Partnership. Innovation. Passion.

January 31, 2024

To,
Dy. General Manager
Department of Corporate Services,
BSE Ltd.,
P. J. Towers, Dalal Street,
Fort, Mumbai – 400 001

Ref: Scrip Code: 543322

To,
The Manager – Listing,
National Stock Exchange of India Ltd.,
Plot No. C/1, G Block,
Bandra Kurla Complex,
Bandra (E), Mumbai – 400 051

Ref: Scrip Name: GLS

Dear Sirs,

Sub: Transcript of Earning Calls

Pursuant to the Regulation 30(6) read with Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements), Regulations 2015, the transcript of Earning Call held on Wednesday, January 24, 2024 for the third quarter and Nine months ended December 31, 2023 is available on website of the Company at:

https://www.glenmarklifesciences.com/pdf/GlenmarkLife-Earnings-24Jan-2024.pdf

The said transcript is also attached.

Request you to kindly take the same on record.

Thanking you

Yours faithfully,
For Glenmark Life Sciences Limited

RUDALF JOSEPH CORRIEA
Digitally signed by RUDALF JOSEPH CORRIEA
Date: 2024.01.31 22:29:01 +05'30'

Rudalf Corriea
Company Secretary & Compliance Officer
Encl: As above

“Glenmark Life Sciences Limited Q3 FY24 Earnings Conference Call”

January 24, 2024

MANAGEMENT: DR. YASIR RAWJEE – MANAGING DIRECTOR & CEO, GLENMARK LIFE SCIENCES LIMITED
MR. TUSHAR MISTRY – CFO, GLENMARK LIFE SCIENCES LIMITED
MS. SOUMI RAO – CORPORATE COMMUNICATIONS & CSR, GLENMARK LIFE SCIENCES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY24 Earnings Conference Call of Glenmark Life Sciences Limited.

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

I now hand the conference over to Ms. Soumi Rao from Glenmark Life Sciences Limited. Thank you and over to you, ma'am.

Soumi Rao: Good morning, everyone. I welcome you all to the Earnings Call of Glenmark Life Sciences Limited for the quarter ended December 31st, 2023.

From Glenmark Life Sciences, today we have with us Dr. Yasir Rawjee – our MD and CEO and Mr. Tushar Mistry – our CFO.

Our board has approved the Results for the Quarter Ended December 31st, 2023. We have released the same to the stock exchanges and updated it on our website. Please note that the recording and transcript of this call will be available on the website of the Company.

Now I'd like to draw your attention to the fact that some of the information shared as part of this call, especially the information with respect to our plans and strategies may contain certain forward-looking statements that involve risks and uncertainties. These statements are based on the current expectations, forecasts and assumptions that are subject to risks which could cause actual results to differ materially from these statements depending upon the economic conditions, government policies and other incidental factors. Such statements should not be regarded by recipients as substitute of their own judgment. The Company undertakes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. Our actual results may differ materially from those expressed in or implied by these forward-looking statements.

With that, I invite Dr. Yasir Rawjee to say a few words. Thank you and over to you, Dr. Rawjee.

Dr. Yasir Rawjee: Soumi, thanks. Good morning, welcome to our Earnings Call.

Wish you all a Happy new year. As we get into the new year, just a quick overview in terms of what's happening in the industry overall. So, things have picked up certainly, the US has improved. Inflation also seems to be cooling down which is a big positive. With respect to geopolitical issues, of course, these conflicts are not helping the situation, but it's manageable, I would say. There is an improvement from China in terms of the supply situation and things have definitely eased. The domestic economy is also doing well, so we see a robust demand overall. This business with the Red Sea may have some impact mainly on freight, but it also results in

longer supply chains, so it would have some kind of inventory impact. We may have to stock up a little more, but let's see how that pans out.

As far as our performance goes, we've had a decent performance. We've had just under 6% growth on the topline. This is driven by an external business of just under 10% growth and then GPL has been flattish this quarter. From a regional perspective, we've had solid growth in India, US, Latin America and RoW markets, whereas the Europe business has been flattish. Japan has reported a deep growth because of some inventory at the customers that they built up in the last few quarters on account of launches.

As we guided in the previous quarter, CDMO had a significant upturn in Q3. We've signed a new contract for a supply of API. This is a multi-year agreement and the minimum off-take commitment is about $5 million. We expect that this contract will commercialize sometime next year and it could also lead to significant expansion with this customer. Also, with respect to other clients, we've got other irons in the fire with respect to CDMO and those are also progressing very nicely.

Now, before getting into the pipeline:

It's important that we emphasize that even though we've had a single digit growth, the bottomline growth has been much better because of our focus on niche products, cost management and optimum utilization of our resources. So, while topline has been a little soft, the bottomline continues very strongly. Now in terms of product pipeline, we continue to file in various markets. So, our DMF and CEP filings have crossed 500 as of December 31st, again driven largely by cardiovascular and CNS therapies. During the quarter, we added four new products to the pipeline with one high potency API and three Synthetic smog. So, coming to high potency API, we now have 13 products with an addressable market of 24 billion and three products have been validated and four products are in advanced stages.

Now, before I conclude, I'd like to share an update on the Nirma acquisition:

We've received an approval from the Competition Commission of India and waiting for some more approvals for completion of the open offer and so on. Now, once these steps are finalized and the deal is complete, we will proactively communicate to you providing clear insights into our future strategy. Till then, I request your patience on this subject.

As highlighted in the previous call, the core strategy of GLS will remain unchanged. Any new strategy developed will only be incremental to our core approach. In closing, I am optimistic of delivering stable growth in FY24 driven by a pretty solid order book in the external business including CDMO business. However, we expect some slowdown in the GPL business which might lead to slightly lower growth than initially projected for the year.

With that, I'll hand it over to Tushar, our CFO. Tushar, over to you.

Tushar Mistry: Thank you, Dr. Yasir. Hello and good morning, everyone. Welcome to our Q3 FY24 Earnings Call.

I would like to briefly touch upon the "Key Performance Highlights" for the Quarter and Nine Months ended 31st December 2023 and then we'll open the floor for questions-and-answers.

Our revenue from operations for the quarter stood at Rs. 573 crores, a growth of 5.9% year-on-year, a degrowth of 3.8% on sequential basis. This was driven by a steady 9.8% growth in external business which was offset by a flattish GPL business.

The gross profit for the quarter was at 331 crores, up 19.8% year-on-year. Gross margin for the quarter was at 57.7% mainly on account of better product mix and lower input costs. EBITDA for the quarter was at 174 crores up 14.6% year-on-year. EBITDA margin for the quarter was at 30.4%, driven by better. gross margins.

As mentioned in Q2 FY24 Earnings Call, employee cost remained elevated due to the bonus approval based on the past performance of the management. The employee costs will remain higher for Q4 as well and then shall return to normalcy. The PAT for the quarter stood at Rs. 119 crores, a growth of 13.1% year-on-year with PAT margins coming at 20.7%.

Let me quickly discuss nine months' numbers as well:

Revenue from operations for nine months FY24 was at 1,747 crores, a growth of 13.4% year-on-year. Gross profit for nine months was at 983 crores up 22% year on year. Gross margin for 9 months expanded by 390 basis points to 56.3%. EBITDA was at 542 crores up 72.3% with margins at 31%. PAT for nine months was at 373 crores up 16.3% year-on-year.

Moving on to the segmental performance for Q3 FY24:

Generic API revenues grew by 6.4% year-on-year to Rs. 511 crores driven by strong growth in external business.

CDMO business recovered strongly with revenue of Rs. 36 crores, a growth of 40.4% quarter-on-quarter and 27.2% year-on-year. I would also like to highlight that the new CDMO agreement which Dr. Yasir alluded to in his opening remarks improves our revenue visibility for the CDMO business in the coming year.

Looking at the therapeutic mix, CVS and CNS portfolio continues to lead the growth with diabetes portfolio seeing good traction during the quarter. R&D expenditure for the quarter was at Rs. 18.4 crores, which was 3.2% of our sales.

Touching upon the balance sheet and cash flow movements:

Starting with working capital:

Working capital remains stable during nine months at 170 days. CAPEX for 9 months was at Rs. 93 crores and we expect to close FY24 with a CAPEX of around Rs. 150 crores to Rs. 160 crores.

We continue to remain a net debt-free Company. For nine months FY24, we generated free cash flow of Rs. 221 crores with cash and cash equivalents of Rs. 236 crores on the books as of 31st December 2023.

To conclude:

As Dr. Yasir mentioned, our order book remains strong but Q4 is something that we are looking at as how it will get to. And with that, I would like to conclude my remarks and we can open the floor for Q&A.

Moderator: Thank you very much, sir. We will now begin the question-and-answer session. The first question is from the line of Tarang Agrawal, from Old Bridge Asset Management. Please go ahead.

Tarang Agrawal: I had three questions. One, if you could comment on the Volume growth for the business for this quarter? The second question is, on the employee cost, the run rate at which we are running at currently, would it be prudent to presume this to be the new base as we move to FY25 or some part of it is really one time and in that sense the real base will be lower. That's second. And third, the sense that I got from your commentary for Q4 is that probably things are now going to play out as per expectation. So, if you could elaborate a bit on that. Thanks

Dr. Yasir Rawjee: Tarang, Tushar will take the employee cost piece, right. So, with respect to volume growth, volume growth has been pretty steady across markets, so no challenge there. With respect to Q4, we have a pretty strong order book on the external side and like I said GPL may come a little softer, Q4 last year was a very strong quarter. We fired on all cylinders in Q4 last year. Given that, that situation doesn't look like it will pan out again this Q4. So, yes, we do expect some softness, but we still have another two months to go, and the order book is shaping up very nicely.

Tushar Mistry: Employee cost if you see it is around 12% of revenue. Historically, we were always at around 8.5% to 9% kind of range. This is only current scenario. For this three quarters that I had mentioned in the last quarter as well in Q2. So, this higher employee cost will remain for Q2, Q3 and Q4. We should return back to our normal levels at around 9% from Q1 onwards is our expectation at this stage.

Tarang Agrawal: Just to follow up, in terms of volumes typically you've grown at anywhere between 15% to 20%. Would that be a similar range for this quarter as well?

Dr. Yasir Rawjee: Yes, it's a mix of price and volume, Tarang.

Tushar Mistry: You can consider it around 4% as the price erosion that we have seen generally, between 3.5% to 4%, the balance will be all volume.

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

Charul Agrawal: My first question is with regards to the GPL business. Like the commentary has been that this quarter has been muted and we expect the next quarter also to be slightly good. Is there any particular reason to this and is it only a one or two quarter phenomena or could it extend for longer?

Dr. Yasir Rawjee: So, Charul, GPL has been a bit cyclical. We've seen that and it's largely driven by the US and European business. And while we did see a good uptick in their US business demand in the last couple of quarters, this quarter has dipped a little bit; however, if you look at the nine months GPL is still tracking at a little over 13% growth. So, it's not bad. but they're a pretty strong Company across markets, right? So, we don't see that this is going to be any kind of weakness going forward.

Charul Agrawal: So, that does not imply anything with regards to sales to GLS going down, right? This is just a temporary phenomenon.

Dr. Yasir Rawjee: That varies. Like I said, it's a bit cyclical. It moves up and down, but then we supply to them for largely the regulated markets.

Charul Agrawal: Sir, my second question is with regards to the gross margin expansion that you have seen. So, would it be possible to break it down into drivers in terms of what proportion of it could be improvement in input costs, what proportion could be mixed?

Dr. Yasir Rawjee: So, if you go from let's say 52% to 57%, that delta has been driven partly by improved input prices. And we also announced this new CDMO business for which we made validation supplies. And so it's a mix where CDMO played a bigger role and that this CDMO business also has better margins. So, these are the two main reasons, the input costs as well as the mixed improvement.

Charul Agrawal: Got it. Even the Q-o-Q gross margin improvement would have these factors only right CDMO has been slightly higher?

Dr. Yasir Rawjee: Yes.

Charul Agrawal: Got it. Also you mentioned regarding the Red Sea disruption, so what could be the possible implications of the Red Sea disruption? Would it only be freight cost or could that impact volumes as well and how long do you see it at present?

Dr. Yasir Rawjee: See, right now, out of three ships that used to come to Nhava Sheva port from China, only one ship is coming to Nhava Sheva. 2 are going directly. So, they don't come. They don't basically

reroute. These are ships coming from the far east. So, while freight is expected to go up, right, the other impact could be that we might have to stock up an extra 15 days of inventory. It hasn't reached that point, but if we have to, we will. Just to cover, make sure that we have worked up well for supplies. It's not happened yet, Charul, but right we are watchful, it could happen.

Charul Agrawal: And sir, this would not impact your supplies to your customers, like you were saying that you might need to stock up for imports. But what about your exports to customers?

Dr. Yasir Rawjee: That's air. For us, to customers it's largely air freight. So, sea freight doesn't impact us. Sea freight impacts us on raw materials.

Moderator: Thank you. The next question is from the line of Ahmed Madha from Unifi Capital. Please go ahead.

Ahmed Madha: I just want to understand the employee cost part a little better. So, there is roughly 40 odd percent increase in the cost. So, just what is the nature of that? Can you elaborate a little more on that?

Tushar Mistry: Ahmed, I had explained it in the Q2 call. These are certain bonus approvals based on the past performance which have been given by the board which are getting accrued over these three quarters and that is what has taken this cost up. And as I also explained in my earlier comments that the employee cost is coming around 12%, it should come back to around 9%. 8.5% to 9% from Q1 onwards.

Ahmed Madha: And in the gross margin, is there any impact of PLI incentives this quarter?

Tushar Mistry: PLI again has an impact of about 1% to 1.5% on overall margins

Ahmed Madha: Just on the Glenmark Pharma's business, I think last year we did about I think roughly Rs. 690 odd crores. This year nine months have been good but you're saying that you see it to be weak, but overall say in the next 2-3 years perspective, should we at least maintain this 650 to 704 run rate? How should we look from the medium to long term perspective about this business?

Dr. Yasir Rawjee: I just answered Charul, right, that basically GPL business is a little cyclical, but nothing alarming. It's a very strong business that they have in the regulated markets and that continues and we would continue to service that business.

Ahmed Madha: So, we will retain our wallet share with them. That is what I want to understand, is this the correct understanding that we will retain the wallet share?

Dr. Yasir Rawjee: Yes, very much.

Ahmed Madha: And just question on Q4. So, basically should we sort of at least maintain the annual run rate similar to last year for GPL business?

Dr. Yasir Rawjee: I can't comment on that.

Tushar Mistry: Last year GPL was very high, at about Rs. 230 crores. We don't expect it to be that high in Q4.

Ahmed Madha: Yes, but just on the full year basis?

Tushar Mistry: Full year basis, yes, we should be able to reach that level.

Ahmed Madha: Just on the last freight cost part, so I'm just trying to reconfirm that there won't be any sort of P&L impact, but just the amount of inventories which we might need to buy, correct?

Tushar Mistry: Doctor mentioned that the impact for inventory will be about 10 days to 15 days, if at all we have to stock it up. We are currently at about 104 days of working capital which may go by another 10 days, but we will see how that pans out.

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

Tushar Manudhane: Firstly on the asset turn, Sir, for last two years - three years, now it is down to 2.9 which we used to have at 3.3. So, any comment on that?

Tushar Mistry: So, Tushar if you see the years prior to last two years, the spent-on CAPEX was very limited. Last two years we have seen good amount of CAPEX that we have done almost Rs. 130 crores was in FY22, FY23 it was about 160, we are already near Rs. 100 crores in the current year. And as we had also mentioned that this new assets that come up, they don't immediately get into this 3x kind of revenue generation, initially it will be lower. We had also mentioned in the past that you know we expect this asset turns to somewhere come down near between 2.5 to 3 gradually because our CAPEX plans are strong going forward and that is what we are expecting.

Tushar Manudhane: And secondly on this ex-GPL business, has been stable at about 390 crores average for last now six quarters. So, any comment in terms of growth on this segment of the business?

Dr. Yasir Rawjee: No growth has been good. We have been growing the external businesses very steadily, low teens and that's driven by all our markets. The reason this is around 10% this quarter is because like we explained Japan has degrown and Europe is flat. But the US, LATAM, India and RoW have been firing away because we have been introducing new products and the US CDMO business is very strong. So, the thing is that, overall, the fundamentals for our external business firstly have got many levers. Markets, products and CDMO now coming in much better. So, with all these levers sometimes you don't fire on everything, right. But we have been, there's no challenge there.

Tushar Manudhane: And because it's exports on a constant currency terms, what would be the growth?

Dr. Yasir Rawjee: The currency hasn't moved much in the last year, right? I mean, we are not getting any currency benefit.

Tushar Mistry: In the current year, we are not getting. Last year there were certain currency benefits. But this year it is more like a constant currency, closer to the constant.

Tushar Manudhane: And just lastly, this raw material, lower raw material benefit, any comment in terms of how long will we have this benefit continuing?

Dr. Yasir Rawjee: It should continue because we have diversified our sources. And that has resulted in the benefit and that's something that we would continue. So, we expect it to play out, of course, like I said, certain geopolitical challenges could impact oil prices and so on and that will hit solvents. And so there is a bit of challenge there, but overall I think on the buying raw material side we should be okay. No great challenge there.

Tushar Manudhane: So, let's say if this Red Sea disruption, if I leave aside for time being for the sake of discussion, this impact, so then 56%-57% gross margin is very much sustainable, right?

Dr. Yasir Rawjee: See again, I explained to Charul, right, that basically the margin improvement if you take from roughly 52 where we normally are 52, 53 to 57.7, has been largely driven by some improvement on raw materials and then CDMO, the new CDMO business where we made validation supplies. So, these things are contributing. So, we may not hit 57% next quarter, that we won't, but it will be in the range.

Moderator: Thank you. The next question is from the line of Harshal Patil from Mirae Asset Capital Markets. Please go ahead.

Harshal Patil: Just have one question on the CDMO business. We have just recently signed a contract and as per your earlier comments, you got the minimum offtake value as US $5 million. Sir, any specific timelines as to when would this commence? That's question one and question two would be, sir if you could speak a bit on the project pipeline for the CDMO business. Because I guess we were expecting some two or three projects which were there in the pipeline to be going on stream over the next 1 to 2 years?

Dr. Yasir Rawjee: Yes, Harshal. So, basically this project should come online next year. We just made a pretty large validation supply for filing and this would be filed in multiple markets. So, as soon as we start getting approvals, markets will start supplying. So, it should come next year for sure. As far as the pipeline goes we have one more project which is very advanced. We hope to sign either in late Q4 or then in Q1, it's going very nicely. And there's one that we have already initiated validation and filings are on, but those are like 53 or 57 markets that they are going to file in and that we expect to also come next year. So, that would be two more that would come. There are further discussions also on CDMO on other projects, so those discussions are going very nicely. And let's see how that pans out. But to answer your question, it's two more in the pipeline that we have very clear visibility on.

Harshal Patil: And the two ones which are there in the pipeline would definitely have better revenue potential than the ones we already are supplying to, if I have to just get some qualitative input on that.

Dr. Yasir Rawjee: Typically they are ranging between $5 million and $10 million. Typically, right? I mean our projects are not that big. But they are decent size.

Moderator: Thank you. The next question is from the line of Ashwini Agarwal from Demeter Advisors LLP. Please go ahead.

Ashwini Agarwal: Just continuing from the last participant on CDMO, if you were to think about it over the next 3 to 5 years, do you think that this piece of the business could be 30%-35% of revenues or do you think generics and CDMO would grow at pretty much the same pace in the medium term?

Dr. Yasir Rawjee: The thing is that see we have a pretty strong generic pipeline and the market spread of the products has only been improving over time. That would continue. So, since generics is also going to grow reasonably well, right, and it's a pretty big chunk to begin with. In the next three years to five years, at the rate at which we are doing things, we expect CDMO to quadruple. So, around from 150 Cr we are likely to get to 600. But even 600 would not get to 30%-35% simply because the other piece is also growing well. So, if we get to 600, it would still be around 15% of our overall, 15 or even less. So, let's see. Whatever visibility we have now and the strike rate at which we are going on CDMO, we should definitely improve the percentage from the 7%-8% that we are at now. But very unlikely we'll go to 30% unless something really earth shattering happens which cannot be ruled out. But I'm just going from whatever we are driving as of now with the current level of investment.

Ashwini Agarwal: And one more follow-up on the CDMO contract that you just signed for which has an expected revenue line of $5 million at the minimum in fiscal 25. Just if you could share some color on are you the sole supplier? Is this a technology transfer where the innovator transferred what they knew to you or you helped develop them? How sticky is this relationship? Would you continue to be the sole supplier in the foreseeable future if you could provide some color around that?

Dr. Yasir Rawjee: So, while we didn't do a tech transfer and that's why the regulatory timeline goes to next year, we did do a fair amount of customization to get the business. The thing is obviously in our kind of CDMO what is important is we match the current supplier of the innovator which in many cases is the innovator itself and they are going to stop their own manufacturing and move to us because they get a very large cost advantage. So, I don't see any reason why they would continue their old supply. So, yes, we would be the sole supplier once the regulatory approvals are in place.

Ashwini Agarwal: And the other CDMO pipeline that you have is of similar nature where you develop on the cost, you bring down the cost and that advantage therefore allows you to foster a longer term relationship with the customer.

Dr. Yasir Rawjee: Yes, of the two that I said, one is a heavily customized API. That is already in filings, in the filing stage. The other we are in the process of doing some further sort of tweaking to get it to where the customer is now in terms of their current source.

Ashwini Agarwal: And the last question from my side. In the past you often said that raw material benefits whenever they accrue need to be passed on. But this time around, some of it has flowed through to gross margins. Is this temporary or do you think this is sustainable, the margin gain that you had on the raw material side?

Dr. Yasir Rawjee: Ashwini, this raw material, we'll have to see, depends on the pressure of the business. But if we are under pressure, we'll have to pass on. So, we won't do it as a default. But yes, if we have to gain a bigger market share or help our customers sustain their market share at the front end, we may pass it on. But since this improvement has been pretty broad based, across many products, we are not going to pass on everything.

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

Harsh: Yes, so just in terms of this incremental capacity for fourth quarter, the 200,000 liters and the 50,000 liters for Ankleshwar and Dahej, do we feel that a majority of the cost according to the commercialization is already in place or do you feel that incrementally you would see a lot more cost coming forward once this gets commercialized in both the capacities?

Dr. Yasir Rawjee: You are talking about CAPEX or you are talking about operational cost?

Harsh: OPEX.

Dr. Yasir Rawjee: OPEX is not likely to increase greatly. When we go with the incremental capacity, we are going for bigger batches at the product level. So, in that sense, on a per kilo basis, the OPEX actually improves. But since the volumes are going up significantly, right, OPEX will scale up according to the volumes, but then with the improved batch sizes, the per kilo level, it will actually come down. So, it will be a sort of midway, it won't go up linearly with the increased capacity. Does that help answer your question?

Harsh: Yes, okay. Lastly, in terms of Japan, you have already highlighted the inventory situation. Anything in particular for the Europe market? Is there a lot more price erosion than you anticipated and which is why we are refraining from selling into the European market or is there something else that is happening?

Dr. Yasir Rawjee: Unlike other markets that have done well, our new product introduction into Europe has been a little slow. This is largely because of regulatory slowdown. Our customers are not getting approvals fast enough in Europe. And so while we have a bunch of new products to introduce, right, we've not been able to do that in Europe as well as we've been able to do it in India, LATAM and the US, so that challenge is there. So, hopefully once newer approvals come

through, Europe should also pick up well. To confirm, price erosion in Europe is a little higher, right, so that challenge is there.

Harsh: So, the regulatory situation is temporary as such, but otherwise we expect that should also pick up going forward.

Dr. Yasir Rawjee: Yes, once we get our new products approved in Europe, we should see Europe also picking up pretty well. It shouldn't be a problem.

Moderator: Thank you. The next question is from the line of VP Rajesh from Banyan Capital, please go ahead.

VP Rajesh: Most of my questions have been answered, but just one clarification. Dr. Rawjee, when you spoke about the CDMO business growing 4X, what was the timeframe you were thinking that growth will come about?

Dr. Yasir Rawjee: 3 to 4 years.

VP Rajesh: Okay, 3 to 4 years.

Moderator: Thank you. The next question is from the line of Aejas from Unifi Capital, please go ahead.

Aejas: Dr. Rawjee, I want to take you back to probably the initial few conversations you had post IPO where you were very articulate in explaining us that how you had migrated customers in the US to address the pricing pressure challenges by moving and introducing second generation molecules and phasing out the first generation molecules, thereby addressing the price erosion. And you had given the example of sartans at that point of time, I remember. So, Dr. Rawjee, in this journey, where have we reached? And it also is referenced to the point of Europe, because you mentioned a bit about pricing pressure. So, is it that those European customers are still in that journey? And could you speak a little bit more about this?

Dr. Yasir Rawjee: Yes, it's a very good question. See, the thing is this whole business of second, third gen processes, right, is something that we have to continue to do because on the generic side, most markets have, you know, our customers face a lot of pricing pressure at the front end. So, that is something that we continue to do and with the regulatory filings happening in a timely manner, that is something that has panned out. Because see, if you look at our price erosion, right, overall in the business, it's about 5% to 6%. So, in order to continue to deliver on margins the way we've been, this is something that we have been doing and the customers have been very supportive, and we continue to keep our customers competitive. That's the name of the game really. And then of course you come back with, you sort of add the launch products to that and the launch products obviously give you better margins. But then the same thing applies even to the new launches where we've got to be ready with the next gen process to be able to keep the customers in the game, if they've already sort of entered with a good market share. So, it's an ongoing process, I mean to continue to drive the margins and to keep our customers competitive.

Aejas: Got it. And Dr. Rawjee, how many such competitors use or follow this approach because we've not heard a lot of companies call out this kind of process of trying to upgrade molecules and help customers and you had extensively spoken about all those filings where you help them a lot. So, who is your key competitor you face who's also following this kind of an approach and where there is competitive pressures or challenges?

Dr. Yasir Rawjee: So, see, we have about 100 commercial APIs now as we speak, right? And there's no single competitor that we have in all 100 of these APIs. But in any given API, we would have one or two competitors, right, in India or China that we'd have to take them seriously. The good news for us is that because we are in the regulated market space, the whole regulatory approval process is a pretty involved process where we've got to convince the regulators that the next gen process is as good as the earlier process and that takes some doing. So, not only from a chemistry perspective, but also from overall specifications, methods, controls on genotoxic impurities, all this plays a big role. And so that really thins out the competition for us because the regulators have become much more stringent with respect to genotoxic impurities. You must have heard about Nitrosamines if you've been following this space. But many of our competitors fall out because they are not able to successfully address this whole business of Nitrosamines and we have been lucky or clever or whatever you want to say but we've been sort of addressing this upfront rather than it hits our customer and then the regulator comes back with a big query. So, net-net, the second, third gen process involves a lot of work not only on the chemistry side but on the regulatory side as well. And that's why we've been able to successfully migrate our customers to the next gen processes with not much competition. The competition is there. Like I said, we take them seriously and that's the way things are working here at GLS.

Aejas: Thank you, doctor. That was very helpful. And doctor, one last thing, since the time you've been listed, the CDMO business has been broadly in a band. You spoke about the breakout towards the Rs. 600 crores over the next 4 years. I just wanted to understand that is it that these 2 years were seeding stages, which where we were trying to establish our excellence of products with customers and that's why you believe the scale up or are there any other significant road triggers or drivers?

Dr. Yasir Rawjee: So, Aejas you are spot on okay, I mean CDMO does have a long gestation period and we've got a long pipeline right, more than 10-12 projects that are in discussions but by the time they bear fruit right, I mentioned about two that are coming online pretty quickly right. But there are others that are also going to follow, right. So, we expect that we'll have a good number of projects in the next 2 to 3 years and that's why we are very confident that we'll get to the Rs. 600 crores very comfortably.

Moderator: Thank you. The next question is from the line of Naman Kumar Bhansali from Perpetuity Ventures LLP. Please go ahead.

Naman Kumar Bhansali: Good morning, sir. Just one question on the USFDA inspection that they are going to present. So, what are the facilities due for the USFDA inspection and the newer ones which are coming in?

Dr. Yasir Rawjee: Yes. So, all three facilities that are USFDA inspected are due for inspection going by the three-year cycle. We expect them anytime at any of our facilities. And so, it should happen anytime. We are frankly hopeful that it happens soon so that we kind of over the hump there, right? But all three, they are due.

Moderator: Thank you. The next question is from the line of Tushar Bohra from MK Ventures. Please go ahead.

Tushar Bohra: Sir, first thing quickly on the CDMO strategy, historically, as you just explained also on the call, we've been focused more on lifecycle management products, right? Is there any thought though to also pursue pure CDMO opportunities working closely with innovators and new molecules? Any efforts or steps in that direction?

Dr. Yasir Rawjee: So, Tushar, I explained this again at the time of the IPO when we had very, very long discussions on CDMO, but basically firstly the gestation on the kind of project that you're talking about is very long. Because if you get into phase one and stuff, clinical trials for most drugs, new drugs, take anywhere from like two years to three years and then there is the approval by FDA which takes higher because there's a lot of clinical data that they review. So, it could be like 12 months to 15 months. Plus, what happens is that new products have a huge amount of attrition. Products that are in phase one, the chances of them becoming commercial are like 1 in 30 or 40 molecules. So, if you don't hit one of those, after doing all that work you still don't have a commercial project. So, this challenge has been there for this kind of work. Whereas on the life cycle side and the specialty side, it's much faster, comparatively gestation is much sooner. In about a year and a half to two years, you can have a project going versus these early stage projects. It takes much longer. The attrition is much higher, basically. So, we stayed away. The other thing for us, is both our R&D infrastructure and our manufacturing platform are common. So, we don't have to make any special investment for these kinds of projects. I did mention to, I think it was to Ashwini, that we do a lot of tweaking in terms of customizing the API for the innovator. And here is where again it's our R&D work, our current R&D setup is good enough to do. So, we don't make very significant investments also with this approach.

Tushar Bohra: So, here, sir, in this specifically, are we developing products and then reaching out to innovators? Or are we looking at the areas that we want to target, reach out to the companies first and then take up projects on demand? How do we target new CDMO initiatives?

Dr. Yasir Rawjee: Yes, so we have about 140 APIs in our portfolio. And a good portion of them even after genericisazation, the innovator still has 20% to 30% global market share. And so the approach is that, we sort of work with the innovator on those products and give them a nice cost advantage and move the project along.

Tushar Bohra: Alright sir, just a clarification. You mentioned specialty as well along with pharma. Are we actually targeting any specialty in chemicals or areas beyond pharma in our CDMO initiatives? Is there something in thought?

Dr. Yasir Rawjee: So, Tushar, in our current pipeline of three commercial products, or now I should say four, two are of this kind, specialty.

Tushar Bohra: The one last thing on the overall size of the business, you mentioned CDMO over the next four years will go 150 to maybe 600. Overall business will maybe slightly more than double. But since your CDMO business is at much higher margin, the overall gross margin profile should move up or at least remain the same, CDMO should compensate for maybe loss of margin on the generic side. So, it's good to assume that it should be at or above the current margin profile as the CDMO penetration improves.

Dr. Yasir Rawjee: Over the long term we can expect that, Tushar.

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

Tarang Agrawal: Thank you for giving me time again. So, mine is a more generic question. I just wanted to get some insights from you on how the API landscape is today versus where it was say a year and a half back both from an industry standpoint and from GLS's standpoint, as you see it today.

Dr. Yasir Rawjee: See, the demand environment is growing at 6%. API stands at about 220 billion overall market. And that is a pretty nicely growing market. For GLS, because our concentration is on the chronic areas, again we are very much in sync with how this is growing. So, there's a lot of stuff happening now. Anti-cancer was one area where we were not there, but we are rapidly catching up on anti-cancer. But apart from that, CVS, CNS, diabetes, and pain are good areas. They are all chronic. So, we continue to drive our portfolio in that direction.

Tarang Agrawal: And just from nuts-and-bolts perspective, how do you see the pricing environment in context of where it was a year, year, and a half back? Clearly, your intermediate or raw material prices have come off meaningfully, but how do you see the pricing environment for your end products overall? Has it become more aggressive or you're seeing some element of stability?

Dr. Yasir Rawjee: No, Tarang, it will always be aggressive. It's a tough business, but it's a good business. That's the way I look at it. GLS, we've always recognized that. Pricing environment will always be there. Customers will always put pressure on prices, and we have to respond to that, okay? We can't run away from that. So, as far as we are well positioned from a technology perspective and a cost management perspective, we are good. The world is not going to be kind to us, okay, let me put it that way, right? We've got to be smart at it and continue.

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

Charul Agrawal: Sir I wanted to understand more about your complex API products, firstly on the Dahej oncology block that had been commissioned a couple of quarters back. So, what is the kind of traction that we are seeing for the oncology supplies? And next on the complex API findings, could you help us understand more on the timeline perspective? Like when can we see them, see some of those getting commercialized?

Dr. Yasir Rawjee: Okay, so as far as the pipeline for both oncology as well as the complex, we continue to fill the pipeline. Okay. With respect to Onco we've already validated three products and four are like actively being, we'll be taking them into validation pretty soon. And the customer interest is also pretty good. So, that's going well. On the iron complexes, one has been in regulatory review. The customer's file is in regulatory review. And that has also triggered a review of our file. And we should file soon, on one product soon. And another two are, we're following up with another two in development. So, it's going well, complex is going well. And some other, not only iron complexes, but we have other complex molecules on the antifungal side also that have had very good traction more recently. And that is also picking up well. So, I mean, overall I would say that this is an area that both these areas are something that we are aggressively pushing and we've got good uptake from customers as well.

Charul Agrawal: Got it. Sir, on the Dahej Oncology block, so currently the capacity is being used for filing validations or is there any commercial supply at all from that block?

Dr. Yasir Rawjee: No, see Onco, the volumes are very small and in order to sort of optimize the cost on the manufacturing side, we do make a little more in the validation so that we can supply even small commercial quantities as it comes up. So, right now we are not in full-fledged commercial manufacturing, but then that onco block is not a very big burden also from the cost perspective.

Moderator: Ladies and gentlemen, due to paucity of time, that was the last question. Thank you, members of the management. On behalf of Glenmark Life Sciences Limited, that concludes this conference. We thank you for joining us, and you may now disconnect your lines. Thank you.