



“Glenmark Life Sciences Limited
Q1 FY’25 Earnings Conference Call”

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Moderator: Good morning, ladies and gentlemen. Welcome to the Glenmark Life Sciences Q1 FY '25 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Soumi Rao from Glenmark Life Sciences. Thank you, and over to you, ma'am.

Soumi Rao: Thank you. Good morning, everyone. I welcome you all to this early morning earnings call of Glenmark Life Sciences Limited for the quarter ended June 30, 2024. From Glenmark Life Sciences, we have with us Dr. Yasir Rawjee, our MD and CEO; and Mr. Tushar Mistry, our CFO. Our Board has approved the results for the quarter ended June 30, 2024. We've released the same to the stock exchanges and updated it in our website. Please note, that the recording and the transcript of this call will be available on the website of the company.

Now I'd like to draw your attention to the fact that some of the information shared as part of this call, especially information with respect to our plans and strategies, may contain certain forward-looking statements that involve risks and uncertainties. These statements are based on current expectations, forecasts and assumptions that are subject to risks, which could cause the actual results to differ materially from these statements depending upon the economic conditions government policies and other incidental factors. Such statements should not be regarded by recipients as a substitute of their own judgment.

The company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Our actual results may differ materially from those expressed in or implied by these forward-looking statements.

With that, I invite Dr. Yasir Rawjee, to say a few words. Thank you and over to you, Dr. Rawjee.

Yasir Rawjee: Soumi, thank you. Good morning, everyone, and welcome to our Q1 earnings call. I'm happy to report that FY '25 has started on a positive note. Before getting into our performance, let me give you a quick overview on the industry trends impacting our business.

So in spite of geopolitical tension and economic challenges, the global economic outlook is showing signs of improvement. Now optimism regarding the U.S. economy has risen substantially. Asia continues to inspire positive expectation, and we are more hopeful about China going forward. Europe faces some challenge on the demand outlook. So moderate growth is anticipated for the rest of the world, with a slight improvement in expectation since January. Inflation also seems to have come under control. Within our industry now, demand has seen a rebound in the first quarter. And this is good news. So we expect it to continue.

Now coming to our performance, after a fairly challenging quarter 4 last year, we have witnessed recovery in growth. So we are reporting close to 10% sequential growth. And this shows that the business is strong and resilient. And during the quarter, we've achieved broad-based growth across the geographies.

Our GPL business also witnessed strong recovery with -- on a quarter-on-quarter basis, we were up nearly 18%. And on our regular external business, the non-GPL business, we have seen even Japan sort of reviving after it had bottomed out last year. So Q1 was the first full quarter without the PLI benefit to GLS. So this has had an impact on gross margins. We had made the investor community aware that this was coming. And so we've had some challenge in the gross margins and slightly unfavourable product mix has also contributed to lower gross margins.

On the positive side, though, our employee cost has normalized and has come under 10% of revenue. So the net result of all this is that our EBITDA margins are now at around 28%, which was what we had guided to.

The CDMO segment continues to grow steadily, and we expect this business to pick up from Q3 onwards. On our pipeline, we have been consistently filling the pipeline across the globe with filings to match our growth aspirations. As on June 30, our total DMF and CEP filings have crossed 532 with cardiovascular and central nervous system disorder therapies seeing the highest filings to the tune of 251. We added 5 new products to our pipeline with 3 high potency APIs and 2 synthetic small molecules.

So all in all, the high-potency API pipeline is now 20 products with a total addressable market of 40 billion, 4 products have already been validated and 4 are in advanced stages of development.

Now coming to expansion, additional capacities at Ankleshwar will kick in, in quarter 2. And Dahej, our new pharma capacity will also become operational in quarter 2. So we remain confident for the rest of FY '25 and our commitment to deliver high-quality innovative solutions to our customers remains.

Now coming to a recent issue, which would have caught your attention. A couple of days back, we got a closure notice from the Gujarat Pollution Control Board, citing pollution issues outside our plant. So while the situation is not good and it has come as a surprise because we have been in compliance all along. However, we are taking immediate action to remedy the situation, are fully cooperating with authorities to address their concerns and implement corrective actions as soon as possible to ensure compliance with regulations.

Let's understand, as a company, our commitment to environmental sustainability is ironclad and non-negotiable. So given this position that we have always maintained, we are on the job and are going to resolve this matter as soon as possible.

So with that, I'll hand over to Mr. Tushar Mistry, our CFO. Thank you.

Tushar Mistry:

Thank you, Dr. Yasir. Hello, and good morning, everyone. Once again, I welcome you all to our Q1 FY '25 earnings call. Following Dr. Yasir's commentary, let me briefly take you through the key performance highlights for the quarter ended 30th June 2024. Post which, we will open the floor for questions.

Our revenue from operations for Q1 FY '25 were at INR588 crores, up 9.7% quarter-on-quarter. The gross profit for Q1 FY '25 was at INR301 crores at 51.1% compared to 55.5% in Q4 FY

'24. The decline in gross margins can be attributed to the discontinuation of PLI benefit as well as product mix.

The EBITDA for Q1 FY '25 stood at INR165 crores, up 14.1% quarter-on-quarter with EBITDA margins at 28%, which is within our guided range. Starting this quarter, employee costs have normalized and have come down under 10% of revenue mark. PAT for Q1 FY '25 stood at INR111 crores with PAT margins of 18.9%. Overall, Q1 FY '25 is showing signs of improved demand environment.

Moving on to the segmental performance for the quarter. Our Generic API clocked a revenue of INR535 crores, a growth of 10.5% quarter-on-quarter and 6.2% year-on-year. All geographies have seen good growth, more particularly regions like India, Japan and ROW led the growth during the quarter. Demand for our CDMO products was back and revenues grew by 20.2% quarter-on-quarter and was at INR43 crores for Q1 FY '25.

Within our Therapeutic Mix, the CVS and CNS portfolios continued to drive growth. Chronic therapies contributed 67% of the revenue in Q1 FY '25. R&D expenditure for Q1 FY '25 stood at INR17 crores that is 3% of sales.

Let me quickly touch upon the balance sheet and cash flow movements as well, starting with working capital. Working capital for Q1 FY '25 was at 167 days. Our capex for Q1 FY '25 was INR43 crores. We continue to remain a net debt free company. During Q1 FY '25, we generated strong free cash flow of INR121 crores leading to cash and cash equivalents of INR426 crores as of 30 June, 2024.

Overall, we are hopeful of continuing the growth momentum in coming quarters with stable margins on the back of improving demand environment. With that, let's open the floor for Q&A. Thank you.

Moderator: Thank you. The first question is from the line of Ahmed Madha from Unifi Capital. Please go ahead.

Ahmed Madha: Just to understand this notice from the Gujarat Pollution Control Board, can you give some sense what is this about, what is the reasoning behind their notice? Like, I just want to understand what is the core issue from their perspective?

Yasir Rawjee: Okay. So the way how this works is that the Pollution Control Board samples water discharge from the industries across. We are, of course, part of that industrial area. And so there was sampling done during very heavy rains. And there was a more than usual discharge from storm water drains. And we were told that our samples that were taken outside our plant had exceeded the limits on COD and a few other parameters. And so as a result of this, a closure notice was issued.

We have been sort of taken by surprise because, we always comply with limits on discharge. And so this has exceeded the limits that are in place. And so on the basis of this, we were issued a closure notice.

Now obviously, we are working with authorities to get this sorted out. But at the same time, we are also looking internally to see if something could have gone wrong internally and what needs to be done in order to rectify the problem.

Ahmed Madha: Got it. And could there be a major production issue from our end because of this?

Yasir Rawjee: See, we have not stopped production immediately simply because we have to bring the plant to a safe state. And this has been discussed with PCB. The GPCB at the time of the notice was issued, they understand, they've given us time. So as we speak, production has not completely stopped. But yes, the intent is to comply with the PCB notice, and so this will be done.

While at the same time, like I said, we are going to fix this issue if we do identify that there is one. As far as impact, there obviously will be some impact, but then considering that this has come at a time where we still have 2 months into for the quarter, we should be able to catch up with any production loss as a result of this temporary closure.

Ahmed Madha: Got it. My second question was understanding the gross margins a little better. I understand the PLI has gone off, so that's fine. Just to understand the broad range, is it that 51 is sort of a bottom quartile range in terms of gross margins. Is it fair to assume that way?

Tushar Mistry: Even we would assume that way. We don't see the margins going below this. This has been a unique quarter where, again, the product mix has been one of the major causes for the reduction in the gross margins, both product mix in the GPL business as well as in the non-GPL business has impacted this.

Ahmed Madha: Got it. But if I look at the mix in terms of regulated markets, it is higher than what it was last quarter. It is better in terms of your therapy mix. Core therapy mix share is still the same. GPL business share is still the same. So, broadly, is it just a product-specific issue like other product-specific changes? Or how should I think about it?

Tushar Mistry: Yes, Ahmed. See, we have a very large product basket. So there will be products in the basket with lower margins, even in the regulated markets as well as with the GPL business. So some of those products would be higher in volume in this quarter. And that's the reason why these margins are lower.

Moderator: The next question is from the line of Charul Agrawal from Bank of America.

Charul Agrawal: Firstly, I wanted to understand more about the demand outlook. You had shared the guidance of mid- to high-teens growth for the external business. Now looking at this particular quarter and seeing that part of the capex has also been pushed down, how should we think about growth for FY '25-'26?

Yasir Rawjee: So the demand outlook, like we said, is good. Obviously, it doesn't reflect the overall numbers. But when we really carve it out, the non-GPL business has grown quite nicely. And what we see in terms of the upcoming demand is much, much better.

The good part for us is that most of our regions have delivered. And again, the growth outlook for the next couple of quarters at least looks very strong across regions. Now, obviously, you're using the capex as a kind of surrogate marker. But the point here is that our brownfield expansions that we have engaged in, in this last year, 1.5 years have come into play and will basically give us a pretty good runway for the next 1.5 years to be able to take care of this additional demand.

So nothing to worry. We have gone now pretty aggressively on the Solapur buildup. So the first phase should get done in about 18 to 20 months from now. And so while the brownfield fills up, we will have Solapur coming in as well.

Charul Agrawal: So sir, does that mean that the medium-term growth outlook remains unchanged?

Yasir Rawjee: Yes.

Charul Agrawal: My second question is on the CDMO business. There was a multiyear agreement that was supposed to come into it. I think it has been also pushed back slightly. And you also mentioned that there is one other deal that is expected to be finalized. So can you share more colour on the CDMO outlook?

Yasir Rawjee: Okay. So our fourth project, which we signed in November with this Japanese innovator, okay, was signed in November. Commercial will start as soon as we start getting regulatory approvals. We have supplied the validation quantities, which were then taken by them for exhibit batches and variation filing. We expect that commercial supplies for this business should start in Q3, but it could spillover into Q4 as well.

Coming to the fifth project, this is well on track and we are likely to see commercial supply starting off in late Q3, early Q4 again. So this is all driven by regulatory approvals that both these projects need to get. So it's all in the course of things really.

Moderator: The next question is from the line of Vijay Karpe from Shriram Life Insurance.

Vijay Karpe: Yes, so my first question is with respect to the CDMO business. So I understand that we do generic CDMO. So at any point of time, will we consider getting into CDMO which caters to the Phase I, Phase II, Phase III trial because what I -- even though individual's life may be finite, the company has an infinite life and we would like to get into that part of the CDMO business?

Yasir Rawjee: That entire segment of the business requires fresh investments in R&D as well as in manufacturing. And it has a very long gestation period. We have explained this to the investor community many times that given the kind of uncertainty in this business segment because of - primarily because of attrition, we believe that these are long bets to take, and we've got to make lots of investments upfront in R&D with this kind of FTE kind of work.

So we prefer shorter gestation projects, right? Because given the kind of portfolio depth that we have, we can comfortably prospect business in this segment, at least for the next 3 to 5 years. I'm not seeing any kind of let-up in our ability to prospect business in the segments that we have selected.

- Vijay Karpe:** Okay. The second question is on pricing. So how has been the pricing pressure in the first quarter? And are our margins expected to remain stable at these levels in the medium to long term? Or they are expected to drift a little lower? And if that happens, are we expected to maintain our ROCs also at the 30% mark?
- Yasir Rawjee:** See margins like Tushar explained some time back, right, that we probably are at a relatively low point in terms of margin that we have reported this quarter. It doesn't look like it's going to get worse from here, okay? So we will comfortably maintain margins at this level or even beyond. And this is just a quarter phenomenon with the kind of mix. So we are comfortable meeting margins.
- Vijay Karpe:** And the pricing pressure?
- Yasir Rawjee:** Yes. So pricing pressure has not been there, okay? I mean we are seeing normal erosion. And that's very, very common in our business. I mean every company faces this kind of challenge.
- Moderator:** Mr. Vijay, are you done with your questions?
- Vijay Karpe:** Yes. Yes.
- Moderator:** The next question is from the line of Ashwini Agarwal from Demeter Advisors LLP.
- Ashwini Agarwal:** Just a couple of questions. One is that we are starting to hear that the funding winter for start-ups, especially in the biotech area, is starting to get a little bit better. Does that have any feed through impact or better cash flows, like pharmaceuticals? Does it have any feed through impact on your business or not really?
- Yasir Rawjee:** It will definitely have an impact because many of these companies, right, that have kind of -- had this kind of revival on the financing side are also into specialty. So the one element of our CDMO is specialty play. And I can tell you that the kind of interest we've had from the specialty segment mainly from the U.S. has been much better than what we'd seen last year. So it's happening.
- The other element that you may also want to consider is that full Biosecure act, right? And it's benefit to Indian companies especially ones that are catering to the more innovative side of business is beginning to play out as well. So, yes, answer to your question is, yes, it will definitely work for us in the right direction.
- Ashwini Agarwal:** Second question is that you're steadily building up cash on the balance sheet again. With the new sort of change in ownership, any thoughts on cash allocation and distribution of dividend or dividend policy?
- Tushar Mistry:** Yes, Ashwini, I mean, see the dividend payout may not be as high as what it used to be in the past. We have paid almost INR21.50 each year as dividend in the past, which is like almost 1000% or more than 2000% of our paid-up capital. But you will not see this kind of increase or this kind of dividend outflow. We have already laid out our capex plan. We have informed the

investors that the current year's capex plan is going to be in the range of INR300 crores to INR350 crores.

So the capex outlay is high for the current year as well as for the coming year. So the cash utilization on the capex front is going to be high. So we will sit on some bit of cash and there will be some element of dividend payout as well. But as I mentioned, it will not be as high as what you have seen in the past.

Ashwini Agarwal: So the capex, INR350 crores this year and there's a similar number for fiscal '26 as well?

Yasir Rawjee: Yes. Because Solapur has to complete Phase I, okay? And in this year's capex, Solapur just getting started. Like we said, Solapur will be done in about 20 months from now. So that will pick up this financial year as well as next.

Ashwini Agarwal: But our overall target of 1.3x to 1.5x capex to revenue potential and steady margins, those parameters remain the same?

Yasir Rawjee: Can you please repeat?

Ashwini Agarwal: What I'm saying is that the revenue potential of new capex at 1.3x to 1.5x the amount of money invested, that remains in place.

Yasir Rawjee: Yes, Ashwini, let's contextualize this a little bit here that while we would be going for approvals by regulators of the new Solapur facility, we still have a sizable ROW business that can be serviced out of the new capacity. So yes, we will be able to utilize that as soon as it is up and running.

Moderator: The next question is from the line of Bharat Sheth from Quest Investment.

Bharat Sheth: Sir, I have first question that we have large dependence on our one customer erstwhile promoter also, which is around approximately 30%. So what is our strategy to derisk kind of dependence on one customer? And how do we really see over the next couple of years, it will play out? And once they've moved out of the ownership, so are you facing any kind of pricing challenges from them?

Yasir Rawjee: Pricing with Glenmark Pharma has always been at arm's length. This is something that we've had for the last 5 years now, even when we were part of the Glenmark Group. Now when you say derisk, right, see other business is growing faster. So there will be a natural reduction in terms of the percentage contribution to our business. But given the fact that we do more than 65 projects commercially with Glenmark Pharma, it is very unlikely that there is any big risk to this business and Glenmark Pharma would walk away from us. That is very unlikely.

And so given the fact that we continue to give them good prices -- market prices. They have no reason to go away because even if they wanted to go away over the R&D overhead to make changes is very big. And I don't see any reason why they should.

In fact, this quarter itself, this is the first quarter, which is outside of Glenmark's ownership. And this quarter has been pretty good, I would say. I mean, we've had a good number of products and good revenue coming out of that business.

Bharat Sheth: Okay. Fair, sir. And are we getting a new project also from the Glenmark Pharma or still now that you would like to restrict the 65, what we hear?

Yasir Rawjee: No. In fact, thank you for that. We continue to work with them on newer projects. So that also is another element. So it's not as if we are going to be limited to what has happened so far. There are launches also coming up in the next couple of years on projects that were seeded earlier. And we continue to keep them interested in our pipeline.

I mentioned about the oncology pipeline. Glenmark Pharma has been pretty favourable to our oncology pipeline. I mean, this continues. There is no real change in the way Glenmark Pharma looks at us as a high-quality supplier of API.

Bharat Sheth: Can you give some kind of over 3 years' time frame, where do we see this CDMO business. Is that a fair understanding? So where we see because we always set up with the product, which is now already in the pipeline. I mean, which is already commercially scalable?

Yasir Rawjee: Yes. But then see, the thing is that both on the life cycle projects as well as the specialty projects, right, specialty development, we do have some level of development to meet the specialized requirements of the customer. So commercially, we have 3 projects today, like I explained earlier to a question from Charul, right, is that, we would be adding 2 more projects by the end of this year commercially.

And that momentum is something that we would continue. So CDMO is on a pretty good track, and this is using our regular infrastructure, both in R&D as well as in manufacturing. So in that sense, no great fresh investment but business can be driven with these newer projects.

Bharat Sheth: And would it be able to give you some potential that of this total 5 projects, if it goes on the live, it's for our planned time line. So what could be the potential that we have?

Yasir Rawjee: So, I mean, of course, these would start in Q3, Q4, let's say, Q4. And by the time they hit a steady state, it would be another 2, 3 quarters, right? But I anticipate a good \$12 million revenue from these 2 projects.

Bharat Sheth: Okay. And sir, is it possible to give some kind of a color...

Moderator: Sorry to interrupt. Mr. Bharat, may we request please return to the queue. The next question is from the line of V.P. Rajesh from Banyan Capital Advisors.

V.P. Rajesh: Congrats on a good set of numbers. My first question was regarding the PLI. So should we assume that in Solapur capacity expansion, we're not part of any PLI scheme. If you can just comment on that?

- Tushar Mistry:** Yes, that's right, Rajesh. We don't have any PLI benefit available now. We were a part of the GPL Glenmark Pharma PLI scheme. With this selloff to Nirma, now we're no more a part of Glenmark Pharma, and that's why the PLI benefit has now gone for us.
- V.P. Rajesh:** Understood. The second question was regarding this expansion. Given what you said, Tushar, about the dividends, should we assume that there won't be any debt coming on the balance sheet for the expansion? Or how should one think about that?
- Tushar Mistry:** Yes, that's right. All this expansion will be through internal accruals only. We don't see any requirement for leveraging the balance sheet, at this stage it should remain debt-free.
- V.P. Rajesh:** Got it. And third question on the Glenmark business. I was just curious what is our market share in the 65 molecules with them. Is it 100%? Or is this 50% or lower? Just if you can give some color on that.
- Yasir Rawjee:** So that would range from molecule to molecule. There are molecules where Glenmark has 100% of the business at the front end, and we are the only supplier. And in most of the 65 molecules that we supply, we are the only source with Glenmark. And even where we are -- they are dual-sourced, right, we still get a significant chunk of their business on those molecules.
- So difficult to say what that sort of market share would be because there are 2 elements here. There is a front-end market share that Glenmark enjoys in the front end. And then it's our supply to Glenmark. But like I said, even where there is a dual source for Glenmark in a few molecules, we still get, I would say, a good 70%, 80% of that business.
- V.P. Rajesh:** So you would say on average in this 65 molecules, 70%, 80% of their supply is coming from us, right? That would be a reasonable assumption?
- Yasir Rawjee:** More than that.
- V.P. Rajesh:** More than that, but...
- Yasir Rawjee:** Yes. In terms of wallet share, wallet share we probably have 90-plus percent of that business.
- V.P. Rajesh:** Got it. Okay. And then lastly on the CDMO business, given the kind of positive news that you are garnering there, what percentage of the revenue could it be? I know you've talked about it in the past. But I'm just curious, given the successes you think it could be a bigger portion, let's say, 5 years down the road?
- Yasir Rawjee:** Yes, it would be for sure because like I said, just to the earlier to Mr. Bharat Shah right, that look we expect to get another INR100 crores added to our CDMO business by mid next year. So we are at around INR140 crores, INR150 crores now on these 3 projects. And with the -- another 2 projects coming on, we should see another INR100-odd crores added. And going forward, we have guided to CDMO being INR500 crores to INR600 crores in the next 4 years.
- V.P. Rajesh:** Right. So what I was trying to understand is that you think this could be a larger than INR500 crores, that's what I was trying to get sense.

- Yasir Rawjee:** Larger, larger it depends, right? I mean, like I earlier said that our pipeline, is pretty strong and our engagement with the innovator segment of the customers has been growing simply because now even though we were independent, Glenmark ownership also had some drawback, right, on this segment. I mean, we benefited also from that element but it had some drawback.
- And so even that has now kind of gone away because there's no Glenmark ownership. So that fear from innovators that we are part of a generic -- a big generic player, right, is also kind of laid to rest.
- Moderator:** The next question is from the line of Aejas Lakhani from Unifi Capital.
- Aejas Lakhani:** Dr. Rawjee, if you could just share that the facility, which has got the GPCB order, what was the entire production as a percentage of our production last year?
- Yasir Rawjee:** So I'd rather give you a value number. What are you looking for? You're looking for production?
- Aejas Lakhani:** Yes, yes, I'm completely comfortable even if you can give me a value number but that's perfectly fine. I'm trying to understand if there is a delayed resolution what would be the consequence impact on revenues?
- Yasir Rawjee:** So this facility contributes to about 60% to 65% of our overall revenue. It's our largest facility, okay. As far as your concern about delayed resolution, it's understandable. I mean, like I said, we also sort of became aware late on Wednesday night, right? So we have to solve it. It doesn't look like, even though it's not, like I said, we have been in compliance all along. So it doesn't feel good.
- But at the same time, the engagement that we've had with the authorities is that they are looking for us to comply. And so coming back into compliance doesn't look like it's going to be a very huge challenge. We should be able to do that. So resolution would happen fairly quickly. And like I said on an earlier question, we've got the better part of 2 months to catch up for the loss of production that we would face in this brief period.
- Aejas Lakhani:** Got it. Got it, Dr. Yasir. But you -- maybe it's too early to ask, but the revenue loss could be for 2 to 3 weeks from now and you believe that, that would be really caught up in this quarter itself, right?
- Yasir Rawjee:** I don't even think it will take 2 weeks to resolve. Thank you.
- Moderator:** The next question is from the line of Yash Shah from Investec.
- Yash Shah:** My question is regarding the capex. In the previous quarter's presentation versus this quarter's presentation, there have been quite a few changes. Can you please talk a little bit on that? I can see that in Ankleshwar from the planned addition of 280 KL to 300 KL, we've changed it to 60 KL. Can you just basically explain something on that?
- Yasir Rawjee:** Okay. So let's go first with Ankleshwar. Now we had an overall block, which is Plant 18 of 400 KL capacity. So we had brought on 192 KL last year, okay? And we just finished adding the 208 KL, which will now become operational in quarter 2.

Okay, I think it was an earlier question where I said that the brownfield, will hold us in good stead for the next 1.5 to 2 years. And in order to do that, we had to add a pharma capacity to Ankleshwar. So this work will start as soon as the rains are done, and we will bring on 3 pharma areas in Ankleshwar and that should kind of level off Ankleshwar at least for the foreseeable future.

We can still build in Ankleshwar, but since Solapur is coming up, we feel that we should invest in a newer and more modern site, okay? Coming to the Dahej, again the bottlenecks that we see in the next 2 to 3 quarters relate to pharma capacity because intermediate capacity is pretty good in Plant 6, right? So we are bringing on 1 pharma module in quarter 2 and very likely another pharma module will also come up by Q4 or maybe into FY '26.

But given the number of approvals that we are expecting on the new products and the expansion basket with more markets getting added to recent launches, we are acutely aware that we need to bring on the additional capacity in terms of Plant 6A, which is another 160 KL.

So, yes, there have been changes to answer your question. But then we've got to align ourselves with product mix, demand pattern that is shaping up based on the plant and also new launches that we foresee coming up next year and in early FY '27. So that's the kind of readjustment that we were needed to make.

And, yes, I mean from time to time, that is looked at. We have always maintained that capex investment will be calibrated so that we don't go overboard in just making investments and then it turns out that we don't need it, at least in the near future. So it's always going to be like that with us. And so, I mean, sorry about that, but that's the way business works. And that's how we sort of continue to relook at our requirements as we go along.

Yash Shah: No, no, sir. That's all right, I was just asking for clarification. Another clarification, which I wanted was, earlier you mentioned the capex amount. You mentioned about somewhere between INR300 crores to INR350 crores. So just want to understand, if it is for this year, FY '25 or FY '25, FY '26 combined? That's all from my side.

Yasir Rawjee: No. FY '25 itself, we will do 300 -- between INR300 crores to INR340 crores, right? And -- like I answered earlier, Solapur next year will also take a good INR200-ish crores alone to complete that facility. So, all in all, we would be looking at spending about INR350 crores to INR400 crores on Solapur to get the first phase up and running.

Moderator: The next question is from the line of Harshal Patil from Mirae Asset Capital Markets.

Harshal Patil: Just needed clarification on 2 points. One, if you could just speak a bit about raw material prices scenario, how is it -- are there any changes to it or maybe some change in view?

Yasir Rawjee: Raw material prices are stable. The only area that we can see inching up is solvents. So when you look at solvents like isopropanol, toluene and hexane. These solvents they go back to crude feedstock as well as gas. And given the kind of world that we live in right now with all the conflicts, the oil prices, I would say, are stable, but they are still inching up and solvents are kind

of following that path. So the only place where we see raw materials playing up a little bit is on the solvents side.

Harshal Patil: Okay. Got that, sir. Sir, just one more clarification on the Ankleshwar side, while you said that it will be resolved very quickly. But I just hope there is no major capex that will be required, any investments that will be required out there for the rectification?

Yasir Rawjee: See our capex commitment to environmental treatment has always been there. Okay. So just to give you a sense, we have 2 ETP plants that are fully functional. And last year, we took a call to add a third ETP plant, which will commission next month. The third ETP plant was also commissioned.

So capex commitment to environment, to meet environmental regulations and being a good corporate citizen has always been part of our DNA. We believe very strongly that we need to meet requirements. Now will this lead to additional capex? I don't believe so, really. We have been doing pretty much everything to comply, okay?

So it's only a matter of once our investigation is complete, we'll figure out if and where we've had a problem, and it will be fixed. Even if there is a capex investment, it would be marginal.

Moderator: The next question is from the line of Charul Agrawal from Bank of America.

Charul Agrawal: Just had one more question. If you could shed some more light regarding the changes in the company's strategy after Nirma takeover? Any changes that have come up recently?

Yasir Rawjee: So Charul, on capex, I would not say aggressive, but we need to now seriously build our greenfield. And greenfield does take up more investment. But then that's the need of the business. With Nirma coming in, we've had complete support to be able to do that and also to achieve that in a shorter time frame.

So it gives us a lot more comfort, right, to have a fully functional greenfield site in about 2 years from now. And of course, it will mean that investments happen. The other element, again, on the Nirma that has been a big plus for us with Nirma coming in is to basically expand into new areas of technology. So here there are a whole bunch of areas that we have always had in our plans to get into, but on account of limited view in terms of the spend, we have had to hold back.

But now we are going aggressive, right, in building basically these new, I would not say, verticals because they are still aligned to our chemistry platform. But they would basically allow us to open up new portfolio avenues for the business.

Just to sort of give you a sense, we also will be building our own R&D center, okay, in order to facilitate this kind of new technology platforms that we would add. So having our own center and the ability to rapidly expand R&D is also a decision that has been made recently with the backing of Nirma.

So this is going to be a sort of hopefully a game changer for us, right? And the new portfolio that would build as a result of these investments, would start playing out in the next 3 years or

so. So I mean, it's great to have ownership from a company that is much more sort of growth oriented and gives us the full freedom to sort of make these decisions.

Moderator: The next question is from the line of Bharat Sheth from Quest Investment.

Bharat Sheth: Sir, is it correct that I understand that our net working capital is 167 days.

Tushar Mistry: Yes.

Bharat Sheth: So is there any room to bring down that in order to generate -- I mean, improve our cash flow?

Tushar Mistry: No, good you asked this question. Actually, I missed this in the opening remarks. See the -- what we are saying is that working capital will inch up to some extent. While the arrangement with Glenmark Pharma continues to be what it used to be in the past, except for the fact that there is an increased credit term that they have negotiated going forward. So that will have an impact going forward, and that would inch up the working capital or the receivable days. So we'll see how this pans out. But we don't see working capital coming down from this level, but we'll try and control it as much as possible on the upside also.

Moderator: The next question is from the line of Suhag Patel, an individual investor.

Suhag Patel: Congratulations on the good set of number. One question, sir, I would like to. Last quarter, you mentioned that there is, like, accounting policy of Nirma due to which we missed to recognize somewhere around INR40-odd crores of revenue. So can you please elaborate on that? That is question number one. And question number two is, how do you see the kind of shipping scenario playing out, the Red Seas one, which you mentioned in the last quarter?

Tushar Mistry: Yes. So first of all, again, I was not on the call last time. There is no change in the accounting policy. It's a change in the estimates that we had to implement with the change in ownership. And changing estimates that the companies follow can be different. So that's where what estimates used to be followed by Glenmark, to what is being followed by Nirma at the group level is different. So that's the only change. There is no change in the accounting policy, okay? That is the first part.

Second, on the supply chain issue there has -- see last quarter, we had never expected that the Red Sea issue will impact us because most of our shipments are air shipments. But with the Red Sea issue, the availability of air freight also has become a challenge, and that was where we were caught a bit unaware.

But with that, then we improved our planning significantly to take care of that. In the current quarter, we have already addressed that to a great extent. The challenges still remain, but our planning to that extent has improved and has now started taking care of this extended time lines as well. And to a great extent, this is now under control.

Suhag Patel: Okay. Thanks for the update. Just a follow-up question on that. So whatever backlog we had in, say, last quarter because of this Red Sea issue, and we've not been able to get the air cargoes and

all. So can you elaborate if some of the backlogs were cleared in this quarter and that is reflecting in this quarter's revenue?

Tushar Mistry:

Some of those backlogs have been dispatched in the current quarter, but current quarter some element of backlogs will still -- are still there as I mentioned, it is not fully resolved, it is still there but we have now incorporated that as a part of our planning. And that continues till the time you see globally this matters coming down to a great extent. So we are more on a stable state even with this impact now in place.

Suhag Patel:

Sir, my question was mainly on whether the revenue of this quarter is reflecting the backlog of the earlier quarter or not?

Tushar Mistry:

To answer your question, that is reflecting in the current quarter, but the current quarter's backlog is now taken to the next quarter..

Moderator:

Thank you, members of the management team. Ladies and gentlemen, on behalf of Glenmark Life Sciences, that concludes this conference call. We thank you for joining us and you may now disconnect your lines.