“Gland Pharma Limited Q1 FY 2022 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY 2022 Earnings Conference Call of Gland Pharma 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sumanta Bajpayee from Gland Pharma Limited. Thank you and over to you, sir.

Mr. Sumanta Bajpayee: Thank you. Good evening, everyone and a warm welcome to Gland Pharma's Earnings Conference Call for first quarter financial year 2022. I have with me Mr. Srinivas Sadu – Managing Director & Chief Executive Officer; Mr. Ravi Shekhar Mitra – Chief Financial Officer, to discuss business performance and to answer queries during the call. We will begin the call with opening remarks from the management, followed by Q&A session.

Before we proceed with the call, please note, some of the statements made in today's discussion may be forward-looking and 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 our conference call. This call is being recorded and the playback shall be made available in our website shortly after the call. The transcript of this 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. Welcome to our earnings call for first quarter fiscal 2022. I want to start the call by wishing you and your family good health. The country has come out of the second wave of COVID-19 stronger than before and has seen among the largest vaccination drives globally. We see the lockdowns have ended, but we must continue to not let our guard down. We continue to follow all safety precautions and norms at our workplace.

We continued to support the nation in this fight against the pandemic, be it supply of essential COVID drugs or supporting the community with supply of essential medical equipment like ventilators and PPE kits. The second wave of COVID-19 brought its own set of challenges in terms of manpower availability, and supply chain bottlenecks. In spite of reduced manpower, as low as 70% of the normal, many families were affected by the second wave. I am proud of our team who stood up to the challenge and helped deliver a strong performance by working long hours in these testing times. Our project teams have also ensured there is no delay in terms of capacity expansion.

We had a strong quarter Q1 FY 2022, with revenue of ₹11,539 million, delivering the year-on-year revenue growth of 31% for the quarter Q1 FY 2022, which is also 30% growth over the previous quarter Q4 FY 2021. With a PAT of ₹3,507 million, we saw a year-on-year PAT growth of 12% for the quarter Q1 FY 2022, and 35% over the previous quarter Q4 FY 2021.

We have generated ₹1,813 million of cash flow from operations for the quarter, despite external stress on supply chain on account of COVID-19. Our execution capabilities, be it uninterrupted commercial supply, project commissioning or new product launches, is what underpins our strong performance in this quarter.

On the vaccine front, our technology transfer team is working relentlessly to complete the Sputnik V technology transfer process for drug substance manufacturing. We have taken technical batches for the first vector, and batches for the second are underway. The dedicated suite of vaccine drug product fill-finish is now ready for vaccine commercial production at our Pashamylaram facility. We have also entered into an agreement with Hetero for fill-finish of Sputnik V vaccine and taken the trial batches last week.

Our R&D investments continue to remain in a similar range. In Q1 FY 2021-22, total R&D expenditure was ₹438 million, which is nearly 3.8% of our revenue from operations, and an increase of 74% over the first quarter last year. As on 30th June 2021, we have 286 ANDA filings in the U.S. and 1,509 product registrations globally.

Let me take you through the business highlights across various geographies.

Rest of the world markets have seen strong growth momentum during the first quarter, in line with our focus on increased contribution from Rest of the world market share as was observed in FY 2021. This portion of the business is growing rapidly and has accounted for 19% of our Q1 FY 2022 revenue, as against 17% of our Q1 FY 2021 revenue. We have seen 51% year-on-year growth in revenues for the quarter. This has been driven by new partnerships and increased penetration geographically, especially for key markets such as Brazil, Chile, and Saudi Arabia. We have also initiated registration of new products, such as Ertapenem in the LATAM region. Our existing portfolio is seeing strong demand from new partnerships entered into during the year on account of our ability to respond to the changing market demand during COVID-19. Our key markets namely U.S., Canada, Europe and Australia accounted for 61% of our revenue during Q1 FY 2022 as against 69% during Q1 FY 2021. This shift is a result of our conscious decision to diversify our revenues in the RoW markets, as well as ramping up of supply to support the domestic market during the second wave of COVID-19.

We have seen 16% year-on-year growth in revenue for the quarter. The growth was contributed from mix of launch of new products and volume growth in existing products, including Micafungin, Enoxaparin, Heparin and Dexmedetomidine among others. We had several key launches during the quarter, and it was also an important milestone for the company to launch our first set of Penem products for the U.S. market.

We launched 13 molecules during the last quarter. We filed two ANDAs and received six ANDAs approvals during the quarter. We also filed five DMFs during the same period. Our domestic market accounts for 20% of our Q1 FY 2022 revenue. We have seen 77% year-on-year growth in revenues for the quarter. To support the domestic market during the second wave of

COVID-19, we ramped up supply of essential drugs like Remdesivir and Enoxaparin considering the requirement for Indian patients.

On the quality and regulatory front, all our plants continue to remain approved by U.S. FDA. We have yet not seen physical audits being initiated and some of our customers are conducting audits virtually during this period. Our team continues to remain prepared for any audit virtually or in person. Due to second wave of COVID-19, the due diligence activity for M&A opportunities was impacted. We are cognizant of the current market environment and are committed to build long-term value for our stakeholders through any acquisition we may undertake. We believe we are well positioned to grow our business globally.

Our Board and our parent company, Fosun Pharma, continue to support us with their valuable insights on the way forward. They support us with well-defined KPIs for the business, which drives us to strive for excellence. We hope to continue delivering strong results for all our stakeholders and meet expectations. As a company, we stand committed to support the nation to battle this pandemic. I wish everyone good health.

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

Ravi Shekhar Mitra: Thank you, Mr. Sadu. Good evening, ladies and gentlemen. Thank you very much for attending our first quarter earnings call. Our earnings presentation has been uploaded on the website. Let me begin with sharing the financial performance of first quarter of financial year 2021-22.

Revenue from operations for the Q1 FY 2022 stood at ₹11,539 million, a year-on-year increase of 31%. The growth was primarily driven by increased volume of existing portfolio and supplemented by incremental revenue from new products. During the first quarter, we have achieved good growth in the markets of Europe, India, RoW and U.S. Other income for the first quarter of financial year 2022 was ₹618 million, which includes largely interest on fixed deposit of ₹339 million and foreign exchange gains on operations of ₹277 million. Gross contribution for Q1 FY 2022 grew by 9% as compared to Q1 FY 2021, and by 24% as compared to Q4 FY 2021. Gross contribution margin stood at 54% for the quarter.

We have reported an EBITDA of ₹4,981 million in Q1 FY 2022, and EBITDA margin of 41%. We have managed to improve the EBITDA margin in Q1 FY 2022 as compared to Q4 FY 2021 due to higher operating leverage achieved on increased capacity utilization during the period. Our net profit for the first quarter was ₹3,507 million and PAT margin of 29%. Our operational leverage driven by increased volume enabled us to maintain PAT margin. Effective tax rate was at 25.68% for the quarter.

The total R&D expense for the first quarter were ₹438 million compared to ₹252 million of the same period previous financial year, which is an increase of 74% and stands at 3.8% of the revenue.

Cash flow from operations for the first three months of the current fiscal year was ₹1,813 million. We have built higher inventory levels considering planned launches and increased demand of our key products like Enoxaparin in the coming months.

Cash conversion cycle stood at 234 days for the quarter and we have improved our receivable days and payable days compared to previous year. All our planned CAPEX plans are progressing well and we have incurred ₹1,857 million during the quarter. As communicated in our earlier earnings call, we have earmarked ₹5,700 million on CAPEX for FY 2022, out of which around ₹3,000 million will be for vaccine and biosimilar business. A separate suite for fill-finish of vaccine drug product manufacturing at Pashamylaram is now ready for commercial production. And capacity building work for drug substance is on track at our new vaccine and biosimilar facility.

Our ROCE on ex-cash basis stood at 42% for Q1 FY 2022, which is 7% higher than last full year FY 2021. Our fixed assets turnover also increased from 3.1x in Q1 FY 2021 to 3.6x during Q1 FY 2022 as we increased our capacity utilization. As of June 30, 2021, we had a total of ₹30,574 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. First question is from the line of Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: Congrats on a great set of numbers. Sir, my first question is regarding the RoW market where we have seen a step up in performance compared to what we saw in the previous quarter. Just wondering how should we think about it going forward? Is it sustainable? Is there an element of COVID related demand here? If you can help us guide for the rest of the year in this geography.

Srinivas Sadu: Good evening, Saion. So, the focus has been to increase this business in RoW. And with the capacity we have added, we are putting more efforts to increase the business. If you see the markets where we have entered in recent times, the COVID only helped us to get our registrations quicker than anticipated. But the product portfolio what we are selling now, not everything is COVID related. Some probably COVID related but most of it is in a normal business where we have also won tenders for two, three years. And we have now a market entry into these new markets.

Saion Mukherjee: This is sustainable, you think, this number that we have for this quarter?

Srinivas Sadu: I mean the efforts are there; at least the idea is to balance the ratio between the regulated markets and the RoW. And we are doing everything to keep that growth momentum going and have these numbers aligned with our long-term strategy.

Saion Mukherjee: And sir, can you update us on the China filing and any status update there?

Srinivas Sadu: Yeah. So, like even in our earlier calls we said we did file six products and two are closer to approval, so hopefully by the end of this year we should launch at least one product, and few more products that are also making, so that will be fine the next few months. So, one or two products you will start seeing revenues by first quarter of next year.

Saion Mukherjee: Sir, my last question before I join back is an update on the vaccine and the biosimilar program. So, you mentioned about partnership with Hetero, if you can elaborate on how large is that partnership, and also on your timelines for commercial production of Sputnik on the drug substance side as well.

Srinivas Sadu: So, on the drug substance side, we are still on track. We did mention earlier call as well, October, November is the timeframe we are looking at initiating the commercial production. And with Hetero, they will make the drug substance and they have added our site as a finished product manufacturing site. So, we can't let out the numbers. But for now, they are going to get the fill-finish down at our site.

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

Sudarshan Padmanabhan: Congrats on great set of numbers. Sir, my question is on the gross margins, I think while we have done a phenomenal job on the top-line, primarily growing on the India and RoW market, our gross margin seems to be consistently under stress. So, I mean, as we grow the RoW markets, I mean, what should be the thought process on the gross margins and on the EBITDA level, if you can give some color on that?

Srinivas Sadu: So, Sudarshan, I think we have been talking about gross margin even earlier, we are not a B2C company so you can't relate to the gross margins of those companies, that's one. Second, the product profile and geographies where we sell, the gross margin will vary. And also by increasing the volume in RoW, we are getting that operational leverage. So, what we lose at the gross level 2% to 3%, we are able to make up by the EBITDA level. And that's why we are still able to maintain that 40%-41% EBITDA. And we are also de-risking our business. That's one. Second, if you see the last quarter with 54% gross margin, we sold a lot of groups in Indian market and the gross margin in India is probably around 40% level, and that kind of put a stress on that. And if you compared to last year, you need to consider the MEIS scheme is not there anymore, the 2%. And also, if you look at our R&D spend, because we also expense that out, it is part of this material, so almost ₹7 crores-₹8 crores of materials are also expensed out. So, that's one of the reasons why the gross margin margin is around 51% compared to a normal of 56%-57%.

Sudarshan Padmanabhan: Sure. And with respect to the India markets, I mean, we have seen a good 77% growth on the India side. I mean, I would understand that it has some component of Remdesivir and Enoxaparin and etc, I mean, from a longer-term basis what is the kind of numbers that we should look at

specifically on India, because you have clearly seen about ₹100 crores kind of a jump on Q-on-Q basis?

Srinivas Sadu: So, clearly, in India our normal run rate is around ₹60 crores, what we sell directly, that's where you have seen our ₹95 crores this time. So, the delta of about ₹30 crores is the one which he got in addition to because of the COVID. But you also need to understand is there are also some pluses and minuses during COVID, we also lose some products because some of the products won't sell, the anti-infective won't sell, so those products will de-grow. So, when you consider those losses and positive, the impact will be lesser. But for sure, it won't be like ₹35 crores domestic, it will probably be ₹20 crores-₹25 crores at the top level. Now at the bottom level it would be lesser because the margins are lower, these are all the price-controlled products, especially Enoxaparin I am referring to, and there may be probably ₹7 to ₹8 crores of difference what we have got because of the COVID.

Sudarshan Padmanabhan: And just to take from the previous participant on the vaccine. I mean, your earlier comment was that the second I believe that everybody talks about this Ad26 scaling up is relatively much easier as compared to that Ad5. I mean, just to understand the from an industry as well as from yourself, what are the kinds of issues that we are facing? Or are we facing any issues? Or have we kind of moved ahead in terms of kind of scaling up Ad5? I mean, just to get some kind of perspective from your side.

Srinivas Sadu: It's a general issue, I think the RDIF is facing in terms of yields what you get out of Ad5. Now, for Sputnik vaccine you have to give both doses together. So, Ad26 gives you a higher yield compared to Ad5. To match that, you need to take more batches that are more reactive. So, that's one. But they have changed processes over a period of time, and I think they are improving, and they have improved now, so hopefully they should resolve it in terms of how much you can get. But, when people did the math, even the Ad26, the yields what were initially projected, actually those have improved now. So, what we estimate probably to compensate for the yield losses will be the second vector.

Sudarshan Padmanabhan: And this is a take or pay contract, right? So, to the large extent, I mean, if we manufacture, RDIF would buy it, is that right?

Srinivas Sadu: Yes. So, provided by October we have to start over production, so there are caveats. But they have to pick up this 250 million from October to end of next year.

Moderator: Thank you. Next question is from the line of Shrey from Iroha. Please go ahead.

Shrey: Congratulations on a great set of numbers. A couple of things that were on my mind, I will ask the first one here first. The first thing was with respect to the inventory days that have seen a growth from last year. I mean, in terms of my inventory days it's around 276 days now in Q1 FY 2022 versus 178, 180 levels that were seen last year. How should we read this?

Srinivas Sadu: So, it's more a strategic decision. Like you said, we are going to start supplying for Enoxaparin for the U.S. market for the largest GPO contract work our partner has from last quarter of this year. And the lead times are higher, that's one. Second, the prices are fix for this contract, and looking at the volatility of Heparin prices, we want to have those margins intact. So, we have inventorized the API required for that, and also the incidentally the lead times are longer. And as you know, you will have problems if you don't supply products in time, especially to the GPOs. So, that kind of put a pressure on the inventory day's increase, but that will start going down once you start supplying from the next quarter.

Shrey: And secondly, my thought was on U.S. again, in terms of growth that we saw for U.S., if I just revert to you, it is around 11% odd. Going forward, how do you expect this to pan out?

Srinivas Sadu: We still expect around 18%-20% to increase. There are two factors to it, right. Last quarter more focus was on with supplying products to Indian market, especially Lyos were occupied for this. And being a B2B company, we always interact with our front-end partners, if they have inventory in their supply chain, we postpone the supplies to the next month. And that's what we have done. So, you can't take this quarter number as a mark for the U.S. market. But as a whole, we still estimate around 18%-20% growth in the U.S. market.

Shrey: Thank you. Sir, very helpful. As investors, once you start performing a RoW we will ask again on U.S., and we were doing well on U.S last time than RoW. But thank you and all the best.

Moderator: Thank you. The next question is from the line of Ankush Agarwal from DPI Research. Please go ahead.

Ankush Agarwal: Sir, firstly, I want to understand a little bit on our business model which allows us to manufacture a certain molecule with multiple partners. So, my understanding is that we have our own ANDA filing, we can basically go out and license it to multiple partners on non-exclusive basis. But in case of partner filing, IP and ANDA is co-owned or know-how is co-owned, how does Gland makes it happen? And similarly in case of tech transfer model wherein the IP and know-how is owned by the partner, and we just have the manufacturing rights, how do we manufacture the same molecule with multiple partner? If you can help me understand this a little better.

Srinivas Sadu: With the partners' ownership filing, this is historical, we started off this business, initial years we were developing products and the ANDA were owned by the partners, but the development was always done by Gland. In last three or four years, we have been filing on our own, so it's more, I would say, growth path what we took. But the process is the same the ownership of ANDA belongs to them or Gland. And the second model which is the tech transfer model, the product is developed by the companies in their R&D labs, and then it gets transferred to our manufacturing site, where we do the exhibit batches, do the method transfers, and then product gets filed from our sites. So, the product will be manufactured site and it will be mentioned as manufactured at the Gland Pharma site. And they will go and market the product. So, the product what we develop, that's the product which we can give it exclusive or non-exclusive, depending

on the type of contract. Whichever product we are getting transferred to our sites, they have the right to go and sell the product. That's the only variation.

Ankush Agarwal: So, in case of tech transfer model, we are not allowed to manufacture the same molecule for different person because the know-how is borrowed from another party, right?

Srinivas Sadu: Yes, with their IP, with their development data we can't make it to anybody else.

Ankush Agarwal: Got it. On the similar line, since we work largely on non-exclusive basis or on the transfer pricing model, I believe, our profit share would be quite low. So, if you can highlight a broad range of profit share that we have, like 10%, 15% or whatever range you can give.

Srinivas Sadu: So, it all depends on the time of the profit, right. So, when you launch a product, the profits are higher, the percentage of profit ranges from 40% to 50% whenever you license a product, maybe rarely 30% product depending on the type of product. The profit share always ranges from 40% or 50%.

Ankush Agarwal: Even with the transfer pricing built in, we still have 40%, 50% kind of profit share?

Srinivas Sadu: Yes, see, transfer price is in case of cost of goods plus the conversion cost and some margin overhead. And then you transfer the product to the partner, and they go and sell the product in the market. So, whatever profit they make over the transfer price that is shared.

Ankush Agarwal: No, what I was coming from is, basically the typical arrangements are 50%-50% profit sharing, but the manufacturer provides the product at cost, and then you get to 50%-50% profit share.

Srinivas Sadu: No, it's not at cost, because till we have to absorb our manufacturing overheads and we also take risks, right, I mean, over a period of time. So, there will be a margin in the transfer price also.

Ankush Agarwal: And finally just one last one, if you can help me understand a little bit on what kind of addressable opportunity is there for Gland in the U.S. market, and the small generic injector market is around $11 billion, but I believe for us that this market will be slightly lower given that we are not present on the complex injectables in a big way, and we don't address a lot of complex delivery systems. So, at the moment what kind of addressable opportunity is there in the U.S.?

Srinivas Sadu: The U.S. market if you see, total generic injectables are almost $40 billion, $45 billion.

Ankush Agarwal: But that would include biologics as well, right?

Srinivas Sadu: Yeah, so if you remove that then it will be around $30 billion, $35 billion. And if you see our ANDAs what we have already developed and approved, it's around $ 11 billion. And we have five ANDAs to be approved around $3.5 billion. So, if you consider everything, around $14 billion already we have filed or tentatively approved. And then we have a pipeline of products.

And if you see next five years, another $13 billion products are going off patent, out of this complex will be around $5 billion. So, around $7 billion is still there in the normal injectables and about $5 billion on the complex, so we are also working on the complex right now.

Ankush Agarwal: So, you don't see any challenge for Gland to grow in the U.S. business, given our high base?

Srinivas Sadu: We still have time. See, how we are looking at it, especially in our model, the product whatever we launch, that's not the end of the day because even those products are growing for us. Because we are in B2B space, the companies are already selling the same product in the market, they actually move those products because of the cost advantage we give them. So, it's not that whatever is launched by us, for example, our product is competing with another product in the market, that competitor might come to me and ask to manufacture because we give a better price structure to them.

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

Nithya Balasubramanian: Just a quick clarification on the profit share comment that you made, Mr. Sadu. Just to be clear, your typical deal would look like transfer pricing plus a margin, plus 40% to 50% of the net profit of your customers. Is that right?

Srinivas Sadu: That's correct.

Nithya Balasubramanian: But I think one of the earlier calls you had also mentioned that if Gland is making ₹100 in total, approximately 75% to 80% actually comes from transfer pricing, and a much smaller portion comes from profit share. Is that understanding still correct with the numbers?

Srinivas Sadu: Yes, that's still correct, Nitiya. especially products that become more generic, that stands correct. But whenever you launch a big product, initial days they will also get a good chunk of profit. But in the long run, that's correct.

Nithya Balasubramanian: Sir, a quick question on R&D expenses, it has obviously increased quite a bit compared to Q1 as well as Q4. So, just wanted some color or at least an indication of increased filing activity or is this because of some complex product if you can show a bit more light on R&D?

Srinivas Sadu: So, normally your first quarters go for more of the exhibit batches, because we have to file by end of the year. So, we have taken almost 13 ANDA exhibit batches in this quarter. And I think that's what this spend is, you are seeing that hump. It is a mix of few complex products, I would say, a couple of complex, and the rest generic products.

Nithya Balasubramanian: So, for the complex products, it's just a bunching up of exhibit batches in this quarter, so it might not be at the same level moving forward?

Srinivas Sadu: No, we will still maintain that 3.5%, 4% of revenue as our R&D expense for the year.

Nithya Balasubramanian: Got it. One last one on biosimilar, so I think you had mentioned an earlier calls that your intention is to repurpose vaccine manufacturing facility to contract manufacturing of biosimilars. Is there any progress on that front that you can share with us?

Srinivas Sadu: So, we are having a strategic discussion with the Henlius, the subsidiary of Fosun on this line. So, we have had continued discussions on that, so hopefully something should work out soon.

Nithya Balasubramanian: Sir, Shanghai Henlius, if you look at their presentation, they have talked about second plant which they are right now going to commission, they have a third plant which is already planned and announced. So, how does Gland's capacities and visibility fit into the mix?

Srinivas Sadu: While they are into their own development, if you see the pipeline what they have, current and the new, there is a whole lot of pipeline which they are looking to expand into capacity. They still don't have enough capacity. That's one. Second, looking at their development capabilities, a lot of companies are approaching them for the CDMO activities, which currently they are not doing. I think that's where we will play a role, that's how the discussions are happening.

Nithya Balasubramanian: Would you also be targeting the RoW opportunity or primarily developed markets opportunity for biosimilars?

Srinivas Sadu: No, RoW as well. So, the primary reason also is getting manufactured in India and supplied to the Asian and RoW markets. That will be easier way because of the regulatory experience we have in managing these countries. So, that's one of the advantages what we have.

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

Tushar Manudhane: Congrats on great set of numbers, just again on the vaccine front. Out of ₹300 crores which you have lined up for vaccine, how much you would have spent already?

Ravi Shekhar Mitra: For this quarter we spent about ₹121 crores, balance is going to be spent in the next few months.

Tushar Manudhane: And broadly, basis your experience into vaccines and then further delving into biosimilars. Broadly what kind of asset turn can be expected from these investments?

Ravi Shekhar Mitra: So, asset turn, we are going to maintain the similar kind of asset turn over all company basis.

Tushar Manudhane: So, around 2.5x, 2.6x?

Ravi Shekhar Mitra: So, the current quarter we maintained 3.5x to 3.6x as fixed asset turnover. And on the company level, we are going to maintain similar kinds of asset turns.

Moderator: Thank you. The next question is from the line of Bharat Celly from Equirus Securities. Please go ahead.

Bharat Celly: Congrats on great set of numbers. So, just wanted to clarify on the profit share part, just wanted to understand what portion of our current revenue will be coming as a profit share, and what will be the base for cost plus margin business? If you could give that split, it will be helpful.

Srinivas Sadu: About 8% of revenue is coming from profit share.

Bharat Celly: Okay. And I just wanted to understand on the RoW business, so what has happened over the last couple of quarters that we have seen this, obviously, we would have got into the new geographies, but how the overall approval trajectory has been, if you could just throw some light on that?

Srinivas Sadu: Yes. So, last year, if you see our new plant, we have added a lot of capacities in last two years, so that gave us leverage to exploit that business. So, always been where to get our maximum revenue and profit. Without capacity limitations we are putting a lot of effort on the U.S., that's what we are focusing on. But what we have seen is, of course, one is, we have to de-risk our business. And there is also a lot of opportunity in other markets for specific products. So, the portfolio what we have created in last few years, because we can't take every product to the RoW markets because of the margins. So, we have selected that portfolio and try to drag those portfolio into these markets, and we had those products got registered. Now, during COVID, these products were already at the final stage, and because of the emergency requirements of some of the products, we got our plans approved quicker than anticipated. So, probably I would say, this COVID has accelerated by a year our entry into RoW and the way we are growing. So, especially in markets like Saudi Arabia, Israel are the market which we were anticipating a year or year and a half later, that got accelerated a bit.

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

Tarang Bhanushali: I have two questions from my side. Sir, just wanted to understand what attributes are driving your growth in Indian and RoW markets? I mean, is it lack of suppliers or is it your cost, what is it, if you were to list out a couple of attributes? And when I look at your overall revenue share, how do you see the share from these two markets growing over the medium term, say, in the next two to three years? That's my first question. And the second question, a fixed asset turn range of 3.5 to 3.7 and ROIC of north of 40%, would that be optimum utilization from your standpoint? Or we can see some improvement in your fixed asset turns from here on as well?

Srinivas Sadu: Okay, so I will address the first point and then Mr. Ravi will address the second one. From the RoW and Indian business perspective, it's a combination of the portfolio what we have selected to this market, because some of the products what we have filed and got approved and start selling in U.S., we are leveraging that. Second, several of these products are backward integrated, so we have that advantage in terms of volumes. And of course, the capacity utilization we have with the volumes what we are selling in the U.S., we have that advantage as well. So, we have a cost advantage as well as the development advantage what we will make use of from

the U.S. From the share perspective, I think, probably in a year or so, U.S. might be 50%, 55% and the rest of the world could be 45%. Of course, this is like we have to look quarter-on-quarter and see how are the margins are looking like in the US and how are the margins are looking in the other markets. But China is a special market for us moving forward because of margin profile what we are anticipating, and also the complex side of business in the U.S., and some of the 505 (B) (2) and what we have filed and what we are going to file in the future. So, we have to manage, if you had asked me two years ago, probably I would have told U.S. 70%, 75%, but the way the market dynamics is working, it's a bit more reasonable now in RoW business as well for some of the molecules which we are trying to expand ourselves. And also, the regulatory framework and all that, I know it's also a de-risking strategy, especially under COVID different countries getting impacted in different ways. That's one of the reasons we started expanding this business across geographies now.

Ravi Shekhar Mitra: So, on your questions on fixed assets turn and ROCE, so considering the CAPEX growth plan what we have, we are adding new lines at Pashamylaram which will help us to meet the volume demand for the next three, four years after the cycle is over. And similarly, we are backward integration, we are adding new capacity in our Vizag API facility. All put together, after we spend this year, the next year CAPEX we should be good for next three, four, five years growth plan. So, considering all that, we will end up definitely 3x to 3.5x fixed asset turn in the near term. On the ROCE, if you see on net cash growth is 40% plus. And any investment which we are doing currently also we look at internal IRR of at least 20%, which is an overall ROCE which we had. So, going forward, any investment we are doing either on CAPEX, or we will maintain that same kind of ROCE rate.

Tarang Bhanushali: So, I mean, Q1 you did about 3.6, so that's optimum utilization, if I were to conclude?

Ravi Shekhar Mitra: See, currently our Lyos are 80% utilized already, and with the new CAPEX and the new lines which we have mentioned just now, we will be able to meet the increasing demand of next few years. So, with the CAPEX of ₹300 crores this year and ₹250 crores next year, we will be completing our organic CAPEX cycle. That should give us the similar kind of asset turn return.

Moderator: Thank you. The next question is from the line of Alisha Mahawla from Envision Capital. Please go ahead.

Alisha Mahawla: Firstly, I would just like to understand the supply for the fill-finish to Hetero, when is that expected to start from?

Srinivas Sadu: We have just taken the trial batch last week, and it's the regulatory process, so I think the plan is to start from September. But ultimately, it is the timing they have to decide. But I think hopefully it will start in September.

Alisha Mahawla: So, may be H2 of this year, sometime.

Srinivas Sadu: Yes.

Alisha Mahawla: Okay. And the second thing I would like to understand is that, while you were mentioning even to an earlier partisan that incrementally the contribution from India and Rest of the World is expected to move slightly higher. In light of that, where do we expect our margins to eventually be on a more sustainable basis? You currently were at about 40%, 41% EBITDA margins, will these be sustainable, or do you expect them to be somewhere marginally lower than 40%, just maybe three, four years down the line what would be a sustainable number?

Srinivas Sadu: I think on an annual basis, we still estimate around 40%, so a few quarters may be high, a few quarters maybe less, but on average our target is to get to that 40% EBITDA margin, because we get that operating leverage kicking in after a certain unit.

Alisha Mahawla: Sir, the last thing I would like to know, actually I missed this number, what would you say would be a sustainable run rate for the India business, excluding the COVID boost that we got this quarter?

Srinivas Sadu: At a company level, we look at 40% EBITDA margin.

Alisha Mahawla: No, I am talking about the run rate or the growth. You mentioned that number earlier, but I missed it.

Srinivas Sadu: About ₹60 crores to ₹65 crores a quarter.

Alisha Mahawla: Okay. And that is a normal run rate you expect to maintain even in light of the new products that we are looking to launch?

Srinivas Sadu: Yeah.

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

Ashish: Sir, we have taken a fill-finish for Hetero, are we also expecting another potential opportunities with some of the MNCs as such for other mRNA vaccines?

Srinivas Sadu: If the opportunity comes, we will take it. It's just that it has to come.

Ashish: Okay, fair enough. Sir, broadly over the next two years you said you would be having a CAPEX plan of around ₹800 crores. So, where are we in terms of steroids and hormonal API's? And also, if you could throw some light on long acting injectables?

Srinivas Sadu: So, we have got not only API side, but on the finished product side, we are working on 14 complex products, including steroids, hormones and LAIs. About four products will be filed by end of next year, a couple this year and other three products next year, so there's another 25, 30 products to be worked on in the next few years. But as of now it's 14 products which we will start working on.

Ashish: Okay. And these are all our own ANDAs or these are partnered ones?

Srinivas Sadu: See, now we are not giving the products to partners to own it, it will be our own, but of course, everything will be sold through partners.

Ashish: Okay. And just lastly, to clarify, the commercial production timeline for Sputnik remains around November, October, and we are confident that these timelines will be met, right?

Srinivas Sadu: Yeah. So, the plan is to start around October, November, the vaccine, yes.

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

Nidhesh: Can you help us understand how the vaccine manufacturing capacity has shaped up in terms of the announcements which has come from the tie-ups which global player have done with each of the local geography? What's your take on that, would there be overcapacity in coming 6 months to 12 months? And would this become a commoditized space kind of thing in year two kind of a thing?

Srinivas Sadu: So, our pricing is fixed with this RDIF. And that's one. Second, these supplies what we are talking about is not just Indian market, it's for the global market. And if you see the demand, what they are estimating is 11 billion vaccines is a demand in next nine months to one year, so I think there's enough demand if people can supply.

Nidhesh: And your pricing is fixed, and is it pay or take kind of agreement? Or that's not the case, because it's a government kind of a thing and you can't enforce on them?

Srinivas Sadu: Yes, so we have to successfully get the technology transfer done and then we have to supply from October of this year to end of next year. And they have a commitment to take the 250 million.

Nidhesh: And going forward, after this commitment on a year or two, or maybe year three, you think the pricing for this kind of contracts will drop dramatically, given the kind of capacity addition which has come globally or going to come globally?

Srinivas Sadu: I mean, we can't really comment at this stage. It all depends on at that point of time how much actually is available and what's the cost of other vaccines. So, I don't think I can comment on that. Because like I said, we are not the ones who are selling the product at the end market, we are only manufacturing for them.

Moderator: Thank you. The next question is from the line of Kunal from Vallum India Discovery Fund. Please go ahead.

Kunal: I wanted to understand, firstly, could you please throw some light in terms of the drugs substance manufacturing for the COVID Sputnik vaccine? I mean, what are the challenges in terms of the supply chain and the manufacturing complexity? That's my first question.

Srinivas Sadu: So, I have already told about this, the technology transfer is done for the first; second is happening now in terms of technical batches. The yields is the concerned people have raised, we have not reached that stage yet, but the technical folks from RDIF have worked on the processes, they have improved the processes over the last few months, and hopefully the scale up and yields should improve.

Kunal: Got it, sir. And wanted to understand secondly on the business model, I mean, I wanted to understand a certain portion of your revenues in the U.S. market. I mean, they come from filings where the customer owns the IP, though Gland has invested in the development of the IP, but the customer mainly owns the IP, and we supply that specific product to that specific customer only. So, if I am not wrong, I think that piece would be around 30%, 35% of the U.S. business. So, wanted to understand, how do you hedge the risk there? Because, when it comes to supplying to a single customer rather than a bunch of customers, so how do you hedge the risk there? Because then in that specific segment, our exposure is as good as any other company which is marketing on its own analysis, and its own filing. So, it has a risk of your pricing and your market share being eroded. So, how do you hedge against that piece of the business?

Srinivas Sadu: I didn't completely understand your question. So, the partner who's selling this product, whether we own the IP or they own the IP, he will not sell to one customer, right, he will sell to enter market, whoever the GPOs are there, whoever the hospital network is there. Like any other company he will be supplying, why only one customer.

Kunal: No, sir, I mean, there is a specific portion where you supply only to a specific customer just because you have an agreement with the customer and the customer owns the ANDA, and you don't have any ANDA. So, you end up working with that specific customer itself and then you end up supplying?

Srinivas Sadu: So, wherever we have exclusive agreements, we also have clauses where there has to be a minimum market share requirement. If they don't achieve those market share requirements, then it will become non-exclusive, and we can go and offer it to some other partners.

Kunal: Got it, that is what I was looking for. And just last question from my end, I wouldn't understand, I mean, are there any plans of increasing the R&D spend as a percentage of revenue sort of to cater to more complex filings which are lined up for the next five years?

Srinivas Sadu: No, so based on our pipeline and products and the expenditures, I think we are good to go with the 3.5%, 4% of revenues as an R&D expenditure. Because our partners also pitch in with the IP, the legal, and also the bio study expenses. So, that's not included in our R&D spend. And that's why probably it looks a little lower compared to other companies.

Moderator: Thank you. The next question is from the line of Vishal from Nirmal Bang. Please go ahead.

Vishal: Sir, my question pertains to China market. The six filings that you have there, could you talk about the market size of those six filings currently?

Srinivas Sadu: It is about $550 million.

Vishal: All these six filings cumulatively represent $550 million in sales?

Srinivas Sadu: Yes, correct.

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

Sumanta Bajpayee: Once again thanks, everyone, for joining us today for our first quarter earnings call. If there's any questions still remaining unanswered or if you want any further clarification, please don't hesitate to reach out to me. Good night. Thank you.

Moderator: Thank you. On behalf of Gland Pharma Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.