“Gland Pharma Limited
Q4 FY2021 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to Gland Pharma Limited Q4 FY2021 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, Vice President, Corporate Finance, and Investor Relations. Thank you, and over to you, Mr. Bajpayee!

Sumanta Bajpayee: Thank you. Good evening everyone and warm welcome to Gland Pharma's earnings conference call for Q4 and FY2021. I have with me Mr. Srinivas Sadu, MD & CEO; Mr. Ravi Shekhar Mitra, our CFO to share the business outlook and to answer queries. We will begin the call with opening remarks from the 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 these must be viewed in conjunction with the risk and uncertainties involved in our business. The safe harbor language contained in our press release also pertains to this conversation. The transcript of this call will be made available in our website shortly. I will now hand over the call to Mr. Sadu for his opening remarks. Thank you all. Over to you Mr. Sadu!

Srinivas Sadu: Thank you Sumanta. Good evening everyone. Last year has been a challenging year with the world grappling with numerous unknowns in the wake of the COVID-19 crisis. The health crisis not only impacted human life but also had a widespread impact on the economy. We are in the business of saving lives and true to this philosophy our employees exhibited extraordinary dedication to help combat challenges posed by COVID-19. They ensured that we maintain a continuous production and supply of critical medicines.

Our ability to respond to changing market demands during COVID-19 was visible wherein we registered growth in markets of the US, Europe, Canada, and Australia on back of new launches and volume growth in existing portfolio supported by our increased capacity.

Our focus on vertical integration strategy in APIs, adding alternate raw material sources, optimizing batch sizes, and streamlining supply chain management have ensured sustained growth even in these tough times where raw material availability was otherwise impacted. We continue to invest in R&D as we believe it is core to building a sustainable business. In FY2021, total R&D expenditure was ₹1,220 million which is nearly 3.5% of our revenue from operations and an increase of 32% over the last year.

As on March 31, 2021, we have 284 ANDA filings in the US and 1,501 product registrations globally.

We had a good quarter and FY21 and continue to move forward on a well-defined strategy. We have shown year-on-year growth of 40% in revenue for the quarter Q4 FY2021 and 32% for FY2021. We saw year-on-year growth in PAT of 34% for the quarter Q4 FY2021 and 29% for the FY2021. We have generated ₹6,049 million of cash flow from operations despite inventory buildup from last year end's level which was impacted by COVID-19. To be able to deliver such sustained business performance in these challenging times is testimony to our business model and strength of our product portfolio. There were several onetime costs that were incurred during the year on account of COVID-19, yet we managed to rise up to the challenge of absorbing these costs with business growth.

Let me take you through the business highlights across various geographies. As highlighted on the last call, our focus on geographic expansion into emerging markets continues and the new partnerships that we have built over the years are showing sustained demand. Our emerging market business is growing rapidly and has accounted for 16% of our FY2021 revenue. We have seen 196% year-on-year growth in revenues for the quarter and 136% growth in revenues for the financial year period. We entered new markets like Singapore, Israel, Saudi Arabia, and CIS countries through new partners during this period. Our ability to turnaround orders in short period of time and also offer a broad portfolio of products has helped us achieve this phenomenal growth in FY2021.

Our key markets namely US, Canada, Europe and Australia accounted for 68% of our revenue during FY21. We have seen 29% year-on-year growth in revenues for the quarter and 22% growth in revenues for the financial year period. The growth was on account of launch of new products and volume growth in existing products with ramping up of capacities. New launches include products like Micafungin and differentiated products like Bivalirudin in RTU format as well as Olopatadine ophthalmic product in branded market. We launched 6 molecules in the last quarter. We filed 21 ANDAs and received 32 ANDA approvals during the 12-month period including our first Penem approvals for the US market, Ertapenem. We also filed 5 DMFs during the same period.

Our domestic market accounts for 16% of our FY2021 revenue. We have seen 15% year-on-year growth in revenues for the quarter and 19% growth in revenues for the financial year period. The new capacities being made available for the domestic market has helped ramp up volume growth in the core portfolio of products. We ramped up Remdesivir supply and ensured sufficient availability of Enoxaparin for the domestic market considering the requirement for Indian patients. We launched 10 products SKUs in the domestic market during FY2021.

The reason for the quarterly changes in gross margins are primarily because of product mix variations and geographic expansion but when you see the margin profile in an annualized

manner, you will not find much difference. Again, I would like to add here that strategically, we are trying to diversify our geographical presence by venturing into new markets while maintaining the growth momentum of our key markets of the US, Europe, Canada, and Australia. As we enter these new markets, we will benefit from higher volumes resulting in better operational leverage.

On the quality and regulatory front, all our plants continue to remain approved by US FDA. Given restrictions on travel on account of COVID-19, customers are conducting audits virtually during this period. I am confident on the preparedness of our team for any audit virtually or in person. We successfully completed purchase of R&D and manufacturing facility of Vitane Biologics, a biopharmaceutical company located in Genome Valley in Hyderabad recently and are now working towards a seamless operational integration of the assets into Gland and thereby build on vaccine drug substance manufacturing capability while continuing investment in creating infrastructure for the development and manufacturing of biosimilars.

We have entered into an agreement with RDIF to supply Sputnik V COVID-19 vaccine. Presently technology transfer process is underway with and efforts are to commence production of vaccine by Q3 of fiscal 2022. Learning's and infrastructure support from vaccine business will accelerate our long term strategy of entering into biosimilar space, well supported by our parent Fosun Pharma.

We are also exploring other M&A opportunities that will help build capabilities to strengthen product and technology infrastructure such as long acting injectables, steroidal hormonal products, suspensions, and nasal and inhalation products. We are also looking at niche API suppliers with complementary capabilities especially in fermentation technology, Corticosteroid APIs, and hormonal APIs.

We have started investing in our new biologics facility to make it ready for vaccine and our future biosimilar plants. We will be spending about ₹2,700 million including the cost of the facility acquired. In addition to that, our existing capex plan for our formulation and API facilities of nearly ₹3,000 million in FY2022, ₹2,000 million in FY2023 is on track.

The growth capex will help us in building additional manufacturing capabilities for complex injectables as well as debottleneck our capacities.

As an organization, this year has been transformational and despite the COVID situation, we have delivered on all key organizational KPIs. Working on the key pillars of focus as laid down at the beginning of the year; we have managed to work on intensive knowledge sharing across our manufacturing facilities. We are going through knowledge building in

the vaccine and biosimilar space. We are able to streamline our human capital. It is also important to ensure utmost safety and wellbeing of employees in these trying times. With new capacities coming online and efficient lifecycle management of products we continue to maintain our strength in efficient supply chain.

We are pleased to inform you that today, Ms. Naina Lal Kidwai and Dr Allen Zhang have joined our Board. Ms. Kidwai is an MBA from Harvard Business School and brings in rich experience in the field of banking and finance. She is recipient of many awards including the Padma Shri by the Government of India for her contribution to Trade and Industry. She is presently the Chairman of Advent Private Equity India, Advisory Board, and Non-Executive Director on the Boards of LafargeHolcim, Max Financial Services and Cipla, a trustee of Asia House in the UK, India Advisory Council, Member of the US India business Council and was the past President of the Federation of Indian Chambers of Commerce and Industry. She chairs the Financial Services working group of the BRICS Business Council and the Member of the INDO-ASEAN Council as well.

Dr. Allen is a scientist with rich experience in Pharmaceutical Research and Development and holds more than 21 patent applications and invention disclosures and more than 40 publications and abstracts in peer review journals to his credit. We are confident that he will play critical a role in setting up strategic direction of organizational R&D initiatives.

I am sure that under the able guidance of Ms. Kidwai, Dr. Allen and other members of our Board Gland Pharma will witness a sustainable growth. We hope to continue delivering strong results for all our stakeholders in the coming year as well. I 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 financial year. Thank you very much. Over to you Mr. Ravi!

Ravi Shekhar Mitra: Thank you Mr. Sadu. Good evening ladies and gentlemen. Thank you very much for attending our Q4 and financial year ending 2021 earnings call. Our earnings presentation has been uploaded on the website.

Let me begin with sharing the financials performance of Q4 and FY2021. Revenue from operations for the fiscal 2021 stood at ₹34,629 million, a year-on-year increase of 32%. For Q4, we have reported revenue of ₹8,877 million which is a 40% growth year-on-year basis. The key drivers for this growth were increase in volume of existing portfolio, new product launches and geographic expansion. We have achieved a very good growth across all the markets in Q4 and during the full year. Gross contribution margin for Q4 was 56% and for

the full year was at 57%, in spite of the discontinuation of the Government MEIS scheme we were able to maintain a healthy gross contribution margin.

We have reported an EBITDA of ₹3,749 million in Q4 FY2021 compared to ₹2,861 million which is an increase of 31% compared to same period last financial year. EBITDA margin for Q4 FY2021 stood at 40% as compared to 42% for the same period of previous financial year.

EBITDA for the full year ended March 2021 was at ₹14,370 million compared to ₹10,946 million for the previous financial year, a growth of 31%. We have reported EBITDA margin for FY2021 at 40% which is an improvement of 46 basis points as compared to last financial year. We have managed to improve the EBITDA margin despite decrease in gross contribution margin and increase in some of the expenses due to higher operating leverage achieved on increased capacity utilization during the year.

Our net profit for Q4 was ₹2,604 million, a growth of 34% compared to Q4 FY2020. During FY2021, our PAT was ₹9,970 million which is an increase of 29% as compared to last year. We have reported PAT margin for FY2021 at 28% which is in line with last financial year while there was a onetime gain of deferred tax liability reversal in fiscal 2020. The increased volume and resultant operational leverage enabled us to maintain PAT margins. The total R&D expenses for FY2021 were ₹1,220 million compared to ₹922 million of the previous financial year which is an increase of 32% and in line with our revenue growth. It stands at 3.5% of the revenue. R&D expenses for Q4 were ₹304 million which is at 3.4% of revenue.

Our effective tax rate remains at about 25% in Q4 and for the fiscal year 2021. In the previous financial year, the effective tax rate was lower due to one-time reversal of deferred tax liability of ₹324 million on account of reduction of corporate tax rate in fiscal 2020.

Cash flow from operations for the 12 months period ended March 31, 2021 was ₹6,049 million. EBITDA to cash flow from operation conversion has come down during this year compared to previous financial year due to higher inventory on restocking of inventory level from the lower level in March 2020 when inventory level went down due to initial supply disruption. We have since then restocked a critical inventory requirement considering planned launches and increased demand in the coming months.

Cash conversion cycle stood at 229 days for FY2021 as compared to 200 days as of last financial year end. We have improved our receivable days and payable days compared to previous year, but due to increased inventory level, our overall cash conversion cycle has increased.

All our planned capex plans are progressing well. Total capex incurred during the financial year ended March 31, 2021 was ₹2,288 million used for increasing capacity at our Pashamylaram facility, our new R&D establishment at Pashamylaram and for routine maintenance capex.

Our ROCE on ex-cash basis as on March 31, 2021 stood at 33%, an improvement of 130 basis points over the previous financial year. Our fixed assets turnover also increased from 2.4 times to 2.8 times as we increased our capacity utilization. As on March 2021, we had total of ₹30,058 million of cash which we intend to utilize for capex and to fund our organic and inorganic growth strategies.

With this, I would now 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 Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

Sudarshan P: Thank you for taking my question. Sir, my question is on the working capital as you had earlier said that this will increase in the year inventory days, I mean going forward what should we look at, would this number kind of normalize or do you still continue to see issues as far as availability?

Ravi Shekhar Mitra : The inventory for the year end has gone up a bit and this is how when we restock our critical inventory for new launches and the increased demand for especially the products like Enoxaparin, Heparin. Going forward, if you look at on average basis, this will stabilize but this is in line with our business model, and we would continue to ensure that enough product is available for meeting our demand.

Sudarshan P: My second question is primarily on now that we have got these Penems in place and I think post us getting this vaccine up and running this plant can also be kind of repurposed to bioproducts which I mean our parent has also got fair amount of capabilities over there, so few things over here I mean whatever the amount that we have talked about the 270 Crores investment incremental, would that be sufficient enough to primarily setup that capacity whatever is required for us to supply that 250 million dosage to RDIF and second is whether do we need to incrementally invest further into fermentation process in bio, the bio similar are a repurposing this capacity even beyond COVID to basically take our capabilities in the next level?

Srinivas Sadu: In terms of vaccine demand of 250 million, this is in line, whatever we are investing today to expand our drug substance infrastructure and also some part of the investment is going into the finished dosage where we have to build the storage facilities because this is minus

18 degree product. So, this will take care of the supply side of 250 million vaccine doses. Now moving forward into biosimilars, probably 70% to 80% of this infrastructure will be useful for it but as you know on every product has specific requirements in terms of bioreactors from technology perspective, so there will be add on investment whenever we get into development of biosimilar or we do a tech transfer something, so the idea is probably 70-80% is good enough to get into that space and this will actually trigger our speeding up our process getting into this specially on the CDMO message where companies are looking at biosimilar drug substance manufacturing capabilities and especially with Fosun, our parent company themselves have the bio similar capability, so that opportunity will open up.

Sudarshan P: How soon can we see this?

Srinivas Sadu: Which one, the vaccine?

Sudarshan P: No, the biosimilar opportunity, vaccine I think we have talked about Q4?

Srinivas Sadu: So, initially the focus is on vaccine first. Till we finish off these projects we do not want to enter the biosimilar space. The initial is to build the capabilities of vaccine and at least for next one year and focus on that and to deliver the product what we have agreement for.

Sudarshan P: Just one more final question on the Penem, now that we have Ertapenem in place and I understand that we have a sweet spot given that we have dedicated capacities where most of the players do not have, should we be looking at barrage of Penems I mean including venturing into Meropenem and various other Penems and make it itself into a separate portfolio?

Srinivas Sadu: So, Meropenem also we have actually an approved ANDA, we looked at a second source to be more competitive, so we are expecting an approval soon, so that will also be launched at latter part of this year, so Meropenem and Ertapenem will be part of our portfolio.

Sudarshan P: Thanks a lot. I will join back.

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

Nitiya Bala S: Congratulations on another good quarter. First question on your US portfolio, so we understand that again because of COVID, there were certain products of yours which saw heightened demand with that being more Cisatracurium, Enoxaparin, Heparin, would you say that your Q4 numbers be the largely normalized numbers, and this does not include the COVID impact or are you still seeing heightened demand for these products?

Srinivas Sadu: The COVID demand in the US kind of normalized by Q2 of last year and like I said in my earlier call also, our portfolio has a larger breadth while we do get benefit over the COVID related products but we also lose some on the other products because of the relative size is coming down because if you see our portfolio anti-infectives has come down a bit last year because of this, so overall we are always able to manage because of the portfolio what we have, so we had some benefit of COVID products in Q1 of last year but also lost some of it because of COVID but from Q2 onwards a kind of normalized, now there is no impact of COVID in US, it is more in India but that impact is not been in Q4.

Nitiya Bala S: Understood, my second question was on China. I think there are six products that Fosun has said which are at various stages of getting an approval I think three are under QC review and the others are yet to start QC reviews, when do you think these products can actually be in the market, what is the approval in the revenue cycle you are seeing in China right now?

Srinivas Sadu: Although I cannot give exact timeline but the guidance what we are getting is probably two products in Q3 or Q4 of this year will get our first approval and then the last quarter of this fiscal we might get another three products and that is what the guidance in the regulatory you are getting from China.

Nitiya Bala S: Can we look at FY2023 as a year where China is starting to be a meaningful contributor?

Srinivas Sadu: Total revenue wise it may not be very meaningful, but I think you will see some numbers coming in some call the FY2022 and more in FY2023.

Nitiya Bala S: Understood. One very quick follow up on the question that the previous gentleman had asked, so in terms of the biosimilar opportunities, is your aspiration to be your contract manufacturer or would it be seriously looking at contract development and manufacturer as well?

Srinivas Sadu: We always started with contract manufacturing contract development and to getting to our own development, I think that is the path that we want to take, we want to dive in quickly into our own development, so this opportunity what we took now is kind of a learning process for us and last year we have been talking to people and they are expressing interest to move biosimilar manufacturing to us what also we realize is just not the filling people look at they also look at that substance manufacturing because most of the time with bulk stability has a limited time and transporting across geographies is difficult and that also kind of expedites our entry into this arena.

Nitiya Bala S: Thank you Sadu. All the best.

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

Saion Mukherjee: Good evening Sir. My first question is we had seen step up in performance in RoW in this fiscal year, how should we think about that going forward and secondly on the US market also I mean what is the impact of COVID in terms of lower demand, can you quantify that number which can potentially come back in next fiscal, Europe and US put together, your established market?

Srinivas Sadu: US is the larger market, Europe is comparatively smaller, so US I cannot put a number but if you look at the numbers compared to the previous years like I mentioned the previous call and the Anti-infection has gone down at least for couple of quarters because of the kind of admissions happening in the hospitals but we also sold more some of the anticoagulants and the neuromuscular blocking agents. So, overall the numbers still we could manage because the portfolio we have and if you see product like Vancomycin, it was on top five products before, it is not anymore and that is one of the reasons because of the lesser sales of anti-infectives. So, that is one comment that I can make but I cannot quantify exactly the impact.

Saion Mukherjee: Yes and how should we think about the Rest of the World market where we have seen a step up in revenues this year?

Srinivas Sadu: That is very intentional. If you see, we had been building up that portfolio and registrations, one was the capacity utilization we are focusing to give more capacities for the US market now that we have built in capacity from last three years, we have been trying to launch our products in these markets and in a way COVID also helped us to get to this market quicker than we anticipated especially in markets like Saudi Arabia and Singapore where the registration time been the longer because of COVID, we could do some emergency supplies and that kind of helped us get through other products because of the site got approved and moving forward because of the additional capacities we have installed last two years to three years, we are able to cater to this market and that will be a focus area as well to increase geographically so that both from operational leverage that will help our margins and also de-risk ourselves from dependence on one or two markets.

Saion Mukherjee: Okay, so basically do you think to be more the growth driven by new markets opening up or the markets which have already opened up, you would have more products come in, I mean, what would be the more important driver of growth?

Srinivas Sadu: It is a combination of both, if you see US, we have grown around 21%-20% last year and the Rest of the World is going faster and we are always been very strong in South American, LATAM markets and we have lot of distributors and the other advantage we got

is now currently the partners who are in the US they have spread across the several countries who are taking these products also, so you see some of the products going globally whether it is Pfizer, whether it is Fresenius, taking across some of these markets so that also will add up to the geographic expansion.

Saion Mukherjee: Okay and the second one is on vaccine and biosimilars. Firstly, on vaccine, this 250 million dose contract to start with, will it be fill and finish or it will be even the first batch will include the drug substance production at your end?

Srinivas Sadu: It is a substance and the fill finished, so the agreement is the substance and fill finish and that is why we are investing into the substance manufacturing of it.

Saion Mukherjee: Okay and Sir the other broader question on biosimilar is like you mentioned I mean what is the thought process here given that there are large players in Korea, China etc., Gland Pharma is entering into this space as a new entrant I mean what would make Gland differentiate in this space and why these things Gland would succeed in scaling up this business over a period of time, what does the Gland bring to the people, or what brings to the table to make it to a successful business for us?

Srinivas Sadu: If you look at our business model that will continue, we always partner with people, we do not take products or we do not get into development unless we have some partnerships and that model will continue, like I just started the journey in time in the markets, this will also add up to that. We have been trusting with several companies looking at filling outsourcing which have substance and there are also challenging of just filling, getting drug substance from them and with our capability and infrastructure and the experience of handling at economic levels we had an advantage, so the first step is to get into the filling kind of a business and where Fosun also plays a role because of they are in the biosimilar space, one thing is looking at the Asian markets and other than US markets where we can produce here and take to those markets with our steps and moving forward, the injectable space itself I mean there is lot of opportunity in terms of biosimilars and the new molecules are coming at the larger one, so it is an entry now and I think moving forward three years to four years down the land could be substantial growth prospects of the company.

Saion Mukherjee: Got it Sir. Just to clarify is it likely that Gland Pharma would be doing contract manufacturing for Fosun or its subsidiaries who are in biosimilars, is that what would be the first stepping-stone here?

Srinivas Sadu: We are looking at different opportunities that could be one, but it could be several others as well. So, the companies are looking at outsourcing these activities whether it is from drug substance or the formulation front.

Saion Mukherjee: Okay, thanks a lot.

Moderator: Thank you. The next question is from the line of Utsav Mehta from Edelweiss Asset Management. Please go ahead.

Utsav Mehta: Thanks for taking my question. Could you just, if not in too much detail, then at least qualitatively take us to some of the economics of these 250 million doses? How much revenue, how much margins and what are the investment that is entailed?

Srinivas Sadu: The investment part like I have already said is about ₹270 Crores getting into the substance as of the formulation. We cannot really talk about the economics on the revenue side.

Utsav Mehta: Okay, anything in sense of the hurdle rate that you would have considered or so are you basically looking to let us say make 15% - 20% ROCE on jobs this particular investment through the vaccine result or are you factoring in the longer-term income from these assets?

Ravi Shekhar Mitra: We maintain the same level of ROCE threshold target when we do any investment, considering that even for this new drug substance infrastructure investment we will continue to have that same kind of IRR expectation.

Utsav Mehta: Just one simple bookkeeping question with acquisition that we have made, could you just provide some broad contours in terms of the cost and I think it is a cash investment, in terms of cost?

Ravi Shekhar Mitra: So, this happened subsequent to financial year 2021 end and this is actually an asset purchase, subsequent to March we have purchased the facility and the equipment etc., total amounting to about ₹90 Crores. On top of it we are going to invest the balance amount to scale up for the vaccine purpose which includes bioreactors, storage capacity etc.

Utsav Mehta: Okay and the existing facility has bioreactors single use or multi-use?

Srinivas Sadu: It has single use bioreactors but to a certain extent to get to the scale of vaccine we have invested to an expansion for the commercial production as well as procure the bioreactors.

Utsav Mehta: Thank you so much for your time for all my questions.

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

Pritesh Rathod: Good evening everyone. Can you help us what is the existing capacity you will create in vaccines once the plant is up and running and you have contracted with RDIF what you can do with other players do you have an empty capacity which can be contracted to the other side, on vaccine side?

Srinivas Sadu: Currently the drug substance capacity what we are building is to do 252 million for the year, so that is how the capacity is getting built and from the finished products side again, we have allocated two manufacturing lines for these which has dedicated for vaccines and it may not completely fill the two lines but probably 70% to 75% it can fill that capacity, if we get an opportunity to fill other vaccines we will certainly do.

Pritesh Rathod: What kind of other vaccines you can do full finish? Would it be additional finish in fill finish you can do mRNA also?

Srinivas Sadu: Yes, it can be done.

Pritesh Rathod: Okay, and this contract with RDIF is it an annual contract, like every year you have that option or it is onetime contract and the second contract will be depending on how this get executed or the later on?

Srinivas Sadu: The current contract is fixed for 252 million and it all depends on how the situation will be after that.

Pritesh Rathod: You would be agnostic like the way it is supplied to India market or exports, your profitability, or your margins will be fixed given your contract is with RDIF, right?

Srinivas Sadu: Absolutely, so our product is not dedicated to any market, we have to supply to them, and they will decide where to supply that product. So, our pricing and supply is with RDIF.

Pritesh Rathod: That is already fixed irrespective of whichever geography and whatever pricing will get?

Srinivas Sadu: Absolutely.

Pritesh Rathod: Thank you. That is all from my side.

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

Tarang Bhanushali: Sir, good evening and congratulations on a strong set of numbers. Just wanted to check what were the export incentives that were not received this year versus the last year?

Ravi Shekhar Mitra: Export incentives MEIS scheme was there up to August and from September onwards we have not received. The total would be about ₹60 Crores.

Tarang Bhanushali: Just wanted to check, if I adjust for it, your profitability the gross margin is actually improved on a year-on-year basis despite a significant change in your business mix. So, from what I understand the profitability in the emerging markets is maybe lower, so despite that you have been able to improve your gross margins. So, if you could comment on that?

Srinivas Sadu: The portfolio what we are taking to other markets focusing on products where we have better margins than the normal products and that is how we started and if you look at the markets we have grown like Singapore or Saudi they are better margin markets. Again, although we have a large portfolio of products, we are selecting what will keep us in terms of margin profiles better than compromising on the margins.

Tarang Bhanushali: How is the competitive intensity in these markets Sir?

Srinivas Sadu: Some products not many players are there that is one of the reason even if you look at the top ten products in our company, five products or six products we make our own API so that kind gives an advantage in terms of backward integration and the capacities what we have in terms of facility utilization, capacity utilization that also is helping us keeping this margin. So, it is a mix of backward integration, mix of the output we are giving through manufacturing sides and also the product mix we are launching in these markets it is the combination of these which is helping us to keep those margins intact.

Tarang Bhanushali: Got it. Thank you.

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

Tushar Manudhane: First of all, congrats on a great set of numbers. Just on this Sputnik Vaccine has any of the contract manufacturing companies, there are I guess 7 to 8 companies who have tied up with RDIF has any of the company scaled up to the commercial level production as of now?

Srinivas Sadu: I cannot really comment because it is still privy to a lot of these companies, but companies have tied up with RDIF at different timeline. Some have entered agreements at the end of last year, we have entered only in March and if you see the companies have tied up mostly on the bio side not the real vaccine manufacturing side and the technology like everybody is saying vaccine is not that easy and they have to interact with lot of companies in India and then get their technologies here. So, what we hear is people are coming closer to scaling up

and getting launched in June, July. But that is the hearsay, so we cannot really comment on other companies, but I think we will see soon some manufacturing happening in India.

Tushar Manudhane: Okay, secondly on the pace of ANDA filing had moderated in Q4 FY2021, any colour you would like to give?

Srinivas Sadu: Yes, one is of course there is an impact on COVID for at least a month or so, because of people attending the duties and all that. Second, the kind of product mix we selected, we talked about getting into the complex generics, so the mix of those products also which has a longer timeline. If you see we have started working on almost 16–17 complex injectables, you see some filings happening this year but two or three will happen this year. So, this has a longer development time compared to normal ANDAs, other than that there is no particular reason I would think.

Tushar Manudhane: Overall ANDA filings target for FY2022 including these complex products?

Srinivas Sadu: It will be around 20 similar and because every year we have set of complex products unlike before, so four or five products will be complex which may take a longer time. So, that way earlier if look at our target was about 24 for normal generics now, we are putting some complex mix into that, so the target is 20 – 22 it might fall between that.

Tushar Manudhane: Just to complete this so, the overall R&D cost is also expected to increase because we are having more complex products siding?

Srinivas Sadu: No, if you look at percentage wise, we will still say it will fall between 3% and 4% because we are growing faster so the absolute number is substantial, if you see last year number, we have increased by 32%. So, that will take care of the complex and our model which has been like tying up with companies they do take some of the costs if there is a requirement of bio or a clinical. Now, that way you still continue to maintain that 3% to 4% of revenue as R&D spend.

Tushar Manudhane: Lastly on the operational cost side, the kind of capex which we are doing, so the rate of increase of the operational cost over the next two years in terms of employee cost or other expenses, how do we look at it?

Ravi Shekhar Mitra: Going forward employee cost is going to be inline with requirement from volume perspective. Other operational costs will not increase in that fashion because there is a leverage bit, you may not need to spend the same amount proportionately as the volumes go up, because the facility is same, and we will get scaled up within the same facility. So, we will get that advantage.

Tushar Manudhane: Thanks a lot. That answers my question.

Moderator: Thank you. The next question is from the line of Vishal Manchanda from Nirmal Bang Institutional Equities. Please go ahead.

Vishal Manchanda: Good evening. Thanks for the opportunity. On Sputnik Vaccine, one needs to understand is the RDIF bound to purchase 252 million doses at their contracted cost?

Srinivas Sadu: Yes, once the technology transfer happens and we can show them the substance is available then they are bound to take the 252 million doses.

Vishal Manchanda: Assuming that there is no recurring demand that they have for the vaccine will you be able to put this facility for an alternative use?

Srinivas Sadu: Yes, like I said first is the 252 million is binding agreement, so they have to take it and this not for just one market, they approvals in over 50 countries, so they have a demand. It is a question of supply now. From alternate post days if there is an extension of requirement because still nobody knows whether it is annual demand, everybody has to vaccinate every year it is not clear yet. So, if COVID goes away this facility can be used for bio space like you said probably 15% of this is specific to this particular vaccine but the rest can be utilized for other products.

Vishal Manchanda: Other vaccines and other biosimilar products?

Srinivas Sadu: Other biosimilar, yes correct.

Vishal Manchanda: Was there any contribution of Remdesivir during quarter or all of that it will come in the next financial year?

Ravi Shekhar Mitra: During the Q4 it is not much but Q3 yes, and previous quarter and then in this current April to June you will see the impact.

Vishal Manchanda: Just one more on the Sputnik Vaccine, you would be incrementally investing ₹270 Crores but that does not include the fill and finish facility, because you already have that in place?

Srinivas Sadu: Correct, so we are going to spend some amount into that about ₹30 Crores – ₹40 Crores to add capabilities to fill in terms of storage specifically because almost 20 days – 25 days stock to be maintained at the time before we get an approval. So, some investments are going at the fill–finish but mostly at the substance level.

Vishal Manchanda: Will there be a large expansion in employee cost to support this impact in drugs?

Ravi Shekhar Mitra: No, it is not going to be substantial employee cost.

Vishal Manchanda: Thank you very much. That is all from my side. Thank you.

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

Amey Chalke: Thanks for taking my questions and congratulations to management for the good set of numbers. Most of the questions are answered, but just I have follow up question on vaccines. Sir, one of the partner with RDIF has said that we are doing clinical trials for which they are manufacturing those vaccines in India, so do we also have to do clinical trials before we launch this product in India? The second question I have is on the Peptides, if you can highlight where we are in terms of filing these products and also the manufacturing capabilities, because I believe we were looking for a Peptide API companies few months back. So, where are we in terms of manufacturing capabilities in this category? Thank you, Sir.

Srinivas Sadu: From the vaccine side from our perspective I know which company you are referring to so, unless you sell in Indian market to do the study here they are expecting a bridging study to fit in the side, but that is not going to come under our purview. Our agreement is to give the finished product to RDIF and they will decide where to sell it and if they want to sell the product in India then whoever is marketing or however they want to do they have to do the bridging study we are not responsible for that. That is from the vaccines. From the Peptide side, yes, we like I just mentioned before this call we are working on some of the complex products including some peptides and some hormonal products and some suspensions. So, one of the peptides complex peptides is that we do expect to be filed this year and next year will be a couple more. On the API acquisition front yes, we are looking at some of the manufacturing developed sites. But as of now nothing concrete yet on this side.

Amey Chalke: Thank you for answering my question. Just last bookkeeping question on the other income, because for last two quarters our other income has been similar to what we used to report before the IPO. So, just wanted to know like how it will move up since we are sitting on around ₹3,000 Crores, cash for next two years? Thank you so much.

Ravi Shekhar Mitra: Other income is largely constituting interest on the fixed deposits or treasury and the foreign exchange on our operations. So, going forward this cash will continue to earn this kind of other income till we utilize that for any M&A or large investments.

Amey Chalke: Sir, any strategy on the dividend side, if you want to highlight?

Ravi Shekhar Mitra: We are high growth company and at this point of time, Board has decided to reinvest into the business. So, based on Board's decision in the future we will decide.

Amey Chalke: Sure, Sir. Thank you so much for taking my question.

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

Ankush Agarwal: Thank you for taking my question, Sir. Firstly, on the biosimilar business what kind of business model are you targeting, that are we looking to develop our own IP given that very long timeline that is required to develop the IP and the cost involved are also high or it could largely a CMO operation that we would be looking at?

Srinivas Sadu: To start with it is largely CMO or CDMO kind of business we are looking at.

Ankush Agarwal: Secondly any update on the inorganic opportunity that we are targeting, specifically the restricted substance in the US?

Srinivas Sadu: Not in the US, not on that area yet, but what is said and done because of COVID there are some limitations in terms of M&A in some geographies, but we are looking at keenly at some of the M&A opportunities in Europe but other than that we cannot comment much.

Ankush Agarwal: With European opportunities are related to expanding the manufacturing infrastructure or it would be like expanding the geography or the product portfolio that we cannot do in India?

Srinivas Sadu: Yes, it is a combination of product portfolio and capabilities in terms of manufacturing which we do not have.

Ankush Agarwal: Okay, got it. That would be all. Thank you.

Moderator: Thank you. The next question is from the line of Jigar Valia form OHM Group. Please go ahead.

Jigar Valia: My question is slightly on the similar lines of the prior one. In terms of biologic side, we will be looking at vaccines, mAbs, peptides or also we look at proteins, excipients or similar and to what extent the capacities can be fungible?

Srinivas Sadu: Can you repeat that I lost it in the end?

Jigar Valia: My question is on the biologic side we look at vaccines, mAbs peptide products, how you will also look at proteins or excipients or products like?

Srinivas Sadu: Yes, to start with the vaccines, mAbs and some peptides and then we can get into other stuff, but primarily we are looking at these areas.

Jigar Valia: What capacity generally is been fungible when it is or products like peptides etc., they will be a dedicated separately?

Srinivas Sadu: Some might need some additional equipment and some reactors, but otherwise most of it can be fungible.

Jigar Valia: Understood. Thank you so much, Sir. Thank you.

Moderator: Thank you. The next question is from the line of Vikas Mistry from Moonshot Ventures. Please go ahead.

Vikas Mistry: Congratulations on good set of numbers. Sir, I want to ask questions again on biologics, what is your vision for next five years, whether you will be doing some stepping some cell lines and all that and what is the capacity of kiloliters you are thinking in terms of stabilizing?

Srinivas Sadu: We have just now entered in that, so the first step is of course vaccine. We are going up to 1 KL. I would say and then we will get into the other areas and then understand the demand and the technology. It all depends on the drugs substance technology as well. Like I said our idea is to enter into CMO kind of a business, CMO/CDMO and that will dictate what kind reactors we need getting into that basis.

Vikas Mistry: Okay, one more question on, what is the revenue contribution from your top 20 or 10 of molecules?

Srinivas Sadu: Our top 10 molecules contribute about 57% at the company level.

Vikas Mistry: Do you understand that the kind of growth you are showing, is your capex in line with this kind of growth to sustain for good amount of time?

Srinivas Sadu: Yes, if you see last three years we have been investing into the capacity for next I would say till 2024–2025 that is where we have been investing into and as we speak even the site where we are filling, we are going to fill the vaccine that still has capacity to add more lines and in injectables like always said almost 85% - 90% is fixed cost you need to have the site

and suites ready and add on lines that might require from capex which is not huge compared to building a site. So, we are waited in for a few years.

Vikas Mistry: Sir, last question from my side, what is the volume and value in terms of growth can you peg down for me?

Srinivas Sadu: If you look at the 32% growth for the last year about 14% came from new launches, 9% from volume and 7% from price.

Vikas Mistry: Thanks a lot. Congratulations again for good set of numbers. Thank you.

Moderator: Thank you. The next question is from the line of Ankush from Axis Securities. Please go ahead.

Ankush: Congratulations for good set of numbers. Sir, I just want to understand last year we have launched 46 new products in the core markets and with the launch these new products and expansion in emerging markets the kind of a growth is there. Sir, what is the target for the new products for this FY2022 and which is the strategy for this emerging market, and can I get some more sense in which category that we are going to launch all these new products in this year, like Dermatology, Oncology, Diabetes, something like that?

Srinivas Sadu: So, we do not go by the therapeutic area, if you look at the FY2022 there are almost 62 SKUs planning to be launched and which is about 36 molecules and the Q1 the plan is to launch about 10 molecules and Q2 about 9 molecules, and if you look at our approvals we already have approvals for many of those and if you see the last quarter Q4 we had 8 approvals. So, we have a pipeline of products we need to be launched and also several tentatively approved products which we launch in second quarter. So, we have a robust pipeline to get launched in this year as well FY2022.

Ankush: So, we are looking for 62 SKUs?

Srinivas Sadu: Yes, 62 SKUs but it will go molecule wise. In six months, it is about 20 molecules we will be launching.

Ankush: Thank you, Sir. That is from my side.

Moderator: Thank you. The next question is from the line of Ritika Agarwal from Value Quest Investments. Please go ahead.

Ritika Agarwal: Good evening, Sir. Sir, first question on EBITDA margins, we saw a good expansion in this year, so what is your sense on further improvement from here on in the medium-term?

Ravi Shekhar Mitra: We cannot really give guidance on that matter, but we will continue to maintain the kind of EBITDA margin we are doing.

Ritika Agarwal: Secondly on US segment apart from Ertapenem do we see any other important high value launches for the company in FY2022, anything that we want to call out on?

Srinivas Sadu: Some of the products what we launched last year have to be annualized as well, if you look at Micafungin which we launched last year the numbers looking good. We are the only ones there and most of the contracts are in place so that will add substantial revenues for us and from launch perspective we have several ANDAs I mean not many like products out there but products of course we are launching so many molecules is a mix up for several products as giving us this close.

Ritika Agarwal: Lastly earlier you had called out that a good part of supplies for Enoxaparin will be shifting from Innovator to Gland in FY2022, so could you throw some light on how meaningful this opportunity can be for the company in FY2022?

Srinivas Sadu: We are expecting it to do it in the last quarter of this fiscal that is an agreement. So, we see a quarter of sale of this year and then moving forward next two years.

Ritika Agarwal: Okay, sure Sir, that is it from my side and all the best.

Moderator: Thank you. The next question is from the line of Ravi Naredi from Naredi Investments Private Limited. Please go ahead.

Ravi Naredi: Sir, please talk about the capex plan I could not hear properly for next two years?

Ravi Shekhar Mitra: Except for the next year we indicated a capex of ₹300 Crores, investment in our Pashamylaram facility, our API facility in Vizag and Onco. facility in Vizag and a year after that FY2023 we expect to spend about ₹200 Crores.

Ravi Naredi: ₹200 Crores and the ₹500 Crores, plan is there, and Sir, one thing is there in this pandemic time most of the pharma company margin has increased this year, but our margin is stable, so any specific reason for that?

Srinivas Sadu: It all depends on product portfolio what we have. There are some companies where they struggle because they do not have the particular kind of a product and some they do well if

they have set of products which are good for COVID. For us like always said, we have a breadth of portfolio where we are not dependent on one or two products where good times it is very good but then you also have bad times. So, we have that balancing act so we kind of continue to do it if you look at whether it is within a year, seasonal changes will not impact us big way and also year wise there is no big impact. So, I would say that is one of the reasons we maintain the stable business in terms of growth and margins.

Ravi Naredi: Fine and Sir lastly, we have 3.39% over R&D so, next few years this will be our best or something we are doing great in this R&D?

Srinivas Sadu: We continue, if you look at our five-year plan it will be between 3% and 4% in terms of R&D expenditure and the absolute number of course we are growing faster, so the absolute number is going that faster, I mean 30% - 32% we are growing or 25% - 27%, so the R&D expenditure also growing that way. So, the investments are increasing in terms of numbers.

Ravi Naredi: Thank you very much, Sir. You are doing great.

Moderator: Thank you very much. Ladies and gentlemen that will be the last question for today. I will now hand the conference over to Mr. Sumanta Bajpayee for closing comments.

Sumanta Bajpayee: Thank you again everyone for joining us today. If any of the questions remain unanswered please feel free to get in touch with me, we will provide our feedback. Thanks, stay safe, good night.

Moderator: Thank you very much. On behalf of Gland Pharma Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.