An ISO 9001 & ISO 13485 Certified Company

Date: 12th November, 2022

To, **BSE Limited (“BSE”),** Corporate Relationship Department, 2nd Floor, New Trading Ring, P.J. Towers, Dalal Street, Mumbai – 400 001	To, **National Stock Exchange of India Limited (“NSE”),** “Exchange Plaza”, 5th Floor, Plot No. C/1, G Block, Bandra-Kurla Complex, Bandra (East), Mumbai – 400 051
BSE Scrip Code: 543399	**NSE Symbol: TARSONS**
ISIN: INE144Z01023	**ISIN: INE144Z01023**

Sub: Intimation under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 – Transcripts of Earnings Call

Dear Sir/Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the transcript of Company's Earnings call held on 7th November, 2022 regarding discussion on the Operational and Financial performance of the Company for the second quarter and half ended 30th September, 2022, is enclosed herewith.

This intimation is also being made available on the Company's website viz www.tarsons.com

Kindly take the same on record.

Thanking you,

Yours faithfully,
For Tarsons Products Limited
(Formerly Tarsons Products Private Limited)

SANTOSH KUMAR AGARWAL
Digitally signed by SANTOSH KUMAR AGARWAL
Date: 2022.11.12 14:00:06 +05'30'

Santosh Kumar Agarwal
Company Secretary & Chief Financial Officer
Membership No. 44836

Encl: As above

“Tarsons Products Limited
Q2 FY ‘23 Earnings Conference Call”
November 07, 2022

MANAGEMENT:	**MR. ROHAN SEHGAL – WHOLE TIME DIRECTOR – TARSONS PRODUCTS LIMITED** **MR. SANTOSH AGARWAL – CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY – TARSONS PRODUCTS LIMITED** **SGA- INVESTOR RELATIONS ADVISORS**
MODERATOR:	**MR. PRAVEEN SAHAY – EDELWEISS WEALTH**

Moderator: Ladies and gentlemen, welcome to the Q2 FY '23 Earnings Conference Call of Tarsons Products Limited, hosted by Edelweiss Finance. 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 do not guarantee the future performance of the company and it may involve risks and uncertainties that are difficult to predict. Now, I hand over the conference to Mr. Praveen Sahay from Edelweiss Wealth. Thank you, and over to you.

Praveen Sahay: Thank you, Yashashri. Good afternoon, everyone, and welcome to the Q2 FY '23 Earnings Conference Call of Tarsons Products Limited. Today, we have with us Mr. Rohan Sehgal, Whole-Time Director, and Mr. Santosh Agarwal, CFO of the Company, to discuss the results and to address queries. So now I hand over the conference to Mr. Rohan Sehgal. Thank you, and over to you, Mr. Sehgal.

Rohan Sehgal: Good afternoon, and a very warm welcome to everyone present on the Q2 FY '23 Earnings Conference Call for Tarsons Products Limited. Along with me, Mr. Santosh Agarwal, Chief Financial Officer and Company Secretary for Tarsons Products Limited and SGA, our Investor Relations advisors, we have uploaded our quarterly investor presentation on the Stock Exchanges and Company's website. I hope all of you had an opportunity to go through the same.

Let me begin with the industry opportunities followed by our performance and highlights for the first half of FY '23. The Life Science industry is fast evolving, and we see enhanced demand for our products. Health care services and pharmaceutical market is growing due to improving health care infrastructure, which is driving the labware market. The growth of the pharmaceutical sector investment into R&D & rising diagnostic centers in India are all boosting the demand for laboratory products.

COVID pandemic has acted as a catalyst for growing demand for research, academia, pharma, diagnostics and health care related sectors. With the increasing focus on the pharmaceutical and biotech sectors, health care research and development initiatives and extensive clinical trials, the end user is anticipated to witness a robust growth.

Speaking on the financial performance. In H1 FY '23, our revenue stood at INR 140 crores compared to INR 145 crores in H1 FY '22, which was a degrowth of 3.7% year-on-year. As mentioned in our previous calls, the dip in revenues was an account of the higher share of COVID-related revenues in the first half of FY '22 due to the ongoing pandemic and demand for related products and consumables. This had an impact on our conventional business, which is non-COVID-related products due to intermittent lockdowns across the country. If we compare on a like-to-like basis, after negating the impact of higher share of COVID related revenues, our conventional business has shown a substantial growth for quarter 2 and first half of FY '23. Having said that, the demand scenario remains robust, and we expect our revenues to grow owing to the demand for our conventional business products from multiple end user industries we cater to.

With continuous addition in new products portfolio and SKUs, we envisage we will be able to increase our market share in the domestic market. We are also enhancing our focus on the export markets to tap the enormous potential of the export business by delivering our best in class products. The export market for our products is estimated at an approximate INR 50,000 crores, and we are just like a drop in the ocean. We have been showcasing our products on the global platforms through multiple channels, and we have been receiving very positive response. We have participated in various fairs and exhibitions in the global markets to showcase our capabilities and have been receiving regular enquiries.

Owing to this, our export revenue has grown by 11% Y-o-Y in the quarter 2 FY '23 and is contributing to about 38% of our total revenue. We would be investing more time and efforts to increase our revenue share from the exports, which will be an important driver of growth going forward. With our dedicated efforts, with the right products of global standards and the trust and the brand created for our products, we are confident of gaining market share in the international markets.

On gross margins, Q2 FY '23 GP margins stood at 77% as compared to 79% in Q2 FY '22. This dip is majorly attributable to change in product mix, inflationary environment, disruptions in the supply chain on account of geopolitical tensions across the globe, this had an impact on our raw material cost, freight cost and other input costs which have been putting pressure on our GP margins.

On the EBITDA front, we have been constantly investing in manpower in various areas of sales generation, marketing, production and other important functions which has led to increased employee cost. We have also been investing in manpower for our upcoming facilities for which the revenues will start coming in from the next financial year. We are taking various initiatives and investing in improving the cost efficiency of our manufacturing process. This includes cost rationalization and efficiency improvement strategies such as investment in advanced automation solutions to avoid human error, enhance throughput and increase the productivity of our manufacturing operations. Along with operating leverage, productivity enhancement and automation will help us increase our margins going forward.

We have a few ongoing capital expenditure programs for the next phase of growth. And the entire capital expenditure is expected to be completed by Q2 FY '24. The new Panchla facility will allow us to cater to a completely new product segment for Tarsons such as bioprocess and cell culture. We entered this segment because the Indian cell culture market is developing and is entirely catered by multinational players. We've been in the Plastic Labware industry for the last four decades, and with the right quality products, we are optimistic of gaining market share in the new product category as well.

Along with the revenue growth, we are focusing on improving our operational strength for which we are developing a fulfillment center in Amta, West Bengal, to consolidate our warehouse operations at a single centralized location in order to better manage our inventories and achieve cost synergies. In order to reduce our reliance on third party companies for sterilization of our products, we are developing an in-house sterilization plan for captive consumption.

Before handing over the call to Santosh, I'd like to mention that we are seeing growth from both the existing and new business, the Indian Plastic Labware market is still maturing and growing at a healthy rate. We being one of the industry's dominant players in India will undoubtedly capitalize on this opportunity. Along with the domestic market, we see immense potential for our products globally and with the addition of a new range of products and with our upcoming facility, we are well placed to cater the growing needs of the Plastic Labware market globally.

With this, I would like to hand over the call to Mr. Santosh Agarwal, CFO for Tarsons for his comments on the operational and financial highlights.

Santosh Agarwal: Good afternoon, everyone, and a very warm welcome to our Q2 FY '23 earnings call. On the revenue front, revenue from operations for Q2 FY '23 stood at INR 71.2 crores as compared to INR 76 crores in Q2 FY '22, a degrowth of 6% on Y-o-Y basis. For H1 FY '23, revenue from operations for H1 FY '23 stood at INR 140 crores as compared to INR 145 crores in H1 FY '22, a degrowth of 3.7% on a Y-o-Y basis.

I expect to reiterate what Rohan said, we had COVID related revenue in Q2 of FY '22, which are negligible in Q2 FY '23. But we still maintained our revenue run rate and have grown in our conventional for that range. Revenue from exports stood at INR 27.2 crores, a growth of 11% and domestic sales, degrew by 14% to INR 44.5 crores on a Y-o-Y basis in Q2 FY '23. For H1 FY '23, exports stood at INR 47 crores, a growth of 12% and domestic sales was INR 93 crores, degrew by 10% on Y-o-Y basis. For Q2 FY '23, export sales contributed around 38% and domestic sales contributed around 62%, and for H1 FY '23, export sales contributed around 34%, and domestic sales contributed around 66%.

On gross profit level, our gross profit for Q2 FY '23 stood at INR 55 crores as compared to INR 60.1 crores in Q2 FY '22 a degrowth of 9%. For H1 FY '23, GP stood at INR 109 crores as compared to INR 117 crores in H1 FY '22, a degrowth of 7%. GP margin for Q2 FY '23 stood at 77% as compared to 79% in Q2 FY '22, and for H1 FY '23, it was 78% as against 80.5% in H1 FY '22. Gross margins were impacted due to the change in product mix, higher raw material costs, freight and other ancillary costs with respect to procurement on the back of supply chain disruption.

On EBITDA level, EBITDA for Q2 FY '23 stood at INR 33 crores as against INR 39 crores in Q2 FY '22. Our Y-o-Y, degrowth of 15%. EBITDA for H1 FY '23 stood at INR 64 crores at against INR 75 crores in H1 FY '22, a Y-o-Y degrowth of 15%. EBITDA margin for Q2 FY '23 were 43% and for Q2 FY '22, EBITDA margin stood at 50.6% and EBITDA margin for H1 FY '23 were 45.6%. And for H1 FY '22, EBITDA margin stood at 51.8%.

Our investment in manpower cost for future growth prospects resulted in lower EBITDA margin. Furthermore, a higher fare of sales promotion, marketing and travel expenses to access export geography had an impact on EBITDA margin. This will be compensated for when, we see higher growth in our export revenues.

At a PAT level, profit after tax for Q2 FY '23 was INR 21.5 crores and Q2 FY '22 at INR 25 crores, which indicates a degrowth of 13%. Profit after tax for H1 FY '23 was INR 42 crores and H1 FY '22 at INR 50 crores, which indicates a degrowth of 16%. PAT margin for Q2 FY '23 stood at 30%. And for Q2 FY '22, it was 32%. PAT margin for H1 FY '23 stood at 30%, and for H1 FY '22 it was 34.3%.

On the balance sheet front, we are a zero net-debt free company as on September 2022. Our receivable days stood at 75 days due to a high share of export revenue for H1 FY '23. Since we had more than 300 product range and 1,700 SKUs, we need to maintain inventory to cater to demand of our products. Our inventory days stood at 127 days approx. We have witnessed a strong cash flow generation for H1 FY '23 despite a dip in revenue. Our cash flow from operations stood at INR 34.4 crores as compared to INR 27.7 crores in H1 FY '22.

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. Anyone, who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We have a first question from the line of Jayveer Shikhawat from AMBIT Capital. Please go ahead.

Jayveer Shikhawat: Rohan, firstly, can you explain what is the reason behind the sequential decline in your domestic business? We understand the Y-o-Y decline because there were negligible COVID revenues. But what explains the sequential decline?

Rohan Sehgal: So sequentially, we have seen from quarter 1, we have seen a slight increase in our revenues in quarter 2. But Y-o-Y, of course, we've explained even in our opening speech that there was a higher level of COVID related revenues and it's taking time for the Indian industry as a whole to bounce back. And we are seeing a positive trend because if you look at non-COVID base, which was there in 2020, there's been robust growth from there onwards, and we expect further growth moving forward.

Jayveer Shikhawat: So I was asking only about the domestic business. So which end user segments are you seeing more softness in demand currently? And was there any impact of the price hikes that you might have taken on the overall demand?

Rohan Sehgal: No, not really. I think the we have taken one single price hike, and we've not taken any further price hikes after that in this financial year and things have been pretty smooth. So far in the I think pharma and biotech are going stronger than the rest of the segments. Diagnostics, of course, is experiencing a lot of disruptions. So although there are more players in the market, the business is still not where it should be because there's increased competition in the diagnostics space, even the research in the government sector, we read some news of funds coming in, but things are still yet to be implemented. So pharma and biotech looks very robust followed with CROs and then the rest of the industry is still looking to pick up.

Jayveer Shekhawat: And my next question was on the inventory days, now given you already hold a significant amount of inventory and there have been correction in the RM prices. So that could likely lead to inventory losses. So can you explain why you're holding this much inventory?

Santosh Agarwal: We are keeping 127 days of inventory approx. It includes INR 37 crores of raw materials, INR 41 crores of finished goods, INR 8.5 crores of traded goods and about to be INR 4 crores of packing goods. So these are the raw materials we need to keep considering the number of SKU we have and the anticipation of the new orders which we are expecting in the coming quarters. So this is a bare minimum inventory we are keeping, and we keep on doing the optimization of inventory on a regular basis. And going forward, we want to reduce this inventory on the basis of the anticipated orders.

Jayveer Shekhawat: Sure. And the international market growth that has been quite encouraging. So is this coming from any new significant wins that you might have had? Or is it largely from existing customers?

Rohan Sehgal: It's a mix, actually. I wouldn't say any significant wins, but we are trying to expand the Tarsons brand to various countries. There's a lot of organic growth from our existing customers, various geographies have been seeing increased growth and various key geographies, we are starting to win newer OEM contracts and are also in discussion for various large OEM contracts. So the international business is very spread out. It's not related to one particular field. It's a mix of the branded business of Tarsons in newer geographies, the existing branded business of Tarsons as well as new OEM wins.

Jayveer Shekhawat: Understood. And last question on the capex. We have seen that you've already incurred about INR 100 crores during the first half. So one, what will be the full year guidance? And how much of the overall INR 500 crore capex that you've guided is remaining to be incurred?

Santosh Agarwal: Sure. We have given a INR 500 crore of capex previously. Out of that till now, we have already incurred about to be INR 300 crores. And in the next 15 to 18 months, we are going to incur the remaining.

Jayveer Shekhawat: Understood. And this INR 300 crores already includes the INR 100 crore that you've incurred this year, right?

Santosh Agarwal: Absolutely.

Moderator: [Operator Instructions] We have our next question from the line of Rishabh Parekh from Sunidhi Securities.

Rishabh Parekh: Just a couple of questions. One is on the domestic market growth. You know, 14% year-on-year degrowth was despite taking a price hike was surprising. Do you call out the growth in the non-

COVID business numerically? I understand you say it's substantial, but can you put a number to it, please?

Rohan Sehgal: So at this point, we do not have any numbers, but which I'd explained in our earlier earnings call, which was in the last quarter, we believe that about INR 60-odd crores of our revenue in FY '22 came from COVID-related business, which was between 17% to 20% of our revenues, and a majority of that came in the first half. So the remainder would be all non-COVID business.

Rishabh Parekh: Going forward, now that the COVID days is out of the way for the rest of the year, what kind of range of growth are we expecting in the domestic market?

Rohan Sehgal: See, we are expecting the domestic market to bounce back. We've seen the growth, which is slightly slower in certain sectors, which I answered in my first question, pharma, biotech, CROs are doing exceptionally well, but the other sectors are yet to bounce back from COVID-related business.

It's important to note that India is a single country, and we are market leaders in this country. And internationally, we have the benefit of catering to close to 60-70 countries. So you have the benefit of using other countries when certain countries are not doing well. But we are very, very confident about the Indian growth story and our entire investments, our entire capex plans are always centered around the Indian customer and the Indian scientists demand. So it's very difficult to put a timeline as to in this quarter, whether things would bounce back or in the quarter after that, but the long-term growth story of India looks very, very promising.

Rishabh Parekh: And have we lost market share in any of our product lines in the domestic market over the last two quarters?

Rohan Sehgal: No, I don't think so. I think we are as good as the industry is, and our numbers would be the better performing numbers compared to our industry peers in India.

Rishabh Parekh: And now that the raw material price increase scenario is not as severe as it was, do you expect over the second half of the year margins to revert back to a 40% to 50% range that we've historically maintained?

Rohan Sehgal: So the good thing about the raw material prices is that we are not seeing significant price increases in our raw material over the last few months. But having said that, there are no significant decline in the raw material prices or raw material prices continue to remain stable for us since these are specialized medical grade, and we cannot consider standard polypropylene or standard HDPE prices as a benchmark for our raw material prices.

Moving forward, I think with Panchla and Amta coming into place and scale coming in, that's when we're going to see significant improvement in our margins because a lot of investments have been incurred six months, eight months prior to these facilities coming up or any people in systems and processes and only with scale in these facilities coming up, that we will start seeing significant improvement in margins.

Rishabh Parekh: And Rohan, the lock-in for private equity investor opened in 26th, any conversations with them on what their strategies or what they intend to do?

Rohan Sehgal: No. At this point of time, there is no conversations with them on that.

Moderator: [Operator Instructions] We have our next question from the line of Sonal Gupta from L&T Mutual Fund. Please go ahead.

Sonal Gupta: I just wanted to understand on exports, these would largely be dollar-denominated, right?

Rohan Sehgal: It would be a mix. It would be largely dollar-denominated, but a lot of countries in and around Europe, even outside the European Union, which are countries like not present today, but CIS, Ukraine or any euro-denominated and also certain countries in Africa also prefer euro, which have a strong affinity towards European nations. But if you look at Southeast Asia, Latin America and the Americas, which is Canada and US, yes, all US dominated.

Sonal Gupta: So broadly, what is the split there, right, like Europe and euro-denominated versus dollar-denominated?

Rohan Sehgal: We don't have that split readily available, but I would say maybe about 75-25.

Sonal Gupta: Got it. No. So...

Rohan Sehgal: 77 in favour of the US dollar.

Sonal Gupta: Got it. When coming from that, again, I mean, like a lot of the growth seems to be more, again, currency led, right, like year-on-year, even the export growth. And was...

Rohan Sehgal: Not really. We have currency gains which you would see in our other income. But our business is also based on a lot of credit. So it's ongoing, but it is a mix of currency as well as volume. But having said that, we did not have the possibility of increasing prices in the international market, the way we increase in the domestic markets. So prices have remained fairly stable internationally. And hence, you see more on the volumes and the price increase, if you could not take was compensated by a larger realizations on the weakening of Rupee.

Sonal Gupta: And sorry, maybe you mentioned it on previous calls, but what was the price increase you've taken this year on the domestic side?

Santosh Agarwal: About to be 7%, we have taken the price increase in the domestic.

Sonal Gupta: About 7%. And lastly, what is your is your exposure to the diagnostics market in India? I mean, like in terms of your revenues?

Rohan Sehgal: So it had significantly increased during the COVID period understandably so because they were leading COVID testing, but approximately 1/5 of our revenues in India, which is about 65% or 2/3 of our revenue. So 20% of 2/3 of our revenues will be coming in from the diagnostics space.

Sonal Gupta: Sorry, 20%?

Rohan Sehgal: 20% of 2/3 of our revenues, because 2/3 of our revenues is domestic, right?

Sonal Gupta: Got it. So basically 13% of the overall revenues, right?

Rohan Sehgal: Yes.

Moderator: We have our next question from the line of Praveen Sahay from Edelweiss Finance. Please go ahead.

Praveen Sahay: So the first question is related to the mix. And as you had already said that pharma, biotech is doing well. But what I believe research and academic contribution is on the higher side. So what exactly like going on there? Is there an uptick from the government side or in the procurement happening?

Rohan Sehgal: So if you see the research sector in India is predominantly government funded or is public research. There is not so much of private research in terms of research institutes in the country, and it is predominantly fund-based or government fund based and there have been a lot of positive news coming in of increased government expenditure to boost research in India. And we expect the same to be implemented in the coming quarters. However, putting an exact date or timeline to that will be very difficult.

Praveen Sahay: So but the status quo, whatever the businesses they're doing, that's going on?

Rohan Sehgal: Absolutely. It's not that there is no business. The business is there, but we expect better and more business coming in, in the near future.

Praveen Sahay: And the next thing as the export has grown faster than domestic and the contribution has increased, what sort of target to get the contribution?

Rohan Sehgal: So as we said in the opening speech that it's now become 62:38, which was actually 68:32. So there's a 6% movement, where domestic proportion has decreased by 6%, and the export proportion has increased by 6%. But I think this is because India is taking slightly longer to recover post the pandemic into its standard businesses.

I still believe that India is a very, very strong and growing health care market, growing research market for the entire industry and Tarsons being the leader would be at the forefront to capitalize on that. So it's just a matter of time before these ratios come back into place. So unless something dramatic happens for us in the international market where we win a very, very large contract of -- if there is any kind of a subsidiary play for us, I don't see these ratios being changed too much. It's just very, very temporary and short term. Where you see 62:38, I think it would spring back to its original ratios.

Praveen Sahay: And related to that, are these similar to what Ambit did not?

Rohan Sehgal: Can you just repeat your question? You were breaking up.

Praveen Sahay: Export OEM margin to whatever the margin you are generating, so it's similar to the company level?

Rohan Sehgal: I had mentioned earlier as well in my call, it's not about the export OEM, but it's about international business as a whole. International business as a whole, we see the gross margins because the product price realizations are lower than the domestic product price realization because of a variety of factors such as rate, different geographies, different tax structures in different countries and different competitive advantages and pressures in different countries.

So overall, the international price realizations are lower, and hence, you see a slightly lower gross margin. That's one of the factors for the lower gross margins because the proportion of its international business has increased.

Moderator: [Operator Instructions] We have our next question from the line of Harsh from Marcellus Investment Managers. Please go ahead.

Harsh Shah: Just a couple of questions from my side. So we have been present in the PCR segment for quite some time now. So any data points on how we are doing in this segment?

Rohan Sehgal: So the segment, we don't have exact data at this point on what the numbers and revenues are, but the product lines have been well accepted and the numbers in India on the non-COVID basis are growing very, very strong. Of course, there was a huge influx of PCR products demand internationally as well as in India, during COVID times, because it's a direct plastic vessel which is used for COVID testing and for COVID research. But that having dried out, we have seen increased demand for these PCR products, but on a different base, which is the non-COVID base.

Harsh Shah: Maybe in the non-COVID base, how much was PCR revenue in this quarter compared to last quarter?

Rohan Sehgal: See, we launched this product in COVID, right? So for us, it won't be a right statement to make because prior to COVID, we didn't have any revenues in PCR. So PCR was developed pre-COVID but launched and ready during COVID.

Harsh Shah: Yes, I agree that. But the PCR revenue in the non-COVID segment this quarter versus Q1, will that data won't be available?

Rohan Sehgal: Yes. So we don't have that readily available at this point of time, but it's on the uptrend.

Harsh Shah: And profitability in the PCR segment would largely materially different from our liquid handling segment?

Rohan Sehgal: It could not be drastically different. It could be on the similar line, but it could be slightly above liquid handling, not lower.

Harsh Shah: But the per kg margin will be higher, right? Because the realisations are much higher?

Rohan Sehgal: We don't really calculate on a per kg basis. We calculate more on product SKU basis. But yes, PCR SKUs compared to liquid handling SKUs should be slightly more profitable.

Harsh Shah: And second question was around inventory. So inventory has increased from INR 82 crores to INR 99 crores. While I understand that there are very high number of SKUs with erratic demand and higher inventory as the norm. But why the increase from Q4 to Q2?

Santosh Agarwal: See, inventory has been increased. Considering we have many orders are there in our order book. And we are also anticipating some more export orders also. So on the basis of that, we always keep on keeping about three months to four months of inventory. And we always keep on doing the analysis of our inventory on the basis of anticipated order and on the basis of whatever backlog orders we have.

Rohan Sehgal: Just to add to Santosh, we have a lot of new product launches as well. For example, in this quarter, we are launching products which are PETG bottles, which are used for bioprocess and pharma. So these are bottles which are heavy-duty bottles consuming a lot of raw materials. So when you launch a new product, you need to -- we can't really anticipate that we know we get orders and then we start producing. So the launch of a new product means setting up inventory levels at a very-very high level initially because it's product launch time. So you bring in containers of raw material, you bring in containers or packaging material so that everything is in order. It's only after six months or eight months of selling that, cash on board trend, and that's when your supply chain department can start planning inventories accordingly.

Santosh Agarwal: And just to add, whenever we are receiving any kind of domestic or export order, the lead time is so short that if we don't keep the inventory, then we cannot supply on time.

Harsh Shah: So you start seeing the revenue growing from next quarter onwards. Okay. Yes.

Rohan Sehgal: Absolutely, yes.

Moderator: Thank you. We have our next question from the line of Ashish from IIFL AMC. Please go ahead.

Ashish: Sorry, I've joined late, so sorry if I missed the question. So on our new capex of INR 400 crores, what are the timelines? When can we see the commercial operations beginning?

Rohan Sehgal: So for our facility at Panchla, the construction bit is approximately 80% to 85% complete, based on the last meeting what we had, which was two weeks ago, we were almost 85% complete, the building is completely done. And now the parallel infrastructure, which is the roads and the other infrastructure around the facility are being developed. So we expect this entire facility to be up and running in the next two months. In terms of the readiness of the facility and the infrastructure, then post that we would have clean room developments and equipment coming in. So we expect Panchla to be up in billing exports revenue in the next 3.5 months, four months and scaling up to full capacity, to what we have planned by around Q2 of FY '24, and Amta would be around, in and around the same time as well. But Amta has more on storage and radiation and less on production. So our main focus is on Panchla, which has more on output and revenue.

Ashish: So you're saying by second quarter of next fiscal, the cost revenues should start kicking in, right?

Rohan Sehgal: Not by next quarter, by Q4, we should start seeing post revenues.

Ashish: Q4 of FY '24?

Rohan Sehgal: No. Q4 of FY '23, right, in the next four months, but you should see everything scaled up to what we have planned in our capex for Panchla by Q2 of FY '24.

Ashish: And typically, sir what would be the asset turns that you guys are targeting?

Rohan Sehgal: Sorry, could you just repeat your question, please?

Ashish: The asset turns, what kind of asset turns are we targeting from this investment?

Rohan Sehgal: We expect somewhere in the region of 0.6 to 0.65.

Ashish: And just a book-keeping question. So how much time would it take for this facility to do similar margins as what we are doing currently on our existing basket?

Rohan Sehgal: So it all depends on the scale-up, I believe, 2- 2.5 years to completely scale up to the capacities, what we are planning out there because maybe a little lesser because even if we reach 70%- 75% of installed capacity, we could manage similar margins because we will be moving in with a lot of newer level and more efficient automation, which would bring down our costs significantly. So it's all about the product. The procedures are there to give us good returns. It's all about being able to scale up and build that sort of market for ourselves.

Ashish: In first half, we did 45.5% EBITDA margin. So would it be safe to assume that at least these kind of margins we would maintain in the system and probably the future margins won't go below this mark?

Rohan Sehgal: I don't think the future margins should go below this mark. See we are investing a lot into a company which is going to look significantly different from where we are today, from this INR 300 crores level. So we are investing deeply into the future, and there could be some pain points in the current two quarters, three quarters, what we might see, but the future looks very-very strong for us for the way we are investing and what we're envisaging for the company.

Ashish: Yes, that's helpful. Just one last question on the raw material side. So PPE, like we are sourcing majorly from US and Europe. So, is the situation better now in terms of -- because all are derivatives of crude?

Rohan Sehgal: So see, as I said earlier, it's more medical grade resin. So there is a reliance on crude, but there is also a reliance on demand and supply. So if there is enough demand for the raw material and the supply is stagnated, then the pricing doesn't come down. And unfortunately, we do not see scale-up of medical grade production of our polymers globally. So there is always a waiting period whenever you order. So hence, you need to always do very vigilant in orders and maintain sufficient inventory, so that we don't fail on deliveries to our customers. And hence, we never -- we see slowing down on price increases, but we never see price reductions, that's a very rare situation that prices start falling down. And sometimes when price starts falling down as well, you see the rupee weakening, right? So it's always higher realizations for us when we buy the product, where the dollar can constantly getting stronger by the day.

Moderator: Thank you. Reminder to participants to press star and one to ask a question. We have a next question from the line of Ashutosh Garud from AMBIT Private Limited. Please go ahead.

Ashutosh Garud: I just wanted to ask, since we mentioned about the COVID base impacting the revenue growth. So is there some more COVID base impact for Q3 and Q4 as well? Because even in Q3 and Q4 of last year's financial year, you had a decent revenue base. So just wanted to understand that?

Rohan Sehgal: I feel the majority of the COVID revenues last year came in the first half, and we would not consider more than 20%, maximum 25% of the entire COVID-related revenue what we had taken last year in Q3 and Q4. So the major impact was in Q1 and Q2 because that's when the lockdowns were and the second wave was and the higher demand was.

Ashutosh Garud: Okay. So 80% of it is behind is what I believe it in that case?

Rohan Sehgal: 75% to 80% is behind, yes.

Ashutosh Garud: Great. And just on the margin front, I just wanted to understand, you mentioned in the medium to long term, 45%, 46% margins are sustainable. In the near term, you are saying there could be some same point, but over three years to five years, you are confident of maintaining these margins. Is this interpretation right?

Rohan Sehgal: See, absolutely, you see, today, we have to be wary about our margins, but we are trying to build -- as we build these two new facilities, as we look to scale-up in the international markets and become a stronger brand in the country, we might look to boost our leadership team. We might look to get various organizations or companies on board to help improve our processes, our systems, our operations and all that is all cost. So we are doing that for the long-term stability of our business to make it a more robust brand and company than what it is today. So while we have one eye on our margins, but we won't look at it too seriously, if we have to do something for the betterment of the company for the long term.

Ashutosh Garud: So just to understand from a business angle, we are trying to consolidate from an investment angle at this juncture and we would typically see the fruits from a growth angle in next three quarters to four quarters?

Rohan Sehgal: Absolutely. See, I would be worried about my margins if I have to drop prices to compete with competition and if my price realizations are going down. But if my price realizations are on track and I'm just investing for the future, then I would look at a more long-term view.

Ashutosh Garud: But in the near term, I mean, since we have seen your margins being at around 40% also in FY '19, FY '20, so to say. So in the near term, we can't touch those kind of margins, but eventually, they will come up to 45%, 46%?

Rohan Sehgal: I won't be commenting on that because I don't expect, I hope that the margins won't go that low. I don't expect it even with all these investments should go that low because the company was smaller than the company is scaling up and becoming bigger. So a big factor would be on the revenue. As the revenues keep coming in, I think margins will get more and more robust.

Moderator: Thank you. We have a next question from the line of Santosh from Shivanssh Holdings LLP. Please go ahead.

Santosh: I have a small question. I just want to understand what is the percentage contribution from the various sectors you have like in a descending order, can you let me know that from academic, pharma and all what is the highest contribution for them, which sector?

Rohan Sehgal: So basically, pharma and biotech are the highest contributors in about probably we believe at around 35% of our revenue followed by 25% each of -- 20% each approximately from diagnostics and research. And then schools, colleges, other industries, hospitals, CROs would probably account for the remainder of 20% to 25%-odd percentage. That's the standard revenue mix, what we have seen over the years. But of course, it keeps changing depending on how which industry is doing well at a particular period of time. Of course, these are indicated statements because we do most of our business through distribution partners and having identical end customer data is not in our scope at this point of time because we are basically billing to distribution more than 95% of our revenue.

Santosh: And the second question is that I just want to understand what will be your market share, domestic market share, for example, if I look into your presentation FY '20 numbers or Indian labware and all these, it comes around INR 3,600 crores. And FY '22 will be around INR 300 crores. It comes around 5%. For example, if I take only domestic. So what is your domestic market share? And also I was saying that, for example, if we see around 5% to 6%, so the remaining are that -- they are -- you're saying that around 20 players to 30 players who have small percentage? Or are they are big players who has a higher contribution to the remaining market share?

Rohan Sehgal: I'm not sure about the data because the Plastic Labware market is approximately INR 1,200-odd crores and,,,

Santosh: So yes, if you take only Plasticware, which is in the presentation, INR 1,200 crores, we did around INR 200 crores of revenue domestic in FY '22. So around 15% market share we have. So remaining competitors and all, you are saying there -- if you can let me know that there are like 10 people, 15 people who have small market share or there are a few big people who have major market share?

Rohan Sehgal: I think another five to six major players and then 10 to 15 smaller players after that.

Santosh Agarwal: And in our previous call earning calls, we clarified that out of INR 1,200 crores, our addressable market is INR 650 crores. So, we have done INR 200 out of that INR 650 crores. So actually, we have 25% market share.

Santosh: And final question, I just want to understand our raw material, which is our integral part and a lot of thought goes into it . So what is so unique about the reason that only we have to procure from US and Europe? Like for example, if you take a hypothetical situation that if -- so what are the constraints right now is the capital or the natural resources or technology, which is like why it can't be purchased domestically? But if you take hypothetical situation. I just wanted to understand.

Rohan Sehgal: So basically, a lot of that is confidential in nature as well as R&D department does a lot of research on what would be the right selection and what will be the right ingredients which are required for a particular raw material grade to be used to produce a particular SKU or a particular product group. And when we look for similar characteristics, we don't find a similar grade or raw material in India or in Southeast Asia or Middle East and the closest where we find is in Europe or the US. So we haven't gone into so much of research as to why India does not produce that, but unfortunately, those grades are not available, and that's only available in the US and in Europe.

Moderator: Thank you. We have a next question from the line of Tanmay Gandhi from Investec. Please go ahead.

Tanmay Gandhi: So my question is on domestic front -- domestic business. So if you look at the sequential growth, it's negative 8%, right? And in the -- during the last call, we had highlighted that we have taken price hikes, which will be realized in coming quarters. So my question is that whether have we realized the full impact of the prices? Or do we expect some impact to come in next few quarters as well?

Rohan Sehgal: No, I think there could be certain impact because, as I mentioned in earlier calls that we can't just announce a price hike and get it from day one. There are various contracts. Sometimes you can't get 100% of the price hike, sometimes contracts are ending on a certain period and customers -- you have a long-term relationship with customers, they are large customers, they're important customers to the company and you need to bite the bullet sometimes, wait for certain periods of time. So it's a mix. There's no right or wrong answer out here. But I believe over quarter three, quarter four, maybe even next year, quarter one, we would keep seeing certain implementations made, which could not have been made in these first two quarters.

Tanmay Gandhi: Okay. So basically, the price hikes will play out till first quarter of next year? Is that understanding right?

Rohan Sehgal: Yes. It all depends on the agreement what we have in place with the customer and when that agreement is ending and at the end of the day, we have to keep in mind the interest of our large customers as well, and keep in mind the interest of long-term business relationships as well as the agreements what we've had over the years. So many of these customers are two decades, three decades old customers.

Tanmay Gandhi: And for diagnostics, we have mentioned that there's a lot of competition. And so that should actually be helping a company like Tarsons, because they would not be able to procure from MNCs which because of their smaller scale in the beginning and probably once they ramp up, then actually the supply is for them increases. But initially, it should be benefiting a company like Tarsons, right?

Rohan Sehgal: No. I think I would say in both ways because with the increased amount of competition, we see a lot of diagnostic company is also trying to cut a lot of cost, and that would not play very favorably because they're looking for lower-priced alternatives whether that would be working alternative or not only time will tell. But the diagnostic industry is definitely seeing a lot of pressure to cut costs at this point of time.

Tanmay Gandhi: So basically, the consumption at the -- in the diagnostic industry would be stable, right? But probably, they are procuring more from the smaller competitors which probably would have lower quality, lower cost products. Is that right?

Rohan Sehgal: No, I think the consumption in the diagnostic industry would be more spread out now. As an industry overall, it would be stable. But we still see numbers lower than what it was pre-COVID. There was a big spike during COVID, understandably so, but the numbers have not returned back. I think for standard testing, which was beyond COVID testing, the numbers are still not the same. Of course, it's spread out from a few players to many more players. But it's still not in the same level or the same volumes as an industry not only for Tarsons but at an industry level for all the companies available as suppliers to the diagnostic industry in the plastics segment.

Moderator: Thank you. We have a next question from the line of Harsh from Marcellus Investment Managers. Please go ahead.

Harsh: Hi Rohan, just a follow-up on asset turns. So our current asset turns are around 0.75 to 0.8. However, in the Panchla facility, why did they drop to 0.6 to 0.65?

Rohan Sehgal: Because there are two or three reasons. One is increased cost of capex, increased cost of infrastructure, increase cost of land, increased cost of building, everything. All costs have increased. And secondly, which is one of the major reasons is that we are doing capex which would basically utilize 50% to 60% of Panchla. So to see enhanced asset turn ratios, we'd have to first ensure that the future capex were 100% of Panchla's floor area space is utilized. So at this point of time, we are building Panchla. So we are spending 100% on building and infrastructure, but the capex is only occupying maybe 55% or 60% of Panchla store space.

Harsh: Sir, both these points are maybe utilizing 100% of capex and the cost wouldn't have gone up, then the asset turn would have been more like 0.75 to 0.8?

Rohan Sehgal: Absolutely. For example, we are doing some capacity expansions, and we are spending EUR 2 million on multiplying certain moulds and machines, which we bought 15 years ago. And 15 years ago, the euro used to be at INR 32, and now the euro is at INR 82. So and that EUR 2 million over 15 years has become EUR 3.5 million.

So the same machine where they're doing capacity expansion is giving us the same output. The old machine is giving us the same output as the new machine, but the cost of acquiring that the machines in a 15-year period are drastically different.

Moderator: Thank you. We have our next question from the line of Apurva from Phillip Capital. Please go ahead.

Apurva: Sir, two things. So I just want to understand the seasonality. So in H1, we did almost INR 140 crores of revenue. So H2 would be a similar line because historical number indicates both are roughly equal. So what is your sense in the current year?

Rohan Sehgal: See, generally, ideally, Q4 is the strongest quarter, and hence, it's not that Q1, Q2, Q3 are drastically different, but Q4 is definitely stronger than the rest. And hence, there's a slight variation, right? So it should be on an ideal situation, 42% to 44% in Q1 and the remainder in Q2. So not a huge difference, but yes, I would say 42% - 58%, 43% - 57% in that range would be an ideal year.

Apurva: And I think in the last call, we mentioned we are on track to achieve INR 500 crores by FY '25. So despite of this COVID led maybe that was not anticipated in the -- like this year. So do we still stand at that revenue guidance? Or would there be any change in that guidance?

Rohan Sehgal: See, it's too early to say whether we would stand or there would be any change as a -- what we can do as a company is we can prepare ourselves and have everything in order, in order to reach those numbers. But there must be support from the industry as well. So the industry grows the rate has always grown over the last three and half, four, four and half decades and we've been present, I don't see any reason that we don't achieve

But it's something drastically goes upward or downward, then the guidance could be higher or lower. So at this point of time, we stick to that because we don't see any big threat or the industry not playing up to those numbers because we are as well as the industry, we are supplier to these industries, which is pharma, biotech, diagnostics, research and we are as well as how the industry would do.

Apurva: And one more thing, that's just a clarity. So, like is it possible for us to give a volume sense? Because I think because of this COVID led and maybe domestic and export and percentage revenue growth, that gives some sort of a confusion in our mind. So like can we -- is it possible to say revenue, I can understand we have like a high number of SKUs but from a category point of view, what is the overall volume growth for particular categories or set of categories. So that would give more clarity on incremental business as well. So is it possible for us?

Rohan Sehgal: No. We won't be in a position to share that industry is quite competitive, and that will be sending out confidential data, which would be for the rest of the industry to witness. So all we can give us revenues and geographical mix between India and the rest of the world, but giving product volumes based on categories or product lines could be highly sensitive in nature.

Apurva: Got it. And lastly, like some participants ask about the market share. So what would be our market share in the H1 versus if you can highlight in FY '22 or FY '21 and for the domestic market?

Rohan Sehgal: So I believe that the market share has not changed dramatically because as I mentioned earlier as well, I don't see a position where we are leading market. We are performing exactly as per market standards and if our numbers come down slightly slow in the market, then the domestic market also looks slightly depressed.

So the numbers in the domestic market was announced drastically as the total market size. So I believe percentage-wise, we are on track. We are performing as well as the industry is performing and we are on the better performance in the industry. That's my willing. So no question of us losing any market share. It's just that the industry, especially the Indian industry as a whole is taking time to recover post the pandemic, and we should see enhanced demand and numbers coming in over the next few quarters.

Apurva: Got it. I have one more question. Shall I ask?

Rohan Sehgal: Yes, please.

Apurva: Yes. So for the exports. So I think this quarter, we did almost 38% of total revenue as exports. So was that because of some one-off number or maybe some particular segment is contributing either ODM or our brand or something like that? Can you just clarify it?

Rohan Sehgal: No. As I've said earlier, it's just that it looks stronger at 38% because of the domestic revenues are down, right? Once domestic revenues are back on track, the number as a whole would remain the same in exports, but the proportion would again go back somewhere to 34% or 33%, 67- 33, 68-32 something like that. So domestic not doing well is just showing exports to have a higher proportion.

Santosh Agarwal: And just to add, if you see the Q2 number, then it's clearly showing 38%. But when you see the H1 number it is 34%. So we need to see the longer horizon rather than shorter horizon.

Apurva: Rohan, I got it, but the point is being export, we are not able to take that price increase, what 7% that we took in the domestic market. So that is taken and probably that number would change again, right, that would favor of export market, right?

Because not in H1, but or maybe early next year, we would again take price increase in the export market. So that would again balance it out with the volume increase. So maybe that 33%, 34% kind of export number, which we were doing earlier, so that would move up gradually, right? Because this number is that is without increasing price increase in export market?

Rohan Sehgal: See, the thing is the entire international markets, especially the larger distributors, which account from major of our business are well aware of the economy and the situation, right? And the weakening rupee to the dollar. So it's not easy to get a dollar increase when they are already seeing that there is a 3% to 4% or 5% rupee to dollar movement over the year.

So it's very difficult to get whole year price increases in international markets at best, we get 1%, 1.5% on selected years. The market is much more competitive. We are a newer entrant. In India, the situation is very different, but more of a leading player with a very, very strong brand image and a brand recall value. So the strategies domestically and internationally are very, very different.

Apurva: So is it fair to conclude in export market, what our price realization we are getting, that should be correlated with the rupee movement, right? Is it fair to conclude?

Rohan Sehgal: Not really. Rupee movement is an added bonus to us, when the rupee is getting deeper – if the rupee is getting stronger then it's a disadvantage to us. But generally, whether – even if the rupee is stable, getting increase in product – in international markets needs to be justified by a very, very strong rationale and sometimes increasing product, increasing raw material costs may not be enough because there could be other companies willing to bite the bullet. And since we are a newer entrant it becomes very difficult for us to command certain things which we put in the Indian market.

Moderator: Thank you. We have a next question from the line of Hardik Vora from Union Mutual Fund. Please go ahead.

Hardik Vora: This is Hardik here. I just wanted to clarify is I don't know if it was already discussed on the call, we had a guidance of INR 500 crores of revenue by FY '25 with 45% to 50% EBITDA margin. You are retaining the guidance, right?

Rohan Sehgal: See, at this point of time, yes, but we'll take a call as the quarters move ahead. But at this point of time, I don't see any reason why we should not be able to achieve that.

Hardik Vora: I just wanted to follow up on this. So what gives us this – our confidence, I wanted to get a sense on that because you are putting up the Panchla capacity in FY '24 and the confidence we have is that by – in a year's time, we will be able to utilize it optimally. So is it the order visibility, maybe the customers are telling us. Can you just throw some light on what gives you the confidence of utilizing this capacity?

Rohan Sehgal: So we are building in two kinds of products side. One is capacity expansion for existing products and one is newer product lines. And we see that the markets have not really fully recovered from the COVID period. So it's this entire journey from INR 300 crores to INR 500 crores is not only going to be consumed by new products, which are going to be tougher to sell in the first year as we are trying to prove ourselves in those products.

A lot of it will come from organic growth of existing product lines as well as capacity expansions as well as newer geographies staffed in the international market as well as newer products in the domestic market, because newer product acceptance in the domestic market is going to be far quicker than newer product acceptance in the international markets. So it's a combination of factors which would play out for us to help achieve this number.

In terms of order of guidance from our customers or orders in hand, that's not the way our industry works. So we do not generally receive orders before we start any product lines or we don't have any order book as such. The order book is always for products which we are unable to deliver, which is pending orders.

Hardik Vora: And this INR 500 crores, how would we split between domestic and export in your opinion?

Rohan Sehgal: I believe the two third - one third should look likely. So maybe about 65% - 66% coming domestically and the rest coming from international business.

Moderator: Ladies and gentlemen, due to time constraints, that was the last question for today. I would now like to hand the conference over to Mr. Rohan Sehgal for closing comments. Over to you, sir.

Rohan Sehgal: I 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 our company. I hope we have been able to address all your queries. For any further information, kindly get in touch with us or Strategic Growth Advisors, our Investor Relations Advisors. Thank you once again.

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