Date: 22nd November, 2023

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

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 17th November, 2023, please find enclosed herewith the transcripts of the Investor Conference Call held on Friday, 17th November, 2023, to discuss the financial and operational performance/Unaudited Financial Results of the Company for the second quarter and half-year ended 30th September, 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: 2023.11.22 16:38:50 +05'30'

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

Encl: As above

"Tarsons Products Limited
Q2FY24 Earnings Conference Call"
November 17, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 17th November 2023 will prevail.

MANAGEMENT: **MR. SANJIVE SEHGAL – CHAIRMAN AND MANAGING DIRECTOR – TARSONS PRODUCTS LIMITED**
MR. ROHAN SEHGAL – WHOLE TIME DIRECTOR – TARSONS PRODUCTS LIMITED
MR. SANTOSH AGARWAL – CHIEF FINANCIAL OFFICER AND COMPLIANCE OFFICER – TARSONS PRODUCTS LIMITED

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

Moderator: Ladies and gentlemen, good day, and welcome to Tarsons Products Limited Q2FY24 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 touch-tone 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, Zico, and good morning, everyone. On behalf of Ambit Capital, I welcome you all to the Q2FY24 Earnings Call for Tarsons Products. From the management team today, we have Mr. Rohan Sehgal, Whole-time Director; Mr. Santosh Agarwal, Chief Financial Officer; and Strategic Growth Advisors, Tarsons' IR Consultants.

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 morning, and a very warm welcome to everyone present on the Q2FY24 Earnings Conference Call for Tarsons Products Limited. Along with me today, I am joined by Mr. Sanjive Sehgal, Chairman and Managing Director; and Mr. Santosh Agarwal, Chief Financial Officer and Compliance Officer for Tarsons Products Limited; and SGA, our Investor Relation advisers.

We have updated our quarterly investor presentation on the stock exchanges and the Company's website. I hope you all had an opportunity to go through the same. Currently, the life science sector is facing a deceleration driven by factors like global geopolitical tensions, economic downturns and a slowdown in various life science activities. These issues have repercussions on funding, research initiatives, and market dynamics.

Additionally, the industry has grappled with excess inventory accumulation over the past four quarters, which is now gradually being addressed. Despite these challenges, we perceive them as temporary obstacles. As the industry undergoes a resurgence, we are optimistic about reaping rewards due to Tarsons' robust brand, diverse customer base and expansion into new product categories.

About the quarterly performance. Traditionally, the life science industry, particularly for Tarsons, has witnessed its strongest performance in Q4 after that followed in Q2. However, as previously mentioned, the industry has not fully recovered and uncertainties persist, impacting our revenue growth. In Q2FY24, our revenues reached INR66 crores, showcasing a growth of around 6% compared to the preceding quarter. Despite the overall industry experiencing negative growth, Tarsons has managed a 6% growth. With the industry poised for rebound, we anticipate securing even higher market share and further improving our performance.

Speaking on the EBITDA front, the reported EBITDA margin for Q2FY24 stood at 38.3%. This was impacted on account of lower revenue growth and GP margin leading to a negative operating leverage rate, increase in the cost on account of manpower and marketing expenses, which we believe are investments to fuel future growth opportunities. While this proactive strategy paves the way for future growth, it does result in a temporary increase in operational costs. Lastly, increased expenses on account of the upcoming facility, for which the revenues will start coming from next financial year. However, we anticipate that margins will improve once the industry begins to recover and our new facility begins operations.

On the capex front, firstly on Panchla. As you all know, Panchla is set to introduce cell culture and expand capacity for our existing product lines. The civil construction has been completed and our inaugural clean room is ready. While we await the arrival of certain machines, which are currently in transit, the initial production is projected to commence in Q3FY24. But additionally, the phased commercial production of cell culture and other products is anticipated to start in Q1FY25.

Also, in our Amta Plant, we are in the process of constructing a radiation plant and have formally signed a memorandum of understanding with the Board of Radiation & Isotope Technology for this purpose. This strategic move aims to reduce our dependence on a single source in West Bengal. Additionally, construction is underway for a central warehouse operation. This will enable us to attain efficiencies in our inventory management and our overall global operations.

I am pleased to provide you an update on the establishment of Tarsons Life Science PTE LTD, a wholly-owned subsidiary of Tarsons in Singapore. This subsidiary is dedicated to undertaking strategic investment initiatives aligned with Tarsons' core business. These initiatives include the acquisition of companies forming joint ventures, establishment of strategic partnerships and other business arrangements essential to Tarsons' overseas business objectives. This strategic move is a testament to our commitment to harnessing growth opportunities within the export market.

Our strategy has been to enter these markets by acquiring a brand which is already present in those markets, to act as a stepping stone or an entry point into that market and then grow and penetrate the market organically. These acquisitions can either be channel- or distribution-led companies or an existing client with limited presence, size and scale. In that context, while pursuing these opportunities, we acknowledge associated costs as integral to our strategy. We incurred a similar cost up to the tune of INR80 lakhs in Q2FY24, which partially impacted our margins. However, these costs represent investments needed to realize our expansion goals and enrich our business endeavours.

We are actively evaluating acquisition to strengthen our global footprint and expedite our journey towards accelerated growth. Before handing the call over to Santosh, in the future, our goal is to surpass industry growth by expanding our market share and enhancing the strength of our brand, Tarsons, through the introduction of new product categories from our upcoming facility. We are actively executing our strategy to establish a comprehensive presence in all our business segments of the life science industry, capturing substantial share of the Indian market and solidifying our footprint in the international overseas markets.

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

Santosh Agarwal: Good morning, everyone, and a very warm welcome to our Q2 FY '24 earnings call. On the revenue front, the earnings from operations for Q2 FY '24 stood at INR66 crores as compared to INR63 crores in Q1 FY '24. Revenue from operations for H1 FY '24 stood at INR129 crores as compared to INR140 crores in H1 FY '23. For Q2 FY '24, revenue from export stood at INR23 crores and domestic at INR43 crores.

For Q2 FY '24, export sales contributed around 35% and domestic sales contributed around 65%. At a gross profit level, our gross profit for Q2 FY '24 stood at INR50 crores as compared to INR47 crores in Q1 FY '24. Our gross profit for H1 FY '24 stood at INR97 crores as compared to INR109 crores in H1 FY '23.

Our GP margin for Q2 FY '24 stood at 75% approx. At the EBITDA level, our EBITDA for Q2 FY '24 stood at INR25 crores as against INR21 crores in Q1 FY '24. Our EBITDA for H1 FY '24 stood at INR47 crores as against INR64 crores in H1 FY '23. Our EBITDA margin for Q2 FY '24 stood at 38.3% approx. At a PAT level, profit after tax for Q2 FY '24 was INR13 crores with PAT margin of 19.3%. PAT for H1 FY '24 was INR22 crores with PAT margin of 17.4%.

I would like to highlight that despite the challenging environment, we have been able to maintain a healthy cash flow for our company with cash generated from operations standing at INR59 crores for H1 FY '24 as compared to INR47 crores in H1 FY '23, representing our ability to strengthen our working capital cycle.

With this, I would like to open the floor for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Jaiveer Shekhawat from Ambit Capital.

Jaiveer Shekhawat: My first question is to Mr. Sanjive Sehgal. So sir, over the last 2 years, we understand you have seen a lot of challenges, both macro and micro. So could you talk about micro and company level challenges that you've seen over the last 2 years and areas where you believe you could have done better? And also, how do you see the next 2 to 3 years evolve as those challenges subside?

Rohan Sehgal: Right. So this is Rohan here. I'll just answer it on his behalf. Basically, I think macro-level challenges are very well known. I think the post-COVID era has been very sluggish for the life science industry with demands not being up to the mark and inventory levels being at an all-time high.

And in terms of Company level challenges, I think the ability to be able to navigate through the COVID environment and being able to execute the plants and the various projects at Panchla, the project management with suppliers, navigating through problems of COVID and then the geopolitical problems in Europe have been quite challenging. So I think being able to get the projects ready and up to production through this COVID period or over the last 24 to 36 months have been very challenging as compared to the pre-COVID era.

Jaiveer Shekhawat: Sure. And also in terms of your new product lines, both PCR and cell culture, could you talk about the kind of response that you might have already started receiving and your expectation of incremental revenues from these in, say, FY '25, when both of these lines will be active.

Rohan Sehgal: So PCR line is pretty much active at this point of time, but the revenue base has been quite sluggish considering a lot of overhang from COVID and large inventory base globally for these product lines. For cell culture, since the products are not launched and we have not been able to sample these products to key customers, we have absolutely no update about these product lines from our customers.

Jaiveer Shekhawat: Right. But your early expectation in terms of what kind of opportunity it could open up for you, especially in FY '25 and '26?

Rohan Sehgal: So all we can say is that we're looking at installed capacity of both these product lines in excess of $10 million closer to the INR100 crore mark. And we look to scale that up over a 3 to 4 year period.

Jaiveer Shekhawat: Right. And Rohan, could you highlight how much of the overall capex has gone into expanding your existing facility, which is not the new products or something that you might have already been manufacturing, out of the overall expansion that you've done?

Rohan Sehgal: I'll let Santosh answer that question, yes.

Santosh Agarwal: See, we are running with a capex of about INR550 crores. Out of that, we already incurred INR400 crores. It's a mix of both expanded capacity as well as the cell culture product, but I will say, if you talk about the breakup, approximately 60% belongs to expanded capacity and 40% belongs to new products.

Rohan Sehgal: 40% is for the product line. So out of this, about 40% belongs to infrastructure, building and infrastructure.

Jaiveer Shekhawat: Right. So just to understand that better, that 60% where you're talking about in expanding the existing facilities, how much of that will go into, say, expanding your actual production capacity and how much would go to infrastructure?

Rohan Sehgal: So out of this INR550 crores, more than INR200 crores - INR250 crores would go into land, building, infrastructure, clean rooms, ancillary equipment, and so on, which is not directly proportionate to output, which is molds, machines, automation, and so on.

Jaiveer Shekhawat: Sure. Because when I see your inventory position currently, it's roughly about INR120-odd crores as of September end. And if I were to assume that at steady state, 75% is your gross margin, I think you're already sitting on INR450 crores to INR500 crores of inventory. So I mean I was just trying to understand the rationale behind expanding even your existing capacities across your plants given that you already have enough inventory on hand. So your observations or comments there.

Santosh Agarwal: Sir, I'm giving the reply on behalf of Rohan. So currently, we are holding inventory of INR118 crores. So we need to see what is the breakup of that. Raw material accounts for about INR39 crores. Currently, raw material supply is getting a lot of problems because of the implementation of one of the concepts called BIS. And government, obviously, is not allowing all kind of imports without having that kind of certification. So we need to keep the raw material enough in advance.

Apart from that, we have finished goods of about INR45 crores. And we need to keep 4 to 5 months of inventory to run this operation. Apart from that, we have packing materials of about INR7 crores, consumable store of INR2 crores. And then we have work in progress of about INR14 crores. So these inventories are required to run these operations, right? So this has nothing to do with the upcoming capex. Of course, if we increase the revenue, then this inventory can be optimized.

Jaiveer Shekhawat: Sure. And lastly, my question is on your margins. So your EBITDA margins have come down to below 40% versus say the 45% plus that we had seen last year and the year prior to that. So where do you see these margins sort of settling over, say, over the next 2 quarters? And even in, say, FY '25, when you will also have the newer capacity sort of coming?

Rohan Sehgal: Right. So see, we are down about INR6 crores in revenue in this quarter as compared to the same quarter last year. So I think a large role would be played on the top line, because the company is not downsizing based on lower revenues. The company is only expanding and upsizing for the future.

So we are not seeing EBITDA loss due to prices going down or loss of market share. It is mainly under loss of revenue because of lower market conditions currently present. So it all depends on the top line. It's pretty directly proportional to the top line. And we have a very negligible onetime expense, which should not continue over to the next year. Apart from that, everything else will remain the same.

Santosh Agarwal: And just to add to what Rohan said, if you compare the EBITDA of last 6 months and compare to this month, we are down by about INR17 crores. And if you see the breakup, the material profit down contributed about INR12.5 crores. And employee cost contributed about INR1.8 crores, right. So as a company, we control the cost in a very careful way.

Moderator: Next question is from the line of Manoj Bahety from Carnelian Capital.

Manoj Bahety: So just to take the question of previous participant further. I just wanted to understand like this INR550 crores kind of capex which we are taking and that too in current uncertain time, and like when you are even struggling to completely utilize your existing capacities. Just wanted to understand the rationale of such a big capex? And secondly, also wanted to understand like when doing this capex, what kind of IRR, ROCE level you are looking. So this is my first question.

Rohan Sehgal: So the capex is not implemented today during uncertain times. The capex was implemented in the range of 2.5 - 3 years back. And today, we are on the verge of completion of this capex over the next few months. The times today are uncertain. And of course, the company is in tune with the industry which is not doing too well at this point of time.

But as I said in our introductory speech that these uncertain times look temporary and it looks as if things would rebound to pre-pandemic levels and the industry should have good growth moving forward. And we are pretty certain about the opportunities what our company will have both in the domestic and international market. And based on that certainty and based on that conviction, we undertook this capex plan way back in 2020, 2021.

Santosh Agarwal: And just to add, in 2020, 2021, our ROE was about 32% and ROCE was 34%.

Manoj Bahety: No. Yes. So that's what I was wondering whether like with this kind of incremental allocation of capital, whether you will be able to reach back to that kind of ROCE, ROE in near future? Or is there something structurally which has happened in the industry, either on account of increase in competitive intensity, which may not lead to that kind of ROE, ROCEs?

Rohan Sehgal: So there has been an increase in competitive intensity since COVID, but it is yet to be seen over the next 2 to 3 years whether this competitive intensity is that is supposed to be permanent. It was just during the COVID wave when the demand was at an all-time high. But at this point of time, it's very difficult to say whether we'll be able to reach back the 30% to 34%, but definitely, we would not be in the current level what we are at in ROC and ROE.

Santosh Agarwal: But definitely, if the volume in the industry revives, if the volume increases, our ROCE and ROE will be better.

Manoj Bahety: The second thing is like almost 40% of your capex is towards new products. So whenever this kind of competitive intensity goes up, and so as a company if you are moving to like more complex new products, you can create some kind of entry barriers. So is your company moving in that direction? Or is it an industry where the entry barriers are not there and these kind of ROEs and ROCEs are not sustainable?

Rohan Sehgal: No, I think we sustained it for about a few decades. So I'm not sure whether it's sustainable in the future, but in the past, we sustained it for a few decades. And we kept competition with all the competition globally and internationally. We were not the first company to enter into this space. We maintained our margins above 40% for more than 25 years. So I'm not sure about the future, but I can talk about the past and what we've done historically. The future is something which I have not seen.

Manoj Bahety: Just last question from my side. On the new products, if you can give some colour whether that is a little bit complex product, like cell culture is one of the things where you are introducing. So whether that kind of products will give you some kind of moat or some kind of entry barriers to you? And also time lines in terms of utilization of your new capacity, like in next 2, 3, 4 years, what is the time frame when you will see capacity utilization to go to optimum level?

Rohan Sehgal: So the market says that cell culture products is more complex. And we see that in building the product line as well that there are technologies which are not very open and not very known, which makes it a little more difficult to manufacture products like cell culture as compared to the other plastic labware products.

And customer acceptance is also a little more tricky, I would say, as compared to normal products, because customers don't want to trust a lot of brands with their cells as compared to the brands they've been using. So in that way, it could be a little bit of a stronger moat. And we expect to scale up in 4 to 5 years, completely ramp up to 100% of available capacities, which I've mentioned earlier. For all our product lines that we are launching, the target is 4 years, maybe 5, to ramp up completely.

Manoj Bahety: And your asset turnover is around 0.7x, right?

Rohan Sehgal: Asset turnover is 0.7x, yes. But this is gross asset, yes.

Moderator: Next question is from the line of Yash Malhotra from JM Mutual Funds.

Yash Malhotra: Yes. What would be your current optimization level for each of the labs, if you could go through it?

Rohan Sehgal: Could you repeat your question, please, for each of what?

Yash Malhotra: Each of your manufacturing facility.

Rohan Sehgal: See, we're producing about 2,000 SKUs. So each of our facility will produce more than 400, 500 SKUs each. So it's very difficult to give you a percentage, but I would say that on a broad level, we would be at about the mid-70s on the capacity levels, mid-70s occupied with about 20%, 25%.

So like if we do about INR300 crores of revenue, without our INR550 crores of capex, we have the ability to do about INR50 crores to INR60 crores more of revenue with our existing setup. I can give you a broad level number like that, but line-by-line, SKU by SKU, because there are so many permutation combinations, there's not a right answer or a clear answer.

Yash Malhotra: Correct. And in terms of your announcement which is going to come late October, I believe, with respect to radiology. What's the update on that?

Santosh Agarwal: So you are talking about the radiation plant, right, sir?

Yash Malhotra: Correct.

Santosh Agarwal: So radiation plant, the construction is in process, we already got the approval from the government. And once the construction will be over, then we can start doing the radiated products kind of manufacturing.

Rohan Sehgal: So we expect the construction to be completed by the end of December or first week of January. And post that, there would be an audit by the same agency, and they would audit the entire facility, and on approval, we can proceed forward, and then the Cobalt 16 source would be transported to us and then installed in our facility, and then we are good to go.

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

Amar Maurya: A couple of questions from my side. So firstly, if you can give me what is the total contribution from the government institutions in our revenue?

Rohan Sehgal: So about 14% to 15% of the domestic revenue, where domestic revenue is about 65% of the total revenue.

Amar Maurya: So meaning you're saying 14% to 15% of the overall revenue or 14% to 15% of the domestic revenue?

Rohan Sehgal: 14% to 15% of the domestic revenue, which is 65% of the total revenue.

Amar Maurya: Okay. So basically 9%, 10% of the overall revenue that is what you're saying?

Rohan Sehgal: Correct. Correct.

Amar Maurya: Okay. And secondly, sir, what would be the contribution of PET and PETG in this particular first half. And is there any revenue coming from pipettes business, the new capex which we did?

Rohan Sehgal: So there is some business coming in from PET, PETG, some business coming in from pipettes, which are all a part of our existing capex, but major part of our capex revenue is yet to be realized. I don't have the numbers in hand of the exact value of the business what we've done, but we can send you by e-mail of PET and PETG.

Santosh Agarwal: And just to add, we launched PETG bottles and serological pipettes. We passed all the validation tests and all the approval from all the institutes and we even got some international orders also, right? And things are going very well on that front.

Amar Maurya: So because -- why I'm asking this, sir, FY '23, when we were about to launch PET and PETG, we were looking for a decent contribution of revenue in FY '24. So I'm just trying to understand that is that started or it is yet to start, or it got delayed?

Rohan Sehgal: The production is ready for PETG bottles, and we are moving forward with that in the domestic as well as international markets. So it's ready to ship.

Amar Maurya: It's ready to ship. Okay. And sir, basically one more question. On the new capex -- so new capex, like as we said, INR550 crores is the total capex, out of that, basically, the revenue facing capex is only INR350 crores kind of thing, right? And out of that...

Rohan Sehgal: Right. INR300 crores or so, between INR300 crores to INR350 crores.

Amar Maurya: Yes. And near by 0.7x to 1x kind of asset turnover, which we are targeting, right? So when we do that math, then basically what we arrive is at around, say, 20% kind of ROC. So what I'm trying to understand is that how we will be sustaining then this high ROC, and I believe the high ROC, which we were having is not because -- is because of the Ind AS adjustment, right?

Rohan Sehgal: Yes, it is because of that adjustment plus the incremental capex will be at a very high ROCE, because we've built infrastructure for more than INR350 crores of capex. We've built infrastructure for almost double this capex, which will not have infrastructure costs of building, land, utilities and so on.

Santosh Agarwal: And revenues will keep on increasing year-on-year, but capex will not increase in the same proportion, right? So asset turn ratio going forward will be better.

Amar Maurya: So are you saying that this base capex of INR350 crores or INR550 crores, once it is launched, once you will do an incremental capex on this, then the ROCs will accrue. That is what you're saying?

Rohan Sehgal: Yes, because it will not have the initial costs of purchasing the land, building the building, building the infrastructure, and so on. That is all included in this capex, yes.

Amar Maurya: So other way to understand this question is, basically, let's say, to hit a 30% ROC, how much incremental capex you have to do on this base asset?

Rohan Sehgal: We've not calculated that. And we are trying to build a business which is going to be a globally strong business. We have not really done -- very strong ROC has been an aftereffect of doing things rightly, but we do not plan projects based on ROCE returns.

Santosh Agarwal: And with the existing capacity and the upcoming capacity, we can touch a revenue of about INR700 crores to INR800 crores, right? If we touch that kind of turnover with this kind of capex, of course, this kind of ROCE is possible.

Amar Maurya: Okay. Got it. And sir, the export business or the international business which we would be looking to acquire, I'm assuming that would be an advanced product or it would be a similar kind of product category which we are doing today?

Rohan Sehgal: It would be for similar kind of products only. We would need perfect overlap. We cannot go with products which we don't have.

Santosh Agarwal: Overlap is in the range of 70% to 80%.

Amar Maurya: Okay. And so that is more to do with the customer approvals. Then we will be looking to acquire customers in new acquisitions. And then we will be sourcing the product from here to there?

Rohan Sehgal: Yes, I can't give so much of details on a call for something which has not been done, but we are looking to build a base in international markets to grow our international revenue.

Moderator: Next question is from the line of Harsh Mulchandani from Kriis Portfolio.

Harsh Mulchandani: So in your opening remarks, you mentioned that market has degrown versus we've demonstrated 6% growth. So that's good for us. But just want to understand where do you see the market from here on going because now I believe market has stabilized more or less over a year. So is it because of destocking? Or is it because of demand or it is because of some other reason, switch to some alternatives, which is leading to flattish growth or a combination of these factors? And what would be the likelihood of market recovering going forward?

Rohan Sehgal: So we're looking at a whole -- at various factors in this entire thing. Firstly, the market has begun to recover slightly with destocking happening at a faster pace than what had happened 6, 8 months back. So more and more inventories getting liquidated from the system, which is a good sign. So we see the industry -- when we mention that the industry has not done as well, it's just a culmination of other numbers which we get globally for listed companies whose numbers are available on the public domain.

I think getting more and more market share over the next 6 to 12 months from international players because manufacturing in Europe is going through a lot of crisis at this point of time and not the right place to manufacture. With production costs going at an all-time high and people getting more and more cost sensitive post-pandemic gives us a good opportunity to take advantage of being in India.

So I think along with the slow recovery of the industry, which is a good sign, at least there's a recovery, and being in the right place in India, being able to have good economies of scale now with the new facilities coming up, and being at a very opportunistic time where we can convert customers from bigger European brands because people are more price-sensitive post this COVID pandemic era, I think, should play well for us as a Company in the next few quarters.

Harsh Mulchandani: Got it. Okay. And a couple of questions on expansion, which was supposed to go live this year. The time lines are intact or there is some...

Rohan Sehgal: Yes. As I mentioned in the opening remarks, we expect the first commissioning to start in the month of December, which is next month in Q3 FY '24. And this is the beginning. And then from here, over the next 7 to 8 months, maybe 9 months, I cannot put an exact number, we would have commissionings every week and every 2 weeks because there will be about 15 to 16 different commissionings before the plant is completely ready. .

When I say the plant is completely ready, the plant is completely ready until the assigned capex of ours. There would still be a lot of space for future capex. So I expect this to be the beginning, the middle of December to be the beginning. And then, of course, there would be a layoff for 4 weeks because most of our commissioning happens from Europe and U.S. and people don't work from 23rd December to about 14, 15 Jan, and then 15 Jan onwards, you'll see more commissioning starting.

Harsh Mulchandani: Got it. So the revenues would start from the next fiscal typically?

Rohan Sehgal: I would say even we can expect some revenues from Q4 as well, but major revenues, of course, in FY '25.

Harsh Mulchandani: Got it. And the international acquisition which you are planning to make, how hard are you looking for that acquisition? Like is it like something is there you already have for evaluation? Or you're just keeping your eyes open for if something comes by?

Rohan Sehgal: No. Since we mentioned very clearly about the quantum of money we've spent, it is beyond just looking at acquisitions. We are deeper into the process of being able to shortlist companies and work with those companies to see if there's a fit between our Company and their company. So that is all I can say at this point of time. We are very active in this process and we believe that this would be a good catalyst for our growth in the overseas market. So we are strongly looking into this area.

Harsh Mulchandani: Got it. Okay. And just my last question, the guidance for INR500 crores, any changes to that? Because I think last few quarters, we've been hanging on to that number still. So how do we see that...

Rohan Sehgal: So I won't be giving a revised guidance for sure. But looking at the performance of the industry as well as the Company over the last 4 to 5 quarters, INR500 crores in FY '25 looks highly unlikely at this point of time. That's all I'd say. But of course, I won't give a revised guidance at this point of time for FY '25.

Moderator: Our next question is from the line of Jatin Chawla from RTL Investments.

Jatin Chawla: A couple of questions. The first question is just a clarification. When you said out of this INR550 crores capex, INR300 crores, INR350 crores is revenue facing. And an asset turnover of 0.7x. So broadly with the capex that you have done right now, about INR220 crores, INR250 crores is the incremental revenue possible? Is that the right understanding?

Rohan Sehgal: 0.7x on INR550 crores.

Jatin Chawla: Okay. 0.7x on INR550 crores. Okay. Yes. My second question was, I just wanted to understand a little bit better how your sales process happens in the domestic market? Because I think you largely sell through distributors, right, and not directly to your clients.

Rohan Sehgal: Correct.

Jatin Chawla: So your pricing negotiations then happen with distributors or they happen with the clients?

Rohan Sehgal: It happens in conjunction with the distributor, our team at Tarsons, and the client.

Jatin Chawla: Okay. So even though you are selling through distributors, I was just clarifying that even though you are selling through distributors, you have your own sales team which is going out and meeting clients?

Rohan Sehgal: Correct, correct. Absolutely, right.

Jatin Chawla: Okay. So see, my limited understanding of the business is that this is right now, for most of the consumers, a Class C kind of purchase. And given the large number of SKUs that are involved, pricing does not end the criticality of the product. The end customer is not so concerned about pricing. But the distributor, is he price sensitive? Would he switch if there is somebody who is offering a better price?

Rohan Sehgal: So as you said rightly, it's always been a Class C product, but it's been a Class C product because of ease of procurement and the availability of various companies offering this kind of a product. But it's as critical as anything else which is used in a lab. But it's always been down the value chain compared to other things which are utilized in the lab.

The distributor will only switch to another brand because, let's say, he gets price x from Tarsons, and, let's say, he gets a 5% or 10% lower price from another brand. He would only switch to that brand if that brand has equity in the market, because the distributor is not doing much to build the business.

The distributors love selling brands which already have a base in a market to sell. So buying something 10% cheaper, which he would sell at 20% or something which he'd buy at 10% more expensive is something the distributor has to take a call, what is more viable for his business.

Jatin Chawla: I'm still kind of slightly not able to understand what is the role that the distributor is playing, right? If you could just explain the role that the distributor plays.

Rohan Sehgal: These are consumable products. To do a revenue of, I don't know, maybe INR200 crores, all our distributors combined would be raising invoice maybe more than 70,000, 80,000 invoices in a year or maybe more than that. So it's not viable for us to raise invoices which run into maybe 80,000, 100,000, 200,000 invoices in a year to be able to reach every corner of the country, to be able to control the credit, to be able to control dispatches, to have viable dispatches from one place, which is Kolkata. So to efficiently reach out to every part of the country, every user, this model is the best model.

Santosh Agarwal: And distributors are there for a better supply chain management. Distributors are keeping 1 month to 3 months of stock and they can deliver the stock in 1 day or 2 days' time, which we can't, right? And secondly that distributors may be receiving the money from their end customers after 90 days or after 120 days, but they are paying us in 60 days' time. So this is better for us in terms of supply chain management.

Jatin Chawla: And typically, what is the distribution margin that you get in the industry?

Rohan Sehgal: I think about 15-odd percent should be the gross margin, so 10%, 15% gross margin, depending on the product line, actually. They deal with so many SKUs that the median margin should be 10% to 15% gross.

Jatin Chawla: Understood. Understood. And when you are looking to acquire entities globally, are you looking to kind of replicate the Indian distribution model? What is the aim when you're looking to acquire something globally?

Rohan Sehgal: See, I cannot say because what we've done in India has been a culmination of so many years, 20, 30 years, without understanding the market scenario or the market conditions. The reason why we are acquiring is because we do not know those markets. If we knew those markets as well as the Indian market, we would have gone directly as Tarsons. So the inefficiency of information about those markets is prompting us to acquire somebody who understands those markets better than us and ride on them to be able to grow the Tarsons business. So once we acquire, only then we would understand whether what we have done in India is replicable or not, because every geography, every country has got its own culture, own costs, own challenges, which we are not aware of.

Jatin Chawla: And right now, the overseas model is, at least in your own brand, there is an importer who imports and then he sells to distributors in that market and then that distributor sells to the client, is that right?

Rohan Sehgal: Yes. Sometimes the importers sell directly to customers as well. So the chain can be importer to distributor to customer, and sometimes it could be importer to customer.

Jatin Chawla: Understood. And in the ODM, it will be obviously to whoever owns the brand. You will basically be doing contract manufacturing for him then?

Rohan Sehgal: It's the same channel that is not in our brand. Yes.

Moderator: Our next question is from the line of Qi An from Sparx Group Company Limited.

Qi An: I just have several questions. So the first one is, in the beginning, you mentioned some micro and macro challenges in the past 2 years. I'm just wondering, are we the beneficiary of COVID, and now with more like the normalization after that. Yes. So the first question is this. And second question is also on the outlook on next year. If you could talk about the domestic and the overseas demand and the overall guidance, if you have any?

Rohan Sehgal: Sure. So for the first question, I think COVID was beneficial to most companies, including us. While our company was already running at very, very high capacity utilization levels, and as I explained, in one of the things in the micro level, in the company level, what we could not do very well was to be able to execute projects through the challenges of COVID with our suppliers in Europe. We couldn't improve on capacities on time to be able to generate higher revenues.

So we actually grew at a very modest 28%, 29% Y-o-Y for the 2 years of COVID, which I would say 20%, 21% is a great growth number per year. But for COVID years, it was much lower than what the industry average was.

So while we took advantage of COVID and grew our revenues, we could not grow it as well as the industry grew it. And that's how it is. And today, in the post-COVID world, I think we are trying to build the company to be able to be prepared for the next phase of growth, which should come in after this industry run is over.

Moderator: Ms. Qi An, does that answer your question?

Qi An: Sorry, do you have any specific number on the guidance?

Rohan Sehgal: No, we don't have any number on the guidance for FY '25. We expect the industry to revive and the conditions, both in the domestic and international market, to get better as time moves on, but no specific guidance.

Qi An: I see. And because earlier you mentioned that all the cost in Europe is getting higher, but we don't have manufacturing capacity over there. Is that correct?

Rohan Sehgal: Correct. We don't.

Qi An: Okay. And one last question is, I think one of our key points in the industry is the shift from glass to plastic is happening. I'm just wondering because in some countries, the government banned or limited the usage of plastic because it's not ESG friendly. So in terms of the alternatives, do we see any threat?

Rohan Sehgal: So I think at this point, there is no alternative, but all the plastic companies, including ours, have been taking measures to get more responsible in our activities to be able to reduce the plastic waste as much as possible through various initiatives. And I think the plastic industry for life sciences is here to stay. But we would all have to get proactive in the way we conduct our business and manage the plastic waste over the next years.

Qi An: So you mean the threat is limited?

Rohan Sehgal: I feel there's no threat at this point of time.

Moderator: Our next question is from the line of Sandeep Abhange from LKP Securities Limited.

Sandeep Abhange: Yes, hi. This is Sandeep Abhange from LKP Securities. So my question is to Rohan. So just wanted to have a clarity on the sequential growth which we have seen. So are we seeing this growth to continue in the next 2 quarters, because like if you see sequentially our Q3 and Q4, Q4 is the strongest. So are we expecting same growth on a sequential basis in the next few quarters?

Rohan Sehgal: So definitely, we expect to grow and get better in the next 2 quarters. Generally, Q3 is the slowest quarter because of the international business slowing down in December. And this year, we have the festival season also just come in November, which generally happens by the end of October, or everything finishes by Q2. But in spite of all these things, we expect growth in Q3 and further growth in Q4.

Sandeep Abhange: Okay. That helps. And one clarification on the previous question which was asked. Like you mentioned that your capacities were in maybe 70% capacity utilization. Is that number correct which I jumped at?

Rohan Sehgal: So we did about INR280-odd crores as an average in FY '23. And if I take that at 75%, and I multiply it by 100, it comes to about INR370-odd crores. So what I had mentioned was that at 100% capacity, we have the ability to go up to INR360-odd crores. So without this INR550 crores of capex, our Company had the ammunition to do about INR350 crores, INR360 crores, not more than that.

Sandeep Abhange: Okay. Okay. And is there any trend compared to capacity utilization percentage which you would like to mention?

Rohan Sehgal: That's what I mentioned. I believe that we are in the same range of about 75-odd percent. And that is a broad range which I have given you since we cannot go down to SKU by SKU. We cannot calculate it.

Sandeep Abhange: Right, right. And Rohan, last question I had on the delay in import of some machines, because as far as I remember last, these machines were supposed to be delivered like in the previous quarter, but it is getting delayed for more quarters. So can you specify some particular reason for the delay?

Rohan Sehgal: So these are actually complex machines. The product or the part coming out is the same what we already manufactured or similar. But the complexity of the engineering and the electronics and everything else put together, it's quite critical. And the process what we do is that before these machines are shipped out, there is a factory acceptance test in the supplier's workshop or factory floor.

So we send our engineers from India to their place for the factory acceptance test. So the more critical machines which we're going to, it's not as simple as just going there for 2 days and signing on the approval sheet and they shipping out. With these complex machines, there come observations, there some improvement areas, there come areas where we would need changes.

And those changes and those implementations then take time both in terms of commercial negotiations because of the change of scope as well as the change in the engineering or the change in the electronics what we need. So it's an evolving process and a very common process, which is nothing new or different or challenging or anything to worry about. So it's just a part of the process. And as we move up the value chain, such things would be very common.

Sandeep Abhange: Okay. So can we expect the machines to be delivered, like you mentioned in the December end you would be starting to commission your capacity?

Rohan Sehgal: So the reason I said December end was because those machines are on the water. They have already been approved and signed and they are on the shipment process. So unless there is some shipment delay, technically, it has been cleared and it is shipped and about to reach.

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

Ranvir Singh: Sir, just I needed clarity on the capex side. So of INR550 crores capex, you said 60% would be on capacity buildup and 40% on product pipeline, right?

Rohan Sehgal: Yes, approximately that much. We don't have exact numbers, but that would be somewhere in that range.

Ranvir Singh: So that I couldn't understand, what is the product buildup there for 40%? Are you talking about working capital related to products?

Rohan Sehgal: No, new products.

Ranvir Singh: So new products...

Santosh Agarwal: So 60% for the capacity expansion and 40% for the new products. For capacity expansion, many products are there like pipettes are there, Cryo Vials are there, storage vials are there, many products are there, for which we are expanding the capacity. Like centrifuge tubes, 15 ml, 50 ml. And in the new product segment, we have cell culture products and other products.

Ranvir Singh: No. So that I wanted to understand, what is the nature of that 40% spent on product pipeline? Because either it's R&D side you are talking about, or it is about that just producing these new products there in that facility, that costing?

Rohan Sehgal: Yes, it's producing those products in the new facilities.

Ranvir Singh: Okay. So this is in nature of working capital, basically. That would be rolling then.

Rohan Sehgal: It's a nature of capex. We'll be buying equipment and machine to produce those products.

Santosh Agarwal: So it's investment on machines and molds.

Ranvir Singh: Machines and molds. Okay. Understood. Okay, fine. And secondly, that recently that GST-related issues, now this is all settled or still we have some litigation pending there?

Santosh Agarwal: So this is related to transition of excise duty and VAT to the GST in 2017. They sent the notice. We appeared for that, and we have given the clarification. They issued the order. And we are going to appeal for that.

Ranvir Singh: Okay. So this is already settled that entire amount which was claimed, or this is still part of it or we believe that it can still be reduced from the current demand which has been raised?

Santosh Agarwal: So situation is in our favor. We have imports, we have stock, and the excise duty and other things, we are eligible to get the credit. But somehow, all the import credits and other things, they disallowed that and they issued the order for us. And all the credits are legitimate credits and all the bill of entries are there. And we are very firm and we believe that once we submit those papers to the adjudicating authority, this will be settled.

Ranvir Singh: Okay. But this should not be a significant amount even if that comes to our head?

Santosh Agarwal: No. It's about INR66 lakhs.

Ranvir Singh: Okay. Okay, fine. And the last one, on product launches, how many new products we have launched in first half? And what are plans in there for second half?

Rohan Sehgal: So we have launched certain products in the bioprocess line in Q1, and we look to enhance capacity of certain products in Q2. But in Q1 of FY '25, we would be bringing in the remainder of bioprocess and cell culture products, which are planned in our capex.

Ranvir Singh: Okay. And for FY '25 also, in terms of product launches, you have some products in pipeline which could be launched in FY '25?

Rohan Sehgal: So we have product launches which have already been incurred by capex, but would be getting launched in FY '25.

Santosh Agarwal: The major product would be the cell culture.

Ranvir Singh: And to your understanding, once in Q1 FY '25 this Panchla plant starts, how long it will take to optimize? So first year, what kind of capacity utilization we can expect?

Rohan Sehgal: Four years to maximum 5 years on complete ramp-up of capacities.

Ranvir Singh: Okay. So that will be gradual, like, so first year, maybe 15%, 20%, and then...

Rohan Sehgal: Yes. May not be as equal as all 4 years. But yes, I think as time goes by, the increment should be higher.

Santosh Agarwal: And if we go with the average acquisition route, then this time period can be reduced.

Ranvir Singh: What kind of acquisition?

Santosh Agarwal: Inorganic acquisition, which we are looking for in Europe and U.S. kind of countries. If we get that kind of opportunities, then the revenues will be spent. And this time period can be reduced because we are able to utilize the capacity in a much faster way.

Ranvir Singh: Okay. And this year, only INR150 crores is yet to be spent from the capex announced earlier. So out of INR550, INR400 crores you said has already been spent, right?

Santosh Agarwal: Yes.

Ranvir Singh: I think still the borrowing side, I think you have to increase the borrowing, because internal accrual doesn't seem enough to meet this INR150 crores, or would you want to do this?

Santosh Agarwal: So we have limits available and we can utilize those limits. Apart from that, we have strong interest accrual. We are making about INR6 crore to INR7 crore per month cash accrual. So that will be sufficient enough to manage all this kind of capex.

Moderator: Ladies and gentlemen, due to time constraint, that was the last question of our question-and-answer session. I would now like to hand the conference over to Mr. Rohan for closing comments.

Rohan Sehgal: I take this opportunity to thank everyone for joining the call. We will keep updating the investor community on 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 SGA, our Investor Relations 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.