"Glenmark Life Sciences Limited

Q1 FY '24 Earnings Conference Call"

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MANAGEMENT: **DR. YASIR RAWJEE – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – GLENMARK LIFE SCIENCES LIMITED**
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Moderator: Ladies and gentlemen, good day, and welcome to the Q1 FY '24 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 a 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 call of Glenmark Life Sciences Limited for the quarter ended June 30, 2023.

From Glenmark Life Sciences, we have with us Dr. Yasir Rawjee, our MD and CEO; and Mr. Tushar Mistry, our CFO. Our Board has approved the results for the quarter ended 30th June 2023. We have released the same to the stock exchanges and updated it on our website as well. 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, which could cause the actual results to differ materially from these statements depending upon the economic conditions, government policies and other incidental factors.

Such statements should not be regarded by the 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.

Yasir Rawjee: Good afternoon, and welcome to everyone on our earnings call for Q1. It's a nice beginning for the financial year for us with revenue from operations growing at 18.1% to INR579 crores. We can attribute this to efforts of our internal team as well as favorable shifts in the external environment. So let me get into some details here.

Firstly, the success that we have seen and hopefully will continue to see is based on our diversified and niche product basket. With the will the internal focus on process improvement and tighter controls on operational costs. Hopefully, this should help us to continue this growth momentum.

Apart from the internal factors, several external factors have also been favorable to the growth, which do include demand revival from the U.S. market. In addition, we see steady traction in Europe, emerging markets and India. And then we should also mention that the -- there's an improved supply side environment, okay, which has helped us as well, especially on the margin front.

Now looking at the segmental performance for the quarter, we saw in the last quarter that the CDMO has picked up very well. And that continues. And again, very likely to continue. The generic business also has picked up nicely. Like we said, it's growing from the U.S., Europe, ROW as well as India. So the business traction is very good, CDMO as well as generic API.

Interestingly, our GPL business has also started looking up from the last quarter. And the demand looks positive for the next couple of quarters. Right?

Our external business has also grown like we said, substantially. So that's on the business side, with respect to R&D, we have added one more molecule to our iron complex pipeline. So that takes our total number of products to four, we've also added two high-potent products, high potent and APIs to our onco grid, which is now nine molecules. The total addressable market for this is about 20 billion for the front end. And we've engaged in a fair number of tie-ups with customers as well.

On the filings across countries, our filing number stands at 476. So again, to sum it up, it's a strong pipeline. We continue to add more. On capex, we expect to close between INR150 crores to INR200 crores for this financial year. And a good portion of that will go into Ankleshwar, Dahej and the Solapur greenfield.

So, overall, we've got a good visibility for the financial year and with the improved demand and pricing environment, coupled with better input costs, we expect strong growth in the coming quarters. We continue to guide to the mid-teens with stable margins for FY '24.

I will now hand over to Tushar Mistry, our Chief Financial Officer.

Tushar Mistry: Hello, and good evening, everyone. Welcome to our Q1 FY '24 Earnings Call. I would like to briefly touch upon the kbey financial highlights for the quarter ended 30 June. And then we'll open the floor for questions and answers.

We registered revenue from operations of INR579 crores for Q1 FY '24 with a growth of 18.1% year-on-year. While Dr. Yasir has discussed the growth drivers in his opening remarks, I would like to highlight that the product mix has been trending towards more value-added products, which is helping us deliver quality growth.

Gross profit for the quarter was at INR330 crores, up 26.6% year-on-year. Gross profit margin for the quarter was at 57.1%, up 220 basis points on a sequential basis and up 380 basis points compared to the same quarter last year. There were two reasons for higher gross margins for the quarter. One, the better product mix that we saw in Q4 of last year continued in the current quarter as well. Two, we have seen softening of raw material prices, including solvents during the quarter.

EBITDA for the quarter was at INR195 crores, up 24.8% year-on-year. EBITDA margin for the quarter was at 33.7%, flattish on sequential basis and up 180 basis points on a year-on-year basis. Profit after tax was at INR135 crores, a growth of 24.3% year-on-year and PAT margin for the quarter was at 23.4%. Coming to business performance, External business grew strongly by

17.9% year-on-year. External business was driven by strong growth in regulated markets as well as robust pickup in CDMO business. GPL business also grew by 18.5% year-on-year.

GPL contribution to the revenue was close to 34% during the quarter. As mentioned by Dr. Yasir during his speech, we are witnessing a significant rebound in GPL volumes, which is expected to be carried on in the coming quarters of the current financial.

Generic API revenue for the quarter was at INR504 crores, registering a growth of 13.3% year-on-year, on the back of strong growth in the regulated market, supported by steady growth in emerging markets. For the quarter, CDMO business contributed strong growth momentum revenue from CDMO business was at INR46 crores, up 21.3% year-on-year.

R&D expenditure for the quarter was at INR17.4 crores, which was 3% of our sales. We anticipate R&D expenditure to stay around 3% for FY '24 as well.

Coming to working capital. We continue to see improvement in working capital with working capital days for Q1 '24 at 165 days, majorly driven by reduced debtors. capex for the quarter was at INR35 crores. As Dr. Yasir mentioned, for the full year, we will keep up with our strategy of calibrated capex of around INR150 crores to INR200 crores for the year.

We continue to remain a net debt-free company, and I am happy to inform you that we have generated strong cash flow of INR98 crores during the quarter, which further strengthened our balance sheet with cash and cash equivalents of INR308 crores on the books as of 30th of June, 2023.

Overall, we are hopeful of continuing the growth momentum in coming quarters with stable margins, provided the external environment even '23. With that, let us open the floor for Q&A.

Moderator: Thank you very much, sir. We will now begin the question-and-answer session. The first question is from the line of Neha Manpuria from Bank of America.

Neha Manpuria: Sir, my first question is on the gross margin trend, the 200-plus basis points improvement that we've seen quarter-on-quarter. Could you give us a rough breakup of how much of this was probably because of product mix versus RM softening? And also just trying to understand how sustainable this product mix benefit is? RM, obviously depends on a lot of other factors. But how should we look at the gross margin trends for the rest of the year?

Tushar Mistry: See, we saw the group good product mix in Q4 as well. And if you see Q4 gross margins were in the range of 54.9%, almost 55%. The improvement in -- or reduction in raw material prices was not seen in Q4. But the delta that we see currently is really because of the raw material prices. So that's how one should consider that the better product mix was around 55% and delta of another 200 basis points is from the raw material softening.

Now this is the current scenario from an overall perspective for the entire year, we will see as to how this pans out going forward. But as of now, we see some good traction on the lower raw material prices as well as a solvent pricing.

Neha Manpuria: Are we seeing any risk in terms of potentially raw material prices inching up? Or it's fair to assume that we have a fair bit of comfort on where raw material prices are?

Yasir Rawjee: Okay, so we expect the raw material prices to hold for the next couple of quarters based on the visibility that we have. So it should be okay for a couple of quarters. We don't know how the macroeconomics conditions change. And so we'll see. But at least for now, I can say that it will be good for the next couple of quarters.

Neha Manpuria: In that case, sir, what is the reason for the stable margin guidance because we did 30%, we have done close to about 33% in the current quarter. Just trying to figure -- I'm trying to understand the quarter that you have seen in your commentary and the guidance that we are giving both for top line and margins?

Yasir Rawjee: So there's a mix issue here, too, right? I mean, basically, we've had very good mix plus the raw material prices have helped, like Tushar explained. And that -- so I mean, if the mix continues to be similar, then I would say, yes, it would go up, but I'd rather bet on the sort of -- we're probably closer to what we had seen in Q4, right? With these reduced raw material prices, I mean both of them are pulling in the same direction now. But then we are not so sure that the mix will continue to be that favorable.

Neha Manpuria: Understood. I have more questions, but I'll get back in the queue.

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

Shyam Srinivasa: Just two ones on the overall generic API trends? And if you could give us some color from a therapeutic mix perspective, I think cardiovascular still should be coming down. So just wanted to understand how the whole generic piece is including your own pricing, will this lower RM cost? Will it also eventually 1, 2 quarters later, will it impact your pricing power as well? So I just want to understand overall generic industry, how are you faring and what is happening in the therapy area mix?

Yasir Rawjee: So let me take the therapy first, right? Again, cardiovascular is very steady, Shyam. Right? CNS has done better. And again, that's because of existing products being much better. Plus we've added one new product on the CNS side. It was launched recently, and the post launch quantities are very good. So the CNS franchise is doing well.

On the overall generic, I think we've been firing pretty reasonably across the quarters. Of course, in the last couple of quarters, it was Japan and LatAm that had pushed very well. But then this time, it was more the U.S. and India, right, that has delivered. So I mean, since it's not really a quarter-to-quarter business, we have seen a pretty solid demand across and even we expect Japan and LatAm to bounce back.

Plus the sea, so that's the -- on the generic side. So, of course, we did pass on some cost benefits to customers, right, as a result of CIP processes. So that does sort of impact the top line there as well. But considering that the demand has been so solid across the markets, we expect the generic numbers to continue to grow.

Shyam Srinivasa: Understood. Just my second question is just on the CDMO business, right? So again, I know it's volatile and we shouldn't be looking at it quarter-by-quarter, but it's probably driven faster than company average growth, right? So any visibility? I know it's down Q-o-Q, but I just want to understand how should we look at the CDMO business when we look forward? Will it gain in terms of contribution overall? And what are some of the projects that have contributed to this growth?

Yasir Rawjee: So CDMO, we've got three commercial projects, right? And last quarter, we got a big shot in the arm with one of them getting an additional indication, okay? And that bumped it up very significantly. That is something that will continue, our customer is pretty confident of more than doubling their volumes on that one project.

So what we have now in terms of three commercial businesses, right, will continue to deliver at this level. We had a fourth project that continues to get delayed because of regulatory filings at the customers end, but the good news is that in the last quarter, we've had traction on two CDMO projects that have now moved into advanced stages with two different innovators okay? And we expect that by Q3, Q4, at least one of them will kick in to a reasonable extent.

So these are recent developments, and we haven't really spoken about these two projects earlier. But we expect that by Q4 latest, we should have at least one of them kicking in very significantly. So apart from the fact that the three we have are going to be fairly stable and this -- from these two new ones also, we expect one to deliver. So CDMO will be pretty strong this year. Quarter-on-quarter, it might vary a little bit, but on the year, we expect CDMO to contribute nicely, 8% to 9%.

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

Tarang Agrawal: Congratulations for extremely strong set of numbers. Two questions from my side. One, if I look at the growth for this quarter on a year-on-year basis, how much of it is volume led, one? And second, how much of it is from the set of molecules or set of APIs that you were supplying in the base quarter? And how much of it is from probably new molecules. So that's one.

And the second, I believe you spoke about an ion complex compound that you're working with. Is this in addition to one that you already have? And if that is the case, what is the status of DMF filing for the first compound? And how far ahead is your customer in garnering approval for the product?

Yasir Rawjee: So Tarang, the growth was largely driven by volumes. There have been some new products introduced, right? I talked about the CNS molecule, right, the new molecule but then both on the generics and CDMO right now, it's a volume-driven growth okay? As far as old molecules versus new. Obviously, the old molecules play a very big role because they continue -- I mean, they are commercial businesses, right? But the new molecules have also started kicking in.

Coming to ion complexes, basically, we used to have three in the pipeline, of which one is already filed. And we are in the query stage for both the customer as well as us. We recently answered the query from the DMS side, just a few days back. So the customer is also likely to put in their response. And once those responses are acceptable, then we can look forward to a tentative approval.

Okay, two of the molecules that were in the pipeline are going to be validated before the end of Q3 and then we recently added one new molecule, which is now in early stages of development. So that's the status on the in pipeline.

Moderator: The next question is from the line of Bala Murali Krishna from Oman Investment.

Bala Murali Krishna: Regarding CDMO, the fourth quarter just got delayed since the last 2, 3 quarters. So and one more project we are supposed to add in Q3 or Q4. What could be the revenue potential of this for an annual basis?

Yasir Rawjee: So once it matures, it should be around $5 million.

Tushar Mistry: Initially, in Q4, we may not see that kind of revenue. But once it picks up, the volumes indicated by the innovator should get us a business of around $5 million.

Moderator: The next question is from the line of VP Rajesh from Banyan Capital Advisors.

VP Rajesh: Just one question. On our gross margin expanded, as you said, Tushar, by 380 bps, but our EBITDA margin has expanded by about 200 bps. So if you can explain where that 200 bps is going? Is it -- do we invested in the R&D side? Or is just the SG&A cost is going up, that will helpful.

Tushar Mistry: This was largely driven by manpower and plus our costs because we added new infrastructure, right, have also gone up on the operations side. So that's the reason.

VP Rajesh: Okay. So when you say infrastructure, is it for the new capacity that is coming up regarding that? Or is it more with the existing plants or existing operations? Just trying to understand.

Tushar Mistry: In the month of Feb, we did introduce plant 6 in the Dahej, capacity has been utilized in this quarter, and some even in Ankleshwar was added. And so there's an increase in expenses there as well.

VP Rajesh: Okay. Okay. So is it fair to assume that in the coming quarters, we will get some operating leverage out of these infrastructure investments as well? Or these are just sort of regular costs that are going to be there and the impact is anyway coming up in the revenue from these facilities? How should one think about it?

Tushar Mistry: Yes. So it all depends on the utilization, right? So I mean once we get that utilization up, right, then we'll get that operating leverage.

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

Neha Manpuria: Sir, I see that we have increased the capacity addition that we had planned. I think last, it was about 1,800 KL, but there's a new addition that you've added in Dahej in Ankleshwar, could you give us some color in terms of what businesses, what areas that we are focusing on? Do we have a pipeline that gives us this visibility for the large addition that we have announced?

Yasir Rawjee: So Neha, yes, you picked that up. We do see some benefit in accelerating some of the brownfield projects, right? Because greenfield takes time. And considering that we do have the space and permissions to build out a little more in Dahej and Ankleshwar.

We brought those forward, okay? It will happen much sooner and also will happen at a reasonable cost compared to the greenfield. So you're right, we did make those plans and have brought it forward because the demand scenario clearly is going up. And we need to add capacity relatively faster.

Neha Manpuria: Understood. So has our total capex outlook changed for the next 2 years? Given this, we are already spending on Solapur and we have added Ankleshwar and Dahej. Should we see a step up in spending in FY '25, '26?

Yasir Rawjee: There should be a little bit. But then, I mean, this brownfield expansion is basically happening at a little bit of Solapur cost in terms of Solapur getting delayed a little bit, right?

So as Tushar said, we'll still try to keep the capex spend between INR150 crores to INR200 crores, right? That's still very much the thought process here. right? But we'll see. I mean, we've got to, at end of the day, we've got to make sure we've got the capacity to service the business.

Neha Manpuria: Understood. And given that we've had this CDMO project where you said we've seen traction. Was this ahead of our expectation in terms of what we were looking for the CDMO pipeline? And do we have enough capacity to service these additional projects that the acceleration that we've seen in the CDMO business?

Yasir Rawjee: Yes. See, like we've been paying for a while now, right, that we've got quite a few irons in the fire, right, with respect to CDMO. And it's the customer, right, and their regulatory approach that has basically accelerated this. So initially, I mean, we usually do take a bit of a conservative stand with respect to how the customer will file -- will make the regulatory filings. But now it seems they want to move faster. So that's why -- just we supplied validation batches in this last quarter for both these projects.

So depending on how things shape up, at least one of them should get regulatory approvals for commercial to start in Q4.

Neha Manpuria: Understood.

Moderator: The next question is from the line of Nitin Agarwal from DAM Capital.

Nitin Agarwal: Sir, when you look at the business on the generic API business over the next 2 or 3 years, from a growth perspective, do you see bulk of the growth will be contributed by our existing set of molecules or the newer launches play a more important role?

Yasir Rawjee: So Nitin, the new launches are going to play a huge role. I mean, in terms of contribution, right? In fact, I mean, you asked for a 2-year time horizon, but on a sort of 5-year time horizon, our plan at least looks like the new molecules will contribute as much, right? In fact, more, they'll be growing much faster.

It is because we're starting from a smaller base, right? Plus the market growth itself is much more and so we expect the new molecules to contribute very significantly to...

Nitin Agarwal: Just to get that right, when you say over the next 5 years, 50%, it's a 50% of incremental sales or 50% of total revenues in the molecules?

Yasir Rawjee: Revenue contribution, yes.

Nitin Agarwal: So that's like a very, very sharp meaningful contribution from some of the newer launches. And in that, is it going to be concentrated on a certain -- it's sort of premised on a few specific products or which is a very broad basket of your launches you're looking at?

Yasir Rawjee: It's a reasonably big basket because we explained that apart from the new and the mature products, right, we've also got an expansion basket of existing molecules that are not that big, but then they are expanding much faster because of newer markets having patent expiry and customers getting added as those patent expiries come through in the markets that are opening up.

Nitin Agarwal: Okay. And secondly, in terms of onboarding new customers or what's the experience do you like invent customers? If you -- and in terms of new customers that you're onboarding, what's the typical source of API supplies for them in the past before they approached you?

Yasir Rawjee: Yes. So some of them are second wave filers, so the ones that didn't catch the NCE window, and are sort of developing it a new, like 3 years before the patent expiry right, and want to get in, right? So that's one set of customers, but then we've also had traction from customers who are in the molecule in their business. But then they are looking for an alternate source. So both those are moving pretty nicely.

Nitin Agarwal: And on the latter, if you can just help us understand that a bit. I mean, where are the -- where are some of these customers largely typically sourcing from when they look to switch their sources?

Yasir Rawjee: Yes. So they've got either existing Chinese source or an Indian source, right. And are looking to have another source plus, sometimes, they're not happy with their existing source. So they want to sort of have a backup or even switch completely.

Nitin Agarwal: Okay. And the last question in terms of over the last year, 1.5 years, based upon how the competitive dynamics in some of the existing molecules have progressed, have you taken a decision to drop any of any or some of these molecules that you already that were serving in the past?

Yasir Rawjee: Not really, but then because we had some capacity challenges for the less regulated market business. We have deprioritized some molecules that don't have a good margin. So there, we have been a little picky in terms of choosing business, whether the margins have not been great. We kind of deprioritized those and told the customers that they need to look elsewhere.

Nitin Agarwal: But we haven't had situations where maybe the pricing has come off so much, that the molecule is not viable for us to be altogether.

Yasir Rawjee: Could you please repeat? Nitin, I didn't catch that.

Nitin Agarwal: I'm saying, but we haven't had situations where a molecule per se, the pricing overall has become so sort of unattractive that it didn't make sense for us to continue and we chose to drop those products. Those situations haven't quite occurred?

Yasir Rawjee: No. That hasn't happened.

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

Ashwini Agarwal: Congratulations on a very solid quarter. Just building on what Nitin asked earlier. On the CDMO side, how much products do you have, which represents this INR46 crores in revenue? Is it only these four and compounds or there are R&D services on a bench of products where you are doing some development or some chemistry analysis and providing probably proof of concepts? Can you give some more color on how deep is this CDMO pipeline?

Yasir Rawjee: Firstly, let me clarify. The iron complexes do not contribute to a CDMO. I mean -- and they will not because we are working with generic customers on those molecules. So that's part of our generic bucket. It is -- these are better molecules in terms of the complexity and so the entry barrier and even the realization on price and so on is better. right? But CDMO right now is driven by three projects, okay, which are not iron complexes.

So this INR46 crores that you saw this quarter has basically come from these three projects. With respect to the depth in the pipeline, I can say now with a lot of confidence that we have quite a few molecules in advanced discussions with innovator players, both on the big pharma as well as the specialty side, of which I mentioned that two have gotten fast tracked even in our scheme of things, right, because the customers want them sooner.

So those will come in. And then we've got a fourth one that is a fairly big opportunity, but then the customers are filing in various markets. And so the commercial realization of that fourth project hopefully will come this year towards the end but even if it does not, of these two other projects that have now come in and are moving much faster. One of them will definitely come through in Q4. So the debt -- I mean, when I look at the more advanced projects, now we are talking about three already commercial and three going to happen soon. That would be six, right? And then we've got a whole number of, like I said, iron in the fire where we are in discussions with the customers in various stages in terms of supply.

Ashwini Agarwal: Yes, what I was asking was that if you were to zoom out and think about the next 5 years, do you think CDMO can grow 3x in 5 years on a INR200 crores run rate?

Yasir Rawjee: If you recall, I have mentioned this earlier that in a 5-year time horizon, our sort of expectation of CDMO will be -- we're at about INR150-ish crores right? In 5 years, we expect to go to about INR600 crores, and which means that our contribution of CDMO will be much bigger, right? It should be about, from a current 7%, 8%, it should go to about 14%, 15% on a 5-year time horizon. I mean -- and that's looking very doable, okay, based on the traction we've seen in the last few quarters.

Last year, to now -- I mean, in just one year, we've had a lot of discussions, both with specialty companies as well as big pharma companies. And these are all life cycle management, okay, Life cycle management and 505(b)(2) development.

We continue to stay focused on that area and not get into this early phase stuff because there's a huge amount of attrition in that area. And you really have to do a lot of molecules to make even one succeed. So given my sort of prior experience working -- having worked in the U.S. in big pharma right for a good number of years, right? I know that these are not easy businesses to make it happen.

So much rather work on the life cycle piece and the specialty piece, right? That's the way we are. And really, it's the right way to look at it for a company like ours with such a big portfolio, right? And the kind of process development expertise and manufacturing footprint that we have. Hopefully, that gives you clarity.

Ashwini Agarwal: Yes. The second question was on the softening raw material input costs or solvent pass. I know that in the past, you've said that look, when solvent costs go up, we tend to absorb them a little because we want to keep customer prices stable, but in a B2B business, there's always the situation that customers want to capture all the cost benefits that the vendor has. So is there a situation where some of the margin uptick that we've seen on account of low costs will need to be passed down over the next couple of quarters?

Yasir Rawjee: It could happen where customers do study quite a few things, and it's likely that we may have to give away some of that benefit. But certainly, we won't do it for everything. It's a hard one sort of improvement on the margin side. So it would happen, I'm not saying that it doesn't that's typical in our business. It would not be -- it will not reverse the whole thing.

Ashwini Agarwal: Okay. Okay. Great. And last question, just clarification, Tushar you mentioned capex for the quarter was INR53 crores or INR33 crores, I don't hear very well.

Tushar Mistry: Capex for the quarter was INR35 crores.

Moderator: The next question is from the line of Sajal Kapoor an Individual Investor.

Sajal Kapoor: Great work on reporting healthy numbers and free cash flow on top of having a net cash balance sheet. So never well done. I have two questions. One, the cyber security and ransomware incidents have surged globally in recent months. And these criminals are well-organized, highly sophisticated hackers targeting profitable companies. So question really is, have we done a detailed risk assessment and an exhaustive penetration testing to identify vulnerabilities in our systems and control?

That's one. And then secondly, what makes us a good CDMO partner and the license to win in this niche area as a lot of private equity is also chasing this space and competitive intensity is increasing.

Tushar Mistry: The cyber security and on the VAPT, our IT team does carry out the VAPT test on a regular basis. It's a part of their protocol. And that also founds part of our internal ITC audits. So this is a regular process. It's a pretty robust process that we have implemented internally. We haven't seen as yet any threats on our data in a way but it's a regular process, and it is something that is very focused on and very high amount of focus is given on that area. Not only by the management, but also by the Board. I'll just let Dr. answer on the CDMO.

Yasir Rawjee: With respect to CDMO with us, it's important for us to define the space, right? So like I explained to Ashwini we are staying very much focused on the specialty side and on the life cycle management for our customers. And that's where the products are, right? Now one may say that the competitive intensity is high, and I would agree that, yes, it is high. But then there are differentiators apart from cost and capacity that help us to win business.

One big area is the whole business continuity aspect and how that is addressed for the customer. So as long as we are able to give customers that comfort in terms of the business continuity then you are ahead of the curve in terms of the competition.

Sajal Kapoor: Dr. Yasir, are we investing in business development because relationship is a very key component in the CDMO space. So we have to have that sort of development and investments in building those relationships, those longer-term partnerships.

Yasir Rawjee: So again, we are, right? But then my experience, again, says that with the kind of depth in the portfolio, and our manufacturing infrastructure and our ability in R&D to do some level of customization for the customer, I mean this is a pretty strong combination for us to take to the customer.

So while contacts are important we are in touch with most innovators anyway, right? So those contacts have been kind of established. In fact, our U.S. office spends more than 50% of its time working only on this whole widening the net basically of bringing in customers.

So this is something we continue to sort of invest and work on.

Sajal Kapoor: That's helpful. And finally, any update on the U.S. FDA audits because in all our facilities are due for a reinspection anytime now, right?

Yasir Rawjee: Yes, we are overdue. I mean if you go with a 3-year window, we are overdue. I can't comment for when FDA will come, but whenever they come, it will be good for us, right, because we can be done with this. But I mean, they also have a big backlog is what I understand because of the COVID years. So I don't know where we sit on their priority list, right? But we are ready.

Sajal Kapoor: So we are ready for any surprise audit. And we are confident that we should be able to sail through, right?

Yasir Rawjee: Yes. In fact, we've had other agencies coming and auditing us. So we have Brazilian Anvisa visit Dahej, and that was in August of last year. And they cleared us -- so we've had Anvisa come auditors. We had COFEPRIS, the Mexican agency do a pretty detailed audit, which was virtual, but it was a 5-day audit of our Ankleshwar facility. So I guess that with these agencies also talking to each other, right, there could be some of that, too, in terms of why FDA hasn't shown up yet, right? I can't speak for an agency like FDA, they're welcome to come any time.

Sajal Kapoor: No, of course, of course, there. The lens that the FDA uses is slightly different as we have seen in so many cases. Have we got audited recently from PMDA, the japanese regulator as well?

Yasir Rawjee: No.

Sajal Kapoor: Okay. Okay. Right. Okay. Thank you for all the responses and all the very best.

Moderator: The next question is from the line of Tushar Bohra from MK Venture.

Tushar Bohra: Congratulations to the management for a good set of numbers. First, just a quick check, typically, there is some seasonality at play right? So typically is stronger for us than H1. Is that fair assumption?

Yasir Rawjee: It's not a quarter-to-quarter business, right? I mean that's the thing, right? So I mean, yes, it could be, but I mean we hope it is, right, because we have a good H1, we'll have a good H2 as well. So I hope you're right. But again, we shouldn't read that much into it, right, into the earlier trend.

Tushar Bohra: Okay. And management has commented for mid-teens growth, right? The guidance is for mid-teens growth on revenue and margins to be stable to slightly higher depending on product mix?

Yasir Rawjee: Yes.

Tushar Bohra: Okay. And sir, regarding the stake of parent -- I think they have to come down from 80% to 75%. Is there any update on that side or anything around any M&A or corporate action that you may want to highlight where the process is?

Yasir Rawjee: Yes. So there is a process that is on, okay? And of course, the stake belongs to the parent, right? So they are running the process, right? Denmark Pharma is running that process. We are contributing wherever needed. So yes, they do have that window by which it has to value down to 75%.

Tushar Bohra: Okay. And we would -- where would we be in the process, if you may, qualitatively be able to comment?

Yasir Rawjee: That's what -- so like I said, they are the ones who are driving it, right? And wherever we are needed to sort of contribute, we are, sort of giving the business view and so on. But really, I would not be able to tell you where exactly things stand short term time.

Tushar Bohra: And sir, one quick question on the CDMO business. So given that we are seeing strong traction and guidance is for some more molecules to also come in by end of this year. CDMO in general, it's fair to assume would be margin accretive as in the quarter in which is strong, our overall margin profile should be trending on the upward side compared to the others?

Yasir Rawjee: That is the case, right? CDMO does have better margins.

Tushar Bohra: So given that relatively, we had a subdued last year and this year, we have had a strong start, that should also be a factor that is driving the full year margins, as you expect to see CDMO performance to continue?

Yasir Rawjee: It will have an impact. How much it will have, right, that it remains to be seen because it's still in single digits, right? The overall mix also helps. So it's not only CDMO that drives the sort of margin on the business side. It does have a contribution, but because it's only like 7%, 8% right? So it's -- I mean, it has that limitation, right? If it was a 20% or 25% business, then, of course, right, it would be very significant.

Tushar Bohra: Which we are expecting that over a period of time anyway CDMO business will tend over the next 2, 3 years?

Yasir Rawjee: Yes.

Tushar Bohra: And how many projects would we be in active discussions overall, sir? You mentioned two projects, but overall, the total number of opportunities that we are in discussion and which we feel that we'll be able to qualify in this year have some relationships?

Yasir Rawjee: That's what -- so where the sort of a milestone you have to reach, right? And that's why we are seeing the confidence that for two more projects, we have crossed that milestone. And so we are seeing that with confidence. But then the ones where we haven't got to that milestone, we probably should not put a number right now. But there's quite a few in discussion, I could say that.

Tushar Bohra: So it would be safe to assume, sir, say, next year, we could be -- potentially be double digit in terms of number of active projects, FY '25 sometime?

Yasir Rawjee: Double means, you're talking 10, 11 projects, right?

Tushar Bohra: Yes.

Yasir Rawjee: No, I wouldn't go that far, Tushar, okay? I won't go that far. I mean I like to -- we like to be sure and give a reasonable estimate to the market.

Moderator: The next question is from the line of Somil Shah from Paras Investments.

Somil Shah: My question was similar to the previous participant that if we see Y-o-Y, yes, our revenues have gone up. But quarter-on-quarter, it is slightly down. So any particular reason for that?

Yasir Rawjee: Again, I mentioned a few times that, right, this is not a quarter-on-quarter business. We shouldn't be looking at it that way really. I think, I mean, for the beginning of the year, we've bitten pretty well, right? I mean, I think based on what we can see from the demand side, right, these will continue to look good.

Somil Shah: Okay, okay. And sir, previous year, I think we did on the CDMO side with a revenue of, say, INR120 crores revenue. And if you see 8%, 9% of revenue we are looking, so are we looking to cross INR200 crores of business for this year for CDMO?

Yasir Rawjee: I hope so. I mean, but we're definitely trending up definitely.

Somil Shah: And that would be margin operating, right?

Yasir Rawjee: Again, I answered Tushar, right, because it's a relatively smaller contribution the overall revenue, there's definitely going to be some impact. How much remains to be seen.

Somil Shah: And looking at the raw material prices. So is it safe to assume for at least for next 1 or 2 quarters, our operating margins would remain at similar levels?

Yasir Rawjee: There should be a benefit of RM prices for the next couple of quarters, right? That would help the margin. I mean, look, but the world is a very different place today, right? Things could suddenly go out of -- installments, for example, is very unpredictable. So I don't know, I mean based on what we are seeing and how things are trending on the gas prices and the crude prices, things should be okay, right? But then solvent prices go up very fast and don't come down as fast.

Moderator: The next question is from the line of Bala Murali Krishna from Oman Investment Advisors.

Bala Murali Krishna: I have one clarification regarding dividend. So are you going to continue with same kind of dividend this year also?

Tushar Mistry: Yes. So that's what we had mentioned earlier that the surplus has been generated will be during now taking the year or probably at the end of the year. So one should expect high long-term dividend or whatever surplus cash.

Bala Murali Krishna: And one more question regarding the previous participant regarding the parent company take. So there are some news regarding the offloading of interest like. Do you have any thoughts on that or they are going to offload till 70% only?

Tushar Mistry: Nothing that we can comment on, on that. It's apparent and possible. What we are aware is that they have to offload another 8% is in the next one year's time. And that cost as far as we are concerned is on but nothing beyond that we are aware of.

Moderator: Ladies and gentlemen, we take that as a last question for today. On behalf of Glenmark Life Sciences, that concludes this conference. We thank you for joining us, and you may now disconnect your lines. Thank you.