GLAND PHARMA LIMITED

November 11, 2023

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Scrip Code: 543245

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

Dear Sir/Madam,

Sub: Earnings call Transcript- Q2FY24

Please find enclosed the transcript of the Earnings call for Q2FY24 of the Company held on Monday, November 06, 2023, at 18.30 Hrs IST. This will also be available on the Company's website and the web link to access the same is https://glandpharma.com/investors/financials

This is for your information and records.

Yours truly,
For Gland Pharma Limited

KUMAR PALLERLAMUDI SAMPATH
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Sampath Kumar Pallerlamudi
Company Secretary and Compliance Officer

"Gland Pharma Limited Q2 FY2023-24 Earnings Conference Call"

November 06, 2023

MANAGEMENT: **MR. SRINIVAS SADU – MANAGING DIRECTOR & CEO**
MR. RAVI SHEKHAR MITRA - CFO
MR. SUMANTA BAJPAYEE – VICE PRESIDENT, CORPORATE FINANCE AND INVESTOR RELATIONS

Moderator: Ladies and gentlemen, good day, and welcome to the Gland Pharma Limited Q2 FY2023-24 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal the 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. Sumanta Bajpayee. Thank you, and over to you, sir.

Sumanta Bajpayee: Thank you. A warm welcome to Gland Pharma's Earnings Conference Call for the 2nd Quarter of Financial Year '24.

I have with me Mr. Srinivas Sadu - Managing Director and CEO, Mr. Ravi Shekhar Mitra - our CFO, to discuss the "Business Performance" and to answer queries during the call.

We will begin the call with business highlights and an overview by Mr. Srinivas Sadu, followed by a financial overview by Mr. Ravi Shekhar Mitra. After opening remarks from the management, the operator will open the bridge for a Q&A session. Our "Earning Presentation" has been submitted to the stock exchanges and is also available on our website.

Before we proceed with the call, please note some of the statements made in today's discussion may be forward-looking and are based on management estimates, and this must be viewed in conjunction with the risks and uncertainties involved in our business. The safe harbor language contained in our press release also pertains to this conference call. This call is being recorded, and the playback shall be made available on our website shortly after the call. The transcript of this call will be submitted to the stock exchanges and made available on our website.

I will now hand over the call to Mr. Sadu for his opening remarks. Thank you all. Over to you, Mr. Sadu.

Srinivas Sadu: Thank you, Sumanta. Good evening, everyone. Welcome to our 2nd Quarter fiscal year 2024 Earnings Call. I want to begin this call by wishing you and your family good health, happiness, and prosperity. As the end of 2023 gets closer and this will be our final call for the year, I will also take this opportunity to extend season and festive greetings on behalf of Gland.

Let us discuss the Quarter's Financial Performance and Business Highlights:

Like the previous quarter, we have provided updates on the standalone Gland entity and the group performance, including the financial data from our recently acquired CDMO business operating under Cenexi. We are delighted to report a consistent performance in line with our expectations for the quarter. The revenue growth trajectory has been steady across key markets and products, mainly fueled by new launches and the consistent market share of our top products across our B2B partners. We reported a revenue of INR 13,734 million in Q2 FY24 compared to INR 12,087 million in Q1 FY24 and INR 10,444 million in Q2 FY23, demonstrating quarter-on-quarter and year-on-year growth of 14% and 32%, respectively.

In Q2 FY24, our core markets of the US, Europe, Canada, Australia, and New Zealand contributed 74% of revenue, up from 72% in Q2 FY23. Total sales for the United States, the company's largest market, increased by 22% quarter-over-quarter and 9% year-over-year. During the quarter, 15 molecules (14 in the US) were launched or reintroduced in these markets. The new introductions to the market also included some niche products such as Calcitriol, Fluphenazine, and Desmopressin, for which our partners have begun to see traction and we remain optimistic about the future growth in volumes.

During the quarter, the pricing environment for most of our products remained stable, and we saw an increase in volume for some of our older products, including Ketorolac, Rocuronium, Fluorouracil, and Esmolol. In addition to the US market, we also see increased sales in Europe and Australia. Maximizing the reach of our US-approved portfolio will be a key factor in our continued growth and market expansion. The rest of the world markets contributed 19% of our revenue in Q2 FY24 compared to 21% in Q2 FY23. These markets experienced a 9% decrease on a quarter-on-quarter basis, mainly due to the uneven procurement schedule of the rest of the world business and lower sales of the key partner in Cenexi. We expect the rest of the world's demand to remain stable as we align strengths to expand our market reach and establish new partnerships.

The India market accounts for 6% of our Q2 FY24 revenue and has seen growth of 21% as compared to the same quarter last year. We continue to operate within the realm of opportunities in which the portfolio holds the potential to improve the overall health of patients significantly. From a margin and profitability standpoint, we reported an EBITDA of Rs. 3,205 million with a net profit of INR 1,941 million in Q2 FY24.

Moving on to operations:

The company emphasized efficiency in operations and productivity enhancements while delivering consistently high-quality products. We continue to put first regulatory compliance with the agencies and our partners. We also concluded a successful audit by EU authorities at the Pashamylaram site.

On the R&D front:

Total R&D expenses for Q2 FY24 were INR 351 million or 3% of our operating revenue. We filed 1 ANDA in the quarter and received approval for 5 ANDAs. We have also made progress with the complex portfolio, and in the next 5-6 months, at least three products will be ready for submission.

As of 30th September 2023, Gland and its partners filed 336 ANDAs in the US, 275 of which were approved and 61 unresolved. We have 1641 product registrations worldwide.

Now, coming to Cenexi business:

Due to the annual summer closure, our Cenexi business in France and Belgium only operated for two months, resulting in only partial revenue booking for the quarter while incurring fixed costs for the entire quarter, resulting in a negative EBITDA margin. Cenexi's revenue for the two months was INR 3,588 million, with a gross contribution margin of 77%, an improvement over the last quarter, and EBITDA of negative INR 268 million. The revenues and performance were consistent with the historical trend after normalizing the shutdown impact.

The post-integration activities have commenced, and the One Gland family initiative is advancing. While we see great traction for new Business opportunities, the focus is to streamline deliveries and Operational efficiencies to cater to the current demand to improve OTIF and fasten the completion of the Technology transfer projects on hand. Some of the present low-margin businesses will be phased out to make way for newly secured businesses. The lag will primarily be due to technology transfer activity before the commercial batches are shipped out. Until then, we will have modest growth in revenues.

To improve capacity and operational efficiencies, we will invest approximately Euro 60 million in CAPEX and working capital over the next 12 to 18 months. In the medium term, we anticipate Cenexi to begin churning results consistent with the acquisition thesis. While the investments bear fruit and the near-term issues influencing Cenexi's profitability are resolved, we remain confident that the company will generate long-term value.

Overall, we have been satisfied with the quarter and remain optimistic about Gland's long-term prospects as we head into the second half of the financial year 2024.

I now pass over the call to our CFO, Mr. Ravi Mitra, to share more insights about our financial performance for the quarter.

Thank you very much. Over to you, Mr. Mitra.

Ravi Shekhar Mitra: Thank you, Mr. Sadu. Good evening, everyone. Thank you very much for attending our 2nd, Quarter Earnings Call.

Let me begin by sharing the "Financial Performance" of the 2nd Quarter and first half of the Financial Year of '23-24. Revenue from operations for Q2 FY24 stood at Rs. 13,734 million, an increase of 32% on a year-on-year basis. The growth was driven by the inclusion of revenue from Cenexi and the improvement of US markets in the base business. We have witnessed a 14% increase in revenue compared to the previous quarter. Revenue from operations for the first six months of fiscal 24 stood at Rs. 25,821 million, a year-on-year increase of 36%, primarily due to Cenexi.

Other income for the Q2 FY24 was Rs. 532 million, which includes interest on fixed deposits of Rs. 325 million and foreign exchange gains and operations of Rs. 82 million. For H1 FY24, the other income was Rs. 907 million, of which interest on fixed deposit was Rs. 676 million, and foreign exchange gains on operations were Rs. 82 million. The gross margin for Q2 FY24 was 62%, a significant improvement compared to 50% in Q2 FY23 due to the high gross margin of Cenexi. On the positive side, our base business has also witnessed an improvement in the gross margin on a yearly basis due to improved margins in the US market.

We have reported an EBITDA of Rs. 3,205 million in Q2 FY24 compared to Rs. 2,969 million, which is an increase of 8% compared to the same period last financial year. The EBITDA margin for Q2 FY24 stood at 23% as compared to 28% for the same period of the previous financial year. For the base business, Ex-Cenexi, we have reported the EBITDA margin for Q2 FY24 at 34%, up from 28% in the same period of the previous financial year.

On our base business operation, we managed to reduce the power cost by 5% during this quarter as compared to the same period of the previous year and maintained manpower costs at the same level. The EBITDA for the six months ended September 23 was Rs. 6,187 million compared to Rs. 5,668 million for the same previous year, an increase of 9%. We have reported the EBITDA margin for H1 FY24 at 24% for the group and 32% for the base business.

Our net profit for the 2nd Quarter decreased by 20% and stood at Rs. 1,941 million compared to Q2 FY23 and remained similar to the previous quarter of the current financial year. During the quarter, we recorded a PAT margin of 14%. During the six months of the current financial year, our PAT was Rs. 3,882 million at a 15% margin.

The total R&D expense for the 2nd Quarter was Rs. 351 million compared to Rs. 414 million for the same period of the previous financial year and stood at 3.5% of the revenue from operations on an Ex-Cenexi basis. The total R&D expense for the six months was Rs. 808 million, 4.3% of our revenue.

On a standalone basis, our effective tax rate was 26% in the 2nd Quarter and a similar 26% for the first half of the current financial year. Total CAPEX incurred during the quarter was Rs. 971 million, spent mainly on Combi-line and an additional Bag line in the Pashamylaram in Hyderabad. At Cenexi, we have concluded our assessment of CAPEX and working capital needs. As part of a strategic plan, we are preparing to make investments of approximately EUR 60 million over the next 18 months. These investments will be instrumental in enhancing our capacity and operational efficiencies. We have already initiated investments in the PFS line and high-speed ampoule line, along with procuring essential inventory spares. As of September 30th, 2023, on a group level, we had a total of Rs. 22,627 million in cash and equivalents, an increase of Rs. 2,209 million over the previous quarter of June 30th, 2023. Due to loans on Cenexi's book to the tune of Rs. 3,127 million as of September 30th, our net cash position was Rs. 19,500 million.

Cash flow from operations during six months was Rs. 4,218 million, but working capital was reduced and stood at Rs. 22,904 million as of 30th September 2023 as compared to Rs. 24,010 million as of 31st March 2023 due to a decrease in inventory levels. Average cash conversion cycles stood at 196 days for the six months that ended September 23, as compared to 226 days in the same period last financial year.

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

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

Saion Mukherjee: Mr. Ravi, can you share the milestone income for this year, this quarter, in terms of percentage of revenues Ex-Cenexi?

Ravi Shekhar Mitra: Ex-Cenexi milestone revenue was 5% of the revenue for this quarter.

Saion Mukherjee: And it was 11% in the previous quarter. Am I correct on that?

Ravi Shekhar Mitra: Yes, that is correct.

Saion Mukherjee: And what are your expectations like this is a normalized level going forward?

Srinivas Sadu: In terms of milestones or?

Saion Mukherjee: Yes, milestone

Srinivas Sadu: It could be up and down in the quarters, but it will be between what we have achieved this quarter and last quarter, between 5% and 10%.

Saion Mukherjee: And another question on Cenexi, just to get some clarification, you mentioned a shutdown you take every year, so what is the impact on revenue? So, you reported around Rs. 360 crores of revenue, so is it that once the plant started, there is some shipment? So, how should we think about the normalized revenue run rate for Cenexi and around Cenexi? Can you talk about how we should think about general margins going forward? I think on the last call, you mentioned about 15%-16% margin over time, so can you guide me around the margins going forward, please?

Ravi Shekhar Mitra: If you look at the annual basis, which is a steady business for Cenexi, it is around EUR 190 to 200 million, and if you look at last year, it is around 10% of EBITDA, and we are just looking at the next few quarters, I think the trend is similar. So, on a quarterly basis, it should be around

EUR 50-55 million if it is a full quarter revenue, and the EBITDA margins will be around the same, around maybe 10%-11%, but on an annual basis, it should be 10%, but we have to see we are putting efforts to improve the efficiencies and deliveries to improve the EBITDA margins.

Saion Mukherjee: And just one more question, if I can, we have seen a recovery in the US market from the lows that we had in the fourth quarter, so what are the trends that you see in terms of new launches and price competition and what are your expectations for the next couple of quarters?

Srinivas Sadu: Price overall is stable, and if you look at from the previous quarter to the current, the relaunches, what we have done, out of 14 products in the US that we launched, 4 are entirely new and about 10 are relaunches what we have explained last quarter and new launches have contributed about 10% of growth quarter-on-quarter and the quantity increase about 11% growth over the quarter. So, they are generating more volume. We are a little aggressive on pricing. With the new lines coming on track, we can absorb more fixed costs. That way, we can be more competitive, I would say, in some while maintaining the margins. So, some of the products, like Ketorolac and Rocuronium, are more aggressive, which is why you see an uptake in the volumes. Yes, so overall, I think the older products focus more on volume increase because of the new capacities that got added post-FDA line approvals last quarter, and we can compete better, I would say, because of better cost.

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

Shyam Srinivasan: Just one on the core business margins, we have come back to around 34, close to the mid-30s that we have guided in the recent past, right? So, how should we look at margins on a core business going forward, and what are some of the levers that we have? Is it just operating leverage, or do you think there is a pricing environment? If you could also comment on whether there is a deceleration in the erosion, you talked about being a little aggressive on pricing, so I just want to connect those two comments.

Srinivas Sadu: So, I would say, 34%, if you look at the products we sold, still Enoxaparin has not come back; it will start coming from next quarter a bit and the last quarter of this fiscal in more volumes. Enoxa, normally, the margins are a little lower. What comes probably the EBITDA margins might slide a little bit. So, I still consider 30%-32% could be the targeted EBITDA margin because Enoxa, compared to low-margin products, will start to gain from the next quarter and subsequent quarters. In terms of price versions, yes, I would say if you looked at the growth, I was talking about volumes and new products; price variance is almost nothing. So, it is almost like a flat. There is no price erosion happening, and some of the new products are doing well. I mentioned a few niche products including regadenoson we have done well. So, some products are doing well, and some of the older products, like you said, because of better cost efficiency, we were able to aggressively sell. So, we are able to sell more volumes. So, with 11% volumes at the base, what we have is quite substantial, and we continue to see which other products we can increase in volumes while maintaining a similar kind of EBITDA margin.

Shyam Srinivasan: What it is also just trying to disaggregate, just the US Y-o-Y growth of 9%, right? So, you are saying volumes are 11 and -2 is price, and this 11 includes new products, right? So how will we look at volume growth for base products and what has been contributed by new, for example, geography say the US?

Srinivas Sadu: So, for the US, our base business, our new launches compared to the previous quarter, the growth is about new launches contributed 15%, and quantity has actually contributed 15%. So, both are high, and the price variance is around, I think, about 1% lower. So it is almost flat, and if you keep the milestone, it was higher last quarter because we are licensed more products. It all depends on how many approvals you get and how many licenses you get. It is a factor of approval timing, so if more products are approved then that will increase again. So that is normally between 5% and 10%, like I said.

Shyam Srinivasan: Sir, second question on are we reinstating or bringing back some kind of a revenue guidance, so you seem to have given a 30% to 32% on EBITDA, but anything on the revenue guidance either second-half or for the medium term?

Srinivas Sadu: We are still staying away from giving the guidance, but the idea is to give steady growth quarter-on-quarter. That is how we are seeing the next few quarters.

Shyam Srinivasan: Sir, I am referring to your point number 2 in the qualitative comments you mentioned in the presentation which talks about improved prospects for growth, so what does that mean?

Srinivas Sadu: So basically, we are saying we will give growth. We don't want to give a number to it, but it will be a steady growth.

Shyam Srinivasan: And then last question, just quickly, EUR 60 million in CAPEX for Cenexi, is this previously envisaged or something that once you have looked at the facility you have put in place, and what is it predominantly for?

Ravi Shekhar Mitra: The 60 million is not only CAPEX but also to build the working capital, inventory level, etc., because you are putting capacity there. So out of 60, 30 to 35 would be the CAPEX, and that would be what we anticipated during our evaluation because we needed to change the lines to high-speed lines that we have here and also put high-end PFS lines there, so it was all earlier estimated, yes.

Srinivas Sadu: So if you look at the operational cost of Cenexi (manpower etc.), that is pretty high while the gross margins are pretty good and while during the evaluation of the diligence itself, we knew that if you can replace their existing lines with some better lines, we can improve the efficiencies and also cost structure that was as per the previous plan and if we look at so many tech transfer projects happening to that side, it is about 25 odd projects that are happening. So, we are envisaging these volumes coming end of next year or beginning of 25 so that needs additional capacity also. So like Ravi said, the increased capacity was envisaged there, but there are also areas where we need to invest in short-term improvements.

Moderator: Thank you. The next question is from the line of Bino Pathiparampil from Elara Capital. Please go ahead.

Bino Pathiparambil: Just working out, given your Ex-Cenexi EBITDA margins at 34%, now it seems Cenexi has made an EBITDA loss in the quarter. Am I getting it right, or is there something wrong?

Ravi Shekhar Mitra: Yes, it is an EBITDA loss, and that is what is explained; it is two months of revenue and three months of expenses. That is an EBITDA when you have an asset with a 10%-11% EBITDA margin. So one month is substantial. So, it is in line with our estimates, and on an annual basis, it is going to come back to normal levels.

Bino Pathiparambil: So, next quarter, we can expect 50% higher revenue to cover up the EBITDA.

Ravi Shekhar Mitra: Yes, like I said, between 50 and 55 million euro is the normal run rate in terms of revenue.

Bino Pathiparambil: And just bookkeeping, the tax rate for the quarter was higher; any change in the full year expected tax rate?

Ravi Shekhar Mitra: Yes, so this is again because of Cenexi, because if you see standalone, we are the same tax rate level, but in Cenexi, there are different entities; some have negative EBITDA, and some have positive. So, it is on that consolidated basis it is added up to that.

Bino Pathiparambil: Does it change anything as of now for the full year expected tax rate?

Ravi Shekhar Mitra: No, on a full year basis, it will be normalized.

Moderator: Thank you. The next question is from the line of Pramod Dangi from Unifi Investment Management. Please go ahead.

Pramod Dangi: So, the question in the working capital, we have seen the drastic increase in the inventory in the March period, essentially led by the secondary material. In half a year, we also saw an increase in the inventory, so is it because of the existence, or is the inventory spread going up? Is it led by again the secondary goods or something else?

Srinivas Sadu: Are you referring to the consolidated inventory or Ex-Cenexi?

Pramod Dangi: Both the numbers considered, so the latest went from Rs. 900 to almost Rs. 1,400 crores in the first half?

Ravi Shekhar Mitra: So, you have to consider that March was not Cenexi consolidated. So today, the consolidated inventory is about INR 20 billion, but if you look at standalone results, it is Rs. 17 billion, which has come down from 19 billion. So that is the inventory reduction that has happened at base business, but since we acquired Cenexi, we need to also consolidate their inventory. So, the difference from 17 to 20 is inventory lying at Cenexi.

Pramod Dangi: So, I am saying that the debtors also went up almost by Rs. 500 crores, so is it the same case for the debtors also?

Ravi Shekhar Mitra: Yes, debtors are also similar, but in standalone also, debtors have gone up by about 200, and that is because your revenue has gone up as compared to the March quarter.

Pramod Dangi: On a standalone basis?

Srinivas Sadu: Yes, correct.

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

Neha Manpuria: Just one clarification: what would be the profit share? You mentioned that the milestone was 5%. What would be the profit share in the quarter?

Ravi Shekhar Mitra: It is about 11%.

Neha Manpuria: So that is similar to the last quarter?

Ravi Shekhar Mitra: Yes.

Neha Manpuria: And, sir, could you update us on our complex pipeline? I think I missed your comment in the opening remark; how many products have we filed, when can we see approval of these products, and what sort of pipeline we have there?

Srinivas Sadu: We are going to file another 3 in this fiscal year. We have already filed 7. So total pipeline, we have about 19, so seven filed, and another three are getting filed this year, but approvals will be in next year.

Neha Manpuria: When can we expect the approval?

Srinivas Sadu: Approvals will be in next year, yes, I think in next year and post that.

Neha Manpuria: And would they be meaningful in terms of revenue contribution, or do you think the larger products probably come later?

Srinivas Sadu: Some are meaningful about the billion-dollar products, and some probably smaller.

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

Nithya: So, the employee shutdown and, therefore the impact on the revenues, is this something you could potentially plan for as a manufacturer, additional batches early on? So, can we expect some improvement next year, or is this something that we should expect year after year?

Srinivas Sadu: I think it is expected every year. That is how they work. So, on an annual basis, it is considered, so every year that one month they don't work so. Unfortunately, that is the reality.

Nithya: In terms of Europe and ROW, can you help us understand what explains the contraction in revenues on Y-o-Y basis?

Srinivas Sadu: I think it has more to do with Europe, it is mostly routed to Europe to other countries and I think most of our ROW business is around Enoxa and Heparin and also caspofungin which is a high value product, I would say it is more of the timing which quarter it goes than anything else and of course the pricing of Enoxa.

Nithya: But I thought you had supply issues last year with Enoxa and Heparin and therefore they are not….

Srinivas Sadu: No, that was for the US market, but ROW still the volume has actually still reduced, the demand has gone down overall and also the competition is high in other markets and the pricing also we are seeing it really worth the very low margins to take that it is the combination of both, but the largest market is expected to come back a bit from next quarter onwards.

Moderator: Thank you. The next question is from the line of Chintan Sheth from Girik Capital. Please go ahead.

Chintan Sheth: Couple of questions, first on the base part, you mentioned that outlook seems to be recovering and you are kind of not alluding to the numbers, but if one has to triangulate in terms of the new supplies to start from next quarter for the Kabi business and that will incrementally, one can expect the sequential revenue growth will be positive directionally, not asking on the specific number, but can we expect that sequential numbers will start to improve from the base of say Rs. 1,000 crores we reported this year will look like a steady state going upward trajectory going forward?

Srinivas Sadu: Yes, that can be done. That is the statement I made. We will grow steadily while we are not able to lock what that number will be. Yes, it will go steadily.

Chintan Sheth: And second on the margin front, I understand the lower margin part, lower value product you will be start supplying from next quarter, but as the revenue base will improve, there will be some significant leverage which you can derive from and your guidance of 30% to 32%, is it more conservative or do you see more pricing pressure in the coming quarter which gives you a caution outlook in terms of giving out the margin guidance at 30%-32%?

Srinivas Sadu: I would say it is cautious approach also, while the price erosion has stopped and pretty stable and then volumes will be added depending on which part we are able to travel, we will see where we end up, but at least we are making sure will not go below that the number which we did contemplate, so we said probably 30%-32% will be a good bet.

Chintan Sheth: And lastly, you mentioned about the CAPEX plans at Cenexi, any numbers you want to guide in terms of our base business, how much CAPEX we have been planning? And lastly on China, if you can give some outlook there? That was one of the sorts aftermarkets earlier we were looking, anything to call out for you expect from FY25 onwards?

Ravi Shekhar Mitra: So, on the CAPEX, for the base business for FY24, we will be doing Rs. 250 to Rs. 300 crores, largely in the same projects which I mentioned in my speech and for next year it should be around Rs. 300 crores.

Chintan Sheth: And on the China bit?

Srinivas Sadu: So, the product what we launched, it is still not into the VPB tender, so probably we are hoping that next year if that gets into that, then the volume extension, but currently it has been sold only in the private sector and trying to be still waiting for the attendee to open.

Chintan Sheth: Are there any plans for additional products to be launched over there, or will we be right now?

Srinivas Sadu: One more product is expected to be launched next quarter.

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

Ritesh Rathod: Can you share the inventory levels in Cenexi?

Ravi Shekhar Mitra: So, it should be around Rs. 300 crores.

Ritesh Rathod: So approximately somewhere around with the turnover of $200 million, that could be, so they have assets from Rs. 1,700-Rs. 1,800 crores, right, more than 20%?

Ravi Shekhar Mitra: Yes.

Ritesh Rathod: Why I am asking is if you had this four week's shutdown, maybe next year or if it is a recurring thing, you would manage it better because of by doing better inventory management in terms so that the eventual impact on revenue could be lesser, is that a possible thing?

Ravi Shekhar Mitra: No, in fact, we are looking at it because we mentioned that we are putting in new lines, and there are many tech transfer projects going on, so we will probably build up the inventory there.

Ritesh Rathod: My point was the impact on financials and revenue would be lesser if you have inched up your inventory at higher levels so that it doesn't impact your sales.

Ravi Shekhar Mitra: Yes, so shutdown was in the month of August, actually, but September was running operation, so the end of September kind of normalized.

Ritesh Rathod: I am not asking the last one; I am asking on a recurring basis going forward. Could you manage this impact, which happened this year, and there won't be any loss of sales because of that?

Ravi Shekhar Mitra: So actually, the shutdown means there are no sales also, no dispatch also, but we need to plan that on a full-year basis.

Srinivas Sadu: Maybe it is too early to comment; maybe evaluate the inventory and the sales that work is going on. What is the optimum inventory to be kept so that the dispatches will not get hampered?

Ritesh Rathod: Second, you mentioned in the press release €60 million kind of investment in Cenexi; I presume this is CAPEX, OPEX altogether, so what could be asset turn from this investment, like anything you can guide us, what could be with the current capacity plus this capacity which turns out in next 18 months? What kind of asset turn would be planned or what kind of peak revenue run rate would be possible in Cenexi?

Ravi Shekhar Mitra: Ritesh, so today, the asset turn is about 2 because the revenue 200 and the fixed asset base is about EUR 100 million. Now, after we invest this in the next 18 months, which is about EUR 30-35 million, the peak revenue which can achieve on this CAPEX is about going up from 200 to 240.

Ritesh Rathod: So approximate 20% kind of and there would be existing capacity also on the current base that you can take it up right, the utilization could be at lower levels, so even that could be possible that we would not have taken in your calculation?

Ravi Shekhar Mitra: Sure.

Ritesh Rathod: My last question, on the margin side, in past you highlighted Cenexi can have a peak margin of 13% to 15%, so do you stay with that number or is there a possibility of that number be on the higher side given you would have looked at the asset in detail and you would have looked at the cost structure in detail, is that possible?

Srinivas Sadu: I think we can't comment, it is too early, maybe at the end of next year we will be better off, so currently we want to stick to that number. In the near term, if you can get to 13%-15% that is a good achievement, then once we have this new CAPEX implemented and then the revenue starts generating, then there could be an improvement on that?

Ritesh Rathod: But with the current level of gross margins which Cenexi enjoys on a medium-term basis, there is a possibility of this operating margins moving up from the current range of 12% to 14% to a higher range?

Ravi Shekhar Mitra: No, we are currently analyzing that, Ritesh. So as of now in the near term it is not, but we will see how the efficiency increases like, also we mentioned that OTIF improvement is one of the key areas we are focusing on.

Moderator: Thank you. We have the next question from the line of Dhiresh from White Oak. Please go ahead.

Dhiresh: Sir, just to understand, this one-month shutdown, this is necessitated by the complexity of the plant, or this is like a cultural one-month break because I don't see Indian companies talking about one month plant shutdowns?

Srinivas Sadu: No, it is annual French holiday that month.

Dhiresh: So, it is only related to the three French pants on and or is it also even?

Srinivas Sadu: Even Belgium has that thing, so one month holiday thing, three weeks in Belgium and four weeks in France.

Dhiresh: And this is like across industry thing in France or this is just this country?

Srinivas Sadu: Across industries.

Moderator: Thank you. The next question is from the line of Alankar Garude from Kotak Institutional Equities. Please go ahead.

Alankar Garude: Sir, within ROW, you made that point on the timing issue and the lower Enoxaparin and Heparin sales in this quarter, but in general, can you please highlight which markets are doing well for us? Which are the focus markets, has Brazil recovered fully, something on that please?

Srinivas Sadu: So, Asia, MENA and these markets are doing pretty okay. LATAM has not recovered 100% and Brazil, like I said start coming back from next quarter, it has not recovered 100%. Some products are moving, but not in a big way, but other markets are in line with our estimates.

Alankar Garude: So earlier, sir, we used to have this target and this was just maybe a year or so back, we used to have a target of 30% contribution from ROW, now with Cenexi coming on board currently, it is about 19% for us and there have been some changes in the way the business has moved in the last one year or so as well, so keeping all these factors in mind, how should we look at the ROW contribution for us, maybe in the next 3-5 years?

Srinivas Sadu: So as a group, I know the dynamics change now as a group, we have to see when the partners in Cenexi business, they also have some sales in ROW. So, we have to see if they are willing to take our products to those markets. So, the dynamics will change I would say after the acquisition compared to before, so the discussions are on how we can actually leverage those partnerships to grow our business in those markets because these businesses not only sell products within Europe and US, but within other markets also. So, if you can add our products to that pipeline that will again start growing.

Alankar Garude: But would it be fair to say that ROW will grow at a much faster pace compared to say, US and Europe for us?

Srinivas Sadu: The base is lower, so hopefully it should go faster than other markets here.

Alankar Garude: And one final question, can you throw some light on the B2B and B2C competitive intensity that we have faced in the past in the US particularly and how is the situation now?

Srinivas Sadu: I would say it is still there. It all depends on how products are positioned, so especially products, like I said, which are very aggressive in pricing, we can compete with our better cost now. So, focus on those products, but again, even if all the B2C players won't have the entire portfolio, still continue to source products. So those products have been supplied by us. So, I won't say the intensity is less, and the players are still there, and they are selling. It is just that is how you position your products depending on the competitive intensity.

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

Nitin Agarwal: Sir, my question is regarding the new relaunches that you talked about, so two questions; one is, A, what prompted this largest number of relaunches in the quarter? And two, typically, how does the relaunch process work? Do you end up shipping in a reasonable amount of inventory along with the relaunch?

Srinivas Sadu: It is a mix of two. One is, as you know, the Athenex products that went to bankruptcy that those products have been acquired. So, the acquired company has to liquidate the stocks that they got from the previous entity, and then they continue the business. So, when you say relaunch, some of the products went to this new entity that acquired this, so the business continued. So there was a lag, I would say, between maybe two months where they have used inventory, and then we started shipping to continue the business, so that is the most part of the business, and there are few products where the companies were not doing well in terms of they have their own margin requirements. So, we have taken back those products from these companies and then offered them to others who are willing to sell this product. So, it is a combination of both, but mostly products that you got back from the bankruptcy incident.

Nitin Agarwal: Does a relaunch typically come with a reasonable amount of inventory as part of the launch process?

Srinivas Sadu: Not that much, because normally when I am taking the product and somebody is trying out to sell normally, they go with the lower inventory so that they will not add up with huge, so not too much channel inventory will be there. Actually, few products which we launched even the previous quarter, so those been, again we have supplied a few of those products as well. So now, these products also will continue. So, I think it is a combination of both.

Nitin Agarwal: And lastly, your outlook on the US generics market, have you seen any meaningful reduction in comparative intensity? Have you seen any meaningful reduction in the pricing pressure overall on a basket level?

Srinivas Sadu: I would say the drop has stopped; earlier, every quarter, you used to see a fall in prices. At least that is not happening now. So, it is basically a little stable. So, I think that way we are able to project better than before.

Nitin Agarwal: And sir, have you seen incidents of people withdrawing from certain products? Has that increased over the last few quarters?

Srinivas Sadu: Yes, it did. It also depends on the regulatory issues the companies have faced and people are looking at; it is not really wise to sell some products, and there are no margins. So, there is the withdrawal of certain products.

Moderato: Thank you. The next question is from the line of Karthik, an Individual Investor. Please go ahead.

Karthik: I would like to find out, at present, the return on net worth is approximately 10%. Is there any consideration wherein a buyback is being thought of sir?

Ravi Shekhar Mitra: This is currently under evaluation, so we cannot comment right now.

Karthik: And the second point, one more follow-up question: during the last conference call, it was told that there few commercialization with the customer is in the process. Is there any update on new, like agreements with the customers for the new products, especially biosimilars? On the Chinese market, during the last conference, it was said that the customers visited the plant, and some commercialization is going on, like commercial term finalization. Is there any advancement of this?

Srinivas Sadu: Yes, the plasma project, what we have taken up that is happening, so those batches are currently under manufacturing, so that moves forward, but nothing new on any other agreements.

Karthik: Sir, and one more thing, the technology transfer, whatever it takes on the Cenexi, how long is it expected to complete a total of EUR 50 million, whichever you are committed?

Srinivas Sadu: So, there are several projects. The timing varies from next year to mid to end of next year, and commercialization will probably start at the end of next year and in 25.

Karthik: Sir, and one more point in addition to this, this is my final question, like the previous part, due to the loss of sales due to the non-availability of syringes and whether any other sale is accounted for or is there still any loss due to this, sir?

Srinivas Sadu: No, there are no issues in terms of supplies anymore. From the supply side, it is all smooth now.

Moderator: Thank you. The next question is from the line of Harsh from Bandhan Asset Management. Please go ahead.

Harsh: Sir, just from this 20% sequential growth in the US market except Cenexi, I think this has already been answered, but if you could reiterate the breakup in terms of the 20% growth, I think you mentioned 15% to 16% through new launches, including the relaunches and then the remaining is coming from price erosion and base business volumes, is that a fair assumption?

Srinivas Sadu: So new launches from the previous quarter increased 15%, and also an increase in quantity by about 15%, and price variance was negative by about 1%-1.5%, but otherwise milestone revenue went down, as I said, but it is made volumes and new launches.

Harsh: And if we are disclosing, could you help us understand the nature of the distribution partners or the commercialization partners in the US market primarily for these relaunches because last quarter, I think we had more than 15 products relaunched in this quarter as well the number is similar, so what is the nature of these customers, are these large customers like Fresenius, Sagent or is it a mixed batch on an overall basis?

Srinivas Sadu: Yes, it is a mix of Pfizer, Fresenius, Sagent, and Fosun in the US, so the combination of everything, but mostly from the large customers.

Moderator: Thank you. We have no further questions. I would now like to hand the conference over to Mr. Sumanta Bajpayee for closing comments. Over to you, sir.

Sumanta Bajpayee: Thank you, everyone, for joining us today. We appreciate your participation in the call. We request you to contact us if there is any question that remains unanswered during the call. Thank you. Goodnight.

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