



# MOREPEN



Date: 22/05/2019

To,

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**Subject: Transcript of Investor and Analyst Conference Call on Results for Q4 of  
FY 2018-19**

Dear Sir/Madam,

Please find attached transcript of Investor and Analyst Conference Call organised on Wednesday, 8<sup>th</sup> May, 2019 at 4.00 P.M. (IST) subsequent to declaration of Audited Financial Results for the quarter and year ended 31<sup>st</sup> March, 2019.

This is for your information and records.

Thanking you.

Yours faithfully,  
**For Morepen Laboratories Limited**

  
(Vipul Kumar Srivastava)  
Company Secretary

Encl.: As Above

## **Morepen Laboratories Limited**

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“Morepen Laboratories Limited  
Q4 FY 2019 Earnings Conference Call”

May 08, 2019



**ANALYST: MR. SONAL KUMAR SHRIVASTAVA - KIRIN ADVISORS  
PRIVATE LIMITED**

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

*Morepen Laboratories Limited  
May 08, 2019*

**Moderator:** Ladies and gentlemen, good day and welcome to the Morepen Laboratories Q4 FY2019 Earnings Conference Call, hosted by Kirin Advisors. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sonal Kumar Shrivastava from Kirin Advisors. Thank you and over to you Sir!

**Sonal K Shrivastava:** Good day to everybody. I welcome you all to this conference call of Morepen Laboratories Q4 FY2019 results. The structure of the call will be like the management will briefly discuss the performance for Q4 and FY 2018-2019, the business segment and the earning performance, which will be followed by the interactive question and answer session. Today on the call, I have Mr. Sushil Suri, Chairman & Managing Director of Morepen Laboratories Limited and along with him there is Mr. Ajay Sharma, Chief Financial Officer of Morepen Laboratories also there on the call with us. Over to you Suri Sir, now you can address the gathering Sir!

**Sushil Suri:** Afternoon everybody. Sushil Suri this side with Ajay Sharma my CFO. How are you guys doing today? Okay guys, I hope that all you have got copy of the results by now and you might have gone through the company presentation, which was uploaded in the stock exchanges. So, we get into the segment wise reporting and before we get into the nitty gritty, I just give a quick highlight of the Q4, which has gone by. So as far as the topline is concerned we have grown by 31% and we have two consecutive quarters we have crossed Rs.200 Crores, Rs.207 Crores is standalone, at a consolidated

*Morepen Laboratories Limited  
May 08, 2019*

basis it is Rs.220 Crores, so 31% on a standalone basis and 28% on consolidated basis, so in spite of all the struggle and shortage of raw material, which we are going through from China, but we have been able to maintain the numbers, so that is good and within the revenue increase, the major increase is coming from exports. Exports have gone up by 51%, within exports it is primarily API, so API exports have gone by 51% in this quarter and some products particularly montelukast has more than doubled it is 114% in the API.

Domestic sector has gone up by 13% and within domestic loratadine sale has gone up again more than 100%. Overall, revenues of the API have grown by 34% again and major growth is coming from the new molecules wherein we have clocked around Rs.10 Crores new molecules as you would understand these are the molecules which are I would say with great effort of R&D the newly launched product where we have the high margins and these are our growth drivers for the next years. The new molecules have done well. BP monitors have scored 61% growth, nebulizers have gone up by 406% in diagnostic sector. Of course overall diagnostic devices have gone by 12% for the quarter. Formulation also have gone up by 30%, so there is an overall increase all around and when it comes through the EBITDA number, so 45% increase in EBITDA as against 31% increase in the topline, so at EBITDA level also there is a better or I would say improvement as compared to the last quarters. So final net profit is showing a growth of 125% on standalone basis and 54% on the consolidated basis, which includes our subsidiary, so against Rs.4.11 Crores profit last year' quarter for same period we have Rs.9.22 Crores this year' quarter on standalone basis.

*Morepen Laboratories Limited  
May 08, 2019*

On consolidated basis, it is Rs.10.49 Crores and the good point is that after all the efforts of giving you a small nominal profit, this is a small thing. The major point is that for the year as a whole, the whole effort was to pay for the debts and clear all the debts and I am here to officially say that your company has now become debt- free. We have paid all the debts as per the CDR. We had a CDR back in 2006. It started in 2004, 2005 and in 2006 we had the final numbers. The total debt of the company was around Rs.750 Crores and as we stand today all the debt has been settled, paid, cleared and as on March 31, 2019, we have no outstanding of any term loan, working capital loan, everything has been cleared in the books of accounts and in the last three years, we have paid around Rs.78 Crores to the banks, of course from the cash flows. No extra borrowings have been done, no fresh loans have been raised. There is no substitution that to pay to one bank we borrowed it is all from the incomes and from the generation and that is where our company had been silently working to clear the debt first, so had the Rs.78 Crores been utilized for working capital the company would have grown in numbers, but we would still be sitting on a stack of debt, so as a conservative company, we decided that okay we can always grow, but it is better to clear the banks first because banks have supported us for so long.

It is our time to support the banks now and with support of all the lenders, we are now very comfortable and like I said, we paid Rs.78 Crores during last three years, so every year we have Rs. 70 Crores to Rs. 80 Crores EBITDA in the coming years, so that support will be available to the company for future growth and whatever is our growth agenda we will share as we go by, but primarily we will be able to spend more and more on the R&D, we will be able to spend on the capex and of course on the working capital, so that we can balance out whatever is happening around and we can

*Morepen Laboratories Limited  
May 08, 2019*

see that where the company has to grow in the next five year, so now we have I would say little free hand to decide on the growth as compared to last few years we have been conservative and we always wanted to focus on first clearing the debt. That is the broad view, if we go now to the segment-wise growth, so as I told there is an overall growth of all sides, on API, on home diagnostics, on finished dosage and just to let you know on an annual basis we have grown by 27%, Rs.610 Crores last year, it is Rs.772 Crores this year on a consolidated basis. So there is a marked improvement in the growth, in the topline there is a marked improvement in the segment wise also. Now, coming specifically to the API, as I told that APIs have grown by 34% within which exports have grown 51%, montelukast doubled, rosuvastatin doubled, loratadine doubled three products have doubled as compared to the previous quarter. Intermediate sales have also gone up by 13% and new molecules have almost grown more than two times and that is a good news because we have started investing in R&D and whatever efforts we have been doing in the past that is resulting and the good news is that in API, our bulk drugs business there have been a lot of shortages of raw material because of restrictions of import from China and they have lot of environment issue and of course environment issues may be there in India at a later stage, but as on date China is going through that.

Many plants in China had been closed they have been asked to move from one place to another and we hear there was some blast in some chemicals plant last month because of which again, there is a shortage coming up, but all said and done in spite of all the shortages, our plant team has been able to cope up with the production even though at a higher cost, but we have been able to service all our customers, we have been able to fulfill all the orders although at a higher price, but we have been able to retain all the customers

*Morepen Laboratories Limited  
May 08, 2019*

and good point is that in spite of the shortages, we have been able to maintain customers, but yes, while we are doing so, the prices also have increased. We have not got the full benefit of increase in raw material prices. So we do have some losing proposition somewhere. There is a delta between raw material shortage, raw material increase and finished good increase, but yes, over a period next few quarters we will be able to stabilize the profit margins. That is on the API side.

Coming to our next business, which is our home diagnostic, which is our second star division wherein we have started the many factories for blood glucose monitors in our Baddi Facility, so glucose monitors have been doing very well, we have gained 35% in the diagnostic sector total, but glucose monitors have grown by 43% in the year as a whole, but for the quarter, this quarter was primarily the star was glucose monitor, but it was BP monitor, which have grown by 61% and nebulizers because of heavy winters all of you know about situation at north there was heavy winter this time and nebulizers have grown by 406%, but division as a whole we are the leaders in the glucose market in the country. We have sold more than 285 million strips or tests as you can say and we have installed base of 2.35 million actual uses who are actually using our glucose monitor, who use our strips day in day out. So we keep investing in the meters and as we invested in the meters, we sell the strips, so it is a very close business once the customer buys our meter he has buy our strips, so there is a lot of increase in the number of strips we have sold.

The number of strips sold during the current year is 52% higher than the previous year. Coming to the finished dosage, which is our third segment, so for this quarter we have grown by 30%, which is very, very good as

*Morepen Laboratories Limited  
May 08, 2019*

compared to the previous quarters, within this branded business have grown by 20% and generic business have grown by 44%. So there is an overall increase of 30%. In the year, where we are also doing a contract manufacturing for our OTC division and for other division and for the third parties also, the contract manufacturing also during the year as a whole has increased by 51% that has also a substantial increase so these I would say the three main categories we have APIs, we have diagnostics and we have the finished dosages and overall, everything has gone very well. EBITDA like I told 45% and there was 125% increase in the profit and sharing with you the actual numbers as we go that we have paid Rs.78 Crores of the debt and the last payment of the loans had been cleared in the March of this year and we are a debt-free company and that is all I would not bore you with you more numbers. As our growth strategy, I would say that we are clear that as we go forward we can invest more and more on R&D and we are working on a big range of anti-diabetic products, which are already there in the market, we have a big range gliptins and gliflozins, which are the new generation antibiotics and of course there are lot of filings happening for the market and happy to share again, that we have got two US FDA approvals last year and we have filed three DMFs in USA, we have filed three DMFs in China, then Taiwan, Korea, one CP in Europe, so all around we are getting more products registered.

The more and more product get registration the more and more high-value drugs we are able to sell to them and our other point taking a clue from what is happening at China front, I told you that there was shortage of raw material. We are investing in our capacities and our backward integration so that over a period of next three to five years we should be able to reduce our dependence on China at least by 50%. If we can make those intermediates

*Morepen Laboratories Limited  
May 08, 2019*

on our own, so we can reduce our dependence on China one and we can save some dollars and whatever we should be a net exporter as in today also we are a net exporter, but we still share lot of currency through import from China with the international market being a bit choppy and US market putting sanctions on China, so we are trying to say how much vendors we can have, how much less dependence we can have on China. That is a broad thing and one bought in developments for all the shareholder is that there was an old case company regarding FDRs, so we have already discharged our liability fully and people have been given share and people are happy that no company is spending, so there was a team by the Union of India for which we have put up our presentation and our representations to the affiliated party. So affiliated party has heard us and the order is out, so may be at any time this month or next month, so the order will be there so that is one good news, which we are waiting for any time. Other than this, we are open to the questions and overall congratulation to all the shareholders and all the people at large who are holding our stock, so that in great performance we seek a modest support every time so that we can grow together. Thank you very much guys, now to hear your questions.

**Moderator:** Thank you very much, Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Nilesh Karani from Magnum Stock Broking. Please go ahead.

**Nilesh Karani:** So, just to understand the whole scenario like one is our diagnostic, APIs and contract manufactures, so these are three verticals, so now glucometer what you have spoke about was around 40% higher correct this year, so just to understand, like coming years also we will grow at the same rate or there will be some uptake or down?

*Morepen Laboratories Limited  
May 08, 2019*

- Sushil Suri:** Glucose monitor actually we will be growing at the same rate, within glucometers the gap is that okay how many meter we install and how many strips we are able to sell, the profit and running business I would say annual growth is in terms of strips, so the more meter we install that all depends on our capability to invest in the market, so if we are able to place more and more meter in the market more and more people will use it and we will be able to sell more and more strips.
- Nilesh Karani:** My question was like whether the rate would be same like our run rate would be the same of like 40% increase year-on-year or what like it would be little bit?
- Sushil Suri:** Same range that is 30% to 35% because of the huge market we had not captured even 0.1% in the market if you take India as a whole, but in case we talk country as a whole and approachable market and reachable market we are on 8% to 10% in the market.
- Nilesh Karani:** Sir, regarding API, basically if you get all these DMFs are right in place we could see our API growing by more than 40% to 50%?
- Sushil Suri:** APIs typically have been growing in the same range, but I would say again same 30% to 35% is that what can still bet, but for further growth we would certainly had to focus on some finished dosages also because most of the pharma companies they have a large base of finished dosage and small base of API, but as a strategy we have been focusing on API as a whole, but when we do more capex and we keep on adding APIs, same API cannot grow more. For example, montelukast if we say okay we are okay we are already in the Rs.142 Crores so I cannot see montelukast will become 500

*Morepen Laboratories Limited  
May 08, 2019*

Crores, so montelukast in peak Rs. 200 Crores, so certainly we have to keep on adding new molecules.

**Nilesh Karani:** Sir, this capex would be internally generated or from time to time it will come to the markets?

**Sushil Suri:** So far there is no strategy because we have cash left, but in case if there is any big plant we have a new independent full plant maybe say Rs.100 Crores to Rs.200 Crores at that stage you may think, but I would say nominal capex since you already have a huge parcel of land you do not have to do any Greenfield project, but for the time being there is nothing on the table so we would like to use our internal resources only again being conservative I would say.

**Nilesh Karani:** Thank you so much. I will just come back if I have any question.

**Moderator:** Thank you. The next question is from the line of Kavita Thomas from First Global. Please go ahead.

**Kavita Thomas:** Good evening Sir. I just had a couple of questions, Sir, could you just first let me know what were the OTC sales in the Q4 compared to Rs.14 Crores revenue reported in the Q3?

**Sushil Suri:** OTC sale in the Q4, Dr. Morepen as a brand we were Rs.27 Crores to Rs.90 Crores, but it includes diagnostic, formulation and everything else, but pure OTC is from Rs.14.34 Crores to Rs.13.58 Crores, so 5% dip in the OTC.

**Kavita Thomas:** Quarter-on-quarter?

*Morepen Laboratories Limited  
May 08, 2019*

**Sushil Suri:** That is in the subsidiaries, so it is not part of the standalone, but it is part of the consolidated.

**Kavita Thomas:** Nextly on this diagnostic devices revenues as I see in the Q4, we have reported revenues of around Rs.28 Crores as against Rs.42 Crores last quarter, so basically since the glucometers and all these products have done still well, so why is this fall and sequentially there is a fall in revenues?

**Sushil Suri:** For the quarter, we have grown by 12% (approx.) from 24.72 to 27.77. This quarter there is less investment on the glucometers. The glucometers from Rs.17 Crores we have come to Rs.14.47 Crores, so there is a drop of 13%. Basically like I told that it is an investment, so in this quarter we have not invested in the meters and naturally we have limited cash flows and the focus were to reduce the debt so we have focused more on the BP monitors and on the nebulizers because of the season. In this current quarter again the glucomonitors are coming back.

**Kavita Thomas:** Will it come back to the earlier run rate of around Rs.34 Crores to Rs.35 Crores?

**Sushil Suri:** 5% yes. 30% to 35% per annum of course as year as a whole the glucomonitors have grown by 43%. The glucomonitor standalone sale is Rs.93 Crores. It is a large product.

**Kavita Thomas:** Nextly on these EBITDA margins as you had mentioned there are raw material supply constraints basically, it is not as I think most of the players who are taking from China are facing this problem, so in spite that our EBITDA margins if we see on a sequential basis has shown a good improvement particularly there is a reduction in raw material cost as a

*Morepen Laboratories Limited  
May 08, 2019*

percentage of sales, so basically how has this come through? Is it because formulation sales picked up or how is it?

**Sushil Suri:**

I would say that this is a mix of everything if we see it together, but company as a whole, there is a 5% increase in the raw material cost. Of course in API the raw material cost has gone up higher and in APIs the raw material cost has gone up by 10% to 15%, but that is what I was telling that we have been able to pass on that cost increase to the customers and we have been able to get an increase in the finished good prices also. It happens that suddenly the prices go up and you have taken that, so the product is already in the market, but since there was a shortage of the material and no product in the market, there was no product in our house so if they are buying costly, I will sell costly. Anytime it happens that you are already in the market, your market is flooded and the prices increase what do you do. Because we were clear that okay whatever is inventory in my hand you will get it at the old price, but if I am buying costly you have to buy costly, but as you said that it is for the industry as a whole. There was some resistance for some months I would say, but slowly people knew that okay if they want material they have to buy. They have to buy at a good price.

**Kavita Thomas:**

But do you feel the situation improving or the constraints are still there because the problem in China continue?

**Sushil Suri:**

The problem in China continues, but as far as the prices are concerned now the people are realizing that if we have to buy this product, if we have to stay on this product, the prices have to go up and it will impact our raw material profit margins and the formulation. The formulation industry is also resisting, but ultimately I would say it will ultimately go to the consumer or the trade. China is selling cheap generic drugs because they were buying

*Morepen Laboratories Limited  
May 08, 2019*

cheap APIs. Ultimately the consumer was getting benefit, it is actually the whole chain.

**Kavita Thomas:** Sir are there not domestic suppliers for these raw materials?

**Sushil Suri:** I would say there were, but because of the China supplying things their own price, the people has substituted, but ultimately China is also raising the price. For example, if you are buying something for \$100 and now it is \$180 that \$180 I do not need to import from China. At \$180, I can get from India also. We had switched to China because India was not competing, so it is happening now, wherein guys in Hyderabad they have restarted their production because now they say if you are already buying at \$180 so we can also buy you and say \$190.

**Kavita Thomas:** Are we looking out for such options where we could outsource form India itself?

**Sushil Suri:** We have already started and that is why we have been able to maintain our supplies. We have been able to maintain. We have to do on our own, which are high tech, which are some common things. We have already approved vendors because we are FDA approved, so we need approved vendors. When we have some approved vendors, we are switching back to them or at least we are saying that okay how can we help each other, but long run if we say from a country to country perspective, we are always seeing that okay we need to have less dependence on China and be more competitive that is what our government also wants, but unfortunately that is the way China. Everybody had gone to China, so now I am sure we are coming back.

*Morepen Laboratories Limited  
May 08, 2019*

**Kavita Thomas:** Next I had this question on the formulation business where there has been a very strong growth witnessed in this particular quarter and as you mentioned it is driven primarily by generics a combination of generics and prescription drugs, but more generic?

**Sushil Suri:** That is right.

**Kavita Thomas:** So how has this if I see Rs.35 Crores to Rs.36 Crores was our average quarterly revenue while in this quarter it is particularly around Rs.49 Crores to Rs.50 Crores, so what has actually brought about the strong growth in formulation sales?

**Sushil Suri:** I would say there are two levels one of course is the contract manufacturing. Last year contract manufacturing was almost flat. So this year it has grown by 51% year as a whole, but on the generic business primarily last year there was a lot of issues. Of course the previous beginning was this GST thing in July Quarter there were lot of issues, so now at least we have a clean year and thankfully no new notifications have come up, so there is actual business happening. So these two months' business is being disturbed because of elections, but till March everything has gone smoothly, so we are comfortable. This is the base case scenario now.

**Kavita Thomas:** Sir just lastly one question on tax rates since we have enjoyed a lot of tax benefits because of accumulated losses in the past, the overall tax rate in FY2019 was around 1.2%, so how do we see the tax rates moving forward like in FY2020 we will be reporting, the profits will be there to a large extent? There will be a significant jump in profits, so what is the kind of tax rates we should assume now going forward?

*Morepen Laboratories Limited  
May 08, 2019*

- Sushil Suri:** In the next two to three years as we understand from the numbers the next two to three years we still have some carry forward losses and we will be subjected only to the MAT, which is around 21%. So on an average I would say Rs.8 Crores to Rs.10 Crores tax would be there every year.
- Kavita Thomas:** 8% to 10%. Any capex we are planning since we have a lot of DMF filings and all carried out? Apart from the filings any other capex planned for this coming year?
- Sushil Suri:** Capex is planned and this is only out of internal cash accruals and since we have certain surpluses coming, so we are still bit slow, so we have to do rationing of increase in working capital, increase in capex, investing in R&D, investing in QC. Many years we have struggled hard to maintain the balance, so now we will certainly have a capex, but there is no major plan as such.
- Kavita Thomas:** Any number you could provide with for what would be for FY19-20?
- Sushil Suri:** May be between Rs.15 Crores to Rs.20 Crores or maybe up to Rs.20 Crores to Rs.25 Crores.
- Kavita Thomas:** Okay Sir. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Chirag Patel from Bhavesh Investments. Please go ahead.
- Chirag Patel:** Congratulations for the good set of numbers. Sir we have a few questions regarding your company. The first one is on what is the proportionate of raw material cost to topline in the next year?

*Morepen Laboratories Limited  
May 08, 2019*

**Sushil Suri:** It will be in the same line as this year. If you want exact percentage, I can share with you. With the increase in profitability and with increase in cost of the raw materials so year as a whole it is 65%, 64.7%.

**Chirag Patel:** What will be in the next year any guidance?

**Sushil Suri:** I would say it is in the same tune assuming that there is no further increase in the raw material prices from China may be 1% or 2% here and there unless there is a major change.

**Chirag Patel:** The second question I want to understand the scenario with respect to API in Chinese market or in global market that still we will be facing raw material constraints from China with respect to importing into India or in other market as well because I have been in many Pharma companies conference call and analyst meet and I am getting a sense like in China our Indian Pharma companies are facing trouble in getting raw materials since the last six months or probably one year, so has that issue resolved or will it continue for a while also?

**Sushil Suri:** I would say it is anybody's guess that how would it go, but taking a commercial view basically there are two things. One is a technical thing that because of environment issues, the Chinese government of course they have got their serious issues so they are trying to close some factories. They have ordered strict orders to shut the plants so there is a genuine shortage. Second is the commercial point that is in natural economics that there is a demand and supply. In case one plant shut down and five people are buying from them so all those five people go to the market and ask another five people. Can I buy from you? Can I buy? It is like an artificial demand, so this increases the price, so basically this is a cat and mice race, which has

*Morepen Laboratories Limited*  
*May 08, 2019*

happened and prices have shot up by 30% to 40%, which again is not sustainable, so I hope that in the coming time these things will settle slowly, but as we see last month there was a blast in some factory and those two to three products, which those bad companies were making again the prices have shot up, so people are using that as a tactic, but I would say it is a temporary phenomenon. Ultimately Chinese also have to do business. We also have to do business. Somewhere the things will marginalize, but frankly speaking today we are in a fluid state, but thankfully Morepen as a company we have backward integration and we make most of the things from starting point so we have 10 stages, 12 stages and in some products we have been doing 24 stages so that is why we were least impacted, but in case we feel that things would keep on hurting again and again so certainly we will find ways to do in-house things.

**Chirag Patel:** Is it right to understand our Indian API industries like at a golden point right now?

**Sushil Suri:** I would say it is a challenging point. Every challenge has some opportunities, so this is a challenge for the companies to tighten their belts. It is a challenge for the companies to fit into the right frame. If we can survive in this, I would say tough time we can survive longer and in case there are small traders who are just doing one or two reactions or who are just having one thing from China and something from else and just trying to do they will not survive. It is more of I would say challenging and cleaning exercise and more positive point from China perspective is that as we open up in China and there are environmental issues and other things, we have realized that China needs API also, which is also disturbed and their regularity authorities are also becoming strict because of whatever reason

*Morepen Laboratories Limited  
May 08, 2019*

because of US another reason, so there is a strict guideline coming up and we have started exporting to China. Our export to China also has gone up and China has been giving very good price because they want all their standards to be met, so that is a dual opportunity coming up, so may be in other three to five years China may be our largest importer. The biggest export market may be China and not US.

**Chirag Patel:** What time horizon in terms of like to reach that level for our Indian Pharma Industry it will take I mean three years or four years?

**Sushil Suri:** I would say three to five years it is fair because it really depends because Indian industry is geared up for all these things and we already have example the US FDA scales we know the best of the documentation. We know the best of guidelines so China does not have that available with them so if we can get US FDA approved product approvals so getting China approval is least of the worry because they do not have plant inspections. They just need good documentation, so we have the documentation. We already have filed four DMFs in China. Three have already been approved. Loratadine, Desloratadine and Fexofenadine have been approved.

**Chirag Patel:** Since the last one year what I am observing the US FDA intervention comparatively lower if you compare it before three years what it was and right now the company is easily permit and is it true or I am missing something?

**Sushil Suri:** Can you reframe the question please.

**Chirag Patel:** If you look at the last one year The US FDA approvals and the inspection outcome and all, it is more favor into Indian Pharma industry overall I mean

*Morepen Laboratories Limited  
May 08, 2019*

the company is not facing the issues, which they were facing before or one year or say before three years even getting permission and approval?

**Sushil Suri:**

I would say the FDA is getting more and more stricter everyday and we have been fortunate that we did not get any 483 in both approvals and we are proud to say that we have a good team and good system, but on the other hand since we are an API company so there may be more I would say problems and challenges in the finished dosage, so finished dosage people had lot of issues because they came from US market or some other sources, but from the FDA perspective there is no relaxation and to be honest I do not think they are going to relax further because they are very clear that they want quality products and our Indian friends have always been trying to sell cheap. I think the world the way we are looking at it is the world in going not have this cheap product any more. If you want quality everybody has to pay that is what is happening. FDA is going be stricter more and more and prices will increase.

**Chirag Patel:**

Any topline guidance on consolidated bills for FY2020 or FY2021?

**Sushil Suri:**

Of course I would not be able to give the numbers, but I would say we hope to continue and maintain the stream. We will continue the growth path we are on.

**Chirag Patel:**

Any range like let us say 20% and 25% kind of?

**Sushil Suri:**

I would say 15% to 20% is what we have been doing every time so this year was certainly very good. We have 28% so anywhere between 15% to 20% is what we are expecting.

*Morepen Laboratories Limited  
May 08, 2019*

**Chirag Patel:** Apart from China for exporting any other market you are targeting in geography like let us say European Union or...?

**Sushil Suri:** We have already done filing in Europe. We do that common Europe Pharmacopeia documentation and we have done US and we have done Taiwan, Korea, and they have listed Korean, authorities have approved on our plant also, so I would say it is going all over the place so the only point is that some places it takes place and Greece and Poland for example we have stated filing and they want finish dosage dossiers so they will take some time, but we are trying to see first the low hanging fruits and particularly the API. Wherever we need finished dosages certainly there is where we need some more time. We have to stretch our muscles more to get into the finished dosage in the international business.

**Chirag Patel:** Certainly our company is more focusing on finished dosages business right?

**Sushil Suri:** As on today we are API focused, but finished dosages are our target for the international market. Domestic market we are doing finished dosages, but for the international market we are not into finished dosage business and we more focused on API. As the time goes may be next three to five years we will have to get into that market or not get into we will take a call as we go.

**Chirag Patel:** Sir you know our Indian companies doing well on contracts manufacturing front particularly so is there any specific plan to expand our capacity contract manufacturing business particularly or...?

**Sushil Suri:** The contract manufacturing we are doing is only for the finished dosage and that is also for the domestic market, but we do not have any specific plan

*Morepen Laboratories Limited*  
*May 08, 2019*

again for that. Specifically, our focus areas for the next two years are going to be API and diagnostic devices.

**Chirag Patel:** API and sorry?

**Sushil Suri:** Diagnostic devices.

**Chirag Patel:** Diagnostic devices, okay and especially we are doing tremendously well in diagnostic devices business so are we facing any competition from any other player or Chinese product particularly in this segment, any scenario or situation on this?

**Sushil Suri:** The diagnostic devices are a very unique position that we are positioned in our both products BP and Gluco. Both places we are positioned against multinationals. There is Johnson and Johnson. There is Rosh and Omron. So these are large players and certainly we are proud to say that we are number two to them and at some places and some months and some quarters we are number one, so we have a good position there in both the markets. Both the products with Gluco also and this also, but from a competition point of view I would say that we are the leaders in the market. We are the only company in the country who is doing manufacturing in India for gluco monitor. Now we are starting BP also and thermometers also and as you might be knowing the laws in India are getting stricter and stricter. Diagnostic devices earlier were not regulated by any authorities, so now these have come under new licenses medical devices new rules under which these devices are being treated as drugs, so more and more competition if whatever small manufacture they will not be able to afford the new guidelines and we are appreciating that if the government puts strict guidelines, so unorganized players will have to run away. We will be able to comply and we are

*Morepen Laboratories Limited  
May 08, 2019*

working hard from January 1, 2020 new guidelines are coming in place and we are working towards complying with those guidelines.

**Chirag Patel:** We are seeing the kind of import duty for getting raw materials from other countries like say China or another other specific country or any duty hike or any such relating to taxation?

**Sushil Suri:** We are paying whatever the custom duties are required. Custom duties and the GST, so of course now everything has come together IGST and other things. So for some things we get input credit and certain things we do not get as per the norms. I do not have the exact numbers with me now.

**Chirag Patel:** What will be the R&D as a percentage of revenue for next year? R&D as a percentage of revenue and normally Pharma companies giving this kind of guidance?

**Sushil Suri:** We do not have the budget in front of us but normally you are right that as a percent of this thing, but we will be able to come back to you on this. I do not have the numbers with me. It is 1% to 2%. It is not very high so far. Of course we are going for a complete new work on R&D institute, but that is a big project. It will come in the way when you close that but as of today routine R&D, which we already expense out so that is between 1% and 2%.

**Chirag Patel:** Sir in your investor presentation you told that we paid all the tax obligation in FY2019, but on consolidated balance sheet as on March 31 2019 and there is some figure on borrowing side so that is paid after March 31, 2019?

**Sushil Suri:** Borrowings, which were the bank borrowings they have been cleared, but in borrowing side we have small car loans or maybe we have the overdraft facility against our FD. If you see we have term deposits of some Rs.22

*Morepen Laboratories Limited*  
*May 08, 2019*

Crores odd, so naturally as a business we still need open LCs. We need to give guarantees so we place an FDR in the bank and against that we get facilities, so it is not a term loan or working capital loan, so you will certainly find this under head of borrowings *i.e.*, Rs.6 Crores to Rs.7 Crores.

**Moderator:** Thank you. The next question is from the line of Ankit Goel an Individual Investor. Please go ahead. Ankit Goel your line is unmuted please unmute the line from your side and go ahead. As there is no we take the next question from the line of Tarun Kumar an Individual Investor

**Tarun Kumar:** First of all, I would like to congratulate the company on the phenomenal growth for this quarter and achieving a tag of debt-free company. I have a few questions. I just wanted to ask there was some agreement with Belgium for probiotics drugs? Is there any update or progress on that probiotic drug or do we see any revenues coming from this drug in the future?

**Sushil Suri:** This Vésale Pharma is one company we had an agreement for import of probiotic products in India and that is a very large company to have the best range of probiotics so it took a lot of time for the testing and making a product, which is specialized for Indian markets especially the Indian condition, so the trial shipments have started coming rather have been dispatched. So in the next quarter we will have some shipments coming up and within this year we will have a good distribution starting. So you will start seeing results may be the last quarter and maybe I would say a good growth in the next year, but that is on contract. The project took little more time that we anticipated because of the temperature and weather conditions in India so they had to do a special product and there was some variation of duties because of GST and other things. Finally, it has settled. Already the imports are on the way.

*Morepen Laboratories Limited  
May 08, 2019*

**Tarun Kumar:** Thanks and any plans or any merger or acquisition or new investments coming in the company?

**Sushil Suri:** Nothing on the card. Whatever comes we will certainly come back to you.

**Tarun Kumar:** Like I am a retail investor and I have been investor in this company for a long time. So the company is debt free company can I expect any dividend from the company in the next year?

**Sushil Suri:** Thank you Tarun for holding the shares for so long and I appreciate your patience, but as we see our records, the company does have some carry forward losses for the next two to three years, so we will be able to pay the dividend once our carry forward losses are cleared, so we will be seeking your patience for another two to three years. I do not have the exact time, but at least for another two years we cannot pay we will see how the third year plans in. Thank you.

**Tarun Kumar:** One last clarification as I am based in Delhi, I see one Dr. Morepen Wellness Centre in Delhi, is there any plant open more of kind of centers to boost the revenue?

**Sushil Suri:** Our service segment that is nation on wellness so we have opened one centre, but unfortunately because of that the ceiling thing in that market so that centre has been shut now so we are waiting for it to open and then see what is the growth there, but yes there is a plan to open more centers all over India.

**Tarun Kumar:** Thank you.

**Moderator:** Thank you. The next question is from the line of Saurabh Botra from Retail Investor. Please go ahead.

**Saurabh Botra:** Congratulations Mr. Suri for your debt-free company. The first question is what is your capex plan in that API for FY2019 and FY2020?

**Sushil Suri:** For FY2019 and FY2020, the capex will be between Rs.15 Crores to Rs.20 Crores, which is again funded from the cash accruals only, so we do not have any major capex plan, but yes whatever capex we can absorb within from internal accruals that is immediate, but going forward we may have to have some bigger strategies, which is not on the plans as of today.

**Saurabh Botra:** What is the CAGR for the API businesses FY2019 and FY2020, can you give the guidance?

**Sushil Suri:** 15% is there for API business.

**Saurabh Botra:** What is the product pipeline?

**Sushil Suri:** Product pipeline as I shared earlier that we have a full range of anti-diabetic coming, which is a new generation anti-diabetic and if you pick diabetic range so there was Metformin earlier and then glitazones and now pyridines and now the recent thing is either the gliflozin or the gliptins, so we have four gliptins Sitagliptin, Linagliptin and Dapagliflozin so these are I would say the new range anti-diabetics. So I not want to bore you with the names. Diabetic is the focus and for the next two to three years where the pattern expires for the next 7 to 10 years, but going forward the company certainly continues to focus on cardiac and antidepressant so we already have Atorvastatin and Rosuvastatin and we have Candesartan, so these are all cardiac, but in the cardiac also we coming with two to three good products,

*Morepen Laboratories Limited  
May 08, 2019*

which are anticoagulant and then antidepressant is the next, which is a major category. This basically is a lifelong disease which are more of continuous treatment.

**Saurabh Botra:** Last year you have got the two US FDA bulk approval, Montelukast and Atorvastatin. Have your shipment has been started in the Atorvastatin?

**Sushil Suri:** Atorvastatin only the trial shipment has gone and because the Atorvastatin the major customer is Novartis, so Novartis we hear that they have transferred the ANDA to some other company and the company is being sold or something. We do not have clarity, so the shipment may not start for the next six months, but Montelukast shipments have started.

**Saurabh Botra:** What will be the time taken for the Atorvastatin, can you give the time?

**Sushil Suri:** As I told we do not know what is happening on the company side because endorser is undergoing a change so the new buyer will come who will buy that ANDA and who will do the shipments, so we do not have a clarity as such, but otherwise Atorvastatin is doing a good growth 28% to 30% growth is happening.

**Saurabh Botra:** Will there be any impact in FY2019 and FY2020 because of this?

**Sushil Suri:** We are already growing. We have not accounted for export of US FDA things in our target so whenever that would happen that would happen, so that will come.

**Saurabh Botra:** My last two questions are on how do you see in the API in the coming year as a Morepen Limited any challenges are there in the API businesses in terms of regulatory issues?

*Morepen Laboratories Limited  
May 08, 2019*

**Sushil Suri:** From a regulatory point of view we do not have. Our plants are both fully inspected and approved and certainly anybody can come anytime and inspect, but that is always an open challenge, but commercial challenge is because of only the Chinese raw materials, which we are trying to be self-dependent. We have been able to have a good year. We have not allowed our short supplies to affect our customers, so we have been able to service all our customers in spite of the short supplies, but may be this challenge still remains.

**Saurabh Botra:** There are last two questions. In India what is your market share of the API businesses in India and as well as in the other countries? Can you give me the geography-wise market share?

**Sushil Suri:** It is a generic question because market share really depends on each product. Every product has its own market. For example, for Loratadine we may be having 90% market share in the generic market in US. We may be just 2% in Europe. I may be 10% in Korea, but in general we are leaders in all the products. We are number one in Loratadine. We are number one in Monte. We are number two or three in the Atorvastatin.

**Saurabh Botra:** Is there any supplies to the Indian Pharma company also this molecules?

**Sushil Suri:** Yes we supply to the Indian companies also, but certainly there is always a price lag because in case we are exporting at a higher price Indian companies certainly expect at a lower price, but certain Indian companies want high-grade products so with are able to do that, but for a product like Loratadine, which is naturally a very costly product, but Indian customers want it at cheap price so we do have with a separate root for the domestic market, but in general we do have domestic supplies also. The export and

domestic ratio is almost the same, around 45% to 50% is export and 45% to 50% is domestic.

**Saurabh Botra:** My last question is on the Pharma Company how do you see as a Pharma company which are facing the regulatory issue from some of the US FDA approval so how are you seeing the Pharma Company? For the last four to five years the Pharma Company was facing lot of regulatory issues? The last year the US FDA has given that lot of drug approvals. How do you see the Pharma Company to turn around for the next five to six years?

**Sushil Suri:** I would say that you rightly word as Pharma. These have been regulatory issues. I will not say these are issues. These are the challenges and I would rather say these are opportunities so the regulator wants us to perform a certain way if we are able to adapt our system according to them we are winners. If we are not able to fit in to their system probably we will be dropped. I think that is what is happening, so most of the large companies they will be able to adapt and the people who do not have robust systems or do not have quality standard or quality parameters, which our regulator wants, so they will be certainly out, so I would say it is not an issue. It is a challenge and as a company and as a Pharma player, I would say that we have to do it and that is the only game of survival. Ultimately we are dealing with human beings and it is health issue so we have to do that and more and more automation is happening. More and more investment is happening so in India being just giving a genetic comment being a poor country, we do not have high capex and we do not invest too much on the instrumentation and automation, so certainly we have to work hard to meet those standards. As and when we keep on investing and we do the automation and more and

*Morepen Laboratories Limited  
May 08, 2019*

more transparency so we will be able to satisfy the regulators. Still we are ready to improve. Naturally nobody is perfect.

**Saurabh Botra:** The last question is on the OTC businesses. Has the OTC business's revenue come down on a year-to-year basis, is there any pressure on the raw material margin, can you explain?

**Sushil Suri:** There is nothing specific. In OTC in the last quarter we had more of a cleaning exercise because in the December quarter there was a lot of growth happening on Burnol and Lemolate and we could see that in the coming quarter because it was more of a secondary market sale versus primary market sale these marketing guys do their analysis so they could see that their primary is increasing, but secondary sale is not increasing, so they had to balance it out because ultimately the computer systems have those allowances that if secondary is not increasing they do not allow advertising on the primary, so this is only more of a technical thing, so nothing to do with the market. The market is doing very good. In OTC we have launched a special range of our in-house range of health products, which we are again under Dr Morepen umbrella so whether it is for the pain or it is for headache we have beautiful products. Head-X, and we have Pain-X, we have Pain-X balm, we have Pain-X spray. This summer we have launched Itch Guard, so we are working on a lot of range of products under Dr. Morepen umbrella, which will help us in more of our generic basket, so once we have the basket then naturally we will spend some more money on advertising and other things. For the time being we have been conservative because OTC needs a lot of investments.

*Morepen Laboratories Limited  
May 08, 2019*

**Saurabh Botra:** What is the FY2019-FY2020 you will explain in the advertising cost? Can you give the guidance on the advertising cost because you are on conservative part? You are not having some advertising cost?

**Sushil Suri:** I do not have ready numbers, but normally we spend between 5% to 10% of the sales, so I would not be able to give the numbers.

**Saurabh Botra:** Thanks very much Sir and congratulations for your good set of numbers and have a very good day.

**Moderator:** Thank you. The next question is from the line of Damodar Prasad Agarwal an Individual Investor. Please go ahead.

**Damodar Prasad A:** From debts of Rs.750 Crores to zero in the struggling 15 years shows your honest and exceptional leadership. I salute you. Now as a shareholder since the last 15 years I am holding the shares as alone shareholder now the happy days are coming so when should we expect bonuses and dividends that is my only question?

**Sushil Suri:** I am happy to say that since your holding for the last 15 years so then we are in the same basket, so I have to stick together and go together and I would say that like one of the other shareholder had asked about the dividend so I am sure as our next two years to two and a half years may be three years we will be able to write off all our carry forward losses, so at that stage we will be eligible to give bonus and to give the dividend also. I do not have any exact time lines in hands. Of course it all depends on how the shareholders approve everything, but certainly we have to wait for another two to three years I would say. Since we have all have waited together we will enjoy the fruit. I also want the bonus.

**Damodar Prasad A:** Thank you. I am very much optimistic Sir.

**Moderator:** Thank you. The next question is from the line of Chirag Patel from Bhavesh Investments. Please go ahead.

**Chirag Patel:** I have one question left so I just want to. In our home diagnostic business, is there any other product we are going to launch in the next few years or we continue with this product portfolio only?

**Sushil Suri:** In home diagnostics, we keep on launching new products, but certainly what we see on the screen is only the top two, three products, but certainly we have weighing scales, we have nebulizers, we have stethoscope, we have gluco monitor, last winter we had launched air purifiers, so certainly we do not bore you with a lot of numbers, but we always do 80:20 exercise so whatever products contribute to 80% of the revenue so we try to isolate, but there are always some small runners, some big runners, so some things are successful, some things are not successful and more important is that it is all on working capital gain so we can invest more on new things. We keep on investing. We keep on blocking the inventories, so always we go slow and see how the market is behaving and how much can we afford and like we shared earlier that we were not having any working capital limit and we do not have any extra banking. We were only dependent on repaying the loans so now we have working capital facility and we will be able to invest more. We will certainly have more opportunity to invest, so you will keep hearing good news.

**Chirag Patel:** Across India how many distributors or dealers we have for home diagnostic?

*Morepen Laboratories Limited  
May 08, 2019*

- Sushil Suri:** Around 3000 distributors. We have 2800 some distributors where we have direct billing from the company.
- Chirag Patel:** Are we dealing directly with chemist or through the distributor channel only?
- Sushil Suri:** Yes, distributors, but the direct billing we do not have a CFA system, so we do direct billing from the corporate office and then we have another 200 to 250 online retailers. In case you see just search Dr. Morepen on the Google so you will find 100 of online products. We are number one or number two sellers in Amazon and Flipkart.
- Chirag Patel:** Just 250 including this 200 or they are separate?
- Sushil Suri:** I think there will be some overlap so some people might have physical also on online, so mostly there is an overlap I would say because there may not be very few people who are doing only online because you need inventory and setup, but there may be some online also, we do not know. We give to these guys and whenever the product goes.
- Chirag Patel:** Are we going to increase the distributors or it will remain the same?
- Sushil Suri:** No we keep on adding because of the market. We always see our marketing team. They keep on analyzing which are the areas, which is doing better, which are the areas where instead of one distributor we should have two distributors and there are certain places we feel that okay last year we focus on say West this year we want to focus on East then we say okay may be we are weak in South, so this is an ongoing exercise and it is all deployment of resources, so whatever sources we can deploy so there is no dearth of business.

*Morepen Laboratories Limited  
May 08, 2019*

- Chirag Patel:** Hereon can we expect a rise in price on the products what we are selling right now?
- Sushil Suri:** In the API yes. In the finished dosages may be because of China factor, but devices certainly I do not see any rise because if we start producing in India it may be bit more cheaper.
- Chirag Patel:** What percentage can we see a hike in API?
- Sushil Suri:** In API depending on what comes from China, but last year the prices have gone up by 10% to 15% so may be if everything goes well there is another 5% to 10% increase in the raw material prices.
- Chirag Patel:** Sometimes what I observe that can you give discounts on this home diagnostics business on certain days, so is it cost to company or is it cost to the distributor?
- Sushil Suri:** The company is not involved in those things, so we have sold to the distributor if they can play on their margin and give discount to the customers that is their outlook, but sometimes we have some schemes coming on Amazon or Flipkart on some big sale days and those are directly coming from the company so actually there is a deal which we strike with them that if you sell say 10000 meters what will be the scheme, but there is no compromise on the profit there also, but it is volume.
- Chirag Patel:** Thank you.
- Moderator:** Thank you. The next question is from the line of Vivek Kumar, an Individual Investor. Please go ahead. As there is no response we take the

*Morepen Laboratories Limited*  
*May 08, 2019*

next question from the line of Saurabh Botra, a Retail Investor. Please go ahead.

**Saurabh Botra:** FD holder part when will be the outcome will be coming and the second one is on Belgium on the Vesale Pharma?

**Sushil Suri:** FD holder I told in my initial presentation that we have fully discharged the liability and we have placed before the honourable court our position that this is the case and the order has been reserved, we do not know when the order will come. Usually it takes two to three months, but I think it is more than already one month, so maybe any day we should expect.

**Saurabh Botra:** It is in the favor of the company or is in the favor of the FD holder can you throw the light?

**Sushil Suri:** I wish I was knowing it, we are all excited waiting about it, but as I told that since the liabilities have been discharged and the court has heard us and they have heard the Union of India also since there is no pending complaints, but we eagerly wait for the order of the court. Since the matter is subjudice I would like to say that let us all wait for it another one-month maximum two months.

**Saurabh Botra:** Thank you very much Sir.

**Moderator:** Thank you. The next question is from the line of Nilesh Karani from Magnum Stock Broking. Please go ahead.

**Nilesh Karani:** Sir just to understand our stake is almost 31% in the company 31.5% so are we going to increase our stake?

*Morepen Laboratories Limited  
May 08, 2019*

- Sushil Suri:** The promoter stake is between 33% to 35.%.
- Nilesh Karani:** Correct, but because of your conversion?
- Sushil Suri:** Yes, so certainly we would love to increase and we are already started discussing internally that how to do it, but certainly as I told that primarily the focus was on bringing the company up to a level, so whatever the guidelines are saying also we will explore the way that how can we can increase it. Certainly we want to increase.
- Nilesh Karani:** Thank you so much.
- Moderator:** Thank you. Ladies and gentlemen, as there are no further questions from the participants, I would now like to hand the conference over to the management for closing comments.
- Sushil Suri:** Thank you all the shareholders. Thank you all the analysts and thank you for all the support and I will say my concluding remark is that let us all grow together, keep working and we will always seek your guidance and comments and have a good day. Thank you very much Kirin Advisors also.
- Moderator:** Thank you very much Sir. Ladies and gentlemen, on behalf of Kirin Advisors that concludes this conference. Thank you for joining us. You may now disconnect your lines.