“Glenmark Life Sciences Limited
Q4 FY’23 Earnings Conference Call”
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Moderator: Ladies and gentlemen, good day and welcome to Q4 FY'23 Earnings Conference Call of Glenmark Life Sciences. 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 Ms. Soumi Rao; General Manager, Corporate Communications, Glenmark Life Sciences. Thank you and over to you ma'am.

Soumi Rao: Good morning everyone. I welcome you all to the earnings call of Glenmark Life Sciences Limited for the quarter and year ended March 31st, 2023. From Glenmark Life Sciences, today 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 and year ended March 31, 2023. We have released the same to the stock exchanges and updated it on 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 risk, which would cause actual results to differ materially from these statements depending upon the economy 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 statement, 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 doctor.

Yasir Rawjee: Thank you, Soumi. Good morning and welcome to everyone on our Q4 Earnings Call. Before we dive into the Glenmark story, let me talk about the overall macro situation. So while we hear about COVID here and there, we seem to be okay from the industry perspective. Demand is stable. We don't have any challenges on supply chain and operations are also not impacted by this element as of now. So it's not going to be alarming.

The China situation is certainly improving. Manufacturers have started in full swing. We are having a good supply situation as well as prices are under control. The other elements like inflation and the banking sector stress and so on have less of an impact on us. So overall, the macro situation, I would say is favorable to the industry. However, we must remain vigilant.

Now coming more directly to the industry, I had mentioned in last quarter that solvent prices were softening as a result of gas and crude prices coming down. And this has certainly played out well in quarter four. Even the freight situation has eased off, so we are okay. There is a bit of a, I would say, a bit of a bump with the custom situation in Mumbai, with the new software being installed and some material getting slowed down. But that won't have an impact. But we are talking about this quarter. On Q4, let's talk about performance.

So we've had a reasonably good quarter, strong growth on a quarter-on-quarter as well as on a year-on-year basis. So this growth basically rides on the back of very robust growth in the generic API business, which was driven both by the external business as well as the Glenmark business. And then we had good recovery on the CDMO side as well in this quarter. So overall, I would say we fired on all three fronts that make up our business. On the CDMO space, one of the projects in the CDMO has picked up well on account of an additional indication that the customer received. Plus, there was some rationalization on inventory in the last two or three quarters. And so the CDMO space for us was a bit depressed. Okay, so on the one project that we are still waiting on, there are some regulatory delays. But hopefully that will also clear in this year.

Now, the one thing that also has helped our growth in a big way is the capacity that was brought on, the additional capacity that was brought on in the hedge. So we added 240 kiloliters at the hedge, which came extremely handy in this last quarter and helped significantly with this big demand that we saw. So the hedge capacities have come fully online. We've also got the oncology block started off and started manufacturing oncology molecules commercially as well. Now, when we look at the annual situation, the top line does look flattish, right? But I would say that the growth that we've seen is a quality growth, and that's reflected in our profitability numbers.

So I'll start with CDMO. Like I said, there's been some inventory rationalization pressure from Q1, which I'd also highlighted in the earlier calls. But then that has picked up very well in this fourth quarter and we believe that this momentum would continue. Coming to GPL business, again, Glenmark Pharma was in this mode of inventory tightening rationalization. And so that impacted us in the first three quarters of this year. But they have been through that already. And so we began to see some very good demand from them in Q4, which will also be sustainable.

Now, last year, we also had the impact of Favipiravir, the base, and so this entire flattish behavior on the growth is as a result of all these things. Now, the one thing I must say is that despite these two engines firing late, our external business has continued to grow at a very healthy pace of around 15%. Okay, and this is a testimony to the diversification of the business that we have been able to create at the product level and at the geography level. So this is extremely encouraging and this is a trend that will continue. With respect to margins, okay, like I said, the quality of the growth has been very good. So we got a growth of 6.4% in EBITDA and 11% growth on net profit in spite of being flattish on the revenue. So to summarize on a full year basis, during the first half, we've seen demand issues for both GPL and CDMO, which then normalized, began to normalize in the second half. And this quarter, we sort of hit a pretty good situation. Okay, with external business continuing to grow.

So just to talk a little bit more on the external business, we have introduced a few new products to the basket that have contributed to the growth. And the overall basket is now 139 molecules. And on the customer front as well, we now are sitting with 700 customers across the geographies. Coming to R&D, we had 433 filings as of last year, which has now gone up to 468 at the end of FY'23. The R&D pipeline remains robust with a total of 20 molecules in the pipeline now, of which many are complex molecules. So we had three ion compounds out of which, you know, regulatory filings for one have been completed. We've also added one new high potent API to our pipeline, taking the total high potent API pipeline to nine.

So out of these nine high potent API molecules, we have five which are in advanced stages. So overall, our complex R&D pipeline in the market, you know, our complex R&D pipeline has continued to grow and has a market opportunity of approximately 20 billion, a front end market opportunity of $20 billion. So let me sum it up on the business side with, you know, saying that the demand has come back pretty strong with all three levers firing well. Cost pressures have rationalized and that's why the profitability has also improved. And I believe that this will sustain in this new financial year. And so we'll stick to our guidance of around 12 to 14%, you know, with stable margins.

Before I close and hand over to Tushar, you know, I'd like to just let you know that our HR team has done a brilliant job on employee retention, where we got a gold award from the Economic Times Human Capital Awards, competing with some really big names, okay? So we were selected for employee retention, we got the Gold Award. And for business continuity, we got a Silver Award. So I'd like to thank my entire team for working tirelessly and bringing a lot of innovative products, policies, to the company. And as a result, we remain highly optimistic to continue our journey.

So with that, I'll hand over to our CFO, Mr. Tushar Mistry, who will discuss the financial performance in greater detail. Thank you. Tushar, over to you.

Tushar Mistry: Thank you, Dr. Yasir. Hello and good morning, everyone. I would like to briefly touch upon the key performance highlights for the quarter ended 31st March, 2023. And then we'll open the floor for Q&A. We registered revenue from operations of 621 crores with a sequential growth of 14.9% and 20.9% on a year-on-year basis. Dr. has already discussed the growth drivers in detail, so I will move to the performance numbers. Gross profit for the quarter was at INR341 crores, up 23.6% quarter-on-quarter, and 31.7% year-on-year. Gross margin for the quarter was 54.9%, up 319 basis points on sequential basis, and up 450 basis points compared to the same quarter last year. Gross margin was driven by higher CDMO sales and better product mix.

EBITDA for the quarter was at INR209 crores, up 37.6% on quarter-on-quarter basis, and 42.1% on year-on-year basis. EBITDA margins for the quarter were at 33.7%, up 560 basis points on sequential basis, and up 500 basis points on year-on-year basis. EBITDA margin for the quarter was higher due to higher gross margins, as well as lower operating costs. Dr. alluded to this in his opening remarks that cost pressures for raw materials, as well as for operations of 621 crores, as well as for operations have come down, which has resulted in high EBITDA margins. Profit after tax was at INR146 crores in Q4 FY20C, registering a growth of 39% on sequential basis, and 48% on year-on-year basis.

PAT margin for the quarter was at 23.6%, increased by 420 basis points on sequential basis, and 440 basis points year-on-year. PAT growth was driven by better EBITDA margins and lower finance costs. External business grew strongly by 19% on year-on-year basis, and 2% on sequential basis. External business was driven by strong growth in US, LatAm, Japan, with other geographies remaining stable. The Glenmark Pharma business also recovered strongly during the quarter, growing 45% on sequential basis. Glenmark Pharma contribution to the revenue was 37% during the quarter, and roughly around 31% to 32% for the full year.

General EPA revenue for the quarter was at INR530 crores, registering a growth of 10.4% on a quarter-on-quarter basis, and 15.5% on a year-on-year basis. Strong recovery in Glenmark Pharma business and beyond external EPA sales have led to this growth. For the quarter, the CDMO business doubled on sequential basis to INR66.8 crores, whereas on year-on-year basis, the growth was 30.4%. R&D expenditure for the full year was at INR65.2 crores, 3% of sales. We believe R&D expenditure to stay around 3% for FY'24 as well.

Coming to working capital for the business, working capital days for FY'23 are at 171 days. We believe working capital cycle peaked in Q3 at 178 days, and now we are witnessing it cooling down. During the quarter, rationalization in inventory led to improvement in the working capital. Data for the year looks higher, but they are driven by strong sales in Q4 FY'23. So, I believe the working capital levels to remain at similar levels in coming quarters.

The capex for the year was at INR170 crores, which is in line with our strategy of doing calibrated capex of around INR150 to INR200 crores every year. Even after capex, we have delivered strong free cash flows of about INR143 crores. We continue to remain a net debt-free company with cash and cash equivalents of INR284 crores on the books as of 31st March, 2023, and this is after paying the dividend of almost INR260 crores in March. To conclude, strong demand recovery supported by better input prices and availability of excess capacity will help us to deliver sustained growth in the coming years.

With that, let us open the floor for Q&A. Thank you.

Moderator: Thank you. The first question is from the line of Tarang Agarwal from Old Bridge Capital. Please go ahead.

Tarang Agarwal: Hi, good morning, everyone, and congratulations for a extremely strong set of numbers. Just a couple of questions on my side. One, if you could comment on the volume growth for the entire business for FY'23?

Yasir Rawjee: So Tarang, it's largely driven by volume growth.

Tarang Agarwal: So the 6% growth that we've seen in the top line for FY'23, would it be fair to presume all of it is volume?

Yasir Rawjee: Yeah, largely. I mean, there is some price growth, but it's largely volume.

Tarang Agarwal: Okay. The second question is, I think the commentary that you laid out in your opening address, it does seem like Q4, there weren't any runoffs. So would it be fair to presume that the traction that we've seen in Q4, given the capacities have expanded and overall operating environment has improved, should probably continue going forward in FY'24?

Yasir Rawjee: That's what we would say, yes.

Tarang Agarwal: Okay. If you could give us a sense on what was the contribution of Favi in FY'22 to your overall business?

Yasir Rawjee: '22.

Tarang Agarwal: Yes.

Yasir Rawjee: Yeah, Tushar, if you could.

Tushar Mistry: About INR96 crores was the contribution in FY'22.

Tarang Agarwal: Got it. And the last question, Tushar, I mean, if I look at the business, right, I mean, working capital expansion has just been, on one streak, if I compare '22 to '21 and '23 over '22, even though Q4 has sort of lightened up from Q3 numbers. But I mean, I understand '22 was an account of you wanting to hold off additional inventory, given the uncertainties in the environment. But I was surprised when I saw the balance sheet numbers yesterday, that the expansion sort of continues. So are we going to, I mean, is there a way that this can be probably be addressed, or this is how the business operates?

Tushar Mistry: See, if you see from Q3 to Q4, within the working capital, the inventories have softened significantly. I mean, you can see the softening happening on the inventory front for sure. The working capital has, it seemed like, sort of because of debtors, because of receivables. And that is an account of a very high number on the Q4 sales revenues. Actually, if you annualize the Q4 sales and look at the receivables, they will not look like 136 days of receivable, they will look like 118 days of receivables.

So out of the four quarters, the fourth quarter has been extremely good. And that's why if you take annual sales and look at the closing receivables, the receivables will look higher. But if you annualize the fourth quarter sales, then your receivables will be reasonably low. So one needs to look at it from that perspective.

Tarang Agarwal: So how should we see this number going forward? In, say, if I were to look at the number 20?

Tushar Mistry: So I think from 171 days, you should see another eight to 10 days of reduction going forward.

Tarang Agarwal: Okay. But ballpark about 160 to 170 days where you should be straddling now.

Tushar Mistry: Yes.

Tarang Agarwal: Is there something that's fundamentally changed in the business, which is resulting in an expansion in working capital?

Tushar Mistry: No, as you see, that you see generally across industry because everybody has been sitting on inventories. We had also built up the inventories cautiously. And that's where the working capital had gone up. While now we are seeing some ease of happening globally. And because of that, you can see that the inventory levels have also come down in Q4. While we are hopeful that it will still come down, but we'll still tread cautiously on this as we go forward.

Tarang Agarwal: Got it. Thank you, Tushar. Just last question. Capex for FY'24, how should we look at it?

Yasir Rawjee: Capex should be between the INR150 crores to INR200 crores range.

Tarang Agarwal: Okay, thanks, all the best guys.

Yasir Rawjee: Thank you.

Moderator: Thank you. The next question is from the line of Neha Manpuria from Bank of America. Please go ahead.

Neha Manpuria: Thanks for taking my question. So on the fourth quarter performance on the generic API side, if you could just help us understand what's the pricing trend that we've seen because some data shows that realizations continue to weaken for generic APIs. Have we seen a similar trend? And what's your sense on where the pricing could settle? Could you see more pricing pressure as raw material costs come off for APIs?

Yasir Rawjee: Yeah, Neha, for sure pricing pressure is there. More driven by the US market, and as costs do ease, there is an expectation from customers that the price will go up. There is an expectation from customers to lower prices. We've managed to sustain it quite, and if you recall, right, we had passed on some of our higher costs to customers.

So now the shoe is on the other foot. And there is an expectation which we've managed reasonably in Q4. But in order to keep customers happy, we would be sort of addressing that as well.

Neha Manpuria: So just to get a sense, how much would blended realizations be down for our business, let's say, from last year to where we are ending now?

Yasir Rawjee: 3% to 4%.

Neha Manpuria: Okay. And I'm assuming fourth quarter, this number would be higher, obviously, since this is from the beginning. So there was also increase that we saw in the first half?

Yasir Rawjee: Neha, could you repeat that, please?

Neha Manpuria: So I'm saying that in the fourth quarter, probably the realizations are down even higher on a quarter-on-quarter basis.

Yasir Rawjee: Yes.

Neha Manpuria: Okay. Our second question is, given we mentioned there's no one-off in this quarter, your commentary seems pretty upbeat, and we have the capex coming. Any reason for maintaining the revenue growth at the 12% to 15%? Because I would suggest, I understand this quarter-on-quarter lumpiness in the business, but if I just look at the fourth quarter numbers by itself, we should be growing in the mid-teen to probably slightly higher. So any concerns that are keeping you conservative on the top-line guidance?

Yasir Rawjee: Okay, so see, our visibility for the first two quarters is pretty good. But then, I mean, things change. So yeah, we've been a little bit careful in terms of the numbers that we are putting out. That's it, right? So let's see, I mean, how the year plays out. But the first half of this year looks pretty good.

Neha Manpuria: Okay. And this will also have the contribution from the capex, right, the commissioning of the new capex?

Yasir Rawjee: Yeah. I mean, the new capex has kicked off very well, right. So the Dahej, I mean, utilization is around 80% already, okay. We will complete the Ankleshwar intermediate block fully and that will also help. We'll hopefully get it done in the first half itself, the Ankleshwar block. So both will contribute very significantly to the servicing of the business.

Neha Manpuria: Got it. And my last question, similarly on margin, we did 33% margins. Your commentary on raw material cost easing, freight cost easing, good top line improvement, Ankleshwar kicking in, again, any reason for keeping this flat margin expectation? I would assume that with the additional capex coming in, operating leverage there and cost easing, we should be seeing margin improvement going forward.

Yasir Rawjee: The thing is, see, if you recall, right, in the last couple of quarters what we said was that there are headwinds, right. And even in the headwinds, we've been at the sort of 29%-ish range. right. If you look at Q4, basically all the good things have happened together, right.

Neha Manpuria: Correct.

Yasir Rawjee: Now, if all that continues right, then what you are saying will happen, right. But then let's realize that we live in a world where -- which is changing very rapidly, and something here and there could move around and as a result of which that would have some impact on the margins. So that's why we are saying that we will maintain at around 31%-ish.

Neha Manpuria: Got it. And last…

Moderator: Sorry to interrupt Ms. Manpuria, may we request that you return to the question queue, there are participants waiting for their turn?

Neha Manpuria: Sure. Thank you.

Moderator: Thank you. The next question is from the line of Madhusudan Kela from MK Ventures. Please go ahead.

Madhusudan Kela: Hi, good morning. Congratulations on a great set of numbers. So I had two, three questions. One, we had paid INR21 as a dividend. So what is the thought process going forward? Is there any particular payout percentage, which we have in mind of a percentage of profits? That is one.

Second, is there any PLI benefits, which are there in the Q4 margins? And as Neha was saying, everything is pointing towards better margins. So let's say, if we are not to be conservative for any other external event happening, what is the kind of possibility do we see for margin expansion because in Q4 of '24 we had 58.8% gross margin and we had 36.4% EBITDA margin.

And I understand there was a COVID -- there might be some COVID impact on that quarter, but can we see the margin going back to levels in the first two quarters?

And the third is, we have had INR450 crores of capex in the last three years, four years. How much do you think the turnover can go because of this capex already being done? What is the kind of potential, which is there?

Yasir Rawjee: Okay. So I'll let Tushar take the first two and then come back on the…

Tushar Mistry: First one was…

Yasir Rawjee: On the dividend.

Tushar Mistry: Yeah, on the dividend part. So Mr. Kela, actually, if you look at our cash flow generation, if you take roughly about INR600 crores of EBITDA and look at how the EBITDA is generating INR to cash, we will continue to generate about INR200 crores to INR300 crores of free cash, and that is the momentum that we will maintain of distributing that free cash, as dividend, and that is the way to look forward for this business.

Madhusudan Kela: But, Tushar, based on this quarter number, our annualized EBITDA should be INR840 crores.

Tushar Mistry: Yeah. So exactly, I mean that is something that one can continue to expect going forward.

Madhusudan Kela: Okay. Fair enough.

Tushar Mistry: So whatever is required for business after capex and after working capital investment, whatever is there will be distributed. One has to be mindful that 83% is still held by the parent. And the only way to upstream cash is through dividend and that is something that we'll continue to do, right.

Madhusudan Kela: No. Yeah. I understand, but I just wanted to reaffirm that.

Tushar Mistry: Yes. Second is on margins. Yes, PLI has benefited the margins in the current year. Roughly about 200 basis points improvement in the margin would have come through PLI benefit, between 150 basis points to 200 basis points would be there. Overall, from a margin perspective, this quarter, another 100 basis points would have come because of the better CDMO business, I would say, because that is where we saw some good revenue generation happening, and obviously CDMO business is a much better margin business compared to the other part. And that's why we see this fair margins.

Madhusudan Kela: Tushar, sorry, my question is simple. Can we go back to Q4 margins in the first two quarters of this year? We had 36.4% EBITDA margin and we are at 58.8% gross margin.

Tushar Mistry: First two quarters was not that high. First quarters was…

Madhusudan Kela: No, I'm saying year as a whole, we had that kind of margin. Is there a potential that we can go back to those levels of margins?

Tushar Mistry: No, we will -- as Doctor mentioned earlier, we are treading cautiously on this. I mean, this is -- while as Doctor said, all the levers hit us -- hit positively in this quarter. It's an outcome of product mix overall and some products do well and some products are higher-margin business.

Madhusudan Kela: 33% of what you did in Q4 might be sustainable, expansion is not possible?

Tushar Mistry: Yeah. I mean that is a fair enough assumption.

Madhusudan Kela: And I asked about the peak potential of turnover because of the capex, which you have done.

Tushar Mistry: Yes.

Madhusudan Kela: So if you can answer that?

Tushar Mistry: So if you look at our fixed asset turnover ratio, it is somewhere around 2.9% at a net block level. But for the fresh capex that we are doing, one can fairly assume it to be between -- around 2-ish levels, 1.8 to 2 levels, it's how we would look at how this additional capex will contribute.

Madhusudan Kela: I had one last question. We had 37% contribution from Glenmark Pharma business in the current quarter. Where do you think that will sustain in the current year, in '24?

Tushar Mistry: So if you look at the full year number, it is around 31%, 32%. Historically, it was upwards of 40% because of Favi that was there last year, but we expect it to remain within this one-third range in the near term. On a longer-term basis, we expect it to keep on coming down year-on-year gradually. So it will not significantly come down, but it will gradually keep on coming down over -- year-on-year basis.

Madhusudan Kela: And one last thing, you have 82.5% holding in Glenmark Pharma and by regulation, you will need to go to 75% in defined period of time. Can you share us what is the timeline for getting this done?

Tushar Mistry: It will be July of 2024. Since the listing happened in August '21, it is three years from then. So…

Madhusudan Kela: So still time is there?

Tushar Mistry: Yes.

Madhusudan Kela: Thank you so much. All the very best.

Tushar Mistry: Thank you.

Yasir Rawjee: Thank you.

Moderator: Thank you. The next question is from the line of Sajal Kapoor, an Individual Investor. Please go ahead.

Sajal Kapoor: Yeah, hi, good morning, and thanks for the opportunity. Question on the CDMO business. We have clearly reported a very strong CDMO in the fourth quarter, but if you zoom out over the last three years, four years, there is no growth actually, and I know we have only got three, four projects and they are all generic and we have no commercial molecules in the NCE CDMO.

But when I look at your Slide 17, and that includes CDMO as a growth lever. So are we really investing in the business development? Are we trying to secure more late Phase 3s or already on-patent molecules as well? And what kind of scientific capability business we need to get to the growth part of CDMO because clearly, about 25% annualized growth in the NCE CDMO space is what we can factor in, but if we continue with this generic CDMO, there will be pricing pressure because ultimately the end product is off-patent, so there will be market-driven pricing challenges there. So just wanted to understand the outlook on the CDMO on the back of that Slide 17 comment, and where do you see this growing over the over the medium-term? Thank you.

Yasir Rawjee: Okay. Thanks for the question. So let me reiterate, CDMO will be a growth driver. It is a growth driver even now because if you see, we are a late entrant into CDMO, and given the overall size of our business, even though CDMO features as 7% to 8%, right, it's still quite significant from a top line, but even more so from a bottom line perspective.

Now, our approach to CDMO is, yes, there is a generic element in the lifecycle management piece, but then we also have an innovative piece in which we are working with specialty companies. We have had significant traction in this piece in the last one and a half to two years, so much so that we are looking at -- we have discussed more than 10 opportunities actively with customers in this space. So we believe that given the kind of traction we are having on the number of projects in the specialty space and some even in the lifecycle space, this is an area that would grow and would continue to grow.

And the reasons are that we are a standalone API Company. There's a lot of trust factor, okay, with players in the CDMO space. What happens in this space is that, like I said, there's a lot of intellectual property that is shared and customers are happy with companies that will not compete with them through the formulation space, right. So we happen to be in that situation and would drive both the specialty, which is an innovator segment, and the lifecycle management, which is a generic segment.

Now, addressing your specific point about NCE, what happens here is that there is a very different set of capabilities that needs to be built with a long period -- with a long gestation period for projects to come online. So the investments that we have to make, we have to keep making and then realize at a very late -- at a very late stage in terms of time.

So we have made a conscious call not to get into that space because there are significant opportunities in the spaces that I pointed out to earlier. So to reiterate, CDMO will be a growth driver. We have seen a lot of traction. And we believe that even in the near term, we will get significant contribution from CDMO.

Sajal Kapoor: Sure. That's helpful, Dr. Rawjee. And fundamentally speaking, we are a chemistry Company, chemistry capability Company. So if we get a specialty chemical for a non-pharma CDMO opportunity, which is lucrative in terms of the margins and we have the necessary resources and capabilities to cater to that demand on a sustainable basis, would we shy away from such an opportunity just because it's not in the human pharma domain and we want to stick to the human pharma domain, or that doesn't matter because fundamentally we are a chemistry Company? The reason I'm asking this is because different companies look at the CDMO space differently, some want to be a pure-play pharma CDMO, whereas others are more open to play it on the overall chemistry horizontal level. So how do you see that?

Yasir Rawjee: Yeah. So we would stay with pharma for a couple of reasons, right. The first is our infrastructure is a high-end infrastructure. And getting into a non-pharma play would hamper us from the sort of sharing that infrastructure with pharma, right. So that -- at least off the top of my mind, we would stay away.

The second reason is that there are so many opportunities in pharma itself in the CDMO space, right, that we really don't see the need to get step out, right. But largely, it is driven by the fact that the quality of infrastructure that we have is most suited to pharma.

Sajal Kapoor: Right. Okay. And secondly, being in a fortunate space, where customers want to de-risk from China, how do we decide, which customers are opportunistic or lower quality in the supply chain shift versus those that are better quality and we could potentially become their long-term API partners, so these are the customers, who don't see us as an API "supplier". They would view us as long-term sustainable partners because they want supply-side security plus, they also want a complex chemistry partnership. How do you pick and choose between customers, given that this de-risking is happening at a global level quite clearly, and this will likely to get -- the supply chains, that is, they are likely to get frozen over the next year or two?

Yasir Rawjee: So for us it's the regulated play that matters the most. If you see our business, 80% of our business is now regulated market. And the thing is that, when we are dealing with customers in that space, right, the business is very sticky, right. So a similar kind of thing would apply like even when customers are migrating. So this whole opportunistic play happens once in a while right. But we are able to see that and we do that only when we are likely to see the short-term benefit ourselves.

So -- but to address the China de-risking piece, we are certainly seeing momentum there. There's been a lot more files from customers, who were only China-focused, but are now moving to a more diversified supply chain base for themselves, which is India as well as China. So this is visible. Of course, it does take time because there are regulatory changes and regulatory filings involved. And as long as that's the element, that's the space in the business that we are chasing, we see that this will be sustainable going forward.

Sajal Kapoor: Right. That's helpful. And one last question…

Moderator: Sorry to interrupt Mr. Kapoor. Sir, may we request…

Sajal Kapoor: Just last question.

Moderator: Sir, I do apologize, but we have participants…

Sajal Kapoor: Okay, I'll join the queue. No problem.

Moderator: Thank you, sir. The next question is from the line of V.P. Rajesh from Banyan Capital Advisors. Please go ahead.

V.P. Rajesh: Congratulations, and thanks for the opportunity. My question is regarding the parent. The revenue bump that we saw in this particular quarter -- so my question was regarding the business from the parent. The growth that we saw in this particular quarter, was it being driven by their domestic business or their export business, if you can just comment on that. And do you see that kind of growth continuing in the coming quarters?

Yasir Rawjee: Yeah. So like we said in the commentary, basically they were in an inventory correction or rationalization mode in the last two quarters or three quarters, which has now -- they have reached a sort of stable point, and that's why the demand has come back in Q4. And this is something that is likely to continue.

V.P. Rajesh: Okay. Understood. And then the growth is coming from their export business or domestic business?

Yasir Rawjee: That I would not be able to tell. But given the fact that they are also largely in the regulated space, right, it would be driven, for us at least, with the regulated market space. Of course, they've got a very significant India business as well. But we supply largely for the regulated market.

V.P. Rajesh: Got it, Okay. And if I heard you right, you were saying, Tushar, that the EBITDA margin this year could be around 33%. Did I get that right?

Tushar Mistry: No, no that -- what we said is that, if all guns fire it will be in that range, but not all guns fire every time. So it will -- we retain our guidance around 30%, 31%.

Moderator: Thank you. The next question is from the line of Sharadh Ratnakumar from Eila Consulting. Please go ahead.

Sharadh Ratnakumar: Hi, good morning. Thanks for the opportunity. My question was regarding the US FDA audit, and if you can just tell us when that is expected, how we are prepared for it, and if they've had a good level of client audits recently?

Yasir Rawjee: Yes. So US FDA, we are due in all three of our plants, right, because we passed the three-year timeframe, okay. So it can happen anytime. For us, a sort of surrogate marker or an indicator is other regulatory audits. So we've had a very successful ANVISA audit, which is the Brazilian Agency, and a very successful COFEPRIS audit, which is the Mexican agency. This is very recent.

In addition to that, like you pointed out, we continue to have customer audits, which -- and like we -- since we work with the top 20 generic companies in the world, right, we have pretty detailed audits from customers as well, okay. So -- and so far very good string of audits from customers as well. So we believe that we are ready whenever FDA comes and we remain in a state of all-time readiness.

Sharadh Ratnakumar: Thank you, sir. My next question was regarding the Solapur capex. I understand from the presentation that we are commencing construction in this financial year. Have you planned it in terms of phases, do we plan to use it fully for CDMO or is there going to be generic contributions as well? Can you just throw some light on that, please?

Yasir Rawjee: Yeah. So, Solapur, would start this year. We've received all the permissions, okay. So we are geared up to get started this year. With respect to the planning, obviously, we will do it in phases because we don't want to spend money very quickly, okay. It has to go hand in hand with the business. With respect to what kind of business, again, the good part is that it's a multipurpose capacity, whether we use it for CDMO or for generic. So it would be used for both.

Sharadh Ratnakumar: Okay, sir. Thank you. And regarding the asset turn that we are expecting from there, is it along the similar lines of 2.5% to 3% that we had guided earlier?

Tushar Mistry: For every new capex, you will have to consider it to be on the lower side, it cannot be that high, but eventually it will go to that level. But for new capacity, you should keep it around 1.8 to 2 times.

Moderator: Thank you. The next question is from the line of Surya Gopu from Anand Rathi. Please go ahead. Mr. Surya?

Surya Gopu: Thanks for the opportunity, sir, and congratulations on your results. My first question is regarding, Glenmark Pharma is approaching some investors for the stake sale. Has that had -- and what is your internal discussion about that?

Yasir Rawjee: So like we explained earlier, right, to an earlier question, according to SEBI regulations, there needs to be a dilution of the promoter's holding to 75%, right. There is some discussion already, right, and that process has started. We have also participated in that. So that's an ongoing thing. It's a regular process that is going on in order to make that happen.

Surya Gopu: But is there any chance they are selling that they will completely sold out our majority stake, so it can affect our business, right?

Yasir Rawjee: I'm not able to comment because really that is held by Glenmark. They will decide what -- how much they want to sell, okay. But as far as the business goes, it's not going to have any impact on the business. We continue to drive the Company independently. And so, what kind of shareholding eventually happens, right, is something that will not impact the business at all. Okay. And regarding any U.S….

Moderator: Mr. Gopu, may we request that you return to the question queue, there are participants waiting for their turn. Thank you. We'll move on to the next question. That is from the line of Siddhant Maheshwari from Banyan Capital Advisors. Please go ahead.

Siddhant Maheshwari: Yeah. Congratulations and thanks for the opportunity. So I have two questions. One question is regarding capital allocation, though, I mean that has to some extent asked by the previous participant. Sir, do we expect same level of higher dividend payout in the coming three years, four years or is it because currently higher dividend is mainly because we have already incurred a large capex? Okay. And that was the first question.

Second question is, sir, how difficult it is to maintain margins in a business, where realizations are declining? So do we see similar level of declining raw material costs? And do we expect same level of realizations decline in the near future also?

Yasir Rawjee: I'll answer the margin question. I think Tushar has already answered the dividend question, so we'll skip that. On the -- see, we have a very highly distributed business, okay. So while we have big molecules, right, that are more mature and do have a little bit of margin pressure, we are introducing on a regular basis many new molecules to -- as well as existing customers.

So the reason for our better margin profile, right, is just that, that we have -- I mean, our business is not based on 10 or 15 molecules. Our business is based on today a commercial set of around 80, 90 molecules and in the overall pipeline, we've got close to 140 molecules. So, I mean, this is something that will continue because we continue to introduce newer molecules, as well as grow geographically. So we are very confident of maintaining our margin profile.

Siddhant Maheshwari: Okay. Thank you, sir.

Yasir Rawjee: Thank you.

Moderator: Thank you. The next question is from the line of Ketan Chheda, a Retail Investor. Please go ahead.

Ketan Chheda: Yeah. Hi, thank you for the opportunity. I'd like to ask a question regarding the CDMO. While -- Doctor you sounded very upbeat about the CDMO prospects, but if I look at one of the earlier presentations, you had mentioned that the aspiration is to double the percentage of CDMO revenue contribution in the next four years or five years, so that would mean your revenue contribution probably would kind of hit a peak of about 15%-odd, maybe three years or four years out. So I would like to know that isn't it this kind of low aspirational or a low target, while you are still kind of very upbeat and you are very positive about the CDMO business?

Yasir Rawjee: Yes, I'll answer that. So see, right now, we are around INR150 crores, INR170 crores, right, which contributes around 7%, 8%, right, So when we want to double it to 15%, the rest of the business is also going to grow, right, more or less double. So in order to sort of make it 15% of a roughly doubled business, INR150 crores will have to go to INR600 crores, okay. So I mean, that's not bad, right, taking INR150 crores to INR600 crores in about four years to five years time. I mean, that's what I would say. So to go beyond that, I think, it's possible. I mean we won't rule it out. But then, just like in whatever we do, we want to be very measured in terms of what we are able to see and how the overall global environment also shapes up.

Ketan Chheda: Okay. Thank you for that response. And the next question is in terms of the growth levers, we have the high complex API platforms, iron compounds, oncology compounds. So could you comment what is the contribution of these molecules as of now and when these would scale up going forward?

Yasir Rawjee: So today, it's small, right, because we've just started this business, okay, but it has started, okay. The thing is that these are levers for growth in the future. And so, they will contribute very substantially going forward in the future.

Ketan Chheda: Okay. And given…

Moderator: Sorry to interrupt Mr. Chheda, may we request that you return to the question queue, there are participants waiting for their turn.

Ketan Chheda: All right. Yeah.

Moderator: Thank you. The next question is from the line of Sajal Kapoor, an Individual Investor. Please go ahead.

Sajal Kapoor: Yeah. Hi, thanks. Thanks for the follow-up. I had the question on the employee -- congratulations on getting the employee retention HR award. What is it that we are doing differently to ensure a lower employee attrition really? That's really what I wanted to understand better because clearly, ours is a business that depends highly on that -- getting the right sort of scientific talent and the support staff. So just wanted your thoughts around -- and congratulations, again.

Yasir Rawjee: Thank you. So with respect to retention, I think a lot has to deal with the culture, and the culture comes from the Senior Management, right, where we engage very closely with our people regardless of level. This is something that I think -- I would not say is unique, but in the industry context of a manufacturing industry, it is not very common. And like I said, all my senior leaders, be it R&D, operations, supply chain, finance, regulatory, quality, we have a very deep engagement with our people.

And I think giving that kind of comfort to our people on sharing their ideas, however -- at whatever level they are and so on, right, is very meaningful and goes a long way to building confidence with people and they like to come to work, basically. So this is something that we worked actively on and also to try and assess how they are feeling. I mean, you need to ask people how they feel, right. If you just treat them like a cog in the wheel, then it doesn't work. So I'm fortunate, I think, we are blessed, as a team to get that response from our people and that has led to this award.

Thank you for asking. I mean, I'm glad you asked the question that's not a financial question, right. This is very important because that also drives a big part of our sustainability, really, to keep our people happy and to go forward.

Moderator: Thank you. The next question is from the line of Somil Shah, an Individual Investor. Please go ahead.

Somil Shah: Sir, congratulations on a good set of numbers, Sir, most of my questions were asked, so I just want a reassurance from you. You did mention that the first half of this financial year looks really promising. So can we expect similar numbers of Q4, or we can expect even better numbers than Q4 going forward?

Yasir Rawjee: So Somil, we'll stick with our guidance, okay. Like I said, we've got good visibility, but then we've also put out guidance. So we'll stick with that, right. Hopefully we will deliver better than that. But I don't want to give a different set of numbers to a different question.

Somil Shah: Okay, okay. But the first half looks promising, I just want to tell that.

Yasir Rawjee: Yeah. It's well…

Somil Shah: Okay. Fine. Thank you, very much. That's it from my side. Yeah.

Yasir Rawjee: Thank you.

Moderator: Thank you. The next question is from the line of Ketan Chheda, a Retail Investor. Please go ahead.

Ketan Chheda: Yeah. Thank you for the opportunity, again. My question is on the backward integration. The project that we are doing right now, it is, I guess, partially commissioned and the balance part will be commissioned in the coming year. I wanted to understand what is the margin contribution that we will have from this backward integration? And to what amount of our volume sales this backward integration will contribute to, like, of course, we would not be backward integrating 100% of our manufacturing -- API manufacturing. So to what level are we backward integrating? Thanks.

Yasir Rawjee: Okay. So one is a capacity related. The other is -- so, the capacity will come on fully this year, okay. But on the project side, we've already got one project that we are doing commercial -- one project that we are doing commercially, okay. It's going to -- actually it's going to start in Q2 of this year and it will contribute very significantly to that project. We expect around a 5% to 7% improvement in the gross margin on that product. And this is a product that's around -- close to INR100 crores product. So it would be very significant, the contribution.

Ketan Chheda: Okay. So I just was trying to understand, like, in a full financial year, how much improvement that would reflect in the EBITDA margin, like what amount of basis points that would contribute to?

Yasir Rawjee: At this point, I would not put numbers, Khetan, okay.

Ketan Chheda: All right.

Yasir Rawjee: So but it would definitely contribute very meaningfully, okay. I mean, I don't want to say that it's not. But since you're asking for hard numbers, I don't want to put something down yet. See, we are getting into this game, right. We've got -- tasted early success, I would say, right. But it has to pan out on a broader level of APIs for it to be sustainable and meaningful.

Ketan Chheda: Sure. Thank you.

Moderator: Thank you. The next question is from the line of the Tushar Bohra from MK Ventures. Please go ahead.

Tushar Bohra: Yeah. Thanks so much for the opportunity and congratulations to the management for a very good set of numbers. Sir, just at an overall macro industry level, just to understand, API companies last four years, five years, numbers have generally trended up much better than, say, the preceding few years. This also coincided with a large round of capex buildup, which incidentally continues. So I'm reading through whatever your peers are doing, as well as I'm cognizant that you are looking at a large capacity expansion over the next two years.

There was a lot of noise from investor perspective that maybe there's a bit of COVID element in the performance, say, for FY'21. '22 was a bad year for a lot of your peers and '23 also, the commentary initially was mixed, though, now most people are starting to become more bullish. So I want your opinion, where we are in the overall cycle in the API business, and in the context of, say, the pricing erosion in US overall on the formulation side, where are we in the overall API cycle? How do you see the next two years, three years, not just for yourself, but from an overall industry perspective? And why is it that across the board the capex buildup is so high for the industry when the numbers in the near term don't look that promising?

Yasir Rawjee: Okay. See, frankly, I won't be able to comment on the industry, right, because the API industry is really not a single -- it's not a single type of API. There are players that do large volumes, drive cost leadership and focus on relatively smaller set of molecules, right. There, I can really understand why the capex buildup is big. Thus, we have capex buildup, but I would still say it is reasonable, right. We are keeping it highly calibrated depending on the kind of business we are seeing.

And fortunately for us, our capacities are completely fungible. So with the kind of multipurpose capacity we have, we don't have to make that much of an investment, right. But yes, investment will continue because the outlook on business is very strong for us, okay. Like I said earlier in my comments or somewhere in the answers, right, to questions that Dahej capacity was brought online only in Q4 and it has already touched 80% utilization, the additional capacity. So it's very encouraging for us, right. And this is something we would continue to do, because if we don't, then actually we are disadvantaging ourselves, right.

With respect to erosion in the US market, yes, there is pressure, I think Neha asked the question, so -- on pricing and stuff. So yes, we have to kind of deal with that. But again, ours is a very distributed business geographically, and we also have a lot more new products, right, that contribute very significantly to a higher margin. And so, on an overall business, the margin for us will remain sustainable, despite erosion and despite giving our customers the support they need to stay competitive in the business.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for their closing comments.

Yasir Rawjee: Okay. So, thank you. Thank you very much for joining our call. I think we'll close the call now. Thank you.

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. Thank you.