think the margins have also been told in the last question where we aspire our margins to be and we will work toward our margins and we expect the ROE levels to be at similar levels to what it is currently doing.

Vivek Gautam: Okay, Sir thank you.

Moderator: Thank you. The next question is from the line of Nikhil Chaudhary from Kriis PMS. Please go ahead.

Nikhil Chaudhary: This is Kriis PMS. Sir thank you for the opportunity and congrats on a good nine-month number. I have just one question. I wanted to understand since the proportion of our cost, the value addition in the end product of our products is quite small so cost cannot be the factor for the customer switching to us from Thermo Fisher, so just wanted to understand what actually triggers our entry into the customer base of the global MNCs? Is it the new product or is it something else that excels into the new customer addition? Just wanted to understand that.

Rohan Sehgal: As you rightly said the cost component is smaller, so customers are very, very sticky so actually we have done the hard part over the last one and a half to two decades. We have spent a lot of time, effort, and resources on branding, marketing ourselves and actually building a very, very high quality robust and reliable product, which customers have trusted as their choice of supply for the research testing and production needs, so being a preferred supplier for these product lines, we are in a very, very strong position to leverage this strength and add new products and increase our product portfolio or wallet share with these customers?

Nikhil Chaudhary: Understand Sir. I was just trying to understand more from the point of view of an inertia where the customers is already getting it from the Thermofisher, what actually triggers our entry into the new customer addition? I understand you are the best on the price and quality point?

Rohan Sehgal: What I am trying to explain to you is the customers are the same. We are not trying to enter into new customers. We have the existing customers. We have to enter and get a larger wallet share with those customers and we have launched various products over the last 10 years and since we do not see much of struggle to enter with newer products when we already have strong-established relationships with these customers. as long as our product is delivering the quality and the reliability and the consistency what we are promising. Since we have a brand, which is well accepted we have to just deliver the quality what we are promising as long as we do that, we get the entry.

Nikhil Chaudhary: Understood Sir. This is very clear. This is all from my side. Thank you and wish you all the best.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to Mr. Rohan Sehgal for closing comments.

Rohan Sehgal: I would like to take this opportunity to thank everyone for joining the call. We will keep updating the investor community on a regular basis for incremental updates on your company. I hope we have been able to address all your queries. For any further information kindly get in touch with me or strategic growth advisors or our investor relation advisors. Thank you once again and stay safe.

Moderator: Thank you. On behalf of Investec Capital Services that concludes this conference. Thank you for joining us and you may now disconnect your lines.