



GLAND PHARMA LIMITED

January 31, 2023

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Symbol: GLAND (ISIN: INE068V01023)

Dear Sir/Madam,

Sub: Earnings call Transcript- Q3FY23

Please find enclosed the transcript of the Earnings call for Q3FY23 of the Company held on Monday, January 23, 2023, at 18.30 Hrs IST. This will also be available on the Company's website and the web link to access the same is <https://glandpharma.com/investors/financials>

This is for your information and records.

Yours truly,
For Gland Pharma Limited

P Sampath Kumar
Company Secretary and Compliance Officer



“Gland Pharma Limited
Q3 FY '23 Earnings Conference Call”

January 23, 2023



**MANAGEMENT: MR. SRINIVAS SADU – MANAGING DIRECTOR AND
CHIEF EXECUTIVE OFFICER
MR. RAVI SHEKHAR MITRA – CHIEF FINANCIAL
OFFICER
MR. SUMANTA BAJPAYEE – VICE PRESIDENT, FINANCE
AND INVESTOR RELATIONS**



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Moderator: Ladies and gentlemen, good day, and welcome to Gland Pharma Limited Q3 FY '23 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sumanta Bajpayee, Vice President, Finance and Investor Relations. Thank you, and over to you, sir.

Sumanta Bajpayee: Thank you, Faizan. Warm welcome to Gland Pharma's Earnings Conference Call for third quarter financial year '23. I have with me Mr. Srinivas Sadu, MD and CEO; Mr. Ravi Shekhar Mitra, our CFO, to discuss business performance and to answer queries during the call. We will begin the call with the business highlights and overview by Mr. Sadu, followed by financial overview by Mr. Mitra. After the opening remarks from the management, operator will open the bridge for Q&A session.

Our earnings presentation has been submitted to the stock exchanges and is available on our website. Before we proceed with the call, please note some of the statements made in today's discussion may be forward-looking and are based on management estimates. This must be viewed in conjunction with the risks and uncertainties involved in our business.

The safe harbor language contained in our press release also pertains to this conference call. This call is being recorded, and the playback shall be made available on our website shortly after the call. The transcript of the call will be submitted to the stock exchanges and made available on our website. I will now hand over the call to Mr. Sadu for his opening remarks. Thank you all. Over to you, Mr. Sadu.

Srinivas Sadu: Thank you, Sumanta. Good evening, everyone. Thank you for joining our earnings call for the third quarter of fiscal 2023. I wish a happy new year to all our shareholders, analysts and the families.

We entered into a Put Option agreement in the last quarter and subsequently signed a Share Purchase Agreement this month for the acquisition of Cenexi. This is our first acquisition overseas, and it is in line with Gland's long-term growth objectives. It will enable Gland to increase its presence and to expand its product and service offering capability in Europe, where it is currently not a significant player in the CDMO market. It also provides access to know-how and development capabilities in sterile and other innovative technologies like ophthalmic gels and needle less injectors. We are well prepared to focus on integrating the business going forward.



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We have already received EIR from USFDA post the audit conducted at our Dundigal facility. We have been at the forefront of maintaining highest standards of quality at our sites and we continue to invest in constant improvements. Our teams across all our sites remain prepared for any regulatory audit. As FDA has started physical audits, we are also keeping a close watch on the progress of regulatory audits in the industry, to ensure we are prepared to leverage any additional supply opportunities that may come up.

We closed this quarter Q3 FY23, with a revenue of INR 9,383 Mn as against INR 10,633 Mn in Q3 FY22 and our PAT stood at INR 2,319 Mn for the quarter, against INR 2,730 Mn in Q3 FY22. We have generated INR 398 Mn of cash flow from operations in Q3 FY23. The performance continues to be subdued on account of ongoing supply disruptions, certain production-related delays and softer offtake of a few of our key products in the US. Post line improvements were in the process to ramp up production on our insulin line. We also had a 2-week shutdown through a couple of lines at our Pashamylaram plant for line upgradation. We are focused on ensuring the supply continuity across our portfolio of products.

We completed 8 ANDA filings during Q3 FY '23, in line with our filing plan. As mentioned during the last call, we have seen the pickup in filings during the quarter. We are in advanced stages of regulatory review for a couple of products filed in China and expect approvals very soon. During Q3 FY '23, upon excluding capital R&D expenditure, the R&D expenditure stands at INR 500 million, which is 5.3% of the revenue for the period as against INR 394 million during the previous quarter. As on 31st December 2022, we, along with our partners, have 325 ANDA filings in the US and 1,581 product registrations globally.

We have begun the process of strengthening our US subsidiary with the right talent to further focus on business development initiatives and building new partnerships. We are also strengthening the plant operations teams with new capacities coming online.

Let me summarize our performance across various geographies. Our rest-of-the-world markets accounted for 21% of our Q3 FY '23 revenue against 19% during Q3 FY '22. We maintain inventory of raw materials and packed materials to be able to cater to the demand. We continue to register our products in new geographies. Our key markets continue to remain MENA, LATAM and APAC. Our core markets, namely US, Canada, Europe, Australia and New Zealand accounted for 70% of our revenue, similar to the contribution in Q3 FY '22. Part of our new launch product portfolio, we have shipped out five product SKUs during the quarter, which included Regadenoson and Lacosamide among others. The supply chain issues continue to impact the dispatches for these markets. We are constantly working on improving material availability and resolving any production delays.

India market accounts for 9% of our Q3 FY '23 revenue. The steep price drop announced for key products like Heparin, the newly published NLEM list has impacted sales and margins of our India business. The insulin line is still in the process of ramping up post-line improvements.



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We hope to close the acquisition of Cenexi by March, April 2033 time frame, plus which our focus shall be on leveraging synergies between these businesses to generate stakeholder value.

China remains a key geographic focus, and we expect to start receiving approval soon. On the portfolio front, we filed two more complex injectable products during the last quarter and continue to invest in the long-term growth of the business.

With this, I wish everyone good health. I would like to now hand over the call to our CFO, Mr. Ravi Mitra, who will share details about the financial performance for the quarter. Thank you.

Ravi Shekhar Mitra:

Thank you, Mr. Sadu. Good evening, everyone. Thank you very much for attending our third quarter earnings call. Let me begin with sharing the financial performance of third quarter and 9 months ended December 31, 2022. Revenue from operations for the Q3 FY '23 stood at INR 9,383 million, a reduction of 12% on a year-on-year basis. Revenue from operations for the 9 months period of fiscal '23 stood at INR 28,396 million, a year-on-year decrease of 14%. Primary reasons for reduced revenue are due to certain supply side challenges and lower offtake of some of the older products. Revenue contribution from new products launched during the period were lesser than previous year.

Other income for the third quarter was INR 615 million, which includes interest on fixed deposits and foreign exchange gains on operations. For the 9 months FY '23, the other income was INR 2,015 million, of which interest on fixed deposit was INR 1,314 million and foreign exchange gains and operation was INR 665 million. Gross margin for Q3 FY '23 has improved due to change in geography and product mix. Gross margin in 9 months period of current financial year remains stable as compared to same period of previous financial year.

We have reported an EBITDA of INR 3,511 million in Q3 FY '23 compared to INR 3,946 million, which is a decrease of 11% compared to same period last financial year. Energy costs increased as compared to same period previous year, but has reduced compared to Q2 FY '23. Higher employee costs during the quarter as compared to previous period was largely due to additional people added to support the new production lines in Pashamylaram plant and for the Bio-CDMO facility.

EBITDA margin, excluding other income for Q3 was 31% and was 30% for the 9 months period.

Our net profit for third quarter decreased by 15% and stood at INR 2,319 million compared to Q3 FY '22 due to a decrease in EBITDA and higher depreciation expense on newly capitalized assets. During the quarter, we have recorded PAT margin of 23%. During the 9 months period of the current financial year, our PAT was INR 7,024 million at 23% margin. The total R&D expenses for third quarter was INR 512 million and stands at 5.5% of the revenue as against INR 699 million, 6.6% of revenue in the same period of previous year.

The total R&D expense for the 9-month period was INR 1,336 million. It is 4.7% of our revenue. Our effective tax rate remains at about 25% in third quarter and 26% for 9 months of the current



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financial year. Cash flow from operation during 9 months period was INR 4,354 million. Working capital increased and stood at INR 23,322 million as on 31st December as compared to INR 20,217 million as on 31st March '22 due to increase in inventory and receivable levels.

Average cash conversion cycle stood at 246 days for the 9 months ending December '22 as compared to 190 days of same period last financial year. Increased receivable and inventory days has pushed the overall cash conversion cycle, which we expect to normalize. Total capex incurred during 9 months of fiscal '23 was INR 1,253 million. Microsphere powder filling line and the additional bank line project is on track. Our ROCE on ex-cash basis was at 20% on an annualized basis for the 9-month period for this fiscal year.

Our fixed assets turnover stood at 2.4x for 9 months FY '23, decreased from 3.2x for the same period last year. As on December '22, we had total INR 38,297 million of cash and bank balances, which we intend to utilize for the capex plan and to fund Cenexi acquisition. With this, I would request the moderator to open the lines for questions.

Moderator: The first question is from the line of Sudarshan Padmanabhan from JM Financial.

Sudarshan Padmanabhan: My question is on the comments about the supply chain issue still persisting because I remember the previous quarter, we did mention that we are approving a lot more newer -- a couple of new players for the supply chain. So the broad belief was the supply chain was easing. So has there been a difference in the commentary post the last communication?

Srinivas Sadu: No, we did resolve most of the supply chain issues. I think still few issues still persist. We did apply specifically for Heparin for a second source. We've not received approval yet, waiting for that approval. But other 1 or 2 smaller products also have these issues. But generally, like syringes and some of these have been addressed.

Sudarshan Padmanabhan: Yes. And I mean, if that is the case, if I'm looking at it from a Q-on-Q basis, I mean both -- I'm talking about the US side as well as the ROW markets developed and the ROW market, we have seen a decline. I mean, I would assume that the decline would also be on the volume side. So I mean, has there been a change in the demand? Or have we lost market share in some of the key products? If you can give some color on why we are seeing a Q-on-Q decline?

Srinivas Sadu: I wouldn't say at the end market, there's a decline in the market share, but I think it's all the timing. If you look at our Enoxaparin on an annual basis, still our revenue is around \$50 million. If you look at last quarter, it's about \$5 million. I think it's a timing issue for the particular product. And also, what we have seen is maybe because of the high fed rate, people are rationalizing the inventories. People were holding seven to eight months inventory earlier. Now I think they are cutting down on the inventory levels. We have seen a substantial shift in that. So the offtake has been softer to be fair. And the replacement of those what we lost on a couple of big products, that couldn't get replaced by some of the big launches what we mentioned in the last quarter also. But so offtake has been softer. But at the end market level still, at least our key



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products, the market share remains intact. I think it's the question of timing and also the way the partners are looking at the inventories right now.

Sudarshan Padmanabhan: On the inventory adjustment, given that the last couple of quarters, we are seeing that inventory adjustment continuously happening. I mean, has that kind of settled to a reasonable level? I mean, I'm just assuming that going forward, would there be an improvement in the US and the ROW market, if business issues -- no issues resolve?

Srinivas Sadu: So we have to see like I said, there is a tremendous competition at the marketplace. And also there are also some exits happening at the front end. Being a B2B player, we have to see who are the guys who are exiting certain products and certain businesses. It's a dynamic situation right now, we are monitoring it. But otherwise, from an endpoint perspective, the products what we've been selling over the years, those volumes remain intact, at least the key products. But barring the new product launches, that's not done pretty well because of the competition in the market.

Sudarshan Padmanabhan: One final question before I join back is we have seen some of the competitors getting import alert or warning letter. I mean I don't want to name them specifically. Does that open an opportunity for you in terms of tapping incremental volumes?

Srinivas Sadu: Yes, there's active things happening in that space also. A couple of -- I would say, to be specific, two companies, we are interacting with to transfer some of the products to our sites. It might take 1 or 2 quarters. But yes, there's a substantial movement in that sense. Several products are under discussions to getting the transfers and some on the agreement stage, yes.

Moderator: The next question is from the line of Saion Mukherjee from Nomura.

Saion Mukherjee: Sir, can you share the profit share number for this quarter? And has that sort of increased, decreased versus the previous quarter?

Ravi Shekhar Mitra: Yes, Saion, profit share for this quarter is at 9%. And the previous quarter, it was 7%. Last year, it was 10%.

Saion Mukherjee: Now you talked about the competitive pressure. So we have seen this increase. So I'm just wondering what's the sustainable number? Is the 9% on the higher side, do you think?

Srinivas Sadu: No, I think it should be sustainable at this level. See, one way is do we want to compromise on your margin and then go aggressively on the top line and which we are reluctant to do because then it's a permanent damage you're going to cause for the market. So it's like an ongoing discussion with our partners and we will do that. So currently, the focus is on how to keep the margin intact, even if the revenue numbers are not that great because we are seeing several companies exiting because of the price pressures and the cost involved. And we have seen historically, that's what has happened and then but we don't want to damage the whole market



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by reducing our price. So we want to keep that margin there. I think currently, the focus is how to keep the margins intact and improve the margins internally.

Saion Mukherjee:

Sir, my second question is on growth. Now of course, this year, we have seen a lot of disruptions. Even the previous years, there was COVID and demand associated with that. If I look at from a 3-year perspective, we are seeing 13% CAGR, maybe it's 9%, 10% in dollar terms. How should we think about growth in this changed environment where you're talking about price pressure, you're talking about, I mean, the kind of opportunities you had in the past is currently not visible. So how should we think about growth from FY '24 onwards?

Srinivas Sadu:

While we can't really comment on the growth percentage, we just now mentioned about companies getting import alerts and all that, which was existent even prior to COVID, and that was always another opportunity we encashed on. And that's been our strength in terms of quality and manufacturing and that we are seeing coming back. That's one area, but there are also large products where we did very well in '21, '20. To replace those losses, it's taking a lot more capacities, which we are incrementally increasing the capacity. So while there are positives in terms of transfers happening from other sides and increased capacities, there's also pressure of price pressure and competition pressure. Now we are seeing some exits happening at the marketplace. We just need to see how this pans out in the next six months to come out from a clear vision on how the margins and how the sales will pan out.

Saion Mukherjee:

Sir, you mentioned in your opening remarks about supply of Regadenoson to the US. I mean, can you comment how large this opportunity is for Gland?

Srinivas Sadu:

We can't really comment because a few players in it. So we'll be one among the first few launchers. So -- but from number-wise, we can't really comment yet.

Moderator:

The next question is from the line of Shyam Srinivasan from Goldman Sachs.

Shyam Srinivasan:

Just the first one on the gross margin. If you saw a Q-o-Q improvement, I think the opening remarks mentioned about product mix and geography, if you could please elaborate? And is this sustainable?

Srinivas Sadu:

Yes. The focus is on to improve these margins, both internally and also, like I said, from a material perspective, we have qualified some alternate sources, which are cheaper. And I think next few quarter, the focus is on improving the margins in that perspective. And also, there are some products where it's a low-margin business, which we are trying to stay away from because the risk involved with very low margin and also, if you see, we did mention about India business, the products which get into NLEM, which are in the borderline cases earlier. So we don't want to go aggressively and sell those kind of products. So it's a combination of our own strategy how to minimize the low-margin products and utilize that space or the capacity for high-margin products.



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Shyam Srinivasan: And my second question is just elaborating on Enoxaparin again. I think you said it's a \$50 million product, but we are doing \$5 million in the Q3. So can you -- is there a possibility that we go back to the \$50 million run rate at some point of time? Or what are some of the stumbling blocks here? I think the syringes you said is now back? So I just want to understand, is it like you said, timing issues of March or June quarter, we will go to -- we'll try and do \$12.5 million? I'm just trying to get some kind of a pathway on your like top product?

Srinivas Sadu: So without getting into a lot of technical things. See, basically, our run rate for the year is about \$50 million. That's been the run rate. A few quarters, we're doing more on the run rates and a few quarters less. If you look at the previous quarter, I think it was about \$20 million. We had been in the \$19 million previous to that around \$20 million, something like that. So it's more a timing issue when you're billing this, number one.

Number two, also the inventory wise, how much which SKU the partner is holding because there are several SKUs in these products, some are high value and some are low-value SKUs. So it depends on which SKU gets dispatched which quarter. So but on an annual basis, still the run rate is intact.

Shyam Srinivasan: Sir, just last question, just following up. I thought we had a step-up to go to \$70 million or \$80 million with additional contracts on Enoxaparin. So that may not happen, right?

Srinivas Sadu: The current run rate is about \$50 million. That's what we have seen. But the transition is happening. That's why I said it is difficult to get into technical because the two NDCs the partner is having. So they have to move a few hospitals one after another from one NDC to another. So that's what is taking time. But I think future, I think it will move to those numbers. But currently, the run rate is that much.

Moderator: The next question is from the line of Shubham Goyal from Motilal Oswal.

Shubham Goyal: Sir, actually my question is that like I know a few of your peers from the pharma industry are also entering the European market. So what is your strategy considering that you also have some supply chain issues, as you mentioned?

Srinivas Sadu: So Europe for us, we are purely CDMO there. So we're not launching products yet. So the first area is to continue business what they're doing, they're purely CDMO, where they manufacture products for the branded generics, and that will continue and then leverage our contracts with the players who have a presence in Europe, but getting product done at somewhere else. So that can be leveraged and get some of those businesses come to our site. So we can't really compare with the peers who are launching their own products in Europe because we are purely a CDMO player from Cenexi perspective.

Moderator: The next question is from the line of Kartik Mehta from Klay Securities.



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Kartik Mehta:

If you could just talk about the acquisition and -- which is now going to be integrated. With this acquisition, broadly, if you have to take a 2- to 3-year view, what it does to our existing business? I mean, I don't want the numbers, but 3 years down the line with the combined entity approaching a European customer vis-à-vis other Indian players who do business in the US, what would Gland in a way look like? I'm not asking for any numbers. I just want to know about the overall offering that an entity will have after the acquisition?

Srinivas Sadu:

Yes. So if you look at currently where we started as a Gland and where we are today, our business moved from a pure CMO, CDMO to a more generic product-driven company, and the mix has moved towards more on a product company. And now with Cenexi acquisition where the entire 100% of the revenue comes from the CDMOs, our mix actually improves because the competition what we're seeing in the generic space will get diluted a bit because we are more stronger CDMO players in that sense.

That's one. Second, our strategy getting into biologic CDMO place, that will strengthen because Europe is a place to be in for a lot of these opportunities to get in, and this will add to that capability as well. So overall, I'd say, from a business perspective, we are giving a more balanced business for the company in the longer run to avoid the fluctuation what we're having this generic competition. At the same time, getting access to newer technologies, which we don't have today and getting into the branded side of the business, which we don't have today. I would say it's a broader offerings in the same space.

Kartik Mehta:

And from the perspective that this was asked by one of the participants in terms of large player in India who is receiving some very severe observations, who is our competitor in the injectable space? In terms of timelines that you spoke about 2 or 3 quarters, but then in terms of capacity, if you have to move those volumes or more volumes, are we equipped? Do we have that? Or can that be done in the 2, 3 quarters' time? Can you throw some light on the opportunity? I mean in terms of the capacity and the opportunity?

Srinivas Sadu:

Yes. So what -- the capacities what we have had recently in terms of liquids and Lyos, that will help this. And also, in the last year, when we have converted one of these biologics line to cater to that because of the recent increase in demand of these opportunities, we've gone back and changed one of these lines to the regular product portfolio. So that is getting added this quarter. So we are actually increasing our capacities to cater to these additional needs, what we're hearing from the market. That's one.

Second, the discussions are also around how -- where the products are common. We can actually license our own products instead of transferring and taking more time to transfer those products and we get more expensive. So we are replacing that with our own products. So it's a combination of transfers as well as our own product licensing to these players.

Moderator:

The next question is from the line of Prakash Agarwal from Axis Capital.



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- Prakash Agarwal:** Just understanding US better versus the last call, we had talked about three things. One was pricing pressure, which you started seeing in Q2. Then there was a stopper issue, which was expected, the heparin for and expected to revive in November '22. And thirdly, you mentioned the inventory, so there is still inventory, some clarification that you mentioned about fed rate , etcetera, just clarification, if it is a demand, which is also slowing down post-COVID? That is all from my side.
- Srinivas Sadu:** Yes. I think all three are right, the competition, the price pressure is there. And it's all related, right? Once you see the price pressure, new players entering to sell these products will also come down. So we don't have an alternative. In terms of the stoppers, I think temporarily we got one supply last quarter, but then there was no subsequent supplies. But we did qualify the second supplier we applied for an approval, so that we should get next month or two. We've submitted a CBE30 this month. But from the inventory perspective, we have seen a larger impact of that. We realized it's only one product, but we are seeing across most of the products. People are cutting down on inventories, how much they're holding. And earlier, the inventories are longer period they were holding and being a B2B that's impacting us larger than probably other players are getting impacted.
- Prakash Agarwal:** So wanted some clarification, a demand issue or just keeping inventory down? I mean, have you seen that in terms of number of days for them coming down? Or do you think the offtake itself is softer?
- Srinivas Sadu:** I think mostly its inventory days coming down for some of the key products, but there are also products where it's a softer offtake because there are other players who have come in with those products. And that's mostly with the newer products, what we launched in the recent time.
- Prakash Agarwal:** And Heparin, November '22, have you -- you said you got some supplies, for instance, not full supply?
- Srinivas Sadu:** Correct. So we did dispatch whatever we got. And now the next supply is not in the near term. So we have qualified the second one. Once that gets approved, that will get started.
- Prakash Agarwal:** Moving into Q4 and fiscal '24 of the three, which is lesser pain point for us and which is the improving outlook of the three?
- Srinivas Sadu:** I think the near-term pain point is still the inventories we are seeing because the near-term forecast is still reflecting the softer pickup because of the inventory dilution. But at the end market, we are seeing the same numbers where it is our key products. So that's a good sign. But also there are a lot of transfers, which are happening that could be a positive point from the first quarter of next fiscal.
- Prakash Agarwal:** And I mean, so summarizing that, we do expect growth coming back from fiscal '24?
- Srinivas Sadu:** Yes. So that's an estimate, and that's what we are looking at this opportunity, yes.



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- Prakash Agarwal:** And secondly, on China, so you mentioned there are two products expected in fiscal '23. How are we placed there? I mean is it still this fiscal? Or it might be a calendar year thing for us?
- Srinivas Sadu:** Yes. In fact, we were expecting December to see the clearance phase, at least one product. It's the Chinese that product is almost \$100 million product. That's what we understood. But that's expected anytime. We thought of December, it didn't happen. So it's a holiday now. So it could be Jan, Feb or maybe next quarter.
- Prakash Agarwal:** So \$100 million is the market opportunity you would be participating in that?
- Srinivas Sadu:** Yes, Correct.
- Prakash Agarwal:** And it would be at least a 5-player market already?
- Srinivas Sadu:** There is a local player, but being a specific product and which is going through the first approval based on the FDA approval. So we have to see how it will be placed, but we are a little positive about this product, yes.
- Moderator:** The next question is from the line of Sameer Baisiwala from Morgan Stanley.
- Sameer Baisiwala:** So just talking about the stopper supply resumption for Heparin. Assuming it gets normalized in the next couple of months, would you get the entire business back? Or do you think part of it is already gone by -- taken up by competitors? If I'm not wrong, it was INR 160 crores odd on a full year basis?
- Srinivas Sadu:** Off head, I don't remember the numbers, but the one strength what we have, we're still holding the contract, the 30 mL, which is in discussion. At least we are not seeing the product going away.
- Sameer Baisiwala:** Which means that you will get part of it back, not fully?
- Srinivas Sadu:** I can't comment on, that's what I'm saying. So the contract still is in place and the orders and the forecast is there. So we got to see by the time we enter, we just supplied the product. So it's moving well. So we have to wait and watch how much we can get or can we get the entire market.
- Sameer Baisiwala:** And for Enoxaparin it looks like you have done 44 million in the nine months. So does it mean that Q4 will also be soft considering 50 million run rate that you have?
- Srinivas Sadu:** So it all depends on which quarter how much offtake it will have. But on an annual basis, that's the estimate you have for 50 million, yes.



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- Sameer Baisiwala:** And sir, if you can just help us with the expansion going on at Pashamylaram site. How many lines do you have right now? And how many you plan to add in fiscal '24 and '25?
- Srinivas Sadu:** Currently, we have eight lines out of which three lines are not still active. It's just under validation. The first one, we are taking the exhibit batches. That will be commercialized this quarter. And the other lines, what we just mentioned about, two more coming on track, that will be commercialized next quarter. So by the time, we qualify everything, we'll be having 11 lines, four to be qualified and commissioned.
- Sameer Baisiwala:** So if I'm not wrong, sir, five are operational right now, and you're adding six more? And so 11 would be operational in the next 12 months or so. Is that the right number?
- Srinivas Sadu:** Yes. Correct.
- Sameer Baisiwala:** Sir, with your permission, one final question. And that is on China and Biosimilar CDMO. In two years' time, how big can these be opportunity for you? Any ballpark, any signpost you can give us?
- Srinivas Sadu:** Yes. So bio, it's too early to comment on the numbers. It's just -- we're at a very nascent stage. But China, and again, it's a large market where we're targeting 14 products until this year and then a few more coming next year. So we are looking at a few billion-dollar products we are targeting. So we have to see how much market share will get. So from a number perspective, it's too early to comment on before we launch because it's a new market for us. We have to see how it goes.
- Moderator:** The next question is from the line of Tushar Manudhane from Motilal Oswal Financial Services.
- Tushar Manudhane:** So just again on this Biosimilar, how much capex, new capex you are using up for Biosimilar CDMO facility?
- Ravi Shekhar Mitra:** The Biosimilar CDMO facility, we have more or less spent about INR 300 crores. And now we are in evaluation stage with the customer how much more we need. It could not be a very significant near term. But overall capex plan is about going to be INR 200 crores to INR 250 crores for this year and next year to be around INR 300 crores. This is overall.
- Tushar Manudhane:** Already spent INR 3 billion, INR 250 crores for FY '23 and another INR 200 crores, INR 250 crores for FY '24, that's all right?
- Ravi Shekhar Mitra:** No. So first Biosimilar, we have already spent INR 300 crores. And now on an overall basis, company as a whole, we will be spending INR 200 crores to INR 250 crores for other projects like Pashamylaram, we are spending and Vizag API we are spending. So that number is INR 250 crores for this year and INR 300 crores for next year.



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- Tushar Manudhane:** And sir, any other product other than Enoxaparin where you have significant headwinds and the business visibility is relatively getting reduced, maybe on account of pricing pressure or the new player coming in or, on account of inventory restructuring so to say?
- Srinivas Sadu:** No, I would say, the damage is already done. So the numbers we are seeing based on the impacts of what we had in one of the large products, Micafungin. That was a big product in 2021. It's almost contributing about, I don't know, a large number, INR 300 crores, INR 400 crores, I'm not even sure. But that's got settled now. So in terms of market share, we still hold 50% market share. Although first year, we are holding 80% market share. That's intact. So I don't think there's any impact in terms of more going down on this. But newer products, we were a little concerned. It's not contributing as much to recover the loss we got from these large products.
- Tushar Manudhane:** And just again, on gross margin, at least on a quarter-on-quarter basis, where the core market sales has been lesser and on the ROW market. So what's driving the -- and at the same time, we have pricing pressure as well. So what's driving the gross margin?
- Srinivas Sadu:** Yes, I think, some of the areas where we have qualified alternative sources, that has increased our contribution margin for some products and that we continue to do. Some products, we have increased the batch sizes to get better efficiencies. That has contributed. And of course, the mix, some of the products which have a lower margin we sold less compared to the high-margin products. I think the combination of everything.
- Tushar Manudhane:** So this gross margin can sustain, right, even -- so given Enoxaparin is already less in the overall scheme of things, the other products are sort of stabilizing. These level of gross margin can be expected going forward?
- Srinivas Sadu:** The idea is to maintain that. We are not able to judge how the market behaves, but the idea is to maintain this kind of margin.
- Moderator:** The next question is from the line of Neha Manpuria from Bank of America.
- Neha Manpuria:** Sir, just wanted to get some color on the complex filing that we've been making. We've mentioned this a few in the last year, and you also mentioned two more this year. Any color on what areas these are? And when should we start seeing contribution from this in the new launches?
- Srinivas Sadu:** These four products, market value perspective, it's, I think, about INR 2 billion. And these are in two peptides and one we're going to file, I think, next quarter on a suspension product. So it's a combination of hormonal peptides and suspensions. And at least we should see some coming one or two products getting approvals in FY '24 and the rest post that.
- Neha Manpuria:** Yes. Just a follow-up, the filings that we made in FY '22, we've seen a fair bit of pickup then. Those should also start seeing approval during the next few quarters, right, sir?



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- Srinivas Sadu:** Yes, that's correct. Yes.
- Neha Manpuria:** And out of that, how many would be complex in your view?
- Srinivas Sadu:** Total, we have done complex products four, till now.
- Neha Manpuria:** So two last year and two in this quarter?
- Srinivas Sadu:** Right. Correct.
- Neha Manpuria:** Out of which you said one or two approvals in FY '24 and the rest thereafter?
- Srinivas Sadu:** Correct.
- Moderator:** The next question is from the line of Tarun Shetty from Haitong.
- Tarun Shetty:** Just one clarification first. You mentioned \$50 million of Enoxaparin sales that is for the US market, if I'm right?
- Srinivas Sadu:** That's correct.
- Tarun Shetty:** And you're looking to launch around 14-odd products in the Chinese market that is for CY '23 or this goes still over to the next year also?
- Srinivas Sadu:** No, those are the filings I mentioned about, not launches. The launches could be post that, yes.
- Tarun Shetty:** So in total, we're looking at one near-term launch in FY '24 and any more launches in the China side in a very...
- Srinivas Sadu:** Yes, maybe a couple of more launches might happen in FY '24 when the rest post that.
- Tarun Shetty:** So lastly, on the R&D spend, so do you see this increasing as you move into more complex product filings in the near...
- Srinivas Sadu:** I think from an absolute number perspective, we already moved to highest end compared to before. We're spending around 5%, 5.5%, may be 5% around with the larger base. So it's already baked in.
- Moderator:** The next question is from the line of Kunal Dhamesha from Macquarie Group.
- Kunal Dhamesha:** So first one, basically now that most low-cost Indian players entering the Injectable market, are we seeing more shift from the likes of Hospira, Hikma to us, for their older product, maybe where they might not be as competitive as Indian share because still the generic injectable market is still dominated by Hospira, Hikma and Fresenius Kabi. So has there been any acceleration in the shift from their own manufacturing to people like us big companies like Gland or any other company?



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Srinivas Sadu: So we have seen few Indian players actually getting into this space as well in the manufacturing side. So I would say, the virtual companies in the US are going down, which also contributed significantly for launching newer products. That's going down a bit. But yes, true, from Pfizer perspective or those companies' perspective, we are hearing some product transfers happening to Indian manufacturers. And if the pressure continues, I think that will only increase, hopefully.

Kunal Dhamesha: So you are suggesting that there are similar Indian companies as well offering similar services to the like Pfizer and those are not the direct B2C guys?

Srinivas Sadu: No, there are companies who are doing a pure CMO, not like us where we develop products and license, but there are also some few contract manufacturers who are offering services, but in a smaller scale.

Kunal Dhamesha: And now that we have seen what B2C has to offer and what B2B has to offer when the competition intensifies, would it still make sense for us to do all the legwork in terms of developing ANDA, etc., and then giving out that to someone and give out 50% profit share maybe?

Srinivas Sadu: Well, that's a debate we always do and it comes from perspective of manufacturing efficiencies and cost in the model, what we've been doing it for so many years. The throughput what we give, it's not possible if we just go and do our own on a B2C basis, but the number of the volumes will come down. And are we going to be competitive enough to offer this number one.

Second is do you want to become a low-margin front-end company because it's also an expense related to your sales force because we looked at B2C companies spending \$25 million, \$30-million-odd dollar on your sales force. So from that angle, our strengths are manufacturing and quality. If you can work on your strength, I think there's still market there. It's temporary situation where there's a disruption there. But I think if you can stay put on your strategy and keep working on your strengths in terms of quality and manufacturing, I think there's still a market out there.

Kunal Dhamesha: And just a follow-up, guys, you said that this is a temporary situation where the competition is increasing, then it kind of balances out. In your view, previously, have you seen such cycle and if you had seen, when does it kind of balance out?

Srinivas Sadu: Yes. I think we did see, I think, 2015, '16 that time when we ourselves had a flat year. So we did see that players coming in and exiting. So we are seeing that, as we speak, some players exiting the space. It is that the temporary blip where we are also supplying products to these companies, but when they exit, there will be a revenue pressure. But then it's also in long term, it's good because the competition is getting reduced. And fair enough, we see a lot of products going into the shortage situation, but still it's not catching up. I think the prices will catch up once some of the products are getting to 40%, 50% of shortage situation right now.



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Kunal Dhamesha: And the last one, if I may. So on the client side, the inventory days are reducing and on our side the inventory days are kind of increasing. So what's the disconnect there? Are we expecting demand to be in a very strong manner in the near term? Or what's the thinking behind having more inventory right now?

Srinivas Sadu: So one is, we don't want to get in the situation what we've faced last nine months because of the long lead times we are having. So that's one. Second, it's also reverse because the offtake is lower, but the end market is still intact. So based on that, we are trying to keep those inventories and also be ready with we did touch up on a point where the FDA audits are happening, and we are seeing a lot of issues happening in different sites. They want to be ready with those kind of opportunities, which we couldn't encash in last few quarters, I would say.

Moderator: The next question is from the line of Pramod Dangi from Unifi Investment Management.

Pramod Dangi: My question on the working capital side. One side, we are saying that we had the supply side issue for a few of our products. On the other side, our inventory base has gone up significantly. So would you say that product where we don't have any supply chain issue, the inventory actually have drastically beyond 217 days which we have reported? That's the one.

And the second is, again, when our customers are cutting down on the inventory, obviously, their cash flow would have been improved. But at the same time, our debtor's day also went up. So is it that we are pushing inventory to the customers? Is it that more credit is being given to the customers throughout the industry? Or is -- these two things, if you can throw some light on these two parts?

Srinivas Sadu: So Ravi will address the second part. The one on the inventory. Just take an example of Heparin. We are sitting on the API. We are sitting on other components and we just don't have stopper. So still the rest of the inventory we're sitting on a high value. They are not able to sell the product, but still have to hold the inventory waiting for the one component to come. So likewise, there will be products where one is missing, but I have the rest of the materials. So I have to sit on that inventory. So that's one reason why we have this situation.

Ravi Shekhar Mitra: Yes. So receivable, to your question. This is a factor of that most of the sale is towards the quarter end, and the receivables are not due mostly. So it is appearing like this. This is similar to also what we had faced in the last two quarters. But if you're comparing with last year, yes, that time we had uniform sales of this, got due and we collected, but here it is towards the back end of the quarter, which has led to this spike.

Srinivas Sadu: But also, I think the ROW business

Ravi Shekhar Mitra: Yes. ROW has, yes.



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Pramod Dangi: And is there any discounting which had happened on the pricing because the inventory at our level and the people cutting -- the customer cutting down on the inventory. So have you offered any discount to the customers? Any special discount?

Srinivas Sadu: No, we don't do that. So ultimately, it's not impacting the end sale. See, what we have discussed is if it's impacting the end sale, and we don't want to do that because why do you want to give a discount just to push inventory from India to the US, we don't do that.

Moderator: The next question is from the line of Bino Pathiparampil from InCred Capital.

Bino Pathiparampil: Just a follow-up question on the Biosimilar CDMO. In an answer to one question, you said you have already spent about INR 300 crores of capex on that. And in another situation, you said we are still pretty far away from any visibility of revenues. So is there a mismatch there? Will you do the capex in anticipation of something earlier? Can we have some clarity on that?

Srinivas Sadu: In fact, not just Biosimilar, side. Even when you start a plant, it will take a couple of years to start generating revenue. So it's just that now we are in the -- when adding lines to the same facility, you'll feel that. When we had started the Pashamylaram plant, for first two years, it's not even commercialized by the time we invested INR 400 crores. So that's the nature of the business we are in. So by the time you install, validate, apply for an approval, it takes so much time and also we have to generate business.

So in a normal injectable business, if you go back to 20 years back, we take some time to that. But once you are into that space and you're supplying products, then you have that opportunity to plan your expansion and all that. Now we are getting into a new space. And now we've started doing a business development. And this is like a situation where, without a facility, companies don't come to you to give business. And so we have to build that and then approach the customers to do the business development. That's how it works.

Bino Pathiparampil: And your first target would be what? These Biosimilar companies who already have products that are selling in the semi-related markets? Or are they completely new products? Or are they companies who have products already in the regulated markets? Who would be your first target?

Srinivas Sadu: I think mostly these are development companies who have developed the cell lines or the clones who are looking at taking clinical batches and getting the scale of batches. That's one because it's easier to attract. And the larger Biosimilar companies have already got their products approved in a particular sites and transferring from those sites to this site will take time, number one.

Number two, unless you have experience in delivering certain projects, no one wants to take a risk of transferring a product to you. So you need to establish that credibility before you really get to move biologics or Biosimilar products, which are active in some markets. So it's more a development companies which you have to do and then build up the business based on that.



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- Bino Pathiparampil:** One final question on capex. So for the nine months, you have done only INR 125 crores. And for the full year, you said, INR 200 crores to INR 250 crores. So are you going to do the entire capex that we did in nine months in the next three months or in this quarter?
- Ravi Shekhar Mitra:** So it depends on the timing of the PO and what state the project equipment installation, etc., is there. So it does not be like a pro-rata basis in every quarter.
- Moderator:** The next question is from the line of Mayur Shah from Marine Technologies.
- Mayur Shah:** I have a simple question in that you'll have such good products and looking at certain, so that's your supply gets hampers. So why can't you all put up a plan where, I mean you all feel where it is routing to the in-house plant where you all can manufacturer in-house, like stoppers, syringes, whatever raw material, which is very much crucial for your sales. Would that help you all to get over the supply constraint?
- Srinivas Sadu:** But we do work on key APIs. For example, for most of our key APIs, we do manufacture. Through the asset technology or R&D, we can do. But for stoppers and the others, that's not the area where we have expertise. They are completely different technologies. So we can't really enter those markets now.
- Mayur Shah:** But then still the sales have been affected because of the small things. And this is not such a big product where you don't have the expertise to manufacture, I assume because for stoppers, syringes...
- Srinivas Sadu:** Stopper manufacturing and glass manufacturing is not our area of expertise, so we can't really manufacture those. And at the scale at which these are manufactured overall, this is like a situation once in a lifetime. COVID is like once in a lifetime, there are difficulties, and they are expanding capacities. And you'll never be able to compete even if you start a small stopper manufacturing unit
- Mayur Shah:** So you mean to say that these supply glitches will not happen further. It is once in a lifetime kind of a situation?
- Srinivas Sadu:** Yes. I mean we are in this space for like more than 20 years. So we are facing this first time, and that's because so many stoppers and these have diverted to vaccine production, which is like once in a lifetime. Billions of units have to be produced and all this manufacturing got diverted to that requirement.
- Mayur Shah:** And sir, one last question in that, sir, any focus on an Indian pharmaceutical sector. I mean India -- is Indian market quite good for you? I mean, are you planning to increase your market share in India since it's just 9% of your revenue base?
- Srinivas Sadu:** So India, our focus is more on how we can get into more CMO side of the business because most of the critical care products, whatever in India, most of it falls under the price control, and that's



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not really lucrative for us with the facilities what we have. And that's why we are selective in choosing products to Indian market. So unlike solid orals where it's more branded and still you can get some businesses or margins where you have branded, but this is more a critical care hospital product where it gets into tenders and it's under price control with the government.

Moderator:

Thank you. Ladies and gentlemen, that was the last question for today. On behalf of Gland Pharma Limited, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.