"Glenmark Life Sciences Limited Q4FY22 Earnings Conference Call"

April 21, 2022

MANAGEMENT: **DR. YASIR RAWJEE – MD & CHIEF EXECUTIVE OFFICER, GLENMARK PHARMACEUTICAL LTD.**
MR. BHAVESH PUJARA – CHIEF FINANCIAL OFFICER, GLENMARK PHARMACEUTICAL LTD.
MS. SOUMI RAO - GENERAL MANAGER, CORPORATE COMMUNICATIONS, GLENMARK LIFE SCIENCES LIMITED

Moderator: Good morning ladies and gentlemen. Welcome to Glenmark Life Sciences Q4FY22 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Soumi Rao – General Manager (Corporate Communications), Glenmark Life Sciences, thank you and over to you ma'am.

Soumi Rao: Good morning, everyone. Thank you for joining us early this morning. We welcome you all to the Q4FY22 Earnings Call of Glenmark Life Sciences Limited.

Today we have with us Dr. Yasir Rawjee – our MD and CEO, and Mr. Bhavesh Pujara – our CFO.

As we begin the earnings call, here is a summary of our results:

We registered revenue from operations of Rs. 5140.06 million for the 4th Quarter of FY22, recording a YoY growth of 10%, and Rs. 21,232.01 million for the full year registering a growth of 12.6%.

EBITDA was at Rs. 1473.01 million for the quarter, with margin at 28.7% and Rs. 6307.06 million for FY22 with margin at 29.7%.

Profit After Tax was at Rs. 989 million in Q4FY22, registering a degrowth of 5.5% YoY and Rs. 4187.02 million in FY22, a growth of 19.1%.

Coming to our business performance, revenues from the generic API segment increased by 12.1% and the CDMO business registered a growth of 12.4% in FY22.

During FY22, revenues from our regulated markets witnessed a healthy growth of 21.4% YoY, whereas revenues from the emerging markets declined by 6.3%, YoY due to high base of COVID product sales last year.

Products from key chronic therapeutic areas accounted for 62.9% of net sales in FY22, growing at 12.7% for the year.

Our capital expenditure for the quarter was Rs. 664.06 million and for FY22 it was Rs. 1451.05 million.

Expansion work at Dahej and Ankleshwar facilities is ongoing, and we plan to commence construction at our newly acquired site of Solapur in FY23.

R&D expenditure for the quarter was at Rs. 143.01 million, 2.8% of sales. And for the full financial year it stood at Rs. 572 million, 2.7% of sales.

The Board has recommended a final dividend of Rs. 10.5 per equity share, of face value of Rs. 2 for the year ended 31st June. The total dividend for the financial year, March 2022 amounts to Rs. 21 per share, a face value of Rs. 2 each.

Amongst other business highlights, we filed 15 DMF/CEPs across major markets during the quarter. And as on 31st March 2022, cumulative filings stood at 433.

Today we have four -- end product compounds in our development pipeline. We also have seven products in the Oncology space. Now I would quickly read the disclaimer.

Disclaimer - Some of the information in the document, especially information with respect to our plans and strategies may contain certain forward-looking statements that involve risks and uncertainties. These statements are based on current expectations, forecasts and assumptions that are subject to risk and uncertainties which could cause Company results to differ materially from these statements depending upon economy conditions, government policies and other incidental factors. Such statements should not be recorded by recipients as a substitute for the exercise 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 before we open the floor for the Q&A session. Thank you. And over to you Dr. Rawjee.

Dr. Yasir Rawjee: Welcome to everybody. Good morning to you. I think after quite a few quarters, we are probably welcoming people to a more normal world. People have started going back to work. COVID seems to have left us, hopefully. Of course, there are still some challenges that we see with our customers in Europe. But overall, the environment is becoming more normal. So, hopefully this is something that continues. Of course, challenges are going to continue to remain geopolitically. We know all that, I don't need to speak about it, but then there are, there is an impact of all this on the industry.

I just want to recap, the kind of challenges that we faced in the last year, as a Company and for the industry at large. So, we had, if you recall, back in July/August, the whole energy crisis site with coal energy suddenly becoming bad energy and everything else being promoted, which resulted in a lot of raw material shortages. And as a result, there were huge price spikes in raw materials. Following that, there was a hit on solvent prices, raw material prices, like I already said. And then there was the Omicron that came and hit, right. And finally, now this challenge with, the Russia and Ukraine issue, that is basically impacting energy prices, particularly gas.

So, when we come to Glenmark Life Sciences, how do we see all that? I mean, the good thing is, when I look back, I think we have had a fantastic year. And the reason I say that is because in spite of all these headwinds, as a Company, we have managed to keep our business on track, and continue to build confidence with customers on our ability to serve them with the right quality, the right price, and no interruption in supplies. So, this is, I would say, these are challenges that we have been able to deal with very successfully. We hope the world will become a more normal place, and that should help our business to continue on the path of stability as well as growth.

I just want to remind you that we continue to focus on our short, mid and long-term priorities. The short-term priorities being to retain the customer focus across geographies. The midterm focus being to continue to drive our R&D and operations to be more efficient, to file in time, across agents, across global regulatory bodies so that we can service our customers across the geographies. And finally, longer term the plans for expansion, which are happening pretty much on track. There have been a few, small delays here and there as a result of Omicron. And I had addressed this in my last earnings call for Quarter 3.

So, business is good, demand is very solid with our customers confidence is also very high. And you can see it reflected in our yearly results that in spite of all these headwinds and challenges, Glenmark Life Sciences continues to do well, and deal with these challenges.

So, with that, I will close my opening remarks and look forward to your questions. Thank you.

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

Neha Manpuria: And my first question is, just trying to understand if we are seeing any issues in our ability to source raw material, because of lockdown in China. Do you think that could impact, in the coming few months, if the lockdown extends further than May?

Dr. Yasir Rawjee: We are watching this situation so far -- likely to impact us because typically we have been seeing delays out of China, obviously, we didn't predict that this one would come along. But if you recall, back in Feb, there was the spring break, and then the Beijing Winter Olympics. And so we have sort of continued to have a sort of longer supply chain built out of China. And as a result, there is no impact on us, even this latest crisis is unlikely to impact us unless it stretches for two to three months.

Of course, we are still looking at mitigating the situation through shipments from other ports. Shanghai Port is the largest port that clears hazardous cargo. And as a result of that, the impact on our industry is big. But then there are other ports like Ningbo and Qingdao, that are still functioning, and we are still able to manage to get supplies. But Q1, there is no impact, Q2, very little impact. And let's see how it goes.

Neha Manpuria: And from a margin perspective, given that we had raw materials going into Chinese New Year and Winter Olympics, and the fact that the gas price increases, or crude price increases have come after that. Do we see incremental risks to margins in the next few quarters, particularly, since we also have our CAPEX that will get commissioned in the second half? If you could just get update us on that, too.

Dr. Yasir Rawjee: So, Neha, again, margins, like you said, right, we have already sort of built-in and factored in quite a few of these increases, right. So, unlikely to dip any further, we will continue to maintain margins at similar levels that we have seen in Q3 and Q4. So, I think we should be okay, on margins.

Neha Manpuria: And on the CAPEX, are we on track with the timeline that we had mentioned in the previous call? When should we start seeing the backward integration and the other CAPEX?

Dr. Yasir Rawjee: So, BI will come in September, September is when we are hoping to get our BI facility, this is the 400 kiloliters at Ankleshwar. And Dahej will come on sooner. So, we have got four modules coming at Dahej, Phase I will come in July. And so that's well on track. We had a couple of months slowdown in Dahej, so when Omicron hit, because we were not able to bring as many number of contractors and labor on the site. So, that had already been, we had alerted earlier, in the last --. So, I mean, that's so now it's coming to July, so it's well on track, I would say.

Neha Manpuria: And from Dahej contribution perspective, this should start reflecting in our growth numbers from second half in that case.

Dr. Yasir Rawjee: Yes, for sure. I mean, because this is a big capacity, if you recall, it's 240 kl that we are adding, plus our Oncology block is also coming in the same timeframe.

Moderator: Thank you. We will move on to the next question. That is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

Shyam Srinivasan: Just the first one on the two segments of revenue both generic API and CDMO. If you could help us understand how this would likely pan out in say fiscal '23, in terms of either applying expectations or some kind of an outlook there. And what are the dynamics you are seeing in both of businesses? I think fourth quarter, CDMO business has declined, maybe it's of a high base, or you had some one-off last year, quarter. So, if you can explain the two businesses, please? Thank you.

Dr. Yasir Rawjee: Yes, so Shyam, let me address the smaller business that's the CDMO business. So, what happens here is that last year, like you have mentioned, we were almost, we had a huge upside last year. And the way we look at it now is it was largely a result of stocking because Q4 for us is Q1 for our customer. And they were in this mode, because of all kinds of scarce on the supply chain to sort of buildup. And so, this degrowth we are seeing is a result of that higher base. But we have seen consistent growth in this year and are highly encouraged that the CDMO business will continue to grow, even though it's on a relatively small base of three projects. So, I expect that this business will continue to grow by all accounts. There is a demand from all customers on these projects. There is a fourth project that did get, will probably happen in Q3 of this year. And we should see a bigger uptick, in CDMO revenues from Q3 or Q4, of this year. So, that's CDMO.

As far as generic goes, see, the nice thing about generic is that we are very well distributed across geographies. And so, when we look at this last year, for instance, right, while there were some pressures from Europe and India, and a little bit from the U.S., three of the regions have done very well. So, LATAM, Japan, and even the U.S. has done very well. So, as a result of that the slight sort of dips in these other markets have been more than offset by growth in Japan, LATAM and U.S. markets.

So, I think this is something that will continue, Japan, LATAM, and U.S. will continue to remain strong. And I believe that Europe should see a comeback, because we are introducing, reintroducing some APIs, again, second generation processes again. And they should see a reasonable uptick in the Europe business as well. India also, I believe, will continue to do well.

So, overall, we are expecting our generic business to continue to drive, because it's the biggest business. And regionally also there is strength across the regions.

Shyam Srinivasan: Dr. Yasir, just any quantitative guidance on what the revenue growth potentially could be for Fiscal '23?

Dr. Yasir Rawjee: Yes, Sham, I think we should consider between 12% to 14% on an overall basis for our growth.

Shyam Srinivasan: Just a second question on, just digging deeper into the generic API piece, we have seen in different at least regulated markets, quite a bit of pricing pressure on the formulation component. So, what are you seeing in terms of the trends? Is there a sense that you could pass on some of the, I mean, you have given your guidance of margins being stable at Q3, Q4. So, what are some of the things that you are building into your expectations for pricing, for your generic API piece?

Dr. Yasir Rawjee: Shyam, we have had some success with passing on price increases to customers. And I think that for those sets of increases, this is something that is likely to continue. There are other APIs where customers are having a very rough time at the frontend. And at this point, we are just in negotiations and discussions with customers on where we can take the price increases, because they do realize that we are facing cost pressures, but then it's a partnership, and we don't want to sort of rock the boat for our customers at the frontend, and have them, lose business to competition. So, it will be done selectively and judiciously plus partnering with our customers so that, they continue to have confidence that we will support them. That's the way we are going to approach the whole thing. And we have been doing that for the last three, four quarters now.

Moderator: Thank you. The next question is from the line of Vikas Sharda from NT Asset. Please go ahead.

Vikas Sharda: I have two questions. One is that, like for the previous question, you answered that quantitative guidance of 12% to 14% revenue growth. How would that look like say in the first half versus second half because the base is also, plays a role, and so is your capacity expansion? And how relevant is quarter-on-quarter growth for your business? I mean, is that a relevant metrics to look at?

Dr. Yasir Rawjee: So, Vikas, the thing is that frankly quarter-on-quarter is not a relevant metric, okay. Things do move around and regionally, there could be ups and downs. So, it's difficult to predict, right. On the year basis, we are very confident of this growth.

Coming to the first half versus second half for sure, second half is likely to be better, simply because our ability to service the business is going to be much better on account of the extra capacity that we will have at Dahej. Plus, the BI block that is coming in Ankleshwar will also be operational. Of course, that doesn't impact our frontend capacity in a big way. But it will free up things for us from an intermediates perspective. So, overall, we expect that second half would be bigger in terms of growth, and first half would be a little lesser in terms of the growth.

Vikas Sharda: And in terms of margins, I mean, you expect the Q3, Q4 margins will sustain, but incrementally, how do you see the cost pressures even on raw material side as well as the other expenses?

Dr. Yasir Rawjee: So, today, the only big question mark for us, is this thing about gas prices. See, I will give you a sense, last year, July/August gas prices were around Rs. 35 for standard cubic meter. And it jumped up to Rs. 62 in a very short time, we stayed in the Rs. 62 sort of thing for about two, three months in, October/November, and the end of last year. And then in March, 30% of our supplies are coming at Rs. 190. So, I mean, you can imagine Rs. 35, and then now 30% coming at a Rs. 190. So, gas prices are going very bad. And although we have mitigated quite a bit, with switching to coal and briquettes, its impact will come in second half of the year. You know, the full impact will come in the second half of the year.

So, there should be, I mean, this is the only thing that has not been factored into the margin. So, maybe, half a point to a point at the max, if this kind of sort of escalating gas prices hit us then there could be some impact in the first half. But otherwise, I think, like I told Neha, we have covered this, all the price increases, through customer negotiations, as well as there has been quite a bit of improvement on the efficiency side as well.

Vikas Sharda: And finally, any comments on Mr. Pujara's exit?

Dr. Yasir Rawjee: I will let Bhavesh take that himself.

Bhavesh Pujara: Yes, Vikas, so there is an exciting opportunity that I don't want to let go off. So, I brought it up with Yasir and management over here. So, I think, Yes, but I think we are closing the year on a good note. This also gave us an opportunity to close our results early. And then the foundations are all laid, I think the management is fully committed to deliver the results on the same way we have done so far. So, I think that is it. I am looking forward to the new assignment and wishing all the best to Glenmark Life Sciences.

Dr. Yasir Rawjee: Yes, so I will add Vikas that Bhavesh has been a great support. He was with us through the IPO, and it's not good to see him go. But then, he has got his priorities. And he is sort of moving along with that. So, we will move on.

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

Nitin Agarwal: Yasir on the question about cost pressures. Now, some of the cost pressures largely are really input cost driven, and they should be universal. So, at what stage in your expectation does the industry really pass them on to the customers?

Dr. Yasir Rawjee: Yes, Nitin I mean, you are right, I completely agree that it is universal, everyone's getting hammered by these gas prices as well as input prices, particularly on the solvent side, because that's, again, a more universal commodity. And that's driven by more or less by international prices. But then the question about, mitigating by passing it on to customers and so on, is a judgment call that you take, given how the customer is doing in the frontend. So, some customers we know are dominant with the market share and they have a very strong position unlikely to lose it. And those are the kinds of customers that have agreed to give us price increases and said that, Yes, okay, we understand, of course, we also understand that when things go back to normal, you guys will bring down prices. And we are okay to do that, because end of the day, we don't want to take advantage of a bad situation.

But then there are other customers that are having a much more difficult time. I mean, Shyam talked about it right in the frontend, how people are, in the U.S. market, especially some in Europe, are having a lot of challenges, because of their competition at the frontend, and the buying patterns in the U.S. with the Big Three, right now, probably Big Four. But the thing is that, with all that happening, we need to be a bit more measured in terms of going to customers and sort of asking for a price increase and putting a price increase unilaterally. It's being done through mutual discussion and agreement. And I think that's a better way to sort of handle it, going forward.

Nitin Agarwal: That I completely appreciate, my point is, on a structural basis, assuming this becomes like a new normal, around these levels of energy costs and everything. I mean, so who takes up, in your assessment, does it mean, a margin squeeze for API industry in general, or some of it gets passed on to the formulation guy, and eventually the end consumer? I mean, how would that play out over the next year or so?

Dr. Yasir Rawjee: See, Nitin, if it's something that continues to be the way it is, today, then it has more or less been baked in okay. So, we will continue and we will watch, but let's say if it goes crazy, I mean, and it becomes unsustainable, then we are going to have to open it up to the customer and say, look, you take it at a higher price so then we will exit eventually. We will support you until, you want us, and then that's it, we will move. I think that's how we will take that conversation.

I hope it doesn't go there, it doesn't look like, things are going to get bad. Like I said even with these gas prices, going to Rs. 190, I mean, the overall impact is not going to be that significant, like I said, half a point to a little more than half a point. But that's about it I don't think it's going to alter the overall look and feel of the business.

Nitin Agarwal: So, I will just probably push it a little bit around that. So, now some of these gas, energy cost issues are more acute for companies in Europe. And I presume in some of your APIs, are there any relevant European competitors in some of your products. And two, have you been expecting or seeing any larger impact on those player's ability to compete in the market?

What I meant is, Europe has a more acute problem on the energy side. So, are we seeing a more compared, favorable competitive position for Indian players versus the European player competitors? In probably some of the products where you are competing with them?

Dr. Yasir Rawjee: No, I am not referring to the European competition. See what happens is that our boilers which generate steam they could either be running on gas or coal or briquette. So, in Gujarat, where we have our big factories, we run on gas. And that's what I am talking about in terms of the input cost increase. It has very little to do with our competition in Europe. I mean, we don't have too many competitors in Europe to begin with. So, it's mainly, I am talking about the Indian situation with respect to input gas prices.

Nitin Agarwal: And secondly, on the CDMO side, qualitatively can you throw some light on how your conversation during the year has been gone? And what does it mean for the next couple of years maybe in terms of the traction in the business?

Dr. Yasir Rawjee: So, like I said earlier CDMO is doing well. Last year, we had a bit of a scare, because it dropped from Rs. 200 crore to about Rs. 150 crores and it picked up then. But then obviously, we wanted to see it grow, right. And the main problem was doctors and patients not seeing each other. But then that changed in the early part of last year. Of course, when Omicron hit again, there was a bit of a problem, but we still sort of saw the demand building up. So, that was good. I expect that that will continue. Okay, it will continue. And then with this fourth project coming online in 3rd or 4th quarter of this year, I mean, we will get a shot in the arm for the business, the CDMO business.

And see our experience with CDMO has been that this is a stable business, it continues very well. There are a few, sometimes I mean, COVID, was COVID, right, and COVID created its own problems. And so obviously, this was unforeseen, but then overall, the demand in normal times is expected to be pretty solid and growing. So, that should help us, to keep the business growing at a good clip. And as we add more projects, then you will see further growth coming as a result of that.

Nitin Agarwal: On the new projects, have there been any change in the kind of conversations, you are having, your ability to get contracts, larger, bigger, more valuable contracts? I mean your ability to compete in this market, has it changed, improved, increased?

Dr. Yasir Rawjee: Nitin, we remain very confident on this, the prospect for the growth in the CDMO business. And the basis for that, is that we have got a very broad portfolio, which basically also exhibits a very strong and broad chemistry range that we are able to offer. So, apart from having filed products which itself are pretty good sort of business prospects with customers in the Lifecycle Management space, as well as the 505(b)(2), and Incremental, Innovator Space. We also are talking with many customers for chemistry driven opportunities, but at a higher scale. Because we have been picky about not doing small stuff, we want to operate it, at least Phase III and beyond.

So, this is the kind of conversation that we have been having with potential partners. And just going by the fact that the interest level is so high, I would say that this business will continue to grow. And I mean, as and how we lock in something, we are going to put it across to the investment community that look we have locked in a project and this is now going to happen in a matter of some time.

Moderator: Thank you. The next question is from the line of the Tushar Manudhane from Motilal Oswal. Please go ahead.

Tushar Manudhane: So, just on the other expenses, which has been largely stable on absolute basis, while definitely the logistics costs have increased significantly. So, any other line item which is reduced or as such you have not faced significant increase in the logistics cost?

Bhavesh Pujara: So, Tushar, as you would reckon our business portfolio is low tonnage, high value. So, basically, what it means to ship out the given amount of tonnage, the freight cost as a percentage of revenue becomes very small. In fact, it's less than 1%. So, even if it goes, let's say 2x, it doesn't affect the number so much. It has not gone up so much, but just to give a sense of proportionality. And if you look at the trend, the last two quarters is where we have seen elevated level of operating costs, and this is reflective of the energy price spike that we are experiencing.

Tushar Manudhane: And secondly, on the similar lines, while it could be high value, low volume, but given that the transition time has increased, typically that is what we hear from the other API companies as well. But that has not led to increase in the inventory, at least in our case. So, if you could also help us explain that.

Bhavesh Pujara: Yes, so there is a mix play in the inventory line, Tushar. We have strategically built up inventories of raw materials. Whereas there is, a faster pickup of finished goods inventory as compared to last year. So, that's the reason overall inventories have remained more or less or slightly improved versus last year.

Dr. Yasir Rawjee: But Tushar, if this China situation becomes like it drags on then we don't have a choice but to cover more inventory for longer period of time, just to make sure the business doesn't get impacted. We haven't made those decisions yet, but we are actively watching that space.

Tushar Manudhane: And lastly, I am not sure if you have shared this earlier, but just trying my luck here. So, separately, have you shared the EBITDA margins for CDMO and API business?

Bhavesh Pujara: No, we haven't kind of quantified it, directionally, what we can say is that the margin for CDMO business are considerably higher than the margins in the generic business.

Moderator: Thank you. The next question is from the line of Rahul from Abakkus Asset Manager. Please go ahead.

Rahul: In the FY22, Rs. 2,100 crores of top-line including the CDMO, how much of that will be COVID or COVID related ancillary kind of products or sales for us?

Bhavesh Pujara: About 7% was the contribution last year.

Rahul: So, we are seeing expecting the 12% growth in FY23 that would be ex of the COVID portfolio, right? Or on the absolute basis, you are saying?

Bhavesh Pujara: So, Rahul, I think you asked about last year, right, the COVID contribution in our sales fiscal 2021, so in fiscal '22, also, we had sorry, go ahead.

Rahul: Yes, in FY22, it was 7%. Is that correct?

Bhavesh Pujara: No, no, no FY21 was 7%, FY22 is less than 5%.

Moderator: Thank you. The next question is from the line of Rupesh Tatiya from Intelsense Capital. Please go ahead.

Rupesh Tatiya: My question, we have this backward integration project, in Ankleshwar which is fairly large size, 400 kiloliters. My question is, what kind of margin expansion can we see in two to three years?

Bhavesh Pujara: So, Rupesh, the backward integration has two purposes. One is the supply chain security and obviously, we expect that investment also to generate commensurate return, in line with our average. So, what it will mean is that there could be margin expansion, let's say to the tune of 80 to 100 bips. And what we would like to see is that it will add to investment, it won't get to top-line, but in terms of ROC, it should still help maintain or increase the ROC levels.

Rupesh Tatiya: So, 1%, kind of sounds low. So, let me ask you another way, what is the capital outlay for this project? And what is the payback period?

Bhavesh Pujara: So, we have not given individual block wise investments, but it's a journey, it's not an endpoint. So, the first phase that we are doing here, we are targeting backward integration of four to five projects from our top products portfolio. And then we will continue to do this for top 20 products. So, it's not a one-time project, it's a strategic shift that we are implementing in our facilities. And the idea is that we go backward integrated for all the key products. So, let's say 20 products in a timeframe of three to four years. So, which will come with additional investments over and above what we are currently doing, but it will be in a phased manner.

Rupesh Tatiya: My second question, is, I mean, we have a big presence in CVS Cardiovascular category, and one very big product Sitagliptin and Sitagliptin + Metformin, I think is going off patent in Europe, U.S. in the second half of FY23. So, are we going to participate in that market? And what kind of market formation do you see in terms of number of players, price erosion?

Dr. Yasir Rawjee: Which product did you say?

Rupesh Tatiya: Sitagliptin.

Dr. Yasir Rawjee: Sitagliptin, Yes, we have Sitagliptin in our portfolio. And we are working with customers already. So, it would contribute for sure.

Rupesh Tatiya: But what kind of aspirational market share, do you hope to see sir?

Dr. Yasir Rawjee: See, we won't get into that, because we don't typically get it the into the product level discussion. It will all depend on how well the customers, our customers do at the frontend also.

Rupesh Tatiya: Would we be Top Five?

Dr. Yasir Rawjee: Yes, I think so, Yes that's for sure.

Rupesh Tatiya: Okay, and in terms of number of players and price erosion?

Dr. Yasir Rawjee: See that's what, frontend is very difficult to say no, I mean, we don't know how the frontend like recently, there was the Lacosamide launch in the U.S. I mean, the expectation was, there would be three players on day one, but it ended up being more. So, I mean, that's how life is, right, so we don't know.

Rupesh Tatiya: And then my last question is, if I look at your presentation, your capacity is going to double roughly from FY21 base, in FY23. And then again, there will be a Solapur Greenfield. So, do you not think 12% to 14% is very kind of low kind of guidance. And another thing is, I mean, there is a China-Plus-One, and I mean there has never been a more better time to be ambitious if you are from India. So, do you not think 12% to 14% is kind of low?

Dr. Yasir Rawjee: See, we would like to do more. And I am sure that the business conditions go back to normal the way they were, I am sure, we will be able to track a higher growth. But on the capacity issue, like Bhavesh explained, a significant portion of this capacity is for backward integration. So, that doesn't play out at the frontend. It's done with a more strategic intent in mind. So, we would have to then look at the incremental capacity that is servicing the frontend business, the frontend API business.

And again, you have got to realize that these things don't happen in lockstep. We basically plan capacities about one to one and a half year in advance, depending on how our launches are coming along. So, because it takes time to build capacity, it takes some more time to qualify capacity. So, because of all that, and seeing the way the launch plan is for the next two to three years, is how the capacity planning happens. And obviously, the investment has to go in at that time. So, it will all play out. But whether we do it on a year-to-year basis, that is something that's not possible.

Rupesh Tatiya: So, just a small question, how would the approvals happen for Ankleshwar capacity and the Dahej blocks? Approvals are already in place, or will be easy to get, or it will be a long wait?

Dr. Yasir Rawjee: So, Dahej and Ankleshwar are inspected sites, by major regulatory bodies. So, that's not a big challenge from an approval perspective. But I mean, so you don't get an individual approval on an incremental capacity. But you certainly have to validate products before you take them in. So, that's the additional time that it takes for us to be able to introduce products. That's the advantage of doing Brownfield versus Greenfield in our business.

Rupesh Tatiya: So, commercial contribution will be meaningful in H2, from these facilities?

Dr. Yasir Rawjee: Yes, I did mention that in an earlier question.

Moderator: Thank you. The next question from the line of Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: This 12% to 14% growth that you are talking about, can you split it between how much you are factoring in price increase, volume of existing products and new launches?

Dr. Yasir Rawjee: Saion, it's a mix of price and volume, but largely coming from volume, because while there are price increases, I mean, there are also certain erosions that happen in different products. On the basket, if I see right, largely it's coming out of volume growth.

Saion Mukherjee: And if you look back, let's say past couple of years or three years on aggregate, on your existing products, does your price go up, down or at an aggregated spin flattish?

Dr. Yasir Rawjee: On an aggregate level prices usually stay stable, okay, because the base business, which is about molecules that are like three to four years already in commercial, right, prices stay stable. Of course, see geographically it varies, prices vary quite a bit, depending on the geographies that we are selling in. So, it's the same API, but depending on the geographies, we would price it differently, based on competition. So, prices tend to stay stable, it's only when things get a little out of hand with input costs is when we go up and increase prices. And typically, when we develop the next generation process, prices come down, of course, margins don't get impacted, because we are much more cost effective on the next process. So, we are able to retain or even improve margins, but the price does come down.

Saion Mukherjee: Your commentary suggests that margins with all these pressures on cost are largely going to be there, broadly in that range. So, I mean, let's say, if I take Quarter 4 as an example, where you did Rs. 514 crores of top-line, Rs. 142 crores of EBITDA with 27% to 28% margins. If you were to factor in the cost that you see today, whether it is energy prices, raw material prices, would you say your EBITDA number would fall by how much? Is it possible to quantify that, or give some range, if you were to factor in the cost that you see today?

Bhavesh Pujara: Saion the costs have been elevated for a while, for different reasons, and in different areas. So, we were hoping that Quarter 4 should be normal, it is not. So, if the situations remain like what it is today I think the margin should track to where we are in the last couple of quarters. If the things go bad, environmentally, then there will be some adverse impact, which we can't predict, right, it will be speculative in nature. And if things become more normal than what they are, then obviously we hope to see improvements.

Saion Mukherjee: So, in that case, you can potentially go back to 30% kind of a margin, if things, energy prices and commodity prices sort of come down.

Bhavesh Pujara: Yes, it's all in our gross margin line if you see there, that's where the, the impact, we are feeling, and little bit in the other expenses because of energy prices. Obviously, if things go back to where they were, let's say last year, than our business model should support 30% EBITDA margin.

Saion Mukherjee: Have you shared the numbers, the sale to Glenmark for this quarter and full year?

Bhavesh Pujara: So, in this quarter, it would be around 36% to 37%, full year would be around 39% to 40%.

Moderator: Thank you. That was our last question. I would now like to close the call. On behalf of the management of Glenmark Life Sciences we thank you for joining us and you may now disconnect your lines. Thank you.