# "Glenmark Life Sciences Limited Q2FY'23 Earnings Conference Call"

**October 21, 2022**

**MANAGEMENT: DR. YASIR RAWJEE – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER, GLENMARK LIFE SCIENCES LIMITED.**
**MR. TUSHAR P. MISTRY – CHIEF FINANCIAL OFFICER, GLENMARK LIFE SCIENCES LIMITED.**
**MS. SOUMI RAO – GENERAL MANAGER, CORPORATE COMMUNICATIONS, GLENMARK LIFE SCIENCES LIMITED.**

**Moderator:** Ladies and gentlemen, good day, and welcome to Q2 FY'23 Earnings Conference Call of Glenmark Life Sciences.

As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' 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 Call of Glenmark Life Sciences Limited for the quarter ended September 30th, 2022.

From Glenmark Life Sciences, today we have with us Dr. Yasir Rawjee – our MD & CEO and Mr. Tushar Mistry – our CFO.

Our Board has approved the results for the quarter ended September 30th, 2022. And we have released the same to the stock exchanges, as well as updated it on our website. Please note that the recording and transcript of this call will be available on the website of the company.

Now, I would like to draw your attention to the fact that some of the information shared as part of this call, especially information with respect to our plans and strategies may contain certain forward-looking statements that involve risks and uncertainties. These statements are based on current expectations, forecasts and assumptions that are subject to risks and uncertainties, which could cause actual outcomes and 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 the exercise 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.

**Dr. Yasir Rawjee:** Good evening and welcome to everyone. I hope everyone is doing well.

So, before getting into the group's performance, let's talk a little bit about the trends the macroeconomic trends that are shaping our industry. So, geopolitically the uncertainties continue. There is an energy crisis in Europe, there is inflation across the globe. And then there are some risks to global growth as well, going forward, I am sure you have seen all that. Now with that as a backdrop, the geographies that where we are operating, have done pretty well. So, India, Japan, LATAM, continues to be on track compared to other markets. Europe is seeing a demand recovery, but at a slower pace. The good news is that the softness and demand has not impacted our business significantly, because of the mid volume and high value products that we have to offer.

Now, on the supply chain side, there have been disruptions. And that has impacted us some, but fortunately, we built up inventories. So, we should be okay, going forward. There is talk of raw material prices going up further, but so far, things have been fairly stable. We have had increases but very manageable.

On the solvents side, the good news is that there has been softening across the spectrum except a few. So, solvents have contributed very positively in this quarter compared to the last quarter. Overall, I would say that the raw material prices for Glenmark Life, was under control. Primarily, it's because of a better product mix and our operating efficiencies have also kicked in very nicely in terms of solvent usage, and process improvements in some of our processes.

Now, as far as the performance in the quarter, what we need to highlight is that our external business has been doing exceedingly well. So, on a sequential basis, we grew 16% and on a year basis, we have grown about 13% in Quarter 2. So, this growth in external business is like I said, being driven by India, LATAM, Japan, as well as there is an uptick in the CDMO business.

Now, where we did have challenges was on the group business with Glenmark Pharma slowing down quite significantly. So, we are down 41% on Glenmark Pharma's business, YoY. And sequentially we are also down 19%.

Now you recall that in Q2 we did have a COVID impact. So, there this 41% is not entirely on account of the COVID base effect. So, even if you take that away, there is a still significant drop in the Glenmark Pharma business. So, that coupled with our external business is giving us this, the sequential growth of 4%. And year-on-year, if we take away the COVID base it's negative (-4%). So, this is how we deconstruct the degrowth in the overall business, but external business, again, I will reiterate, has been doing exceedingly well-driven across many geographies.

Now, on the margin side, I would say, it's all good news, because the margins are very steady, compared to the last year. So, basically, again, it's a well spread-out business across our non-commoditized portfolio. And we expect that the EBITDA margins will continue to hold, in spite of the decline in the GPL business.

Now, on a segmental level, the generic business grew around 2%, overall. Chronic business has grown 71%, led by CVS and CNS portfolio. CDMO has jumped 27% compared to last quarter. So, we are seeing a pretty good pickup on the CDMO business, which basically tells us that this inventory challenges that we had with our customers is going away. And there is also uptick in the overall demand by our customers, within our customers business.

On the Science side, we continue to chug along, we have filed four new DMFs and CEPs across major markets. So, this is consistent with our filing plan of around 8 to 10 DMFs this year. And the focus in the new product development is, we have got 26 API's in the pipeline with a fair amount of focus on differentiated APIs, more complex APIs. So, this is good, three iron complexes are there, plus seven oncology products and a few others as well, which are non-onco and fairly complex.

On the CAPEX side, again, I have got some very good news. So, Dahej, our capacity expansion has just been handed over to us earlier in the month. So, that 240 kilolitres has come online, and will make a significant contribution in Q3, along with that our onco block has also come online, and we have already started validating our first API, and our second API is about to get validated. So, there is four APIs here, that will be validated one after another in the new onco facility.

As far as the Ankleshwar expansion goals that should come by the middle of Q4, there have been some delays, because of materials and so on. But, again, that will contribute very positively to our ability to service the business. So, technology is, this is sort of largely a BI block, but it will also help us on the intermediate side.

Now, finally, on the Greenfield site in Solapur we have got permission already to build 1000 kilolitre plant, but we are going to go, in a measured way just so that we don't over build, and it will stay more or less hand-in-hand with how we see the business coming on, the growth. Our spending CAPEX in the first six months was approximately Rs. 100 crores distributed between Dahej and Ankleshwar.

Now, before I conclude, I would like to reemphasize that the business model is on a very firm footing with a broad portfolio spread across wide geographies. So, we are able to differentiate as a result of that in the market. And it also explains that our margins have been extremely steady on account of this. The only downside has been the GPL business, which I believe is temporary. And we expect that in the second half, it will bounce back not obviously, I mean, we would have to discount the COVID element. But it will bounce back and that should put us in a pretty good range with respect to growth in the second half. Now, of course, the first half will weigh down on us. But overall depending on how the GPL business shapes up, we should be on a reasonable footing with respect to growth as well.

So, with that, I would like to thank you for joining the call. And I will hand it over to Tushar Mistry – our Chief Financial Officer.

**Tushar Mistry**: Hello, and good evening, everyone. Welcome to our Q2 FY'23 Earnings Call. I am happy to update you on financial performance for the quarter. I would like to briefly touch upon the key financial highlights for the quarter ended 30th September 2022 and then we will open the floor for questions and answers.

We registered a revenue from operations of Rs. 509 crores for Q2 FY'23, registering a sequential growth of 4%, and a degrowth of 9.3% on a corresponding quarter basis. Gross profit for the quarter was at Rs. 269 crores up 3.2% quarter-on-quarter and down 7.3% year-on-year.

Gross margins for the quarter were at 52.9% with 120 basis points up compared to the same quarter last year. The gross margin expansion was mainly driven by a better product mix and PLI scheme incentives as well. Sequentially the margins trended in the similar range.

As mentioned on previous calls as well, the margins in the business have remained stable, despite global uncertainties due to three factors:

A) Continuous efforts on Cost Improvement Programs thereby not only supporting our customers to be competitive in the market, but also maintaining our margins.

B) Timely passing of increased costs to customers where the headroom is low.

C) Efficient supply chain management.

EBITDA for the quarter was at Rs. 154 crores registering a degrowth of 9.3% year-on-year basis, and 1.7% on a sequential basis.

EBITDA margins are at 30.2%. EBITDA margins continue to be steady. However, higher utility costs impacted the margins by approximately 125 basis points compared to previous period. We continue to work on rationalizing some of these costs by moving to alternate sources.

Profit After Tax was at Rs. 107 crores in Q2 FY'23 registering a degrowth of 7.2% year-on-year and 1.7% on a sequential basis.

As Dr. Yasir mentioned, Glenmark Pharma business contributed about 26% during the quarter.

R&D expenditure for the quarter was Rs. 17 crores, 3.3% of sales. We believe R&D expenditure to stay around 2%, 2.5% to 3% range for FY'23.

Coming to working capital for the business, working capital days were at 173 days compared to 162 days as a March '22. As discussing earlier calls, we have taken a strategic decision to secure access raw material to ride out the various challenges created by geopolitical events, while keeping costs under control. We expect the inventory levels to remain at this level for few quarters till the time we see some easing of global scenario.

Debtor days are slightly higher but that was due to some delayed frictions in some geographies. However, the same is now normalized and we do not see any major concerns here.

We continue to remain a net debt-free company with cash and cash equivalent of Rs. 365 crores on the books as of 30th September 2022.

Overall, a promising demand environment coupled with fresh capacities looks like a good recipe for strong growth in the coming quarters.

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

**Moderator**: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from the line of Neha Manpuria from Bank of America. Please go ahead.

**Neha Manpuria**: My first question is on the generic API business. A couple of points here, you mentioned that the parent business that has seen a fair bit of decline should start improving from the next quarter. So, what would be a normalized level of supply in your view based on the order book that you have for the Glenmark business? What gives us that visibility? That's number one.

And number two, for the Dahej commissioning that is happening, should we see a more phased increase from Dahej or should the improvement in the API business be more material starting from 3rd quarter itself, in terms of the revenue trajectory?

**Dr. Yasir Rawjee**: So, as far as the business, the group business goals, one was, in the first two quarters, we had the COVID impact and demand was lesser than a typical demand. So, you have seen like it's 26% of our overall revenue. Typically, even after the COVID phase went away, we were seeing around 33% to 34% revenue contribution to the overall business. We expect that this will bounce back based on whatever visibility we have. So, it should go back up to 32% levels, and at least in the short term, longer term, I believe that it will decline. But this has been a bit of a blip here, in terms of the decline. So, we have reasonable visibility that it should bounce back, at least in Q3, and Q4 remains to be seen.

As far as the Dahej increase, honestly, we have been waiting for this capacity to come online, because it has been pretty tight at Dahej. So, there will be a pretty good uptick in our ability to service business out of Dahej. And it will also help getting our R&D validations planned faster, because a smaller plant that was used both for commercial as well as R&D can now focus more on the R&D validations, because this plant that has been built at Dahej has got large capacity, and we can move a lot of the larger volume products into this capacity. So, it would be phased, but it would be pretty quick in terms of the phase, I mean, I expect that in about a year's time, or maybe end of this year, we should be utilizing that capacity at 50% to 60%.

**Neha Manpuria**: And in terms of, Tushar if you could just help me understand the cost implication from the commissioning of Dahej, would we start seeing the incremental cost from Dahej flowing through also from 3rd Quarter, some of it has already factored into the margins that we are seeing now.

**Tushar Mistry**: You are right Neha; some bit of expenses have already started building up in Dahej as we continued recruiting some people in Dahej. But on the other front that is on the utilities and all, we will start building some costs from the Q3 onwards, which is all factored in our projections going forward.

**Neha Manpuria**: And my second question is on the CDMO business, it's surprising how weak that business has been for us in the last two quarters, with the inventory rationalization. You did mention in your opening comments that, we are seeing some amount of normalcy with demand coming back. So, should we see this going back to the run rate that we were doing in the previous quarter of about Rs. 40 crores to Rs. 43 crores to Rs. 45 crores per quarter, or you think that the run date now would probably be lower than that given the inventory situation?

**Dr. Yasir Rawjee**: Neha, I think it will pick up, right, certainly what we have seen in this quarter is a jump compared to Q1. So, it's certainly picking up, and it may not jump to 40, 45 right away. But it will certainly improve and maybe it will take a couple of quarters for us to bounce back to those levels.

**Moderator**: Thank you. We have the next question from Karan Vora from Goldman Sachs. Please go ahead.

**Karan Vora**: So, first of all on the Glenmark business, so just wanted more clarity as in what is leading to, as in I get it that the demand environment was weak, but in the future or the visibility which you gave for Q3, right now we don't have visibility beyond Q3, like, what's the reason for that, if you could elaborate more on that.

So, I will go ahead with the second one. So, on depreciation front, so now that the plants will start coming online, how should we look at depreciation?

And one more I had, was on the Generic API piece. So, on the Generic API, this Rs. 450 crore run rate, which we are doing quarterly, like can we expect to grow from this base or what is the broad base, which we should look at for the Generic API piece or is it Rs. 450 crores or is it something else, just needed more clarity on that?

**Dr. Yasir Rawjee**: So, as far as Glenmark Pharma goes, see it's another company and we don't have, I mean, just like our regular external customers, we don't get a very long term visibility, we get a forecast. So, the forecast, like I said earlier, is our Q3 forecast is pretty reasonable, we should get back into the 32% to 33% contribution to our revenue.

We are hopeful that Q4 should also, their forecast for Q4 should also look similar, but it remains to be seen. The other element is that we should also be in a position to service both our external as well as group business.

I will let Tushar take the depreciation question, but I will answer your third question, which is on our run rate on the Generic API business. See, the Generic API business is very strong. It's basically spread across geographies. And even if we do have a little bit of muted growth in some geographies many other geographies are contributing very significantly. So, we will comfortably maintain this run rate on the generic side.

Just to sort of add and even to sort of answer, Neha a little more, on her question on CDMO, see our CDMO business is driven by three commercial projects. So, here what happens is that variability in one of the three also brings in some variability. So, however, on the generic side, we are very well distributed business on the portfolio, on the customers and across the geography. So, given that kind of spread we will comfortably do this run rate on the Generic API.

**Tushar Mistry**: On the depreciation front, we are currently at a run rate of about Rs. 10 crores per quarter. I think it should add about another Rs. 2.5 crores to Rs. 3 crores per quarter, going forward, with Dahej facility coming in.

**Karan Vora**: And just a follow up on this. So, on the Generic API piece, is there any growth guidance which you are giving like a medium-term growth guidance, like low teens, mid-teens any broad ballpark number.

**Dr. Yasir Rawjee**:: External business will like I said comfortably grow 13% to 15%, including CDMO. So, Generic plus CDMO should grow between 13% to 15%.

**Moderator**: Thank you. We have the next question from the line of Ashwini Agarwal from Demeter Advisors, LLP. Please go ahead.

**Ashwini Agarwal**: One clarification, on this working capital, Tushar did you say that your days of working capital remains steady and the increase is purely due to price increases in raw materials and finished products and so on?

**Tushar Mistry**: It is not because of pricing; it is because of the inventory that we have stocked up strategically for our requirement because of the global uncertainties. We have been building our inventories cautiously. So, that will remain at this levels for some time, till the time we see some, till the time we see this global uncertainties easing off to some extent.

**Ashwini Agarwal**: And the other thing I wanted to ask is, what are you seeing on shipping costs? I mean, we are seeing a lot of reports that ex-China to U.S., shipping lanes are completely empty and shipping rates have crashed to the floor. What are you seeing in terms of shipping costs? And does that provide you any margin tailwind of some sort?

**Dr. Yasir Rawjee**: So, Ashwini, basically, our inward freight movement has largely been, we have switched to sea shipment. There was a time when a significant portion of our inwards freight was also by air. But then post-COVID or rather during COVID and post-COVID we have switched and it's pretty good. But on the outward bound, because we are dealing with high value APIs, it doesn't make much sense to –

**Tushar Mistry:** I was saying it was high value low volume.

**Dr. Yasir Rawjee**: Yeah. So, it makes, I mean, we continue to operate with air freight. And, I mean, yeah, there is an increase, but manageable. I mean, it's not, it's definitely higher than what it was in pre-COVID days. But it's okay, I mean, I don't think it's significantly impacting, I don't know if Tushar wants to add, what kind of on the EBITDA how much are we --.

**Tushar Mistry**: From a quarter-on-quarter basis it is not or from last year to current year there is not significant change. But as you rightly mentioned, from pre-COVID days to this time, it is higher.

**Dr. Yasir Rawjee**: The new normal.

**Ashwini Agarwal**: Okay, so are all your outbound is air.

**Dr. Yasir Rawjee**: Most of it, we do have some high volume and relatively lesser value APIs that we do by sea. But it's probably around on an overall bucket, it's about 15% to 20% at the most, not even that.

**Ashwini Agarwal**: So, basically, shipping costs or sea freight costs, which might be helping some other business it is not something that offers in the upside, in the current environment to you.

**Dr. Yasir Rawjee**: On inbound, it's helping, Ashwini but not on outbound.

**Ashwini Agarwal**: And your sense is that second half working capital days, sorry, I had missed this slide, and I see it in front of me now. The inventory days, which have gone from roughly 90 to 115, probably, this is something that you will tackle in Fiscal '24, assuming things are a little more normal. Otherwise, you are going to run with higher rates, both on inventories and potentially on receivables as there.

**Tushar Mistry**: Inventory, yes, what you said was right, on receivables, as I mentioned in my opening comments, it's a blip, that it was one up for temporarily, but it has normalized now. So, it should rectify going forward.

**Moderator**: Thank you. Next question is from the line of Sajal Kapoor, as an independent investor. Please go ahead.

**Sajal Kapoor**: I have a more macro and more of an industry level question for Dr. Rawjee. What kind of indications you are getting from European customers, given the geopolitical situation there, seriously high inflation and energy crisis following what has been a very difficult couple of years for the Eurozone. So, now, even if you can't manufacture these critical life saving drugs locally, let's say in Germany or Italy, which is their traditional base for manufacturing drug substances, the patient pool is still there, the disease pool burden is still there. So, drugs would have to be sourced from somewhere.

So, how do you assess the situation or what kind of indications you are getting from your customers who are either based out of Eurozone or who either buy from yourself and then they distribute in the Eurozone? So, I am just trying to get a handle on any opportunity in terms of Europe Plus One coming our way?

**Dr. Yasir Rawjee**: I think you have coined that term. I am hearing it for the first time Europe Plus One. So, no, thank you for that. Basically Mr. Kapoor see, what happens here is that we have got a significant business out of Europe and demand has picked up, I would not get too excited about the pickup and demand compared to many of our other markets, but it's has picked up. However, cost pressures remain because a lot of markets in Europe are tender driven, so Germany, UK, Netherlands, these markets are heavily tender driven. So, the push from our customers is far best cost API. And that's why I mean, we have got to be a bit measured in terms of looking at this uptick in demand, while we will get more top line. On the margin side, we will continue to have pressure.

Now that's probably the game that the European companies will continue to play with us, simply because they are also facing huge inflation, inflationary pressure. And at the same time, they are probably not able to source locally. So, this will happen. But let's see how it all plays out. But we are seeing a little bit of enhancement from Europe on the demand side.

**Sajal Kapoor**: Secondly, quick question on our CDMO business, what is the revenue realization model or in other words, how do we get paid by the customer for the development or the commercial service that we provide as well as the drug substance that we deliver to these customers within our CDMO. So, how do we realize the revenue? Is it and included in our R&D expense, the kind of scientists that work for these customers? Or what's the sort of revenue realization? That's the question really.

**Dr. Yasir Rawjee**: So, we don't have a model where we have an additional service cost. We continue to focus on at a product level and all the customization that we do for the customer is done at our expense and built in, based on the commercial expectation on the business side. And that plays out better, because over time, that spreads out very well and it hardly matters. So, there is no point in burdening the customer upfront, especially because the business we are chasing, a lot of businesses that we are chasing are with smaller companies that don't have upfront budgets, to be able to spend that kind of money. So, we would rather sort of put out a commercial price. And that's how we cost the whole thing. And in the whole scheme of things, adding five or six CDMO projects at any given point is not going to hurt our overall R&D expense. So, that's the way we have built the model on the CDMO.

**Sajal Kapoor**: So, basically realizing the economies of scope from within the R&D setup that we already have, and leveraging the infrastructure to service the CDMO side as well?

**Dr. Yasir Rawjee**: That's correct.

**Moderator**: Thank you. Next question is from the line of Nitin Agarwal from DAM Capital. Please go ahead.

**Nitin Agarwal**: On our CDMO business, these three contracts that you are undergoing, what is the peak potential assuming these contracts start delivering for these three businesses, for these contracts for the CDMO business?

**Dr. Yasir Rawjee**: Nitin, I will have to request you to repeat your question here.

**Nitin Agarwal**: I am saying these three contracts that we have for CDMO, what is the peak revenue potential for this business from the three existing contracts right now that we have?

**Dr. Yasir Rawjee**: Let me tell you, so one contract has kind of reached a plateau. And there, we haven't seen much variation in demand, even in the COVID period. So, that has continued reasonably well. One has dropped quite significantly, went up significantly in the early COVID phase, but then that was clearly an inventory buildup on the part of the customer. And then that has gone down significantly, which is now picking up. And our third one is operating, at 80% to 120% in terms of demand.

So, I would say two are reasonably stable, and one has sort of being like a yo-yo. So, it's coming back and I would say that that should give us a reasonable uptick in the overall CDMO business.

**Nitin Agarwal**: And beyond these three contracts, I mean, any color on the kinds of negotiations you have been having with customers, I mean, have they been more promising than before. And I mean the scale and scope, has it changed at least in the conversation stage.

**Dr. Yasir Rawjee**: In the U.S. currently, where our generic business is having some challenges. There is a huge interest on the CDMO side. And a very large percentage of our business discussions are with CDMO players. So, we are seeing very good potential from the U.S. on the CDMO business And not only in U.S. but even Japan, I mean, and the Japan discussions are more on the lifecycle piece on our existing portfolio. So, those, again, are likely to be pretty significant opportunities.

So, that's largely, I mean, some of the U.S. discussions also will sort of, are with global companies so it will also have an impact in other markets. I mean, the CMO, this business discussion has scaled up significantly, because see they do recognize that we are now an independent API company. I mean, being part of a large generic pharma, those doors were largely closed. But now those doors have opened up and all said and done, Glenmark does have a lot of brand equity on the customer side. So, it's looking pretty good, I would say.

**Nitin Agarwal**: And, and if you would like to hazard a guess, by when do you see maybe the next set of big contract signings really happening there, any broad timeframe? Would you like to just hazard a guess on?

**Dr. Yasir Rawjee:** So, I mean, I won't hazard any guess. But typical gestation period once you do get selected is about a year to year and a half, because the regulatory filings that essentially determine the timeline. So, I mean, I would say, based on discussions it's certainly going to pick up, but whether it will start monetizing in FY'24, remains to be seen. We do have a fourth project that should, and it's a very significant opportunity, that's already in the works. We are in that gestation period, in terms of us having develop the API, given it to the customer, they built their regulatory strategy, we supported it. But then there are delays from the regulatory side. So, that should come in FY'24. And that would be very significant. But these newer projects may not hit in

FY'24. But then I think, in the following years, CDMO projects would be quite significant, based on the number of discussions that we are having.

**Nitin Agarwal**: And from a capacity perspective with whatever plans that we have, because the next sort of big capacity comes in only in '26. So, with whatever views, visibility that you have on potential CDMO business, is the current capacity enough to take care of it?

**Dr. Yasir Rawjee**: So, Nitin, I will go back to the gestation period. So, the good part is that once we land the contract and sign the agreement to go ahead, then we do get that one, one and a half year to build out capacity. I mean, in our fourth project, that's exactly what we did. So, I mean initially there was talk of working in about 30, 35 markets. And then there was talk of scaling it up to go to around 57 markets. So, I mean, that itself gave us a view that we have got to build capacity. And so, we even promised the customer and we did it, that we have build out capacity both in Ankleshwar and Dahej because then it gives them a de-risking pathway in case we run out of capacity in one of the facilities. So, this kind of capacity build up is relatively easy to approach in the CDMO space because we do get that one to one and a half year, while we are developing and the customer is engaging in filings.

**Moderator**: Thank you. We have the next question from the line of Anand Venugopal from BMSPL Capital. Please go ahead.

**Anand Venugopal**: Just I had a question in regards to, in Q1 FY'23 con-call you had guided for a 12% growth on the top line. As of first half of FY'23 it's like 9% down, is there any reason for misguidance?

**Dr. Yasir Rawjee**: Yeah, so Anand I explained that our group business which contributed about 35%ish even after COVID, has gone down significantly in this quarter and as a result, it has dragged down the overall number, which is something that we didn't foresee coming. And so, we guided to a higher number, but then we still expect that H2, it should bounce back some. And that should bring us to mid single digit kind of growth overall. But external business continues to do well, and that should be the primary driver for our business.

**Moderator**: Thank you. The next question is from the line of Saad Shaikh from BOBCaps. Please go ahead.

**Saad Sheikh**: The first question was current capacity utilization for Q2. And the second was given the new 30% addition into the capacity and demand outlook not looking good from formulation player and the parent, how do you wish to achieve 50% to 60% utilization of additional capacity from Dahej?

**Dr. Yasir Rawjee**: So, see, currently we are literally up to our neck. We are running at 95% capacity utilization before this Dahej has come in. Now, I am confident on Dahej and that's what I said, in about a year's time, we will get to 50% to 60%, on utilization, because there is a large number of APIs that we filed out of Dahej that we know will become commercial within this one year. And that's why we are confident on that utilization. Now, with respect to the sort of reduced demand from group that is not a phenomenon that's going to play out from now on, right, we believe that it will come back.

There is another element that I want to put in here that you should look at overall the growth is coming from volume, not only group business, but even our external business is growing on the strength of higher volumes. So, given the fact that there is erosion, and this is interesting, but it is price erosion without impacting margin, because we have introduced and will introduce a lot of second and third gen processes, that will be lower cost, and a big part of that cost improvement will be passed on to the customer. So, the growth will be driven by volumes, and for that we would need capacity. And that's why we are confident that the new capacity will be sort of used at a level of 50% to 60% in about a year's time.

**Moderator**: We will move to our next question that is from the line of Ranvir Singh from Edelweiss Wealth. Please go ahead.

**Ranvir Singh**: My question was related to your commentary, you mentioned that oncology products are coming in now. So, one, API is validated, three probably more in pipeline. So, wanted to understand the potential here, the revenue potential and timeline and if you could just give a little longer outlook for two, three years, what this project are going to contribute?

**Dr. Yasir Rawjee**: See on the oncology, we have got 7 APIs currently in development. Four of them, like we said, are ready to get into exhibit match mode. And our customers are ready to take the material and move on. As far as the longer-term outlook, the oncology portfolio is pretty rich, overall, in the small molecule space. So, we will continue to populate our portfolio with new oncology molecules. And we are pretty sure that this is going to be a good driver for the business overall.

**Ranvir Singh**: So, if you could just indicate the market size of products and products for molecules, which are under exhibit batches?

**Dr. Yasir Rawjee**: I think we said right that addressable market is worth 16 million. So, the front end addressable market for these four, seven molecules is 16 million. This is the front end, okay. I mean, this is not API, but then --

**Ranvir Singh**: Yes, I understood.

**Dr. Yasir Rawjee**: Yeah, that's what.

**Moderator**: Thank you. We have Vikas on the line, Vikas Sharda, please proceed with your question.

**Vikas Sharda**: So, I was asking two questions. One, is that this other operating income, what does it consist of? And why has it bounced so much on YoY basis? And the second point was on Glenmark Pharma sales, that this decline is it any product specific decline or it's across the portfolio? And I mean, why did you not have the kind of visibility of a decline or a blip say by the end of the 1st Quarter or in July, when the conference call was there?

**Tushar Mistry**: So, Vikas, as I had mentioned in my opening comments, we have been accruing for the PLI income, from 1st Quarter itself. So, that PLI income is a part of our Q1 and Q2 numbers, which was not there last year, that's why you see this bump in the other operating income part.

**Dr. Yasir Rawjee**: So, to answer your question on the GPL sales, there have been a reduction in demand even on non-COVID side and it's not product specific. So, overall, there is a few products got moved around and see GPL has an option to buy from outside. So, it's not as if they would come to us always and buy from us. So, that also could have some bearing on reduced numbers from our end. But I would like to take you back to my earlier answer to Saad Sheikh on the volume driven growth.

So, interestingly, because we have introduced better cost processes. There has been that improvement has passed on to many customers, including GPL. And as a result of which the volume drop may not have been as significant as the value drop. So, to sort of address this visibility, see, a lot of this visibility is related to approvals. So, certain approvals did come through, and then we had to switch to the lesser cost processes, the newer processes. And so, we didn't have that visibility, because we didn't really know how much, at what point in time that approval would come through. And this applies not only to GPL here but it also applies to some of our external customers as well. So, this element is also there that you should sort of factor in.

**Vikas Sharda**: Yeah but this price correction or switching to an external supplier, would be very product specific I would assume.

**Dr. Yasir Rawjee**: Yeah, see, we have had a pretty broad set of filings for our customers and their products with second, third generation processes. And we have had approvals coming in fairly consistently. Some high value APIs have got replaced with better processes, and as a result, it has impacted. So, I mean, it's a mixed bag, Vikas, I wouldn't be able to pin it down to one molecule or even two or three molecules. Some of this has happened as a result of better processes, some of this has happened as a result of lesser demand. And then of course, there has been the COVID play as well, because nothing came on the COVID side.

**Moderator**: Thank you. The next question is from the line of Gurjot Ahluwalia as an Individual Investor. Please go ahead.

**Gurjot Ahluwalia**: I have a couple of questions, first one on the capital allocation policy. So, last year, I think when the company came out with the IPO, in the second quarter itself, company announced healthy dividend, while the same has not happened this year. So, just want to understand, what is the capital allocation policy for the company?

**Tushar Mistry**: So, you have seen that in last year, the dividend was almost Rs. 21 to a share that was distributed. In totality, we distributed about Rs. 250 crores of dividend last year. Current year as you see that, there are CAPEX programs which are going on, we have already given directions on what we are going to spend on CAPEX for the current year. Also, there is investment in the working capital as you saw in the first half. So, from that perspective, we are still positive and in the second half, we will be on track from a cash generation perspective. And we should continue to distribute dividends may not be as healthy as what it was in the past, but definitely it will be healthier.

**Gurjot Ahluwalia**: So, this is actually what is like considering for an investor, last year the IPO, one of the purposes of the IPO itself was to raise cash for the CAPEX, company was embarking on a significant CAPEX in Sholapur, Brownfield CAPEX in current sites. And still company announced a dividend in just three months, like after the IPO. And now after a year of accruals and probably performance is also absolutely fine, so as an investor, you think okay, the company's capital allocation is healthy and capital return is healthy and they can continue to distribute capital to shareholders, whistle also having enough for its expansion. So, this is where it is confusing that last year itself everybody knew that there is a big CAPEX so investors were not expecting it. And now investors are expecting it, but it's not there. So, this is what I am saying is a dichotomy here.

**Tushar Mistry**: So, Gurjot, significant part of the IPO proceeds was used in paying off the outstanding from the parent for the transfer business to Glenmark Life Sciences, which was to the extent of Rs. 800 crores, 80% of the IPO proceeds went into that. On the other front, there were very clear areas identified for the IPO proceeds to be utilized, they have been used in the same manner. We still continue to have over Rs. 56 crores of funds from the IPO proceeds, which are being used for CAPEX itself. And it was earmarked for certain projects and it is being used out of that for those projects. The additional projects which are coming up were not a part of the IPO, which are getting spent from the operating cash. So, that's how it is getting used.

**Dr. Yasir Rawjee**: So, just to add to what Tushar said, we are not going to slow down anything on our CAPEX spend simply because our visibility on the business is pretty solid. And it's just that the business does generate enough cash, to where it makes a lot of sense to return part of it back to shareholders, so that's the plan. I mean, we would obviously like Tushar said, take a measured approach. And first looking to the investment side, because that's driving the growth, I have been saying that our growth is going to be driven by volumes and that volume growth is visible to us. So, that's the plan in terms of how we would deploy capital for investment.

**Moderator**: Thank you. Our next question is on the line of Jay Patel as an individual investor. Please go ahead.

**Jay Patel**: So, my question was regarding what is our strategy as far as to reduce the parent contribution, because, as you will be knowing, the farmer business our parent has already received Form 483 for one of the units, that’s all I wanted to know, that our as far as product selection is concerned, so that our products grow in such a way that the external business grows, it lists the top line, as well as reduces the client concentration.

**Dr. Yasir Rawjee**: So, see as far as the portfolio buildup is concerned, our entire approach to a portfolio build up is for driving our business. Now, no doubt the group feedback on certain products, just like our other external customers give us feedback on product is pretty similar. So, even if we were to invest in R&D in APIs that the group company wanted, we would still have other customers, right. So, it's not going to change because our focus is completely driven by the value that that particular API will give us going forward. It's not driven at all, I mean, none, there's not a single decision in our portfolio that is driven by Glenmark Pharma, it's an overall evaluation that we make on our portfolio. So, to that extent, I don't think, you know, what happens at Glenmark Pharma is going to sort of determine our fate in terms of our portfolio going forward.

**Jay Patel**: So, as far as our future product selection is concerned, would it be safe to assume that future product selection would depend on external demand and our target at the end would be to increase the external customer contribution, would that be fine to assume?

**Dr. Yasir Rawjee**: Yeah, simply because I mean, Glenmark Pharma is one customer out of, you know, even if I looked in the Top 20 customers, generic players, we are working with most of them. So, then in that case our portfolio decisions are driven by all of them and their interest in our portfolio.

**Jay Patel**: And last question would be, would it be right to consider that our CDMO business as we are dealing in end of life cycle management, so CDMO business is actually contract manufacturing business, whereas the innovator business does sort of technology transfer to us, and we are not involved in development part of the molecule, but we are involved in manufacturing part of it, would it be right to assume this way?

**Dr. Yasir Rawjee**: It's a very good question. Okay. Basically, the business that eventually will be generated would be with contract manufacturers, right, but because there is a fair amount of customization on both the lifecycle work as well as the 505(b)(2) work, there is an element of development as well, upfront. And I think I answered Mr. Kapoor saying that we do invest in R&D, in the CDM of projects, with that objective of either tailoring the process to the customer's regulatory filing, earlier regulatory filings. So, that has to be done in order to make that pathway smooth for regulatory filings. So, that element of customization comes in the lifecycle management projects, but on the 505(b)(2) it's even more because we basically may end up doing another salt or another polymorph or some variation of the molecule. So, there is that element of development, but it's largely limited to process development polymorphic changes or salt changes. So, I mean, it's a mixed bag, but there is a development element as well.

**Moderator**: Thank you. We take our last question from the line of Jinesh Shah as an individual investor. Please go ahead.

**Jinesh Shah**: Just three questions, I have one can you just reiterate given that now Sholapur is going to be a little bit in a calibrated manner. So, how would the CAPEX intensity would look like for next two years, including the current year; maybe for next three years, I would say.

And second question with regard to the margin trajectory, I mean, we have been bringing in more complex products in our portfolio. And we are also having the processes improvement, which is also likely to give you a little bit of a better cost structures. And the CDMO, were probably a fourth product or project is going to start, how do we look at the margin trajectory for next couple of years? And of course, I think there are also backward integration projects, which are also being involved into it. So, all these put together, how do we see the margin trajectory going ahead?

And the third question is, on the US FDA inspections, how is it been stacked up for the projects, I mean, given that a lot of last time you had said that, it's been three years and it's been due?

**Dr. Yasir Rawjee**: So, as far as CAPEX goes, I mean, we are we have three plants. So, we have got Dahej, we have got Ankleshwar, we have got four plants but we are not making investments in two of the smaller plants. So, Dahej Ankleshwar has got room to expand even today, and Sholapur is a Greenfield site. Now, considering that 75% of our business is a regulated market business, we have got to be clear that depending on how the volume growth is shaping up in the regulated markets, we may need to do a little more in the plants that have already been inspected, because then there is no lag time between our taking in the products in these plants, and then supplying it to the market. So, that's clear.

Sholapur will drive initially, the ROW markets as well as the backward integration play. So, we are also clear on that, and I have mentioned that in the past that look, we would that ability to decide, in a relatively short time, what we do. So, you are right, that we would decide, you know, how this would go, but largely speaking, our CAPEX spend would continue, at a pretty similar rate depending on how the market demand is shaping up, and how our new launches and so on are coming.

Coming to your margin improvement question, certainly, if the world was the same, and let's say we dialed back to 2018 and 2019, then I would say that, yeah, all the, you know, the new CDMO, the CIP and the BI would all contribute to improving the margin. But the world we live in today, right, has got enough headwinds for us to say that all this is going to help us to keep our margins going at the 30% to 31% level. I don't want to stick out my neck right now and say I will have 2% or 3% margin expansion when I know that there's all kinds of trouble on the horizon. And we have to manage that trouble, right. So, you are right, your analysis is good, but Jenish I would be a little careful. I would only be too happy to do better margins. And I think if things were to improve, in the world, we probably would give you that extra 1% to 2% jump on the margin. But right now, I don't want to guide to that. I mean, that's not going to happen.

As far as your USFDA inspection question goes, yes, we have crossed the three year mark for Dahej. In fact, we are at four years now. And for Dahej and Ankleshwar is at about three and a half year so we are expecting an inspection anytime. And we are also geared up for it.

**Moderator**: Thank you. Ladies and gentlemen, that would be our last question for today. I now hand the conference so to the management for their closing comments. Thank you and over to you.

**Dr. Yasir Rawjee**: So, thanks everyone for joining. Thanks for joining and wish all of you very Happy Diwali. So, thanks again.

**Moderator**: Thank you very much. Ladies and gentlemen, on behalf of Glenmark Life Sciences Limited that concludes this conference. Thank you all for joining us and you may now disconnect your lines.