"Glenmark Life Sciences Limited
Q3 FY '23 Post Results Conference Call"
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Moderator: Ladies and gentlemen, good day, and welcome to Q3 FY '23 Earnings 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. Thank you, and over to you, ma'am.

Soumi Rao: Good evening, everyone. I welcome you all to the earnings conference call of Glenmark Life Sciences Limited for the quarter ended December 31, 2022. From Glenmark Life Sciences Limited. 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 ended December 31, 2022. 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 the current expectations, forecasts and assumptions that are subject to risks and uncertainties, which could cause 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 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, Dr. Rawjee.

Yasir Rawjee: Soumi, thanks. Good evening, and welcome to everyone for our Q3 earnings call. I'd like to wish everyone a very happy New Year. Hopefully, this year turns out to be nice for all of us. So a real quick view on how we look at the world situation. So the economic scenario continues to remain uncertain with talks of recession, inflation, of course, is at high levels and leading to slowing consumption, some layoffs and the overall geopolitical situation is uncertain, which points out to probably a roller coaster here.

Now closer to home, we have the China situation. And frankly, we think that this is going to ease off, with the Chinese government taking the decision of allowing travel, the Lunar New Year travel is coming up. And our own information from our partners in China is things are good. Manufacturing is back. And -- so essentially, we are going to hopefully see an easier supply chain situation.

The only thing that might hinder this could be the whole situation with the freight and the freight movement. And as a result of that, there could be some impact on inventory. Because we do believe that stocking up helps. I mean, it's been something that has helped us in the past, and we would continue to take that approach. Coming to the cost situation with the gas and oil prices easing off, we're already seeing a better situation with solvent prices, and that has an impact directly for us as well as on the raw material prices that we use. So again, I think the news on this front is improving, and the China situation also will improve going forward.

Now coming more directly to our business. We've had a pretty good quarter. We've grown 24% on our external business year-on-year and 2% on a sequential business. Basically, we've got some real good news out of our India DMF business, Europe as well as Latin America. So this has helped us to keep the business going extremely well. The GPL business also has seen recovery. We've seen 19% growth on a sequential basis. If you recall, the business with Glenmark Pharma had bottomed out in Q2, but we are seeing good signs with their demand.

On the generic API business, we grew overall 5.9% sequentially and 1.8% on Y-o-Y. And this was largely driven by regulated markets. The CDMO though was down 10% and sequentially and 31% on Y-o-Y. I'm sure it will come up in the question hour, so I don't get into that right now. But overall, if you see, Q1 was probably our low point when we started off the year.

And ever since then, we've seen a pretty strong recovery on all levers of the business, be it our generics business, driven by various markets. The GPL business has also started to track well. And I believe the CDMO business will also bounce back nicely in Q4.

So what has helped us along is that if we look in the nine months, the overall picture, we supplied launch APIs for five new products. And this has seen traction in the market. We've also extended seven APIs to existing customers across geographies, and this really is the mantra, I mean, for us in terms of having a very resilient business. So we highlighted this in our Investor Day, where we've shown that over the last few years, we very effectively reduced our dependence on the top customers as well as the top products, making the overall business extremely resilient. And this is possible when at the portfolio level, we have a large portfolio of low- to mid-volume APIs with high realization. And this also has a bearing on how our capacities are used, which are used extremely effectively.

So going forward, we've got 23 products in the development pipeline. Four iron complexes are in the pipeline. One has been filed. On the high potent side, we added one more molecule to our seven molecules, and so we've got eight now. Four of them are ready to supply exhibit batch quantities and production is now on at our new oncology block, which we built out, which we built in Dahej that came online this quarter in Q3, and that's going very nicely. In Dahej, we also added the 240 kiloliter capacity, and that has also started being used pretty quickly.

So good upside in Dahej on the servicing side. And as far as the Ankleshwar capex goes, we are nearly complete. We should have it up and running in Q4. Of course, it's a very large capacity that is coming online. So we are mindful of the fact that we don't turn on the lights for everything on day one, we'll go in a calibrated manner so that we only utilize what we need. And as the -- as and how we get more-and-more demand for that capacity, we'll keep utilizing it.

So in summary, I would say that the external business continues to grow extremely strongly across markets. There's a pretty good recovery on the GPL business as well, the Glenmark pharma business. And the demand on the CDMO side will also pick up. So all levers of business looking up. And with that, thank you for joining the call. I'd like to hand it over to our CFO, Tushar Mistry, who will take you through the financial performance.

Tushar Mistry: Yes. Thank you, Dr. Yasir. Hello, and good evening, everyone, and happy New Year to all of you. I would like to briefly touch upon the key performance highlights for the quarter and then we'll open the floor for Q&A.

We registered a revenue from operations of INR 541 crores for Q3 with a sequential growth of 6.2% and a year-on-year growth of 3.5%. Gross profit for the quarter was at INR 276 crores, up 2.4% quarter-on-quarter and 4% year-on-year. Gross margin for the quarter was 51%, up 20 basis points compared to the same quarter last year. On a sequential basis, there was a slight degrowth in gross margins. Gross margins are largely driven by product mix and PLI benefits during the quarter. EBITDA for the quarter was at INR 152 crores, marginally lower on sequential basis and up by 1.6% on a year-on-year basis.

Our proactive cost optimization measures have helped us maintain steady EBITDA margins, which was at 28.1% for Q3 FY '23 and 30% for nine months FY '23. Lower EBITDA margin on sequential basis was mainly driven by movement in gross margins. We are witnessing increase in capacity at Dahej facility as it comes online, but I would like to highlight that we will be commissioning the block model wise, which will help us keep the costs under check. This will ensure steady margins in coming quarters. Profit after tax was at INR 105 crores in Q3 FY '23, registering a growth of 1.2% year-on-year and a marginal degrowth on a sequential basis.

Coming to segmental results. External business grew strongly by 24% on a year-on-year basis and a 2% on sequential basis. External business was driven by India, Europe and LatAm, while US business saw a healthy recovery during the quarter. GPL business also recovered strongly growing 19% on a sequential basis. We feel contribution to the revenue was 29% during the quarter. Generic API revenue for the quarter was at INR 480 crores, registering a growth of 1.8% on a year-on-year basis and 5.9% on a Q-o-Q basis.

Continued momentum in the external business coupled with revival in GPL business led the growth in the generic API business. For the quarter, the CDMO business was down 9.6% on a quarter-on-quarter basis and 31% on a year-on-year basis, registering a revenue of INR 28 crores. R&D expenditure for nine months was at INR 49 crores, which is 3.2% of sales. We believe R&D expenditure to stay around 3% for FY '23. Coming to working capital for the business. Working capital days for nine months are at 178 days. During the quarter, we witnessed better receivable collections and slower growth in inventory leading to improved working capital positions.

This has helped in generating strong cash from operations. We continue to remain a net-debt free company with cash and cash equivalents of about INR 420 crores on the books as of 31st of December 2022. To conclude, reviving demand in the regulated market coupled with excess capacity availability puts us in a formidable position for growth in the coming quarters.

With that, let's open up the floor for Q&A. Thank you.

Moderator: First question is from the line of Tarang Agrawal from Old Bridge Capital.

Tarang Agrawal: Congrats on a very strong traction on your external business. I have three questions. One, what is the fixed cost accretion that we should be seeing on the P&L from Q1 onwards, given that we'll see the Ankleshwar block coming in as well as Dahej ramping up. So that's one.

The second is, one want to see in Q1 and Q2, obviously, there was some FabiFlu in the base. My sense is that in Q3 FY '23, there isn't any FabiFlu, or there isn't any material FabiFlu in the place. Despite that, those sequentially, the GPL business has inched up on a year-on-year basis, it's still down materially. What are the factors that are sort of driving that? And what's your outlook there in terms of your conversation with them?

And the third question is, in the current quarter, if one were to eliminate the impact of the PLI benefits, I would suspect there is actually a reasonable 250 bps or 300 bps gross margin compression from the year ago period. If you could just elucidate a little further in terms of is it a one-off or is it because of some structural reason?

Tushar Mistry: Your first question on account of fixed cost on account of Dahej and Ankleshwar, we expect on a quarter-on-quarter basis from Q1 onwards, there should be an increase of about INR 7 crores to INR 8 crores on the revenue expense front. Additionally, there will be some INR 2.5 crores of depreciation is how we see this cost from Q1 onwards. Yes, FabiFlu in Q3, we didn't have favipiravir Q3 last year. So on a comparative basis, it is a like-for-like comparison, and it is the growth on a year-on-year basis. While on a sequential basis, it is going up. More importantly for us, we are looking at it is that the demand from GPL is coming back to normalcy or may not have come back fully, but it is coming back to some extent, and we expect that to be further better in Q4.

Yes, on a gross margin basis, again, you are right that there is an element of PLI, which is there in the gross margin. To that extent, there will be some element of depression or contraction in our margins, which is more driven from the market scenario perspective, where you generally see some pricing impacts on the products, which does help us in the current year, you would be aware that on the cost front that have been escalations in key raw materials, key starting materials as well as well as on solvents. So overall, that PLI has helped us to recover from that margin to some extent, and that's where we are on the margins.

Tarang Agrawal: As we're witnessing freight normalizing and solvents coming off. So would it be safe to presume that maybe in this quarter or the quarter later, we'll see the gross margins inching up on an ex-PLI basis?

Yasir Rawjee: It will definitely have a positive impact, Tarang.

Moderator: The next question is from the line of Shyam Srinivasan from Goldman Sachs.

Shyam Srinivasan: Just the first one on the guidance for fiscal '23. I remember, we had earlier guidance of a single-digit growth for full year '23. Nine months is at minus 4%. So from a fourth quarter perspective, we're sticking to that guidance, which would probably mean double-digit growth overall company for 4Q. So just -- that's my first question. What are the thoughts on the fourth quarter and for the renewed or refresh guidance for fiscal '23.

Yasir Rawjee: So Shyam, we'll have a strong fourth quarter, we believe. So now how much is going to end up impacting on the overall year, we don't know yet, but unlikely that we will see double-digit growth. Our growth was probably in the single digits. You see the way Q4 has -- Q3 has helped our overall number on the nine month. So we believe that Q4 coming in strongly will have a positive impact on the overall year. If GPL bounces back the way we think, then I mean, with external business being very strong from the demand as well as our ability to service. There, we are pretty sure in terms of how that is moving. And GPL demand is also shaping up pretty nicely, as Tushar just mentioned. The overall impact, we'll see, but I think we would be in the single-digit growth.

Shyam Srinivasan: So when we look forward, second question, just an aspiration to be low to mid-teens topline growth at some point of time need GPL to start growing. So do we have either that as the visibility or do you think it will keep declining over time? I thought we had an aspiration to have 1/3 come from GPL. We are at 30% in the quarter 3, let's assume. So which is going to change? Is it going to be that GPL demand comes back to a more normalized level and also growing at a mid- to at least double digit, let's assume. And the external business, like you said, this quarter has grown 24%. So we hope to sustain. So how should we look at a slightly more medium-term topline growth outlook?

Yasir Rawjee: Okay. So let's break it up, Shyam. Look, as far as GPL's contribution to the revenue, it would be around the 30% level going forward. Now there's a -- over the long term, there will be a relative decline, but really, I don't think we are talking about that period now. So we are talking about a 30% plus/minus 2% contribution from GPL, and that's growth from here on for GPL. Now it won't be the same level of growth as our external business because there, the portfolio, the spread across the geographies is much more certain and pretty solid, I would say. So when you put that together, there will be a lesser contribution of growth from GPL's side, and a bigger contribution from the external business, which would still put us in the low to mid-teens growth on the overall business.

Shyam Srinivasan: And my last question is just on the update on the pipeline, both your iron complex and other complex filings, if you could just give us an update, please?

Yasir Rawjee: Sure, Shyam. So that's going pretty much on track. I mean, like I had mentioned a couple of times earlier, complex products do take time because there's not only a chemistry element, which is complex. But then there is a characterization element, which is also fairly complex because we need to prove to regulators that our API gives a product that is similar to the reference listed drug, the RLD in short. And that's where it does take time, but we factored in that time, our customers also understand that it's going to take that level of time because it's a complex product. So it's on track.

Our ion complexes are very much on track. As far as the onco and the high potent portfolio goes, which has Onco as well as non-Onco. We have added 1 more molecule. So we've got eight molecules. Four of them are already validated at the lab level and are being taken in the plant. Two of them we produced in our new Dahej block. And another two are in line to be produced. So that's going well also. So overall portfolio is chugging along very nicely. Apart from this set of molecules, we've got our regular molecules that are also coming along nicely with a lot of customer interest across geographies. So I mean, all-in-all, I would say that portfolio is nicely positioned to keep adding newer-and-newer assets into the pipeline.

Shyam Srinivasan: Last question, Dr. Yasir, just following-up on this one. So when are we likely to see this getting monetized, if there is any like a few product or any quarters we need to start looking out for?

Yasir Rawjee: Okay. So Shyam, see, this year itself, like I said in the commentary, we've supplied -- launch APIs for five products. So we are -- because we changed the focus on the pipeline four years ago, when the company split, such that we are going to focus on whatever launches in this decade, we are not going beyond that. We expect that the run rate of new molecules will actually improve as we go along because we've continued to populate the development portfolio with those opportunities largely with those opportunities. And as a result, we will see more-and-more molecules monetizing within this decade. So in the next five to seven years, we expect to see a pretty healthy addition of these assets, as we go along.

Moderator: The next question is from the line of Anand Venugopal from BMSPL Capital.

Anand Venugopal: I have just one question. So basically, how does the end of China's zero-COVID policy, both for the prices in general key sourcing materials and APIs as such?

Yasir Rawjee: Okay. So Anand, look, based on the confidence of the Chinese government in opening up everything, we can rely on the entire supply base. It's no longer a case of someone will start production and someone else will not. It's very clear that -- and our suppliers are -- they are there, they're open for business. So how that helps is that we are able to hopefully negotiate better prices or at least not see any major cost escalations. And at the same time, it may end up shortening the lead times, which recently in recent quarters has gone up. And as a result of which we've had to stock up more on the inventory side. So in both cases, on procurement costs as well as on our ability to source materials with shorter lead times is going to be positively impacted.

Moderator: The next question is from the line of Subrata Sarkar from Mount Intra Finance.

Subrata Sarkar: So my question is pretty simple, two, three questions, basically. On the gross margin side, what is our -- what do we think, what is our standard gross margin that we can achieve given the current circumstances basically, are we seeing, one year, two years upside in the gross margin? And particularly, is there any difference between our external gross margin as well as from Glenmark?

Yasir Rawjee: Okay. There's nothing like a standard gross margin, Mr. Sarkar. Simply because that's not the way the business works. We are across various geographies. We have older mature products and we have newer products that command a better price, better margins. So it's really the way how the overall basket plays out. The other element is that the world has kept changing and will keep changing. We don't expect it to come to any standard state or any steady state. As a result of which, there will be pressures on the cost side.

Subrata Sarkar: Let me reframe it in that circumstance. Sir, we have seen cycles like where companies have operated at a much higher gross margin and at a depressed gross margin also. So my point was like at what point in the cycle we are? We have seen particularly in several areas like across the countries, when I'm talking about overall margin, that means across the geographies, I'm talking about. So we have seen across the cycles, last 10 years, we have seen higher gross margin also and lower gross margin also. So given our own company, where we stand, we feel?

Yasir Rawjee: See, if you look at our track record in the last four years, we've had -- we maintained 30 plus or minus 2% EBITDA margins. You can look at our track record. And given the fact that the DNA of the business is not going to change because we are pretty confident. Like I put in my summary state in my opening remarks, that it's the way we've crafted this business. We've crafted it so that we continue to push on low to mid-volume high-value APIs.

And our ability to derive benefit in terms of the value is extremely high across the various levers, and that allows us to maintain that margin. And the margin really flows, the EBITDA flows from the gross margins, which have also been operating in that 51% plus/minus 2% range. So again, you can go back and look at our data, over the last four years, across quarters. And in spite of the fact that the world has been going through a lot of challenges, which is impacting many things. We've still managed to retain that level of margins for this business.

And, on the external and the group business, see, we've explained this a few times before that basically all our pricing is done at a product level to all customers. It's arm's-length business with Glenmark Pharma. We don't charge a single price for any -- or margin for any product. It all depends on how well we can compete with other suppliers for their business. And where we compete well, we take more margin and where we feel that the competition can take the business away, obviously, to take the business, we may go with a lower margin.

So I mean, net-net, that's how we are working, just like we work with any other large customer. So we've got apart from Glenmark, some very illustrious companies with whom we work, and we've got a large business with these other companies as well, and that's the same approach we've been taking with Glenmark also.

Subrata Sarkar: Now sir, with this Dahej addition and like Ankleshwar at verge of completion. So we will almost reach as per your projection 1405 kl. So can you -- at what -- during each year or how much time will take for us to become fully operational. That means like what I mean to say, what can be our peak level turnover after this capacity start operating at an optimal level? And at what point of time we can achieve that?

Yasir Rawjee: Okay. Tushar, do you want to take this question?

Tushar Mistry: So Mr. Sarkar, Actually, if you see our FATRs are in the range of 3x, but this is on historical asset turns. Now the impact of this new capex, you will see these asset turns coming down to some extent, but we don't expect this to come down very significantly. Thereby, we will still try and retain it between 2.5x to 3x. And that's how this new capacity will keep on adding to our overall revenue. So basically, to answer your question, our Fixed Asset Turnover Ratio will still be modestly higher, on the higher side.

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

Charul Agrawal: My first question is on the Ankleshwar plant. So given that the plant is supposed to be commissioned next quarter, have the necessary costs already been included in this quarter with regards to the employee addition? Or do you expect to -- expect the cost for the plant to go up from here?

Yasir Rawjee: So we have hired people. But then, Charul, the thing is with the Ankleshwar plant, it's an intermediate block only. So there's a different dynamic here in terms of the people as well as the capacity addition to the plant. It's on the intermediate side However, yes, to address your question directly, we have hired a few people, and there is a small element of fixed cost, but not very significant.

Charul Agrawal: And in terms of the margin benefit from Ankleshwar plant, when do we expect to see that coming in?

Yasir Rawjee: It will come, in two ways. One is on the BI project, which is going to be commercial soon, one of them. The other is on better overhead recovery at the product level. So we'll start seeing it. I mean, it's not like a step function. It's a sort of continuum in terms of getting better-and-better because this is a large capacity at a unit level also. So we've got like 16 kl reactors in this facility, which typically we haven't been investing in historically in the Ankleshwar site. So this will all add very positively to -- at the product level at -- for the products that we do there.

Charul Agrawal: I just have two more questions in that sign. So firstly, on CDMO business, I want to understand that what was the reason for dip this quarter? Was it at a particular product to the customer level? And how do you expect it to pan out over the next few quarters? Secondly, I wanted to understand that given that the solvent types have gone down for a few products, has that impacted realization yet, or is it something that might come out over the next few quarters?

Yasir Rawjee: So the solvent impact will start impacting us in this quarter, in Q4 and beyond. That is very clear. And with respect to the CDMO business, this has been the end of the year for some of our customers. So they've also wanted to keep inventory levels under control. And that's why we've seen a bit of a muted demand. Also, we've got to realize that our CDMO business is based on three APIs. And so with this muted demand on a relatively small set of APIs, we do get impacted. I mean the number moves around much more. The variability in the number is much more. However, we are pretty confident that in Q4, it will bounce back nicely. Because again, it's the beginning of the year for the customers, for our customers. And they would not be as prudent or they would not cut corners when ordering API for in Q4.

Moderator: The next question is from the line of Imran from Longbow India Capital.

Imran: Sir, my questions are pertaining to the capacity expansion that we are doing. So number one is on Dahej, the recent capacity that we have added. What benefit in terms of revenue you were targeting from this facility in the next one or two years, assuming it runs at a 70%, 80% capacity utilization?

Yasir Rawjee: Sure. So Dahej capacity is basically going up from 140 kl to 380 kl. And we have, in the last four to five years, validated many APIs out of Dahej, which are becoming commercial. Also, some of the APIs that we launched in the last couple of years have a much bigger volume off-take now. So there's going to be -- there is already an immediate impact of Dahej capacity that we will see in the forthcoming quarters, which is good for us. I mean, we're able to service better.

And I answered Charul also in terms of how the larger capacity, which is plant 6 is going to impact, better overhead at the product level. So all this put together is going to give us a much better revenue stream out of Dahej and also we'll have a better margin profile because these are larger -- this is a larger capacity that we put.

Imran: Is there a range of revenue that you can give from this give us some this capacity that you can do XYZ kind of growth revenue from this a range -- a broad range?

Tushar Mistry: So Imran, actually, my earlier answer, I alluded to that guidance, you should look at our FATR, the Fixed Asset Turnover Ratio, it is in the range of that 2.8x to 3x with this additional capex is in the mid-term or in the near-term, this may come down, but not significantly, but we expect it to be between 2.5x to 3x overall from a revenue perspective.

Imran: But I believe you have not shared the capex number for this facility, if I'm not wrong. Maybe I'm wrong.

Tushar Mistry: No. So we have said that the total capex that we have done in nine months is in the range of about INR 130 crores, including everything, Dahej, oncology and some bit of the plant 18 that is just coming up.

Imran: And this includes Ankleshwar as well?

Tushar Mistry: Yes.

Imran: So the second question is on Ankleshwar. I mean I don't know how do you coming up with this math of 2.8x asset turn. Because in your last con call or maybe last con call, you were mentioning that Ankleshwar is a backward integration and it would not give a lot of revenue, but it will help your customers to be more competitive, is it correct?

Yasir Rawjee: Yes, Imran, we just said this just now, when I answered Charul's question.

Tushar Mistry: And that's why you have to also understand that the capex on that Ankleshwar facility will not be very high as compared to the Dahej capex.

Moderator: The next question is from the line of Darshan Deora from Indvest Group.

Darshan Deora: Just some confusion, while replying to one of the previous participants, you mentioned that the new products are higher margins than the older products. So is that a question that like, it's a hypothetic question. Say the company were to stop investing in new products. Like, all the new development activity came to a standstill, and the company just focused on its existing portfolio of products, how was the revenue and margin of the business trend over time? Would it decline the margin of the business because of pricing erosion? Or would it increase because of process efficiency or it remain stable?

Yasir Rawjee: But why would anyone do that? I mean I don't know where this is going. But yes, theoretically, yes, because if we were to stop investing in making new products, eventually, the business would slow down. Because I don't know if you saw our Investor Day presentation, this was done on November 17, but it's there on our website.

So basically, what we showed is that there are three levers or other three streams of how the growth is coming. There is the base business, that slightly degrows on account of price erosion. Then there is an addition to the base. So we have a base enhancement by having a geographic expansion and a customer expansion by virtue of our competitiveness in the product through second and third generation processes.

So that actually helps our base to go up when you add up these two, and then on top of that, we have the growth molecule. So that's how the whole business is built up. I mean, if you could, if you wanted an answer, you could see how these -- basically, these three slices of the growth are stacking up and then decide, I mean, how this would look. But from a management perspective, we don't see any kind of -- why should we take that view that we don't invest in new products.

Darshan Deora: The idea was more to understand the nature of the business. I mean, in the sense that do process efficiencies over time, help in increasing the margin? Or does price erosion reduce the margin over a longer period of time? So that was the purpose of asking the question, but I appreciate the answer. I think you have clarified that quite well.

Moderator: The next question is from the line of Tarang Agrawal from Old Bridge Capital.

Tarang Agrawal Tushar, I think you said the nine month FY '23 capex number is INR 130 crores. Did I get it correct?

Tushar Mistry: Yes, that's right.

Tarang Agrawal And was the cash on books as on 31, December?

Tushar Mistry: Cash on book is INR 420 crores.

Tarang Agrawal And last, on the CDMO business, I believe after the last quarter, there were three contracts that were driving the business, with the fourth contract being probably expected in the fourth quarter. But my sense is, given how the press release is worded, that's been delayed, is that correct?

Yasir Rawjee: Yes. The thing is that there are some regulatory filings that our customers continue to pursue. And so as a result of that, there are some delays. It won't happen this year. It will probably happen mid next year. So that we'll have to just deal with.

Tarang Agrawal So now going forward, predominantly, the CDMO business will be running on the three contracts that you've had for quite some time now?

Yasir Rawjee: There is good news on that as well. Two of those, one of them has already received an approval for an extra clinical indication. So there'll be an upside on that. And the second one is going for an additional clinical indication and that result will again come probably Q1 or maybe Q2. And that should also give us a significant upside on that project. So it's not like that business is not going to grow. The one on these three molecules also have a pretty good growth pattern going forward.

Tarang Agrawal And typically, would it be safe to presume that Dahej and Ankleshwar will probably give up given optimal utilization in, Q2 of FY '25, would that be the right way to probably look at it?

Yasir Rawjee: Yes. I mean Q2 FY '25 is like nearly two years out, FY '25. You said FY '25, Tarang?

Tarang Agrawal Yes.

Yasir Rawjee: Yes. So that's like seven quarters out. So yes, we should be fine. I think we should get to a very high level of utilization on both those assets, yes.

Moderator: The next question is from the line of Ashwini Agarwal from Demeter Advisors LLP.

Ashwini Agarwal: The question that I have is that how do you think about the business from a two, three-year perspective? Not too long term, not too short term. I mean, obviously, there are levers for growth in terms of capacity that we've already put into place in the product pipeline. But the margin levers, to my mind, would be, obviously, some of the new products is a higher margin profile, offset by the base erosion as you pointed out.

But the critical piece there is the CDMO business, which at some point, if I look back into the history used to be in early teens as a contribution to revenues and it's now in mid-single digits as a contribution to revenue. Do you see a path to going back to 10%, 12% of revenue contribution from CDMO? And could you help us understand what the pipeline of CDMO is?

Yasir Rawjee: Sure, Ashwini. Actually, I don't think we -- at least on a year basis, ever crossed into double digit on CDMO contribution. In our best year, we were close to 9%. Right now in a quarter basis it may go into double digit. So I don't know, at least to my recollection, we've never been in double-digit from CDMO contribution perspective. But to look at the question in sort of overall See, because CDMO contribution will definitely grow. Quarter-on-quarter, we have some challenges.

But and then COVID also had an impact, that brought it down to the kind of 7% levels. But we see -- and I just answered Tarang, that even the existing molecules have got a pretty significant growth pathway. So that is going to continue to grow. And then with this new project coming in, hopefully, by midyear next year, we should see a significant uptick on the CDMO contribution. And yes, from a margin perspective, it does play a positive role, on our overall margin because all our projects do have a higher margin profile on the CDMO side. So long term, we are guiding towards, I mean, in the next three, four years, CDMO contribution would double from the 7%, 8% now to maybe 13%, 14% going forward because that's the way we are pursuing it with respect to the life cycle management opportunities as well as the 505(b)(2) opportunities.

Ashwini Agarwal: I was under the impression it was 12%, 13% about three or four years ago, and this is based on the prospectus at the time of the IPO. I may have got it wrong, but that's what I remember. But thank you for that answer.

Yasir Rawjee: Happy to clarify if you find something.

Ashwini Agarwal: And just following-up on Tushar's opening comments, where you're expecting margins to be steady going forward. But you looking at the 30% handle based on the nine-month number? Or were you referring to the 28% number, which is the lower end of the kind of 28 to 32 band that you will lead due to?

Tushar Mistry: So Ashwini, if you see we are on a nine-month basis at 30% on a quarter basis, it was 28%. We would say that we would be more inching towards the 30 rather than towards the 28 side of the margins.

Moderator: The next question is from the line of Aagam Shah from RSPN Ventures.

Aagam Shah: I just wanted to ask, , where are we on the Solapur Greenfield expansion? And are we still targeting the same timelines?

Yasir Rawjee: Are we still targeting?

Aagam Shah: Targeting the same operational timelines of the Greenfield expansion?

Yasir Rawjee: Well, I mean, approvals take time. And we received the EC. We've got the CTE, which is the consent for establishment, and we have now applied for the consent to operate. I must say that it is going a little slower than expected, or at least lower than what we desired. So, but it remains on track. I mean we need to get that going because it's going to have a much longer-term impact on our ability to service the growing business.

One thing that doesn't come out in these calls is that our volume growth, while our revenue growth is at a certain level, the volume growth is at a much higher level, on account of erosion and so on. So in order for us to have the ability to serve this business three years from now, we will need that Solapur facility, and we're going to continue to pursue it. No question about it.

Aagam Shah: One more question I have. The market seems to having an overhang about when is the parent company going to reduce its stake in our company are to get it below 75%.

Management: So I think that's a question for you need to ask GPL.

Moderator: The next question is from the line of Abhay Tibrewala from Vision 8 Investments.

Abhay Tibrewala: Sir, earlier used to give a bifurcation in terms of volume market share, value market share and key products. So that is to help us like to understand if the product is expanding its geographies, even though the volume share may go down, but the value share may increase, and it was a good metrics to track, how many products have been extended to the new markets? So can you still give that in your presentation?

Yasir Rawjee: See, we don't speak at the product level, Abhay. I mean, I don't recall giving a product level. We have talked about market share in the past. So I'm not so sure that we've done this. Tushar, you want to?

Tushar Mistry: Yes. See, it was a part of our offer document that we have presented in that. And also, we reiterate to that in our Investor Day presentation once. But will not make sense talking about it on a quarter-on-quarter basis, because that does not lead to any meaningful understanding of how the market is moving. So we will see as to how we keep on responding to that on a year-on-year basis other than on a quarter-on-quarter basis.

Abhay Tibrewala: Sir, if you can like you had beautifully captured in a table, less than 10%, 10% to 20%, if you can that kind of guidance that would be helpful for us to track?

Tushar Mistry: I mean, we would want to stay away from any product level kind of guidances, but we have done some representation in our Investor Day on November '17. You can refer to that presentation.

Moderator: The next question is from the line of Chintan Mehta from Prudent Broking.

Chintan Mehta: Sir, we have implemented strategy to store that raw maternal inventory have benefited from that as well. But now as the RM prices are falling, it will hit us negatively?

Yasir Rawjee: No, I don't think because that's not -- we're not taking such long positions where this kind of -- it's not going to impact us because I mean, basically, we are talking about going from a lead time of 45 days to 75 days.? And the good part -- there's a good part to it, which we follow and it has always helped us and that is we are able to give a longer-term understanding to our supply partners. So we end up getting better prices than spot prices. Because in our business, spot prices are typically higher on the key raw materials. And that's the biggest contribution to our costs.

Now you may be referring to solvents. But even with solvent, if you negotiate it right and on solvents, we don't take such long positions either. I mean so, when I was referring to the inventory, I was referring to the key raw materials that -- where the lead times have gone up. On solvents, we have a much tighter view. And there, what you're saying there does apply. So we are clever about it, hopefully. And it's not in any way.

Chintan Mehta: So sir, we will continue this strategy or with China reopen, we will expect improvement in working capital days or inventory days?

Yasir Rawjee: Hopefully, if the freight situation improves, Chintan, we will. Because obviously, we don't want to be holding longer inventories. Even if we can shorten it or holding by a few days, that will help us. But not at the cost of business.

Chintan Mehta: And let's say, sir, for the Ankleshwar plant. We are doing backward integration for our top products. So if you want to rate our backward integration, we will be the most cheapest for this our product? Or there are any other player competitor who are already making from most backward?

Yasir Rawjee: Yes, that's a good point. I believe that our approach for BI has been driven by supply security as well as margin improvement. So we are not doing backward integration for everything. We are doing it only where it makes sense, and helps us to keep a position where we already lead the market.

And when you are already in a leading position, you are in a leading position. So if you improve it further, it's unlikely that competition will come and get you. But I take your point that, yes, it may happen that if the competition is also backward integrating, they will also get that benefit, you see. So difficult to answer. I mean it would vary from product-to-product, but the decisions that we have made on backward -- on the portfolio where we are backward integrating are driven by an already dominant position in the market.

Chintan Mehta: And sir, I have a general question to the business. Our parent company is Glenmark Pharma, so can pharma companies stay back to the -- I mean, on CDMO, every company wanted their IPs get protected. So this will make a contra to them to work with us or let's say, even in API?

Yasir Rawjee: I'm not sure I understood, but from whatever I understood, we are only an API company. So in a CDMO business, if the intellectual property is coming from our customers, we would be extremely respectful of the intellectual property that our customer is giving us, and we protect it and not misuse it. I mean that's -- is that way you're going?

Chintan Mehta: So my question is how we make the strategies, for example, to win the same business with Glenmark is making to supply them see, for example, it's a cardiac we are able to supply to Torrent as well in Glenmark as well?

Yasir Rawjee: I think let's not get into that level because and how does that – Tushar, you want to?

Tushar Mistry: See, No. I mean, if I understand your question correctly, you are saying that how do you attract CDMO customers when you have GPL as your parent company, which is also into a pharma space and might be competing with the customers, right? So I mean, see, the one is the product portfolio will be very different than the product portfolio that the that Glenmark has. It is completely diverse. There is no overlap that we see between these product portfolios. So that's it is completely protected. Plus CDMO project comes with its own IP protection for the customer, where the IP is transferred to the customer also at a particular point of time. So they are in which we secured from that perspective. We haven't come across such kind of concerns from our customers in the past at any time, I think. Dr. Rawjee?

Yasir Rawjee: Yes. No. And there are two different companies. I mean we are working with Glenmark pharma at an arm's length. So we would not compromise any customer for the sake of Glenmark. We would not do that. Why would we do that? It would hurt our image. It would spoil our business, right?

Chintan Mehta: Sir, any formulation customer is talking about high -- I mean, general high inventory built up in the system. Are you facing something from the customer or any particular region to building up an inventory level?

Tushar Mistry: Inventory at the customer level, we haven't come across that challenges, except that you saw in some -- in the CDMO space that we saw that destocking of some inventory happening at our customer level, but not in our generic API space.

Chintan Mehta: And sir, last question from my side. There some articles that the company is globally facing some problem to sourcing API from Indian pharma companies, Indian API manufacturer?

Yasir Rawjee: No, again, you are confusing Glenmark pharma with Glenmark Life Sciences. We don't source API to begin with. We make API.

Chintan Mehta: Yes, that's -- no, I mean, the API companies, which manufactured in India, globally companies are facing some quality issues?

Yasir Rawjee: No, that's generic. That's a very generic question. I don't think it would apply -- I mean, it's not specific to Glenmark Life Sciences.

Moderator: Thank you. Ladies and gentlemen, due to paucity of time, that would be our last question for today. On behalf of Glenmark Life Sciences Limited, that concludes today's call. Thank you all for joining us, and you may now disconnect your lines.