GLAND PHARMA LIMITED

July 27, 2022

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Listing Department
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Symbol: GLAND (ISIN: INE068V01023)

Dear Sir/Madam,

Sub: Earnings call Transcript- Q1FY23

Please find enclosed the transcript of the Earnings call for Q1FY23 of the Company held on Wednesday, July 20, 2022 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

This is for your information and records.

Yours truly,

For Gland Pharma Limited

GLAND PHARMA LIMITED HYDERABAD, INDIA GLAND

Sampath Kumar Pallerlamudi
Company Secretary and Compliance Officer

“Gland Pharma Limited's Q1 FY'23 Earnings Conference Call”

July 20, 2022

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

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY'23 Earnings Conference Call of Gland Pharma Limited. As a reminder, all participant lines will be in 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 – Vice President, Corporate Finance, and Investor Relations. Thank you and over to you, sir.

Sumanta Bajpayee: Good evening, and a warm welcome to Gland Pharma's Earnings Conference Call for First Quarter of Financial Year '23. I have with me Mr. Srinivas Sadu -- Managing Director and Chief Executive Officer; Mr. Ravi Shekhar Mitra -- Chief Financial Officer to discuss the 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. Before we proceed with the call, please note, some of the statement made in today's discussion may be forward-looking and based on management estimates. And this must be viewed in conjunction with market risks, uncertainties involved in our business. The Safe Harbor language contained in the 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 this call will be submitted to the stock exchanges and made available on our website as well.

I will now hand the call over 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 first quarter of fiscal 2023. My best wishes to all our shareholders, analysts, and their families. I must say it is a tough start to FY'23 with few supply chain issues, which were ongoing for the last couple of quarters, hit us hard on a quarterly dispatches. We faced delay in receipt of APIs and primary packing materials which caused delay in production. We are making all efforts possible to minimize the impact of these disruptions by qualifying new suppliers as well as optimizing our production planning. We lost productivity during the quarter on account of delays in material supply. At our Dundigal facility, we lost nearly 7% to 8% of our available production capacity of lyo and liquid vials during the quarter owing to supply chain disruption, but we should be able to go back to normal utilization levels from next quarter.

In spite of the ongoing supply side disruption, we ensured the new product launches were not impacted during the quarter, which are key to our business growth. We also initiated cost optimization and productivity initiatives as part of which two lines at our Dundigal facility were shut down during the quarter to make the modifications and mitigation of production bottleneck, thereby improving production output. Both lines became operational from July and the loss of production will be covered in the next three quarters on account of improved productivity.

We closed this quarter Q1 FY'23 with revenue of Rs.8,569 million as against Rs.11,539 million in Q1 FY'22 and our PAT stood at Rs.2,292 million for the quarter against Rs.3,507 million in Q1 FY'22. We have generated Rs.3,328 million of cash flow from operations in Q1 FY'23.

We continue to make progress on our key focus areas to build a differentiated portfolio along with expanding geographic penetration. We continue to make investments in R&D and were able to complete six ANDA filings during Q1 FY'23 in line with our plan. The progress on the complex portfolio also is in line with expectation. We have also finalized next set of products of filings in the China market upon detailed assessment of our parent Fosun Pharma. And with this we're confident of building a robust portfolio for the China market. The addressable market size for the next set of products in the China market is USD1 billion.

We ensured timely new product launches and managed to launch 14 product SKUs during this quarter. To highlight a few, we commercialized products including Bortezomib, Pemetrexed, Pantoprazole and Cyanocobalamin in the US market. We were granted 180-days CGT exclusivity for Zinc Sulfate injection in the US market from its first commercial marketing date of 27, June 2022. We also launched other products including Bortezomib in Australia and Oxaliplatin in the Canadian market.

During Q1 FY'23, upon excluding capital R&D expenditure, the R&D expenditure stands at 4.1% of revenue for the period in line with our historical trend. As on 30, June 2022, we along with our partners have 316 ANDA filings in the US and 1,567 product registrations globally.

We are recruiting talent to further strengthen our capabilities in biosimilar manufacturing and complex development. We are experiencing increased attrition and hence are ensuring we build enough resources keeping in mind anticipated growth initiatives of the company.

Let me summarize our performance across various geographies: Our rest of the world markets accounted for 12% of our Q1 FY'23 revenue for the quarter as against 19% in Q1 FY'22. The delay in material supplies has hit our ability to take up rest of the world orders with low delivery times. The good aspect is that the demand stays strong. We are working on ensuring we can build inventory to meet the demand for our rest of the world portfolio. We anticipate another quarter for us to go back to normalize levels of inventory for this market.

Our key markets continue to remain MENA, LATAM and APAC. We registered our products Ethacrynate Sodium, Ganciclovir, Foscarnet Sodium and Labetalol Hydrochloride in new geographies during the quarter.

Our core markets, namely US Canada, Europe and Australia remain strong during the year despite market challenges. Our core markets accounted for 82% of our revenue during Q1 FY'23 as against 65% during Q1 FY'22.

We continue to maintain our new launch momentum in our core markets. There is visible price pressure in the US which is impacting profitability for certain products. But as our new launches scale up, the impact will normalize.

The quarter was impacted with shortage of API and primary packing materials, which should relax over the next couple of quarters. We remain confident of a launch pipeline that will ensure sustainable growth in the market. The key products in the core markets contributing to the sales were Enoxaparin Sodium Ketorolac Tromethamine and Ertapenem.

India market accounted for 6% of Q1 FY'23 revenue. The Indian market sales were impacted by shut down of our dedicated Insulin line during the quarter to accommodate line modifications. The demand for Insulin remains strong and will cover the loss in production by improved productivity during the rest of the year.

I would like to touch upon little about our growth initiatives. On the geographic growth, as has been seen from our performance; we have expanded our penetration in the rest of the world markets. China remains a key geographic focus and we expect to start receiving approvals in the current year.

On the portfolio front, we are progressing well on our complex injectable portfolio and have completed installation of manufacturing lines. We are also in the process of evaluating manufacturing lines for technologies involving microspheres and combi-vials. On this front, we have made significant progress in building internal capabilities, and are also exploring opportunities for external partnerships. And another key focus area remains biosimilar CDMO business, on which again, we're seeing a lot of interest from our partners.

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

Ravi 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 by sharing the financial performance of first quarter of financial year 2022-23. Revenue from operations for the Q1 FY'23 stood at Rs.8,569 million, declined by 26% due to various reasons as explained by Mr. Sadu in his opening remarks. But some of these are transient in nature. And we would like to reinstate that our differentiated business model remains robust with the focus on supplying quality products to our customers. In spite of the continued challenges in non-availability and delayed supply of critical materials, our efforts were to ensure that sufficient level of inventory remains available at our customers end in our core markets.

Other income for the first quarter of financial year 2023 was Rs.744 million which includes foreign exchange gains on operations of Rs.342 million and interest on fixed deposit of Rs.376 million. Gross margin for Q1 FY'23 was 56%, an improvement of 284 basis points as compared to Q1 FY'22. Higher percentage of sales from regulated markets and favorable business model mix, along with focus and optimizing cost levers have positively impacted the gross profit margin. We have reported an EBITDA of Rs.3,443 million in Q1 FY'23, an EBITDA margin of 37%. During the quarter, we have managed to maintain EBITDA margin in higher band of our earlier communicated target range.

In Q1 FY'23, we have witnessed increase in power and fuel cost by 53% year-on-year basis, and 36% from last sequential quarter due to increased power tariff and oil and gas prices. During this quarter, we faced shortages of power resulting in increased purchase of power at higher tariffs. The situation has normalized now, and we expect the cost of power to come down.

Manpower related cost has increased by 22% on year-on-year basis due to recruitment for the additional lines coming in and yearly salary increment impact. If you compare the staff costs on a sequential basis, it increased marginally due to increase in headcount.

Our net profit for first quarter was Rs.2,292 million and PAT margin of 25%. Effective tax rate was at 25.7% for the quarter.

The total R&D expenses for first quarter were Rs.410 million compared to Rs.438 million of the same period previous financial year, which is a decrease of 6% and stands at 4.8% of the revenue.

Cash flow from operations for the first three months of current financial year was Rs.3,329 million. Cash conversion cycle stood at 241-days for the quarter, same as first quarter of last year. In anticipation of business recovery for the rest of the financial year, we are building up our inventory and that is the reason for higher inventory and resultant higher payable days. Due to supply-related issues, most of the sales during the quarter were back ended and hence you see increase in receivable days, which we expect to regularize with normalization of business.

Total CAPEX incurred during the quarter was Rs.414 million.

Our ROCE on ex-cash basis stood at 21% for Q1 FY'23. The reduction is primarily due to substantial decrease of post-tax EBIT during the quarter. As on June 30, 2022, we had total Rs.37,892 million of cash and equivalents.

We had evaluated a number of M&A targets in the recent past, current market dynamics, making the valuation of target assets more reasonable, has provided impetus to our goal of acquiring right strategic fit for a growth plan.

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

Moderator: We will now begin the question-and-answer session. The first question is from the line of Tarang Agrawal from Old Bridge Capital. Please go ahead.

Tarang Agrawal: Three questions from my end. First, if I look at each of your markets, business loss seems to be material. Will be safe to presume that a significant proportion of business loss was owing to supply bottlenecks rather than changing front end market environment? Because in your presentation and in your opening remarks, you've also alluded to price erosion in some markets, impact of a high base in the other markets. So just wanted to get some sense as to whether it's really on the demand side or it's really the supply chain bottlenecks for each of your markets.

Srinivas Sadu: Primarily it's a supply chain issue, right. In the US if you look at quarter-on-quarter, we still grew by about 4% and year-on-year degrown by 4%, but then there's a timing issue of certain products, but I would say still a lot of products in the US actually has grown substantially, right. And because of the syringe shortages, we have allocated most of our supplies, what we got to the US market to cater to the contract what we got, like I mentioned last time. So we didn't have enough syringes to supply to domestic and rest of the world market. So that has impacted sales in other markets. And from domestic perspective if you see, two major issues; one, of course, the syringes what I just told, and the other is taking a shutdown of a couple of lines to increase the productivity, so that has contributed about 30, 40 crores of loss of domestic sales. While there is a large base last year on the domestic, if you look at first quarter of last year is almost Rs.180 crores, out of which about Rs.70-80 crores was related to products, like, Remdesivir and Enoxa, which were COVID products. So, if we remove that still we're still probably off by about Rs.7, 8 crores. But major impact I would say in domestic is because of the shortage of syringes and the RoW business also because of this.

Tarang Agrawal: Just a second follow up. In the US, despite the kind of launches that you had in this quarter, growth has been nice, but one would have presumed that the sheer size of those products would translate into maybe better business. So is there a lot of heightened competition out there in the US even in the supposed big products?

Srinivas Sadu: The competition is there. But if you look at the percentage wise new product, the growth has contributed about 4%, the growth came from new products. But also, you need to see when the products got launched. Many products got launched either in May or June. So it's kind of not 100% recognized. That's one aspect. And also, while large products have some competition, there are also smaller products; 20, 30 million products where the competition is not there where we just mentioned, zinc has, the smaller product about 28 million, but still we have exclusively for that. But you'll see more of that coming in the next few quarters. So that way, I think it's a combination of competition in some large molecules not been able to recognize for the entire quarter because most of the launches happened mid of the quarter or end of this quarter.

Moderator: The next question is from the line of Dheeresh Pathak from White Oak Capital. Please go ahead.

Dheeresh Pathak: The profit share number for the quarter if you can share please?

Ravi Mitra: It is about 10% of the revenue.

Dheeresh Pathak: The CAPEX number looks low, so what is the guidance for the full year and where are you spending the capex money this year?

Ravi Mitra: CAPEX full year guidance remains same; Rs.300 crores what we said last time. So we are building up this microsphere combi line as Mr. Sadu was talking about a little while ago for our complex products and that ordering and spending, which should start soon. And first quarter was more of a timing thing. So we will end up at Rs.300 crores. Other than that complex injectables line in Pashamylaram we are also adding more API capacity and also bag line we need to add because of the increased demand we have seen. So of these are the large items where CAPEX would go.

Dheeresh Pathak: And last question in terms of the biologic CDMO, if you can share any further progress you've made from the last communication we have?

Srinivas Sadu: So there were four actually customers which has happened during the quarter, and we are discussing about the commercial terms, it's just like, that's where the status is.

Dheeresh Pathak: But when should we expect to see the first revenue with the P&L?

Ravi Mitra: I think this is too early to comment at this point of time. Just now we were discussing that we have seen a lot of traction and ongoing discussion with our parent also. But at this point of time, we would refrain from commenting which particular month or quarter this revenue will start coming in. But capability wise, team wise, we are already and that's why customers are coming and visiting.

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

Amey Chalke: I have a few questions. First, Mr. Sadu, is it possible for you to quantify how much of the impact on the supply shortages in the plant shutdown is there during this quarter? And how much of the sales loss is recoverable in the coming quarters?

Srinivas Sadu: So if you look at market wise, I would say, US because of syringes, we lost Rs.25 crores, RoW about Rs.100 crores we lost, and domestic, we lost about 40 crores I would say.

Amey Chalke: So even if we add these numbers, the total is still lower, right, from what the growth trajectory we were hoping to be on. So is there also any impact on the demand side of the business?

Srinivas Sadu: I would say not the demand side. If you look at the timing, right last year, if you see Micafungin is a big product, if you look at last year first quarter, almost Rs.126 crores came from that product, whereas this quarter, we didn't supply anything on that. It's more of inventory issue where the customer is liquidating it and we don't want to supply more now. But if you look at the end market, the sales what our partner is selling is consistent. So that will come back in a quarter or so. That's more of the timing issue, because last year, there were anomaly of partners having those three to six months inventory. Because our model is a little different. So that's what is happening. So it looked a little bulky last year, but that will come back in a quarter or so.

Amey Chalke: The second question is related to our PFS suppliers. What I understand is that even these PFS suppliers are struggling to cope up with the demand to provide. So even in coming next to one year also, what I understand they will be operating at full capacity utilization. So what could be the way out for us, if you have any thoughts on the same?

Srinivas Sadu: For the rest of the world, we are already qualifying other suppliers because US still I think we have enough supplies commitments from BD. But we are qualifying a Chinese supplier as well as Italian supplier for rest of the world market. So we're going to use those for this. So I think that can be mitigated well.

Amey Chalke: Do you think that whatever growth expectation we have from our business that would be fulfilled by the suppliers as well in the coming years and there won't be any supply disruptions?

Srinivas Sadu: We're pretty confident, yes.

Amey Chalke: Just a last question on the staff cost side. In the last quarter when I asked same question, I was told that there was some one-time item in the staff cost and it was expected to normalize from this quarter onwards. However, rather it has gone up during this quarter. So, if you can provide some guidance on the staff cost?

Ravi Mitra: What we earlier referred was for one-time bonuses given off. But if you compare now with Q4, I think it's the incremental staff cost which has come is on account of additional headcount, a normal yearly increment. But that impact is not that additional one-time bonus which we talked about earlier, that is not in this quarter.

Amey Chalke: So should we assume this Rs.98 crores to be a normalized base for the staff cost?

Ravi Mitra: Yes, that's correct.

Moderator: Next question is from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.

Anubhav Agarwal: One clarity on this India revenue. So, this quarter we done about Rs.51 crores. If I look at the March quarter, or the December quarter, we were doing very close to Rs.200 crores. You talked about 40 crores impact on the supply disruption from that insulin facility. So, still trying to understand the decline from 200 crores to 50 crores.

Srinivas Sadu: So, if you see the last quarter, there was export restriction on Enoxaparin product. So, we were supplying a lot domestic supplies to third parties. So, most of the revenue almost Rs.100 crores revenue came from supplying to third parties, but with low margins and we could supply with the different syringes. But, if you look at the logistic costs, the import costs and also the dollar, it's not making any sense to operate at the price level which are under price control in India. So, we didn't continue to supply to those because of the restriction, in last quarter, we did that. But at least we had some margin at that point of time, but this quarter, because of the increased costs, and also the dollar not helping us, because we had to pay duty for the import of materials. So we actually stayed away from those supplies.

Anubhav Agarwal: So, you're saying that business largely not taking up that business is getting booked in some other segment, that business itself you're not taking up now?

Srinivas Sadu: Correct.

Anubhav Agarwal: So when things recover now, let's say 2Q or 3Q, so, India business will be about 100 crores base a quarter level?

Srinivas Sadu: On front end B2C is around Rs.60 crores and then around 25, 30 crores of insulin, 90 and another 10 crores of miscellaneous, yes, around 100 crores, correct.

Anubhav Agarwal: Second question is just a clarity on the R&D spend. Annually, if I look at the revenue expenditure of the company, we are doing about 160 crores to 180 crores R&D spend a year right now and we are filing almost close to 25 ANDAs in the US market. That's almost like very simply a million dollar spend per product. So, now you’re changing business model more towards your own patent filings not doing partner filings, do you think that in two, three years, this 180 crores can become a 400 crores R&D number for you, I'm not talking about a percentage growth, I am talking as you file more complex product, etc., do you see a step jump in this R&D becoming 2x in two years or three years?

Srinivas Sadu: So we've been filing our own products in the last three years, not just now. So if you look at our initial percentages, with the lower base, the percentage was same, but the absolute number was lower than what we're doing for last two, three years. We don't think that will increase that much. Even for the complex products, we always collaborate with our partners. They do pitch in some of the studies. So we don't anticipate that to go that high. So we still keep that as a percentage of revenue of around 4%.

Moderator: The next question is from the line of Sudarshan Padmanabhan from JM Financial. Please go ahead.

S Padmanabhan: My question is to understand the extent of shortage. I mean, we've been hearing the shortage from the third quarter to the fourth quarter, and we're seeing a significant part in the first quarter. Now that we are into the second quarter, I mean, in terms of intensity, how do we see things easing up say from the second quarter and when we are talking about the second half to kind of normalize, what gives us kind of a confidence in that kind of commentary?

Srinivas Sadu: So, while the syringes is a major impact, which has happened, there were also issues around four or five products where we have filed alternative tubing or filters with FDA. We also lost some productivity on that, about 16 to 18 productivity days across sites and across lines. So that kind of sorted out. Syringes, we have seen some quantities coming at the end of the quarter. So that's why we're able to cater to the US market without impact, still it would cause the impact of about 20, 25 crores. And we have delivery schedules from BD for this quarter as well. So looking at that, I think we are more comfortable on the syringe side. The heparin product was impacted with stoppers from West. We have not got the resolution yet. That has impacted of about 40, 50 crores. So we are working around alternative stopper for that. That's only the risk about 40, 50 crores of heparin, which couldn't supply. We don't have a solution for that yet, which we are working with West for alternate supplies. But otherwise, we are good with other components.

S Padmanabhan: So I think barring this Rs.50 crores a year, you're saying most of the issues are sorted and that should come in the second half?

Srinivas Sadu: It's not Rs.50 crores a year, I'm saying the quarter Rs.50 crores was lost. So that's what we're now trying to see an alternative stopper. The schedule we got from west is in November, but we wanted that actually in the last quarter and at least push to this quarter. So that will help but the schedule we got is in November.

S Padmanabhan: My second question is on the demand side specifically. I know you don't share the order book and towards that. But when I look at say the US business or the RoW business specifically with respect to number one, the newer customers and existing customers increasing the wallet in terms of volumes and whatever that we have missed because if you look at the RoW we've lost about 100, 120-odd crores. Is this sales kind of recoupable say in the next nine months, so would this 120 crores be added say in the second quarter or third quarter in addition to the typical 220, 230 crores kind of run rate that you do?

Srinivas Sadu: As far as the capacity is concerned, I don't know whether we can recover everything what we lost in this quarter, but at least the growth what we told in our normal business that's going to be maintained, but what we lost about 250 crores or 300-odd crores this quarter could be difficult to recover 100% of that.

S Padmanabhan: In terms of demand as far as volumes, are we seeing increase in the volumes on a year-on-year basis as far as the demand is concerned across RoW and the developed markets?

Srinivas Sadu: The demand is there. If we really go by molecule wise, Enoxa, from quarter-on-quarter basis almost like three times we sold in the first quarter, last quarter was about Rs.47 crores in the US, we did almost Rs.160 crores this quarter, demand was there. Then like Ketorolac is almost like 90% growth. Six or seven molecules which have grown almost 90%, 100%, 200% like that. So that way we don't see demand dropping off. But there are some products which we were doing prior to COVID total market has not come back. Vanco was one of the top five products. if you look at the total market, 30%, 35% market has never come back. And what we hear from the market is more people moving to RTUs because of the compounding business, issues with the labor force and all that. So there are some issues with the older products but there are a lot of other products which did actually extremely well compared to others.

S Padmanabhan: Earlier, we have been talking about the 18% to 20% kind of a growth. would this year be kind of, given that the first quarter is pretty bad, and we are seeing a recovery in the second half, so what is something that you are looking at, would this year be significantly lower and probably FY'24 and FY'25 should be relatively better, any color on that?

Srinivas Sadu: If you can just forget one quarter then probably the growth will be stronger, but if you include this quarter because it's difficult to recover what is lost in this quarter to 100%. So it could be a lower growth year but moving forward the demand what we're seeing and the growth what we have even shown for a lot of the other products other than where we face shortages, we're still confident that we could maintain the growth what we told before in the next two years.

Moderator: The next question is from the line of Neha Manpuria from Bank of America. Please go ahead.

Neha Manpuria: Just on the China business, I think in the presentation you mentioned that our facility inspection has been waived off. So when do we expect to start seeing revenues from China come to and what's the filing that we expect from China over the next year?

Srinivas Sadu: So for two products, they are in a clearance phase. They confirmed that there is no need of inspection. So the something should come in the third or the fourth quarter, that's what we are anticipating. Five products getting filed in FY'23 and then another six to seven products in FY'24.

Neha Manpuria: In terms of margins for the full year, now that you have given your commentary that supply chain issues could partly get resolved in the second half, the mix should improve. How should we look at the margin in light of the higher cost and this is margins ex-other income, would it be similar to what we have done in the current quarter?

Srinivas Sadu: It should be around that range, yes, I would say so.

Neha Manpuria: Going forward what would drive this margin higher given the uncertainty in the cost environment how much of that would be dependent on the new launches coming through versus existing products seeing growth?

Srinivas Sadu: Once we start getting some complex product approvals, those are higher margin products, so we should be able to get the increase in margins. And also once you start leveraging more lines in this facility, we just added three or four new lines which we need to start manufacturing. Like I said the fixed costs are there already. So this will start adding to the additional margins for the coming years.

Neha Manpuria: What would be the guidance for the next two years in terms of margin?

Srinivas Sadu: I would say from 33% to 35% maybe.

Moderator: The next question is from line of Kunal Dhamesha from Macquarie Capital. Please go ahead.

Kunal Dhamesha: So first question on the biologics business. We have shared that; we have got four visits. But typically what's the process, let's say from site visit to actual contracting, what are the steps? And the visits that we are getting from clients, are those new clients for us, or some of the existing clients, but they're a biosimilar division or biologics division visiting us, so how should we think about that?

Srinivas Sadu: So, three are new customers, and one is the known customer with a different division. I think it varies from all the four clients. Few are looking at transferring technology and looking at making clinical batches, the other is looking at doing more analytical development for what they've done, one client is looking at taking a line for two months, and setting up some of their people for the technology transfer. So it depends on who the customer is, but it's at various kinds of discussions happening.

Kunal Dhamesha: Secondly, just a clarity on the earlier participant's question on the margin, you said FY'23 beyond we are targeting 33% to 35% range. So would you say is this including other income, or is the like-to-like without other income, just core operating profit that you are targeting?

Srinivas Sadu: So, hopefully, the other income, if you really look at today, part of it is on interest and other is operational income. And if you can utilize this to get a good asset, this will go down if we can acquire a good, profitable asset. So an overall basis, other than the other income, we're looking at 33%, 35%.

Kunal Dhamesha: On acquiring the assets, what's the priority now? I think at some point, the priority was complex products followed by some backward integration, is it the same or anything changed from that front?

Srinivas Sadu: Ultimately, we don't go one-by-one-by-one. Three or four options we're looking at whichever asset we find, we have to go after it, because all these are important for either for profitability or for growth of the business. So it's not a sequential thing. So we look everything at the same time and whenever we get an opportunity, we try to look at it.

Moderator: The next question is from the line of Mayur Patel from IIFL AMC. Please go ahead.

Mayur Patel: On the margins side 31.5% core EBITDA margins, which you managed in this tough environment to maintain at least QoQ. Should we see that the worst is behind from the margins perspective, or there is API related pressure and the syringe related disruption can lead to some more downside in the short term before it starts moving up to your desired 33%-plus levels?

Srinivas Sadu: I would say, it is one of the toughest quarters in terms of everything, right, I mean, the costs of utilities are high, power shortages in our states are very high, so we have to use utility for that. And then, we have to airlift lot of goods because of the shortages of materials. So that has been absorbed. So I would say, the worst things have already happened. And I think, hopefully, some of these comes back to normal, the margins should only improve.

Mayur Patel: You very nicely explained about all the problems across markets, mostly supply chain driven. So earlier, RoW market was growing at a significantly higher rate than the other markets, which was also helping us to report very 18%, 20% kind of growth or even more in some of the quarters. So ahead, except for the supply chain issues on the demand side, so whenever the syringe supply normalizes, RoW can come back to that same high growth rate in your view?

Srinivas Sadu: Yes, so we have clear visibility on RoW because most of the tenders are won for a couple of years. So we know how the order books look like. It's mostly the supply constraints what we are not able to supply. So that way, we're not too concerned about the growth on the RoW. It's more to do with how much we can supply.

Mayur Patel: You were expecting around September or so the syringe supply would normalize. What is the expectation currently?

Srinivas Sadu: I think it's the same thing, right, I mean, while we are also qualifying other syringes for other markets, but even with BD in this quarter we should be good enough to normalize the supplies. At least, if you look at from April perspective, today, we are better off in one way, we're able to cater to most of the US needs, except maybe a couple of million syringes. But this quarter, we should be able to cater to the demand.

Moderator: The next question is from the line of Ashish Thavkar from IIFL. Please go ahead.

Ashish Thavkar: So, we have guided for launching seven products in the US say over the next few quarters, which has an addressable market of around $1.3 billion. So what's our take there are we still on it?

Srinivas Sadu: Yes, we have approval for three products which are planned to be launched and the rest we have a goal dates of I think next month. So we should be able to launch most of it, yes.

Ashish Thavkar: Other participant had this question on biosimilar. So while we understand that three to four clients you're in active discussions with, but some timelines as to when can we see that first dollar revenue coming in broadly, roughly, in your expectations versus where you're engaged with your client currently, some flavor on that path would really be helpful?

Srinivas Sadu: We are actually not meaningfully adding to near term numbers for this, but at least the first dollar hopefully, we're trying to get in the last quarter of this year if this discussion, everything goes well.

Ashish Thavkar: Anything to say about the tenure of the contract, the duration, where you'd like to begin with?

Srinivas Sadu: What happens with this is initially, people want to test waters, right, I mean, these are all new businesses we're entering, new technology we're entering. So they would like to give us smaller contracts for a year or so or it could be a project-based thing. And some of these gets converted to commercial scale after they do the clinicals and they come back to us for phase-III clinical batches and stuff like that. So once they start taking batches here, of course, they have to continue till the product reaches a conclusion. So that's how all these contracts are.

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

Tushar Manudhane: Sir, just on this biologics again, so how much would be the operational costs already into the P&L?

Ravi Mitra: So Rs.15 crores, Tushar, for this quarter.

Tushar Manudhane: Broadly Rs.15 crores per quarter will be the run rate for next one to two years and fully reflected?

Ravi Mitra: Sorry, your voice is not clear. Can you repeat?

Tushar Manudhane: So Rs.15 crores is a normal quarterly run rate to consider for biologic at least for next one to two years?

Ravi Mitra: Yes, the team is full there, so this will be there.

Tushar Manudhane: Because of this constraints on account of syringes, would there be any penalty on account of delay or failure to supply or that is taken care of despite shortage of ancillary materials?

Srinivas Sadu: No, no, the priority was given to US and normally penalties exist, there we're not losing anything. But other markets we are not catering because of the shortage issue. So domestic and other markets there is no penalty.

Tushar Manudhane: Typically, this syringes or stoppers may be having a long-term contract because irrespective of the product these materials will be any which way required. So what is it that went wrong or this is more like a phenomenon which has been faced by the other companies as well, and how do we take care that this doesn't repeat going forward?

Srinivas Sadu: We do have contracts for syringes. But because there's a single supplier, especially for the US, it is also linked to the safety device. So there has to be a discussion with the supplier how to manage it. But it's not like one stopper fits all, right, hundreds of different stoppers depending on which product, which stopper is compatible with which product. So the R&D decides which stopper to use. So it's not that all stoppers are under shortage. And if you're supplying 150 products, there are only like five or six stoppers which are getting into this issue. So it's not like it's a problem with all the stoppers. But syringes, unfortunately, there are a very few players, and especially in the US a very few approved suppliers. And also because we need to put a safety device for this, and it's a combination product. So we can't change the syringe without the device being changed and there's only one device, that's a restriction we have.

Tushar Manudhane: One last question on this aspect. So given that there are limited number of suppliers for such kind of materials, they would also have their order book kind of things already from the other global players. So even if we get into contract today, what could be the lead time to get the material in place?

Srinivas Sadu: We already have a contract with them for almost 50 million syringes per year. But still, they're not able to supply it. So it's more to do with how much is the demand and how much they have. And they have also added new capacities which they are saying they're going to get online by September or so. So the overall demand across the globe has gone up in the last couple of years. And that's why the constraint is. So I would say they are giving us as a ratio of how much orders versus how much they can supply. That's been the case. But I think that's getting resolved now. Now that there's a gap of almost six to seven months where they didn't supply much.

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

Saion Mukherjee: Sir, on the partnership typically for the products that you have launched in the recent past let's say over the last two years or so, in the US, typically how many partners sold the product in the US market and are these like exclusive contracts or more of them are non-exclusive in nature?

Srinivas Sadu: Some products are exclusive and some are semi-exclusive, I would say. So, especially the big products or wherever there is a patent litigation or some BE study need to be done. There it will be exclusive because they also pitch in with the upfront costs. But otherwise, normally we either will give semi-exclusive or even if we give exclusive, then we'll have a clause if they don't hit a percentage of market share, then it becomes semi-exclusive.

Saion Mukherjee: So for the less complex products you would have multiple players, right, would that be like two, three players or typically like how many players you generally have a contract with

Srinivas Sadu: Normally, we do with two people. But if they're not performing, then we go and give for the third person also. Because not only our product, we also sometimes get the same product for tech transfer wise and other model. So, ultimately, the product which we are manufacturing might be for three or four players.

Saion Mukherjee: In the past I think you had long term contracts for a large number of ANDAs for Athenex, with Fosun, etc., So, have you signed any such large contracts which you can disclose in the recent past either for the US or maybe for the non-US markets?

Srinivas Sadu: You mean a set of products?

Saion Mukherjee: Yes.

Srinivas Sadu: Not in a set of products, but two, three products, like a bunch of three products at a time, that's how we signed, but not like 15 products, 17 products, like that. Normally we do that when a new company starts their own business when they're looking at a portfolio where they also look at some old products also, where we have option to give them, but the companies are already there, they normally look at two products, three products depending on the portfolio what we have. So we sign up like three products at a time or two products at a time or one product at a time, but as a portfolio like Athnex also, when they started the company, that's when we signed up, likewise Xiromed when they started the company, we have signed up a portfolio of products, same like Alvogen. These are all like newly formed entities where we have helped them with a portfolio.

Saion Mukherjee: Yes, so that's what I was referring to. So like these bulk contracts, you didn't have any in the recent past?

Srinivas Sadu: No.

Saion Mukherjee: Just one bookkeeping. I know you've given the inventory days, receivable and payable. Is it possible to sort of mention that in rupees million at least the inventory and receivable numbers as of end of June?

Ravi Mitra: I don't have it right now with me, but I can give you offline. You can also back calculate it based on the sale. So the method of formula is given in the presentation, but we give it to you offline.

Moderator: The next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Because of addition of employees, cost has been higher. What about other expenses? I missed that part. So, the other expense is substantially higher despite lower revenues. So, are these operating costs and here to stay and how do we think about it or is it due to escalation of freight, etc., which is coming down now?

Ravi Mitra: Other expenses for this quarter is Rs.808 million, March was Rs.899 million. So this quarter it has come down actually. And last year June was Rs.783 million. So, it's about 3% up actually, not so much. Only power and fuel has gone up substantially.

Srinivas Sadu: So the reference was percentage to sales.

Ravi Mitra: Most of the cost is fixed in injectable facilities. So it's not so much varies, especially the other expenses in relation to. That's why we have a leverage effect whenever our sales go up or down.

Prakash Agarwal: In terms of timing for qualifying from other injectable, syringes players, so I heard saying that US is largely in place with BD, and you're trying to qualify others with respect to RoW market. So how long does this qualification take because you mentioned some normalization from next quarter, so reference was the upcoming quarter or the current quarter?

Srinivas Sadu: The current quarter for domestic and some of the rest of the world markets, because it's a glass syringe, so you don't take much time, you can quickly replace it. But some markets like Brazil or Saudi where more regulated, there we need to submit the data and that might take three to four months.

Moderator: We move to the next question from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: Sir, can you talk a bit about the pricing pressure in the US that you mentioned especially in the context that I thought that your partnerships in a business model is fair bit sort of insulated from the end market competition?

Srinivas Sadu: So the impact of price for us, I think, is about 1%, so it's not much. And that's been the case over the years, either there's no impact or 1% or something. So, there's not much impact for us on that front.

Sameer Baisiwala: How does it percolate down to your P&L? Is it through profit share or how does it work?

Srinivas Sadu: Yes, it's through profit share.

Sameer Baisiwala: I'm just wondering if the end market product pricing falls 10% or 15%, would the impact not be much bigger for you?

Srinivas Sadu: Because overall revenue wise, it's only about 10% for us. So even that fall, won't impact much.

Sameer Baisiwala: If you are having 1% impact, what does it mean for the end market pricing, so that would be about 10%, right, 1:10, that's what you are saying?

Srinivas Sadu: Yes, correct.

Moderator: The next question is from the line of Rakesh Naidu from Motilal Oswal. Please go ahead.

Rakesh Naidu: My question is to Sadu sir. Sir, until about few weeks back, we were guiding about a high teen kind of growth trajectory overall. What exactly has changed in a few weeks that we're looking at these kinds of numbers? That is number one. And second question is, you talked about disruption led sales loss of around Rs.250 crores, of which the COVID impact seems to be around Rs.150-odd crores. So when we build numbers, take additional Rs.400 crores off the estimates for FY'23, is it a fair way to look at it?

Sumanta Bajpayee: Rakesh, can you just repeat the question again? Both the questions can you just split and come back again?

Rakesh Naidu: My question is until about a few weeks back, we're guiding a high teen kind of growth trajectory overall. I mean, what essentially has happened, that we are seeing such a stark contraction in the numbers overall across all the segments, what exactly is that we have missed out?

Srinivas Sadu: See, one is what we anticipated to get delivered, got delivered late in the quarter, we were anticipating to get the syringes delivered in the beginning of June, end of May, and it got shifted to third week of June. So, that is a big impact. That's when about 6 to 7 million syringes couldn't get delivered. So, that got shifted. But from line shutdown perspective, it was there even prior to this quarter. So, that was a planned one. But we were probably discussing over the entire year, not for the particular quarter, but that impact was there just because of the delay of supplies.

Rakesh Naidu: To understand it very clearly, the syringes issue, is it for the US market, I mean, in the last call you had alluded to the shortage being for the US market, and now you're telling that the same shortage issue is there in the Indian market as well and then obviously, the cost dynamics has changed. How should we actually look at this, I mean, should we expect the resolution of this in the current quarter or in the immediate foreseeable future or there is something which will take some more time?

Srinivas Sadu: So, the syringes are used not just in US market, the syringes are used for US, some of the key regulated markets and other markets also other than domestic where we can't replace the syringes overnight. So, we have actually supplied most of our US demand with what we got. The impact for the US was lesser, probably 20, 25 crores was impact for the US, but the impact was large in other markets where we can't supply because the shortage, so it is no different thing. So that way, there's no separate set of syringes what we get for the Indian market or for the US market. Now, Indian market, we can use other syringes, but we also need to see, because we have a contract for 50 million, we have better pricing. And if you go and buy from others, there is a little higher cost and with the added logistic cost, increase dollar fluctuating, the margin profile was not helping us to sell in Indian market. That's why we stayed away from selling in Indian market with other syringes.

Rakesh Naidu: Sir, what component of this Rs.250 crores loss sales in this quarter is COVID-related?

Srinivas Sadu: You're asking whether compare with last year, first quarter, that's what it is?

Rakesh Naidu: Yes, sir.

Srinivas Sadu: So last year first quarter, like I said, Indian sales last year was Rs.180 crores, out of which Rs.80 crores was COVID-related, where we made Remdesivir and additional Enoxa. So, that's Rs.80 crores from Indian market.

Rakesh Naidu: So that segment would continue to see a similar kind of trajectory over the rest of the current fiscal, right?

Srinivas Sadu: That's gone, correct, that's like a one-time surge .

Rakesh Naidu: Help me understand on your earlier guidance. Even if we exclude this quarter as a one-off, how are we confident that we'll be able to do a high teen kind of growth for FY'23? I am also looking from the context of what Hepalink and Nanjing King is talking in terms of how they're going to you see ramp up their production in Heparin and other products. So how should we actually be looking at your guidance for FY'23 now?

Srinivas Sadu: If you look at our last year sales to this year, our Enoxa sales itself in the US additional revenue we're getting around Rs.300 crores, right, I mean, last entire year for the US we did about Rs.250 crores, now this year, the run rate is around Rs.160 crores per quarter. So it's almost like 600, 620 crores. So there itself, we have a big surge in the numbers for that product.

Rakesh Naidu: And you are confident of maintaining the market share in the second half as well, right, because, I mean, the dynamics would change in the second half?

Srinivas Sadu: These are all contracted, right. This contract was there for couple of years and till we got enough syringes we didn't move to that contract, and that's why we have to start supplying in this quarter compromising on the local supplies.

Rakesh Naidu: There won't be any penalty hits for not being able to deliver earlier supplies?

Srinivas Sadu: If you know the history, the partner already had this contract for a few years and was taking from the innovator and we had an agreement to move that contract to us because we licensed our product when we didn't have approval. So when he took that from the innovator, then we gave him that right to license that product till we get our product approval, so he got that contract. So there was a time limitation on that. It's just more to do with us giving him the right to take the product from the innovator as an AG

Moderator: The next question is from the line of Alankar Garude from Kotak Securities. Please go ahead.

Alankar Garude: My first question is can you help us understand what percentage of your IP-led and tech transfer contracts have a profit share built into the agreement, and does this differ across markets?

Srinivas Sadu: So this profit share model is only for the US market, not for other markets. And our own IP-led products, the profit share might range from 40% to 50% whereas the tech transfer models is more on royalty where we have about 5% royalty on net sales, that kind of a model.

Alankar Garude: So basically no profit share as far as the tech transfer models are concerned?

Srinivas Sadu: Yes, correct.

Alankar Garude: Secondly, sir, we have seen some selling by key personnel including you Mr. Sadu in the last couple of months. Can you please help us understand the reasons for now completely selling off your stake in the company?

Srinivas Sadu: These are all stock options which the employees got three years ago and did some tranches. And as you know, the taxation won't help you to keep long, right. You have to pay a perquisite tax and you have to pay exercise price. So there's a substantial amounts of money where we have to pay upfront. So if you don't pay that, then you have to pay the interest on it. So that's one of the reasons why employees have sold off.

Alankar Garude: I thought actually the tax obligation would be a small proportion of the overall ownership, but that was not the case.

Srinivas Sadu: Not really because you have to see at what price people have exercised it and you have to pay an exercise price plus the price at which it is exercised minus the price at which it got awarded, and on that you have to pay a perquisite tax which for many people it could be 35%, 40%. So you'll end up almost 50% to 60% of the price. So that's substantial amount. And if you wait for long, then there's no meaning in actually people getting any money because then they have to pay interest on the loans they take to get this, right. And also internally, we also have an understanding that people should not trade stocks and all that. Actually, employees cannot buy and sell. So we also have that policy just as a good corporate governance, we don't want that issue.

Alankar Garude: If I look at Fosun specifically, $40 billion of debt and there have been some concerns of late on cash flows. So is there any change at all as to how Fosun is strategically looking at Gland as an investment?

Ravi Mitra: So not that we are aware of anything and for Fosun it is a strategic investment for them and Gland is like an injectable platform globally for Fosun. So it remains same. And Fosun Pharma is also listed as a separate company and our parent is Fosun Pharma direct holding and the board members are Fosun Pharma nominated. And there is no also any impact as a Gland as an independent company to perform business wise or financially wise because there is no inter-dependence on the business side or there's no financial dependence on Fosun or any inter-company any deposit. So Gland will continue to operate like it was doing earlier. But that's what we are.

Moderator: Ladies and gentlemen, due to time constraint we take that as the last question. I would now like to hand the conference over to Mr. Sumanta Bajpayee for closing comments.

Sumanta Bajpayee: Thank you, Steven and thank you all the participants for joining us today for our first quarter earnings call. If any questions still remain unanswered, please feel free to reach out to us. Thanks and looking forward to interact with you again in our second quarter earning call. Good night.

Moderator: Ladies and gentlemen, on behalf of Gland Pharma Limited, that concludes this conference. We thank you all for joining us and you may now disconnect your lines.