

Date: 22nd August, 2024

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

Subject: Transcripts of Earnings Conference Call

Dear Sir/Madam,

Pursuant to the provisions of Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and in continuation to our intimation dated 16th August, 2024, please find enclosed herewith the transcripts of the Investor Conference Call held on Friday, 16th August, 2024, to discuss the financial and operational performance/Unaudited Financial Results (Consolidated & Standalone) of the Company for the quarter ended 30th June, 2024.

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
Company Secretary & Chief Financial Officer
ICSI Membership No. 44836

Encl: As above



“Tarsons Products Limited
Q1FY25 Earnings Conference Call”

August 16, 2024

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 16th August 2024 will prevail.



**MANAGEMENT: MR. ARYAN SEHGAL – PROMOTER AND WHOLE TIME DIRECTOR – TARSONS PRODUCTS LIMITED
MR. SANTOSH KUMAR AGARWAL – CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY – TARSONS PRODUCTS LIMITED**

MODERATOR: MR. JAIVEER SHEKHAWAT – AMBIT CAPITAL



*Tarsons Products Limited
August 16, 2024*

Moderator: Ladies and gentlemen, good day, and welcome to the Tarsons Products Limited Q1FY25 Earnings Conference Call hosted by AMBIT Capital. As a reminder, all participant lines will be in 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 and then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Jaiveer Shekhawat from Ambit Capital. Thank you, and over to you, Mr. Shekhawat.

Jaiveer Shekhawat: Thank you, Ria. Good afternoon, everyone. On behalf of Ambit Capital, I welcome you all to Tarsons Products' Q1FY25 Earnings Conference Call. From the management today, we have Mr. Aryan Sehgal, Promoter and Whole-Time Director; and Mr. Santosh Agarwal, the Chief Financial Officer.

Now without further ado, I would now request Aryan to start with his opening remarks, post which we can open the floor for question and answer. Thanks, and over to you, Aryan.

Aryan Sehgal: Good afternoon, everyone, and a very warm welcome to all on our Q1FY25 Earnings Conference Call for Tarsons. Along with me today, I'm joined by Mr. Santosh Agarwal, CFO and Company Secretary for Tarsons Products Limited; and SGA, our Investor Relations advisors. We have uploaded our quarterly investor presentation on the stock exchange and company's website. I hope all of you had an opportunity to go through the same.

Over the past 18 months, the plastic labware industry was witnessing a slowdown in the Indian and global markets. However, we have witnessed signs of recovery in the industry with increased order inquiries in both the domestic and overseas markets. Having been in this industry for over 4 decades, we have encountered similar challenges in the past and have successfully navigated it back then emerging even stronger.

We have seen industry bouncing back with increased demands and expanding customer base. We view the current situation as an opportunity to establish and strengthen our presence in the domestic and international markets. By leveraging our high-quality products and cost-efficient manufacturing operations, we are well-positioned to make inroads into these markets.

Our high-quality products, reliability and on-time supplies will establish us with the goal of gradually increasing our share of business with these customers over time. We have been actively participating in large RFQs and overseas tenders along with engagement in numerous international exports. These global platforms have provided us with the opportunity to demonstrate the robustness, diversity and superior quality of our products to a wide array of potential customers.

Our participation in these events is a critical component of our long-term growth plan. By showcasing our offerings on an international stage, we aim to increase our visibility in key

markets and attract interest from a diverse range of industries and geographies. The response so far has been encouraging with initial inquiries coming from several new prospects.

However, it could take some time for order combination and increase our suppliers. We believe we are in the right direction and should be able to add revenues from these new customers over a longer period of time. The strategic approach not only reinforces our commitment to expanding our global footprint, but also ensures that we are well positioned to capture a larger market share as we continue to introduce new products and refine our current offerings. We have also taken a big lead by expanding our capacities and capability with our upcoming facility in Panchla. This facility is built looking ahead of time to cater the growing demand of the plastic labware industry over the next 5 to 7 years.

This new facility will not only enhance the production capacity of our existing product portfolio, but also introduce new product categories such as cell culture to broaden our offerings and increase our addressable market. Panchla facility is expected to commence operations by H2 of this financial year. In the initial phase, our focus will be on servicing the domestic market, while Tarsons is already a well-established brand with strong customer relationships built over many decades.

We are confident that this expansion will allow us to increase our share of business with these customers. On the global front, this facility will enable us to supply a wide range of products within the plastic labware industry, positioning us as a comprehensive one-stop solution for plastic labware.

Regarding the Q1 FY '25 performance, our stand-alone revenues, excluding Nerbe plus, stood at INR64.9 crores, up from INR62.6 crores in Q1 FY '24, reflecting a growth of 3.6%. Despite the overall industry experiencing a decline in the quarter gone by, we have successfully increased our revenue, indicating an increase in our market share. As the demand recovers, which we are already witnessing some positive trends, we are optimistic about future revenue and profitability growth. In January 2024, we've acquired Nerbe plus, a Germany-based plastic labware distribution company to deepen our presence in key European geographies with local foothold.

Nerbe currently serves multiple customers across various regions, providing strategic entry points for Tarsons over the coming years. We intend to capitalize on Nerbe's capabilities in order to market our recently introduced products and expand Tarsons' product offerings in Europe. We are confident that this strategy will bring new customers, revenue growth and increased profitability for Tarsons.

Stand-alone adjusted EBITDA for Q1 FY '25 stood at INR20 crores and the adjusted EBITDA margins stood at 30.9%. Reported EBITDA margins in Q1 FY '25 were impacted mainly on account of change in product mix impacting the gross margins and the extended impact of the EBITDA, INR3 crores provision from machinery, which was damaged during the transit. We are also in the process of filing the claim with the insurance company and are very optimistic of reversing impact as soon as the claim is approved by the insurance company, increase in

employee expenses on account of annual salary revisions and addition of employees and workers for our upcoming facility, on account of certain expenses for our upcoming facility for which revenues will follow in the coming financial years.

Adjusted for these one-off expenses and impact, our reported EBITDA stood at INR17 crores with margins at 26.3%. Regarding our consolidated performance, if we include only the stand-alone India business and the Nerbe business, our revenues stood at INR84.8 crores with an adjusted EBITDA of INR21.8 crores. Going forward, our consolidated margins might appear different due to the inclusion of Nerbe plus, which is currently a trading entity with lower margins compared to our India manufacturing business.

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

Santosh Agarwal:

Good afternoon, everyone, and a very warm welcome to our Q1 FY '25 earnings calls. On the revenue front, stand-alone revenue from operations for Q1 FY '25 stood at INR64.9 crores, which has increased as compared to INR62.6 crores in Q1 FY '24 at a growth of 3.6%. Our consol revenue from operations for Q1 FY '24 stood at INR84.8 crores revenue from Nerbe for Q1 FY '25 was INR20 crores, which has been consolidated from 1 January 2024. For Q1 FY '25, on consolidated basis, the revenue from overseas stood at INR42 crores and domestic at INR43 crores.

Speaking about EBITDA, [inaudible 0:09:13] EBITDA for Q1 FY '25, stood at INR20 crores as against INR24.1 crores in Q1 FY '24. The stand-alone adjusted EBITDA margin for Q1 FY '25 stood at 30.9%. The consolidated adjusted EBITDA margin for Q1 FY '25 stood at 25.7%. Margin were partially impacted due to the following reasons: the number one reason is, initial estimated provision of INR3 crores on account of machine damage during the transit, evaluation and insurance claim for the same is in process; secondly, change in product mix, then increase in employee expenses with revision in salaries in Q1 FY '25 and overhead expenses for the upcoming facility; the last one reason is the lower EBITDA margin on account of Nerbe plus, which is a trading entity.

If you talk about the PAT, stand-alone profit after tax for Q1 FY '25 stood at INR6.5 crores with a PAT margin of 10%, and consolidated profit after tax for Q1 FY '25 was INR4 crores with a PAT margin of 4.7%. Further we have recommended a dividend of INR2 per share for FY '24. Coming to Nerbe plus financials, the company has clocked quarterly revenue of INR20 crores in Q1 FY '25. In Q1 FY '25, if you talk about the PBT front, the company reported a profit of INR0.9 crores.

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

Moderator:

The first question is from the line of Kumar Saurabh from Scientific Investing.

Kumar Saurabh:

So I have two-three questions. My first question is, if we look at the domestic diagnostic industry, looks like this quarter, the results have turned and many companies are getting good

results. So in that context given earlier, we were telling there are headwinds. How do you see it benefiting us? Do you also see green shots for us in the domestic diagnostic segment? That is the first question.

Aryan Sehgal:

Sure. So yes, I think the domestic diagnostic industry has revived very well, and our business has stabilized with the diagnostic industry. Just to add that, which I've informed earlier as well, the business was a standard business with the diagnostic industry pre-COVID, and it's fallen back to that standard business today. There was a one-time exceptional business during COVID because of the testing, which the diagnostic companies had, which no longer exists.

Kumar Saurabh:

Okay. My second question is, we have this huge capex going on. I wanted to know, and I think the capex program started almost 2.5 years back, and I'm talking particularly about the growth capex, not the warehousing one. So has it been delayed? And what is the reason? And when it will go live? And if you can give some plan around when we will achieve 10%, 20%, 30% capacity utilization? And which quarter it will go live and how the operating leverage will play out?

Aryan Sehgal:

Sure. So the capex was divided into two portions, the manufacturing and the growth capex, not the warehouse capex. One was the infrastructure, which is being built now almost for a year. It's been ready for the last at least 9 months to 12 months. And the other was bringing in the machines and commissioning those machines. We would have started our capex around 3.5-4 months back. But due to the unfortunate incident of the machines getting damaged during transit, a large block of the machines got damaged for which we are preparing our insurance claim. Our commissioning for this plant is slightly delayed.

Kumar Saurabh:

So when are we going to commission it? Do we have any visibility in terms of time line?

Aryan Sehgal:

So the next block of machines should start in H2, as Santosh mentioned, in his introductory speech. These block of machines would be stalled and there would be a longer delay because there will be claims from insurance, and based on the claims, we would have replacements. So this was the first block, which we were going to start our partial operations with. But this first block would come much after the second and third block because insurance claim and then getting the replacements of these machines would again take time.

Moderator:

The next question is from the line of Jaiveer Shekhawat from AMBIT Capital.

Jaiveer Shekhawat:

Aryan, if you look at the larger global life sciences labware companies, say, Thermo Fisher, Corning, Avantor and Danaher, and if you see the CY '23 results, they have just reported about a 5% to 10% revenue decline, which is possibly more or less similar to even Tarsons. And even in CY '24, they are likely to either report a flattish sort of revenue trend or a single-digit growth despite being multibillion-dollar revenue enterprises. One, if you look back, I mean, are there any micro- or company-level factors that you plan to address that can possibly accelerate growth for Tarsons, and just more in terms of the demand recovery across end users industries as to what you're seeing even apart diagnostics?

Aryan Sehgal:

Right. So coming to the companies you mentioned, with the exception of Corning, which is a large company, which has got a significant plastic labware revenue compared to the total revenue, I think that would total up to almost 12.5%, 13% of the total revenues. The other companies like Danaher, Thermo Fisher Scientific and Avantor, their plastic labware revenue, which is an identical like-for-like or apple-to-apple comparison to our product line, would be less than 6%, 7%. So there are mainly life science companies having a lot of reagents, having a lot of equipment and a lot of other things. So it's not a fair comparison.

But if you see the like-for-like business, I think, as I mentioned in our earlier calls, our performance is much better than theirs. But having said that, –you are right for these larger companies, their base or their revenue base will be much larger than ours. But if you look closer to our size in India, in Asia, maybe China, South Korea, we would find companies similar to our size. So looking at a like-for-like comparison with those companies and ours, same product mix, same revenue size would give a better idea of how we are performing in the industry as compared to the others.

Jaiveer Shekhawat:

Sure. And given that there have been almost 2 years in which the industry has seen a decline. So are you seeing, say, the smaller ones exiting the industry? Or possibly the amount of capital that was getting into the industry, has that sort of moderated? So any signs there? And then having more acquisitions happening in the industry?

Aryan Sehgal:

Not a lot of acquisitions because as the industry, the growth is down. It's not very attractive for the larger companies to further invest more in these companies because they already have a lot of planned capex, which is unused at this point of time because of lower demand. So we don't see a lot of M&A activity at this point of time. Of course, we are very, very bullish about the industry considering our size and the amount of reach, which is available for us, the runway of growth available for us over the years.

We are not particularly looking for an acquisition at this point of time because we've done the first acquisition of our company history 6 months back, so we are looking to stabilize things there. But in the future, if things do come, as a company, we'll definitely be interested. But overall, I don't see much transactions happening in the life science plastic industry globally. Companies shutting down, not so many in India, but I hear a lot of Chinese companies shutting down. But the volume of companies, which came in China was probably 100x more than what came in India. There were people who acted as manufacturers but are not actually manufacturers. So they've ceased activity, they were traders.

In terms of new capital investments, I think in India, it would be pretty much 0 at this point of time. I don't see anyone putting in new capital into this industry.

Jaiveer Shekhawat:

Sure. That's helpful. Secondly, if you talk about your margin, let's say, on a consol level, these have come down to around mid 20s, I mean, if you were just for the one-offs. So what's your strategy? What's the management strategy to turn around the margins for the Nerbe entities? And

then where do you see these consol margins heading, let's say, a year or 2 when you have sort of stabilized that entity?

Aryan Sehgal:

See, we never bought Nerbe plus, we never acquired Nerbe plus based on its margins. We acquired Nerbe plus to see the synergistic platform, which we could get from Nerbe plus to be able to establish our footprint in Europe. So I think over the next 3 to 4 years, we have a lot moving from Tarsons into Nerbe and then from Nerbe into Europe. And that's what the whole goal is. We would as a company, as Tarsons on a stand-alone basis, I think we'll be able to maintain margins over the medium to long term as the revenues start growing because at this point, we're in a very transitional phase.

We are investing for a company or for a size of a company which we today currently aren't because of the slowdown in the industry and various other factors. But I think Tarsons over the medium term would continue having very, very robust financials and margins. Nerbe would also be very strong in the balance sheet, but would never be anywhere close to what the starts and standalone would be. So on a consol basis, we would be accustomed to seeing lower margins because of Nerbe's EBITDA margins.

Jaiveer Shekhawat:

Sure. And on your stand-alone business, while we see there has been a lot of upfront, of cost, ahead of your new capacities. But as those come in, do you expect, say, further similar increase in your expenses? Or do you think the guidance that you had given earlier of mid-40s for the stand-alone business margins, I mean, does that remain intact?

Aryan Sehgal:

See, if you look at our business, if you look at the material margin or the gross margin, there's not much of an impact. So if these material margins remain, the expenses start getting lower and lower as the scale grows. I don't see any reason why we shouldn't be in those margins, what we have discussed earlier. But if the industry has slowed down or there's intense competition, only the gross margin gets affected. I don't see the gross margin getting affected at this point of time.

Jaiveer Shekhawat:

Sure. Just the last question on your Panchla facility. So could you call out how much of your capacities are being added to your existing line of products and how much is getting added to PCR and cell culture? And also the breakup of the capex and how much is pending.

Aryan Sehgal:

So in Panchla, most of the capex has been executed. It may not have been completed, but most of the capex of Panchla has been executed. I think less than 30% is on existing products with capacity expansion, more than 70-odd percent is for new products, products we've never sold before, which we are developing for the first time.

Jaiveer Shekhawat:

Sure. And what will be the overall capex? And how much is yet remaining to be incurred?

Santosh Agarwal:

So the overall capex we have incurred in Panchla is around INR300 crores [inaudible 0:21:24].

Jaiveer Shekhawat:

Right. I mean including the overall capex program, I mean, if you remember, that was around INR550 crores to INR600 crores. So where is that remaining amount getting spent?

- Santosh Agarwal:** So if you talk about the total capex of INR600 crores, we already spent about INR525 crores, and the remaining amount will be going to be incurred in next 6 months to 1 year time line.
- Jaiveer Shekhawat:** Right now, just to understand, so you said INR300 crores for the Panchla facility, then where is the remaining INR300 crores getting spent?
- Santosh Agarwal:** So there is remaining INR300 crores for the remaining plants.
- Jaiveer Shekhawat:** Are you also expanding in the existing pipelines?
- Santosh Agarwal:** So we are also building Amta plant also. So one part also incurred for that, and the remaining part for the remaining existing plant, Jangalpur and Dhulagarh.
- Moderator:** The next question will be from the line of Jasdeep Walia from Clockvine Capital.
- Jasdeep Walia:** Sir, the base for this quarter, which is 1Q FY '24 was particularly weak for the domestic business. On that weak base, we have declined in this quarter. This is despite your commentary in the last 2 quarters where you have been more sanguine on the domestic business versus the exports. And you've been saying that sequentially, with every quarter, there will be improvement witnessed in the domestic business.
- Also, if we look at the underlying industries, diagnostics company seem to be doing really well. Each of the companies is reporting 8% to 10% volume growth Y-o-Y, if you see the last quarter. Also, pharma industry has also been doing very well in the last year as well as in the first quarter. So if you could segment your sales in first quarter in India, and if you could talk about the reasons why we have seen such a subdued performance in first quarter in the domestic business.
- Aryan Sehgal:** So historically, the last 48, 49 years of our company existence, we've never been able to beat quarter 4. Quarter 4 will always be the strongest quarter domestically.
- Jasdeep Walia:** No. I am not talking about Y-o-Y, I'm comparing against 1Q FY '24.
- Aryan Sehgal:** From 1Q FY '24 to 1Q FY '25, our numbers are higher as a total basis, but are not as high on the India basis because we had a lot of onetime revenues last year in FY '24, which spilled over from Q4 of FY '23 into Q1 of FY '24. So what we are doing is we are receiving orders on an everyday basis, but we can only dispatch orders what we have availability for. But the people don't cancel orders if the delivery is not made at the same time. So we could have a lot of orders in March which we cannot fulfil, which will go in April, which will spill to the next month. People will not wait one full year for orders, but we do have pendings which last for 30, 35, 40 days.
- Santosh Agarwal:** And just to add, Jasdeep, we are filling orders both from domestic and export and the manufacturing facility is same [inaudible 0:24:49]. So for example, in Q1 FY '25, domestic has done INR42 crores compared to INR45 crores of last year, and export has done INR22 crores compared to INR17 crores of last year. So we could have changed this combination if we have given them more allocation to domestic. So we should see the revenue on a total trend, not on a domestic and export, just on a quarterly basis. Because if you see that whole year number, then

we can talk about domestic to domestic and export to export. We could have changed this proportion if we would have allocated more to domestic and lesser in export.

Jasdeep Walia: Domestic business, revenues can't be a function of you dedicating capacity to either of your businesses because it is as per the demand, right, as per the client demand? You can't...

Aryan Sehgal: It is as per client demand, but we can always dedicate our capacities. For example, exporting today is a big problem because of container issues, container prices, availability of vessels to move into the U.S., move into Europe. Exporting today in 2024 isn't as smooth as what it was in 2020. Today, I could have a shipment ready for U.S. or shipment ready for Europe, waiting 20 days in my warehouse before I get a vessel availability.

Earlier, I would not even have to wait 48 hours and I would have vessel availability. So my planning has to be where I keep a mix of both, right? So I cannot, at the end of the day, lose my international customers who I have built over a period of time as well. So as a company, we do have pending orders, and we would need to balance revenues accordingly.

Jasdeep Walia: The run rate of revenues in 1Q is pretty low, and your peak sales are INR300 crores. So I'm assuming that there will be a lot of capacity available even in your old setup, if you exclude the current capex.

Aryan Sehgal: Absolutely. There wasn't huge revenues.

Jasdeep Walia: Revenues can't be a function of you having to allocate capacity, right, because there's surplus capacity available.

Aryan Sehgal: But we are building 2,000 SKUs. So we could have capacities for products where there's no business, and we could not have capacity for products where there's a lot of business. Today, we have pending orders, but we have spare capacities as well. That is because we are running 2,000 to 2,500-SKU business.

Santosh Agarwal: And just to give a data point, if you see our total revenue, total revenue increased by 3%. But in both domestic and export, our order book has been increasing significantly compared to last year.

Jasdeep Walia: Got it. So overall, for domestic business, I guess, labware industry in the long term pre-COVID has been growing at around 12%. So should we at least see an industry growth reflected in your numbers in FY '25? Or there's still some time for market to recover?

Aryan Sehgal: See, just to put it for you on your concerns on the domestic business, the reason Tarsons has lost out on revenue from INR300 crores to INR280 crores, the decline has been somewhere around 6% to 7%. The reason for this decline is because of Tarson's strength in the domestic market. If Tarsons wasn't this strong in the domestic market, our decline would have been 30% to 35% just like the company industry average all over the world.

If you look at any company in the plastic labware industry, from peak COVID revenues, they declined, minimum has been 35%. The reason for our decline is the ability to maintain market share and the ability to take market share from other competitors continuously even in a low market in the domestic in India.

Jasdeep Walia: Got it, sir. So one of my earlier question was that do you see any particular weakness in any of the segments you are addressing in the India business in 1Q, which has led to this performance? Or it's just business as usual?

Aryan Sehgal: It's absolutely business as usual. We don't see any new weaknesses. Whatever existed historically exists even today. So our strength and weaknesses remain unchanged in Q1 FY '25.

Jasdeep Walia: No, sir, I'm just talking from your client perspective. So you have 3, 4 segments, right, diagnostics, pharma...

Aryan Sehgal: Exactly. So that's what I'm saying. Our strengths and weaknesses across these clients, whether it is diagnostic, pharma, education, research, remain unchanged. It's not that we got weaker in some segment and much stronger somewhere else. Everything remains the same. The numbers are not reflective if you see the decline from INR45 crores to INR42 crores, it's not reflecting the correct story.

Moderator: The next question will be from the line of Pradeep Rawat from Yogya Capital.

Pradeep Rawat: So I have a couple of questions. So we are spending INR300 crores for logistics and storage facility in Amta. So out of that current facility, do we have any kind of similar facility for logistics and storage?

Aryan Sehgal: So at this point of time, we do not have. We have a logistics center in all our facilities. And in our main facility, we have a small logistics center where we accumulate just-in-time inventories to be able to ship out products internationally, specifically internationally because in international, generally, the shipments are consolidated in larger trucks and there are not smaller shipments like the way they are domestically. But the need for logistics is growing more and more because inventory levels are getting higher because the logistic movement internationally is not smooth and things have not improved. We always expected an improvement over the last 24 months, but somehow there is some global problem on the other always since the last 2 years, which has made this movement highly slow and unpredictable because of which we have to maintain higher inventories.

But the purpose of building this logistics facility was not bad. The purpose was that today, we are around a INR300 crores company. We just about manage and survive. But if we want to become a INR400 crores, INR500 crores, INR600 crores company, we don't have the infrastructure to do business of those volumes. And we're not spending INR300 crores in the logistics facility. We are spending INR300 crores in our manufacturing and growth facility, Panchla, as it's called. And a sizable portion of the INR300 crores, maybe around 55-, 60-odd

percent, about INR170 crores, INR180 crores in Amta. The rest is in the newer facilities, INR70 crores to INR80 crores in our existing facilities.

Pradeep Rawat: Okay. Understood. And my next question is regarding our Nerbe acquisition. So currently, how much revenue do we generate from Europe? And going forward, how much do we envisage to grow this with the help of Nerbe distribution network?

Aryan Sehgal: So Nerbe is approximately a EUR 10 million company, and we hope to be able to find a lot of synergies to grow that robustly over the next few years. But as a company, we don't really give our distribution into particular countries in Europe. We don't really disclose that.

Pradeep Rawat: Okay. Sir, any ballpark number that we can achieve going forward through this synergy? So any ballpark number, like can we grow it to 5x, 6x?

Aryan Sehgal: The endeavour is to grow it to that level, but we will have to wait and watch how our manufacturing synergies and their customer synergies can get together.

Moderator: The next question will be from the line of Ridhima Goyal from Acquaint Bee Ventures.

Ridhima Goyal: My question is related to this new acquisition, which you have done, that is Nerbe. So I just wanted to understand why there has been such a drop in the gross margin measure also? And what is the scope of improvement in the new acquisition part? Like can we improve their margins by 1%, 2% or it could be higher?

Aryan Sehgal: So for us, the major focus over the next 2 to 3 years is to be able to ensure how we can grow our revenues through Nerbe while maintaining Nerbe to be profitable. I think being a distributor, having the kind of gross margins they have is quite impressive. At this point of time, I think they've been able to generate those kind of gross margins is because they've been able to build a brand identity for themselves in Europe and not just buy and sell other branded products. So at this point of time, I'm not very concerned about the Nerbe margins. What we are looking to drive over the next 2 to 3 years is how we can build our European business through Nerbe.

Ridhima Goyal: So we are not very much concerned about the margin part? On a consolidation, we can expect these margins?

Aryan Sehgal: Yes. If you look at life science companies, in the plastic segment in Europe, I don't think there'll be a lot of companies at 47%, 48% gross margins.

Santosh Agarwal: And you know, Nerbe is a trader. It's not a manufacturer. So Nerbe already had a margin in between 8% to 12%, so they cannot have the margin lag 45%, 46% like in manufacturing company.

Ridhima Goyal: Understood. So 10% to 12% is what we can expect from the Nerbe one, EBITDA...

Aryan Sehgal: Absolutely. And if we add more value-added products, it could go up. It all depends. It's very difficult to put a number 3 years, 4 years down the line, especially in a geography like Europe,

where its very dynamic at this point of time. A lot of changes, a lot of global upheaval happening all over the place. So it's not very easy to pinpoint on something so specific over the next 3 to 4 years.

Ridhima Goyal: Understood. And also on the stand-alone part, we have seen a gross margin decline by around mid 3%. So what is the reason for that? Are we seeing any pricing pressure on our products in the domestic part or maybe overall part?

Aryan Sehgal: See, the market is competitive. I would not really go on to say pricing pressure, but the market is competitive. The demands have been low over the last 2 years, the supplies have been high. So of course, people like to push more product, but I won't say pricing pressure per se. Change of product mix as well, a lot of high-margin products like the PCRs and the liquid handling have lower demand in the market.

So that brings some of the gross margins down. And then when you start building new products, you have to discount those products for people to try it for the first time, because if you don't have any history or leverage on those products and people don't trust you for those products or they don't trust your brand for those products, there's always an introductory cost.

Ridhima Goyal: But the new product contribution would be led to your overall revenue. So that must not be the major contribution to the decline in the gross margin.

Aryan Sehgal: No, I just listed all the factors for you. It's a mix which brought it to 3% down. There's a change in product mix. There's a market scenario and the introduction of new products.

Ridhima Goyal: Understood. And one last question I needed to ask was, since we are seeing that the Panchla plant will start contributing from second half of FY '25. So when can you see the around 50%, 60% of capacity utilization level from the Panchla plant or maybe the major contribution to your top line? When will it start? What is the time line?

Aryan Sehgal: So it's all a function of how the market reacts and how quickly we can capture businesses globally and in India. I think global would play a very important role because the Panchla facility is so large with such huge capacities. The global market would have to play a very big role compared to India. But having said that, we could have installed 100% of our capacities over November, December of this year. But due to a major machinery problem in transit, that would be delayed further. So I think over the next 8 to 9 months or maybe 10 months, all our machinery would be installed, but most of our machinery will be installed within the next 5, 6 months.

Ridhima Goyal: Okay. So we can expect 6 months to 8 months for the...

Aryan Sehgal: All machine installations, yes. So whatever we have planned, this capex of INR550-odd crores, all that would be delivered and installed.

Ridhima Goyal: And the top line contribution will start post that?

Aryan Sehgal: Absolutely.

- Moderator:** The next question will be from the line of Ashutosh Parashar from Mirabilis Investment Trust.
- Ashutosh Parashar:** So Aryan, if I understood correctly, you said earlier that the plastic labware industry in itself would have declined by 30% to 35% until Q1 -- in this quarter at least. So if we compare this against the glassware labware industry, so what do you think was the decline there? Because if I see the Borosil Scientific division, they are still reporting double-digit growth. So is it like the glass segment is, again, taking back market share from the plastics segment? And what do you see is the context of the industry right now?
- Aryan Sehgal:** I don't really follow the glass industry very well, but what I understand about the company you are talking about, they've had at least 2 or 3 acquisitions and new entities launched over the last 2 years or 3 years. So I think it's a -- you're looking at it at a consolidated level, but what I hear from distributors around in India because all distributors are common, they don't only sell plastic, they sell plastic, glass chemical. I don't see a very strong glass industry in the country, in India at least. Internationally, I don't have much idea.
- And regarding the decline in the plastic labware industry, what I said was, in one of my earlier answers was that if you compare similar companies from Asia, having similar product mix as Tarsons and similar revenue basis as Tarsons, their revenue would have declined to the tune of 30% to 35% from the peak revenue of COVID, which was FY '22.
- Ashutosh Parashar:** Okay. Got it. And on the international piece, you said that you are participating in a lot of RFQs and global tenders. So typically, what kind of success rates are we seeing here? And should we expect to see some sort of realization creeping in from this from the second half this year or maybe next year?
- Aryan Sehgal:** This is how we won our earlier businesses as well. At least in the OEM segment, it's all a function of RFQs. So hopefully, these are long-drawn processes. It's not that they have an RFQ today, and in 2 weeks, I know that I'm the winner or not for the RFQ. But hopefully, over quarter 3 and quarter 4, we hope to win more businesses, and that's the only way for us to scale up our international business and be able to utilize more of our upcoming capacities.
- Ashutosh Parashar:** So these suppliers would not have started yet based on whatever wins we have had in the last, say, 1 or 2 quarters. So these suppliers would not have started yet? And they are expected to start maybe from H2 or next year for...
- Aryan Sehgal:** Yes, absolutely. We keep having certain wins here and there. But we're looking to bid for even bigger businesses as we have larger capacities on board over the next 2 quarters. And hopefully, we could have some significant turnarounds.
- Ashutosh Parashar:** Okay. Got it. And just lastly on Nerbe. So are there any changes that you have done post acquisition that you could highlight? Or we are still kind of let it run as it was being run earlier also? So if you...

- Aryan Sehgal:** Absolutely. Absolutely, let it run how it was, make no changes in their structure, in their functioning in their team, and run it as in a complete independent entity but, at the same time, working very closely with their team to be able to understand their product mix better, to be able to see what value we can add to the existing product mix and to device strategies on how we can leverage all our new product introductions with Nerbe for the European market.
- Moderator:** The next question will be from the line of Lokesh Siva Mondreti from IBM. Please go ahead. The next follow-up question is from the line of Pradeep Rawat from Yogya Capital.
- Pradeep Rawat:** So I just wanted to know about the current debt level and what is our average cost of debt?
- Santosh Agarwal:** So the current debt currently is about to INR270 crores is the current debt. And our average interest rate is coming around at 8.25% or 8.3%, something like that.
- Pradeep Rawat:** So we didn't have any increase in debt from March level, right?
- Santosh Agarwal:** We are taking the additional debt, but we are also repaying debt. So on a nutshell, currently, our debt is ranging in between INR260 crores to INR270 crores, something like that.
- Pradeep Rawat:** Yes. So what would be the peak debt going forward?
- Santosh Agarwal:** So the peak debt going forward, so far, we have forecasted should not get and go beyond INR300 crores because we are doing the repayment also.
- Pradeep Rawat:** Okay. Understood. And can you also provide the number that you have said that you have an order book? So can you provide a number? Any broad guideline towards that number that we have...
- Santosh Agarwal:** As a company, we don't give any kind of order guidance or any kind of order detail, because until unless it's reflected into the sales and we execute, we don't disclose the number at the company level.
- Aryan Sehgal:** And even if we get the orders, we never disclose details on the type of order, the value of order, who the customer is. We won't do that.
- Moderator:** Ladies and gentlemen, due to time constraints, that was the last question for today. I now hand the conference over to the management for closing comments.
- Aryan Sehgal:** I take this opportunity to thank everyone for joining the call. We will keep updating the investor community on a regular basis for incremental updates on our company. I hope we have been able to address all your queries. For any further information, kindly get in touch with us or 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.