

Massive runway for growth

We recently met the CFO of Poly Medicure to assess the demand scenario, competitive intensity, changes in the regulatory framework with respect to Medical devices within India and future plans of the company.

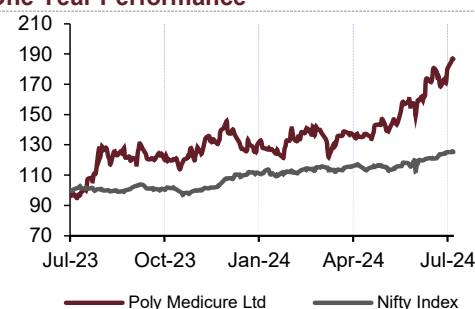
Why we are evaluating Poly Medicure?

- The Indian government has identified medical devices as a promising sector and is actively striving to decrease import reliance, which presently surpasses 70%. The medical devices industry has experienced significant regulatory modifications, some of which are in the implementation stage. These changes are expected to keep the sector in the spotlight, and we believe they could present substantial opportunities for Indian companies.
- Poly Medicure ranks among the top five Indian medical devices companies in terms of revenue and profitability, and it stands out as the only listed medical devices manufacturer. Furthermore, Poly Medicure is the leading exporter of medical devices from India, with 70% of its sales deriving from exports to highly regulated, developed markets such as the European Union, Latin America, Southeast Asia, etc. This export ratio underscores Poly Medicure's commitment to producing superior quality products.
- Poly Medicure excels in the field of disposable medical devices and is progressively diversifying its portfolio to establish a presence in categories characterized by high entry barriers and significant growth potential.

Rating	TP (Rs)	Up/Dn (%)
Not Rated		
Market Data		
Current price	Rs	2,138
Market Cap (Rs.Bn)	(Rs Bn)	205
Market Cap (US\$ Mn)	(US\$ Mn)	2,457
Face Value	Rs	5
52 Weeks High/Low	Rs	2,237 / 1,074
Average Daily Volume	('000)	101
BSE Code		531768
Bloomberg		PLM.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Mar-24	Dec-23
Promoters	53.15	53.16
Public	46.85	46.84
Total	100	100

Source: Bloomberg

Global Medical devices classification (in Bn\$)				
	2015	2020	2030E	CAGR FY20-30E
Electronics and Equipment	173	217	501	8.7%
Disposables & Consumables	119	159	413	10.0%
Surgical instruments	43	55	137	9.5%
IVD Reagents	35	45	105	8.9%
Implants	31	39	87	8.3%
	401	515	1,243	9.2%

Poly Medicure caters majorly to the disposables and consumables segment.

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Guidance:

- **Revenue likely to double by FY27:**
The company is poised to double its revenue within four years, driven by aggressive capital investments, introduction of new products across different therapeutic areas, increased penetration in the domestic hospital sector, and *strategic entry into the U.S. market, which is the largest for medical devices (~175 Bn\$ market size as on FY20)*
- **Operating Margin Improvement:**
EBITDA margins are expected to rise by 100-150 basis points from 25% in FY25. This improvement is forecasted to result from a focus on higher-margin product sales, stabilization of raw material prices, and gains from operating leverage.
- **Gross block to more than double between FY21 & FY25:**
The company is in a phase of high capital expenditure, with plans to at least double its gross block from FY21 to FY25. This indicates significant investments in assets to support growth and expansion.
- **Funding and Acquisitions:**
To support its capex and expansion strategy, the company has announced a QIP of 1000 crores. These funds are earmarked for further capital expenditures and potential inorganic acquisitions. The amount to be raised is equivalent to the gross block as on FY24.

Other Key Takeaways

- **Market Size:**

The global medical devices market is in excess of 500Bn\$ which is expected to grow ~10% by FY30. The market size of medical devices in India is ~11Bn\$ and is anticipated to reach by 50Bn\$ by FY30 i.e 15 to 20% CAGR. Poly Medicure has 6 to 7% market share in India within their product portfolio.
- **Product Portfolio:**

Infusion therapy will continue to be the highest revenue generating segment (~67% as on FY23). However products within Renal, Cardiology and Critical care will be the fastest growing due to the low base effect.

 - Within Renal segment, the company aims to achieve market share of 10 to 15% in the dialysis machine sub-segment which is growing at ~15% CAGR.
 - The critical care segment is already launched in Q3FY24 and it is a high margin product where import substitution is the key focus.
 - The cardiology segment will be launched in Q4FY24 where the company would be adding 30 new products in intervention cardiology within angiography and angioplasty. Aim is to take these products in export market as well.
- ***Export is more margin accretive than domestic market and will remain a key focus area.*** The stickiness of customers is very high as hospitals/doctors tend to not change devices which are critical in nature. Europe as a geography is very strong for them which currently contributes ~1/3rd to the revenue.
- ***The company does not want to compromise on their margins therefore price wars are avoided.***
- **Strategic Entry into USA provides a massive long term opportunity:** The strategic entry into the U.S, which is the largest market for medical devices (~175 Bn\$ market size as on FY20) provides a potentially long runway of growth. Already 4 products have received USFDA approvals and the company expects another 4 to 5 USFDA approvals in CY24 and has already entered into a tie-up with one of the largest distributor. Initially Class A and B products will be

introduced and gradually high complexity/technology products will be tested. Revenue will start reflecting from FY25.

- **Transition to a solution provider; which will help the company to foster long-term relation for future business**






































































































The company is presenting its clients with a proposition to become a solution provider, engaging closely with hospitals and clinicians. This initiative aims to introduce value-added products and solutions that specifically address concerns related to hospital-acquired infections, needle-stick injuries, and fluid management challenges.

- **Favorable Regulatory Changes in India:**

The government has recognized medical devices as a sunrise sector and is actively working to reduce import dependency, which currently exceeds 70% in India. Several initiatives have been introduced to support this effort, including bringing all medical devices under regulatory scrutiny, establishing a single-window clearance system for medical devices, and issuing a public procurement order that gives preference to local players in government tenders. Additionally, the introduction of the National Medical Devices Policy 2023 is among the other significant steps taken.

Following these initiatives, there will be an equitable playing field for all medical device manufacturers in India. Products will be evaluated based on quality, leading to a greater preference for locally manufactured products and promoting import substitution.

Product Portfolio

Vascular Access	       
Infusion Therapy	       
Oncology	        
Dialysis	        
Transfusion System	       
Diagnostics	      
Cardiology	     
Surgery and Wound Drainage	       
Anesthesia & Respiratory Care	            
Gastroenterology	       
Urology	      
Critical Care	         

Key Points from FY24 Performance

- Exports grew 27% and 18% domestic for the full year
- Growth in exports market was driven by European geography which grew by ~26% for the full year. The growth is because of market share gains and introduction of new products.
- **Revenue Mix:** 1/3rd Europe, 1/3rd ROW and 1/3rd India
- **Plan1 Health:** Sales which grew 40% for the full year and the company expects the revenue to double in next 3 years. Company has done extremely well by scaling the operating margins of the subsidiary from a negative trajectory to ~16 to 17% in a few years.
- **China+1 opportunity:** China exports ~75 to 100 Bn\$ of medical devices, customers are now willing to shift ~30% of the sourcing away from China and this represents a massive opportunity for India. As per management, ~5 to 6Bn\$ is the opportunity for India.
- **Renal segment:** After all medical devices came under regulation from 1st October'23, the company saw its renal division growing by 35% YoY in Q4. 200 dialysis machines were sold in FY24 with a target of 500 for FY25 (target of ~10% market share of incremental demand). This segment recorded a revenue of ~90crs in FY24 with a target of 50%+ growth in FY25.
- **Entry into USA presents a massive opportunity:** Targeting 15Mn\$ sales in next 3 years. 4 products has already received USFDA approvals and more 5-6 products are in pipeline.
- **Sales team:** The company had hired 30-40 people for the domestic sales team in FY24 which the company is planning to double the addition in FY25 to grow much faster in the domestic market. The penetration in the domestic market is still low which is why the company intends to hire more people to increase the geographical coverage.
- **Capex:** The company is on an accelerated capex cycle as the management foresees the massive opportunity that lies ahead. 400crs rased via QIP has been utilised for building existing and new capacities. 4 new plants built have already come onstream in FY24. The company is focusing on improving its manufacturing efficiency by using AI and IOT. 3 new greenfield plants would be set up across locations.
- **Strategic focus:** Going forward the company will be focusing more on Renal, Cardiology, Critical care and oncology segment. These product segments would be margin accretive at scale and it gives an opportunity to serve India as well as export markets.

Guidance for FY25:

- **Revenue guidance:** 22 to 24% growth over FY24
- **EBITDA margin guidance:** 100 to 150bps improvement due to operating leverage and high margin product introduction
- **Capex:** ~250crs for existing and new product categories

Revenue Mix (%)	FY20	FY21	FY22	FY23	FY24	CAGR 20-24
Exports	4,685	5,348	6,051	7,539	9,572	19.6%
Domestic	2,008	2,403	3,117	3,548	4,186	20.2%

Valuation & Outlook

We anticipate that Poly Medicure is positioned for a robust revenue increase, potentially surpassing a 15% CAGR over a long period of time. This optimism is fueled by several factors:

- The healthcare expenditure in India is witnessing a substantial growth, projected at a 10 to 12% CAGR. This trend underscores a broader expansion within the sector that Poly Medicure is well-poised to capitalize on.
- The company's dedication to continuous product innovation and introduction sets a solid foundation for sustained competitiveness and market relevance.
- Exploring further acquisitions and penetrating the US market present lucrative opportunities for expansion and diversification.
- Anticipated regulatory adjustments within India are expected to cast a favorable light on the sector at large, potentially benefiting Poly Medicure significantly.
- ***The scale at which Poly Medicure operates and 400+ patents (either product, design or utility) it owns will give them a massive advantage over most Indian players in winning new customers across geographies.***

Despite the seemingly steep valuation at 42x FY27E earnings, according to BB consensus, the considerable potential for growth and the company's dynamic evolution provide a strong case for maintaining the current PE multiple. ***We believe the company can clock 500Mn\$ revenue by FY30 from ~164Mn\$ in FY24.*** While we have yet to assign a formal rating to the stock, it is actively under review, reflecting our confidence in Poly Medicure's strategic positioning and future prospects.

Financial Highlights:

	(Rs mn)							
	FY17	FY18	FY19	FY20	FY21	FY22	FY23	CAGR FY17-23
Sales	4,544	5,086	5,910	6,693	7,750	9,169	11,087	16%
EBITDA	981	1,203	1,295	1,640	2,144	2,131	2,654	18%
EBITDA Margin	22%	24%	22%	24%	28%	23%	24%	
PAT	589	706	654	959	1,359	1,465	1,793	20%
Gross Block	2,981	3,449	4,374	4,793	5,691	6,765	7,886	18%
CFO	550	750	1,065	1,305	1,187	1,235	1,908	23%
Asset T/O	1.52	1.47	1.35	1.40	1.36	1.36	1.41	
ROE	21.7%	20.9%	17.1%	22.0%	14.1%	13.5%	14.4%	
ROCE	24.3%	23.5%	21.3%	23.6%	16.8%	16.2%	17.6%	

Source: Dalal & Broacha Research

ABOUT THE COMPANY

Polymed's **Robust Manufacturing** Footprint
12 State-of-the-Art Facilities across 3 continents



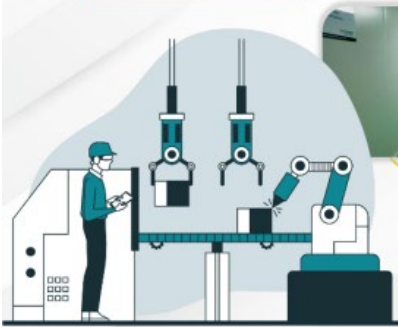
The first Indian medical device company with **international manufacturing facilities**

350+ Moulding Machines & 1500+ Injection Molds

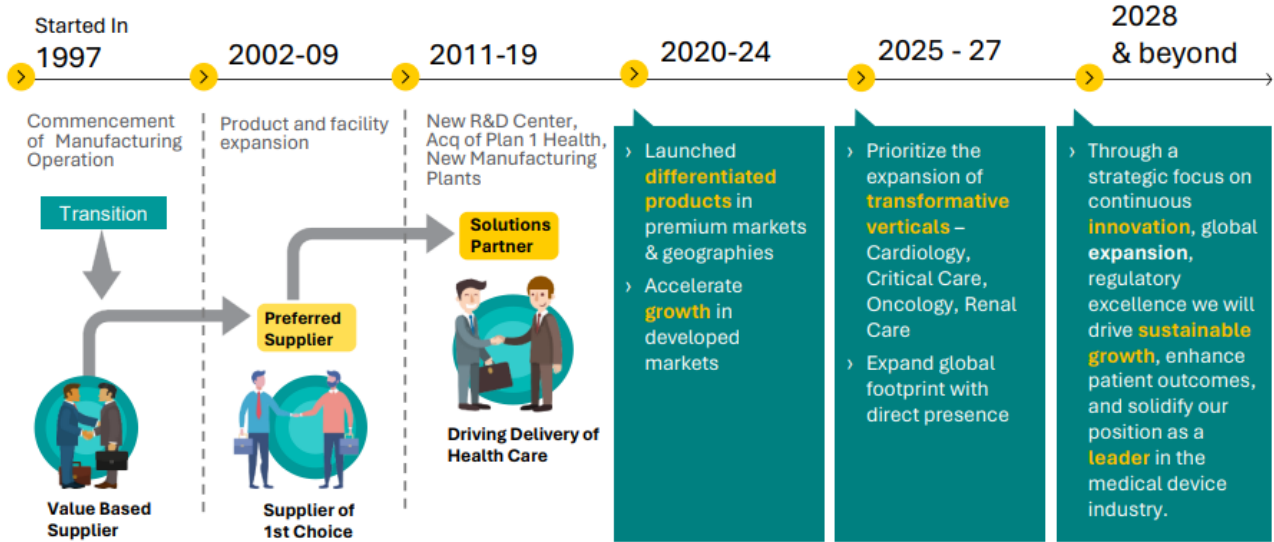
200+ automatic assembly machines.

100+ robots employed in our manufacturing processes.

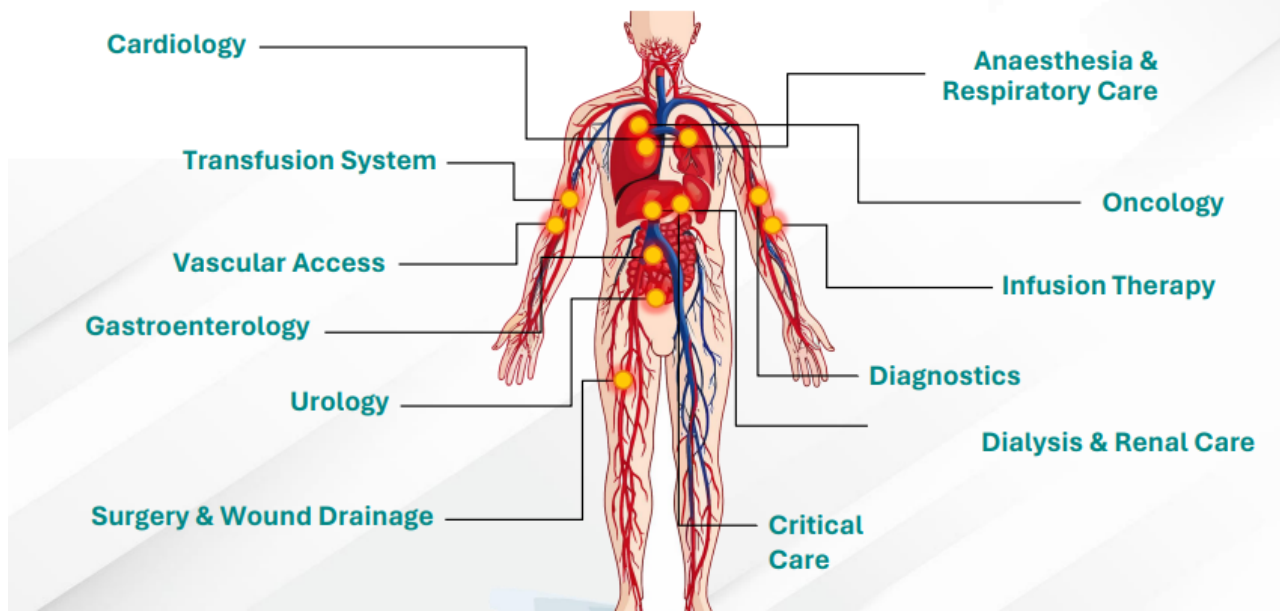
Mastering Manufacturing
Striving Towards **Operational Excellence**



Navigating the Path Building Tomorrow's Healthcare Solutions



Our Innovations Deliver Vital Care to Key Clinical Specialties



Source: Company Investor PPT

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