"Glenmark Life Sciences Limited
Q4 FY '24 Earnings Conference Call"
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Moderator: Ladies and gentlemen, good day, and welcome to Glenmark Life Sciences Limited Q4 FY '24 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then 0 on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Soumi Rao, General Manager, Corporate Communications and CSR. Thank you, and over to you, ma'am.

Soumi Rao: Thank you, Neerav. Good evening, everyone. I welcome you all to the earnings call of Glenmark Life Sciences Limited for the quarter ended March 31, 2024. From Glenmark Life Sciences, today, we have with us Dr. Yasir Rawjee, our Managing Director and CEO. Our board has approved the results for the quarter ended March 31, 2024. 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, specially information with respect to our plans and strategies may contain certain forward-looking statements that involve risks and uncertainties. These statements are based on current expectations, forecasts and assumptions that are subject to risks which could actually cause results to differ materially from these statements depending upon the economic conditions, government policies and other incidental factors.

Such statements should not be regarded by recipients as a substitute of their own judgment. The company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Our actual results may differ materially from those expressed in or implied by these forward-looking statements.

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

Yasir Rawjee: Thank you, Soumi. Good evening to everyone, and welcome to our Q4 and FY '24 earnings call. Financial year '24 marked a significant milestone for the company's history in many ways. I'm pleased to announce the completion of our deal with Nirma Limited, who we warmly welcome as our new promoter.

Today is our first earnings call following the closure of this transaction. So we've had broad discussions with Nirma on the way forward. And while our current direction on business would continue, we are working on various new initiatives to drive our growth further given the increased growth capital available with us. Further, the business with Glenmark Pharma has also been secured by entering into a master supply agreement for a period of 5 years, beginning 1st of April 2024.

So before I go into the details of how we've performed, let me share a brief overview of the economy and industry trends that had an impact on business across. The economy continues to display remarkable resilience, maintaining steady growth holding and a decline in inflation. However, challenges remain, including the worsening geopolitical situation and supply chain disruptions on account of Red Sea. Within our industry, the demand has remained somewhat subdued overall in FY '24. But the situation is improving, particularly in the regulated markets.

On the other hand, the continued Red Sea crisis has significantly disrupted global supply chain, affecting the ROW and LatAm markets. The rerouting of shipping vessels not only has delayed shipments, but also inflated costs. This disruption extended to air freight where higher demand and limited capacity caused bottlenecks, subsequently delaying some of our shipments. Despite these delays, we continue to see a strong order book for the quarters to come but remain cautious about potential ongoing impact.

Additionally, our base of Q4 was high due to very high demand from GPL last year, which impacted overall growth for Q4. On a full year basis, we have clocked 5.6% growth. I would like to assure you that our demand outlook and order book remains very strong. Coming to our regional performance year-on-year. Our regulated market business was predominantly driven by Europe and LatAm, while Japan continues to experience inventory destocking. And our GPL business degrew quite significantly. That said, we are optimistic about recovery in the Japanese market starting H2 FY '25.

Our CDMO segment has grown steadily. And as guided earlier, we expect the commercialization of our fourth product in the second half of FY '25. Overall, FY '24 was a breakthrough year for the company despite geopolitical disruptions. Our gross margins continue to remain strong. And after a onetime bonus adjustment, our employee cost remains one of the most competitive in the industry. As indicated earlier, it will normalize from the upcoming quarter.

In terms of our pipeline, we have been aggressively filing across the globe to match our growth aspirations. The total DMF and CEP filings have crossed 520 as of 31st March, with cardiovascular and CNS therapies seeing the highest filings to the tune of 244 in total. During the quarter, we added 6 new products to our pipeline with 4 high potency APIs and 2 synthetic small molecules.

Coming to high-potency API pipeline, we now have 17 APIs with the total addressable market of $37 billion at the front end. We have already validated 3 products, while 4 products are in advanced stages of development. Additional capacities at Ankleshwar and the Dahej will be operational from Q1 of FY '25.

So in closing, we remain optimistic of the growth prospects for FY '25. We are committed to delivering high-quality innovative solutions to our customers and enhanced value to our shareholders.

With this, I now turn the floor to Mr. Shyam Agarwal, who is taking the place of Mr. Tushar Mistry, our CFO, who is not able to be here today due to some personal reasons. So Shyam, I hand over to you.

Shyam Agarwal: Thank you, Dr. Yasir. Hello, and good evening, everyone. I once again welcome you all to our Q4 and FY '24 earnings call. Following Dr. Yasir's commentary, let me briefly take you through the key performance highlights for the quarter and full year ended 31st March 2024, post which, we will open the floor for questions.

Our revenue from operations for FY '24 stood at INR2,283 crores, a growth of 5.6%. For Q4 FY '24, our revenues were at INR537 crores. The revenue for the quarter was impacted due to the ongoing geopolitical issues resulting in delayed flight availability for dispatches and also aligning to some extent with Nirma policies. The gross profit for FY '24 was at INR1,281 crores, a growth of 11.7%, whereas the gross margin were up 300 basis points and stood at 56.1% in FY '24 versus 53.1% in FY '23. Gross margins for the quarter were at 55.5%, which expanded 60 basis points year-on-year.

The shift in the product mix and a slight decrease benefit from the PLI scheme impacted our gross margins this quarter. Looking ahead, we anticipate an annual reduction in margins of 100 to 150 basis points due to the discontinuation of PLI schemes benefits. EBITDA for FY '24 stood at INR686 crores, up 2.2% year-on-year, with EBITDA margins remaining steady at 30.1%. I would like to highlight that the adjusted EBITDA for FY '24 was at INR727 crores after considering the onetime bonus and transaction cost of INR37.5 crores and INR3.2 crores, respectively, which would have brought to us an EBITDA margin of 31.8%. EBITDA for the quarter was at INR145 crores with EBITDA margin at 26.9%.

As highlighted in our last earnings calls, employee costs have gone higher due to onetime bonus linked to management's past performance. We anticipate this cost will return to normal levels starting from Q1 FY '25. PAT for FY '24 stood at INR471 crores with PAT margin of 20.6%. PAT for the quarter stood at INR98 crores, with PAT margin coming at 18.3%. Overall, FY '24 has seen steady growth despite the backdrop of uncertainties.

Moving on to the segmental performance for FY '24. Generic API clocked the revenue of INR2,042 crores, a growth of 7% year-on-year. Generic API revenues were at INR485 crores for Q4 FY '24 and was impacted owing to the Red Sea crises and muted GPL business. The regions like Europe and LatAm contributed positively to the segment year-on-year. CDMO revenues grew by 2% year-on-year at INR143 crores for FY '24 and have continued to show stable demand.

Within our therapeutic mix, the CVS and CNS portfolios continued drive growth. R&D expenditure of FY '24 was at INR75.3 crores, 3.3% of sales and INR20.2 crores for the quarter, which was 3.8% of our quarterly sales. Let me quickly touch upon the balance sheet and the cash flow movement starting with working capital. Working capital for FY '24 was at 170 days, slightly on the higher side on account of high inventories we maintained due to current geopolitical issues.

Our capex for FY '24 was INR129 crores. We continue to remain a net debt free company. For FY '24, we generated free cash flow of INR285 crores with cash and cash equivalents of INR301 crores as of 31st March '24. Overall, a promising demand environment with our strong order book, coupled with fresh capacity puts us in a formidable position for growth in the coming quarters.

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

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

Tarang: Just 3 questions from my side. You had guided in your Q3 earnings about a soft GPL business in Q4, but the volatility or the fall that we saw was quite steep. So just wanted to get a sense in terms of going forward, how should we see it? And are these quarterly -- can we expect these quarterly aberrations even from here on?

Yasir Rawjee: So Tarang, the thing is GPL business has been a bit cyclical because of their demand at the front end. My understanding in terms of why this has been soft or quite significantly soft, right? It was on account of some inventory destocking that they were engaged in. We expect them to come back in the year. But quarter-on-quarter, we do expect some fair amount of variation, let's say, on a yearly basis, I think it's going to be fairly stable.

Tarang: Okay. And sir, generally, from your advantage, what kind of visibility do you have on the business? Do you have a, say, 6 months, 2 quarter visibility? How does it really work?

Yasir Rawjee: No. Typically, we should have about 1 to 2 quarters of visibility on their business, right.

Tarang: Okay. Got it. And second, I mean, the CDMO business, I believe you spoke about the fourth molecule, which could probably commercialize in Q2 of FY '25, was it Q2 or Q4?

Yasir Rawjee: It depends on regulatory approval. I mean if it comes through soon, then we should expect something in Q2, but it could probably get into H2.

Tarang: Okay. But I mean, you're roughly at about INR140 crores in FY '24. I understand the long-term plans are strong. But more from a near-term perspective, how should we look at '25/'26 for this business?

Yasir Rawjee: Yes. So we should expect the fourth project to kick in sometime in H2. And even the fifth project, right, should kick in by Q4 is our expectation. So there should certainly be some jump, which we should see towards the end of this year.

Tarang: Okay. And Iron Sucrose pipeline, I think 3 molecules were in active development. One was filed. Is that status quo? Or has there been any change there?

Yasir Rawjee: That's status quo, one molecule has already been filed, that is being reviewed by regulators. And then we've got 3 molecules in the pipeline. Two are in advanced development. One has been recently taken in.

Moderator: The next question is from the line of Subhankar Ojha from SKS Capital & Research.

Subhankar Ojha: Can you please elaborate on the master agreement that you have signed with GPL? I mean, what is the structure, etcetera, like -- and I mean, basically, more color on the same?

Yasir Rawjee: Sure. So I mean, it's a 5-year agreement, right? And basically, existing supplies would continue and new products that have been filed with our APIs, okay? And these, of course, would happen at competitive prices. Therefore, protecting the interest of both the parties by ensuring that there is a predictability on supplies as well as on earnings.

Subhankar Ojha: Okay. Great. And what was your GPL revenue in the overall revenue for '24?

Yasir Rawjee: So it was about 30%. INR717 crores.

Subhankar Ojha: And you expect this to be stable going forward?

Yasir Rawjee: Yes. We expect it to grow in the high single digits.

Subhankar Ojha: High single digit. Okay. All right. All right. And also -- sorry, okay. So one more actually. So also with respect to the capex, we have done a major capex for the Dahej and Ankleshwar, which is we're going to start operation '25 quarter 1. Is that what you said?

Yasir Rawjee: Yes.

Subhankar Ojha: What is our capex budget for FY '25?

Yasir Rawjee: So '25, it would be around INR340 crores. Because we are starting Sholapur in a big way now. We expect to spend about INR140 crores for the greenfield site in Sholapur this year. And the remaining would be for completing many of the brownfield projects that we have undertaken in Ankleshwar and Dahej. And then of course, there is regular maintenance capex and R&D and quality and so on.

Moderator: Next question is from the line of Neha Manpuria from Bank of America.

Neha Manpuria: Dr. Yasir, you mentioned quite a bit about how the Red Sea crisis impacted our ROW LATAM supplies in the quarter. And it seems like you also remained cautious on this scenario going forward. Could you give some color on what could have been the likely impact because of this deferment or delayed supplies in the quarter? And are we seeing some easing in the situation or some work around this to ensure there are no further delays. Anything that you can give us color on?

Yasir Rawjee: Sure. So what we did not anticipate in last quarter when the problem had just started, right, in the last quarter commentary, right? Is that we didn't expect that the air routes would fill up a lot and there'd be a higher demand on the air routes? And that is exactly what has hit us. So there's a pretty -- there's a backlog, right, because of the higher demand on the air routes, right, of around 10 to 12 days, and as a result of that, we did -- we had a problem, right, with completing our entire sales for some of the destinations, and that has hit us.

Now in terms of expect that until this crisis ends and the sea routes are back, airfreight availability will continue to be a challenge. Plus there would a workaround, obviously, we'll have to try and sort of anticipate getting earlier bookings and so on and try to mitigate. But I also expect some impact on the air freight costs going forward. So let's see how it pans out. The other impact is also on the raw material supply because that we get by sea. And 1 out of 3 vessels is actually hitting the Western seaports in India. So we are trying to do a workaround there by trying to see if we can get better availability on the Eastern like the Visakhapatnam and Chennai to try and see if we can do something there.

And then, of course, we'll have to add a bit of road transport there to get our materials in time because if we don't do that, then there could be some impact also holding a little bit extra inventory going forward.

Neha Manpuria: Sir, is there a risk to the usually mid-teen guidance, revenue guidance that we have talked about because of this -- the crisis ongoing? Does that mean that shipments will be unless this is sorted out, and we have very little visibility on that at the moment, we could see lower supplies and therefore, lower revenue?

Yasir Rawjee: Neha, see, demand is pretty stable, okay, across markets, except the Japan thing that I had mentioned earlier, right? So demand is there. Now it's our job to ensure that given the situation, how do we sort of adjust, okay? I am hopeful that we'll be able to figure out both the supply side as well as the sales side, the shipments happen in time so that we are able to recognize the sales.

Moderator: The next question is from the line of Ahmed from Unifi Capital.

Ahmed: So we have a question on the external business. So 2 questions here. First, can you -- in the 5% degrowth which we had this quarter, what is the breakup of volume and the price? How are the volumes down? And how much is the price decline Y-o-Y? Number two, can you give a little more sense on the geography-wise revenue for the external business? How is the each geography done this quarter?

Yasir Rawjee: So Ahmed, the dip in the external business, right, like we said, was largely on account of this Red Sea business plus some alignment with Nirma accounting policies, okay? With respect to volume versus price, See, typically, on a year basis, we do see an erosion of around 4%, 4.5% on the bucket, right? And so there is something to maintain growth, we do have a volume growth of around 10%, 11%. So I mean that's where I would put that.

Okay. Coming to geography mix. On the quarter, like we said, Europe and LatAm have performed well. The other regions have been relatively flat. Japan has not done well, okay? But on the year basis, every region except Japan has hit really well. I mean India did very well, right? The U.S. also did well for the year. Okay. Europe, LatAm has also done well. And ROW has grown but not -- but in single digit, right? And the only degrowth that we have seen is on the Japan side.

Ahmed: Okay. Second question was on the -- last year actually, we had a very strong business, both from the GPL as well as the external business. And looking at the circumstances in the next couple of quarters, do you see some more weakness in the business for next 2 quarters?

Yasir Rawjee: No. We have a pretty good order book on the external side. And we expect GPL also to kick back in, right? So we expect the first half of this year to be -- to have a pretty good growth.

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

Ashwini Agarwal: And congratulations on completing the transaction. In your opening remarks, you said that you're working on various new initiatives discussing various growth initiatives with Nirma and with more growth capital agreement -- with more growth capital available to you. Could you talk a little bit more about that, what areas this might be? And when do you start to see the capex plans getting outlined and visibility more on this front?

Yasir Rawjee: So, Ashwini, basically, like I said, right, the existing prescription that we have adopted for ourselves for growth would continue unimpeded unhindered. That is a pretty solid plan. We will continue that. With respect to what we can do further. I mean, certainly, we will be pushing harder on the CDMO side, okay, with respect to opening up more channels, okay, with respect to the business side.

And as far as the technology side, there are a few technologies that would open up other portfolio opportunities for us. Higher-value portfolio opportunities and those are technologies that we will start investing this year itself, okay, which should sort of start panning out at the commercial level in 2 to 3 years' time. So, we have lined up a couple of them already, and we would be building those out in R&D. And there would be a few more levers that we would add on the technology side.

So on the business side, it would be a sort of a more extended CDMO play with technologies coming in to assist both the API growth as well as the CDMO.

Ashwini Agarwal: Okay. And just coming to the near term, which is the next 1 or 2 years, you alluded to 2 factors that hindered Q4. One was, of course, the Red Sea and the air freight capacity issue and the second was alignment with Nirma policies. Could you spell out what the latter means, the alignment to Nirma policies? And how much of revenue got deferred or could not be recognized because of that?

Yasir Rawjee: Yes. So in total, it was around INR45 crores, okay? We'd have to come back to you on the split. But yes. I mean, as far as -- I mean there's got to be a consolidation now with Nirma, right? So we had to make some small adjustments there, right, in order to align.

Ashwini Agarwal: Okay. And what would be the outlook for fiscal '25? I mean, should -- you mentioned 10% to 11% volume growth with 4% to 4.5% price erosion, but then there are these new CDMO molecules coming in. So I'm wondering what I'm -- is it mid-teens, early teens or single-digit revenue growth? And on EBITDA, the initial comments suggested 100 to 150 basis point hit on account of PLI. So net of that, how would you like us to think about profit margins opportunity?

Yasir Rawjee: Yes. So on top line, we will -- we are holding low to mid-teens growth, Ashwini, right? Like I said, right, GPL would give us high single digit, right? And then our external business is looking robust. So that would continue. Japan would bounce back also, right? And so -- and as far as EBITDA goes, right, yes, there would be an impact of PLI, right? And so we can probably hold around 28% to 30% range for the EBITDA.

Moderator: Next question is from the line of Nitesh Dutt from Burman Capital Management.

Nitesh Dutt: Sure. So my question is around the PLI that you just answered, Dr. Yasir. When will the impact start on our P&L?

Yasir Rawjee: Right away. Because we disengaged with Glenmark as of March 6, 2024. So from -- I mean, we will not be accruing any PLI income from first quarter itself.

Nitesh Dutt: Understood. Second question is regarding our capacity expansion in FY '25, right? So we will be adding another 800 KL. I just want to understand this breakup between internal consumption in intermediates and for final API, this 800 KL additional capacity. And also what is our current capacity utilization level -- blended level, if you can give the number?

Yasir Rawjee: Nitesh, I don't know where you're getting 800 from, but 208 will get added in plant 18 in Ankleshwar, right? And then we are adding around 35 KL in the pharma area 4 of plant 6 in Dahej. So that will be around 250-ish KL, right? If you're referring to Sholapur first phase, that will not be operational in FY '25. That will be operational in FY '26 and that also towards the latter end, okay? So I just want to sort of align there, right? What was the second part that you asked, related to capacity?

Nitesh Dutt: We're talking about utilization, utilization level.

Yasir Rawjee: Yes. So the thing is that we expect utilization to start off on the new capacity at around 60%, 65%, okay? And then -- yes, I mean, in FY '25, and then it would jump, right, in FY '26.

Nitesh Dutt: Right. Sir, finally, from Nirma perspective, I just wanted to understand their strategy regarding the business. if anything has become clearer regarding how they want to take this forward, right? Considering they have other pharma businesses also. So any potential change in business model, etcetera? You mentioned about additional growth capital. But other than that, anything from Nirma side if you're able to share at the moment?

Yasir Rawjee: My understanding is Nirma's other pharma businesses would continue to run independently of us, right? They are largely India-based businesses is what I understand, right? So the overlap with us is hardly there, right? Our strategies would be driven purely by CDMO and API, okay? And even the technologies that I mentioned, right, would be driven by us, would basically center around API and CDMO. Clearly, there is no plan to sort of merge any of the existing Nirma business or pharma businesses with the GLS API business.

Moderator: Next question is from the line of Sajal Kapoor, Individual Investor.

Sajal Kapoor: As the CDMO projects and relationships with scaleup, Dr. Yasir, the impact of success as well as the impact of failure will increase, right? So in that context, management bandwidth, senior scientific talent along with systems and controls that may be working at small scale where we are today and may not be fit for purpose as we fight competition and scale up our CDMO services. So basically, my question is, how are we geared up for future? Because if I see it in the Indian landscape, there are tons of companies in the 100, 200 annual CDMO kind of revenues in India today. And not everyone will be successful. I think majority of these companies will just stop doing CDMO services because they will struggle to scale up. So how are we positioned?

Because we have the balance sheet to support growth, but do we have the intent and the strategy in place?

Yasir Rawjee: Okay. So if you were following the answer to Ashwini, a few minutes ago, right? So let me take you to where we are on CDMO now, okay? So our focus on CDMO thus far has been on life cycle management, right, or in end of life cycle plus specialty.

Now with respect to attrition in that space, the attrition is not that high. So typically, our strike rate on landing projects, about 40% to 50%, okay? So currently, we've got a pretty healthy set of RFIs getting into RFQs and then later into project realization, right? And we expect that, that 40% to 50% attrition is all that we will be hit with, right? The bandwidth also that we require to close these projects and make them successful is available to us now. But then going back to the question that Ashwini asked in terms of what are the further investments, I mentioned that we would be opening up some more channels with some further investment.

Now that may require investments, both at the front end as well as and definitely at the technology end. But that would be an additional lever, so to speak, on the CDMO side, okay? So while this push on CDMO is something the one in that specialty and end of life cycle is part of our current strategy and that would continue with a fairly modest attrition, right? And with the bandwidth available for us to deliver, okay? We believe that by further opening up channels, we will only accelerate our CDMO play. Of course, I mean, you do reference other companies. I think everything relates to how a company approaches CDMO. And basically what slice of the CDMO piece are people looking at.

So if you're in the early medicinal chemistry lab type of projects, yes, you have a larger number of projects. But like you mentioned yourself that attrition can be pretty high. So again, we are clear, right? Attrition in our set of projects is pretty modest, and we expect a fairly good hit rate with respect to CDMO space.

Sajal Kapoor: So do we have the aspiration to hit a number close to INR1,000 crores coming from custom synthesis of CDMO? I mean is that what our vision or strategy is over the medium term to try and get closer to that number? Because INR100 crores, INR200 crores, I think, is subscale, and it would be difficult to survive for any player at that level for very long.

Yasir Rawjee: Stand-alone, I agree with you. On a stand-alone basis, yes, what you're saying makes a lot of sense, but you've got to factor in that our INR150 crores revenue is driven by only 3 projects, okay? So they are sizeable. At a per project level, they are sizeable. So for us to add, let's say, another 8 to 10 projects in the next 4 years would drive up our revenue to about INR500 crores, INR600 crores is what we had indicated anyway, right? So that direction is clear. The size of our portfolio allows us to say that with confidence, right, that we would achieve that. However, adding another lever or a column, so to speak, on the CDMO, which we will choose carefully.

Again, keeping in mind that we don't want to get into this very high attrition business. Plus, we don't want to be making very significant investments in a completely different set of capabilities and technologies. We should aim for INR1,000 crores. I'm not putting out anything. I mean, but just to -- since you put that number out there. If we add a little more levers on the CDMO side, we can aspire, we can aspire for INR1,000 crores.

Moderator: Next question is from the line of Aejas Lakhani from Unifi Capital.

Aejas Lakhani: Sir, a follow-up on some of the earlier discussion on freight. Should we assume that although there are challenges given the limitations on air freight availability, but the fact that you have awareness of the problem and options that you're exploring across different lines and different modes? What probability should we ascribe to that being a constraint to actually getting it done?

Yasir Rawjee: I think it remains to be seen. We'll have to figure this out. It doesn't look like a show stopper for sure. I mean, it will add to some cost and even that cost would be very minimal, okay? But the more important issue is timing, okay? So let me break it up again, right? On the raw material side, like I said, all our raw materials come to the Western Coast, either Gujarat or Mumbai, okay? If that begins to be a challenge, right, going forward, then it will only mean that we will stock up some inventory, maybe an extra 10 to 15 days on the inventory side, okay, which will impact working capital.

I think that's easily manageable because our supply base is largely from China and India. Some European suppliers we will have to figure out how we manage those. But again, not a challenge, right? Where I think we need to do a bit of work is try to figure out in terms of how we -- we continue to get the full benefit of our 3-month manufacturing cycle, right, and translate that to basically making sure that the customers get the material in time when we can recognize the sales. So that part will have to figure out.

The good thing for us is that our business is pretty distributed across the world. So all it means for us in certain challenging regions, we would have to basically prioritize manufacturing for those regions, right? And therefore, be able to recognize the sales comfortably. But it takes some adjustment. We're working on it.

Aejas Lakhani: Okay. And there was also a discussion that I'm just asking the same to try and understand whether I got it clearly. The question was on Nirma influence on the company's business plans. Did I understand you're saying effectively that what Nirma has going on is largely domestic, and that will be continued by them independently? And effectively, what you have in mind and what you've been explaining to shareholders as your business plan has little or no change with the new promoter coming in. Is that a fair understanding?

Yasir Rawjee: Yes. It's a complete -- it's a fair understanding. You're spot on.

Moderator: The next question is from the line of Punit Pujara from Helios Capital Management.

Punit Pujara: So if I look at the future capacity expansion plan slide that you put out and if I look at that for Q3 presentation, we were expecting to add 258 kilolitres of capacity in FY '24. I understand that a much of it will be commercialized in 1Q of FY '25, which is a place where we're getting 208 kl out of that. But still remaining some 590-odd kilolitres will be adding as per the current slide in the future capacity expansion plan. So could you just provide some color where these capacities are getting added?

Yasir Rawjee: Sure. So largely, the bulk of this 500-odd kl will be coming up at Solapur. And like I said earlier, this will be coming up in late FY '26. There would be some additional capacity that we may look at in Dahej on the pharma area, right? In case we run into some bottleneck because that civil construction is already done, okay, but that we'll see how that pans out. And then there is the sort of completion of plant 6 in Dahej that should also give us an additional 100, 120 kl of capacity. But again, I expect that, that would come online only in mid-2026.

But see, our strategy has always been to be calibrated on our capacity expansion. So while we do the early work like civil construction and stuff, which takes up a lot of time, we do that quickly with very little investment, right? The bigger part of the investment, which is the fit-out and the whole HVAC, the air handling systems and all that, right, and that takes less time. We do that closer to when we see that we need that capacity. So that's the plan. We'll see how it goes, right? I'm not saying that we will bring everything onlineat the same time, we'll go step by step.

This 250-ish kl will come in Q1 of FY '25. And the rest will chug along, right.

Punit Pujara: Sure. So these are not like very hard numbers. These are depending on certain business development visibility, certain decisions to be taken up by the management. These are not like hard guidance numbers. Is that right way to think?

Yasir Rawjee: Yes, yes. Exactly because the thing is to see, again, if the business is there, it will come on, and we can bring it on in about 5 to 6 months, right? But if we don't need the capacity and we can service the business with the existing capacity, then why spend the money.

Moderator: The next question is from the line of Dhruv from Fluent Aura Enterprises.

Dhruv: Okay. So I just wanted to ask you that in the presentation that has been provided, has there been any planned capacity decrease in Solapur and Dahej from 1,000 to 600-kiloliters and 220 to 100 kilolitres, respectively?

Yasir Rawjee: Okay, Druv, Dahej 220 kl is now broken up, right? So we're adding 35 now, right? We may end up adding another 35 this year on the pharma area, right? And then like I said, around 120 kl could come up. So that gets us to that 220 number that you're referring to, right? Okay. And Solapur is something that we will do in 2 phases. The first phase should come through by FY '26 end and okay, which will basically allow us to take validation batches to go for trigger an inspection, okay? And then we'll see how that builds out, whether we need 400 or more -- capacity is something that will depend on the product mix, right, and what we are planning to build up in Solapur. So just to go to the previous -- Mr. Punit Pujara:'s question, right, we basically are going to play it by year.

Dhruv: Okay. And my second question comes from like -- so the onetime bonus impact of employees, can you share some or throw some light on that and the future trajectory for this?

Yasir Rawjee: Yes. So on the onetime bonuses, the company has been performing very consistently over the last few years, right? And there was a plan to sort of award these bonuses to the top management, which was done in the last year. Now that is not something that would continue. So our manpower cost would regularize in FY '25 back to more normal levels, right? That's how it would be going forward.

Moderator: The next question is from the line of Siddhant Singh from Green Portfolio PMS.

Siddhant Singh: Yes, sir. I have a couple of questions. Sir, first I just want to touch back on the Red Sea crisis issue. Sir, could you share your insight on the expected trajectory of freight cost in Q1 FY '25? Will they remain elevated? Or is there potential factor that could lead to a decrease in the cost? What do you think, sir?

Yasir Rawjee: So look, costs have gone up, both sea freight as well as air freight, okay? Air freight has a blowback because of sea freight unavailability, right, and the timing problem. So both have gone up. Luckily for us, our volumes are not that high. So even with the higher rates, right? There will be some impact also. I mean if it continues over the year, maybe INR10 crores, INR12 crores impact, if it doubles, the sea freight rate -- the freight rates, okay. But I don't expect that this crisis will continue for a year. So overall, when you sort of dial in both maybe, let's say, another 3 months at this matter is sorted out, then things should come back to normal.

Siddhant Singh: Okay. Okay. And my second question is regards to your R&D pipeline. Are there any specific upcoming filings or approvals you would like to highlight? And also about their impact on your future revenue stream?

Yasir Rawjee: So high potent pipeline is building up very nicely, right? We've got around 16 molecules now, right, that we've taken into the pipeline, okay? With respect to revenue coming from this, we already -- will get 1 product commercialized in some select markets, which is really nice because we didn't expect that. But it has already begun, but the large part of the revenue build up on this high potent pipeline would start about 2 years from now. So there would be a significant addition in about 2 years' time, on account of this high potent pipeline.

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

Tarang: Just on the Red Sea impact. Just wanted to check, I mean, did the impact have a bearing on your sales target or it was really a cost push? Number one. Number two, if it did impact your sales, are we looking at deferral or are we looking at permanent loss? And number three, if it is a loss, I mean, strategically, it doesn't hurt you in terms of really losing market share with your end customer for not being able to supply material?

Yasir Rawjee: So Tarang, see, right? It's a sales loss, right? It's a deferral really. I mean it's going into the next quarter, okay. And -- but we didn't anticipate that airfreight would have such a big backlog. It's the airfreight backlog that has caused this deferral on the sales. That's the thing. And as far as customers go, I mean, if there is a delay of 10, 12 days, the customer really doesn't get impacted, right? But we have cutoff dates, and we have to recognize the sales in the quarter. So that has obviously hit us, right?

And frankly, it did take us by surprise, but then manufacturing schedules were already in place. So while we were trying to do our best to sort of get it in quickly, right, it is what it is, right? I mean its kind of hit us there.

Tarang: Sure. Sure. And I mean, in terms of cost implications, you did sound out a INR10 crores to INR12 crores number for the U.S.

Yasir Rawjee: That is if it continues for an entire year.

Moderator: The next follow-up question is from the line of Ahmed from Unifi Capital.

Ahmed: Just want to reconfirm a number. You said INR45 crores impact because of deferment and a change in accounting policy. Is that correct?

Yasir Rawjee: Yes.

Ahmed: Can you break it down, deferment and change in policy?

Yasir Rawjee: Like I said, we'll have to come back on that.

Moderator: The next follow-up question is from the line of Punit Pujara from Helios Capital.

Punit Pujara: Now that the year is closed, could you tell us that what percentage of your revenue came from goods that were made using inputs from like imported goods at any stage? That's one. And a follow-up to that would be what percentage of inputs came from China for that?

Yasir Rawjee: Could you please repeat that? I kind of lost you.

Punit Pujara: Yes, yes. Sure. So what I'm asking, what percentage of your financial year '24 revenue came from the goods that were manufactured using the materials imported outside -- from outside India? And within that, what was China share?

Yasir Rawjee: Okay. So you know what tying up what gets made because of China and what gets made because of other imports is difficult because there are all kinds of inputs that go into a single product, right? But if we're looking at a 7-stage synthesis, right, there are multiple key starting materials and common raw materials that come from China, India, Europe. So that's difficult to quantify. But let me tell you, right, our import procurement rate is about 40% to 45%, right? And China is about 40-ish percent right? And the rest of it comes from India.

Punit Pujara: And this is expected to come down with backward integration capacity such as Ankleshwar coming up?

Yasir Rawjee: Solapur, yes, it's expected to come down.

Punit Pujara: Sure. And the second thing is you mentioned to my earlier question that you can put up capacities in, let's say, roughly 6 months of time upon getting business visibility. But given that the Red Sea crisis is also -- would impact the inbound shipment business. So what -- like how will that ensure the import of machineries or engineers coming to set up those plants? How will that -- how will that timeline change?

Yasir Rawjee: Okay. So for capex for capacity building, we don't get outside -- everything is done out of India. So all our suppliers are based out of India. Our entire infrastructure, there is no infrastructure development dependence on any foreign country. Everything is indigenous. Okay. So that's not a problem.

Moderator: Next question is from the line of Dheeresh from WhiteOak Capital Management.

Dheeresh: I have 2 questions. I just want to confirm the Glenmark business, API business, grew high single digits. So 2 questions. First, I just want to confirm my understanding that what you said is that Glenmark business for the full year will grow in high single digit based on your current outlook from the FY '24 base, right?

Yasir Rawjee: Yes.

Dheeresh: Okay. And second, I just want to understand the accounting policy that you reconciled, what was the policy earlier? What is the policy now?

Yasir Rawjee: Yes. So I mean, Nirma follows a certain pattern, right? So we have aligned completely with that, right? We'll have to give you details not in this call, right?

Dheeresh: We'll take it take it that later on.

Yasir Rawjee: Its related to their consolidation.

Dheeresh: Yes, I want to understand the policy change because Glenmark also being a large company, I expected the policies to be best-in-class. So is there a change in the way you record -- report record revenues, revenue recognition policy is materially different?

Yasir Rawjee: Yes. So like I said, we'll have to come back to you, Dheeresh.

Moderator: Thank you very much. Ladies and gentlemen, we will take that as the last question. On behalf of Glenmark Life Sciences Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.