August 12, 2024

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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- Q1FY25

Please find enclosed the transcript of the Earnings call for Q1FY25 of the Company held on Tuesday, August 06, 2024, at 18.30 Hrs. IST. This will also be available on the Company's website and the web link to access the same is https://glandpharma.com/investors/financials

This is for your information and records.

Yours truly,
For Gland Pharma Limited

KUMAR PALLERLAMUDI SAMPATH

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Sampath Kumar Pallerlamudi
Company Secretary and Compliance Officer

Encl: As above

"Gland Pharma Limited Q1 FY25 Earnings Conference Call"

August 06, 2024

MANAGEMENT: MR. SRINIVAS SADU – EXECUTIVE CHAIRMAN & CEO, GLAND PHARMA LIMITED
MR. ALAIN KIRCHMEYER – CEO, CENEXI
MR. RAVI MITRA – CFO, GLAND PHARMA LIMITED
MR. ANKIT GUPTA – HEAD (INVESTMENTS, M&A, CORPORATE STRATEGY), GLAND PHARMA LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY25 Conference Call of Gland Pharma Limited.

As a reminder, all participant lines will be in listen-only mode, and you will have an opportunity 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 Ankit from Gland. Thank you, and over to you, Ankit.

Ankit Gupta: Thank you, Sagar. Good evening, everyone, and we welcome you to Gland Pharma Earnings Conference Call for Q1 FY25.

My name is Ankit, and I am Head of Investments, M&A and Corporate Strategy at Gland. Joining me today on the call are Mr Srinivas Sadu – our Executive Chairman and CEO; Mr Alain – the CEO of Cenexi, our European CDMO business; and Mr Ravi Mitra – our CFO.

Today, we will discuss our business performance and address any questions that you may have.

We will begin with the business highlights from Mr. Sadu, followed by an overview of Cenexi's performance from Alain. Lastly, the group financial review was conducted by Ravi.

Before we proceed, I would like to remind everyone that some of the statements made today will be forward-looking and will be based on our current estimates. These statements should be considered in light of the risks that are associated with our business. The call is being recorded, and a playback and transcript will be available in due course on our website.

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

Srinivas Sadu: Thank you, Ankit. Good evening, everyone, and welcome to Gland Pharma's Q1 FY25 Earnings Conference Call.

I am happy to report that we have had a good start to the fiscal year, meeting our expectations and aligning with what we had indicated in our base business and Cenexi.

On a consolidated basis, we achieved Rs. 14,017 million in quarterly revenue, reflecting a 16% year-on-year growth. This performance aligns with our outlook and is fueled by healthy results in core markets, along with incremental revenue from Cenexi.

Our base business, excluding Cenexi, achieved Rs. 10,134 million in revenue, a 14% increase compared to the same period last year. While gross margins remained relatively stable, base business EBITDA margins were at 29% compared to 30% in Q1 FY24. Our consolidated EBITDA margins for the quarter were 19%, impacted mainly by Cenexi, which, despite showing improvement this quarter, is still on the path to profitability.

Shifting our focus to Geographical Performance, Our core markets achieved a 25% revenue growth in Q1 FY25 and now constitute 76% of our total revenues. The U.S. market continued its strong performance with a 27% increase in revenues, primarily due to a healthy volume share of existing products and new launches like Eribulin, Plerixafor, Nelarabine, and Edaravone. Despite year-on-year stability, the US market remains crowded, requiring manufacturers to maintain continued focus on cost competitiveness.

The rest of the world markets contributed 20% of our revenue in Q1 FY25, a 3% decrease compared to Q1 FY24. This performance reflects the inherent fluctuations in the business as some tender-led procurements from partners have been delayed to subsequent months. However, the rest of the world markets are expected to grow at a healthy rate on an annual basis.

The Indian market made up 4% of our revenue in Q1 FY25, experiencing a 19% decrease compared to Q1 FY24. This performance was by design, and we are currently evaluating various strategic options to determine the best path forward for this business.

Moving to R&D, Our total expenditure in Q1 FY25 was Rs. 489 million, representing 5% of our base business. We filed 8 ANDAs during the quarter and received approval for 7 ANDAs. As of June 30th, 2024, Gland and its partners have filed 356 ANDAs in the United States, with 295 approved and 61 pending approvals. Currently, the company holds 1,708 product registrations worldwide. During the quarter, the U.S. FDA made two surprise inspections of our manufacturing sites in Hyderabad. The inspections concluded with 2 and 3 Form 483 observations at Dundigal and Pashamylaram, respectively. As previously communicated, these observations are procedural and do not affect our compliance status.

While the generic business is progressing as planned, our biologics CDMO business is also experiencing positive momentum. Our biologics facility in Genome Valley is attracting advanced-stage interest from multiple players for contract manufacturing of monoclonal antibodies and novel plasma-based proteins. In addition, we are in discussions with the leading biologics company for a potential strategic collaboration. This collaboration could involve large-scale contract manufacturing of 4 biosimilars with a possible in-licensing opportunity for Gland Pharma in specific markets of interest. Although this discussion is in the early stages, it represents promising avenues for Gland Pharma to maximise its value in both CDMO and complex portfolio expansion. We will continue to update you on our progress.

Now, turning our attention to Cenexi, The business recorded Rs. 3,883 million, which is €43 million in revenue this quarter, with a gross contribution of 78% and a negative EBITDA of Rs. 286 million, which is €3 million. We are pleased with the progress made and the positive impact of our cost control and efficiency efforts. While we remain optimistic about the opportunity, I must inform all of you that Cenexi is still a few quarters away from a complete turnaround. Alain is here and with us today to provide a detailed overview of Cenexi's performance.

Before passing the call to Alain, I want to reiterate that Gland has had a positive beginning of the year and is on track to achieve its targeted performance amidst expanding business opportunities. We are optimistic about even stronger results in the coming quarters.

Thank you, and over to you, Alain.

Alain Kirchmeyer: Thank you, Sadu. Good evening, everyone.

Cenexi's performance demonstrated an upward trend this quarter. Cenexi's performance demonstrated an upward trend this quarter, with a reported 7% increase in quarterly revenue. While revenues increased, we also successfully reduced losses through improved operating cost leverage and continued efforts in managing costs and efficiencies.

Our Fontenay manufacturing site, near Paris, a significant contributor to overall revenues, has shown continuous improvement in operational performance. We are now realising the benefits of actions initiated earlier this year, including operational efficiency enhancements, additional weekend shifts, organisational changes, optimised production planning, and maintenance reorganisation. As a result, this quarter, the site shipped higher volumes while simultaneously reducing backlog. The Fontenay site derives the majority of its revenue from ampoule fill and finish operations, and we've recently added a new ampoule line. This line will be commissioned during the summer shutdown period of August, with commercial production slated to begin in early 2025. We anticipate this new line will significantly increase capacity, improve customer service, and generate approximately €10 million in revenue in 2025.

Our site in Hérouville, near Normandy, is poised for future growth, with significant new business expected from ongoing technology transfer projects. I'm pleased to report that these programs are progressing well, and our new aseptic gel line will begin commercial production for a key customer before the end of the year.

Our operations in Belgium and Osny, France, remained on track, and we are fully committed to delivering on our business plans for the year as expected.

While we are making good progress and our course correction plan is gaining momentum, I must also share a few important updates that may impact our performance in the next quarter. First, the July to September quarter will be impacted by August, typically lower activity levels due to the European holiday season and planned summer maintenance shutdowns at our plants. Notably, our Fontenay plant will have an extended shutdown of 3 weeks to accommodate the installation and connection of the new ampoule line. Second, based on the latest forecast, we reaffirmed the outlook communicated during the last investors call, a positive EBITDA for Q4 of this Fiscal Year and a positive EBITDA for the next fiscal year driven by increased revenue exceeding the €200 million threshold.

Thank you. I will now turn the call over to Ravi to discuss financial performance. Ravi, please proceed.

Ravi Mitra: Thank you, Alain. Good evening, everyone, and thank you for joining us for our 1st Quarter Earnings Call.

I hope you have had the opportunity to review our Financial Results and Investor Materials disclosed to the Stock Exchanges.

Let me share the performance highlights for the 1st Quarter:

Our consolidated revenue from operations reached INR 14,017 million in Q1 FY25. However, Cenexi's revenue in Q1 FY25 is not comparable with Q1 FY24 due to the acquisition of Cenexi consummated at the end of April 2024. The revenue grew by 16% compared to the same quarter last year, this growth was primarily attribute to base business (excluding Cenexi) which grew at 14% led by increase in volumes of existing and new launches in US market.

Other income for Q1 FY25 reached INR 514 million, primarily comprising interest on fixed deposits. This is an increase compared to Q1 FY24, where other income was INR 375 million, largely due to an increase in interest on fixed deposits.

Our gross margin for Q1 FY25 was 60%, compared to 63% in Q1 FY24, impacted by the product mix at the base business for us. However, Cenexi's gross margin improved to its historical level of 78%.

In Q1 FY25, we achieved an EBITDA of INR 2,654 million, an 11% decrease compared to the INR 2,982 million in Q1 FY24. This decrease was largely due to the consolidation of Cenexi's negative EBITDA during this quarter. Our EBITDA margin for Q1 FY25 stood at 19%, down from 25% in Q1 FY24. Our base business (excluding Cenexi) EBITDA margin remained stable at 29% in Q1 FY25; with the active measures taken at Cenexi, we expect our consolidated margins to improve as Cenexi's turnaround progresses.

Our net profit for the first quarter was INR 1,438 million, a 26% decrease compared to INR 1,941 million in the same period last year. This decrease was primarily due to the impact of Cenexi. However, the PAT of our base business grew by 20%. The consolidated PAT margin for the quarter was 10%, and the effective tax rate for the base business was 25%.

Total R&D expenses for Q1 FY25 amounted to INR 489 million, an increase from INR 457 million in the same period of the previous fiscal year. This represents 5 % of our revenue from operations, excluding Cenexi.

As of June 30, 2024, our total cash and equivalents on a group level stood at INR 30,488 million, and including the outstanding loans on Cenexi's books, our net cash position was lower at INR 27,430 million.

We generated INR 4,277 million in cash flow from operations during the three months ending June 30, 2024, compared to INR 629 million as of June 30, 2023, due to improvement in the cash conversion cycle. The average cash conversion cycle improved, reaching 148 days for Q1 FY25, compared to 233 days in the previous period of the fiscal year due to the reduction of inventory.

We invested INR 637 million in capital expenditure during the current fiscal year, largely allocated towards upgrading and maintenance capex of Cenexi business.

With that, I will now turn the call over to the Moderator to open the floor for questions and answers. Thank you.

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

Saion Mukherjee: I just have one question about U.S. business. There seems to be some slowdown or a drop in the U.S. revenues, except Cenexi quarter-on-quarter. So, can you just explain the dynamics there? And how should we think about it in the subsequent quarters?

Srinivas Sadu: I think the major difference is, I would say, on the milestone, if you saw last quarter, we had licensed some complex products, which gave a larger revenue. So, I would say the decline of U.S. about 14% from the previous quarter, 8% is attributed to that. And if you look at the quantity, it's 2% lower. And also, I would say, it's a product mix. We launched heparin back to one of the GPOs, which is a low value, I would say, high volume. And because of the large quantities, we have to supply a lot more quantities, which substituted the other products. So, that kind of, I would say, small impact, but it will normalise over a period of time. So, we would still continue to, I think, over the next few quarters, it's normalised number. So, it's more of a quarter impact.

Saion Mukherjee: Okay. Sir, my second question is about your comment on the domestic business, your plans around that, and also acquisitions. If you can throw some light on it, what are you thinking on both these fronts?

Ankit Gupta: Saion, this is Ankit. So, on the domestic business, as you would understand, most of our facilities are designed to supply for the global markets and predominantly U.S. When we supply in India, we use the same facility, and somehow, it compromises our overall economics of the business. We don't intend to scale that up unless we have found the solution to have a facility which is more dedicated to the India business. So, I think that addresses that point. On the acquisitions, I think there are two areas wherein we are largely focused. One is to look at opportunities on the complex injectable side, which has more to do with high R&D-focused investments. The second part, which we are very keenly evaluating, is building capabilities on the manufacturing side. Today, most of our capacities and capabilities are on the small molecule side. But even there, we feel that we have the ability to go further and see if we can do more difficult-to-make products. So, this is the large near-term focus. Obviously, in the long term, we will have to think through whether we need more organic capacity to cater to our current growth, which is coming from the U.S. and RoW markets. However, in the short term, these are the two focus areas for investments.

Saion Mukherjee: And just one last question, if I can. Of the 61 ANDAs which are pending, is there a split available between Gland's on India and partner in India?

Srinivas Sadu: I can give you an exact number, but most of it will be Gland India's because lately everything is filed by Gland.

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

Tushar Manudhane: So, just to continue on this milestone income, is that the reason for the quarter-on-quarter drop in the gross margins for the base business?

Srinivas Sadu: What's the question? Is that the reason?

Tushar Manudhane: Yes. So, I mean basically trying to understand the dip in the gross margin as well, both quarter-to-quarter as well as year-over-year when we had good relaunches or certain complex product launches as well in the quarter.

Srinivas Sadu: So, if you see, it's basically what I have given as an answer for the first one; we kind of supplied more of heparin because of the new GPO contract we got. The contribution margin on heparin is lower compared to that. So, the margin is, I think, around 25%, 30%. So, the volumes that were supplied for last quarter have almost doubled. So, that kind of diluted the overall margin, but it will normalise over the period because when you start your contract, you supply four months of stock. So, that's not taken away from our capacity, which is a low-margin product. But that will be fine starting next quarter.

Tushar Manudhane: Understood, sir. On the biologics side, while the facility was from a specific vaccine point of view and since the facility has been available, it's taking quite a long time to get the new contracts, that is one so, if you could share further there. This collaboration involves large-scale contract manufacturing. So, here we are not sharing too much detail, but what can be the timeline to understand the commercial benefit of this collaboration?

Srinivas Sadu: While we can't name the company, it's probably a quarter. I would say some clarity will come up on how this happened. However, the discussion is around investment in a large-scale production compared to what we have for some of the biologics that are filed and somewhat in the commercial stage. In parallel, we are also licensing some of the molecules for our other markets, 3 or 4 biologics products. So, it's a combination of a CDMO business to expand; as you know, a lot more attractions come in recent months for Indian companies. So, I would say it's a good sign. So, this is, I would say, in that direction. Combination of CDMO business for some of the commercialised and yet-to-be-launched products and in-licensing of some of the molecules, which have gone into clinical. So, it's a combination of that. So, we can give you more clarity in a quarter or so.

Tushar Manudhane: Understood, sir. I am just explaining to this as an industry phenomena of this Biosecure Act, is that also sort of benefiting us or and sort of being Chinese promoter company, you are not partner to that?

Srinivas Sadu: Yes. For sure, I just mentioned, I think that also is result of this, I would say, because I think we are seeing more inbounds than compared to before. And they're looking India as a second base for a lot of companies to have to derisk themselves. So, I would say that it would benefit CDMOs in this space.

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

Neha Manpuria: Sir, we saw Fosun sold a pretty large stake in the quarter. Have you had any discussions about how they are thinking about the ownership in Gland? Do we think it goes down further? And over the longer term, we have talked about evaluating the front end in the U.S. How should we think about that?

Srinivas Sadu: Yes. From Fosun's perspective, we don't really discuss the shareholding. We only talk more about the synergies and how to expand businesses in different geographies with their network. But there's no communication around the equity and how they sell. We only know the post factor, I would say. What's the other question, Neha?

Neha Manpuria: On the long-term strategy for the U.S. because, I think last year, we were considering or evaluating a hybrid model of possibly going front end on our own. So, is that still on the table?

Srinivas Sadu: Yes, it is. It's on the table. We are evaluating, but we can't comment. I think it's too early. But it's not like our core focus will be CDMO, and we are also getting into more complex CDMO with a focus on the company, with more and more companies approaching us on the bio side. For sure, that will be a key focus in terms of investment. At the same time, general business is key to our success. So, that will continue, but we have to see what different options are so that the base business will grow at least at a certain rate while we build the other part of the business.

Neha Manpuria: Understood. And did I just get the previous comment right that the biosimilar discussions that are going on would require new investments in large batch manufacturing?

Srinivas Sadu: While we can take on the CDMO and the smaller scale batches, this also requires investment to increase the capacities that we have. And since it is backed up by CDMO contracts and also the commercial volumes, that evaluation is happening. So, it's backed up by that; then we will work on the investment plan for that as well.

Neha Manpuria: Understood. And one housekeeping question. If you could just quantify the milestone in the profit share number for the quarter, please?

Ravi Mitra: Profit share for this quarter is 10%. This is at Cenexi, and milestone is 9%.

Moderator: Thank you. The next question is from the line of Karthik, who's an individual investor. Please go ahead.

Karthik: Actually, is there any one-off from Cenexi in this quarter?

Srinivas Sadu: No, no, there's no one-off. So, it's a continuous CDMO business. So, there's no one-off.

Karthik: Where do we expect the next leg of growth to come from for Gland? Are we continuing the plasma project and biosimilars, which we are discussing in the previous quarters?

Srinivas Sadu: Yes, that's continued. And also, for the complex products, we have filed six products until now. So, a few are good products on that. And one suspension product we have filed last quarter out of the seven that we have filed. So, that's another growth lever, I would say. And, of course, the bio CDMO side where we are seeing good traction, including the plasma project.

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

Bino Pathiparampil: Just a question on the U.S. market. In the last couple of quarters, your commentary was very positive in terms of customers coming back and inquiries going up, a lot of demand for products, etc. Is that pretty much as great as it is today? Or have you seen a bit of pulling off that tightened demand over the last couple of months?

Srinivas Sadu: No, I would say the policy is still there. I mean, it's no different than what we have seen. If you compared to the last year, the volume wise it's gone up by almost 30%. But if you see the previous quarter, the quantity, you can't really compare, it's almost the same, I think, gone down by 2% U.S., but it's more to do with how many batches can make on those lines. And it's more a capacity situation on a couple of brands, which impacted us a bit. But otherwise, the demand is there. And on an annual basis, it will still be a target to what we have envisaged at the beginning of the year.

Bino Pathiparampil: Understood. So, last quarter, there was a high element of milestones. So, excluding that, this quarter, can you look at this quarter as a sort of maintainable base on which you will see some improvement as the quarters come by?

Srinivas Sadu: Yes, I would say so because like I said, the milestone income was almost, I think, 16% last quarter because of some complex products getting licensed out. And this is not like depends on which quarter you license these kind of products and not every quarter, you're filing the complex products. But on an annual basis, I think we still moderated, and this business should grow.

Bino Pathiparampil: Sir my question is in Cenexi, you talked about three weeks, 4 weeks shutdown in Q2. So, is it fair to assume that the Q2 revenue would be two-third of Q1 revenue level?

Srinivas Sadu: Yes, correct. So, that's correct. But at the same time, we are also using that time to install a new line, So which will help us actually to produce more volumes in the future. So, it's not that we are completely wasting that time, I would say. But at least utilizing that time to install a new high-speed line, which will increase the volumes in the future.

Alain Kirchmeyer: And besides that, every year, we have a shutdown of roughly two weeks in all our plants because of the server break and heavy maintenance. So, the actual impact is only 1 week more because of the installation of the new line.

Moderator: Thank you. The next question is from the line of Rahul Agrawal from Himalaya Investment. Please go ahead.

Rahul Agrawal: Can you quantify the extent of the milestone and profit share component for last quarter versus this quarter?

Ravi Mitra: Yes. So, by last quarter do you mean Q4 or Q1 of previous year?

Rahul Agrawal: Yes. Q4 of FY '24, yes.

Ravi Mitra: Q4, profit share was same, 10% and milestone was 15%.

Rahul Agrawal: And this quarter, the profit share is 10%, the milestone is 9%. So, the gap of 6% on milestone.

Ravi Mitra: That's correct.

Rahul Agrawal: And milestone. I am assuming all this is 100% gross margins, so it flows straight down. So, it affects both the gross margin and EBITDA margin?

Ravi Mitra: Yes, it may not be 100% because there could be some costs related to the batches filed and all, but largely yes.

Rahul Agrawal: Got it. And putting it together, sir, from a full year perspective, what sort of growth do you see in your base business ex of Cenexi for the full year?

Srinivas Sadu: The mid-teens, that's what we guided.

Rahul Agrawal: And from a margin profile perspective?

Srinivas Sadu: So, EBITDA around 32%, 33%.

Moderator: Thank you. Ladies and gentlemen as there are no further questions, I would now like to hand the conference over to Ankit for closing comments.

Ankit Gupta: Yes. Thank you, everyone, for connecting today. We understand most of the questions are addressed, but if there are any follow-on questions, please do feel free to reach out to us. We will be available and happy to address. Looking forward to host you the next quarter soon. Thank you.

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.

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