GLAND PHARMA LIMITED

May 25, 2023

BSE Limited
Corporate Relationship Department
Phiroze Jeejeebhoy Towers
25th floor, Dalal Street
Mumbai - 400 001
Scrip Code: 543245

National Stock Exchange of India Limited
Listing Department
Exchange Plaza, 5th floor
Plot no. C-1, Block G, Bandra Kurla Complex Bandra (East), Mumbai - 400 051
Symbol: GLAND (ISIN: INE068V01023)

Dear Sir/Madam,

Sub: Earnings call Transcript- Q4FY23

Please find enclosed the transcript of the Earnings call for Q4FY23 of the Company held on Thursday, May 18, 2023, at 18.30 Hrs IST. This will also be available on the Company's website and the web link to access the same is https://glandpharma.com/investors/financials

This is for your information and records.

Yours truly,
For Gland Pharma Limited

KUMAR PALLERLAMUDI SAMPATH
Digitally signed by KUMAR PALLERLAMUDI SAMPATH
DN: cn=KUMAR PALLERLAMUDI SAMPATH, c=IN, o=Personal, email=SAMPATH@GLANDPHARMA.COM
Date: 2023.05.25 21:24:19 +05'30'

P Sampath Kumar
Company Secretary and Compliance Officer

“Gland Pharma Limited

Q4 FY '23 Earnings Conference Call”

May 18, 2023

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

Moderator: Ladies and gentlemen, good day and welcome to Gland Pharma Limited Q4 FY '23 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sumanta Bajpayee, Vice President, Finance, and Investor Relations. Thank you, and over to you, sir.

Sumanta Bajpayee: Thank you. A warm welcome to Gland Pharma's Earnings Call for Fourth Quarter and Financial Year '23. I have with me Mr. Srinivas Sadu, Managing Director, and CEO; Mr. Ravi Shekhar Mitra, CFO to discuss business performance and to answer queries during the call.

We will begin the call with business highlights and overview from Mr. Sadu, followed by financial overview by Mr. Mitra. After the opening remarks from management, operator will open the bridge for Q&A session.

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

I now hand over the call to Mr. Sadu for his opening commentary. Thank you. Over to you, sir.

Srinivas Sadu: Thank you, Sumanta. Good evening, everyone. Thank you for joining our earnings call for the fourth quarter and full-year fiscal 2023. My best wishes to all our shareholders, analysts, and their families. We have formally closed the acquisition of Cenexi and welcome it to be a part of the Gland-Fosun family. This is our first overseas acquisition and our move into the next phase of growth and expansion. This acquisition is aimed at expanding our CDMO offerings in the European market.

It is in line with our strategic roadmap of building a European manufacturing business with sterile injectables. It provides access to leading know-how and development capabilities in sterile forms, including vials, pre-filled syringes, and other innovative technologies such as ophthalmic gels and needleless injectors fill finish. It will help us establish our presence into the branded CDMO space and biologics. Our priority is to focus on a seamless integration of businesses.

We made progress on our path to building a biotech CDMO and signed our first contract with Plasma Protein at our Shamirpet facility. We are also in advanced stages of other discussions in biosimilar opportunities. I must say this is a testimony to our team’s strength and the robust infrastructure installed at our facility in Shamirpet.

We closed this quarter Q4 FY '23 with a revenue of INR7,850 million, as against INR11,030 million in Q4 FY '22 and our PAT stood at INR787 million for the quarter against INR2,859 million in Q4 FY '22. Our full year FY '23 revenue stood at INR36,246 million, a de-growth of 18% over FY '22. Our full year FY '23 PAT stood at INR7,810 million against INR12,117 million in FY '22. We have generated INR3,640 million of cash flow from operations in FY '23.

The performance has been subdued because of lower sales from some of the key products during the current year as compared to previous year. Penems facility shutdown was taken for capacity expansion. Strategic shift at some of our customers has impacted revenues. We have initiated an action plan by transferring some of the products to other customers. We are focusing on ensuring the supply continuity across our portfolio of products and have stocked up inventory for key products to avoid any material shortages.

We completed 9 ANDA filings in Q4 FY '23, in line with our filing plan. We made further investments in our R&D this year, and were able to make 29 ANDA filings during FY '23. As an important milestone, we received our first China approval and have also initiated launch of our product Dexrazoxane. We should receive another 3 to 4 product approvals in China during the year.

Our progress on the complex portfolio is also going strong and this year we filed a total of 3 complex product during the year. During Q4 FY '23, upon excluding capital R&D expenditure, the R&D expenditure stands at INR603 million, which is 7.68% of the revenue for the period as against INR443 million during the previous quarter.

For the full year, our R&D expense stands at INR1,845 million, which is 5.09% of the revenue for the period. As on 31st, March 2023 we along with our partners have 334 ANDA filings in the U.S. and 1,601 product registrations globally.

We continue to hire the right talent at our U.S. subsidiary, strengthen the business development initiatives and building new partnerships. We are also strengthening the plant operations teams with new capacity coming online.

This year we again saw physical audits start after the halt due to COVID. We have successfully completed USFDA audit with no observations at our API facility in Vizag. We continue to invest in constant improvements and our teams across all our sites remain prepared for any regulatory audit.

Let me summarize our performance across various geographies. Our Rest of World markets accounted for 22% of our Q4 FY '23 revenue against 17% during Q4 FY '22. Our full year FY '23 revenues for this markets stood at INR6,894 million, as against INR8,481 million in FY '22.

We maintained inventory of raw materials and packed materials to be able to cater to the demand. We continue to register the products in new geographies. Our key markets continue to remain MENA, LatAm and APAC.

Our core markets, namely U.S., Canada, Europe, Australia, and New Zealand accounted for 70% of the revenue, as against 64% in Q4 FY '22. Our full year FY '22 revenue for our key markets stood at INR26,851 million as against INR29,248 million in FY '22.Part of our new launch product portfolio, we have shipped out 10 product SKUs during the quarter. We are constantly working on improving material availability and resolving any production delays.

India market accounts for 8% of our Q4 FY '23 revenue. Our full year FY '23 revenue for Indian market stood at INR2,501 million as against INR6,278 million in FY '22. We saw impact from normalizing of COVID-related sales in the Indian market.

We are focusing on integrating the business at Cenexi with Gland, and understand the importance of seamless integration. Our focus is on leveraging synergies between the businesses to generate stakeholder value. This acquisition has the potential to drive value creation of over the years to come.

With this I wish everyone good health. I would like to now hand over the call to our CFO, Mr. Ravi Mitra, who will share details about our financial performance for the quarter and full year 2023. Thank you.

Ravi Shekhar Mitra: Thank you, Mr. Sadu. Good evening, ladies, and gentlemen. Thank you very much for attending our fourth quarter and financial year ending 2023 earnings call. Our earnings presentation has been uploaded on the website.

Let me begin by sharing the financial performance of the quarter and financial year of 2022-23. For the fourth quarter, we have reported revenue of INR7,850 million, a reduction of 29% on year-on-year basis. Revenue from operations for fiscal '23 stood at INR36,246 million, a year-on-year decrease of 18%. Key reasons for reduced revenue during the year are inventory rationalization across customers in the U.S. market, high price pressure with increased competition impacting revenue, and higher base of last year due to COVID-related product sale.

In terms of bifurcation of revenue during FY '23 as per markets. Core markets comprising of the U.S., Europe, Canada, Australia, and New Zealand has contributed 74%, followed by ROW market adding 19% of the revenue. India contributed balance 7% of the revenue from operations. Our core market has seen a decline of 23% during the fourth quarter of FY '23 as compared to same period of last financial year. It has registered an 8% degrowth during the financial year.

ROW market markets have witnessed a reduction of revenue of 10% for Q4 FY '23 and 19% degrowth on a full-year basis. India market declined by 68% for Q4 FY '23 and 60% for FY '23.

Other income for the fourth quarter was INR389 million, which includes interest on fixed deposits and foreign exchange losses and operation. For FY '23, the other income was INR2,405 million of which interest on fixed deposit was INR1,794 million and foreign exchange gains and operation was INR571 million.

Gross margin of the company improved during the quarter as compared to same quarter previous year. Gross profit margin has improved for the year as compared to the previous financial year, largely due to favourable geography mix.

We have reported an EBITDA of INR1,684 million in Q4 FY '23 compared to INR3,484 million in Q4 FY '22, which is a decrease of 52%. EBITDA margin for Q4 FY '23 stood at 21% as compared to 32% for the same period of the previous financial year.

EBITDA for the full year ended March 2023 was INR10,248 million compared to INR15,102 million for the previous financial year, a decline of 32%. We have reported EBITDA margin for FY '23 at 28% as compared to 34% of previous financial year.

Power and fuel costs has gone up 17% in Q4 FY '23 and 31% in full year FY '23 with increase in power tariffs and oil and gas prices. Employee costs have increased by 9% in Q4 FY '23 and 19% in full year FY '23, largely due to additional headcount to support the new production lines in Pashamylaram plant and the Bio-CDMO facility in Shamirpet as well as the annual increment impact. Other expenses increased by 11% during FY '23 as compared to the previous year, majorly due to the increase in professional fees paid for the M&A.

The total R&D expenses for the financial year 2023 was INR2,014 million compared to INR2,273 million for the previous financial year, which is a decrease of 11%. It stands at 5.6% of the revenue.

R&D expense for the fourth quarter was INR678 million, which is 8.6% of revenue compared to INR559 million in the previous financial year. The increase in R&D revenue expense is due to the higher number of ANDAs and DMF filings during the fourth quarter. The higher percentage of revenue is due to the lower revenue base in Q4 FY '23.

Our net profit for the fourth quarter was INR787 million, a significant reduction of 72% compared to Q4 FY '22. During the financial year '23, our PAT was INR7,810 million, which is a decrease of 36% as compared to last year. We have reported PAT margin of 10% for Q4 FY '23 and 22% for full year FY '23. Subsequent to year-end, one of our customers filed for Chapter 11 bankruptcy in U.S., and hence we have provided the outstanding balance of INR565 million and has disclosed as an exceptional item. Our effective tax rate was at about 29% in the fourth quarter and 26% for the fiscal year '23.

Though the gross profit margin improved over the previous year, but due to meaningful reduction of revenue over the same period had negatively impacted EBITDA and PAT margins. Some of the measures related to cost reduction, efficiency improvements are being undertaken and will have favourable effect on margins.

Cash conversion cycles stood at 256 days for the financial year 2023 as compared to 180 days as of last financial year-end. The increase in working capital was due to higher inventory and receivable levels. Increased receivable and inventory days have pushed overall cash conversion cycle. We are actively monitoring both our receivable and inventory position for improving our working capital and operating cash flow.

Total capex incurred during the financial year ended March 31, 2023, was INR2,230 million, used for increasing API and formulation capacities. We are adding new capabilities for Combi-line for Microsphere, additional Bag line and lyos for the Penem block in Pashamylaram facility in Hyderabad. Our ROCE on ex-cash basis as on 31 March 2023 stood at 17% and fixed assets turnover at 2.6x for FY '23. As on March '23, we had INR37,707 million of cash, part of which we have utilized subsequently for Cenexi position.

As we have completed the acquisition of Cenexi, we are now moving forward from pre-closing activities to post-acquisition integration stage. We are gearing up for the dedicated efforts for seamless integration of both companies and realization of synergistic benefits. On this direction apart from forming a dedicated team for PMI from both Gland Pharma and Fosun Pharma, we have also engaged with the global management consulting firm.

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

Moderator: First question is from the line of Rushabh Shah from O3 PMS. Please go ahead.

Rushabh Shah: So I have couple of questions. My first question is, since there are many companies entering into the CDMO business. And due to that our company have been carrying a lot of problems. So how are you going to tackle such an intense competition entering into the CDMO business?

Srinivas Sadu: Yes. So today we see pure development from B2B business landscape. Still I think not many players are there. We could see some CMO players coming in and manufacturing products for companies. But our own model where we develop products and license out, still I think there is not that much competition like before.

In terms of companies who are developing their products and plan to outsource like contract manufacturing, there is a competition with a price pressure. And it should from our perspective, from regulatory side, from quality side, we're maintaining clean record. And that should sustain us in the long run compared to a new player where we are able to see the current regulatory inspection now going on and whether they could sustain with low margins in the longer run, especially injectable business where capex is very high, and maintenance are very high.

With low margin competitive landscape, survival in the long run will be difficult. So I think the time will come when companies have to raise the margin profile, so that they can invest into future growth or allocating investments into future growth as well as maintaining of their facility standards.

Rushabh Shah: And since as our business is so much focused on CDMO and CMO business, if you could help me out with the percentage of repeat orders which you are receiving from the customers?

Srinivas Sadu: So if you look at on from volume quantity perspective, our FY '22 and '23 volumes were almost similar. The degrowth has happened from some specific key products and as well as the COVID-related products. If you see our domestic sales last year compared to this year, we lost almost INR380 crores, mostly pertaining to the COVID sales which happened last year. And also one of our largest products, Micafungin, which we had the initial exclusivity, it went down from almost INR440 crores to INR65 crores.

That has actually, what you call, beaten the numbers a bit because we lost INR370 crores there. So these 2 main factors have contributed to the de-growth of INR700 crores, INR750 crores. But then, there are also products where we have grown, products that went up and doubled our revenue. There's also a de-growth is happening. Again, that was a COVID-related product.

So in terms of the de-growth has happened specifically for 3 of our major products which got hit. I think it's a combination of COVID as well as the exclusivity removal of the product. But from the majority of the products, still we are able to maintain that units. While there is a pressure on prices, still the units have gone up.

If you really see the breakup of revenue bridge what we see, normally our new product launches help us to grow about 10%, but this year, it only contributed 3%. Such is a bit of competition in the market when we launch our products. -So that is not contributed substantially. It's a combination of what products we sold, also the competition at which people are launching at patent expiry.

Rushabh Shah: Okay. And sir, since the majority of your business is in USA, what do you think about the growth in India? Are there any plans to grow in India?

Srinivas Sadu: There has been a plan, but if you see now, we're focusing injectables and most of injectables in India are tender-driven business, also a lot of products comes under price control. And with the business what we run, it's very competitive itself to compete in this space. While we're looking at some opportunities specifically on margin-driven products, but because most of the portfolio falls under the price control, so that's been difficult for us.

Rushabh Shah: If I could squeeze just one more in.

Moderator: Sorry to interrupt here. I would request you to please come back in the queue. The next question is from the line of Kartik Mehta from Klay Capital. Please go ahead.

Kartik Mehta: I just want to understand in terms of base business, while there will always be competition and it's not something which we don't see in the industry, what is your assumption for reaching stable rate of revenues for the quarter even if it is on a half yearly or on an annualized basis?

The problems which you mentioned in terms of competition, new products not competing more, we need to get some colour from you from the perspective of are there new products which will compensate for this while your gross margin continues to remain where it is? What is it at the expense side, or is there any large products that you expect? And also, in terms of the broad revenue guidance, in terms of the fact that we will also be acquiring you will also be integrating an asset.

Srinivas Sadu: So from the business perspective like I said, the major product conflict to cover that loss, it takes a lot of other products to get launched which are smaller. So if you look like I said, from the yield's perspective, we still maintained at a company level. So the volumes have grown in some of the products, very specific product where we lost business too. Now there are several large molecules which will be launched, but looking at the last year experience, you can see even a

$500 million, $600 million product after the launch, it costs the prices have gone down almost 80% to 90%, there was a crash when the product launched.

Whether it's sustainable in the long run, we can't say, but that's still the case. So we can't really vouch for the products, the big products will do well under this competitive scenario. But we have almost 28 products which got approvals this year. And that approval the filings are on track and all the facilities are on track in terms of supplying the products.

And in terms of margins, you can see we have invested heavily. And some of these lines are not on commercial scale yet, whether it be biologics plant, whether it is some of the Microsphere lines we have established recently. And the 2 other lines that's still under approval process. So that's actually adding up to the cost. But then, we have filed several products and transfers from other lines. If it gets commercialized again, so that should increase the revenue. And with Cenexi acquisition, there are a lot of opportunities opening up in terms of the same customers who were working in the U.S. where they're sourcing products from European other CMOs for the European market. We are working with them how to ship those kinds of volumes to either Cenexi site in Europe or do it in India and then move there.

So in the longer run, we see the business is strong with the kind of portfolio we have and with account of distribution and contracts we have across the globe. But there are headwinds in the short term like we said, but it's getting stabilized when we do such large molecule and get a hit of INR400 crores because it does take few other products if they get lower and that's what we're working on.

Kartik Mehta: Would you want to give some colour on the broad revenue guidance combined entity? If not for if possible, throw some colour on the China approval in the opportunity, if any, that comes that one can see the revenue upside in FY '24?

Sumanta Bajpayee: So Kartik, so we have taken a kind of a position, given the volatility into the market, as well as our past experience on the product. We refrain from giving any kind of direction either on the top line or on the margin profile side of it. That is point one. Also, I would like to highlight here that in the previous question, Mr. Sadu has indicated INR380 crores one-off. This is an assessment, this is an assumption because of some of our products being used for COVID and are used in non-COVID as well. So it is not like a verified number, just for clarity of everyone. It is a management assessment, could be kind of an impact on the domestic side of it.

Kartik Mehta: Yes, okay. So without talking about the guidance, any colour on the business? And I'm not talking here in terms of the numbers, product approval likely for launches in this year and next year?

Srinivas Sadu: So next quarter, we have almost 11 to 12 products getting launched like the Mr. Ravi said, we have a customer who's going through bankruptcy process, where we are trying to move this product as well to the customers. There is other several opportunities where because large customers are transferring the products to our side, which could see some good business in terms of units and numbers in the second half of this year.

Kartik Mehta: China in particular, would you want to just probably highlight?

Srinivas Sadu: It's too early to comment on any numbers.

Kartik Mehta: Not the numbers. In terms of the number of launches. We have an idea about how the market

Srinivas Sadu: We're launching one product this quarter we have just shipped out. And then, we have 3 to 4 products are expected in the next 9 months.

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

Prakash Agarwal: Yes. Just on the current status, you mentioned Q4 has been impacted by closure of some lines, the Penems. So what is the current status of all the lines during this quarter? And next 3 months, do we expect more closures and the earlier ones have been resolved, if you could clarify that?

Srinivas Sadu: So the past quarter, we have as a part of the capacity expansion, we closed a Ertapenem line, which is because we're not able to cater to the demand. So we had a one more lyos line to do that. On May 15th, we have opened that back. So the commercial production started again on that line. That's only line which got shutdown. That's when we had to 1 more lyos because if you contemplate that sort of line and you're not able to meet the demand, so we took that call.

Prakash Agarwal: So one more line has been added apart from the one line which is started from restarted from May 15. Is that right, or...?

Srinivas Sadu: We had 2 lyos before. We added 1 more lyophilizer to that line. So that's why you have the shutdown.

Prakash Agarwal: Okay. So now 3 lines are operational is what I understood?

Srinivas Sadu: Three lyos, yes, correct.

Prakash Agarwal: Okay, lovely. And in terms of you mentioned about last quarter, you will not mention about guidance. But I'm trying to understand that gross margins are there. Inventory rationalization is largely done by the customers, or you think there is more inventory in the system?

Srinivas Sadu: I think few products one more quarter it is there, also the customers have rationalized. And that's the reason while the end-market volumes have not come down for most of the customers. If you look at even our largest product, we sold 60% of actually the end-market number of units. So that should get back in a few quarters. So other than that, I think most should get rationalized, yes.

Prakash Agarwal: So inventory is volume only? So I'm little confused here.

Srinivas Sadu: Yes. Inventory at the front-end customer level. They're maintaining the higher inventory levels earlier because of the high interest cost, now everybody is rationalizing their inventories. That is leading to a lower level. Some customers use to maintain 9 months to 12 months inventory because if you have a GPO contract, they have to maintain minimum 6 months inventory.

But now, with the high interest cost, they are trying to reduce their inventories at the level. So our transfers one off our facilities should then have reduced. That's impacted our business a bit. But then end-market wise still robust in many of the products.

Prakash Agarwal: Okay, understood. So demand is there. But in general, there is a destocking or reduced inventory level that is being kept?

Srinivas Sadu: Correct. And that's the reason actually because they are pushed out because it's carry rational inventory. They pushed out some orders and that's why we are ending up with higher inventories at high levels.

Prakash Agarwal: Okay. And you mentioned about this one large product, Micafungin, but how about Heparin and Enoxaparin, so you earlier used to mention about a little bit on the size. So would that have contracted significantly, and demand still prevails for those kinds of products?

Srinivas Sadu: So Heparin is mostly price driven. And we consciously took a call that we will not grow for very low margin because it doesn't make sense utilizing a capacity for low margin. So that's what happened. Not just we have grown a number of units have grown, but in some market, the pricing is lower. So the revenue has gone down by about 10% for Enoxa as a company, but the volumes have gone up by about 7%.

Prakash Agarwal: Okay. Heparin, sir?

Srinivas Sadu: Heparin, actually, we have gone down in terms of units. That's a combination of sales of price and also last year we have a lot of sales the last quarter because of COVID. So I think it's a combination of both.

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

Neha Manpuria: Could you explain to us what is the sort of the one-off impact, if at all there is any in the quarter? And what should be the base that we should be working for when we look at the normalized business, given there was Penem shutdown etcetera that we saw in the quarter?

Moderator: Members of the management, we are unable to hear you.

Ravi Shekar Mitra: So on the revenue side, I think one we called out is that Penem line shutdown. So that should be around INR30 -40 crores has impacted. And I think on the others, it's also ROW side and all what you have mentioned, seasonality. So on the expense side, we have spent a bit on the M&A closure.

Neha Manpuria: Understood. Sir, even if I were adjust the INR30 crores, INR40 crores, when you say seasonality, does it mean that some of the sales have probably slipped into the first quarter as against last quarter?

Srinivas Sadu: Yes. It could be last quarter or the next quarter. For example, one of our the ROW tender which is supplying substantially. So those quantities, some go in the next quarter, and the new tender coming up, which we participated now. So because of that, there is a shift in which quarter it got sold.

Neha Manpuria: Okay. So there could be some bit of it which comes back in first quarter or second quarter?

Srinivas Sadu: Yes, correct.

Neha Manpuria: Okay. But overall, we haven't lost any tenders in our ROW market versus last year, right or let's say versus last quarter?

Srinivas Sadu: No, we have not lost the tenders. But we, like I said, in Heparin, we intentionally reduced our sales because the margins are pretty low for that. And compare to the cost of holding those inventories and committing to the volumes larger for a longer period of time, it is lot more riskier because the margin profile is low for these supplies. So we stayed away from that. But otherwise, from a tender perspective, we're not lost any.

Neha Manpuria: Understood. And I think in the opening comments, you mentioned about strategic shift at some customers. Could you quantify are there certain customers that have stopped taking supply from Gland, and therefore we are looking for alternate supplying these to alternate customers? Is there some amount of lost sales that we have seen because of these strategic shifts that you're looking out?

Srinivas Sadu: One customer has shifted almost 14, 15 products, exited this market. But that's not immediate. So they did give us some time. So we are actually already shifted some of these products to another company and a few not shifted, but they're continuing to have those 3 or 4 larger products, still continue to sell those. The other company which we mentioned was going through to file a bankruptcy its in the e public domain.

So that - those products are still they are going for liquidation. If somebody buys, then that business will continue. Otherwise, whoever buys it, that business should move to them. So that we are not yet clear how that business goes, but that's the only, I think, business where we don't have clarity yet.

Neha Manpuria: And would you be able to quantify in the first year the 14 to 15 products what is the size of that in terms of number for us to understand how this will move?

Srinivas Sadu: The customers which gone to the bankruptcy?

Neha Manpuria: No, the 14 to 15 products that you mentioned the customer shifted to another player or shifted out from Gland?

Srinivas Sadu: That's already been shifted. Most of the products are already been shifted and getting relaunched the next quarter. So we can't really quantify yet on how that goes, but we are pretty confident of that business doing okay.

Neha Manpuria: Okay, sir. That will come back in the subsequent quarters for us as we shifted to other customers?

Srinivas Sadu: Correct.

Moderator: The next question is from the line of Shyam Srinivasan from Goldman Sachs.

Shyam Srinivasan: Yes. So my question was on the core markets and the divergence between what our U.S. versus Europe and the rest of the market, right. So full year, I think U.S. has declined 7%. These other markets have declined higher. And I think for the quarter, maybe there is a lot more convergence. So just wanted to understand the differences between these 2 markets. And is there something that is specific that is driving on a full year basis like the weakness in non-U.S. core markets?

Srinivas Sadu: Not really. I think it's a question of timing and what kind of products. And like I said, Heparin is largest product for us. And then, if you see as a company, we lost about INR150 crores for that. And that so I think ROW, that's one of our major products as well. So because of the pricing, we didn't participate, we didn't want to supply for many offers what we got. But I think it's more to do with which quarter we sell. And also, you should include last year if you're comparing with last year, there were also sales for getting through COVID like we said.

Shyam Srinivasan: So do you so Sadu, do you see any divergence in the pricing pressure between these 2 core markets? Or do you think this is a function of which product is when and if there is a COVID element? And it's so difficult to get an underlying trend saying, okay, U.S. is say whatever pricing pressure and the rest non-core is rest core is higher, lower?

Srinivas Sadu: I think the pricewise to see as a company, broad market, like the 1% increase, if you look at the pricing for this product. So although the growth income come from the new products like we said, but the price reduction when you see the revenue bridge, the margins averaged 1% lost orders because of the pricing. But it's mostly because of the revenue de-growth, we are not able to absorb that the fixed cost what they have on the sites, that has impacted the margins. And that's the reason why the contribution margin was still we're at 54%. So from pricing and material price, still it's okay.

Shyam Srinivasan: Got it. Helpful. Second question is just on the supply of your raw materials and stoppers for individuals. So can you just comment on where are we in that journey, pre-filled syringes, stoppers? Do you face any constraints today? And if you were to look at fiscal '24, you've also talked about inventory for both finished and I think from materials being higher. So are we good on that and we shouldn't see a supply shock like what we saw last year?

Srinivas Sadu: Yes. From I think supply side, mostly I would say 90% stabilized. Few products, few filters, and syringes on and off, but not a major I don't think there's any major issue on that side.

Shyam Srinivasan: Got it. So I just I know you're not giving a quantitative number for top line. So it's just a question of getting the demand now either say let's say, ROW through the tenders, if you were to kind since supply is not a constraint, you can now start looking at being, if I use the word aggressive to try and get demand because supply is not an issue, would that be a fair statement to make?

And as you look forward, also you did Cenexi, what EUR 25 million per quarter coming through. Roughly, I'm just quarterizing an annual number. So is that how we should broadly think of fiscal '24? I know you're not giving a number. But help us construct the revenue bridge for '24, that will be useful.

Srinivas Sadu: Yes. So absolutely, I mean, one is working with the partners closely on the front-end pricing how it's going to work. Because the market landscape is different from that earlier. The assumptions what you made earlier when the product gets emphasized, and what price you go and bid, that's completely different now. So there are also large opportunities lost, because they were exiting at price for that long. Although we had leeway in terms of cost and transfer price what we could have made a bid for a contract. But because our assumptions went wrong, our partners couldn't get those bids. Now we are working closely with them compared to other bids, what price they are at and what price we can offer and what are the internally how much we can go down in terms of transfer price, if there is a need.

So we're working very closely with them and aggressively looking at each product where we have lost market share. So we have actually mapped which are the products which we lost substantial market share and the reasons behind that, and we are working towards that. So that's one big action that we're taking.

And of course, Cenexi is a big focus for us, because that market, we've never penetrated.And there is an opportunity for us to several business opportunities we are looking at and is already there these discussions happening with companies how to move product there. And also, other angle there we're able to taking products from Gland to Europe through this acquisition. And like I said, of course, if there is a consolidation that is going to happen, with the regular revenues what they're generating today.

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

Saion Mukherjee: Sir, can you share the impact that can potentially come from your partner who has filed for bankruptcy assuming that those supplies get impacted?

Srinivas Sadu: So hopefully, because they have gone for a liquidation and people are looking at aggressively how to get our contracts. In fact, there are also customers who are reaching out to us without knowing the bankruptcy process whether they can buy the contracts because there are 3 or 4 products where we have a GPO contract attached which has a good value. So it could be a temporary impact where supplies of stock because we also need to recover the money.

But I think in long run, these can be productive because it is under this process, where if somebody acquires it, they have acquired the contract where they have to pay the cure money and also, they get rights for the GPO contracts where they get transfers. So hopefully, short term it might be an impact getting the process end. And wait for end of June, by the time the sale process should complete. So we should get a clear idea who is going to get these products. And if the business is somebody's going to buy the business in total, or somebody is going to buy products of the contracts.

Saion Mukherjee: So I'm just wondering in case I mean in the interim, you are not supplying, right? So somebody else is probably meeting the demand at this point. And if that is the situation, then why would someone buy those assets because the value would keep eroding as time passes?

Srinivas Sadu: So the business has not stopped. While they have removed lot of people, they still kept the quality regulatory and commercial staff and there's also inventory lying in the channel. So that's been supplied. So they have the inventory for 4 month or 5 months. So that's not a problem. There is no stoppage in business. Business is running as usual. It's just that a few of us are going into accounts. So that's not an issue.

Saion Mukherjee: And sir, I mean you are not sharing the number, but I mean is it a meaningful number in the sense is this one of the large partners that you have? I mean I just in the case of an eventuality, there is a disruption, it could have a meaningful impact, or do you think it would be a smaller impact?

Srinivas Sadu: The business what we do with the customer is around INR200 crores per year. Yes. And then, we're pretty much confident that if not 100%, at least 70%, 80% should come back at least for the products where they have GPO contracts in place.

Saion Mukherjee: Okay, understood. Sir, on the Cenexi acquisition, the numbers that you disclosed imply that the EBITDA has come down materially for the second half. So I know when you did the acquisition, you did mention that first half was inflated. So if you can give us some indication as to what's the right level of EBITDA for Cenexi that we should work with?

Ravi Shekhar Mitra: Yes. Saion, like last time when we spoke about on the Cenexi, we told that it's half year, it's not indicative of the full year. However, the second half of the calendar year '22 has also been impacted because of the high energy cost, which we are expecting to improve now because that is kind of behind them.

So in terms of revenue, they have definitely grown, and EBITDA margin is currently the full year what we have achieved and should be better I think that's what the projection is. I cannot give a number right now. But because of the cost factors, it is going to improve and the product profile which they are currently working on is in a better margin profile than the previous year. So numbers we'll talk about later on when we have a full clarity on the plan.

Saion Mukherjee: Okay. And finally, if I can on sir, you mentioned about competition in Heparin and Enoxaparin, particularly in Heparin, right, where it has come to a level which is not very lucrative for us. I mean, so how important of these 2 products now I remember like initially it was very important, like how big contributor are these 2 products to your overall revenues? And if you can give some colour on what is really driving? Are these Chinese players who are beating down the price? Do they have some cost advantage which is leading to this sort of erosion?

Srinivas Sadu: Yes, absolutely. So if you see, Heparin has directly now, these 2 Chinese players have directly launched in the U.S. So that's one major roadblock I would say, if you look at on a number perspective, Heparin for the company is around INR250 crores from FY '23. That's for the company. But we're working on a strategy where we have 9 SKUs.

A lot of other companies do not have 9 SKUs. Let's see how we can increase that volume going around. And looking at basket instead of the SKU level, so we are working on that as well and we are also working with our own parent company subsidiaries and qualifying their crew to get a better pricing. So once we get that approval, I think we will be in a better position than now.

Saion Mukherjee: And the same situation in Enoxaparin as well?

Srinivas Sadu: Enoxaparin, U.S. what happens, of course there again direct supplies from China. There is a competition in that. The compliance of the GPO, it's not there yet. Although our platform has a regional contract, the compliance is around 55%, 60% as against normal 85%, 90%. So the offset is not as per our estimate, which kind of impacted our pickup of this stock this year because they have larger inventory last year. And they're rationalizing that inventory that has impacted. But should I think if not this quarter, next quarter not June quarter, but probably September quarter, it should start picking up the product from us..

Saion Mukherjee: Okay. Can you share the total contribution for Heparin and Enoxaparin for FY '23 for the company?

Ravi Shekhar Mitra: The company, for the Enoxa and Heparin together is around INR970 crores.

Saion Mukherjee: INR970 crores. Okay, sir.

Moderator: The next question is from the line of Anandha Padmanabhan from PGIM India. Please go ahead.

Anandha Padmanabhan: Sir just to understand, in Q1 we will continue to see the impact of production shut down, so that would again be a factor that play in the next quarter as well, if I have to understand that right?

Srinivas Sadu: It started now. From May 15, the line is back on track in commercialization. So probably half quarter impact, but it's back on track. As against the earlier 2 lyos, now we are producing 3 lyos. So that should make up for the quarter number.

Anandha Padmanabhan: Okay. And with respect to Cenexi acquisition, by when do you expect the acquisition to get closed or completed?

Srinivas Sadu: It's already closed last month.

Anandha Padmanabhan: By when should we expect? Q1 itself we should see the consolidation happening?

Srinivas Sadu: Yes, it will be consolidated this year, the next quarter for 2 months because we closed on April 27. So the consolidation happens the next quarter for 2 months, May and June.

Anandha Padmanabhan: And sir, Heparin and Enoxaparin for FY '22, how big were their contribution of Heparin and Enoxaparin for FY '23

Srinivas Sadu: INR1,200 crores. FY '22, it was INR1,200 crores. And FY '23, it's about INR980 crores INR970 crores to INR980 crores.

Anandha Padmanabhan: Okay. And in U.S., do you see in terms of the pricing pressure or in terms of there are some news flows of some key players' facility is getting impacted because of increased because of regulatory action. Are you seeing any impact of the same in terms of customer inquiries on your contracts or in terms of demand?

Srinivas Sadu: So the volumes have several products have gone up because of this. The pricing has not gone up that much. But we had some of the products, the volumes have gone up. And I think more and more we are getting queries on certain products.

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

Bino Pathiparampil: Just a clarification on your inventory levels. It seems to have gone up significantly Y-o-Y.

Srinivas Sadu: Yes, like I said because of the cutdown of inventories at our partner level, so it got pushed-up a few months and that got added up at our end. And because of the situation of last year, we're trying to keep up a bit more inventory than usual. And as you said, Heparin offers a lot of inventory with us. One is anticipating a pickup from next quarter onwards. The other is we don't want to sell at a low price. The ones I just talked about how do we want to manage the U.S. situation once that gets finalized and you start utilizing that. But yes, we are focusing on that and seeing that how to reduce that inventory for sure.

Bino Pathiparampil: Okay. And this customer who has filed for bankruptcy, did their take-offs from you decreased significantly in Q4 compared to Q3?

Srinivas Sadu: Not big way, but I would say probably 25%, 30% because we actually reduced getting supplies looking at the receivables to reduce the receivables. So we kind of reduced supply.

Bino Pathiparampil: Understood. And the other customer who exited the business, when did exactly they stop taking products from you, which quarter was that?

Srinivas Sadu: It's this quarter, the previous quarter and but we have already transferred those products and getting launched in the coming quarter. So some of that are getting launched in June and some are getting launched in July.

Bino Pathiparampil: Sorry, but when did they stop taking products from you? Was it 4Q or 3Q or 2Q?

Srinivas Sadu: 4Q, last quarter.

Moderator: The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: First of all, what was the profit share for the quarter and for the full year?

Ravi Shekhar Mitra: Do you want the full year?

Sameer Baisiwala: Yes, Q4 and full year. I remember it used to be around 10%, 11%. Has this materially changed?

Ravi Shekhar Mitra: Yes. So full year is 8% and Q4 is 7%.

Sameer Baisiwala: So that's a straight 300 basis points to 400 basis point hit to your margins?

Ravi Shekhar Mitra: Yes.

Sameer Baisiwala: And this is all the impact of the end-market price erosion, which is now getting filtered down to you as a supplier?

Ravi Shekhar Mitra: Yes. It's both actually because along with that, there is also the impact of the high margin inventory lowering at the customer end which we were talking in the beginning.

Sameer Baisiwala: Which means the revenue mix, so the higher margin stuff is kind of not moving?

Ravi Shekhar Mitra: Yes. So the product mix also, like products like mica has high profit share.

Sameer Baisiwala: So where do you go from the 7% now, if you look out in the future? Is this a new level, or you think you are not going to get back to your previous levels?

Srinivas Sadu: So on profit share perspective?

Sameer Baisiwala: Yes.

Srinivas Sadu: Currently, there are so many shortages happening, so probably the pressure on some of the startups are not that much. And the Mica has now it's gone away. So like I said, it's from INR440 crores now it is at INR65 crores. So the volume should increase a bit because it's also getting consumed the high inventory, they held last year. So they are using that inventory that should go off. So I still feel that it should settle around 10%.

Sameer Baisiwala: Okay, that's very good to hear, sir. Sir, the second question you were talking about the end-market pricing pressure, so your customers are sort of losing market share. So you want to sit down and plan the price volume metrics. I wasn't too sure that I understood your comment fully. So what percentage of your business does that planning apply to? And does that mean that we should brace for sort of portfolio-wide or something price erosion in fiscal '24 as your plans get finalized with the customers?

Srinivas Sadu: So I think we can't really generalize on same plans for all products, right? So we see that different players, different transfer. That's why we're getting to each product level. Some products actually there is a lot of margins there, the customers can't take, but they don't want to do with regards to the customer and what's the logic behind them going after higher market share, when there is a high margin between the selling price and costs.There are also products where probably our transfer prices will be higher where we have worked on reduction of costs over the last 12, 18 months. Part of I would say now 30%, 40% of our R&D cost goes into lifecycle management where we reduce cost. So there we can actually go out their high market shares. So there are different factors for different products. That's what we're trying to do which product we have lost market share or where you have a lower market share and where there is a possibility to increase those volumes. So there is no one solution for our product, each actually are different.

Sameer Baisiwala: Fair enough, sir. But what's the average picture what's the what should we expect in fiscal '24 just roughly about. Is it about lower pricing, higher volumes for the base business? And what percentage of your business is getting impacted? Is it like 20%? Is it 50%?

Srinivas Sadu: We can't really give a number. That's what I'm saying. We also had some high-margin products where the volumes currently are not that much. And we are trying to see how we can increase those kinds of volumes also. So some partners, they really don't want to go after what we call a competitive bid. They don't want to participate. So we have to sit with them and say how to get into this kind of bids and stuff like that. So it's a combination of both. One probably where we still have margins where they can go aggressively for market share or where probably the volumes have been to absorb our fixed costs, even if the margin is lower, but if it's going to -- at the EBITDA level, it's still going to help the company. So it's a combination of both.

Sameer Baisiwala: Okay, got it sir. So one final question. Not too far back, maybe 6 quarters back, your operating margins used to be 35%. And this quarter, it's 21%. It's a very, very big move. So how should we think about it? I'm not looking at next 2 quarters, but like in a year or 2, how is the business going to evolve and what's the right range? Any guidance, any qualitative points on this would be very helpful.

Srinivas Sadu: I think it's a combination of the lower base also. Because of cost, they're almost like I said, they only added costs in recent times where it's not commercialized. So these lines will get on track in next few quarters. Now there the revenue base is lower, but the costs are similar, a little higher than last year. So that's why it has gone down. Once your revenue base becomes normalized, then this automatically goes up.

Ravi Shekhar Mitra: Yes. So it's like the leverage impact which has affected us. Injectable cost most of it is being fixed and inflation and power costs have gone up. While the gross margin percentage remaining similar, EBITDA in fact has been direct cost. We are dividing lower base of revenue now, while the cost has gone up.

Srinivas Sadu: So if you see the R&D cost, because the base is lower, the expense like last quarter is almost 7%, 7.5% because of the complexity of products what we're dealing today. Our original plan was to stick around 4% to 5% with the normal growth what you have as a company. But because our base is lower now, that's showing that 7% and it's showing that lower EBITDA number because the absolute number is still as per the plan. And as for the year normally, I think highest this year is around 5%, 5.6% or something. Historically, it's been around 3% -- 3.5% to 4%.

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

Alankar Garude: Sir in the past, we used to be quite confident of the growth trajectory in ROW. Would you still maintain that ROW will grow at a significantly faster pace for us say compared to U.S.?

Srinivas Sadu: So the base has gone up. If you see last year, a substantial increase in the base. And that's why you see -- and then the U.S. business is very large. And that's why the percentagegrowth looks smaller. But the efforts are there to how to increase the growth in, especially the Asia, MENA markets where we see substantial opportunities opening up there even compared to LATAM.

Alankar Garude: Understood. And sir, has there been any meaningful change in the gross margin profile across geographies in the past 1 year? Because I remember couple of quarters back, you had talked about ROW margins being significantly lower than U.S. as well as the other regulated markets.

Srinivas Sadu: I think it's in the similar range it used to be. In fact, the price pressure in the U.S. was larger, whereas other markets it's still, except 1 or 2 products, but mostly, it's been stable.

Alankar Garude: Understood. And sir, final question, quite similar to the previous question. If we go back a year, we were guiding for about 20%, 25% top line growth with a 35% EBITDA margin for FY '23. Now versus that, you have delivered about 18% drop in sales with about 28% EBITDA margins for the full year. So while we are not giving a numerical guidance, would it be fair to say that structurally this is the new normal now or we are very close to the new normal now?

Srinivas Sadu: I can't really say that because like I said, it's been very dynamic situation out there. With the high interest rate, people are looking at how much inventory they have to do it and now the inflation starts happening, how we have to see how that's going to play out. You have seen 3 or 4 big players having issues in the U.S. So is it going to come back to maybe 4 years back where the companies had these kinds of issues, or it's going to settle? It's very difficult to tell. We have to see how strong from the company perspective, from regulatory perspective, from quality perspective, from development pipeline perspective. We are doing the best what we can and we're filing more than actually what we were doing before. We're always guiding around 23, 24 ANDAs, we filed 29 ANDAs.

So we are not stopping in that. We are moving on the complex that we filed, 3 complex injectables. So in that sense, as a company structurally as a company, we're strong. And I would say that better than a lot of other companies are going through this process. From market dynamics, we have to wait and watch because of the competition, and some are exiting the market, so naturally it could be a shorter impact for us. But the same people maybe, they're importing products from others and selling in the market. So there the competition has reduced. So either one way, it might be disturbing for us to see that some business is lost.

Positively, we're thinking, let's see positively, they're also exiting several other products that are more competitive, but on products where probably there is an opportunity for us there. So it's a give and take. There could be a temporary issue with us, but in the long run, if the competition is going down, raising the market, so probably we should think that maybe it's going back to 3, 4 years ago where there were lesser competitors with these guys exiting the market.

Moderator: The next question is from the line of Parth Shah from Bernstein. Please go ahead.

Nithya Balasubramanian: This is Nithya. One question on the line shutdown. So we saw an insulin line shutdown earlier in the year, and then a Penem line shutdown. Are these planned line shutdowns and anticipated ones? Why given the substantial nature of these shutdowns, is this something that can be communicated to the market in advance? And what can we expect next year? Are there any planned shutdowns?

Srinivas Sadu: So from the Penems perspective, this line, we've been contemplating, but it is holding up because of the supply situation. We didn't want to disrupt the market for a while. While we have put up the lyo, but we never connected to the line. But if you see our own the Ertapenem product, we have doubled our revenue last year. And there is an opportunity to grow there. So we thought we'd take one time hit, but then there is an opportunity there to take it and that's the reason why we took that call and did the shutdown. So the timing was not very clear when we wanted to do it, but we did that. So I think so that was the reason for it. But in the near future, we don't have plans to take a shutdown at least, planned shutdowns. Unplanned, of course, we don't know.

Nithya Balasubramanian: Got it. The next one on Heparin, I didn't quite comprehend your comment. So last quarter you had mentioned that at least from a U.S. perspective, the demand was still intact. And your ability to supply was what was constrained because of the coated stopper non-availability. If the U.S. demand is still intact and if have you solved for the coated stopper issue and will we see Heparin in the U.S. the revenues from Heparin in the U.S., will it be back in FY '24 or how should we think about it?

Srinivas Sadu: Heparin in U.S., the impact was like I said in coat 30 ml is the largest coat what we sell. And that continued to sell. So that stopper issue has gone away. So we have enough supply now, so that's happening. But we are not selling too much of the other coats, that's where now we are focusing on how to get back into the other 7 or 8 coats to increase that business. The revenue impact for Heparin has come more from India and ROW in this year.

Nithya Balasubramanian: Got it. And one quick one on Enoxaparin. So Enoxaparin, again, last quarter, you had mentioned Sadu that your run rate is approximately $50 million. And as the rest of the GP the rest of the hospitals that will convert to your product, that can potentially go up to $70 million. Do you still anticipate that to happen in FY '24?

Srinivas Sadu: So That's what I told, the compliance what we thought of getting to 85%, 90%, the compliance maybe going around 55%. So the estimated volumes around 20 million, 23 million that is standing around 15 million, 16 million. So the efforts are made how to increase our compliance. So the partner is discussing with GPO because that's not fair that we only have 55%, 60%. So that's work in progress, but as of now, we – forecast is around 15 million to 16 million as against '23.

Nithya Balasubramanian: Understood. If I may just squeeze one very short one. Do you anticipate any substantial increase to the cost items in terms of any investments plant-related investment you anticipate making in FY '24 or are most of the costs in the P&L already?

Ravi Shekhar Mitra: So P&L costs are all taken in. There is no incremental cost which will come up because of any plant coming into commercialization.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Sumanta Bajpayee for closing comments.

Sumanta Bajpayee: Thank you, everyone, for joining us today. We appreciate your participation during the call. And we request if you require any clarity, please reach out to me. Thank you again. Goodnight.

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