



# “Gland Pharma Limited Q2 FY22 Earnings Conference Call”

**October 22, 2021**



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



*Gland Pharma Limited  
October 22, 2021*

**Moderator:** Ladies and gentlemen, good day and welcome to Gland Pharma Q2 FY22 and Earnings Conference Call. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing \* then 0 on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sumanta Bajpayee from Gland Pharma. Thank you and over to you, sir.

**Sumanta Bajpayee:** Thank you, Margaret. Good evening everyone and warm welcome to Gland Pharma's earnings conference call for second quarter of financial year 21-22. I have with me, Mr. Srinivas Sadu - Managing Director and Chief Executive Officer; Mr. Ravi Shekhar Mitra - our Chief Financial Officer to discuss the business performance and to answer queries during the call. We will begin the call with opening remarks from management followed by Q&A session.

Before we proceed with the call, please note some of the statements made in today's discussion may be forward looking and this must be viewed in conjunction with risks and uncertainties involve 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 as well.

I will hand over call to Mr. Sadu for his opening remarks. Thank you and over to you, Mr. Sadu.

**Srinivas Sadu:** Thank you, Sumanta. Good evening everyone. Welcome to our earnings call for the second quarter of fiscal 22. Wishing you and your family good health. After nearly 18 months, life finally seems to be getting back to normalcy. We had stable manpower availability during the quarter. Some of our equipment vendors were able to travel into the country and that helped us complete the installation of new lines. Our capacity expansion is coming along in a timely manner to support our future growth. The surge in consumer demand across industries was unanticipated and resulted in shortage of power in certain sections. While we saw power shortage resulting in power cut in China, in India the supply of power remained relatively stable, but the industry saw rise in prices of power and transportation. We may face delay in supply of certain raw materials from China if there remains a prolonged shortage of power; however, we maintain sufficient level of inventory of raw materials.

On the R&D front as well, we made good progress as we completed planned submission batches for complex injectables to be filed in this financial year. We are on track to make four complex injectable filings in this financial year. The other development projects were also running in line with the plan.



*Gland Pharma Limited  
October 22, 2021*

We delivered a strong performance this quarter, Q2 FY22 with the revenue of Rs. 10,805 million. That is a year-on-year revenue growth of 30% for the quarter Q2 FY22 resulting in also a growth of 30% for the 6-month period, first half of FY22 over H1 FY21.

With the PAT of Rs. 3021 million, we saw year-on-year PAT growth of 38% for the quarter Q2 FY22 resulting in also a growth of 23% of the 6-month period of H1 FY22 over H1 FY21. We had generated Rs. 2355 million of cash flow from operational for the 6 months FY22 despite external stress on supply chain. We continued to focus on revenue diversification across geographies which is helping us further improve our manufacturing efficiencies because of benefits on scale as well as de-risking the business. We are ensuring that we absorb any decline in gross margins by benefits on scale on the operational front, thereby maintaining healthy profitability.

We have entered into technology transfer agreement for Sputnik Light as well and also completed three submission batches. For Sputnik V, we have completed submission batches for the first component Ad26 and technical batches for the second component Ad5 with improved yields. As soon as manufacturing license is received and export restrictions are removed, we will initiate manufacturing. We opened our new R&D Centre and expanded our R&D team having capabilities in development of complex APIs. Our R&D expenditure for Q2 FY22 was Rs. 578 million which is nearly 5.3% of our revenue from operations. Upon excluding capital R&D expenditure, the R&D expenditure stands at 3.3% of our revenue for the quarter which is in line with our historical trend. As on 30th September 2021, we along with our partners have 291 ANDA filings in the US and 1518 product registrations globally.

Let me take you through the business highlights across various geographies. Our rest of the world markets business continued to show a strong demand for our core portfolio. This business accounted for 21% of Q2 FY22 revenue as against 18% of our Q2 FY21 revenue. We have seen 59% Y-o-Y growth in revenues for the quarter. This has been driven by new product registrations and increased penetration of existing portfolio, especially from market such as Brazil, Saudi Arabia and Thailand. Our existing portfolio is seeing strong demand from new partnerships entered into during the year. Our key markets namely US, Canada, Europe and Australia accounted for 62% of our revenue during Q2 FY22 as against 64% during Q2 FY21. We have seen 25% year-on-year growth in revenues for the quarter which is the function of both healthy rate of new launches and volume growth in core portfolio. On including India sales for our core market, the year-on-year growth is at 27%. With declining COVID-19 hospitalizations, we observed a shift in product mix. Our wide therapeutic portfolio helped us to sustain growth despite changing market demand. Our rich R&D pipeline is helping us maintain strong momentum of new product launches. We launched 12 molecules during the last quarter. We filed 5 ANDAs and received 5 ANDA approvals during the quarter. We also filed 3 DMFs during the same period. India market accounts for 17% of our Q2 FY22 revenue out of which 9% accounts for domestic market sales and 8% accounts for Indian sales for export markets. We had



*Gland Pharma Limited  
October 22, 2021*

seen 19% year-on-year growth in revenue for the quarter on account of volume growth of existing products like Enoxaparin Sodium and Heparin Sodium injections.

With COVID hospitalizations coming down, demand for our regular critical care product is on the rise. While this portfolio has not gone back to the pre-COVID levels, but it is looking positive. Our near-term focus remains on establishing a strong portfolio of complex injectables for which while we are having an internal program, we are also looking at acquisition opportunities to help expedite the development process. Installation of new lines catering to suspensions and hormonal products has been completed.

Biosimilar CDMO is the next long-term growth driver we are working towards while our experience in vaccine collaboration has helped us gain the know-how and accelerated creating facility and technical team, we are also looking at opportunities to collaborate on the biosimilar front to build a pathway to cement our position in the future.

On the quality and regulatory front, all our plans continue to remain approved by US FDA. Our customers are conducting audits regularly and our team continues to remain prepared for any audit. We strive to continue delivering strong results for all our stakeholders. I once again wish everyone good health.

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

**Ravi Shekhar Mitra:**

Thank you Mr. Sadu. Good evening ladies and gentlemen, thank you very much for attending our second quarter earnings call. Our earnings presentation has been submitted to the stock exchanges and it is also available on our website. Let me begin with sharing the financial performance of second quarter and first half of financial year 21-22.

The revenue from operations for the Q2 FY22 stood at Rs. 10,805 million, a year-on-year increase of 30%. We achieved robust growth across all markets with our core market US, Canada, Europe and Australia registering 25% year-on-year growth and ROW market continue to demonstrate a healthy 59% growth. The growth in revenue was driven by a mix of new products and growth in existing products.

Revenue from operations for the first 6 months of fiscal 22 stood at Rs. 22,344 million, a year-on-year increase of 30%. Other income for the second quarter was Rs. 512 million which includes interest on fixed deposit of Rs. 352 million and foreign exchange gains on operations of Rs. 158 million. For the H1 FY22, the other income was Rs. 1130 million of which interest on fixed deposit was Rs. 691 million and foreign exchange gains on operation of Rs. 435 million.

We have reported an EBITDA of Rs. 4278 million in Q2 FY22 compared to Rs. 3181 million which is an increase of 35% compared to same period last financial year. EBITDA margin for Q2 FY22 stood at 38% as compared to 37% for the same period of previous financial year. We



*Gland Pharma Limited  
October 22, 2021*

have managed to improve the EBITDA margin in spite of increase in operating expenses such as power and logistics, primarily due to higher operating leverage achieved on increased capacity utilization. EBITDA for the 6 months ended September 2021 was Rs. 9259 million compared to Rs. 7628 million for the same period last year, a growth of 21%. We have reported EBITDA margin for H1 FY22 at 39%.

Our net profit for second quarter was Rs. 3021 million, a growth of 38% compared to Q2 FY21. During the quarter, we have recorded PAT margin of 27% which is an improvement of 100 bps compared to same quarter previous financial year. During the 6 months period of the current financial year, our PAT was Rs. 6527 million which is an increase of 23% as compared to last year.

To further expand R&D capabilities, we have commissioned our new R&D facility during this quarter which is located at Pashamylaram. The total R&D expenses for second quarter were Rs. 578 million including the cost of this new R&D center of Rs. 211 million and stands at 5.3% of revenue. Excluding this cost of new R&D center, our R&D expense remains at 3.3% which is in line with our plan. The total R&D expenses for the 6 months period were Rs. 1,015 million compared to Rs. 482 million during the same period of the previous financial year.

Our effective tax rate remains at about 25% in second quarter and for the first half of the current fiscal year.

Cash flow from operations during six months period was Rs. 2,355 million. Cash flow from operation has come down during this period due to higher receivable and inventory levels. Working capital increased and stood at Rs. 20,334 million as on 30th September 2021 as compared to Rs. 16,054 million as on 31st March 2021 driven by growth in our business. Average cash conversion cycle stood at 198 days for the six months ending September 21 as compared to 180 days of same period last financial year. We have maintained similar range for receivable and payable days compared to previous year, but due to increased inventory, our overall cash conversion cycle has increased.

All our planned CAPEX plans are progressing well. Total CAPEX incurred during 6 months of 2021 was Rs. 3,286 million, used for increasing capacity at our Pashamylaram and Vizag API facility, our new R&D center at Pashamylaram, our biosimilar and vaccine manufacturing facilities in Hyderabad and for routine maintenance CAPEX. Our ROCE on ex-cash basis was at 35% on an annualized basis for the six months' period of this fiscal year. Our fixed asset turnover stood at 3.4 times for H1 FY22, increased from 3.0 times for the same period last full year due to increased capacity utilization.

As of September 2021, we had total Rs. 29,822 million of cash which we intend to utilize for the CAPEX plan and to fund our inorganic growth strategies.

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



**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Kunal from Emkay Global. Please go ahead.

**Kunal:** Sir, my first question on the profit share component, we are aware that it was somewhere around 8% of revenue in FY21, but can you provide more details about how historically that segment has moved for the last 3 to 4 year?

**Srinivas Sadu:** Yes, it is within the range of 8% to 10% I would say. It all depends on how many products gets launched in that particular year normally and how many new products which are launched in the said fiscal, but it normally falls within 8% to 10%.

**Kunal:** And is it fair to assume that majority of that gets generated from US and North America?

**Srinivas Sadu:** That is correct.

**Kunal:** And the last one on that, so as you alluded that 8% to 10% is kind of fluctuates with the new product launches, so is it again fair to assume that generally good portion of that 8% to 10% comes from the new product launches?

**Srinivas Sadu:** No, even for the old products also, the profit share component is always there, so for the older product the profit share might go down over the year once product gets more competition and genericized but this kind of gets covered by the new launches by way of the profit share component, it is normally high.

**Moderator:** Thank you. The next question is from the line of Shrey Jain from Iroha Investment Management. Please go ahead.

**Shrey Jain:** I had two questions, the first one was, I wanted to understand the ROW market has been growing fantastically for the company, just wanted to hear from you on what is your steady state view in terms of geographical spread, so we had started is about 65-70% of US, now we are about 54%, likewise the ROW you were somewhere in the range of 16 to 20%, now we are over 30%, so how do you see that in the next 2-3 years going forward?

**Srinivas Sadu:** Because of the lower base you are seeing, I think the growth rates on a higher percentage, but overall basis, still our core market is contributing about 61% and the ROW is contributing about 21% which is higher than the 18% for the last year, if you only compare to the same quarter of the last year. So overall I think it will stabilize at a certain period of time once the base shifts normalcy and the reason why we are going faster is of course historically we didn't have enough capacities to cater to other markets while we have registrations across the globe. We are focusing more on our capacities to the US market and the regulatory markets. Now, with the new facilities adding up and new lines coming online, we are also expanding our portfolio to other markets. So, while we are leveraging the old registrations, also the products what we are registering in US. The newer ones have great opportunities in other markets where the margin profile is little



better than the older products and that is one of the reasons why also it is helping the products to grow in the other market.

**Shrey Jain:** So, it is fair to assume that this 59% kind of ROW growth will not continue over a period of time, any particular range where this would end up stabilizing at?

**Srinivas Sadu:** Still, total as company revenue we are looking at ROW to stabilize around 40%, now we are still at 21% right, so still a long way to go, at what rate depends on, how many products we are able to move from the US, what are getting registered there, but I think our own internally, we are looking at next 4-5 years we should get to the level where it should reach 35-40%, so the growth might vary from a quarter to quarter depending on the approvals of certain products in those markets.

**Shrey Jain:** My second question was on the movement in working capital, I saw that there was some increase in trade receivable, is that just a period end adjustment or is there, if you could give us any color because last year I think the number was around 46 crores, now it is around 375 crores?

**Srinivas Sadu:** Yes, it is more to do with the timing of the sales, I would say, if you see preliminary part of this quarter, the logistics were a little difficult, so most of the sales happened in the second half of the quarter, one was the availability of the containers and concern on that side, also it was more expensive, so we are waiting for that to a little settle down from the pricing perspective, so that it will not impact the margins. So, most of the receivables were not due yet, but it will stabilize, I think next quarter. Because of the delay, I think the late sales that happened, we have seen this.

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

**Tarang Agarwal:** Just wanted to check, sir, is there an element of seasonality in your core market's business?

**Srinivas Sadu:** Not much, I would say, of course, it depends on the portfolio we have, it is a concentrated certain set of portfolio, you will see that seasonality, but we have breadth of portfolio, so while some of the products sell more during October to December this timeframe, may be more anti-infective, but otherwise, it is spread across the year.

**Tarang Agarwal:** Because I was just wondering, on a sequential basis, the sales in the core markets have been softer and I noticed this in the last Q1 to Q2 last year as well?

**Srinivas Sadu:** So, if you see the larger products in anti-infective sides like whether it is Micafungin or Daptomycin, these are the larger products compared to the other products and this adds larger revenue to the revenue percentage and that is why you see this. So, few products are adding to that, but otherwise, overall it is okay, but I think some of the products which are contributing more, sells more during October, December and January to March that timeframe that is why you see that bump a little bit.



*Gland Pharma Limited  
October 22, 2021*

**Moderator:** Thank you. The next question is from the line of Achal Phade from Investec India. Please go ahead.

**Achal Phade:** My question was on the complex injectable portfolio, so as it is area of focus for us, so would want to understand more on what sort of complexity are we talking of, like is going to be the target, is it going to be the complex API or the formulation or the complexity around the device? So, if you can give some color on that?

**Srinivas Sadu:** If you look at the total basket, the complexity varies from product to product. Some products, the APIs are difficult, some are formulations and some are like dosage form itself and some might need a clinical, so it is a combination of everything, so if you look at our 17 products which we had taken in the first phase, I would say, it falls into three or four different categories. What we are filing now is complex in APIs and also characterization and they have products in suspension mode where we also need bio study, so it is not like one product, one complexity for all the products, but it is a mix of everything.

**Achal Phade:** Like as other companies are also targeting some of these complex products, wanted to understand is time to market a strategy here or cost would be a focus here being the low cost manufacturer and gaining market share?

**Srinivas Sadu:** Of course, it all depends on the capabilities what every company is looking at, while one is of course, there is also complexity in manufacturing, there is a complexity in development and the cost as well. So, we are also working on internally on certain APIs which are complex, so that kind of gives you an advantage and you are creating an infrastructure and these are the products where not too much volumes you could see. So not everybody will go and put up a plant to do this. Since we are in a CDMO space and we are a B2B business, we are investing into that. So, this also adds up more business from other partners who are on the developing product front, going outside to get that manufacturing done. So, this is just not for our own products, but by creating the infrastructure to develop our own products, we are also creating the space for other companies to leverage our capabilities to develop and launch their products.

**Achal Phade:** And sir, one, last on the ROW markets, so we have expanded that footprint into 2-3 new markets which has driven growth, so are we looking to target more newer markets or the growth for the next couple of years is to come from deeper penetration into the existing market?

**Srinivas Sadu:** It is the combination of both, now that we got entered into these markets, we will expand our portfolio more into this, like we have done historically, some of the markets were very strong. We started out with 3 or 4 products, but we see 15 products selling at some of these markets. So, the same strategy will adopt because once we get a plant approved by certain regulatory agency from a country, it is all the more easy to get more products into that country and then we are also looking at getting into countries like Mexico, where we have certain products where there is a



*Gland Pharma Limited  
October 22, 2021*

lot of opportunity left. So, we see there is opportunity in other markets also, but we are identifying those markets as well.

**Achal Phade:** So, would we be competitive as US market is or could you give some comparison in pricing competition compared to the US market for these bunch of ROW market?

**Srinivas Sadu:** If you think most of the product what you are selling in other markets, products which have lesser competition and lesser players, which are little bit more complex in other products, that is where we are focusing on in ROW market, so that we are not compromising with the margin.

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

**Nitya Balasubramanian:** First question is on Sputnik, sir, did we hear you say that both for Ad26 and for Ad5, you have actually reached validation scale?

**Srinivas Sadu:** That is correct, yes.

**Nitya Balasubramanian:** What would be the steps from here to commercialize the product?

**Srinivas Sadu:** Initial idea is to do focus on Sputnik Light, that is where the demand is coming now, specially outside India. The first few months, we are trying to manufacture Sputnik Light and post that will shift to Sputnik V, but the two limitations, one is of course, the export embargo still existing but they are giving special permission for NOC once we apply, one of the companies received it, but there are also challenging on the regulatory front, still Sputnik Light is not approved in India. Dr. Reddy is doing clinical trial now and they are expected to finish off by this month end, so hopefully by November, both in terms of export embargo and clearance on the licensing side should be cleared, so we are estimating November as the month which might give clearance for export. That is when we will start manufacturing.

**Nitya Balasubramanian:** If Sputnik Light is what you are going to manufacture first, does the deal still remain to 250 million doses or you are likely to go beyond that?

**Srinivas Sadu:** Now, the deal still is a combination of Sputnik V and Sputnik Light with the number of doses.

**Nitya Balasubramanian:** The second one is on the biosimilar or the biologic CDMO opportunity that you were talking about, what sort of capacities do you have in mind, what kind of capacities are you going to create and if you can tell us a little bit about what do you think is Gland's right to win in this segment?

**Srinivas Sadu:** As of now, 60 KL capacity has been created at the substance side which we had actually created for the vaccine and then it is getting expanded to the CDMO for the biosimilar space and that we will start with and while we are discussing with companies and if the size of the plant is



enough, if you need we can actually expand more, but that is where we are going to start with and from this perspective, we are talking to companies within the Fosun framework and trying to startup with them to initially launch some of their substances from the Indian site and then in parallel with other players because more and more we are seeing is interest coming from lot of generic as well as innovator companies, creating a portfolio and extending the biosimilar portfolio and trying to get into companies like us for the clinical batches, for the trial batches, and ultimately leading to the commercial batches.

**Nitya Balasubramanian:** Is there a kiloliter or a liter number that you can share in terms of capacities?

**Srinivas Sadu:** The capacity what we are creating is about 60 kiloliter that is what we said, is that the question.

**Nitya Balasubramanian:** That is helpful, I was wondering if the plants were expanded, but I am assuming that is where you will start and then expand later.

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

**Tushar Manudhane:** Sir, on the core market side for the past 6 months, you have launched almost 24 molecules, but on the quarter-on-quarter basis, we do see some reduction in the sales, so if you could throw some light there?

**Srinivas Sadu:** It all depends on the size of the molecules what we have launched. If you see last year, the big product got launched, so you are comparing with product like Micafungin and Daptomycin were the big products which were one of the leading products for us. We got launched that last year and the previous to that, so you are comparing with those were the products what we launched now of the smaller version. That is one, second, we can't really go with this 21 and now because of completely different way, the portfolio has worked. So once the complete shift happens, still 100% the post COVID, I don't think has happened 100% that shifts to therapeutic portfolio, so once that happens, then we will see difference in terms of the revenue breakup between the molecules.

**Tushar Manudhane:** So, you are still seeing some traction on account of COVID which probably may assuming that now that the cases reduces, so it would die down in the coming quarter?

**Srinivas Sadu:** Yes, we are already seeing that, it is moving next quarter, we are seeing actually most of the products which we are selling pre-COVID is coming back and the COVID related drugs which we sold in the first quarter, especially in the Rest of the World market, it is not coming out, so in the US it has gone away, so I would say we are at 70% level in terms of most of the portfolio. Currently, what we are seeing the coming quarter as compared to the last year quarter.



*Gland Pharma Limited  
October 22, 2021*

- Tushar Manudhane:** Sir, just secondly on this, any update on US FDA inspection given that we do have good number of products in the pipeline which are under shortage, so that kind of should have to regard US FDA inspection?
- Srinivas Sadu:** We have not heard anything from them yet, but inspection was in September of 2019. What we are seeing, they are visiting sites. What we also hear is, there will be sites where they have earlier issue for or under warning or visiting sites where they have a VAI, so since our sites are already approved and most of the lines are already approved, maybe you have not heard from them, but it is part of life and so as being FDA approved plant, so we are geared up for that and whenever we hear we have to face it.
- Tushar Manudhane:** And just lastly if you could just extend this R&D capitalization for the quarter?
- Ravi Shekhar Mitra:** Yes, so just to clarify Tushar that we don't capitalize any revenue expense. In this quarter, we have opened the new R&D center and post commissioning with the building and equipment everything which was sitting in CWIP has now moved into fixed assets and that is the amount Rs. 211 million, but other than that our R&D expense on the revenue is similar to what our plan in earlier quarter which is around 3.5% to 4%.
- Tushar Manudhane:** So, which effectively will mean this is more also kind of a onetime impact?
- Ravi Shekhar Mitra:** Yes, this is onetime, now the equipment and R&D building the new centre has been capitalized, so it will not be again coming.
- Moderator:** Thank you. The next question is from the line of Fiona Chan from Buena Vista Fund Management. Please go ahead.
- Fiona Chan:** My first question is, at the last call you mentioned many of your US customer is facing high inventory levels, due to this tough timing and lower elective procedures, I want to check how are your customer inventory levels now and has there been changes in customer ordering pattern since COVID?
- Srinivas Sadu:** Yes, we are seeing that and in fact some of the products are getting into drug shortage situation where we did hear from FDA on certain products and also some customers coming out with some emergency orders because whatever stockpiling happened in US one as sold off or got into that expiry mode, so there is a shift and yes, there is a change in the way the order is happening now compared to last quarter.
- Fiona Chan:** And would that translate into lower margins due to emergency shipping and higher logistics cost?
- Srinivas Sadu:** No, not really because the logistics already get, if you see last quarter also the cost are on a higher side, on the logistics side, so it is already embedded in the product supply.



*Gland Pharma Limited  
October 22, 2021*

**Fiona Chan:** And earlier you mentioned there were some logistic issues until May, these were made to shipping to the US or they are also related to sourcing from China?

**Srinivas Sadu:** Mostly shipping out, specially the initial part of this quarter, now it is kind of stabilized, I would say, July-August timeframe there was availability of containers caused the problem, but it got resolved I think later part of August.

**Fiona Chan:** And to follow up earlier on the Sputnik vaccine, sir, am I correct in understanding that the production of Sputnik Light also satisfies your requirement for the RDIF on the take or pay contract, so if you can produce either one and you are satisfied with the terms?

**Srinivas Sadu:** Yes, the quantity what we have agreed with them includes this as well.

**Fiona Chan:** And do you have any update on opportunities in China?

**Srinivas Sadu:** We have filed one more product this quarter, so 7 products have been filed now and hopefully we should get, we are estimating approvals, one to two products as of this quarter or the first quarter of next year.

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

**Ameya Chalke:** Sir, I wanted to know some clarity on the margins going ahead, what would be the trajectory and what would be the key drivers that will help margins to either move up and if it is expected to remain at similar levels going ahead? And the second question I have is the competitive intensity in the injectable space is likely to go up considering lot of Indian players are entering in this market, so how do we plan to protect our existing business from such competition, are we looking to do more long-term tie-ups with hospital, etc., or the backward integration is the key?

**Srinivas Sadu:** I think one is on the competition side, we always see that as an advantage for us because we can actually license our products to the new companies as well, so any company who are entering they do not have larger portfolio like what we have. Being a B2B player, every new player coming there actually creates one more opportunity its licensed products to them. So, unlike a frontend player or being our model is little different, it kinds of helps us in spreading our portfolio across more companies and in terms of margins, we still estimate to be around 37%-38% of EBITDA, I think it is able to manage that. In spite of the logistic cost increase and the power and the other expense increase, we are still able to observe this cost because of the operational leverage we had selling more units and if you look at our business model itself, it will spread across different models, right, whether it is licensing of products, whether we are doing tech transfers in other companies to us or whether doing a contract manufacturing. So, while there could be a pressure on margin which as a B2B company we observe little pressure on that because it is mostly taken by a frontend partner, but whatever number is hits us we are able to compensate that by doing more volumes, because we supplied products to different partner across the globe.



*Gland Pharma Limited  
October 22, 2021*

- Moderator:** Thank you. The next question is from the line of Sonal Gupta from L&T Mutual Fund. Please go ahead.
- Sonal Gupta:** Just on India, just wanted to understand that in the quarterly run rate that we have done this quarter, does that still have some contribution from COVID or do we see this as a sort of sustainable run rate?
- Srinivas Sadu:** No, actually there is no COVID sale at all in the Indian business. If you see our Indian business strategy, the combination of our own sale to the front-end business in India and it also has a component what goes to the US through Indian partners, so if you specifically look at the Indian business, what we are selling in Indian market, it is kind of settle down to the previous growth rate.
- Sonal Gupta:** So ideally you are saying that the 8% I think should be actually counted as a part of US sales, right?
- Srinivas Sadu:** That is correct.
- Sonal Gupta:** And again in ROW and there was, you did mention last year there was some contribution from COVID related products as well, but we are seeing that this sales are sustaining at that level, so should we assume that this is sort of that COVID should not really negatively impact this going forward?
- Srinivas Sadu:** Even other markets, like I said while during COVID, we started supplying some COVID related products. The ministries have actually opened our product portfolio there, they registered other products as well and actually they started supplying other products which are sold in normal course of time, so in that way it also helped us to pushing some of the products into the markets where we never sold any products.
- Sonal Gupta:** And this one, like in last quarter you had mentioned about, Enoxaparin contracts in the US, so have those started and have those ramped up in this quarter or do you see further ramp up?
- Srinivas Sadu:** You will be seeing from October to December, the major ramp up happening from the next quarter.
- Sonal Gupta:** So, this quarter, it has not been that meaningful, just trying to understand?
- Srinivas Sadu:** No, not that meaningfully.
- Sonal Gupta:** And just lastly, your comment on gross margin, like you mentioned with you of setting it with operating leverage, but just trying to understand, so this gross margin pressure and the raw material cost pressure is more function of product mix or it is spreading across markets or is it



the function of increased raw material cost, just trying to understand what is the reason for the gross margins, the raw material cost going up further?

**Srinivas Sadu:**

Our gross margin concept is little different than other companies, right, because if you see our gross margin, it is a combination of our own product sales, it is a combination of contract manufacturing and the combination of the tech transfer. If you see my gross margin on a quarter-on-quarter basis it changes, depending on the mix I sell. If I sell more of contract manufacturing, if I do more of contract manufacturing business, it is 100% gross margin because we don't bill the materials. So, if I do more of that and suddenly my gross margin looks very high and my tech transfer again, some are passthrough and some are not passthrough, so it all depends on the mix of that and also mix of market of the products. So, it is not a like to like situation like other companies where they sell their own products directly in the market where the gross margin is excluding the materials. For us, because of the business model, it is not right indicator of the price pressure and the cost involved in it, but there is an increase in logistics cost, and now I am talking about the EBITDA level, probably around 1% that we have been better off if the logistic cost was not as high as during the last quarter, so it will impact 1% at the EBITDA level because of the logistic cost, but for the input material, we didn't see much difference. If you look at from a purchaser, especially from the API front and if 30%-40% of materials are imported and there is no big different from the cost of those material. So, from the material perspective, we didn't have much impact, the only impact was from logistics and power and diesel continued its impact and that is about 0.8% to 1% at the EBITDA level.

**Moderator:**

Thank you. The next question is from the line of Susmit Patodia from Motilal Oswal AMC. Please go ahead.

**Susmit Patodia:**

My first question, while you alluded to at the beginning your operating cash flow conversion is about 35% for the first half and the historical average is about 70%, so would we reach to 70% by the end of the year as well or is this year going to be a little different?

**Ravi Shekhar Mitra:**

Couple of factors for that. One is that what we are discussing that there were logistic problems in first half of this quarter which kind of pushed down the sales to later months of this quarter. That is why receivable has got increased. There is no overdue or anything, but it as per the timing only. The other is the inventory where we have been restocking considering the planned launches we have and as well as new Enoxaparin contract. So once that starts inventory shift to the customers, that is expected to go down and by the end of the year, we expect that to come back to our normal operating level of working capital.

**Srinivas Sadu:**

And Susmit, if you see, now in a fast growing company, where you are growing at 30%, we also need to catch up with inventory right, so when you are calculating the inventory date is based on the history, but you are gaining up for the next growth for the next quarter, so your inventory is always 30% higher than the previous, so that is the delta and that is the problem with the growing companies.



*Gland Pharma Limited*  
*October 22, 2021*

**Susmit Patodia:** The second question is, what would be the risk of the Sputnik contract not getting fulfilled and what are the risks that one should be mindful of?

**Srinivas Sadu:** I mean at the least even if you supply 20 million vials or 15 million vials we get all the investment what we made on the infrastructure and the materials what we bought, so that way I won't see a big risk and that is one. Second, the whole idea of getting into this is working towards the biosimilar CDMO space. So, the plant is there and we are creating the infrastructure, keeping in mind the long-term growth in this space. So, this is more getting into the space and we took this opportunity so that it will fasten our entry into that. What we wanted to do in 2 years down the line, we did it now because we had an opportunity to encash when the vaccine opportunity came. So, I don't see that as the loss for us. With the investments we made, one looking towards long-term growth, second learning what we get from doing the technology transfer happening for the vaccine project and creating the team who has this capabilities and the experience of getting from it and second is some investments on this specifically for this project, it is very limited I would say and we have been confident that whenever it start even if you do half of what we had signed up for, we will be very well off.

**Susmit Patodia:** And just to, sorry on this point, there is no take or pay penalty on RDIF, right?

**Srinivas Sadu:** No, there is no penalty on it.

**Moderator:** Thank you. The next question is from the line of Gagan Thareja from ASK Investment Managers. Please go ahead.

**Gagan Thareja:** Sir, first question is around your US business, you have 244 approved and could you first clarify as to whether all of these are in the market as you commercialize all of these or to what proportion has this been commercialized?

**Srinivas Sadu:** If you actually break it down into molecules, that is easier to study this, out of 244 ANDAs, I think there is total molecules if you see, there are about 153, and we have launched about 106 and there are tentatively approved products about 11 and what we have not launched was approved which will happen in next quarter is around 14 products and there are also some tech transfer projects and so I would say out of this what are launched, out of 153 molecules, 106 and they had tentatively approved about 11, so 117 have gone there and there are few more products we have to launch in next few quarters.

**Gagan Thareja:** And 47 pending approvals in molecule terms also be if you are in 47 or a different figure?

**Srinivas Sadu:** From the molecule level it is around 22 molecules.

**Gagan Thareja:** For a layman like me if I do a very simplistic sort of an exercise, 47 pending on a base of 244 over here you have already clarified there are some ANDAs in pending numbers, if one were to assume that the revenue potential is somewhat better given that the complex finding it could still



look like the pending ANDA is around 20% of the base of approved and while it might be wrong on my part to look at it in such a simplistic format, could you give some idea as to what sort of growth potential these 47 pending ANDAs could give you for the next 3 years, may be try to assume the approval cycle in the three years?

**Srinivas Sadu:** So, the filed and approved products we received in market price is about \$4 billion and what we have approved already for 11 billion, so that is it to give you an idea. So, 11 billion is approved products and around 4 billion is filed and waiting for approval products.

**Gagan Thareja:** And would it also be reasonable to assume that these products have from a competitive standpoint because they are relatively no complex, market formation would be more in your favor and revenue potential per ANDA could be better?

**Srinivas Sadu:** Yes, so if you see around \$11 billion what we have approved, out of which about 3.5 billion is still tentatively approved and not even launched. That is waiting for either the product was settled and have a particular product launch date or waiting for the patent expiry. So, I can't really comment on how difficult are these and how many players will be there because like someone was saying so many players are coming into this space, so I can't really tell who has filed what, but again these products we have a breadth of portfolio and we have been in this long so hopefully, we should continue the growth and margins what they are showing now.

**Gagan Thareja:** So, the right way to look at it that actually you have commercialized 7.5 billion worth of total addressable market and you have another 7.5, that is 4 plus 3.5 left to commercialize, right, am I correct in that and this could happen over what timeframe?

**Srinivas Sadu:** Probably 3-4 years. If you see the approval time, currently it is faster, if you see a year ago, if you look at our pending list it was very high and we are getting many product approvals in 9 months to one year, as we speak we got one yesterday, so it could be faster also because so now we are doing a catch up to file good products and that is where our efforts have gone when you are saying you have created the additional R&D center and creating additional team to even catch up with approval speed with which FDA is giving now, so historically we are looking at 23-24 filings, now we are seeing how to increase this 40-50% so that we will get more approvals in a quicker time.

**Gagan Thareja:** Similarly, on the ROW business phase, is the receivables and inventory profile similar to your regulated US market business or is it very different and if it is so could you give some idea of to what extent?

**Srinivas Sadu:** The receivable time is little longer than the US, I think it is around 120 days compared to 60 to 80 of the regulated market, but in terms of the payment received and all that the company through we are entering the contracts are mostly reputed, Mylan sells our product in some country, Fresenius sells in some country, so we are looking at extending those relationship to other markets, so that one's relationship with those companies will grow, otherwise the business needs



more standard than one-off thing and the second is of course we are getting into contracts with the companies who are leaders in those market because not every product can serve everyone where we want, so we are not trying to sell all the genericize products, we are looking at the margin and some are like, most of the countries have retail market and where their prescription also helps, so we are entering contracts with those companies who have a solid financial background.

**Gagan Thareja:** And the fixed asset turnover which we indicated is now at 3.6 for you, what could be the peak that you could see on your current gross book for that?

**Ravi Shekhar Mitra:** This will further increase when we start commissioning the existing additional lines which we are putting up in Pashamylaram. So, there is Hormone line which is coming up and there are Lyos also which is currently being installed and there is also PFS line, which is coming up, so all put together, I think in next year it should go up further as we utilize further its capacity.

**Gagan Thareja:** Any ballpark number to understand your utilization levels currently?

**Srinivas Sadu:** Utilization, it all depends on which line and which product we are doing, right, so if you look at our pre-filled synergies it is only around 50-60%, that utilization. If you look at some of our vial lines they are almost running at 80-90% but we also have just added new liquid line. Overall, I would say around 65% capacity utilization, so we still have enough capacity to grow for next couple of years.

**Gagan Thareja:** And if one were to look out 5 years from now, you given fair bit of idea of how the US market will evolve and how the ROW will evolve, if you could give some idea of your aspirations around biologics and China, both China from your filings and also possibilities from the Fosun Group for products to get some understanding of the respective size of that opportunity in a 5-year timeframe?

**Srinivas Sadu:** You mean the China market?

**Gagan Tharaje:** Yes, China plus biosimilar both?

**Srinivas Sadu:** Biosimilar, see we are not developing products and like companies who are working on development of products and marketing, we are only doing on the CDMO side. So, it is too early to comment on how large that business will be, but there is almost like the market size is around \$12-13 billion is the CDMO biosimilar business opportunity. So that is where we are entering and we are not into developing products and licensing those products yet. So, we want to work with company, so we are looking at leveraging our substance and fill finish capabilities, but from the China angle, we are coming out continuously with the portfolio and the target is in 4 to 5 years we want to have at least 10% of our revenue coming from that market.

**Gagan Thareja:** In China, the business economics would be quite comparable to what you currently have?



- Srinivas Sadu:** For the selection of products is that way, we are looking at company products which are completely innovative kind of products in those markets, not the normal products, so the selection is happening like that and the margin profile is far better than any other market.
- Gagan Thareja:** And the biosimilar capacity you indicated is around 60 kiloliters, I understand everything is down to product selection and your contracts on CDMO, but could you give us some sort of very baseline understanding of what that translates into from a possible revenue potential, I am not asking for a fixed number, but may be a band within which we could understand at optimal utilization what sort of potential that 60 kiloliter capacity has?
- Srinivas Sadu:** It is very difficult to tell, it all depends on which customer, which product and how much utilization they take, it is completely, any number I say it is not real, so why say a number.
- Gagan Thareja:** So, if I split the question and say if you could give me the idea of what is the investment that has gone in and what sort of fixed asset turn on that investment going to be very different from what you have and materially different or comparable to what you have?
- Ravi Shekhar Mitra:** I can answer in this way that the investment which we are making in this biosimilar CDMO with ourselves as well as with joint venture partner, but that would ensure that we look at IRR of at least 20% and that is how we take an investment plan. Let you know all these answers as we go further down this journey.
- Moderator:** Thank you. The next question is from the line of Saion Mukherjee from Nomura. Please go ahead.
- Saion Mukherjee:** Sir, you mentioned about ROW market going to around 40% over a period of time, can you give some color as to what would drive it, I mean how much would that be from new markets like China and how much would be from your existing market? And the second question is, if you can also share the contribution from new launches in the first half of this fiscal year?
- Srinivas Sadu:** Yes, for China we are looking at 10% of the revenue contribution in coming years and then the rest 30% from the other market that gives a breakup. That is how they are looking at and in terms of contribution of launches, it is around 9%.
- Saion Mukherjee:** 9% of your H1 revenue.
- Srinivas Sadu:** 7% of the revenue came from new launches in the first half.
- Saion Mukherjee:** Sir, just one more question, you mentioned 8% to 10% is the profit share, I mean firstly like is it the same number for this half or I mean the first half also and is there any concentration risk there like half of the profit share coming from one product or something like that if you want to call that out?



*Gland Pharma Limited  
October 22, 2021*

- Srinivas Sadu:** It spreads across different products, it is not one or two products, different customers and different products and it is around, percentage wise this quarter, it is around 8%.
- Saion Mukherjee:** And sir, how much is the total investments we have made on the vaccine biosimilar so far, if you can just share that number?
- Ravi Shekhar Mitra:** So far the plan is to invest 300 crores and we have made up to now about 230 crores up to September, balance is being made in this month.
- Moderator:** Thank you. The next question is from the line of Vishal Manchanda from Nirmal Bang Institutional Equities. Please go ahead.
- Vishal Manchanda:** With respect to the complex injectable filings that you intent to do for hormonal products and the complex peptide, could you share whether these products are patent expired and whether if there is existing players who have approval for the same products?
- Srinivas Sadu:** You are referring to the 4 products we are filing?
- Vishal Manchanda:** Yes, the three hormonal products and one complex peptide which cumulatively represents the market of 983 million USD?
- Srinivas Sadu:** Yes, I think one product is under patent and the three products are open and there are two products they have, I think one generic.
- Vishal Manchanda:** Three products?
- Srinivas Sadu:** Out of the three products, two have genericized, I think one player is there for these two products.
- Moderator:** Thank you. Ladies and gentlemen, due to time constraint, that was the last question for today. On behalf of Gland Pharma, that concludes this conference. Thank you for joining us and we may now disconnect your lines.