An ISO 9001 & ISO 13485 Certified Company

Date: 21st August, 2023

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

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

Dear Sir/Madam,

With reference to the captioned subject and in continuation to our intimation dated 14th August, 2023, please find enclosed herewith the transcripts of the Investor Conference Call held on Monday, 14th August, 2023, to discuss the financial performance/Unaudited Financial Results of the Company for the quarter ended 30th June, 2023.

The transcripts of the said conference call will also be uploaded on the Company's website at www.tarsons.com.

This is for your information and record.

Thanking you,
**Yours Faithfully,**
**For Tarsons Products Limited**

SANTOSH KUMAR AGARWAL
Digitally signed by SANTOSH KUMAR AGARWAL
Date: 2023.08.21 15:21:06 +05'30'

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

*Encl: As above*

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# "Tarsons Products Limited

# Q1 FY '24 Earnings Conference Call"

# August 14, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 14th August 2023 will prevail.

**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 – TARSONS PRODUCTS LIMITED**

**MODERATOR:** **MR. KARAN KHANNA – AMBIT CAPITAL**

**Moderator:** Ladies and gentlemen, good day, and welcome to Tarsons Products Limited Q1 FY '24 Earnings Conference Call hosted by AMBIT Capital. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Karan Khanna from AMBIT Capital. Thank you, and over to you, sir.

**Karan Khanna:** Thank you, operator, and good morning, everyone. On behalf of AMBIT Capital, I welcome you all to the Q1 FY '24 Earnings Call for Tarsons Products. From the management team today, we have Mr. Rohan Sehgal, Whole-Time Director; and Mr. Santosh Agarwal, Chief Financial Officer. I will now hand over the call to the management team for the opening remarks, post which we can start the Q&A session. Thank you, and over to you, Rohan.

**Rohan Sehgal:** Good afternoon, and a very warm welcome to everyone present on the Q1 FY '24 Earnings Conference Call for Tarsons Products Limited. Along with me today, I'm joined by Mr. Santosh Agarwal, the Chief Financial Officer and the Company Secretary; and SGA, our Investor Relation 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 by offering some background information about the industry. Currently, the life science sector is experiencing a slowdown leading to a notable reduction in demand for plastic laboratory-ware products, both in the international and domestic market. As a result of this deceleration and weakened demand, the overall industry has contracted, shrinking by over 15%. However, our revenues for this quarter have seen a 9% decrease. It is important to note that while our revenue have declined by 9%, we have been exceeding industry trends and enhancing our market position compared to our peers.

Another contributing factor to the decline in the revenue is the high level of inventory, which is there in the distribution channel. Looking ahead, we hold an optimistic view regarding an industry resurgence and the normalization of channel inventory levels, which should pave the way for the revival in inflow.

Let me speak about the inorganic growth opportunity. Our strategic vision is firmly fixated on a significant growth potential that the export market holds for us. To harness this potential, our approach involves the acquisition of a brand or a distribution channel, a move aimed at establishing a strong presence in the overseas market.

The basis of our strategy involves an inorganic opportunity that foster the strengthening of our channel and distribution partnerships. This proceed primarily results around the acquisition of brands, channel partners, large distributors, allowing us to fortify our network and extend our market increments.

Our strategic scope extends beyond channel enhancement, encompassing a comprehensive exploration of various acquisition prospects. This comprehensive approach underscores our commitment to diversification as we seek opportunities that align with our strategic objectives and resonate with our growth aspirations.

While we embark on this trajectory of seeking inorganic opportunities, we recognize that there will be associated costs. These costs are an integral part of this process, involving the investments required to actualize our expansion objectives and enhance the diverse range of our business proceeds.

We are in active process of evaluating such acquisitions, a strategic move aimed at bolstering our global footprint and expediting our journey towards accelerated growth. On the EBITDA front, the reported EBITDA margin for Q1 FY '24 was at 34% during the quarter. This decline was due to the lower absorption of fixed expenses due to decline in revenues affecting margins.

We have also allocated increased resources towards new product development and bolstering our marketing efforts for our plan to manufacture new products by expanding our capacities. While this proactive approach lays the groundwork for future growth, it has momentarily contributed to higher operational costs.

In line with our growth strategy, we are gearing up for capacity expansions and establishment of new manufacturing units. This forward-looking investment necessitates increased spending in the short term, which will generate higher revenue going forward. Our EBITDA was also impacted on account of a one-time expense of INR 2.8 crores, which was incurred for the due diligence charges associated with the potential inorganic opportunity. Regrettably, this opportunity did not fructify due to a valuation mismatch. After adjustments for the impact of this one-time item, our adjusted EBITDA is INR 24.1 crores with margins of 38.5%.

On the capex front, first, on the Panchla facility, Panchla is introducing cell culture and increasing capacity in existing products. Civil construction has been completed, and our first clean room is completely ready. We are, however, awaiting certain machines that are already in transit. We anticipate that the first round of production will begin in Q3 FY '24.

Furthermore, cell culture and other products are expected to begin commencing production in Q4 FY '24 and Q1 FY '25 in a phased manner. The second plant, which is the Amta Plant, we are building a radiation plant and have signed a Memorandum of Understanding with the Board of Radiation & Isotope Technology, BRIT, to be so. This will reduce our dependency on a sole vendor in our local region.

We are also building a central warehouse operation, which is currently under construction. We are shifting our bioprocess manufacturing from a rented facility to this facility in the coming months, which will have higher operational efficiencies going forward.

Before handing over the call to Santosh, I'd like to state that in the short term, this appear to be difficult due to the macro environment, which was clearly impacted most of the larger players in the industry. However, we are confident in our strategies to take Tarsons at high levels. With our expansion in new products as well as acquisition opportunities, we are poised for a bright future.

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

**Santosh Agarwal:** Good morning, everyone, and a very warm welcome. Let me take you through the financial highlights for Q1 FY '24. On the revenue front, revenue from operations for Q1 FY '24 stood at INR 53 crores as compared to INR 69 crores in Q1 FY '23, lower by 9% on a Y-o-Y basis. However, the overall industry and other organized peers have seen a dip of more than 15%.

For Q1 FY '24, revenue from export stood at INR 17 crores and domestic earnings stood at INR 45 crores. For Q1 FY '24, export sales contributed around 27% and domestic sales contributed around 73%. At a gross profit level, our gross profit for Q1 FY '24 is stood that INR 47 crores as compared to INR 54 crores in Q1 FY '23. Our GP margin for Q1 FY '24 stood at 75.1%.

On EBITDA term, our adjusted EBITDA for Q1 FY '24 stood at INR 24.1 crores with adjusted EBITDA margin of 38.5%. This has been adjusted for INR 2.8 crores one-off expenses on account of due diligence charges for a potential inorganic opportunity. Our reported EBITDA for Q1 FY '24 stood at INR 21.3 crores as INR 31.1 crores in Q1 FY '23. Reported EBITDA margin for Q1 FY '24 stood at 34%.

At a PAT level, profit after tax for Q1 FY '24 was INR 9.6 crores with PAT margin of 15.3%. With this, I would like to open the floor for Q&A.

**Moderator:** Our first question is from the line of Omkar Kamtekar from Bonanza Portfolio.

**Omkar Kamtekar:** Okay. So firstly, there is an increase in the employee expense. So this is the normal annual increase in the employee expense or there has been some additional employees being employed for the new plant and etcetera? Is it the clarification on that?

**Rohan Sehgal:** So the increase in the employees is majorly the annual increase in employees, year-on-year compensation increased for approximately 650-odd employees. However, there have been some new hires and very little contribution has come in the first quarter because many of them have joined over the last 8 to 10 weeks.

So moving forward, we have seen some increase in employee expenses for the new hires, which would show completely in the forth quarter, that will be 1 month, which is the third month of the first quarter, which must have seen certain new hire employee expenses.

**Omkar Kamtekar:** Okay. So then we can expect the employee expense to increase a bit further in the upcoming quarters? So that will be fair?

**Rohan Sehgal:** These employees are being hired for the new facilities, were for more product lines, which for us is expected to increase revenues. So overall, in the long term, I don't see the employee percentage to the revenue moving drastically from where it is today. It should be in the same range.

**Omkar Kamtekar:** Got it. Got it. And sir, with respect to the acquisition, the one that was not able to fructify. So is it possible for you to give us a range of what was the proposed mismatch in the valuation? So like what was the deal value that you were proposing and what was the counter-party demanding? Wouldn't that be disclosable?

**Rohan Sehgal:** Yes. So I think we were one of the front runners in the acquisition and the valuation posed by us was among the top 2, 3 valuations. However, based on the final due diligence and a lot of other activities, as you see revenues are dropping. Worldwide revenues are dropping for a lot of companies because of reduced demand. So the person who actually acquired the company and won the bid, did not re-rate the number which was originally given. We went ahead and re-rated the number because earnings and revenue has fallen for the proposed acquisition. So the variance was approximately 20% to 25%. That's all I could mention.

**Omkar Kamtekar:** Okay. So you will not be able to give the number...

**Santosh Agarwal:** Sir, we have signed a nondisclosure agreement with the potential target, so we cannot disclose the number.

**Omkar Kamtekar:** Fine. And just final follow-up on that. Are there any other acquisitions in line parties that are identified for inorganic acquisition?

**Rohan Sehgal:** So we have certain agencies who are working for us, looking at potential targets. And as and when we find suitable targets, we will move ahead to the next stage to explore further. But this is an active work which is going on continuously at the company.

**Moderator:** Our next question is from the line of Jasdeep Wallia from Clockvine Capital.

**Jasdeep Wallia:** So how did you see demand trends during the first quarter across various segments? And how are you seeing those trends incrementally?

**Rohan Sehgal:** So the demand in the first quarter has been relatively lower for the consumables segment as compared to the other segments. Understandably so because there is a large overstock and an overhang from COVID because 95% of the plastic yields during COVID was consumables. So we see a lot of demand reduction in the consumable space, the other sectors, which is reusable plastics and the instrumentation sector is relatively lower affected as compared to the consumable sector.

**Jasdeep Wallia:** Got it. And sir, can you also talk about the demand across segments like diagnostics, pharma, research?

**Rohan Sehgal:** So at this point of time, as I said in our earlier calls, I think the diagnostic and the research and pharma segment relatively remains a lower requirement for plastics as compared to previous quarters in COVID as well as the pre-COVID quarters, which led up to COVID. The Biotech in the CRO segment continue to perform very, very well.

And the other sectors, specifically in India, continue to underperform. If you look at our revenue concentration of 73% and 27%, I still feel that the pressure in the Asian subcontinent is much higher than the European and American subcontinent. Of course, our stronger position in Asia, we'll be able to generate more revenues. But Asia at this point of time seems to be having a tougher time recuperating as compared to Europe and U.S., although the entire world is going through a very, very sluggish phase in the plastic labware market.

**Jasdeep Wallia:** And across these various segments, are you seeing signs of recovery for any of the segments or broadly all segments are showing similar trends?

**Rohan Sehgal:** See, an issue is that there is these huge inventory levels at the customer end as well compared to the distributor end. So certain large customers have also panic ordered so much of inventory, which they're slowly moving out and slowly clearing out. So recovery levels were there, which was there in the Q4 levels, we did much better compared to the previous 3 quarters, but that had a lot of effects of customers wanting to complete their targets, the sales people wanted to their completes their targets, distributors wanting to complete their targets as well as a strong push, wherein from our side as well in the domestic market.

But recovery levels are there, but they are very slow. I do not see a complete recovery in this quarter as we're talking, which is Q2. But recovery in the domestic and international market is not as strong as what we had expected for Q2.

**Jasdeep Wallia:** Got it. And sir, on the competition front, are you seeing pricing pressure in the market? Or your view on that front remain the same as in the previous quarters?

**Rohan Sehgal:** I didn't hear your question, please? Could you repeat it?

**Jasdeep Wallia:** Sir, on the competition front, are you seeing incremental pressure on pricing because a lot of capacity has come in, particularly in China. Is that leading to lower realizations in some of the segments?

**Rohan Sehgal:** So there is -- I think it's not only China, but it's globally that there has been a lot of capacity. So globally, the market has become competitive. We don't see a lot of lower realizations, as you can see some of bigger margins remain pretty much intact to where it was.

But yes, there is a global competitive pressure, which it seems slightly temporary. And there was an involvement of a lot of new players over the last 2 to 3 years. But we've seen players retracting back as well as the industry does not pose the kind of lucrativeness it posted during COVID for the new players.

**Jasdeep Wallia:** Got it, sir. Sir, my last question, sir. Sir, how much of cell culture products are exported by Chinese companies? And what is it as a percentage of global production of cell culture products?

**Rohan Sehgal:** I won't have identical numbers for you at this point of time. But I think China would export close to $70 million to $80 million of cell culture products, just purely cell culture consumables out to the rest of the world. And I don't know what percentage that would be of the total volume, but it will be a very insignificant or small percentage. Cell culture is still primary dominated by Europe and the U.S.

**Moderator:** Our next question is from the line of Jaiveer Shekhawat from AMBIT Capital.

**Jaiveer Shekhawat:** My first question is in relation to how you think about your acquisition strategy. Given this quarter, you only spent about 5% in your top line for an acquisition which didn't materialize. And how do you think about, say, further acquisitions down the line? Would you be looking to still spend that substantial amount on the acquisitions?

**Rohan Sehgal:** Jaiveer, could you please repeat the question? Your voice is not coming in properly.

**Jaiveer Shekhawat:** Yes. I was trying to understand about your acquisition strategy given this quarter you almost spent 5% against your top line on a due diligence of an acquisition which didn't materialize. So your thoughts there?

**Rohan Sehgal:** Right. So see, the thing is we spent approximately INR 2.8 crores on the acquisition, due diligence, which would have been no different had the acquisition gone through. Unfortunately, the times are very volatile at this point of time, as you see our revenues have not shown up. And you can imagine certain companies where an acquisition process is not an overnight process. It is about 6 to 8 months. And by the time you sign an agreement with the party to move ahead and give an offer and bid, which gets accepted and start the due diligence and complete the due diligence is approximately 4 to 6 months. And in 4 to 6 months, in this volatile industry, we've seen numbers totally disintegrate.

And what was shown to us and what actually was the due diligence number based on 6 months of de-growing revenue, things are very different. So we thought prudently that at that point of time, we had to discount the number which was originally given because of the lower numbers and the lower earnings.

However, some of the competitors who bid in, decided to stick with the original number and they won the bid. So we would stick to this strategy moving forward as well. I think this is a good time because the industry is slowing down and we could come across some good companies at very, very attractive valuations to acquire. But in this process, we might end up spending some one-off expenses, which I think would be worth it if we are able to find the right company.

**Jaiveer Shekhawat:** Rohan, related to this is in terms of the export revenue. So what we have seen is when you compare Tarsons' export revenue to the overall market potential, it's quite negligible. And if I see your export revenue trend, it has been largely flattish or declining over the last 2.5, 3 years despite the wide range of products that you have.

So could you highlight on the challenges that you are facing on this front? And why are you not able to increase your wallet share with large multimillion dollar enterprises that you do business with despite the fact that your unlisted peers, they have found avenues to multiply their scale of business?

**Rohan Sehgal:** Right. So if you look at our international revenue, it constantly grew, right, up to FY '22. We saw a slight decline in FY '23 from FY '22. So that was the first year of international decline what we saw in the international markets. Apart from that, from 2010 to 2022, we've constantly grown.

Now at this point of time, we have strong relationships with large catalogue companies and other large importers all over the world. But as I explained, it's a time where people have large amounts of unsold inventory and it is not a time when they would like to bring in new inventory, bringing new relationships, or with our existing relationships, bringing new product categories. So we will wait for the market to actually stabilize and inventories, some channels started using before we start looking at newer opportunities.

At this point of time, as I do not have any numbers of unlisted peers, it's not available. We do not see any growth or even flat revenue of any of the unlisted players in the international market. It's all in a declining trend from '23 onwards. Until '22, everybody grew solidly. But the story post '22 has been very similar of the industry of what our story is. There is no difference as per our understanding.

**Jaiveer Shekhawat:** And lastly, my question is regarding the commentary that you have been giving around the outlook. So if I just go a quarter back in your fourth quarter earnings call, as well as in the investor presentation, you were highlighting about the demand pickup and the early signs arising in the industry. And even if go through first quarter and second quarter of the last year, you also alluding to the fact that your conventional business was growing, it is except core business, possibly in 20, 25 percentage on a year-on-year basis.

Now this quarter, despite no COVID-related revenues in the base, I mean your conventional business also declined. So I'm just trying to resolve this entire mismatch and why is it that the outlook for the industry is changing so in a very volatile fashion, especially on a quarterly basis? And second is in terms of your confidence to really ramp up your revenues post your Panchla commissioning? Or would it be possible that you might end the year on a flattish note itself?

**Rohan Sehgal:** Sure. So if you see, we ended FY '22 with our best performance ever in the history of the company. And FY '22 was March '22. So post March '22, we had a large influx of orders, which we could not suffice. And a lot of that over-ordering which was there on back orders, what we would call, was suffice through the next 3-4 months post March 22, which we did not have enough capacities to give in.

So while we did not have any new ordering throughout April, May, June of last year, our new orders this year are much better than our new orders last year. But we do not have the backing of a large COVID year behind us this year. And hence, we will lower revenues. The picture looks very different, the story looks very different because it shows more revenue as compared to last year, but we were coming off a quarter, which was the best ever quarter in the history of the company and a best set a year in the history of the company, which we are not coming off this year.

So primarily, that is the main difference between last year and this year. And if you look at orders received or fresh orders received, I think the first 5.5 months as we speak today on 14th of August, the fresh orders received domestically and internationally are much stronger than last year's fresh orders received.

**Jaiveer Shekhawat:** Understood. So in terms of your outlook for the rest of the year, are you likely to end the year on a flattish note? Or would you'll be able to increase your revenues toward the Panchla commissioning?

**Rohan Sehgal:** So at this point of time, we still believe we can increase our revenues compared to last year, but we will move ahead and see how the industry reacts and perform over the next 3 quarters. As you see, the industry trends have been very, very volatile. We did extremely well in the previous quarter, which was Q4, and then Q1 has again come down. But it's very similar to whatever available data is done in the industry from global peers. If you look at the Q1 numbers, it was much stronger and the Q2 numbers have declined because most of the international companies work from Jan to December. So the Q1 was stronger, on a recovery, and then Q2 then came down.

**Moderator:** Our next question is from the line of Amar Maurya from AlfAccurate Advisors.

**Amar Maurya:** So firstly, sir, just to understand more on the demand perspective. As you said that the destocking is the core issue in the export business. So I mean, how long do we see that this destocking issue is going to fade? Is it going to take 2 quarters more, 3 quarter more?

**Rohan Sehgal:** I can give you the information what I understand and more from the industry. If you look at larger global MNCs, multinational players -- they also gave a very qualitative statement, not a quantitative at the time. They say it's a temporary phenomenon and recovery expected soon.

If you read the top 3, 4 multinational companies with market cap more than $100 billion, that's what they say. So it's very difficult to predict the global environment at this point of time. And if I tell you next quarter or 2 quarters, I may be completely wrong because I do not have the information myself. I can only speak for how the industry is moving at this point of time. And at this point of time, we see a sluggishness and we do not see a lot of recovery at this point in time.

**Amar Maurya:** I was trying to understand more from the client perspective. A lot of your clients are large global clients and you have a strong relationship from last 5, 7 years. So any colour like from your client perspective that this is going to over, let's say, in 1 quarter, 2 quarter. I was trying to understand from the client specificity because our share in the global pie is insignificant today.

**Rohan Sehgal:** Correct. Correct. But as I said in my earlier question as well, the percentage of what we have among the global pie at this point is not important because the prospective customers who could be our customers in the future are grappling with their own problems to add another new problem of looking at a new supplier at this point of time. They have their own problems of overstocking and large inventories.

So it would only be opportunity for us to engage with them at times when it would add value. At this point of time, they have to look at their inventory levels, which have been stocked up over the last 1.5, 2, 2.5 years. And those inventories before we can engage into something which is alternative supplier of better margins for them, lower prices for them and so on.

**Santosh Agarwal:** And Amar, 1 thing to add on that. On year-on-year basis, we are down by 8% to 9%. And in this process our sales have de-grown, but we have not lost any of the customers.

**Amar Maurya:** I'm saying what is the colour for the domestic business at this point of time? I mean what is the outlook there?

**Rohan Sehgal:** So the outlook looks sluggish, as I explained earlier, and we do not see any immediate complete recovery at this point of time in the domestic business.

**Amar Maurya:** Okay. But then you are confident about the full year growth despite all this hinted outlook. So what is behind that?

**Rohan Sehgal:** Behind that is, as I explained in my earlier question, we see better inflow of orders, fresh orders as compared to last year, but not where we expect it to be, but order flow is much better than what we had last year. Of course, we do not have a large pending order book what we had last year in the first few months, but the fresh order inflow is much better.

**Santosh Agarwal:** I mean in our kind of industry, Q2, Q3 and Q4 is always better than Q1. So it is very difficult to judge the full year on the basis of Q1.

**Amar Maurya:** Okay. Okay. And order book growth on a year-over-year basis would be how much in this quarter?

**Rohan Sehgal:** Approximately 4% to 5%.

**Moderator:** Our next question is from the line of Ranvir Singh from Nuvama.

**Ranvir Singh:** Sir, 2 questions. I think a couple of things have already been clarified. But still on -- when we see a slowdown in life science industry, despite we see in this quarter most of segment in life science, like pharmaceuticals or even the R&D-based players, hospitals, all have shown very good numbers. I think for export markets, there may be some volatility, but at least in India market, domestic market, the other indicators are showing, most of indicators are showing that there has been a growth.

Also, in Q4, we had a very good number. If destocking is the reason then how come from Q4 to Q1 that destocking reason cropped up because now it's 1 year, more than 1 year, the COVID-related things have vanished. So what is the disconnect or the business model, probably I'm not able to understand that how the demand has actually gone down in this quarter?

**Rohan Sehgal:** Sure. So as you said, the hospitals and some of the life science companies must have done very well in Q1 of FY '24 in India. However, the sourcing of these companies for plastic labware has come down. And all we are related to as a company is how much of plastic labware does a particular company buy and what can we contribute to that share? So that sourcing of plastic labware or purchasing of plastic labware is down and hence, our numbers are down.

And regarding the destocking and how Q4 was higher and then Q1 is further lower. If you look carefully, our Q4 is also a slight degrowth. I would say almost flattish as compared to Q4 of last year. This will be degrowth of about INR 1.5 crores, right? So the industry was not in the best place because we did not show a year-on-year quarter growth between Q4 of last year and Q4 before that year, a huge growth. In fact, it was a INR 1.5 crores decline.

So generally, Q4 is a very strong year in India because people look to complete their budgets in purchases. Distributors look to complete their targets. Sales people look to complete their target. So it's a large quarter. It's not equally divided between 4 quarters. It's a, I would say, 35% of the business comes in 1 quarter compared to 25% equally divided.

So that's what we experienced. And internationally as well as I explained in my last question was that companies have shown a better performance. And then again, the performance has slipped a little bit in Q2, and they have not been able to continue the momentum into Q2. And we've been no different because we only have the international peers, listed peers, to look at comparisons with. There is no other domestic listed there.

**Santosh Agarwal:** And if you see our Q1 figure, our domestic revenue reduced from INR 48 crores to INR 45 crores and export reduced from INR 20 crores to INR17 crores. So the growth came mostly from the export market, not from the domestic market.

**Ranvir Singh:** Yes. So last year, it was 30%, nearly 30% was the export contribution in Q1 FY '23. That has come down to 27%, right? So 3% contribution has come down. So this is, anyway, not a big part of business and the overall business, actually, the domestic being a major part. So that portion actually I wanted expansion. But anyway, secondly, on the next thing what I wanted that Panchla plant earlier that was supposed to come in August '23. Now it shows Q4. So are we going to capitalize this plant in this year itself? Or that may go to next year also?

**Santosh Agarwal:** So we capitalize all the machinery and plant in a proportional way. As it goes for put to use. For example, first clean room will be ready by Q3. So once the production will be started, we will capitalize that portion only. And the cell culture will be capitalized by Q4 or Q1 FY '25 as soon as the production will started.

**Rohan Sehgal:** Basically, the entire capitalization will not happen in one go. As and when the machine will be put to use, that quantity would be capitalized.

**Ranvir Singh:** And when that machine will be put to use?

**Rohan Sehgal:** So we expect commercial production to start in Q3, beginning of Q3 of this year, and we expect machines to enter in the next few weeks, which is 3 to 4 weeks. But commercial production will take at least 6 to 7 weeks after they enter the facility. So the moment commercial production start, it will be capitalized.

**Ranvir Singh:** But you have to capitalize on a fully basis, partially -- because even if we start production, say, a small amount, is there any provision that we can do partial capitalization or because I think this is integrated facility? So I don't know.

**Rohan Sehgal:** We'll have about 25, 30 machines coming, but all 30 will not come together. So if 3 will come, we will capitalize 3. If 6 will come, we'll capitalize 6. And as and when the numbers will come, we'll capitalize. We've not capitalized for things which have not come, before they come and before they start commercial production. So it's not 1 machine making 1 kind of product. It's multiple machines making multiple products.

**Ranvir Singh:** Okay. And how much capex we have spent so far and how much is the remaining here?

**Santosh Agarwal:** Sir, out of the total capex, we already incurred about INR 430 crores.

**Ranvir Singh:** And some part remains there?

**Santosh Agarwal:** Yes, some part is remaining there, about INR 120 crores to INR 150 crores is still pending.

**Ranvir Singh:** So total would be some INR 525 crores, INR 530 crores?

**Santosh Agarwal:** Yes.

**Ranvir Singh:** Okay. And about Amta Plant, what's the status there. This is already -- where we have reached in terms of commercialization or...

**Rohan Sehgal:** So the construction is on full swing. We expect to receive the nod from the government board for radiation and isotopes in the next 4 to 6 weeks. So we expect by before 30th September, we receive the license to operate a radiation plant, and we expect the facility to be fully completed before the end of the year, which is around December 2023 calendar year.

And post that, –so either by the end of December or beginning of January because facility should be put to use in terms of the warehousing and the radiation -- and in terms of the production bit, it would take another 4 to 6 weeks as we are operating out of a rented facility and the movement from the rented facility to Amta would be a 4- to 6-week procedure, and that will only happen when the facility is fully ready.

**Moderator:** Our next question is from the line of Sambit Kumar who is an investor.

**Sambit Kumar:** Currently you are trading the cell culture equipments. So what percentage of it is contributing to the top line?

**Rohan Sehgal:** So at this point of time, we do not know how much would the total top line be as the cell culture product portfolio matures over the next 3 to 4 years. But we expect cell culture business to -- at full capacity should peak out closer to the INR 100 crores of revenue.

**Sambit Kumar:** Okay. So how much time it will take to reach that INR 100 crores revenue?

**Rohan Sehgal:** I expect 3 to 4 years after installation of capacity and commercial production.

**Sambit Kumar:** Okay. Are you taking any steps for ramping up this revenue contribution from cell culture?

**Rohan Sehgal:** So at this point of time, we are initiating marketing activities and making people aware of what we are building and what we are going to be coming out with. But at the end of the day, nobody is convinced unless we feel the product in the hand and actually test the product.

And if the product works well according to their research or according to their production, then only they would be committed to buy from us. So being making people aware is one thing, But actually, building a product which suits their needs is another. So only time will say, once we launch our cell culture products as to how well have our products been accepted by the market by our customers in India and overseas.

**Moderator:** Our next question is from the line of Harsh from Marcellus.

**Harsh:** Yes. So Rohan, can you just give us an update on the inventory front? Like on 31st March, we had around INR 114 crores of inventory, what would that level be right now as on 30th June?

**Santosh Agarwal:** So as of 30th June, our inventory is about INR 112 crores. It includes raw material of INR 36 crores, which has been reduced quite significantly when compared to the last quarter. Then we are work-in-progress of INR 13 crores. Then we have finished goods of INR 45crores. Then we have the trading stock in trade of INR 8.5 crores. And we have packing material of INR 6.6 crores, and other consumable and consumable and stores and spares are about INR 3 crores.

**Harsh:** Okay. And -- you reckon that even we have to take any inventory write-offs because of this slowdown in demand because we also have a large inventory, and that inventory has an expiry date as well. So I just wondered what your view on that.

**Rohan Sehgal:** So generally, Harsh, the inventory for sterile items is about 3 to 5 years depending on the quality of the manufacturing and the sterilization. But very insignificant amount of inventory of ours is sterile. I would say more than 95% of our inventory is non-sterile, which generally holds good for a longer period than 3 to 5 years and can be stored easily.

However, we have very limited inventory, which has been built and there is no demand for it. Most of our inventory has been built based on our manufacturing structure of having to launch new products or having to build large batches of production.

**Moderator:** Our next question is from the line of Omkar Kamtekar from Bonanza Portfolio.

**Omkar Kamtekar:** Yes. So sir, a follow-up question with respect to raw material costs. Do you see any risk of a raw material cost increase? Is that a concern?

**Rohan Sehgal:** Actually, we see raw material prices flattening out, to be honest. And in the domestic non-branded raw material, which is non-medical grade, has been quite flat. The international raw material has also seen a very small increase or has been flat, but our purchase prices continue to increase as the euro has gone up and the dollar has gone up.

So on an INR absolute term, we see an increase in raw material because of the depreciation of the currency. But on actual prices, raw material, it's very, very flat and under control over the last 4, 5 months.

**Omkar Kamtekar:** Okay. Okay. And with respect to the plant, just a clarification about a previous question. So the Panchla Plant and Amta Plant, the full commercialization, what was the timeline? I was not able to catch that properly.

**Rohan Sehgal:** So it's 2 separate timelines because the Panchla and Amta Plant are apart from each other. They are 2 separate plants, various kilometers away from each other. Panchla Plant is completely ready; the infrastructure, everything. The clean rooms are just plug and play. The machines coming with plug-in and we start selling. So 100%, the plant has been ready for the last 1.5 months, completely ready. And the Amta Plant to come in the same position as the Panchla plant could take approximately another 4 to 5 months, by the end of December, we expect.

**Omkar Kamtekar:** Okay, okay. And the Panchla Plant would be -- what would be the capacity utilization we need to start, approximate capacity utilization? So because we can project what's the revenue to be generated -- for the quarters?

**Rohan Sehgal:** So at this point of time, Panchla is going to be a mix of new products as well as capacity expansion. So I would not expect a lot of revenues from capacity expansion if it was to start today because considering the industry trends. But with new products, we would expect revenues coming in. But however, the capacity expansion by the time it comes in the next 3 to 4 months. And if we see a recovery in the industry and growing demand, then it would work in our favour.

**Omkar Kamtekar:** Okay. And what is the fixed asset turnover, or the gross block turnover that you target with respect to the overall capex that you incur.

**Santosh Agarwal:** So we expect our asset-turnover ratio on the gross blocks would be in the range of 0.65 to 0.7.

**Omkar Kamtekar:** So we intend to maintain this going forward or increase it again as further as we get? This is the norm for the industry.

**Santosh Agarwal:** We intend to maintain that. If industry goes in our favour, then it will improve further. But otherwise, we don't find any reason that it should below 0.65.

**Omkar Kamtekar:** Okay. So currently, we -- just to understand, the current fixed asset turnover will be 6.5 and we are wanting to maintain. If the opportunity comes, we can increase?

**Santosh Agarwal:** 0.65, sir. 0.65. Not 6.5.

**Omkar Kamtekar:** Okay. 0.65. Got it, got it.

**Santosh Agarwal:** 0.65.

**Moderator:** Our next question is from the line of Amar Maurya from Alpha Accurate Advisors.

**Amar Maurya:** Yes. So my question is, how do you expect that PET and PETG products to contribute to your revenue? And how do you expect capacity utilization for those 2 products going forward?

**Rohan Sehgal:** So at peak, based on our capacity that we have put, we expect revenue of approximately INR 35 crores to INR 40 crores at peak from the PET and PETG products, and most of these products are used in bio-production and production lines. So there is a process of validation by customer.

It's not a general lab product used in our research laboratory by biotech or a pharma company, but gives more introduction lines. So we are seeing a strong appreciation and demand for our products as we launch these products over the last 2 to 2.5 months and continue to launch some sizes. So we see a good positive feedback, and we are hopeful on good revenue in the coming quarters from these product lines.

**Amar Maurya:** For the upcoming couple of quarters?

**Santosh Agarwal:** So we started receiving orders from the customers for PEG bottles and we said that the market share will increase further. But we don't -- we cannot anticipate what will be the exact number.

**Amar Maurya:** Apart from this, my second question is for serological pipettes, which you're going to start. Has that started? And how do you expect that to contribute to revenue?

**Rohan Sehgal:** It has started, but not in the sale, but -- where we can anticipate and expand global business. But we, again, no different to the other product lines. We got a very positive response from the domestic market. And we have started revenues in small numbers for the serological pipettes from our pilot production, batch production.

**Amar Maurya:** Okay. And so my last question is apart from serological pipettes and the PET and PETG contribution going forward, what do you expect for the base of revenue to grow apart from these 2 streams?

**Rohan Sehgal:** We expect from -- considering the industry went back to normalized levels, we expect large revenue to come in from our existing product lines as we build strong capacities to be able to tackle on large projects internationally as well as in India. And cell culture products and bioprocess products, which would be added in Panchla and Amta, respectively, along with boosting of our equipment business as we bring in newer products and the equipment category. So it would be a 3-way process, one, new products; one, the equipment; and one, our existing capacity expansions.

**Moderator:** Our next question is from the line of Omkar Kamtekar from Bonanza Portfolio.

**Omkar Kamtekar:** So sir, with respect to the new products that we are going to introduce from the Panchla plant, the margin profile for these products would be in line with the current profile? Or are they margin accretive?

**Rohan Sehgal:** No, it will be in line with the current products.

**Omkar Kamtekar:** Okay. And with the Amta facility, we are also having a warehousing place there. So are we going to gain benefits with respect to some cost savings and will that add into our margin positively?

**Rohan Sehgal:** We don't expect cost savings, but we expect operational efficiencies because we need a bigger place to be able to tackle revenues, which are significantly higher than INR 300 crores. At our current infrastructure setup beyond INR 300 crores, it's slightly difficult to handle. So we need a much more robust and better infrastructure to conduct a global business at a faster pace, in the fastest way.

**Omkar Kamtekar:** Okay. Okay. So the Amta Plant will be more of an operational efficiency

**Rohan Sehgal:** Operational efficiency at about 80% of the plant area, 5% to 10% would be the Gamma plant and another 10% would be manufacturing.

**Moderator:** Ladies and gentlemen, that was the last question of our question-and-answer session. I would now like to turn the conference over to the management for closing comments.

**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 your 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 Relation advisors. Thank you once again.

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