"Poly Medicure Limited

Q4 FY '24 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to Poly Medicure Q4 FY '24 Earnings Conference Call, hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Abdulkader Puranwala from ICICI Securities. Thank you, and over to you, sir.

Abdulkader Puranwala: Thank you, Sagar. Good afternoon, everyone. And on behalf of ICICI Securities, I would like to welcome you all on the Q4 FY '24 Earnings Call of Poly Medicure Limited. Today, on this call, we have the senior management of the company represented by Mr. Himanshu Baid, Managing Director; Mr. Naresh Vijayvergiya, CFO; and Mr. Avinash Chandra, Company Secretary.

I would like to thank the management of Poly Medicure for giving us this opportunity to host this call. And with this, I will hand over the call to the management. Over to you, sir.

Himanshu Baid: Yes. Thank you, Mr. Puranwala and good afternoon to everybody who is on the call. First of all, I'd like to thank you for coming on a holiday to take our call and really grateful to you. And I would like to take you through the quarter 4 earnings and also through the key highlights of the financial year FY '23-'24 and also talk about what we are planning to do in the current financial year and going forward.

So just a few highlights for quarter 4, so most important was the Renal business was back on-track and grew over around 35%. And this was on back of the policy changes that happened from the Government side where all medical devices got regulated from 1st October 2023. And also in terms of standard, Government introduced a lot of more standards of medical devices. And because of that, it has become mandatory for companies importing into India to follow certain standards for medical devices.

So, all that led to an increased demand for localized products because many companies were importing without regulations into India right now and that is kind of completely stopped. And also, we have seen that many companies which are importing from China and Chinese importers will have to follow the BIS standards and specifications to sell product in the country.

And currently, of course, all our products meet those specifications and standards, and we already approved CDSCO long ago. We also have European certifications. So, this is a very positive move for us and that has led to this kind of a growth of around 35%, which was this sector was a laggard for us for first 3 quarters, but we have seen now a lot of improvement. And in the current year also, I'll talk about it a little later, but we also see a big change coming in.

Exports continue to do well in the quarter 4, we have grown by around 25% again. And a good traction coming from Europe. And also it was a very important quarter for us because we launched our cardio business, there was a soft launch and now it has started picking up. We have launched 3, 4 products already and we are in the process of launching a few more products in next quarter. So overall, the response has been quite good, quite satisfactory.

Most of these products are import substitutes. So it's a true Make in India story where these kind of very important products are now being made in India and also conformed to the international standards. Also, we have received a positive response from the U.S. market for already U.S. FDA approved products because the products had gone for a trial as per the FDA approval -- clinical trial. We received good response.

We've also received first order for some of our products and some new more products in pipeline, which will receive or will go live in like the next 3 to 4 months in the U.S. market. So overall, we are happy with the current progress in the U.S. market, and we continue to add more products in the basket, and I will speak later about it.

All 4 new plants have gone live and now operational in FY '23-'24 so that has added quite a substantial capacity, manufacturing capability and capacity in the ecosystem. And in all product categories, we have expanded capacity whether it's vascular transfusion, renal as well as our diagnostic business. So all products, we have expanded capacity or also new products. We have invested in new capacity building when you talk of cardiology and critical care business which we launched last year.

So there also, we see a good potential. And as we get more regulatory approval, we'll add up more capacity for these kinds of products. The company has also received more patents in the quarter. Now we have over totally 400 patents, and that's a big thing for Indian company to have so many patents in the medtech space.

These patents are covering our product design, processes, and the product utility -- how product is used. So, all these are being covered in these patents across different geographies. And we continue to bring more devices and put more R&D resources to bring more devices.

And currently, we have around 20 to 30 new products, which are in development phase in pipeline, which will be launched over the next 2 to 3 years. So, every year, we have target to launch 10 to 12 new products across different categories and commercialize them and take them to India as well as to global markets as and when we get our regulatory approvals.

Coming to the financial highlights. The revenue, if you compare our financial year '23 to '24, the revenue has increased from INR293 crores to INR360 crores odd, a growth of 23%. EBITDA has also increased from INR90 crores to INR113 crores. PAT has also increased from INR57.5 crores to INR70.5 crores.

Our operating EBITDA in the quarter 4 has also done well. We have done well there. And we have now reached the higher side of the guidance we have given. So the guidance was for between 25% and 27%. So operating EBITDA was close to around 27% quarter 4 of the last financial year. And if you compare from quarter 3 to quarter 4, also, we have grown by around 11-odd percent.

So overall, the growth has been as per the guidance we had given in our earlier call and to all our investors. And when we look at now the full year financial results and then in comparison from FY '23-FY '24, the stand-alone growth is around 22.5%, and the consolidated growth is around 23.36%. So again, the guidance was between 22% and 24%. So, we have -- in the guidance, what we had projected in the beginning of the year and that's very important that we have firm business plan, we have firm order book.

So that helped us to get this accurate kind of a forecasting and guidance to all our stakeholders. Also, the total EBITDA also increased from INR300 crores to INR407 crores on a stand-alone basis, including operating EBITDA, which was close to around 26-plus percent for the stand-alone revenue.

Also, the PAT has increased from INR179 crores to INR251 crores. The company on a consolidated basis has done a revenue of INR1,375 crores including subsidiaries in Europe and also in China. And also EBITDA has increased by some INR303 crores to INR419 crores. Also, the PAT margins increased from INR179 crores to INR258 crores. So overall, the guidance for EBITDA for top line has met our expectations. And of course, last year was a milestone year for the company for a lot of things, which were new.

We have commissioned 4 new plants, which has created a sufficient capacity and capability to meet our next 2, 3 years' demand which is coming from international as a local domestic market. All the plants are live now. And of course, it will take a few years to fully utilize the capacity. But every month, we see increase in more equipment being added or more capacity being added to the current one, and that will help us to grow our revenue and also improve our operating performance.

Also, the company has been the largest exporter for medical devices for the last 12 years now, consumer medical devices last 12 years. So, it's congratulations to all our stakeholders and our team who has done exceedingly well and putting Poly Med products to over 125 countries in the last 1 year.

We have also launched 2 new divisions, as I mentioned, Cardio and Critical Care, and most of the products in this category are import substitution. So, this is a big boost for Make in India and also that will -- once we are through with our regulatory approval, these products will be also launched in global markets in the next 1 to 2 years. Because currently, that's the kind of regulatory wait to get approvals for selling these products into developing countries.

Export has grown over by 25%. And of course, the major contribution has been Europe. And as part of all the challenging environment you've seen in last 1 year, it is still -- and with all the supply chain interruptions, we were still able to maintain a significant growth in exports and our customers continue to have that great trust on us and they continue to order more products from us. And that's helping the company to grow year-over-year in this area.

India business was around 1/3 of the total revenue. It has grown only by 18%, which is not as per expectations. But this year plans are to grow over 25% with a lot of new customer additions and product basket increasing. And definitely, I'll take you through some more highlights of India business later.

Capex, we have done last year of around INR250-plus crores. And because of that, those more 4 new plants are operational with increased capacity in each segment. So -- and we'll continue to invest a similar significant amount in the current financial year also to augment more capacity in newer transformative businesses, which we are going to launch and which new areas we are focusing on right now.

So, I'll talk about more about the current financial year. The guidance for the current financial year is to grow at the same pace as last year. So again, we are guiding for revenue increase of around 22% to 24% in the current financial year. And also as we see more operative leveraging or leverage coming our way, we are also guiding for a better EBITDA margin in the coming financial year, improving by around 100 to 150 bps.

And this is what we see right now. Of course, the geopolitical situation continues to be very choppy. But I think with the kind of new product additions we have done, as we've ventured into more Critical Care products which have higher margin compared to our current conventional products, I think that will also help us to improve our margin. So that's how -- what we see on EBITDA.

And on the revenue side, I think the product geographically export and domestic will still continue to be 1/3 and 2/3. We don't see much change happening there. There will be more focus on the transformative businesses like Cardiology, Oncology, Renal Care and Critical Care because these are basically transformative businesses where these are through non-communicable diseases. These are not -- and these businesses continue -- these therapeutic areas continue to grow overall for the company.

We see a number of cardiology patients; cancer patients and renal dialysis patients continue to increase in the country and then also the critical care infrastructure of the country is also getting augmented after COVID. A lot of focus has been there on the critical care side, where we had shortage of critical ICU beds. So in critical care sales also, we see a significant growth. The company has been focusing on a few of the areas earlier, but now maybe more focus and will be adding more products in this category of products in the next few years.

Again, the focus will be to first start with 4 substitution products and then grow the capacity and capability to global scale to grow in international markets. We will invest a similar amount in current financial year also as planned and new technology business as we need more capex and also with new capacity coming up in all these businesses, we'll be able to also expand our reach to a lot of international markets, which are not present today with these kind of products, newer products.

Globally, we have seen a shift in mindset of consumers and customers and our stakeholders where India has been now recognized as a base for medical products, where we see now new -- a lot of new investments coming -- key investments and private investment coming in this sector.

And I think China Plus One strategy is paying some good dividends for -- even for Poly Med, as we've seen new customer additions. We've been asking -- our customers asking for new products, new development. So, I think we are in a great position as a company, as an organization where we can scale more in coming years to cater to increased demand in India as well as international markets.

Of course, there is a high focus on sustainable manufacturing. Every year, we are trying to reduce our carbon footprint and a lot of effort is made in this direction to reduce wastages, to be more efficient and also to use more green energy in manufacturing. So we are moving in that direction. And a lot of work has been done on the sustainability side.

We are also integrating a lot of AI and IoT to enhance efficiency in manufacturing and also bringing in more precision manufacturing to improve overall performance of our products. The company is also looking at opportunities -- inorganic opportunities in transformative new businesses to bridge the technology and development gap.

Today, it takes almost 3 to 5 years to develop and commercialize a new device or a new product. From design to prototyping to clinical evaluation, testing, proto manufacturing setup to full-scale setup. And finally, getting regulatory clearances from all important markets, it takes 3 to 5 years.

To fast track this, the company is looking at new fund raise of around INR800 crores, which was already approved by our Board of Directors in March 2024. And these funds will be basically utilized for rapid expansion of Cardio and Critical Care business and also setting up 3 new facilities, which we have won for gamma sterilization and 2 others will we do augment capacity for domestic market, mainly we're focusing more on domestic. So we want to increase more capacity there.

So, one plant is planned for Haridwar to be operational at the end of 2025 and one plant is scheduled for operations and also in Faridabad, one new plant. So we are also expanding capacity of our renal product because next 2, 3 years, we see now a big demand for renal products and we have now augmented because last year, we did not invest much in the renal product because we were not seen significance, but now the change scenario, I think we are seeing some bigger demand.

And this year, definitely, we are guiding for almost 50% increase in renal business. And also, I think in coming years, we will see a similar growth coming from renal side of our business. This year -- last year, we sold close to around 200 machines, dialysis machines. This year, we plan to sell over 500 dialysis machines. Also, we are the first company to receive a BIS certification for the dialysis machine.

So that means that we follow all the standards which are laid out by the government in India for dialysis machine and we are the first company to get this, and this will also help us to gain more market share in India. Initially, our target is to focus more in the Indian market as the market is for around close to 4,000 to 5,000 machines. Last year, I think almost 4,000 machines were sold in India. So we continue to focus on India and take more market share.

And once we mature this market, then definitely will go out in international markets to sell this machine.

Of course, we need to set up our intra service centres and also spare part inventory in international markets, and that's the process maybe we'll start in next maybe 1 or 2 years. That's the plan for that business. A lot of opportunity coming our way, and I think it helps because health care is growing at a very fast pace in the country. And medtech is one of the pillars of the health care ecosystem.

I think with health care expanding and more health care going to Tier 3 and Tier 4 cities, I think we'll see a similar expansion in the medtech industry and already almost 2,500 more people have got now manufacturing license from CDSCO to make products in India as everything is getting regulated in the country.

So medtech ecosystem is getting better in the country. We also see improvement in supply chain. And also, we want to also reduce import dependence of raw materials, so we continue to put more efforts in the indigenization of certain raw materials.

So that will also help us to rationalize our value chain and also have a lower impact on cost once -- because of the current disruption we see in the global supply chain situation. Our U.S. business, of course, I've spoken about it a little bit. So we continue to guide for $15 million of revenue over the next 3 years or so, received 4 new FDA approvals, 5, 6 more products will be applied shortly or are in pipeline.

So -- and the first order has been received for 2 products, and we are already building the capability and capacity for expanded growth in the U.S. market in the next coming years. So that's all I need to say about the U.S. business. Our domestic business, we are adding almost around 70 to 80 more people, all the expanded team by 20% this year.

We're trying to increase more coverage as more products are coming in. And we are very confident of now achieving a better growth in domestic business from last year's 18% to around close to 25% this year. And we are making all the suitable corrections and changes to ensure that we have this growth -- similar growth as we have an export in the domestic business also.

Export business continues to be -- has a good momentum. We're planning at 22% to 25% overall growth in exports. Europe continues to be a great driver for us right now. We are adding more products. We're adding new customers in Europe and that market continues to outperform for us in the last year also. And also this year, we expect the same. We also see some new product additions and with regulatory more new products getting regulatory clearance in European market in the next coming few quarters, we'll also see some better margin improvement in some key markets.

On the financial side, of course, we have -- we continue to improve our ROCE from 17.5% to almost close to 20.9% and that was one of the key areas for improvement in the last financial year. We still continue to have some cash on the balance sheet close to around INR150 crores net cash.

Of course, that keeps us healthy -- in a healthy position to take care of our immediate requirements for capex or for -- to care or augment our working capital capabilities, so -- and because of the current pressure in supply chain, we are also maintaining reasonable inventories for raw materials, but we still have almost 200 vendors outside India where we import critical raw materials or some critical components from there.

So we are trying to manage that through the cash available in the company. Government of India has taken some great initiatives in the last 2, 3 years. As you're all aware PLI, RLI, medtech part, regulatory landscape being completely changed, new medical device policy. A lot of -- I think bold changes were made in the last 2 to 3 years looking at from where we started during the COVID time and where we are today.

And now some more changes are expected. Government is going to overdrive right now to further reduce India's dependence on imports, it is currently around 65% to 70% and bring it down to around 50% in the next 4, 5 years. So a lot of work is being done in that direction in terms of value chain analysis, to bring in more manufacturing in the country and to make India more competitive.

So there have been a lot of interactions in the past few months with government agencies and some industry body forums and we will see some positive outcomes in coming months. A new PRIP scheme was launched for R&D, for medtech and pharma. So that's another big change which has come in and more focus has now been on value addition in India. And we'll also see some changes in PPO orders where purchase system is given to locally made products. So you'll see some more value addition being kind of rewarded as we move ahead on the value chain.

In terms of international business, I think Italian subsidiary has done well, has grown by over 40% in the past year. So from let's say, we have done almost from a negative margin a few years ago to almost 16%, 17% EBITDA last year. So the company continues to now be self-sufficient and in terms of its own cash requirements and is again poised to go by another 30% to 35% this year.

And we expect that revenue should double again in next 3 years from last year to next year, the revenue would double in this company. And this company specializes on precision drug delivery for Oncology and Critical Care. So -- and I think for us, it's a very important business area where we are focusing on trying to expand more products in the same field whether in India or also adding more manufacturing in the Italian plant.

China and Egypt continue to stay healthy and profitable. In spite of high currency depreciation needed, Egypt continues to make decent profit. It's part of a current geopolitical situation in the region, we still are doing well. And I think, again, compliments to the local team who has really done well in this adverse conditions. We're constantly watching the current geopolitical situation in global markets.

Of course, I think we can't predict anything, but we are trying to mitigate all the risks in supply chain and in manufacturing to ensure that we continue to grow at a steady pace and continue to make decent margins as we've been making in advance. That's all from my side as an update and now back to ICICI team to moderate the call and looking forward to talk to all of you. Thank You.

Moderator: The first question is from the line of Rashmi Shetty from Dolat Capital.

Rashmi Shetty: Congratulations on the good set of numbers. So just on capex, again, you mentioned that the investment for the capex would be around the similar levels of FY '24 that is roughly around INR250 crores this year. So generally, this INR800 crores, we will be spending phase wise right every year?

Himanshu Baid: So basically, the INR800 crores we are planning to raise because we have done our first capex cycle of the last 3 years through the first initial QIP, I think the company has kind of grown almost 2x in the last 3 years. And we are in that same trajectory of growth. And with whatever we are seeing with the new businesses which we are developing today, so there's a lot of technology investment, which has to come in.

And we have to fast track that investment so that we are ready to bring the products much faster in the market. Otherwise, if we go through our normal capex cycle, then the manufacturing and the new technology integration will get further delay.

Rashmi Shetty: Sir you said that you will be investing in Haridwar plant and in Faridabad, so these will be completely new facilities, right? And one more you said which I missed it.

Himanshu Baid: Completely new facility, they are build greenfield facilities in these days.

Rashmi Shetty: So one you said Haridwar, second is at Faridabad and the third one I missed it.

Himanshu Baid: Say again, please?

Rashmi Shetty: I missed the third one. So Haridwar, you said Faridabad you said and then 1 more plant, right?

Himanshu Baid: Yes. So we have 1 more plant to be planned in Jaipur. Sorry, I missed on the call by mistake. And there'll be one more plant coming near SEZ in Mahindra, it's a BTS plant, which will be, again, augmented capacity for Indian business in coming years.

Rashmi Shetty: And related to our export business, if you can give understanding about the infusion therapies because they are a major contributor to your overall business. How is that performing in exports, as well as in the domestic market? And from here-on, what kind of guidance you build like what we explained related to renal profile?

Himanshu Baid: See, I think renal business will grow faster because of the current tailwinds we have for the business. And see, again, our vascular business, infusion business are bread and butter business, and we have a good global leadership in this category. So this will -- and as we are adding more and more products in the same category.

So we will continue to grow in this business also in India as well as in international markets. So this business has its own tailwinds in terms of new development and new capacities we are building. And again, there are new markets we're addressing today, U.S. is one of them and so on and so forth. India, we still have penetrated only maybe 10% to 12%. So we need to penetrate India more deeper. So I think all that capacity expansion, which has happened in the last couple of years, will help us to address that demand which is going to come through expanded market.

Rashmi Shetty: So like for the annual basis for export market, we are expecting 20% plus growth, right? in FY '25.

Himanshu Baid: Yes, that is correct. Export, again, we are seeing 22% to 25% growth, that is the guidance we are giving for this year. And knowing that everything remains what it is today, we think we'll surely be able to do it, but we don't know the global situation.

Rashmi Shetty: And last question is related to the renal segment. Then you said that it is a 35% growth sir. That means that we have clocked around INR100 crores in FY '25 is my understanding correct in terms of this?

Himanshu Baid: So that is last quarter growth. Basically, first 3 quarters were muted, as you know, we were around 20%, 22% growth. Only in the last quarter, when we saw the impact of the new regulatory regime in India were first October, everything got regulated plus BIS bringing in standards.

So that is where things -- and of course, there were some stocks, which is available in the market, but I think quarter 4 was something which we saw a big change and also, there's a good demand which is coming after the changes which have happened in the regulatory track business. So we are pretty certain that this year and the traction we are seeing right now the last quarter and in last few months, I think we are very sure to see it growing around 55%.

Rashmi Shetty: And sir, on this renal profile, can you update or do you have any info that your competitor Nipro has also started selling the indigenous machines in the India market?

Himanshu Baid: No, I'm not aware of this. They currently import the machine from Japan.

Rashmi Shetty: Yes, yes. but they were also one of the approval in the PLI scheme, so that..

Himanshu Baid: PLI, they are making more dialyzers than the machine. So they are making the consumables, not the machines in India. But anyway, there could be more competition doesn't matter. India needs 4,000, 5,000 machines a year, and Poly Med is only making 500 this year. So there's still room for more players to come in, to make locally.

Moderator: The next question is from the line of Harsh Mulchandani from Kriis PMS.

Harsh Mulchandani: First of all, congratulations for a great year. And I wanted to just understand that the U.S. business, like you said, good to hear the traction which is happening. This is as per your initial assessment that the initial couple of years would be slower and then we would get the larger chunk of orders which you are expecting?

Himanshu Baid: Yes, exactly. Because from day 1, we'll not get that market share. So first, the products are going to few hospitals, and we receive feedback, and based on that feedback, if there any improvements should be done, we'll make some improvement changes. So before the FDA approval, we can't even send any single piece to the U.S. market. So that is now the product is in commercial usage.

And as we see more and more usage happening, we will see that traction building up. So, yes initial start will be slow, but then it will build up very quickly. And also, we are expecting more US FDA approval and the next 5 products also in pipeline right now. So it's a buildup of the whole business. And I mean we are confident that in the next 2 to 3 years, we will see that guidance what we've given earlier.

Harsh Mulchandani: Perfect. And what could be the impact of the recent fee transaction on us? Could it mean more competition for us because whenever we...

Himanshu Baid: Poly Med has a lot of integral strength because of its patents. And we seriously protect our turf, and we have been protecting for the last 25 years being in the listed space. So transactions were happening earlier also, will happen now also. But I think most important thing is we continue to build that momentum. And there are very few companies who have momentum in the medtech industry in India.

So even the transactions are happening, the growth rate is only 10%, 12%. So here Poly Med has been growing the last 3 years if you see track record average CAGR is around 20% to 22%. And we are again guiding for 22% to 24%, again. So we have that momentum. We have the product basket. We have the technology and also, we have the, I would say, markets available where we are putting these products. So that competition is most welcome, but we don't see much competition what we are doing today.

Moderator: The next question is from the line of Vishal Manchanda from Systematix.

Vishal Manchanda: Sir, on the cardiac and critical care markets where you are focusing in India. Would you have a number as to how large these markets are?

Himanshu Baid: See the markets I just give you a number of angiographies done in India, almost 20 lakh angiographies are done in India today and most of the products used there are imported. So for us, the market that is the big size of the pie. And that is what we are targeting today that what are the catheters which are needed for angiography, balloon caterers or diagnostic catheters or guidewire or anything related to interventional cardiology. That is where we are focusing on right now.

So our major focus will be on these kind of products. And then we will probably get into more, let's say, complex products going forward with radio sheets or something with a femoral sheet or something else. So that is what we are trying to build in as a business.

Vishal Manchanda: And you have these products ready, the catheters, that guidewire.

Himanshu Baid: We are already in the market. We launched, soft launch, as I explained to you earlier. We have done our soft launch already. And now we are augmenting the capacity. Because you can't build capacity on day 1. So gradually, we are building, assessing the market size, demand and seeing what -- how we have to move on. And I think initial response has been fantastic. And I think we are accelerating our production capabilities and capacities to grow faster in this segment.

Vishal Manchanda: Got it. So secondly, in the U.S. recently, we heard they have raised import duties on certain medical devices that they import from China. Any positive impact Poly Medicure could have because of the import duty?

Himanshu Baid: See, the first important thing is no business should be based on momentarily trade practices. By the time we, let's say, scale up capacity and tomorrow, somebody else comes in and say, okay, there's no more duty anymore. Will it be competitive now. So I think Poly Med is an organization built on is inherent strength. The sense is of our own products. We don't compete with Chinese.

So here, we are trying to build products and today we have more than 400 patents. So that helps us to be ahead of the curve in the segment. So we are focused on our segment. There are a few products like gloves or syringes where they put some duties. These are very basic products. And I think where there's very limited technology available to, let's say, put some differentiators.

So we will not get into such kind of products, which are very low EBITDA margins or very low margins to manufacture. So we are very clear that we continue to get into more high technology business, which is more technical and where we'll see more innovation coming in coming years.

Vishal Manchanda: Got it. And then finally, on the fund raise INR800 crores. So would -- does that include -- so you also intend to do a INR250 crores capex this year. So is this INR250 crore capex part of that INR800 crore fund raise objective.

Himanshu Baid: We oppose companies generating sufficient cash also to the fund. But I think mainly for accelerated, see when we -- when we raised INR400 crores in 2021, we were able to deploy that into accelerated capex and start for new plant. Now to start every plant, take 2 to 3 years, new plant. So it's a cycle.

So we have done that first cycle of setting up 4 plants. And of course, now we'll be augmenting capacities on all these new 4 plants with more complex technologies coming in, standing in cardiology and critical care will be spending because cardiology needs lot of R&D, a lot of new development, a lot of heavy-duty equipment. So -- that is why we are investing.

Plus, where we are augmenting capacity in renal space where we'll be probably tripling our capacity to look into because once you build capacity it takes a few years, it's not that there's a ready machine available and you can do it. These are all specially designed equipment, which are made based on your custom specifications.

So it takes time to build that -- ramp up that capacity. So we are adding capex there. We are also building 3 new plants. We are also looking at inorganic opportunities, as I mentioned earlier. Today, to make a new product will take 3 to 5 years from zero to finished product and get our regulatory approval. So can we look at companies which have similar line of products, and it can complement our existing product range. So that's also where we are looking very aggressively.

Vishal Manchanda: Got it, sir. And sir, just one final one. Within India, if you could share some sense on the zonal mix that we would have, so North -- contribution of North, Southeast and West broadly.

Himanshu Baid: We don't do that. So I'll refrain from doing it because that is not -- we don't give it our public information. And because that will be sensitive to our business, so I would not like to give that information.

Moderator: The next question is from the line of Harsh Shah from Dalal & Broacha.

Harsh Shah: Couple of questions from my side. Sir, firstly, on Europe, I mean, the growth that you are seeing. So what is the major driver for growth in Europe? Is it a case where we are gaining market share or the market itself is growing at such a pace that we are seeing such number.

Himanshu Baid: So definitely, the answer is second, that the market is not growing, but we are gaining market share, but the market is very huge. And we started with a few products and once there's a good acceptance with few products in hospitals, then you have a chance to add more, and Poly Med has a very large basket of products.

If you've seen we operates around 12 different segments, you've seen in the corporate presentation. So now once you are in this 1 segment and the customer would like to buy other products from other segments also. So that is the expansion we are seeing in the business. So -- and all our products qualified with the European regulatory requirement.

So we are seeing the traction happening in Europe and primarily in Western European markets. So our core business is in Western Europe, let's say, U.K., France, Italy, Germany, Spain, Sweden. These are our core markets. So that is where 80% to 85% of revenue comes from.

Harsh Shah: And secondly, on China. So you did mention earlier in your comments that even some sort of China Plus One theme is kind of playing out in our advantage. So how big is China's kind of role in the overall medtech space? I mean, if you could give some sense.

Himanshu Baid: To my knowledge, Chinese companies would be exporting close to $75 billion to $100 billion of medical products. These are different from a needle to an MRI machine and the number could be even bigger. A lot of U.S. companies are based in China, they have their own subsidiaries, and they cater to their own parent companies.

So the market potential is huge out of China, which could go out of India. And what I've heard in different corridors and people talking about is that they want to move like 30% business out of China in next 2 to 3 years. And that is where I see a big opportunity for Indian companies.

It's India's infrastructure, India's supply chain can cater that whole manufacturing ecosystem, I think India is in a great place to take that market share.

Harsh Shah: Got it. And thirdly, on -- I think I missed the number. What's the contribution of the renal segment in the overall top line for FY '24?

Himanshu Baid: It was close to INR90 crores.

Harsh Shah: And last question from my side. So out of the QIP of INR800 crores, right? You did mention that...

Himanshu Baid: I didn't mention QIP, we said fund raise. We have not finalized how we'll be doing it.

Harsh Shah: Yes, fund raise out of INR800 crores. Sir, any ballpark kind of figure or the size of acquisition you have in mind, or you would take as it comes?

Himanshu Baid: We are keeping that open. We are building up. This is the right time to build a watches. And why I'm telling you that is -- there are a few things which are happening globally today with interest base staying the way they are today in the Western world; we are seeing a lot of smaller companies which have technology are not able to scale up. And we have done one acquisition in 2019.

We have scaled it up. We have seen that with India's leverage as Poly Med's leverage in India, we are able to turn around this company. And now we are looking at bigger bets, we think that around the areas of transformative businesses which I've talked about that is renal, cardio or onco or critical care, there are a lot of opportunities which are going to come our way in next maybe a few months.

And we would like to look at those products and categories and see what we can expand quickly instead of build versus buy, like, okay, can we buy the business rather than building and building is going to take 3 to 5 years. So if there is something available, can we scale up? And that is the opportunity we are looking at.

Moderator: The next question is from the line of Tanmay Gandhi from Investec.

Tanmay Gandhi: Sir, on the domestic market, right? You had mentioned that this year, sales were slightly lower than your expectation. In the October month, we have been seeing you have addition BIS certification, right? So have you not started seeing its impact on other categories?

Himanshu Baid: Yes. So definitely, we have seen that imports will -- see, there's a very clear guideline within the Government that they have to reduce imports and that is kind of hampering with Make in India today in the country. And even the PPI orders are not working because the local content, it was not clearly defined. People are using even servicing as a local content in the equipment, for example.

So a lot of things are changing from the Government side. And I think -- and also, internally, we have to restructure, we are trying to bring in more talent and you add more people on the ground. We didn't add enough people last year actually. Our people addition was maybe less than around 30 to 40 in a team size of 360. So that was not enough to grow the local business.

So this year, we are adding 70 to 80 people, more focus there. We are also making changes in the leadership team. I think that will also help us to go deeper in relationship building with key customers across the country. So some changes and plus renal will grow at a very fast pace now at around 50%. So overall, that will pull up the other businesses also. So that way, we are confident that this 25% growth rate that we want to do in domestic business should happen now.

Tanmay Gandhi: And just secondly, our cost for this during the quarter has gone up, right? And the margins have also declined sequentially as well on a year-on-year basis.

Himanshu Baid: Margins -- they don't decline, I think. Margins have improved.

Tanmay Gandhi: I think for this quarter, you have done 25.5%. Was it...

Himanshu Baid: So quarter 4, we have done close to around 26-plus percent EBITDA, operating EBITDA margin.

Tanmay Gandhi: And sir, lastly, on the working capital, we have seen some improvement during the year. What could be a sustainable number going forward?

Himanshu Baid: No. I think working capital, of course, there are challenges in the global supply chain. So we continue to invest more in the inventory side so that we are sufficiently covered because we have almost 200-plus vendors outside India.

So I think that part is more or less covered, but I think it's the payment cycle, which is a little bit worrisome right now, which we are tracking very -- because globally, again, there is some constraints in payment getting from certain countries. But hopefully, we'll continue to work maybe in let's say another 5% to 7% improvement in the coming year. That's the plan.

Moderator: The next question is from the line of Ankur Shah from Quasar Capital.

Ankur Shah: Sir, just one qualitative question. Like Poly Med, the way it is the trajectory it is going on. I just wanted to ask, considering the competitiveness of the industry and the size of the -- size and nature of the competition. What according to you like where according to you we would be in the quality curve in providing these medtech instruments?

Like just a general question. Because, let's say, in medical, price is not only driver -- the government wants, like you mentioned, government wants as low imported goods as much as possible. But if suppose you are not able to match the quality standards then it won't be Yes. So where are we over there vis-a-vis the top competitors, which are there in the industry?

Himanshu Baid: So today, we compete with top competitors. As I mentioned earlier, almost 1/3 of our revenue comes from Europe and from highly regulated markets. So that is a testimony of Poly Med's products being used in top European hospitals across the whole continent. Also, we have got US FDA approvals.

So, our products, again, qualified for some of our products already see that approval, all our plants are designed like that, all the new technology which we have today is based on high-quality performance. So, we today -- and 2/3 revenues export and nobody is going to buy a product even if I give free of charge and the quality is very poor, nobody is going to buy it, as you already mentioned.

So quality is a key parameter, a key benchmark for the success of a company in our industry because every product is engineered product. It's not a capsule that you're filling -- today, you're not weighing the capsule whether it is 0.3 milligram or 0.32 milligrams inside -- the material inside a capsule, but medtech, every device has to perform, and it is used by a nurse or a doctor. So here, the quality is more and more critical than even in the pharma industry. So we are a benchmark as a company and our exports are a testament to highly regulated market is a testimony for that.

Ankur Shah: Sir, interesting, can you share in the European business, what is our business model? Is it directly approaching the customers via our own sales staff? Or is it via distributors?

Himanshu Baid: No, we do through distributors, mainly through distributors because we don't have enough people on the ground. We have only people in Italy on the ground, and we have people, some sales managers who are managing the business. The residences sales managers across the continent. So for us, it is more to distribution, so our model is to train the sales force of the distributors and then the sales force will go in hospitals and promote the product.

Ankur Shah: Sir, and the last question is on the cash flow allocation. Like I just saw we are clocking upwards of INR250 crore operating cash flow and considering the capex needs, I was just wondering, is the Q -- sorry, not QIP, but is the fund raise opportunistically timed or because I don't see any as such cash needs considering the capex programs?

Himanshu Baid: So we would like to go for an accelerated capex program, which we did earlier, and we are setting up 3 new plants and even in the current plant where we have set up capacity, each plant will still consume more capex in the next 1 or 2 years, where we augment capacity of the new businesses which we have developed in the last couple of years.

So the capex cycle will be far higher than even if you see last year's cash flow of FY '23-'24, the capex was much higher than the cash flow generated by the company. And then there was a requirement of working capital or whatever long-term debt we have paid them out. So, I think the important part is to -- and part of that funding -- a majority part of our funding will also be deployed for acquisitions -- technology acquisitions.

Ankur Shah: Sir, just coming to the capex.

Himanshu Baid: Fund raise is not for capex, only for entirely for capex. Majority of the fund raise will be used for inorganic expansion.

Ankur Shah: So like do we have an inorganic acquisition pipeline in your mind? Like do we have these companies in our mind considering...

Himanshu Baid: I will, but of course, I'll not disclose.

Ankur Shah: And sir, on the capex part, the thing that you mentioned, is the capex more augmented towards the existing products and expanding these products and the distribution so that we are manufacturing those same products more? Or is it towards new areas like cardiac which you mentioned?

Himanshu Baid: I think if you have heard on the call, we are going to focus more on transformative businesses, which is cardio, onco and critical care and renal.

Ankur Shah: So these are completely new businesses?

Himanshu Baid: Yes, renal is existing business. The other 3 are completely new transformative businesses.

Moderator: As there are no further questions, I would like to hand the conference over to the management for closing comments.

Himanshu Baid: I would like to thank everyone present today despite holiday; everybody has been very participative. Thank you all. And I think great questions from all of you. And again, I would assure all our stakeholders that the company is on a great trajectory in terms of growth. And with a lot of new transformative businesses, which we are doing today.

We are one of the most unique companies in India in the medtech space. And we continue to outperform all our competitors and peer group in the segment where we are operating today. And with whatever innovation we have done, I think there's a great global recognition for the company amongst all the stakeholders and peer group.

And next, I think a few years are very, very exciting for the company where we are on a high growth capex cycle and in terms of growth numbers, we are very confident of achieving the guidance we have given to all our stakeholders. And we will take all the suggestion, recommendations what we have received from you and definitely look forward to speaking to you again very soon. And thank you once again for your kind participation.

Moderator: Thank you. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us. You may now disconnect your lines.