"Glenmark Pharmaceuticals Q3FY23 Earnings Conference Call"

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Moderator: Good morning, ladies and gentlemen. Welcome to the Q3 FY'23 Earnings Conference Call of Glenmark Pharmaceuticals Limited.

As a reminder, all participant lines will be in the listen only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Utkarsh Gandhi – General Manager, Investor Relations for Glenmark Pharmaceuticals. Thank you and over to you, sir.

Utkarsh Gandhi: Thank you, moderator. Good morning, everyone and a very warm welcome to the Q3 FY'23 Results Conference Call of Glenmark Pharmaceuticals Limited.

Before we start the call, a review of the operations for the Company for quarter-ended December 31st, 2022. For the third quarter of FY'23, Glenmark's consolidated revenue from operations was at Rs.34,639 million as against Rs.31,734 million in the corresponding quarter last year, recording a growth of 9.2%.

For nine months of FY'23, Glenmark's consolidated revenue was at Rs.96,164 million as against Rs.92,858 million, recording a growth of 3.6% year-on year.

We'll start with the "Formulations Business of India." Sales from the formulations business in India for the third quarter of FY'23 was at Rs.10,745 million as against Rs.10,069 million in the previous corresponding quarter, recording growth of 6.7% India business contribution to the consolidated revenue was 31% in Q3 of FY'23 compared to 32% last year.

As per IQVIA Q3 FY'23 MAT data, Glenmark's India formulations business continues to record strong growth of 11%. As per the IQVIA data, Glenmark's India business continues to be ranked 14th with a market share of 2.2%. During the quarter, Glenmark's India business significantly improved its share in key therapeutic areas of cardiac and dermatology.

As per the IQVIA data, cardiac market share for Glenmark increased to 5.37% from 4.85% last year, and the dermatology market share also went up to 8.15% from 8.05% last year. Glenmark market share in other key therapy areas also remain strong, So the Company share in respiratory market was 5.34% and in the diabetes market was 2.38%.

As per the IQVIA data for MAT December 2022, Glenmark is ranked #2 in dermatology, #2 in respiratory in the third quarter, Glenmark is ranked #5 in the cardiac segment and #14 in the diabetes segment. Company continues to have nine brands in the IPM top-300 brands of the country on the basis of IQVIA December '22 data.

The Company launched multiple new products during the quarter and continue to gain share in some of its key launches across segments. In the third quarter, Glenmark launched the Fixed Dose Combination of Teneligliptin, Pioglitazone and Metformin SR under the brand name Zita-Piomet. This is a novel and affordable FDC to help improve glycemic control amongst adults with high HBA1C and high insulin resistance, and it also includes adherence through a single pill. Earlier in FY'23, Glenmark also launched Sitagliptin and fixed dose combination, followed by Lobeglitazone and FDCs of Teneligliptin including combinations with Pioglitazone and Dapagliflozin, emphasizing its focus on the diabetes segment.

In the cardiac segment, Glenmark recently launched Sacubitril+Valsartan under the brand name Sacu V for the treatment of heart failure. This combination belongs to the class Angiotensin Receptor neprilyzin inhibitor. This drug helps reduce the risk of cardiovascular-related death and hospitalization. The Company continues to have a healthy pipeline of differentiated products which it will launch in the market going forward.

For India consumer care business, the primary sales for the GCC business, in Q3 was Rs.431 million, with a growth of 16% which was mirrored by a strong secondary growth of 13%. For the nine months of FY'23, the GCC business revenue stands at Rs.1,634 million with a YTD growth of 34%.

Our flagship brand, Candid Powder, delivered revenue growth of 9% in Q3 and about 38% in the nine months.

Our La Shield portfolio delivered strong growth of 36% in third quarter and about 80% in nine months. We've also expanded the La Shield product range through La Shield Moisturizer.

Finally, Scalpe+ portfolio recorded 12% growth in Q3 and about 13% growth in nine months of FY'23.

The North America business registered revenue of Rs.8,373 million, which was about $102.3 million for the third quarter of FY'3 as against Rs.7,533 million which was about Rs.94.8 million for the second quarter of FY'23, which essentially translates into a quarter-on-quarter growth of 11%. North America business contributed 24% to the consolidated sales in Q3 of FY'23.

In the third quarter of FY'23, Glenmark received final approval for Nicardipine Hydrochloride Capsules. Glenmark also received final approval and launched Sodium Phenylbutyrate Tablets, USP 500 mg. In addition, Glenmark also launched Fingolimod Capsules 0.5 mg and a new pack size of Telmisartan Tablets.

Glenmark filed one ANDA in the third quarter and plans to file six to eight applications in the forthcoming quarter.

Further, in Q3, Glenmark also reached a settlement with Pfizer for Axitinib tablets 1 mg and 5 mg, the generic version of their Inlyta tablets. Glenmark had previously announced that it had received the tentative approval by the US FDA for their Axitinib tablets on November 30, 2020. As per the IQVIA data for the 12 months period ending December 2022, for the Inlyta tablets, market achieved annual sales of approximately USD657.1 million.

Glenmark's marketing portfolio consist of 178 generic products authorized for distribution. The Company currently has 46 application pending in various stages of the approval process, of which 21 are Para-IV filings.

Glenmark's Europe operations revenue for the third quarter of FY'23 was Rs.4,932 million as against Rs.3,807 million, recording a growth of 29.5%. The Europe business contributed 14% to the total revenues in Q3 FY'23 compared to 12% in Q3 FY'22. The strong European business growth was driven by markets in both Western Europe, Central and Eastern Europe. Key markets in Central and Eastern Europe, such as the Czech and Poland, recorded strong secondary sales double-digit growth during the quarter. Growth was driven by uptick in base business as well as new product launches in the CE markets in the third quarter. Western European business also clocked a high double-digit growth for Q3 with markets like the UK, Netherlands and Germany, all growing significantly. In the UK, the overall pharma market witnessed some supply disruptions which helps Glenmark gain additional share through continued supply to key customers. Also, six new products were launched in the Western European market. Growth was also led by a respiratory portfolio which continues to do well in all the European markets. Key brands such Asthmex and Salmex have gained market share both in volume as well as in value across the central and eastern European markets and the product continues to do well in the Western European markets also through our partners. Tiogiva also continues to grow in the Western European market.

Moving on to the ROW region, which consists of Asia, Middle East, Africa, Latin America and RCIS business. For the third quarter of FY'23, revenue from the ROW region was Rs.6,541 million as against Rs.5,348 million for the previous corresponding quarter, recording a growth of 22.3%. ROW business contributed 19% to the total revenues in Q3 FY'23 compared to 17% in Q3 FY'22.

Glenmark's Russia business recorded secondary sales growth of 26% in value and 3% in unit in Q3 versus the same period last year. Strong growth has been driven by all the key brands in the market including Ryaltris, Montlezir and Canada. Ryaltris continues to gain share and has now been included in the guidelines for Russian Rhinology Society as well. Dimetendine Gel, Fenismart was launched in October 2022 and additional registration approval has been received for the overall drops of this product as well. These two launches will further boost the dermatology segment.

As per the IQVIA MAT December '22 data, Glenmark's Russia business growth was about 15.9% in value terms in line with the overall market. Volume growth was also in line. And amongst the dermatology companies, Glenmark ranks 12th as per the MAT December 2022 data and amongst the companies present in the Expectorants market in Russia, Glenmark continues to maintain a strong position, ranking second as per the MAT December '22 data.

Moving on to Asia, amongst the key markets in the Asia region, Malaysia and Philippines continue to record double-digit secondary growth. Certain micro economic headwinds are slowly easing out in other key markets like Sri Lanka; however, Myanmar continues to have challenges related to currency depreciation.

In the Asia market, dermatology and respiratory are the key therapy areas contributing to majority of our sales. Ryaltris continues to do well in the overall market and we hold about 15% share in Australia and our partner in South Korea, Yuhan also launched Ryaltris in the third quarter of FY'23. The product has already shown a very strong pickup in the market with 30%-plus share in the combination market in a very short time span.

The Middle East and Africa region recorded close to 30% growth in secondary sales during the third quarter. While the Kenya market continue to be impacted by some instability, Glenmark achieved strong secondary sales in South Africa and Saudi Arabia. On the back of key launches, Glenmark continues to gain scale in other markets of the region such as the UAE, Uganda and Tanzania. The Company has also signed multiple business development deals to further augment the business growth.

Latin America witnessed strong growth for the nine months of FY'23. Respiratory again remains a key therapeutic area and a key contributor for Glenmark and its growth in the Latin American markets. Landmark has a high single digit market share across the chronic, respiratory products in Brazil. It's actually ranked 5th as per the IQVIA MAT data in the covered market for the chronic, respiratory segment, and Glenmark is growing faster than the covered markets across all the segments in Brazil. And in Mexico as well, which is another key market, secondary sales growth has remained strong, growing at about 15% of Glenmark compared to market growth of 8% in terms of value, this is as per the IQVIA MAT December '22 data.

We'll just give a brief overview of our key respiratory products, starting with Ryaltris. At the end of third quarter, marketing applications for Ryaltris have been submitted in 58 countries across the world, while it is commercialized in 23 markets, including major markets like the US, Europe, where we have marketing approval and commercialization in the UK and 10 different markets across Europe, Australia, Russia, South Korea and South Africa.

Glenmark's partnered in the EU, Menarini, initiated the commercial launch in the Nordic countries of Denmark, Finland, Sweden, Norway and Germany as well in the third quarter and intends to launch the product in additional European markets in Q4. Our partner in the US, Hikma, has also launched the product. Ryaltris is now stocked at all major wholesalers. Discussions are also ongoing with insurance companies to increase coverage for Ryaltris.

During the third quarter, Glenmark submitted marketing authorization applications for Ryaltris in Hong Kong, Morocco. Glenmark received marketing authorization grant for Ryaltris in Tanzania and is awaiting approval in other key markets like Brazil, Mexico, Vietnam, etc.,

Glenmark's partner in Mainland China, Grand Pharmaceutical, aims to complete enrollment for the ongoing Phase-3 study in China for Ryaltris and submit the marketing authorization by the end of 2023. And Glenmark partnered Bausch Health, intends to soon launch Ryaltris in Canada as well.

In terms of other key products, clinical trial continues for our generic Flovent PMDI product and we expect to file the ANDA in calendar year '23, and we also plan to file at least one more generic respiratory PMDI in the US in the calendar year '23 and continue our filing momentum beyond that.

In terms of our innovative R&D pipeline, we will cover GRC 54276 which is our HPK1 inhibitor. It is being developed as an orally administered IO-adjuvant treatment for patients with solid tumors.

So, for GRC 54276, it's a novel, orally active HPK1 inhibitor, that demonstrates the excellent standalone efficacy and enhances current immunotherapy efficacy. A Phase-1, dose escalation study is ongoing in India. Successful recruitment of patients in Cohort 3 was completed in the third quarter of FY'23. No dose limiting toxicities have been observed till date. IND submission and DCGI submission is planned in the fourth quarter of FY'23 to initiate the part 2, combination study of GRC 54276 with Pembrolizumab and Atezolizumab in the US and India.

GRC 39895 is a RORyt inhibitor and is in the. Company's respiratory pipeline asset which is being developed as an inhale therapy for mild-to-moderate COPD and currently undergoing Phase-1 development in the US.

Moving on to our API business, Glenmark Life Sciences. Revenue from operations including captive sales for GLS was Rs.5,407 million as against Rs.5,225 million, recording a year-on-year growth of 3.5%. Generic API revenues increased 5.9% quarter-on-quarter, an increase of 1.8% year-on-year. Regulated market business continued strong growth momentum for the contributions of over 76.5%.

CDMO business decreased by 9.6% quarter-on-quarter, but demand is expected to pick up from Q4 onwards, and multiple projects are either completed or ongoing for capacity expansion across the manufacturing sites, Ankleshwar and Dahej.

External sales for GLS in Q3 FY'23 were at Rs.3,756 million as against Rs.3,032 million in Q3 FY'22, recording a growth of 23.9% YoY. For the further updates on GLS you can log on to the website, glenmarklifeciences.com

Covering Ichnos Sciences, Glenmark has invested Rs.1,518 million which is about USD18.5 million in the third quarter of FY'23 compared to Rs.1,520 million which is roughly USD20.5 million in the corresponding quarter last year. For the first nine months of FY'23, Glenmark has invested Rs.4,880 million compared to Rs.4,987 million which was invested in the corresponding period in the previous financial year. For further updates on the pipeline and the organization, please log on to the website, ichnossciences.com. The pipeline update for the third quarter of FY'23 has already been published on the website.

Just want to cover a "Few Objectives for FY'23." So, revenue growth of 6% to 8% during the year, sustaining EBITDA margins at similar levels as they were in FY'22. CAPEX of Rs.700 crores to Rs.800 crores. Strategic priority is to enhance our free cash generation and further debt reduction and we continue discussion with potential partners for out-licensing of our Innovative assets.

"Some Notes to the Results" before we begin the Q&A. FOREX gain for the quarter was at Rs.47.6 crores, which is recorded in other income. Total R&D expenditure in the third quarter was around Rs.276 crores, which is 8% of total net sales. For the full year, we expect R&D expense to remain around 10%. Investment in Ichnos as noted earlier was USD18.5 million in Q3 compared to USD20.5 million last year, and for nine months the investment was USD61.3 million in FY'23 compared to USD67.5 million in nine months FY'22. The exceptional item in consolidated results is net gain of Rs.33.9 crores, arising from sale of cardiac brand Brazil for the India and Nepal business. Net of expenses, trade receivables, inventory write-off and some other reimbursable expenses as well as remediation cost related to the Monroe manufacturing site.

Inventory for the period-ended December 31st, 2022, was at Rs.3,010 crores as against Rs.2,865 crores as of September 30th 2022. Receivables was at Rs.3,359 crores as against Rs.3,328 crores as of September and payables as of December was Rs,2367 crores compared to Rs.2,348 crores, thus, there was a net working capital increase of about Rs.158 crores as of December 2022 when compared to September 2022.

Total asset addition in the quarter was Rs.139 crores, of its tangible asset addition was about Rs.107 crores and intangible asset addition was about Rs.32 crores.

Gross debt for the period ended December 31st 2022 was at Rs.4,210 crores as against Rs.3,954 crores as of September 30th 2022. Net debt for the period-ended December 31st 2022 was at Rs.2,615 crores as against Rs.2,715 crores as of September 30th 2022, hence the net debt has been reduced by Rs.100 crores as of December when compared to September 2022.

Before we open the floor for Q&A, I would just like to introduce the management of Glenmark Pharmaceuticals on the call today; we have with us Mr. Glenn Saldanha -- Chairman and Managing Director; Mr. V.S. Mani -- Executive Director and Global Chief Financial Officer; and Mr. Brendan O'Grady -- Chief Executive Officer, Global Formulations Business.

With that, we would like to open the floor for Q&A.

Moderator: Ladies and gentlemen we will now begin with the question-and-answer session. The first question is from the line of Nikhil Mathur from HDFC Mutual Fund. Please go ahead.

Nikhil Mathur: My first question is on the Razel divestments of brands in the Indian market and I have two questions tied to this. The first question is that what's the logic behind divesting brands in India? If I understand correctly, the capital allocation of Ichnos is going down, the US itself is definitely challenged. So, why is this pressing need to divest brands especially in areas like cardiac and Derma? And the another question tied to this would be that the companies which are acquiring these brands, they are the ones which are the challenges to the larger companies in Indian market in the next five, six, seven years. Why hand them over such brands so that they might get a platform to launch more brands on these platforms and they might actually settle in a Company like yourself only at some point in time, so just want to understand this entire brand investment strategies in the Indian market?

Glenn Saldanha: This is Glenn. Nikhil, our thought process is, what we've divested is some of our tail end brands, right, which are not getting actively promoted because of the sales reps concentration going to the core brands, right, and we are re-channelizing that capital into driving our front-end brands much harder, right. So, it's more a portfolio rationalization effort, right, basis which we have taken out those brands and we are channelizing the capital into our front-end brands and growing them faster.

Nikhil Mathur: I understand that, but the point being that, why do treat those brands as cash cows to further your initiatives whether in India or even certain other differentiated assets globally, you have taken time and effort to build those brands, I mean, there must be something attractive in those brands, why some of these smaller companies are kind of pursuing those brands, so I'm just trying to able to understand?

Glenn Saldanha: We are operating at a very different scale, right. Our India business is almost Rs.3,500 crores, Rs.4,000 crores business, right. Our objectives in terms of brand size and brand potential is very different from a smaller Company, right, they would look at it very much-much more differently. We are not able to provide the kind of time and energy involved in growing those brands. And if we just keep them in the portfolio and we don't resource them, over time, they're going to keep declining, right. So, we think it's better to take that capital and redeploy it into growing the front-end brands much faster. And if you see brands like Telma and some of the others that we have, we are still launching new variants, they're still growing at a much-much faster pace than the market, right, there's still a lot of potential, that's untapped right which we are now going after.

Nikhil Mathur: How much is the net cash inflow from the recent divestment?

V.S. Mani: Nikhil, this is Mani here. Just let me address this a little more comprehensively rather than just…So, first and foremost, our net debt in this quarter is Rs.100 crores lower as compared to the previous quarter. You have to understand this in a holistic way. So, our EBITDA was Rs.620 crores, we had a cash interest of about Rs.94 crores, we had cash tax of about Rs.182 crores, we had basically increase in our assets of Rs.139 crores, working capital increase was Rs.158 crores, and dividend we paid during this quarter was about Rs.17.5 crores. So, all in all, this is about Rs.646 crores. So, against our EBITDA, this is higher. As far as Razel goes, we got about Rs.314 crores. But again, as we have put across, around Rs.150 crores is basically the expenses and the write-down against that, and obviously there was a remediation cost also of Rs.129 crores. Broadly, I think this should answer your question. So we've got Rs.314 crores –

Nikhil Mathur: I couldn't catch a number on cash inflow from the Razel divestment.

V.S. Mani: So, there are two ways you can look at it; Rs.314 crores and then the various expenses and we write-down on inventories, etc., after that net gain is Rs.162 crores. But if you look at inventory or something of the past, then, in that case, we would have got at least about Rs.245 crores from this transaction as of that point of time.

Nikhil Mathur: What is the Monroe remediation cost? I think in the footnote it's mentioned at Monroe –

V.S. Mani: That is Rs.129 crores.

Nikhil Mathur: So, the entire consolidated to standalone exceptional expense difference is Monroe basically?

V.S. Mani: Not Standalone. Consolidated is Monroe.

Nikhil Mathur: Standalone difference is Monroe on the exceptional side?

V.S. Mani: Standalone is basically what you got from the sale of Razel and all the expenses attached to that, that is a standalone gain. At the Consolidated level, you spent on Monroe, so the net gain looks at about Rs.33 crores, that's how it is.

Nikhil Mathur: EBITDA margin guidance continues to be retreated at FY'22 levels. But if I look at nine months, I'm looking at reported numbers both FY'22 and this year. Last year it was 18.9% and this year nine months the Company is at 17.4%. So, this implies that ask for fourth quarter is pretty huge. So I'm not sure what I might be missing here.

V.S. Mani: Nikhil, we had guided to about 18% to 19%. So, so far we had about 17.5%. So, I believe by the end of Q4, we should be past 18%.

Nikhil Mathur: Q4 has to be much more than 18% right to –

V.S. Mani: Yes, absolutely, I agree. So, we are working towards that. As you can see, quarter-to-quarter there has been an improvement and also I'm not getting into the adjusted EBITDA side. If you look at it in the one or two quarters, we also have got those Favi inventories, etc., which when adjusted for they were better. So I'm now purely talking from pure EBITDA.

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

Saion Mukherjee: Mani sir, I couldn't understand the net cash inflow from the JB Chem Rosuvastatin divestment. Why there is an inventory write-off in that?

V.S. Mani: Because there are inventories in the channel, so as of a particular day if you sort of only take as much as you can, beyond that you write down, there will be some expiries, so all that comes back. So, that's the reason.

Saion Mukherjee: Only transferred to JV, is it?

V.S. Mani: Not all of it, no, some of them will only go, it will take at a particular level only, they don't go for all of it.

Saion Mukherjee: What you're saying is the net realization is Rs.150 crores from -?

V.S. Mani: Rs.162 crores.

Saion Mukherjee: Similarly, for the transaction on the derma brands which is Rs.340 crores would be realized this quarter, so how much would be the cash inflow in that?

V.S. Mani: So, that again there will be some amount of expenses, etc., I would allude to answering that during that call.

Saion Mukherjee: Half of it, you are saying, like –

V.S. Mani: Maybe a little more than half of that, yes.

Saion Mukherjee: Also, on Monroe, Rs.129 crores of this remediation cost, why is it treated as exceptional item, it's an operational expense, right, I mean, most companies –

V.S. Mani: No, I wouldn't look at it that way because it's not something that we keep spending regularly, right. Basically, we have to do needful to do regulatory action, right. It's not something that on a year-on-year basis I will keep on getting this, right. So, you have to remediate your site, so we're spending on that, so that's why it's an exceptional item.

Saion Mukherjee: I mean it is a one-time expense I understand, but this is not exceptional, right, this is part of operation.

V.S. Mani: No, but you don't get these every quarter or every year. You have to remediate the site for a couple of quarters and it ends there, that's why. So, people come to clearly know what it is. Otherwise if I put it up, then you will ask me the next question, why my expenses are higher, so I have to respond to that. So I've made it very clear. How you look at it is differently, but I have to put it separately and it is an exceptional item because it's not something that I'm going to have every quarter or every year. So, for a person who's looking at a financial statement, very clear that this has happened.

Saion Mukherjee: On the US sales, there is an increase quarter-on-quarter. We had an import alert at the Baddi site. So, is the impact already there and how should we see revenues for the fourth quarter in the US?

Brendan O'Grady: Yes, this is Brendan speaking. The Baddi impact is already inputted into our thinking. So, we don't expect any further impact as far as our guidance, but I mean if you think about the US, Q2 was better than Q1, Q3 was better than Q2 and we expect Q4 to be slightly better or in line with Q3. So, we see the US business is certainly recovering and about $100 million business give or take a quarter as we go forward.

Saion Mukherjee: Any outlook on how should we think about it for FY'24 given we had Monroe which is not cleared from a regulatory perspective?

Brendan O'Grady: Going forward again, we expect low-to-mid single digit growth. I think we'll see the quarter-on-quarter things look strong for the business and we'll see how things turn out with new product launch and so forth, but we do see recovery in the US business, and as we bring Monroe back online which we expect to do later this calendar year, then that will even add to the growth in the US.

Moderator: The next question is in the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

Shyam Srinivasan: Just the first one on Europe and ROW. I think we have seen very good strength in both QoQ and YoY for both those. So, just want to understand what's happening there, any specific products or anything you would like to… I'm just looking at the presentation but it talks about Ryaltris particularly, if you could give us some granular details on both these markets?

Brendan O'Grady: Sure. I'd be happy to address that. Again, this is Brendan. So I'll take your first. If we look at Europe, overall, our respiratory portfolio doing well across all of the markets. We also continue to launch through our partner Menarini and of course we have E-Care, that continues to be well accepted across all of Europe. As I mentioned, our respiratory portfolio with products like Selmex and Asmanex continues to gain scale and we've also done a very good job with our base generic business as far as gaining volume there. So, that's really fueling the European growth. If we look at the rest of the world, Malaysia and the Philippines, we are doing well, Brazil, our respiratory portfolio continue to be strong, we're seeing strong secondary sales in Mexico and our Russian business has been resilient also, had an early cough cold season in this year in the third quarter, which helped with Russia as well. So, across all the segments, whether it's rest of the world or Europe, we're seeing strong growth and we expect that to continue.

Shyam Srinivasan: Nothing in terms of one offset other than the flu season, which could be different, but otherwise these are levels on which we can show sequential growth you think?

Brendan O'Grady: Not really one-off, I mean, if you look at our business, it's been strong in all those markets across all products I think one of the things that we'll point out is the growth of Ryaltris, right, it's doing really well in Australia, it's doing really well in South Africa, it's doing really, really well in Russia and the Czech Republic. So, we continue to see the acceptance of Ryaltris which that will fuel the growth going forward also. So, not really one-off opportunities, more just kind of growth in our base business and new product launches.

Shyam Srinivasan: Just a second question on employee cost. Historically, I always remember Q2 to be the strongest one and then Q3 comes off, but, we have grown like even on the Q2 base. So, just want to understand, we are now making the employee wage provisions even through the year or how should we look at that?

V.S. Mani: Basically, we Phase-it out between Q2 and Q3. So, that's why the Q3 also looks a little higher… Q4 will be lower. And also, Shyam, it looks a little higher this year for two, three reasons; one is obviously this phasing that came in, also, especially outside the currency impact is also there, right, even you translate to rupee the overall thing has gone a bit 10%, so that's another reason why it is higher. So, these are two or three reasons why it looks higher than last year and also obviously the increments would happen in the second quarter.

Shyam Srinivasan: Just want to get the CAPEX numbers again. We have done Rs.440 crores for nine months and we're guiding for another Rs.200, 250 crores for the fourth quarter. Where is this generally going towards?

V.S. Mani: In a way, on a yearly basis, we've always been spending much higher than that also. So, routine CAPEX, some lines that we put, essential lines that we require for some respiratory products, all those that come in. So, those are the reasons why –

Glenn Saldanha: Also, I think GLS gets consolidated. So, their CAPEX also.

Moderator: The next question is from the line of Kunal Randeria from Nuvama Group. Please go ahead.

Kunal Randeria: Just one clarification on Razel. So, this was a Rs.70 crores brand, right. So how come you are around Rs.140 crores of inventories lie in the channel?

V.S. Mani: It's not just that alone inventory or anything, it's also to do with the transaction cost, it's got to do with people, we sort of ex gratia to people, so it's multiple cost there in that.

Kunal Randeria: The reason I'm asking is, it's a very big number for a Rs.70 crores brand. So, a bit more color would be helpful?

V.S. Mani: So, the color that I'm telling you is that basically there is a banker's cost, there will be employee cost, I mean, other in terms of what we said about inventory, etc., the expiry. So, all that put together this is how the cost has come together in.

Kunal Randeria: But can you share how many maybe employees have been laid off or transfer to JB Chemicals?

V.S. Mani: We got Rs.314 crores there.

Kunal Randeria: No, how many employees were promoting in this brand?

V.S. Mani: We got about 50-60 employees transferred in.

Kunal Randeria: Secondly, see, in your presentation, you have mentioned some market share details for Ryaltris, I think 3% Korea, 15% Australia and so on. So, just for my understanding what do you exactly mean by that, so you compare against which standard with whom?

Glenn Saldanha: Typically, we take the allergic rhinitis market for that specific market. So, a lot of these market shares are computed basis the allergic rhinitis market.

Kunal Randeria: So, that means, I mean, the standard of care would be different, in some markets it's not their combination product. So will it be fair to understand you have taken the rhinitis market for a particular country?

Management: Kunal, basically for example in South Africa, for the overall allergic rhinitis market where we have 15% share and in Korea it's particularly the combination market. Because it's just launched, first direct competitor is of course the other combination product. So, if you take the Korea Market, the share is essentially across the combination therapy for rhinitis.

Kunal Randeria: I will take this offline. So, Monroe, I think, we spent around Rs.130 crores in the quarter. So, this is a fairly new plan and the number seems fairly high for one quarter. So, maybe can we just share a bit more kind of improvement that we are doing here?

Glenn Saldanha: I think, Monroe, we are pretty much done with our remediation network, right, Q4, it will come to an end, right, and I think we're hoping to start manufacturing in late Q4 or early Q1 of next year. So, I think the remediation effort is a cumulative impact of all the work that we've done so far and we've been working on the site for a long time. So, we've not been producing product for the last 18-months in Monroe, just keep that in mind and now we are almost done with the remediation work. So, hopefully, from early Q1 we will start and Q4 we will start manufacturing batches again.

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

Tarang Agrawal: A couple of questions from my side. One, ex the remediation expenses, what would be the per annum operational cost from Monroe currently?

Glenn Saldanha: So, it will be roughly about 25 million a year, that will be the normal cost of running the facility.

Tarang Agrawal: Just to get a sense on the US business side. roughly about Rs.3,000 crores of revenue, assuming a large proportion of your generic R&D gets spent to the US, almost 17% to 18% of that revenue is R&D spends, and at the same time we've got Goa but Monroe under FDA action. So, how should we look at it in terms of your capital allocation, whether it's on the operational front or on the capital front going forward, I mean typically do we expect this business to continue being a $100 million-odd business and it stays there, just some flavor on this would be helpful?

Glenn Saldanha: I think there are a couple of things here. One is we think in Q4, the remediation will be across Monroe, Goa and Baddi. But after that from Q1 onwards, the remediation cost will come down significantly because Monroe will be done and then the other sites also will be very insignificant from our overall perspective. So, I think the bulk of the remediation work is in Q3 and Q4 which is what we've taken up. The second point is talking about the US business. See, we have some very exciting products which we're working on right, like Flovent we've got, we've got another respiratory product getting filed this year, we've got a couple of CGT products we've just filed which is in the drug device combination space. So, I think the portfolio looks good. If you see beyond FY'24, while Brendan guided to '24 being mid-single digit, I think from '25 onwards a lot of these products will start kicking in. And then if you see the outer years, we have some exclusive products where we've done some settlements where we have the sole 180-day exclusivity on almost three such opportunities from I think '26, '27, '28. So, I think the portfolio looks strong as we go forward both in terms of what we've filed and what we are working on filing in the next 12 months for the US. And then if Monroe starts kicking in second half of next year in terms of commercial sales, next financial year, then that will also give us an injectable site and that will further drive our US portfolio forward. So, there is a very clear path that we're working towards for the US business which we're building on as every quarter goes by.

Tarang Agrawal: GLS cash flows would largely be ringfenced for GLS growth aspirations, right?

V.S. Mani: Yes, absolutely, in a way it's a listed public Company so are well, everything is at arm's length.

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

Prakash Agarwal: First, a clarification on this Monroe. So, you are expecting exhibit batches to start from Q1. I currently understand it's OAI. So, would this require an inspection or the remediation actions are good enough and you expect the FDA to clear it?

V.S. Mani: Prakash, all these things is we are starting commercial manufacturing and manufacturing from Q1. Obviously, FDA will come in we believe and reinspect the facilities. So, that's part of the expectation.

Prakash Agarwal: But do you have a date or its post-remediation what is the process I'm just trying to understand, post-remediation you will invite them?

V.S. Mani: Prakash, we can't comment on that specifically. I mean all we are saying is we expect an FDA inspection and the process of remediation is underway as we speak.

Prakash Agarwal: Just a commentary on your R&D split. I'm sorry if you've already said, there's another call. So, what is the current R&D split between GS and innovation?

V.S. Mani: Innovation is about 4%-odd, GS is 6%. So we've guided to about 10% for the full year. So that's how the split is.

Prakash Agarwal: How does this look for the next financial year?

V.S. Mani: Prakash, it may trend a bit lower of about 0.5% or so.

Glenn Saldanha: Innovation, Prakash, because of Ichnos, will come off quite significantly next year. As we said, Ichnos, the spend will come to 60 million from current ATV 5 million in that ballpark. So, there is a significant drop on innovation spend next year on account of cut back in Ichnos. I think the overall R&D spend will trend at around 8%, 8.5% for the full year next year. There is a significant drop coming out in the total R&D spend also.

Prakash Agarwal: But largely GS remains similar, the Innovation comes down by almost a quarter?

Management: Correct, that's right.

Glenn Saldanha: Savings are coming out of innovation cuts.

Prakash Agarwal: What about the monetization or hive-off plans, we always believe that, okay, we are at the far end of monetizing one of the large assets, is that plan still on or what is the plan-B for this?

V.S. Mani: So, very clearly, I mean, the way I see it is FY' 24, we have four strong innovative assets; three with Ichnos; 1342, 1442, 2001 all these three should get to a POC by end of FY'24 and then you got the HPK1 which is doing really well and which also will get to a POC in FY'24. So, FY'24 is a very critical year for the innovation work that we're doing at Glenmark and even if two out of four we get good POC that we think will be transformational and obviously the path is then to partner out and monetize it and do all that which is what we're working on even as we speak.

Prakash Agarwal: And what is the dollar debt today?

V.S. Mani: Sorry?

Prakash Agarwal: The dollar gross debt and net debt?

V.S. Mani: In gross debt, the dollar will be about 440 million, plus some rupee loans, and the net debt would be lower by about $100 million in the foreign currency part.

Prakash Agarwal: And the divestment, which are largely rupee-led, you would have -?

V.S. Mani: Yes, rupee-led only.

Prakash Agarwal: I think you would have knocked off some of the rupee debt?

V.S. Mani: So, if you look at it, obviously, net debt is lower by Rs.100 crores, to that extent, some rupee debt would be lower, yes.

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

Nitin Agarwal: Mani, sir, on the staff cost, I think in the last couple of years, we had done a pretty solid job on controlling the staff expense increase. This year seems to be a bit of an outlier. Now, barring the currency, is there anything which has changed and how should we look at this staff cost as well as other expenses on a going-forward basis?

V.S. Mani: So, let me address the other expenses first. So, other expenses, we are pretty much at about 26% or so, I mean, give and take a few percentage here and there quarter-wise. So, there, we are not too much worse off if you really ask me, Nitin. Last year, if you look at it, the first quarter was a COVID quarter, till July, we had COVID and all that. So, this year it is not there. Also, the other issue that you look at this year is because outside India, when you translate to rupees, there is a rupee depreciation of 10%, so that's also looks a little on the higher side. So, that's why these are there. Next year, when we you go to a full year, it will correct itself. So, I think other expenses, I don't see it as broadly where we are. In terms of the staff costs, basically, again, as I told, the second and the third quarter looks a little higher because of the phasing of the bonus. Also, outside India, again, when you translate, there is a good 10% increase in the overall cost because of the currency. In Q4, it should correct itself. So, full year, we look at it at about 21% against 20% last year, there is one percentage higher, which we are making up in other areas.

Nitin Agarwal: Sir, going forward, staff cost of about 20%, 21%, other expense at 26%, you don't see much opportunity instead of reducing these percentages to sale?

V.S. Mani: Yes, there will be some opportunities. You could see it a 1%, 1% lower as we go along. So, that will add to the improvement in EBITDA, at least 1%, 1%, which is what we did. Like other expense used to be 29%, we brought it to 26%. Staff costs, we'll definitely get it lower by a percentage point.

Nitin Agarwal: Secondly, for the quarter, what was our mark-to-market impact of the currency on the loans?

V.S. Mani: It would be about Re.1 what it moved from Rs.81.47 to around Rs.82, so it will be about Rs.35 crores to Rs.40 crores.

Nitin Agarwal: Sir, on the working capital, looking beyond Q4, how should we look at working capital now? We've had some higher inventory working capital over the last few quarters. Do we see opportunities to bring it down further, how are you looking at the working capital front going forward?

V.S. Mani: So, Nitin, actually, it's more of a commercial call, okay, as of now we speak. Obviously, with our customer requirements being higher, especially some of our India sites where we have to work on remediation, etc., so obviously, the requirements of inventory have gone up. So, I think for a couple of quarters, we'll see the inventory levels higher. So, after that, it will kind of come off. In the first part of the year, there were more in terms of the situation in China, etc., that is why we had a higher inventory. I thought it would come down. But, because of these, we need to keep it up. But I think it is worth it, Nitin, because it helps us to grow our business better.

Nitin Agarwal: Any thoughts on the tax rate on a going forward basis?

V.S. Mani: So, as you see, during the last three quarters, it has come down. So, I think going forward, there are two things; one, you will look at the effective tax rate, which I think should be about between 33%, 34% or so next year, and cash tax is anyway at about 30% only, India is much lower, but overseas because of the spends in Ichnos, which as we see it come lower and lower, both the ETR as well as the cash tax is lower.

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

Charul Agrawal: I wanted to understand a bit more about the US business outperformance this quarter. What was driving it, does it include any benefits from some supply disruption or seasonality benefit?

Brendan O'Grady: So, the performance in the US business this quarter is really due to just increases in volume and share gains in our base business. I think we're doing a better job executing in the market. There have been some disruptions in the US market that we've been able to take advantage of, which overall is helping with the recovery in the growth as well as some new product launches. So, there's nothing really kind of, I would say, it's a one-time outstanding issue that led to the performance. It's just kind of better execution in growth on the base business.

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

Tushar Manudhane: Just to know the overall Ryaltris sales for the quarter, now that we are kind of commercializing 23 markets, if you could give some ballpark number?

Glenn Saldanha: We are trending at around $20 million, $25 million for the full year, right, for the current year. Ryaltris, our view is over a four, five-year timeframe, right, to peak sales, we'll get to about $100 million, $150 million, right, in revenues. So, this year, it's trending at around $20 million, $25 million, primarily driven heavily by Europe and the rest of the world markets.

Tushar Manudhane: US is not yet; it's just launched and not a meaningful contribution for this quarter?

Brendan O'Grady: So, in the US, Ryaltris, we just launched at the end of last calendar year, and they're working through insurance and payer coverage. So, there's really not a lot of Ryaltris sales in this quarter, and probably we won't see Ryaltris sales start to pick up in the US in the second half of this calendar year.

Tushar Manudhane: If I'm correct, it would be expected to pick up second half of calendar year, right?

Brendan O'Grady: That's right. Yes.

Tushar Manudhane: And secondly, how many ANDAs have been filed from Monroe till date?

Glenn Saldanha: So, we don't have the exact number, but my guess is, it's around five, six, right, which are pending right now.

Tushar Manudhane: So, with these remediation measures, would you have to kind of revalidate these products and then re-submit or what's the thought process there?

Glenn Saldanha: Unfortunately, I cannot get into that level of detail, right? But we are working through the remediation, right? And we're hoping to bring some of these products to the market.

Tushar Manudhane: Did that require a significant amount of infrastructure change, considering the amount that has been spent at Monroe?

Glenn Saldanha: The amount is purely consultant cost, okay, bringing in third-party consultants to remediate the site. It is pretty standard, for all companies that go through remediation, right, especially the amount of remediation that we've done at Monroe is pretty standard, it's not extraordinary.

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

Saion Mukherjee: Just one follow-up, Glenn, on India business. These divestments that you have been doing, are we done with it or you think there would be more divestment that you are sort of considering the non-core brands?

Glenn Saldanha: We have no more plans Saion, we are pretty much done with it at this point. But, again, just keep in mind, look, this is all being done in order to drive up… a lot of that capital has been redeployed into driving our front-end brands. So, India growth will continue to remain strong, right, even going forward, right, despite these divestments. They're insignificant. If you see the total divestments, we are talking of, around Rs.150 crores on almost a Rs.3,500 crores, Rs.4,000 crores business, right? And that is just being done to redeploy capital into our front-end portfolios.

Saion Mukherjee: And the other one on Ichnos. You mentioned the proof-of-concept by end of '24. There seems to be some delay in the timelines here. So, if you can clarify what's happening, and any more granular detail in terms of quarter that we can expect?

Glenn Saldanha: I think 1342 should come in Q1, 1442 maybe Q2, Q3 and 2001 in Q4.

Saion Mukherjee: So, now with COVID gone, things are on track, do you think in terms of getting or meeting these timelines?

Glenn Saldanha: Yes, I think so, Saion. There are always hiccups in drug development, right? It's not a linear path, right. So, 1342, there are some delays clearly, but we think by Q1, we'll have visibility.

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

Vikas Sharda: Two questions. One is the medium-term guidance is zero net debt by FY'26. But, if you were to give any milestones, say, by the end of this year and FY'24, so that will be helpful? And secondly, for this Razel transition that Rs.150 crores of transaction costs, the banker and the employee costs and the inventory, the three main items, if you could break it up will be helpful?

V.S. Mani: So, Vikas, obviously, we have guided to zero net debt by '26. So, I think as we go along quarter-wise, you will see it come lowering, in the next quarter also, it will come a little lower. It would not be appropriate to start breaking up everything into this. So, I've given overall what is the spend. So, obviously, all this put together is what it came to, yes.

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

Nitin Agarwal: So, just on the US business, Glenn, how are you looking at the approval pipeline for the next four to five quarters?

Glenn Saldanha: I think, Nitin, the portfolio is looking strong, okay? FY'24, as Brendan said, if we get to a mid-single digit, I think we'll be okay. But from there on, starting, I think, second half of FY'24, we should see some good approvals coming through for the US.

Nitin Agarwal: And for our respiratory filing of Flovent, it's going to be a FY'25 filing, if I remember the earlier guidance?

Glenn Saldanha: End of calendar '23 is when we file. Launch is '25.

Nitin Agarwal: The other respiratory assets, you're again looking to file in FY'24 sometime?

Glenn Saldanha: Yes, FY'24, correct.

Nitin Agarwal: And again, we're looking at FY'25 launch even for that asset?

Glenn Saldanha: Correct.

Nitin Agarwal: So, two large respiratory assets sometime in FY''25, that's the expectation?

Glenn Saldanha: Correct.

Nitin Agarwal: And these CGTs that you talked about, Glenn, what kind of timeframe would you look for those?

Glenn Saldanha: So, one could get approved in second half of FY'24, that could be a meaningful product for us. And the other one, probably Q1 FY'25.

Nitin Agarwal: So that's where I think your commentary around second half onwards is when some meaningful additions can begin to come through?

Glenn Saldanha: Exactly… and Monroe to add to that in second half.

Nitin Agarwal: Glenn, so Monroe, how will it work -- have you informed the FDA to visit or it's going to do it at some point in time?

Glenn Saldanha: We have constant updates to the FDA, right, on the remediation work that's going on. So, I think that's the only visibility that we can give at this point.

Moderator: The next question is from the line of Ajay Vora from Nuvama Group. Please go ahead.

Ajay Vora: So, if you look at the current quarter, in spite of high remediation costs and inventory loss and a lot of restructuring that has taken place, we are at an EBITDA run rate of close to Rs.620 crores. And now that if you are looking at some sort of cleanup in Q4 as well, from Q1 and then moving forward, we are looking at US improving and contribution from Monroe. Do you think somewhere in the second half, there's a run rate of around Rs.620-odd crores of EBITDA can move to Rs.700 crores plus?

V.S. Mani: It should definitely move up, I mean –

Glenn Saldanha: I think if you see next year, right, if we are able to grow sales 10%, 12% margin expansion because of the lower R&D spends, right, or margins going up substantially, I think that will clearly translate into higher EBITDAs, right? Hopefully, starting from Q1, you should see that flow through come in, some of it, at least in terms of sales growth as well as margin expansions coming through.

Ajay Vora: From Q1 itself, can we be closer to the Rs.680 crores, Rs.700 crores of run rate?

V.S. Mani: So I would not like to dwell on giving a number quarter-wise, but you are right, say next year second half onwards, there will be a bigger improvement, that should be there.

Ajay Vora: And therefore, by end of next year, what can be our net debt level?

V.S. Mani: It will definitely come down. See, there are here and there uncertainties that come in. Instead of giving any number, all, I can tell is, we constantly will endeavor to bring it down, okay, and that's what we've been doing.

Moderator: Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Utkarsh Gandhi for his closing comments.

Utkarsh Gandhi: Thank you, moderator. We'll just read the disclaimer before we end the call. The information statement and analysis describing the Company or its affiliates objectives, projections and estimates discussed during the call are forward-looking statements. These statements are based on current expectations, forecasts and assumptions that are subject to risks and uncertainties, which could cause our actual outcomes and results to differ materially from these statements depending on economic conditions, government policies and other incidental factors. No representation of warranty, either expressed or implied is provided in relation to this document and the comments discussed during the call and should not be considered as a substitute for exercise of recipients own judgment. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. With this, we end today's call. Big thank you to everyone for joining us today.

Moderator: Thank you, members of the management team. Ladies and gentlemen, on behalf of Glenmark Pharmaceuticals Limited, that concludes this conference call. We thank you for joining us and you may now disconnect your lines.