GLAND PHARMA LIMITED

February 10, 2021

BSE Limited
Corporate Relationship Department
Phiroze Jeejeebhoy Towers
25th floor, Dalal Street
Mumbai - 400 001
Scrip Code: 543245

National Stock Exchange of India Limited
Listing Department
Exchange Plaza, 5th floor
Plot no. C-1, Block G, Bandra Kurla Complex
Bandra (East), Mumbai - 400 051
Symbol : GLAND (ISIN : INE068V01023)

Dear Sir/Madam,

Sub: Earnings Conference Call Transcript

In continuation to our intimation dated January 12, 2021, regarding the Earnings Conference Call, please find enclosed details of the Transcript of the Earnings Conference Call on the Unaudited Financial Results of the Company for the quarter and nine months ended December 31, 2020.

This is for your information and records.

Thanking you,

Yours truly,

For Gland Pharma Limited

GLAND PHARMA LIMITED HYDERABAD, INDIA

Sampath Kumar Pallerlamudi
Company Secretary

Encl.: as above

“Gland Pharma Limited Q3 FY21 Earnings Conference Call”

January 22, 2021

MANAGEMENT: **MR. SRINIVAS SADU – MD AND CEO**
MR. RAVI SHEKHAR MITRA – CFO
MR. SUMANTA BAJPAYEE –VP, INVESTOR RELATIONS
MODERATOR: **MR. KUMAR GAURAV – KOTAK SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Gland Pharma Q3 FY21 Earnings Call hosted by Kotak Securities Limited. 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 '*' and then '0' on your touchtone phone. I now hand the conference over to Mr. Kumar Gaurav from Kotak Securities Limited. Thank you and over to you, sir.

Kumar Gaurav: Good evening everyone. On behalf of Kotak, I thank the Gland Pharma Management team for giving us the opportunity to host their first ever earnings conference call. From Gland, we have with us, Mr. Srinivas Sadu - MD and CEO; Mr. Ravi Shekhar Mitra - CFO and Mr. Sumanta Bajpayee from the Investor Relations team. I now hand over the call to the management team for their opening remarks. Over to you, sir.

Srinivas Sadu: Thank you, Gaurav. Good evening everyone, a very Happy New Year to all the participants. This being the first earnings call after listing, I would like to start the call giving you a brief overview of the business and strategy before diving into the performance for the quarter and 9 months FY21.

As many of you might be aware, we are a pure-play injectable company with over 4 decades of experience in manufacturing of sterile products. As injectables are directly injected into the blood stream, we have stringent regulatory requirements to manufacture these products. Our products sell in over 60 countries globally and our manufacturing lines are accredited by global regulatory agencies. While we have been focusing primarily in the US market for many years, we started to increase our presence in the emerging markets in the recent past. As on December 20, we have 282 ANDA filings in the USA and 1,478 product registrations globally.

We predominantly operate through a B2B business model wherein our partner handles marketing and sales of the product to the end customer. We have long standing relationship with the leading pharma companies globally and this has helped us improve internal processes including quality, as well as maintain strong market share for products. We also have B2C presence in Indian market.

In terms of our business strategy, we remain committed to continue investing in R&D to build a robust product portfolio that helps us achieve long-term sustainable growth. We have identified certain niche capabilities that need to be built on both the development and manufacturing front, towards which we are adding resources internally as well as evaluating external targets. We leverage the strengths of our parent, Fosun Pharma, to penetrate the Chinese market. For the China market, we have already made 6 product filings and continue to add to the portfolio. We focus on life cycle management of products on a continual basis, be it change of lines, optimizing batch sizes, alternate raw material supplies or components, to maintain cost advantage. This helps us keep increasing market share for existing products over time.

Coming to the performance, we had a good quarter and 9 months FY21 and continue to progress well on our defined strategy. We have shown year-on-year growth of 33% in revenue for the quarter Q3 FY21, and 29% for 9M FY21. We saw year-on-year growth in PAT of 32% for the quarter, Q3 FY21, and 27% for the 9M FY21. We have generated Rs. 4,056 million of cash flow from operations, despite inventory buildup on account of COVID-19. In spite of several challenges and costs related to COVID and external factors like removal of MEIS scheme, our business managed to deliver strong results on account of the resilience of the product portfolio and our unique business model.

Let me take you through the business highlights across various geographies. In line with our strategy of geographic expansion into emerging markets, we have put in place efforts which have started showing good results. Our emerging market business is growing rapidly and has accounted for 16% of our 9MFY21 revenue. We have seen 161% year-on-year growth in revenues for the quarter and 119% growth in revenues for the 9-month period. We entered new markets like Singapore, Israel, Armenia, and Saudi Arabia, through new partners during this period. Our ability to respond with changing market demand during COVID also helped us achieve this phenomenal growth in the 9-month period.

Our key markets, namely US, Canada, Europe, and Australia, accounted for 68% of our revenue during 9MFY21. We have seen 24% year-on-year growth in revenues for the quarter and 20% growth in revenues for the 9-month period. The growth was on account of launch of new products and volume growth in existing products with ramping up capacities. New launches include large products like Micafungin and differentiated products like Bivalirudin in RTU format as well as Olopatadine ophthalmic product in branded market. We launched 6 molecules in the last quarter. We filed 19 ANDAs and received 24 ANDA approvals during the 9-month period. We also filed 5 DMFs during the same period.

Our domestic market accounts 17% of our 9MFY21 revenue. We have seen 25% year-on-year growth in revenues for the quarter and 20% growth in revenues for the 9-month period. Demand for products from our core portfolio continues to remain strong in the domestic market. We have commissioned new Pre-filled syringe line at our new Pashamylaram facility, which helped increase volumes for domestic market.

Our focus on efficient supply chain management including qualifying the additional lines, adding alternate raw material sources, optimizing batch sizes among others have not only helped in having healthy margins, but helped meet orders in short lead times.

On the quality and regulatory front, all our plants continue to remain approved by US FDA. Given restrictions on travel on account of COVID-19, customers are conducting audits virtually during this period. I am confident on the preparedness of our team for any audit virtually or in person.

We are in active discussions with companies to manufacture COVID-19 vaccine for both Indian and global markets. While initial plan is to offer manufacture of nearly 40 million vials of finished product annually. We are planning to add more capacities to support this initiative both in finished as well as drug substance manufacturing.

I am glad to see a cultural shift in the organization to adapt to the changing requirements with the onset of COVID-19. Together, we have weathered the storm of COVID and found out ways and means of delivering what we promised to the stakeholders. Our success is predicated by our ability to deliver products without compromise on quality, safety, and customer satisfaction. In the post-COVID environment, we are even more outcome focused and are working towards actionable work streams on four broad pillars;

1. Regrouping and consolidation by transferring and sharing of resources, expertise and assets within our various manufacturing locations and also within Fosun group of companies. This will enable us to a lean, flexible and effective organization.
2. Diversification of product portfolio
3. Streamlining of our human capital
4. Effective and efficient manufacturing.

We are working towards improving different organizational success parameters apart from financial strength and hope to deliver strong results for all our stakeholders.

Our growth plans include creating infrastructure for complex injectables both in development and manufacturing front and M&A plans that could add value to our business in various fronts, acquiring new technologies, increasing profitability which includes strengthening, vertical integration strategy and also help company grow by way of geographic expansion.

I now hand over the call to our CFO, Mr. Ravi Shekhar Mitra who will share some more insights about our financial performance for the quarter and year till date. Thank you very much.

Ravi Shekhar Mitra: Thank you Mr. Sadu.

Good evening ladies and gentlemen. Thank you very much for attending our first earnings call post listing. I hope you have received our presentation which is uploaded on the website. Let me begin with sharing the financials of third quarter and nine months' period of the current financial year.

Revenue from operations for the nine months of fiscal 21 stood at Rs. 25,751 million, a year-on-year increase of 29%. For the third quarter, we have reported revenue of Rs. 8,594 million which is 33% growth year-on-year basis. The key drivers for this growth were increase in volume of existing portfolio, new product launches and geographic expansion. We have achieved a good growth across the markets.

Other income for the third quarter was Rs. 351 million and for 9 months were Rs. 876 million which includes largely interest on fixed deposit and foreign exchange gains on operations.

The gross contribution margin for 9 months was at 57.3%, almost same as for the corresponding period of previous financial year which was at 57.6%.

We have reported an EBITDA of Rs. 2,994 million in Q3 FY21 compared to Rs. 2,371 million which is an increase of 26% compared to same period last financial year. EBITDA margin for Q3 FY21 stood at 33.5% as compared to 35.3% of the same period of previous financial year. EBITDA for the 9-month ended December 2020 was at Rs.10,621 million compared to Rs. 8,086 million for the same period last year, a growth of 31%. We have reported EBITDA margin for 9M FY21 at 39.9% which is an improvement of 122 basis points as compared to the same period last financial year.

Our net profit for third quarter was Rs. 2,041 million, a growth of 32% compared to Q3 FY20. During the first 9-month period of the current financial year, our PAT was Rs. 7,366 million which is an increase of 27% as compared to last year. We have reported PAT margin of 9M FY21 at 27.7% against 27.6% in 9M FY20. Our efforts to keep the PAT margin intact on an overall basis by better operation leverage are fruitful.

The total R&D expenses for the 9 months' period were Rs. 916 million, compared to Rs. 749 million during the same period of the previous financial year. It stands at 3.6% of the revenue and is in line with our target. R&D expenses for the quarter was at 5% of revenue in both this year and previous financial year.

Our effective tax rate remains at about 25% in the quarter and 9 months period of the fiscal year. In the 9 months of previous year, the ETR is lower due to one-time reversal of deferred tax liability of Rs. 324 million on reduction of corporate tax rate.

Cash flow from operation during 9 months' period was Rs. 4,056 million. EBITDA to cash flow from operation conversion has come down during this period due to higher inventory levels as a result of restocking of raw material from March 20 when inventory level went down due to supply disruption.

Cash conversion cycle stood at 217 days for the 9-month ending December 20 as compared to 200 days as of last financial year end. We have improved our receivable and payable days compared to previous year, but as I just explained, due to increased inventory our overall cash conversion cycle has increased slightly.

Total CAPEX incurred during the year till December 2020 was Rs. 1,826 million. We continue to spend our planned CAPEX in increasing capacity by adding new lines at our Pashamylaram facility. We are also increasing our Vizag API plant's capacity by adding new block. We are also

adding capacity in our oncology facility at Vizag to take care of the planned launches for coming years.

Our ROCE on ex-cash basis was at 34% on an annualized basis for the 9 months' period of this fiscal year, an improvement of 240 basis points over the same period of last year. Our fixed assets turnover also increased from 2.5 x to 2.8 as we increased our capacity utilization.

As on December 2020, we had total Rs. 28,169 million of cash which we intend to utilize for CAPEX and to fund our organic and inorganic growth strategies.

With this, I would request the moderator to open the lines for questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: Sir, can you give some color on the revenue line for 9 months and for the quarter in terms of how much is let us say milestone licensing income there, profit share and normal manufacturing, I would understand that this number can be quite volatile from quarter to quarter, just to understand if you can help us?

Srinivas Sadu: As a milestone front, 9 months is about 5.2% of the total revenue and it was about 6%, 9 months FY20 and what all the breakup you need?

Saion Mukherjee: Sir, can you share the profit share number which you have for your partnership which will be part of the revenue from operations?

Srinivas Sadu: Profit share is about Rs.282 crores in FY21 9 months and as against Rs. 229 crores in 9 months FY20 and the balance is we keep the revenues about Rs. 2,255 crores FY21 and Rs. 1,723 crores 9 months FY20.

Saion Mukherjee: Also, I mean we understand that there is an impact of COVID related opportunities that has come, so how should we think about the numbers for this quarter and for the 9 months? How much is related to COVID and just to understand what is the sustainable base that you are looking at?

Srinivas Sadu: So in my previous calls also, I always told that COVID opportunity was there, but it was there I would say for the short time in the first quarter and we have a broad portfolio which covers most of the therapeutic areas. So whatever we supplied, if you look at the anti-infective market has gone down a bit in the first quarter and kind of settling down from the second quarter, so more anticoagulant was sold in the first quarter. It was because lot more hospitalization has happened and lots of patients got in ICU set up, so that portfolio got sold in the first quarter, but then it started back becoming more normal now, so it is moving towards anti-infectives. So, I will say it is a product shift for us more than anything else between the quarters and it is even normal on

overall throughout the year basis as well and depending on the seasonal things we have these changes, but we have such a broad portfolio which can cover, that is what has also helped during this period, so there is no significant difference for us in that way. It is just a shift of products what we sold from quarter to quarter.

Moderator: Thank you. The next question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

Sudarshan Padmanabhan: Sir, my question is while the topline is very good, the emerging markets have done well for us, we are seeing a drop in the gross margin quite considerably on a Q-on-Q basis as well as on a year-on-year basis, any specific reason to it or is it primarily because we have a higher sales in ROW which gives volumes, but the mix lead to a different kind of optical gross margin, if you can give some color on that?

Srinivas Sadu: I think you answered your own question a bit because I think it depends on the product mix which we sell on a quarter-on-quarter basis. If you look at 9 months average, it is almost same, it is almost 57% gross margin at the 9 months level. So it depends on the deliveries and what we do. If you look at last quarter, we have done lot of ROW sales and we had B2B model, for most of the time, we have the supply chain big push in the US market, so substantial orders we want to supply to other markets, we do that and third quarter has seen that and that is where margin profile is lower, but overall we also managed because ROW, the volumes are higher, but you also have the operation leverage kicking in once we do larger volumes and that is what helps us in keeping our margins at the company level intact. So while the units might be lower for the US, the margins are higher, but other markets on the volumes are higher, that is when operation leverage kicks in and we tend to keep the margins intact at the company level and over the year as well. So it is more the question of which market and what is the product mix we do and there is also if you look at the last year to now, there is also one component is the MEIS which has a small impact on the margin, but otherwise it is more to do with geography in the product list.

Sudarshan Padmanabhan: If I understand right, I mean which means that it can be a little volatile between quarters, but if I take a longer term period it should kind of normalize if I probably look at FY20 and FY21 or over a period of time, probably it will normalize, is that right understanding?

Srinivas Sadu: Yes, absolutely.

Sudarshan Padmanabhan: And sir, on the presentation you talked about this 40 million opportunity in terms of the vaccine, in terms of manufacturing which you can offer, can you throw a little bit more color on this, I mean are we in discussion with specific players, I mean what is the kind of opportunity are we looking at, something on that side?

Srinivas Sadu: As I mentioned, we are in active discussions with two different vaccine companies and we offered the first, because we have readily available capacity to offer the 40 million and that is what we have offered and now we want to invest in additional capacity to cater to this

opportunity as well, but we will inform the market once something solid happens, and we enter the business and we will inform the market.

Sudarshan Padmanabhan: And one final question from my side is on the inventory, I mean the working capital has kind of shot up largely on account of inventory, I mean I assume this would be primarily because of COVID which would normalize going forward, so we should be back to where we were probably in FY20, is that a right understanding?

Srinivas Sadu: I would say, FY20 because of COVID actually got reduced, I think it is about 170 days of inventory days we got down to. We always wanted to have a little bit more inventory than probably other company, but it is norms for a B2B company because we are in injectable space, lot of times opportunities come to us, at a short time we need to supply whether it could be drug shortage, there could be volume volatility, so to cater to that need and being a B2B model to support our customers, we tend to keep a bit of high inventory. FY20 is a little abnormal because of the supply chain disruptions. We used more of our inventories and incoming material is not coming, so it is little of aberration, but if you look at FY19 it is about 200 odd days and that will be in line moving forward as well.

Moderator: Thank you. The next question is from the line of Ashish Thakkar from Motilal Oswal Asset Management Company. Please go ahead.

Ashish Thakkar: Sir, it is time to figure out over a longer term over the next 2 to 3 years, if you could help us understand how should we look at our base business revenue growth and the new launches?

Srinivas Sadu: We cannot give our guidance, but what we could say if you look at our last 3 years, our new launches are helping us to grow, I think it is adding about 10% growth to our revenue and the rest is about 15% and that has been we are doing and that is what the internal KPI as well, so 1 to 2% this way or that way, but that is what we are thinking about. Normally, the new product gives us a growth of about 8 to 10% and then older products is growing around 15-16%.

Moderator: Thank you. The next question is from the line of Nithya Balasubramanian from Bernstein. Please go ahead.

Nithya Balasubramanian: Sir, can you throw a little bit of light on your China strategy, you have mentioned in the presentation about 1 Dexrazoxane filing which is still under process, but broadly I think Fosun also talk about 5 or 6 more filings from Gland, can you advise us on what is the progress and when do you see revenues materializing from China?

Srinivas Sadu: Yes, we have filed 6 products, one of that is Dexrazoxane. We estimate by the end of this year or the first half of next year that is what we are estimating the first launches. Probably first year, it may not be meaningful in terms of the size of business, but that is with start off and then we are planning to file another 12 products in next 12 months and we will take it from there, so it is more of an entry to China market, end of this year or early next year I would say.

Nithya Balasubramanian: Sorry, I didn't quite catch it. You are expecting the first launch to happen in the next fiscal year?

Srinivas Sadu: Yes, end of this year.

Nithya Balasubramanian: My next question was actually on the progress on the various complex injectable formulations that you are working on, if you can update us on where you are on the suspensions, peptides, some of the other Pens, cartridges, presentations as well?

Srinivas Sadu: So from the development perspective, the suspensions are at the scale-up level, we have already installed lines from the production perspective and on the peptides I think it is more on the characterization stage right now and they have already installed lines for pens and cartridges from the manufacturing perspective. So we are also looking at cutting down the time of taking the products from market because we are currently working on 2 or 3 products, but we won't increase that scale because the lines are in place and under validation, so operationally to get that leverage, we are looking at no products to get the line quickly, so we are looking at external opportunities as well and that is part of the M&A strategy also.

Nithya Balasubramanian: If you can throw some color on, I know I am asking you a broader question, but largely the industries struggle to get filings of suspension products and microsphere injection products, so what is the complexity and why does Gland feel confident that you can get over the line and get these ANDA filings in?

Srinivas Sadu: The issue is, I think getting the right particle size for the drug substance and we started work on this, almost 2 years ago and we have created our own sterile API plant and if we look at lot of companies, they source the substance and they work on the formulation whereas we have actually gone back and started working from the material itself, so once we got the right material, particle size and all that is when we got into the formulation side. I can't comment on other companies, but I think we took enough time to get the right materials to get the suspension in place, but yes, work in progress, I would say.

Nithya Balasubramanian: I am going to squeeze one quick one, there was a class one recall of the product which DRL had announced last year which we understand is being manufactured by Gland, so where are we in terms of progress on that front and does it have larger ramifications for the facility and the compliance?

Srinivas Sadu: Can you specify the product name?

Nithya Balasubramanian: I think it is Phytonadione?

Srinivas Sadu: We will get back to you Nithya on that, it is more a contract manufacturing product, so its development is drawn by Dr. Reddy's, so I think it is related to that, so I welcome back to you on that.

Nithya Balasubramanian: May be a generic question then, so in case there is a class one product recall and you are a CMO, are there any wider implications?

Srinivas Sadu: The product recall is related to GMP issue or pertaining to the quality systems of the plant. That is when you feel the ramification, but if it is anything to do with the development, or it is more on the R&D side and but this is a CMO product, so we don't see any serious ramification on that.

Moderator: Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: Sir, what is your take on the competitive intensity in injectables and what it was at 3 to 4 years back which I think was pretty weak, but now and going forward, I think many Indian companies are setting up or have already set up, done lot of filings for injectables, so how do you expect this road map for say, 3 years ahead for yourself?

Srinivas Sadu: Sameer, I just want to answer to the previous question what Nithya raised on the recall. So Nithya it is more to do with the Ampoule product what you mentioned and specifically for the Ampoules, when you cut an Ampoule, the particles tend to break and need to have right Ampoule and in this case, the product is developed by Dr. Reddy's and the components are also developed by the other company, so it is nothing to do with the company at our side because it is a CMO business what we did. Now, taking on Sameer, your question on the competitive nature of the injectable space, yes, it is not now right and in last couple of years, the space has become little crowded, people are entering to the space, I mean if you look at 4-5 years ago probably there were only 3 or 4 major players, but now it is bit crowded, but look at the number of products we have filed in the US, the number of facilities we have, the infrastructure what we have built over years, it is a little more complex than normal dosage form and even today as we speak, we are not into all delivery formats to be leading in the injectable format. We are there in many of them and the companies have entered in recent times have entered just in liquid format, in vials, in Lyos, is a limited delivery format. So to get that technology in place where lot of delivery formats to be competitive in that, it takes a few years to get there and also to be in the business, we need to have a broad based portfolio to dominate in this space and it took us so many years to get there and it is basket approach which the market looks at, people coming with 10 products, 15 products, cannot dominate the space. So I will say we are a little ahead on that because we are focusing there, almost 40 years we are here, we have created that breadth portfolio across all therapeutic areas and that is one of the reasons the growth has been very consistent and across the years and we are entering new formats almost every year. And as we speak, I was saying that we already got into pens and cartridges which not many companies got in and it takes that much time to get expertise in that. So although it is becoming a little complex, but again once the scale is getting increased, there is also complexity of the quality systems in place and that is one reason you see so many issues happening at various sites. So injectables is a space where you need to have that technology in place, you need to have that expertise in place and the quality system

have to be there when your throughput has gone up in the plant and unless you have this large throughputs, you can't really dominate in terms of your cost advantage, so I think we are in better place than most of the other place, I would say.

Sameer Baisiwala: Sir, what happens in the oral solid etc., the moment a new player gets its ANDA approved, he may not get a market share, but he gets the pricing down for everyone and that is sort of bidding game that starts, so while your competitive advantages may stay, I am sure it will stay, but the moment their new approvals for your categories of products, does it have any instantaneous pricing action for the incumbents such as yourself?

Srinivas Sadu: So if you look at the portfolio, what you choose every year, I mean we are filing about 20-24 ANDAs on an ongoing basis and part of the portfolio is the new product launches where everyone tries to launch in the first day of patent expiry so that you can get into those GPO bids and those where you can get more volumes, but product which are already genericized that is when people try and break those contract, so that you can offer a better pricing. Now there are instances where people come in, new entrants come in and break that, but ultimately I know they will exit a few months later. If you see lot of injectable products, now you see 8 or 9 players, but if you see active suppliers, again it remains to be 4 or 5 because people come in, disrupt and then get out of the business. So more and more GPOs are also now coming out with this requirements of history of supply. We have a clear regulatory history, so there are several things they are looking at, not just the price. So it is not like a solid oral business, I think it is little different in injectable space.

Sameer Baisiwala: Sir with your permission, one final one from my side, just extension of this, for your matured portfolio, what is the sort of price Y-o-Y, does it remain stable? Does it sold down mid-single digit or how does pricing for your matured portfolio behave?

Srinivas Sadu: You see our matured product portfolio, the gross margins are around 50-55% and between that, 50% I would say which is in the rest of the world markets, but when you launch a product, that portfolio gives around 65-70% and probably settles down after two years around 50-55% and between, so that is how the margin profile is behaving.

Moderator: Thank you. The next question is from the line of Amey Chalke from Haitong Securities. Please go ahead.

Amey Chalke: So first question I have is, wanted to understand any seasonality in the business because now the 9 months numbers are out and it looks like typically we have reported good margins in the first and the fourth quarter, so is there any change in product mix during the time of this year and also the second question is also on the margins, the other expenditure has gone up sharply during this quarter from 60 crores kind of a run rate to more than 80-90 crore, so does it include the IPO related cost and what would be the sustainable run rate going ahead?

Ravi Shekhar Mitra: So on the expense question first, Amey is that this quarter had higher expenses on the R&D side also because of more filing happening in this quarter compared to similar quarter last year or even the immediately preceding quarter because of COVID, mostly it got linked to the filing, so that is higher by about Rs.19 crores in this quarter and also our consumption of stores etc. went up along with the volume. And also with COVID, we had certain additional expenses to take care of that employee related, distance maintaining and certain precautions we have to take, so that is around Rs. 3-4 crores additionally in this quarter. That is largely the reason, there is nothing, no expense related to IPO here.

Amey Chalke: So do we expect to come in fourth quarter?

Ravi Shekhar Mitra: No, IPO expenses as per accounting, it is adjusted with the issue proceeds and since you are aware that there is OFS part also, so those expenses have been taken care by or absorbed by those shareholders. Company's expense is only restricted to the fresh issue side and which if you see our results, we have mentioned that where it has been adjusted.

Srinivas Sadu: Business side, the seasonality wise, yes there is some seasonality in terms of facility anti-infective, probably it is normal at the end of the year, but it all depends on the product mix where we are selling more. Normally in the third quarter, we sell more in rest of the world markets, being the B2B also at the end of the year, the holiday season in the US, so there is fewer dispatches happening at the end of the year between the Christmas time, so more goes to ROW and that is why the margin looks like that, but overall at the annual level it can reach there.

Amey Chalke: Sir, second question is on the global Enoxaparin opportunity in these 3 products with limited players who are producing it, so we have already entered in the US and one of the ROW market, so any thoughts on entering into regions like Europe or how is the price realization over there?

Srinivas Sadu: So Enoxaparin is a huge market, but it is a volume product than the margin product, so we have entered markets and are selling in markets where the restrictions are there in terms of some countries, it is considered priority product like Brazil, we are big in Brazil because the clinical trials are required, so not many players are there, so we have done, we have entered that market in early 2000 and we have done the clinical at that time, so that kind of a solid. So we always look at the bottom line as well and not just the topline and there are several markets where the Chinese have entered directly where the margins are very low, so we are not too keen on compromising on the margins there. If you look at Europe, which is completely a different ballgame in terms of, it is considered a low molecular heparin, most of the tenders come as low molecular heparin and there are several low molecular heparins, you may not say just one and we have to go and compete with other LMW heparins as well. So it is a low priced product in Europe and also it needs clinical in Europe which is very expensive. So Europe is not a very focused area for Enoxaparin from now at least and other markets wherever is good pricing, we are trying to enter this markets and US also, we are focusing on clients where they are willing to pay that price, so it is more pricing we are looking at than the volume gain because most of the markets Chinese have entered and they are completely backward integrated, right because most

of the heparin comes from China and lot of Chinese companies who have heparin they also dominate Enoxaparin and although we make Enoxaparin, but we still need to buy heparin from other countries, so I would say we are choosing where we want to enter, where we could get some price benefit, that is where we are focusing now.

Amey Chalke: Just last question if I can squeeze in, we have reached 24 approvals during the 9 months and how much of these approvals we have already launched and any good opportunity you can highlight from them?

Srinivas Sadu: I think in 9 months across US, Europe, Canada, we have launched almost 31 SKUs, but molecule level, we have launched about 19 and the rest will be launched in next quarter or so.

Amey Chalke: Any good opportunity if you can highlight in the US market during this 9 months which you have introduced?

Srinivas Sadu: Yes, I mean what we have launched in last year, like I said, Micafungin was a large product and we have the large market share for that as well and we also got new GPO of contract recently, so that is a good opportunity which we have opened up last year and that will continue and the launches what we are having, they are some Bag products, so that we are not yet dominating that space, but this approval what we got in Bags, that should give us good amount of revenue.

Moderator: Thank you. The next question is from the line of Nikhil Mathur from Ambit Capital. Please go ahead.

Nikhil Mathur: I have the fundamental question then, a larger picture question attached to it. So in FY20 Gland recorded, US $250 million of sales in the US, now can you please help me understand as the B2C level or at the customer level what this number translates into, any ballpark number would also suffice?

Srinivas Sadu: You mean the front end level, the approximate value you are saying?

Nikhil Mathur: Yes.

Srinivas Sadu: It is about US$ 450-500 million, I would say.

Nikhil Mathur: So my larger picture question would be now whenever Gland achieve the sale of say $750-$800 million at the customer level or at the front end level, what we have seen with many larger generic players operating in the US in the past, is that when $900 or billions of sale that has kind of reached in the US market, the growth becomes a challenge. No, I am aware that there have been related challenges for many larger players operating in the US, but from Gland's perspective, we would aim to grow beyond $800-$850 million of front end levels in the US, does it become a challenge at some point in time?

Srinivas Sadu: Well, model is little different than other players, so all these players actually we are one of the suppliers. If you look at all the billion dollar players, we probably support them with some products and once you have reached certain stage, one, of course you are talking about scale, the pricing also becomes a key thing for them where they are manufacturing it and that is where we play the role. If you look at our growth trajectory last few years, even our older products volumes are growing, not just our own products, but people come to us to transfer their products to us, so in fact the company which is currently selling a billion dollar, having to say $20 million product and it will not be worth for them to invest into a new facility, new capacity to make the $20 million product because the margins are not there. So those kind of products actually come to people like us, B2B player and that is what actually increasing the volumes of our older products. So if you look at our, it is not just the pricing growth we are having, we are also having the volume growth and the volume growth is coming some from our own product, but more from the companies who are actually transferring the product, so that way we play a little different game compared to other players who are mostly B2C players and that is one reason we don't have a clear peer right in industry. We are the only ones who offer these kind of a model and that is kind of an advantage for us, so in a way it is an advantage for us, companies who are growing to a certain extent to get that cost leverage, they come to us and that is how we are growing in terms of volumes.

Nikhil Mathur: If I may squeeze here, what is the typical market share that you internally target in molecules, I know that there might not be a clear answer to this, if you can find a break it down say in certain backward integrated molecules, you might be looking for X percentage of share or a certain large size molecules might be looking for X percentage of market share, so any ballpark number that you can help us understand here?

Srinivas Sadu: So because of the model, we not only do our own ANDA development, but we also do the tech transfer models, so across the models which you see in most of the products what we are selling, it kind of captures about 30-35% of market shares because we cater to 3 or 4 players who are selling the particular product, so irrespective of who gets that contract, we are still able to get that volume share, so I would say in most of the product what we are selling, I think it is around 30-35% and some times over 25% market share.

Nikhil Mathur: And just one final question, so over next 3 to 5 years, are there decent enough molecules which are probably more than $400-$500 million of sales currently before the patent expiry and can you give some color on this, sir?

Srinivas Sadu: See, there will be several lines, especially in oncology, there are several big products, but I would say, everybody actually goes after this big products and you ultimately end up with 15 players and each individual getting very little volume share, so our always focus has been pick those products, of course the first one is you have to be there on the first day of patent expiry and the rest depends on how we leverage the capacities better, what capacities you have idle, so that you can use facilities better. So that you can get your cost down, so we will do that portfolio mix

where, you just not go after these big molecules like the other players do, but what we do is have this mix where especially when you are specially adding the capacities, it need to be leveraged well, so that your cost will come down and if you think out gross margins have gone down for a quarter, but we have a better operation leverage because that is what we do. We do that mix and match thing, so that we have those margins intact and that is what we have been doing. So it is not just the large molecules we go after. I would say, there are several products in our portfolio today which actually gives us more profitability than the large products some of these kind of products, so it is just not the top 10 we are looking at.

Nikhil Mathur: Can you give some understanding on what is the current capacity utilization level across your plants and over the next 2-3 years, would this inflation level go up or there will be incremental CAPEX due to which there will always be surplus capacity and hence utilization levels might stay for where they are currently?

Srinivas Sadu: Capacity utilization, I can't really talk about the plant level, because each delivery format has different demand and capacities we have. So if you look at line wise, if you look at the dosage, the SKU wise, it is a little different, if you look at liquid vial, we are running around 75-80% of capacity utilization. Lyos, we have already utilizing about 85%, we have already invested into new expansions, new Lyophilized line is already on line in terms of validation so that has already added. So we have already invested the CAPEX which will take care of next 3 years of growth plan, what we have been placed. We don't need additional CAPEX for that, of course any new opportunities which will come in the different area which is not related to our next 3-year plan we need to invest, but as per our focus of course, based on our launch plan what we have for next 3 years, we have already invested into capacity and the CAPEX has already been incurred.

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

Tushar Manudhane: Just would like to understand in terms of the usage of funds what are we targeting at in terms of say products or technology or facility?

Srinivas Sadu: The usage of funds, what we have filed, two or three areas we are looking at, one is the API, we have a vertical integration strategy, we are expanding the API facilities, because if you look at our current portfolio, 25% of our revenue comes from backward integrated products in last year and if you look at today, it is about 30% and we want to increase that so that the dependence on external API sources should go down for several reasons, one is the quality issue, the other is, people are getting it more expensive now and in injectable space because the quantity is required, so people tends to exit that, so to protect that we want to be vertical integrated and of course, the cost advantage we get for many products which were integrated. Some money is going into that. The other is the CAPEX in terms of our facility where we have invested into suspension line where we are working on the long-acting injectables as well.

Ravi Shekhar Mitra: So Tushar, we will be spending about 250 crores this year and next year which will take care of, as Mr. Sadu was explaining on the next 3 years' growth plan and M&A is the other one.

Tushar Manudhane: I was actually asking on the M&A side, not on the organic side, in a sense M&A side, what are we targeting?

Srinivas Sadu: So on the M&A side, like I said, one is the fermentation side, where like I said we don't have the in-house capabilities to work on fermentation based APIs and we are very strong in our Anti-infectives, almost 32-33% of our revenue comes from Anti-infectives. So we are looking at assets which can make those fermentation APIs and also Peptides. Now, we are looking at Peptides because we have invested into Pens and cartridges and we want Peptide companies. The other is the hormones, we have invested in the hormonal finished product manufacturing, so that is another area we are looking at. And assets in the US, right, I mean there are several restrictions for some products, especially the Controlled Substances which you can't enter that market from outside US. When looked on the asset in the US, which you can fulfill that need as well. So different things we are looking at, peptides, hormones, fermentation side, and also long-acting injectables like I said and we need to get to the market quickly, so there are any development companies which already worked on this, we are also looking at that area.

Tushar Manudhane: So given the complexity associated with such kind of product acquiring, the compliance requirement would also be very high, is my understanding right?

Srinivas Sadu: From the regulatory side?

Tushar Manudhane: From the regulatory point of view, correct?

Srinivas Sadu: Yes, that is one of the reason we have to be careful when we do an M&A, it meets all the requirements in terms of quality and regulatory front as well.

Tushar Manudhane: Because historically, we have grown organically, how comfortable are we when it comes to an inorganic front and lot of quality systems, it is more to do with the culture rather than the infrastructure?

Srinivas Sadu: Absolutely, so that is why we have to be careful, I mean we are not jumping into any acquisition which we are doing it and that is why we are taking time, so many opportunities are coming, but we are making sure that it has to fit into our quality culture, it has to meet the quality standards and easily, we don't want to get into M&A just because for the sake of making an M&A, so we are very clear on our strategy and M&A has to fit strategy and the culture in the quality standards, yes.

Tushara Manudhane: Just secondly on this, converting or creating this vaccination plant, how easy or difficult it is from existing sterile injectable plant?

Srinivas Sadu: We need to dedicate a line suite for that. Our new plant actually is designed, each line has a dedicated suite and different dedicated air-handling unit. That is what you required for vaccine manufacturing plant and we have, but the plant is designed such that we can dedicate one line, so that way it is not a big thing in making a finished product for vaccine.

Tushar Manudhane: And just lastly, how much investment you have targeted for vaccine manufacturing?

Srinivas Sadu: So currently it is under discussion, so more than like I said in my call, we have enough capacity like 40 million can be given, but if the demand is more and if we are entering a contract which we have to supply more than that, probably now we have to go and add one more line or something, so that investment is required for that, so somehow the proceeds or the cash what you have can be used for that as well.

Tushar Manudhane: And just lastly, in terms of the clarity in term of the margins, so while the quarterly profitability could be lumpy, but on a 12-month basis or a full year basis, how much EBITDA margin can be considered as a base scale?

Ravi Shekhar Mitra: We cannot give a guidance on that, but if you see our 9-month, we have been consistent across that.

Moderator: Thank you. The next question is from the line of Deepak Mittal from Edelweiss. Please go ahead.

Deepak Mittal: I had a few basis questions, why does tax rate last year at 9 months FY20 effectively about 20% and this year it is 25 which I understand, but why it was particularly low in the last year?

Ravi Shekhar Mitra: Yes, as you know that last year around September, Government of India has announced tax rate which is about 25% from the earlier tax rate of 34.94%. So basis of that there was a reversal of deferred tax liability which was existing on last year and that the impact is about Rs. 324 million. That is why there is a lower tax rate in 9 months FY20.

Deepak Mittal: And I back calculated the numbers for quarter 2 in terms of both Revenue, PAT, PBT, everything and what I see is that there was a revenue growth in quarter 2 of 22-23%, the PAT actually declined this year versus last year for quarter 2, would you help us understand why would that happen?

Ravi Shekhar Mitra: So as I told about deferred tax, there was similar Rs. 247 million of current tax also of the first quarter higher tax rate which we provided for got reversed in Q2, so overall the tax impact if you see quarter level, it was Rs. 571. See if you normalize that we will leave it at a PAT growth of also about 20%.

Moderator: Thank you. The next question is from the line of Ritesh Rathod from Nippon India. Please go ahead.

Ritesh Rathod: Can you help us understand in terms of in US business, how much volume share you would have at aggregate injectable market since you mentioned $450 to $500 million is the revenue at the customer level, so what kind of volume market share you will have at aggregate level?

Srinivas Sadu: Well, if you look at injectable space it is huge, we are not even there in many of the formats, whether we call it, Sterile Bags, several other formats we are not there. So on a product basis, on an average we have about 20-25% of market share, I would say in terms of volumes, but at the entire industry level, I can't tell, for example like I mentioned about Controlled Substances, we are not even there in that. We are not into the cephalosporin, we are not into penicillin, so we can't really compare. We can only tell the volume share in our own products. That is all we could comment.

Ritesh Rathod: So how many million units you would have supplied in FY20 which would have lent to US directly or indirectly?

Srinivas Sadu: About 95 million, 90-95 million units into the US, I would say.

Moderator: Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak: May be you have answered this in the earlier call, the gross margin for the 9 months is similar to 9 months last year, but Q1, Q2, Q3 have very different gross margins is a declining gross margin trend, so is that something which is at the new normal gross margin or this is just like make sense quarter specification?

Srinivas Sadu: No, if you look at even historically, the quarter wise there is a change quarter-on-quarter. It all depends on what you sell in that particular quarter. So if you look at this last two quarter, a lot of product in Rest of the world markets where we have grown. Internally, we are also looking at how to grow geographically also, so that you can de-risk your business and it also helps in leveraging our facility because after certain point, the volumes also plays a key role, otherwise it is going to impact your margins for the US products as well because you have expanded, so we have to expand that business also. Although your gross margin will go down for the rest of the world business, but still because you are leveraging better, your capacity, so you are able to maintain those levels at the company level. So it is a balance we have to do, how much you want to do for rest of the world market because we also need those volumes to leverage better, otherwise it is going to impact your other share of the business also. So it is more a product mix and what you tell more in the portfolio of product that is what is dictating, but you have to see on an annual basis, how much your margins are and that is what we have been showing and even historically is little bit different for each quarter, but on an annual basis, we are maintaining consistently that margin around 55-57%.

Dheeresh Pathak: And for the vaccine, this line that you will add, this is like a finished line which is functional across various vaccine platforms, so this will be dedicated to one kind of a platform and once

the vaccine business is not there, can this be then used for other injectable fill and finish, can you just explain that part?

Srinivas Sadu: One is, can we get into vaccine and continue to do it because we are studying this seriously because if our product like a flu vaccine, this is an area again where if you look at the regulated markets, the very few players were focusing those markets, most of the players are focusing on the Rest of the world markets supplying to WHOs and UNICEFs of the world, so that can open up with our history in quality and regulated compliance with the regulated markets that could open up. That is the area we are looking at and this opportunity probably will continue for few more years, but 2 years down the line, if the opportunity goes on still this can be used to fill biosimilar products, because some of the vaccines are mRNA based, this can be used for biosimilar stage that also opens up because we are also having discussions with, because our own parent company has a biosimilar company. We are having discussions with them whether we can do some filling for the biosimilar as well, so that also opens up, but if we decide not to get out of the vaccine business tomorrow, yes we can go back and because once we change those vessels and dedicated components, we can always use the line for the regular products.

Dheeresh Pathak: And the line that you are making right now, this is for an mRNA platform vaccine or this can be used across platforms whether it is DNA, RNA viral vectors inactivated?

Srinivas Sadu: Absolutely, so currently we want to focus on this vaccine, the COVID vaccine and then moving forward we will see because we are not experts in vaccines yet to be honest. We just wanted to do the filling and once this opportunity comes, then we will see if it is really want expand to vaccine business or get into biosimilar filling because the line can be used easily to do that filling as well, but we cannot go back and start filling our regular injectables once this opportunities goes away.

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

Tarang: Two questions from my side, one, of your 226 ANDAs that are approved on 31st December, how many would be for unique molecules, how many unique molecules would they address and the second, for instance, if a molecule for your partner which is already approved right in the US and then there is a second person who wants to maybe get that molecule manufactured through you while owning the ANDA, because the molecule is already approved for one of the players, does it actually speed up the approval process for the later player, given that the manufacturing facilities are the same?

Srinivas Sadu: No, actually each individual ANDA is different, so it will take the similar type, but the approval process is definitely is faster now than before, so probably you are getting approvals in 12 months, 14 months mostly and coming back to the question of 226 approved ANDAs, molecule level it is about 123 molecules and we have launched about 93 molecules. There are also

tentatively approved products in that, so we have to wait for the patent expiry or settlement date whatever we have for that.

Moderator: Thank you. The next question is from the line of Ravi Srikant from Muthoot Family Office. Please go ahead.

Ravi Srikant: So I just had a couple of question, one was you mentioned that anti-infective is 30% of the revenue, it is possible for you to give the breakup for the other therapies as well, therapy wise revenue split?

Srinivas Sadu: And if you look at 9 months FY21, like I was telling at the beginning of this call, the Anti-infectives have gone down a bit this year because of COVID and most of the anticoagulants have gone up. So if you look at last year 9 months, 32% of anti-infectives and this 9 months about 27%, but it is kind of going back to the normal levels in this quarter. If you look at cardiac, it is about 25% in 9 months revenue wise and then pain management is about 11% and the anticoagulants and blood system is about 10%. These are the major therapeutic areas right now, but as a company we don't focus on therapeutic areas, just we go like I said the portfolio is a mix of first launches and volume builder, these kind of products will look at. So we don't go by therapy, it just happens to be that this year it is anti-infective, but it might change once you started launching more products from other therapeutic areas.

Ravi Srikant: Sir, and the second question was actually sort of medium to long term strategy for your sort of promoter which is frozen, so what is their thought process regarding their investment in Gland, I mean will it be possible if you would give your opinion on this?

Srinivas Sadu: Although we can't comment on their long-term plans on the company, but they at least for now, they instead continue to make a company of the platform for the global injectable format. While all the subsidiaries are within the China, they make us any acquisition they do or anything related injectables, they kind of run through us, so basically they think we are like the leaders for injectable platform and they want to continue to invest into the company and with them being there, it is a big advantage for us in several areas, one is on the API front, we have several subsidiaries which makes APIs which could help as in backward integration, getting into China market is so difficult, we are getting help from there, so there are several advantages of being there, but from their perspective, as of now they continue to invest in the company and they want to continue to grow this company as well.

Ravi Srikant: Sir, if I may just squeeze in one more question, so I understand that you have a batch manufacturing process, I mean it is a very basic question, but I mean generally is there any such symmetric, I mean how often do you run this batches or how often does the customer sort of pick up these batches?

Srinivas Sadu: You mean the bag batches?

Ravi Srikant: I mean, whenever you sort of manufacture a molecule or whenever you manufacture, so I am assuming that you do in a batch manufacturing sort of a process, so I mean is it like once a year you run a batch for a particular molecule and then the customer sells that over a course of?

Srinivas Sadu: No, it is always order to make, so because being a B2B we get order from them and then we have agreed lead times, and they place orders based on the contract they have. We get an annual forecast and they have a firm forecast for 6 months for many players and we have annual rolling forecast on a monthly basis and now that is what we have done and it is on a batch basis, they buy as batches, so it is made to order.

Ravi Srikant: I mean it is flexible, I mean there is no hard and fast rule that it is end only 3 months or 6 months, so depending on their order size, it can shift?

Srinivas Sadu: Yes, correct and most the injectables once they have contracts in place, exactly know how much they need for the year and based on the lead times, they kind of spread out the delivery times.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to Mr. Sumanta Bajpayee from Gland Pharma for closing comments.

Sumanta Bajpayee: Thank you everyone for joining us today for our first concall after our listing. If any of the questions still remain unanswered, please feel free to reach out to us or write to us. The earnings call record as well as transcript will be made available to our website shortly. Thank you. See you again on our next earnings call. Thank you.

Moderator: Thank you very much. On behalf of Kotak Securities Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

Disclaimer: This transcript has been edited to remove and / or correct any grammatical inaccuracies or inconsistencies of English language that might have occurred inadvertently while speaking.