"Glenmark Pharmaceuticals Limited Q2 FY'23 Earnings Conference Call"

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Moderator: Good morning, ladies and gentlemen. Welcome to the Q2FY23 Earnings Conference Call of Glenmark Pharmaceuticals Limited.

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

I now hand the conference over to Mr. Utkarsh Gandhi - General Manager, Investor Relations for Glenmark Pharmaceuticals. Thank you. And over to you sir.

Utkarsh Gandhi: Good morning everyone and a very warm welcome to the Q2FY23 Results Conference Call of Glenmark Pharmaceuticals Limited.

Before we start the call, a quick review of the operations for the Company for the quarter ended September 30th, 2022. For the 2nd Quarter of FY'23, Glenmark's consolidated revenue from operations was at Rs. 33,752 million as against Rs. 31,474 million in the corresponding quarter last year, recording a growth of 7.2%. For the six months ended September 30th, 2022 Glenmark's consolidated revenue was at Rs. 61,525 million as against Rs. 61,123 million recording an increase of 0.7%.

We will provide some key highlights for each of our businesses:

India Formulations Business

Sales for the Formulation business in India for the 2nd Quarter of FY'23 was at Rs. 10,916 million as against Rs. 9,689 million, in the previous corresponding quarter recording a growth of 12.7%. India business contribution was at 32.3% of the total revenues in the 2nd Quarter of FY23 compared to 30.8% last year.

As per IQVIA MAT September 2022 data Glenmark's India Formulation business is ranked 14th with the market share of 2.19%. During the quarter, Glenmark's India Business continued to strengthen its position in its core therapy areas in terms of market share.

As per IQVIA data the Cardiac market share increased to 5.3% compared to 4.73% last year, while the anti-diabetic market share increased to 1.82% compared to 1.79% last year. In Dermatology also, the market share increased from 8.12% to 8.16%. And in Respiratory the market share change from 5.3% to 5.27%.

As per IQVIA data, the Company is ranked second in the Dermatology segments, fourth in Respiratory and has increased its ranking to fifth in the Cardiac segment.

The Company has nine brands in the IPM Top 300 brands in the country, on the basis of the IQVIA MAT September '22 data.

The Company launched 9 new products during the quarter and continued to gain market share in some of the key launches in Cardiac and Anti-Diabetic segment. The key new launches which are driving growth in the anti-diabetic segment include Sitagliptin, and its fixed dose combination with Metformin and Dapagliflozin respectively, all of which were launched at the start of the second quarter of FY23. The Company has introduced 8 different combinations of Sitagliptin based drugs under the brand name SITAZIT and its variants to increase accessibility to affordable and quality treatment options for patients with uncontrolled Type 2 diabetes.

In the 1st Quarter, Glenmark had also become the first company to launch Teneligliptin, Pioglitazone fixed dose combination drug for Type 2 diabetes under the brand name Zita Plus Pio. At the time of launch, it was the only available DPP-4 Glitazone combination brand in India. Glenmark also recently launched a combination of Teneligliptin with Dapagliflozin.

Recently, Glenmark also became the first company in India to launch Lobeglitazone 0.5 mg under the brand name, LOBG, for the treatment of uncontrolled Type 2 diabetes. With this launch, the company aims to improve glycemic levels in uncontrolled diabetics and create a pathway to treat insulin resistance in India.

Glenmark now has a strong portfolio of products across various levels of intervention for the treatment of Type 2 diabetes in India. The company has an overall healthy pipeline of differentiated products, which it plans to launch in the market going forward.

Consumer Care

The Consumer Care business in India, the primary sales for the GCC business in Q2 was Rs. 555 million with a growth of 8%. This was mirrored by strong secondary sales growth of 11%. As of YTD September, the GCC revenue was at about Rs. 1,203 million with a growth of 42%.

Our flagship brand Candid powder delivered strong revenue growth of 11% for Q2 and 44% for the first half of FY'23. LA SHIELD portfolio, which is a second brand, delivered 31% growth in Q2, and more than 100% growth in the first half, while SCALPE PLUS portfolio recorded 18% growth in Q2 and 28% growth in the first half of FY'23.

North America

North America registered revenue from the sale of finished dosage formulations of Rs. 7,533 million for the 2nd Quarter of FY'23 as against revenue of Rs. 7,543 million for the previous corresponding quarter, recording a decline of 0.1%. North America business contributed 22.3% to the consolidated sales in the 2nd Quarter of FY'23, compared to 24% in Q2 last year.

In the 2nd Quarter of FY'23, Glenmark received final approval for Norethindrone Acetate and Ethinly Estradiol Capsules and Ferrous Fumarate Capsules, 1 mg/20 micrograms [the generic to Taytulla]. The Company filed one ANDA in the 2nd Quarter and plans to file 10 to 12 ANDAs in FY'23.

Glenmark's marketing portfolio through September 30th consists of 176 generic products authorized for distribution in the U.S. market. The Company currently has 47 applications pending at various stages of the approval process.

Europe

Glenmark's Europe operations for the 2nd Quarter of FY'23 recorded revenue of Rs. 3,785 million as against Rs. 3,383 million recording a growth of almost 12%. Europe business contributed 11.2% to the total revenues in the 2nd Quarter of FY'23 compared to 10.7% last year.

The Company continued to achieve a healthy double digit growth across all key markets in Europe in the 2nd Quarter of FY'23, in spite of ongoing macroeconomic challenges. Glenmark's covered market growth continued to remain strong across both Western Europe and Central Eastern Europe markets.

Base business growth in Western European markets such as UK and Germany remained strong, while CEE markets like Poland, Czech and Slovakia benefited from new product launches. Overall, Glenmark continued to launch multiple new products across various markets. And the respiratory portfolio in Europe also continues to gain share across both Western Europe and CEE countries.

ROW

ROW, which consists of Asia, Middle East Africa, Latin America and Russia CIS. For the 2nd Quarter of FY'23, revenue from the ROW region was Rs. 6,154 million as against Rs. 7,486 million for the previous corresponding quarter, recording a decline of 17.8%. The decline is on account of a high base last year due to strong sales of the COVID portfolio adjusted for that the region recorded 15%+ growth in Q2. Our ROW business contributed 18% to the total revenues in Q2 FY'23 compared to 23% in Q2 last year.

While the macroeconomic situation continued to remain challenging, the pharmaceutical market in Russia has remained stable and provided opportunities for growth. Overall, Glenmark's Russia business recorded a positive trend in the 2nd Quarter. For the month of September, Glenmark outperformed the retail market by value and also gained two positions in terms of the overall rankings on the retail market. Glenmark also gained three positions and was ranked 8th on the Dermatology market, while it continued to be ranked 2nd on the Expectorants market in Russia.

Business growth was aided by strong performance in key products such as across the Dermatology market, as well as additional promotion on the new indication for Ryaltris.

Asia region recorded slightly subdued growth in the 2nd Quarter. Markets such as Malaysia and Philippines recorded double-digit secondary growth. But there were multiple headwinds in other Asian markets like Myanmar, Vietnam and Sri Lanka, which led to slightly lower growth. As per IQVIA MAT June 2022 data for the Philippines, Malaysia and Sri Lanka markets, Glenmark is ranked 6th in the overall covered market and ranked 1st in the Dermatology segment.

Our partners Yuhan Corporation received approval for Ryaltris in South Korea towards the end of the 2nd Quarter. And also, Ryaltris continues to do well for us in the Philippines where the product has already been launched.

In Middle East and Africa, the region recorded 21% growth in secondary sales during the 2nd Quarter of FY'23 while growth in Kenya was marginally impacted by macroeconomic factors. Glenmark continued to achieve strong secondary sales growth of (30%+) in South Africa and Saudi Arabia. As per IMS MAT data, Glenmark is ranked 3rd amongst all generic pharma companies in Kenya.

Latin America witnessed growth of 22% at a regional level with most of the markets recording good growth during the 2nd quarter. The respiratory portfolio in Latin America continues to gain significant scale, particularly in large markets like Brazil and Mexico. And the company is planning to launch additional products in the region to further augment the overall portfolio.

Update on Ryaltris

Some updates on a global respiratory business for the 2nd Quarter starting off with Ryaltris. In FY'23 Ryaltris is targeted to be approved/launched in 34 markets globally. As of September 30th, 2022 we have already received approval or launched the product in 16 markets, either through our own field force or through our partners. And we are further awaiting approval in 18 markets which are expected to be received in the second half of FY'23.

Glenmark's partner in the U.S. Hikma commercially launched Ryaltri in August, 2022. As mentioned before, Glenmark also supplied product to its partners in South Korea, Yuhan upon its approval in the 2nd Quarter to complete the commercial launch of Ryaltris in October 2022. Following approval in Canada, Glenmark's partner, Bausch intends to launch the product in the 4th Quarter of FY'23. And additionally, in the 2nd Quarter, Glenmark received marketing authorization grants for Ryaltris in Malaysia, Kazakhstan, Moldova and Dominican Republic, and also submitted the MA application in Vietnam and Zimbabwe. The company is awaiting regulatory approvals for its filings in Brazil, Mexico, Vietnam, and several other emerging markets.

Ryaltris sales continue to grow in various markets where the product has already been launched across the globe. Some of the key markets include Australia, the UK, Czech Republic, Poland, Italy, Russia, South Africa and the Philippines. Glenmark's partner in Europe, Menarini, intends to launch the product in H2 of FY'23 in additional key European markets.

And Glenmark's partner in Mainland China, Grand Pharmaceuticals has made significant progress on the enrollment in the Phase 3 study, with approximately 70% of the recruitment being completed by the end of 2nd Quarter. Grand Pharma aims to complete the study by mid-2023 and submit the NDA application by the end of 2023.

Other Key Updates

In terms of other key respiratory products, as mentioned in the 1st Quarter, also clinical trials continues to move forward as per plan for generic Flovent pMDI. And we expect to file the product in Calendar Year 2023.

And we plan to file at least one more generic respiratory pMDI in the U.S. in the Calendar Year '23 and continue filing momentum beyond that.

Innovative R&D Pipeline

GRC 54276

Which is our HPk1 Inhibitor, is the company's oncology pipeline assets being developed as an orally administered IO-adjuvant treatment for patients with solid tumors in oncology. A Phase 1 dose escalation study is ongoing in India as per plan. Successful recruitment of patients in Cohort 1 was completed in the 2nd quarter of FY'23. And there were no dose limiting toxicities observed in the first court, and subsequently Cohort 2 has also been initiated. In total 10 patients have already been dosed with a drug.

GRC 39815

This is the RORγt and the company's respiratory pipeline asset being developed as an inhaled therapy for the treatment of mild to moderate COPD. This is currently under Phase 1 clinical development in the U.S.

Quick Update on Glenmark Life Sciences

Revenue from operations including captive sales were Rs. 5,093 million as against Rs. 5,618 million recording of YoY decline of (-9.3%) due to the high base of COVID products last year. During Q2, regulated markets contribution increased to almost 74% with growth of 7% QonQ, CDMO business also recorded strong growth of 27%+ QonQ. GLS filed 4 DMFs/CEPs during the 2nd Quarter and also made progress on the capacity expansion initiatives across its plants.

External sales of Glenmark Life Sciences in Q2 FY'23 were at Rs. 3,744 million as against Rs. 3,354 million in Q2 FY'22, recording a growth of 11.6% YoY.

For further updates on GLS, please log on to their website www.glenmarklifesciences.com.

Update on ICHNOS SCIENCES

Lastly on ICHNOS SCIENCES, Glenmark has invested Rs. 1,727 million, almost USD $22 million in the 2nd quarter of FY23 compared to Rs. 1,850 million, which was about $25 million in the corresponding quarter last year. For the first six months of FY'23 Glenmark has invested Rs. 3,363 million compared to the Rs. 3,467 million invested in the corresponding period for the previous financial year.

For further updates on the pipeline and the organization, please log on to www.ichnossciences.com. The pipeline update for the 2nd Quarter of FY'23 has been published on their website.

Key Objectives for FY'23

We would just like to state our key objectives for FY'23 which remain unchanged from the start of the year. Revenue growth of 6% to 8%, during the year sustaining our EBITDA margin performance at similar levels, as of FY'22, CAPEX of about Rs. 700 to Rs. 800 crores, keeping our focus on enhancing free cash generation and debt reduction, and closing out one to two out licensing deals across our innovation pipeline.

Additional Notes

Some additional notes to the results before we open the Q&A, reported EBITDA excluding other income was at Rs. 612.6 crores with a margin of 15.4%. There was a COVID related inventory provision of Rs. 31 crores in the 2nd Quarter adjusted for that EBITDA for Q2 was a Rs. 652.6 crores with a margin of 19.3%.

FOREX gain for the quarter was at Rs. 81 crores which is recorded in other income.

Gross debt for the period ended September 30th, 2022, was at Rs. 3,954 crores as against Rs. 3,670 crores as of March 31st, 2022.

Net debt for the period ended September 30th, 2022, was at Rs. 2,715 crores as against Rs. 2,260 crores as of March 31st. The increase in net debt was primarily on account of adverse FOREX Exchange impact during the first half of FY'23.

Working Capital inventory for the period ended September 30th was at Rs. 2,865 crore as against Rs. 2,500 crores in March. Receivables were at Rs. 3,328 crores as against Rs. 3,101 crores and payables was at Rs. 2,348 crores compared to Rs. 2,289 crores.

Total asset addition in the quarter was Rs. 134 crores, most of which was related to tangible assets.

R&D expenditure in Q2 FY'23 was around Rs. 330 crores, which is close to 10% of revenue from operations for the 2nd Quarter. For the full year we expect R&D expense to remain around 10% to 11% of our sales.

Before we open the floor up for Q&A, I would like to introduce the Management of Glenmark Pharmaceuticals on the call today. We have with us Mr. Glen Saldana - Chairman and Managing Director; Mr. V.S. Mani – Executive Director and Global Chief Financial Officer and Mr. Brendan O'Grady - Chief Executive Officer, Global Formulations Business.

With that we would like to open the floor up for Q&A. Over to you, moderator.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. First question is from the line of Saion Mukherjee from Nomura Securities. Please go ahead.

Saion Mukherjee: My first question is on the other expenses, they have gone up almost 18% year-on-year, much higher than the way the top-line has grown. If you can just elaborate on this why the expenses are moving at a much faster pace?

V. S. Mani: So, Saion, obviously, last year, if you recollect the first quarter and a little bit of the second quarter, we had some amount of the COVID effect. So, obviously, current year you don't have COVID effect and obviously, everybody is ramping up on their marketing initiatives etc. so the cost is a little up.

I would also urge you to look at, see on a half yearly basis if I look at it, yes, it is definitely higher than the sales growth. But on a half yearly basis, year-to-year, it's about 12% growth. So, the first quarter was still a little low. Second quarter has been a little high. But obviously we are trying to kind of take some initiatives and therefore the spends are a little higher. I think but overall even still, if you take that our other expenses to sales is about 25% odd. So, over the years, we have kind of brought it down to 25% to 26% compared to what it used to be, and I think we will try our best to keep it around those levels.

Saion Mukherjee: The second question is on your net debt level, it has gone up for the six months. I think one of the objectives is organically to kind of bring down the net debt. So, what's your comment for the second half and how you have seen net debt level by the end of the year?

V. S. Mani: So, Saion absolutely, that's been one of our key objectives over the last couple of years. We have made some progress there, but I think definitely, we would like to do more. So, what I would like to say is that obviously, the objective remains the same and also we certainly will see it assuming that currency remains at the current levels or kind of goes lower and there are no major disruptions in the supply chain. So, one of the reasons why you can see over the last couple of quarters, inventory levels, while they are still, I mean, they are still important, and we need to keep it at those levels, a bit of the debt increase also is due to some of those inventory and some of the working capital issues that we have had. And that's across the Board, to everybody.

Saion Mukherjee: And just one final question, if I can ask on the U.S. market. So, what would be the dollar million impact because of the Baddi import Alert, and what's your outlook therefore on the U.S. market going forward?

V. S. Mani: So, Saion, as you can see that we had also kind of indicated that it is about 1% to 2% of our overall global sales. It's about at best about 20 million or so, but also we will work actively on site transfers, etc, to mitigate what we have. So, obviously, we will try best to ensure that it will not get impacted, but if you ask me an impact, this is what it could be at best for a full year.

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 on this other revenue as a segment, it is significantly up this quarter, is this to do with some milestone income and if you could quantify?

V. S. Mani: Certain portion of that is due to the basically milestone that we have received. Normally, we don't give an indication what is the amount, because these are agreements between us and the party concern, but a decent part of that is still sustainable, that's what I can guide you right now.

Tushar Manudhane: You meant to say this other revenue as a quantum is sustainable for the remaining --

V. S. Mani: Not the full amount, but at least a certain portion of that at least 20% to 25% is definitely sustainability, yes.

Tushar Manudhane: And just as a clarity, this inventory provision is done of over Rs. 31 crores in COGS or in other expenses?

V. S. Mani: No, it is done in sales, you get a goods return. So, it goes to sales directly. And then obviously, it has no value. So, it immediately impacts your COGS as well as EBITDA, it goes straight to the EBITDA. You sold the good it came back to you, it has no value today, you write it, I mean, it expires, that’s how expires work.

Tushar Manudhane: Right, so it is deducted from sales itself is what --

V. S. Mani: Exactly straight, and it has no value to it.

Moderator: Thank you. The next question is from the line a Shyam Srinivasan from Goldman Sachs. Please go ahead.

Shyam Srinivasan: Just the first question on the Ryaltris and we have launched through the partner in August, any early signs or anything that you can share there, and you have now launched it in multiple countries. So, if you could help us understand how large this is, or any outlook here will be very helpful.

Brendan O'Grady: So, we launched in the U.S. through Hikma, the launch date was August 30th. So, right at the end of August, kind of midway through the fall, allergy season so I don't expect to see a ton of uptake in the fall allergy season because it will take the reps a couple of months and a couple of cycles to cease position to generate demand. But what I have seen to date is the uptake has been good. It's been well received. I think it's going to take a little bit of time to get payer access, but again I have reviewed the plan there, and they are a little bit ahead of where I thought they would be with payer access. So, I think as we work through the rest of the late fall, and we get into the early spring, I think Ryaltris will be successful on a good trajectory in the U.S.

As far as other markets, I think, as we mentioned, we have launched 16 through the 2nd Quarter, another five, so far, year-to-date so up to 21 we will launch another, will have 34 by the end of the year, six directly and then seven through partners. So, Ryaltris is off to a certainly a good start. And from a revenue perspective, this year, I would expect probably 20 to 30 million in revenue for Ryaltris for Glenmark.

Shyam Srinivasan: My second question is just again on the U.S. business. So, it's declined about 11%, I am just talking dollar terms here. So, if you could help us understand what's happening in terms of the base business and how are we mitigating, how should we look at it in the second half? Will it stabilize here, you think there is erosion still ahead?

Brendan O'Grady: I mean, if you think about the U.S. business, I think it's a challenging market for everybody. We continue to see price erosion, along with the market. And I think that the regulatory environment has been challenging as well. So, trying to get new products approved and launch in the market is key to combating price erosion.

I think that if you look at the U.S. we will be probably about flat to where we were last year, I think that you will see, 3rd Quarter improve over 2nd Quarter. And I would expect that 4th quarter, even with the Baddi impact, 4th Quarter will improve over 3rd Quarter. So, we are gaining momentum as the year goes along. Again, we will probably be relatively flat compared to last year. And we hope to see several new product approvals as we go throughout the rest of this year.

Shyam Srinivasan: I am just trying to do the math here. So, we had about 410 or 412 million something last year. We have done for the first half, like 180. So, we should be getting there, right or?

Brendan O'Grady: I think we will be close to right around 400, give or take somewhere in there. We will see how things go, but relatively flat to last year.

Shyam Srinivasan: And my last question is on. I think, the gross margins, I think, is this just the impact of that outlicensing impact? Or how should we look at gross margins for the rest of the year right now? Should I just rip out, you are not quantifying it. But how should we look at just the gross margin line?

V. S. Mani: See, gross margin, inherently, I think, in the last one, two quarters, we had some challenges because of the input costs going up, etc. We are seeing it slightly taper down. So, I think gross margin, you should look at anywhere between 64% and 65%, yes. That's historically where we are we should more or less be there.

Shyam Srinivasan: And the adjusted EBITDA, Mani Sir, on 19% that is sustainable. Is that the second half outlook?

V. S. Mani: Yes, it is sustainable, yes. And Shyam, just one thing, may not be so important, but in dollar terms our quarter was lower by compared to, decline was about 7% to 8%, I mean 11% was a little higher --

Shyam Srinivasan: Okay, I had that historical number of 187 million, probably, maybe that's lower than that you are saying, last year number.

V. S. Mani: Yes, it's a little lower than that.

Glenn Saldanha: I think it was about 102, last year, actually. And this year, we are at about 95.

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

Saion Mukherjee: Just one question on India, so you reported around 13% growth. Now, you mentioned also that this Rs. 30 crore is a return, sales return. Is it true to assume it is in India and if we are to add that, then we get to more like 15% to 16% growth, I guess. And then –

V. S. Mani: Yes, it should be, you have to add back to India and it should be higher growth, yes.

Saion Mukherjee: And then last year, you would have had some favi (favipiravir) in the base also, right. So, I am just wondering, this growth number looks a bit high. So, --?

V. S. Mani: No 2nd Quarter didn't have any major fav (favipiravir) at all --

Glenn Saldanha: Not for India, Saion, last year we had fevi (favipiravir)-

V. S. Mani: In 2nd Quarter.

Saion Mukherjee: So, Glenn what kind of growth expectations you have for India, I mean, for this year, and also, let's say sustainably going forward.

Glenn Saldanha: So, I think India, it's safe to assume we are growing between 10% to 15% on a sustainable basis.

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

Nitin Agarwal: Again on the U.S. plant, by when are we expecting the Monroe reinspection to be done?

V. S. Mani: So, we are currently in the remediation mode, Nitin, we are hoping in Q4, we will get an inspection. And next year we are hoping to commercialize products from the U.S. for Monroe.

Nitin Agarwal: And how many ANDAs would we have in Monroe filed by now, roughly?

V. S. Mani: I would say about 6 to 8 ANDAs.

Nitin Agarwal: All put together including the file and approved?

V. S. Mani: That's correct.

Nitin Agarwal: Just to push that, when you are doing your non-incremental ANDA filings, I presume they will not be going ahead with Monroe for the time being. So, is there some impact on your plans on account of that, where some of the filing that you were proposed to do from Monroe, you probably couldn't do right now, and you may be doing alternate sites from there for those filings?

V. S. Mani: I mean, clearly, Nitin, obviously because of the Monroe situation, lot of our filing plans got pushed out, from Monroe, so some of those filings will hopefully come through next year, in terms of new filings for injectable products. We have some alternate strategies around injectable products, but we can't really elaborate right now.

Nitin Agarwal: And secondly on Ryaltris, the guidance that we gave for $20 million to $30 million of revenue this year for Ryaltris, now given the fact that we have got multiple partnership agreements, which are there on the product, is it fair to assume a lot of the $20 or $30 whatever revenue that you would make on Ryaltris would be essentially just a royalty income and profit share for us.

V. S. Mani: No, so I think we are launching on our own Nitin in many markets. So, I would not assume that it's only profit share or royalty income, right. A lot of it is our own sales. And also going forward, it's a mix we have some markets where we commercialized on our own, markets in South Africa, markets in Russia, markets in Asia, multiple markets, which we sell on our own. So, it's a mix.

Nitin Agarwal: And Glenn, when you talk about this number of $100 million plus peak revenues for Ryaltris, the assumption is the bulk of these revenues will be coming through our own frontend sales.

Glenn Saldanha: Again, it's a mix, Nitin. And that's why the margin profile on this $100 million to $150 million will be significantly higher, because it will also have partner royalties flow in there, partner royalties and partner transfer prices. So, I think it's really a mix.

Nitin Agarwal: And on that, Glenn on Ryaltris, we booked some milestone this quarter, across there is a partnership that we have done, are there meaningful milestones still to be realized or it's going to be largely on royalty income and sales income that will come through on Ryaltris?

Glenn Saldanha: I think constantly there will be milestones coming through, Nitin, on a consistent basis. One is, of course, some sales linked milestones, two is some development milestones, on approvals. So, I think milestones will keep coming through on an annual basis to us, in addition to of course, royalty income, and other transfer pricing income that we will make through partnerships.

Nitin Agarwal: And lastly, on the innovation for R&D portfolio, I mean, how should we look at the next maybe 6 to 12 months on this portfolio from a new sales. from a licensing perspective?

Glenn Saldanha: Currently, I think it's safe to assume that we will close at least one licensing deal a year between GPL and ICHONOS, on a consistent basis, on the innovation side. So, if we achieve that, I think we would have done well, on a consistent basis. We closed Almirall, obviously, Almirall, the product is now in Phase 1. There will be subsequent milestones coming through from Almirall on a consistent basis. So, I think this can be a good revenue stream for us right between new deals, existing deals, Ryaltris milestones, Ryaltris royalty inflow on a consistent basis, which will help soar up the overall revenue line item, the EBITDA margins on a consistent basis.

Nitin Agarwal: So, Glenn, we already in mid-November, for FY'23 do you still see the prospects of our licensing deal coming through from the portfolio?

Glenn Saldanha: We still continue to maintain that we will try and close the licensing deal this year.

Nitin Agarwal: And I think pushing one last Mani sir, on the net debt, given obviously, there was some working capital pressures in H1. Now for the year, do we see -- will be able to generate cash to maybe make some impact on the debt levels going forward by the end of the year?

V. S. Mani: Certainly, Nitin, I think that will be the endeavor and any way rupee if it remains stable, and also the disruptions are lesser in the second half, we should definitely see some improvement yes, 100%.

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

Harit Ahmed: So, in your press release, you have talked about plans to file one additional respiratory inhaler product in the U.S. in the next calendar year. And this is apart from generic of Flovent. So, how we started clinical trials for this, and then any color on this product will be helpful.

Glenn Saldanha: At this point, we can't give any visibility to what the product is or what we are doing in terms of a development pathway. We still maintain that we will be able to file this additional product next year.

Harit Ahmed: And this is a inhaler product, just to confirm?

Glenn Saldana: That's correct.

Harit Ahmed: And trying to understand the compliance situation at Baddi a little better. We have been non-compliant at this facility from early 2019. And so I presume you have undertaken a fair bit of remediation measures before it got re-inspected earlier this year. And that inspection as well didn't really go too well, you received an import alert post that. So, what exactly are the challenges specific to this facility? And what's really led to this Import Alert situation, despite our remediation efforts? And have we undertaken any measures across the network to improve our quality systems, because we have had a couple of other OAIs as well in recent months.

Glenn Saldanha: Clearly, we are disappointed about Baddi getting the Import Alert. We are working with the FDA, to see how we can remediate and bring the facility back on track as soon as possible. I think we have also taken many measures across the firm to ensure that we strengthen our quality systems, and we continue to excel in the quality area across all our sites, across the network. So, I think there are several things we have done and we continue to work through right to strengthen our network, our capabilities on the quality side.

Harit Ahmed: And then last one, the capital reset ICHONOS, which we have talked about in the past, is that plan still on or are we shifting our focus more towards licensing some of the --?

Glenn Saldanha: I think at our Investor Day which is coming up we will give much more visibility on the roadmap there.

Moderator: Thank you. The next question is from the line of Kunal Randeria from Nuvama. Please go ahead.

Kunal Randeria: Just quick one on Ryaltris, being a branded product, have you already invested or still investing in Salesforce in the country that you are going to market it yourself?

Glenn Saldanha: So, the good news is we are continuing to leverage the existing Salesforce. I mean, the reason we built out some of these segments in emerging markets is precisely that. Now we are actually getting the benefits of the investments we have made by way of Salesforce in these different countries. So, the network, the Salesforce that we have is, we are able to better leverage them through the launch of Ryaltris in almost all of our countries, we have not added Salesforce anywhere to the best of my knowledge, right across the network.

Kunal Randeria: And you believe these are sufficient for Ryaltris to achieve its potential?

Glenn Saldanha: Yes, we think we will get to the Rs. 100 million to Rs. 150 million mark in the next four or five years using the existing infrastructure.

Moderator: Thank you. The next question is from the line of Nikhil Mathur from HDFC Mutual Fund. Please go ahead.

Nikhil Mathur: So, my first question is on the revenue guidance shared for FY'23, I think 68% is the number that has been shared. And first half, we are closed on a flattish level. Second half, I would also suspect that India is usually seasonally weak, especially because of respiratory. U.S. also, you will be having the impact of the Import Alert. So, what will drive this growth in the second half and that to on a reasonable basis in second half of FY23?

Glenn Saldanha: Clearly, see I mean, if you assume that we currently have the same run rate of Rs. 3,300 crores, Rs. 3,400 crores a quarter that itself will take you very close to the guidance. I mean, what we did in Q2, so, very clearly, outside of that, also, we have most of our markets, as Brendon mentioned, U.S. Q3 will be better than Q2, Q4 will be better than Q3. India continues to perform well, for us in the second half. Europe is doing well, ROW --. So, I think overall, the Baddi impact we think will hit us in Q4. And even there, given the launches, given all the other things we have going on, we believe Q4 will be strong. So, overall, we continue to maintain the overall guidance.

V. S. Mani: And just to add further, the first half looks a little flattish, because we had heavy COVID sales in the first half. First quarter was India. The second half was ROW. And the second quarter, second half of the year, would be more normal to normal, okay.

Glenn Saldanha: And if you strip that out, clearly we are well ahead of double-digit growth, right, on an overall basis.

Nikhil Mathur: Any royalty from Ryaltris, are you expecting that in the second half?

Glenn Saldanha: So, we don't guide to royalties, Nikhil. But I think we, they will keep coming as we go along depending on markets and depending on, as the products get commercialized.

Nikhil Mathur: And on usage of cash, I think there is significant amount of cash on the balance sheet and so obviously gross debt is also high. So, like, why don't repay gross debt from that cash, I mean, in an interest rate rising cycle, especially because your debt is predominately in USD, wouldn't that help your finance cost in the P&L?

V. S. Mani: Just to answer that, so obviously, my cash is slightly lower compared to last year end. Besides that, almost Rs. 350 crores to Rs. 400 crores are lying in GLS so that's a separate listed company and gets consolidated along with us. So, those are not something that we use. But in any case, Nikhil, any company of our size, with so many locations around, we definitely need some cash with us, to manage the day-to-day, how we take care. I mean at best here and there 100, or 200, you could manage, but that's about what we can, beside that we are running so many enterprises across so many geographies, we need some cash. And the collections keep coming in and they keep, some of them remain in the bank.

Nikhil Mathur: Any guidance you can give on the tax rate, it seems to be running high first half, so if you can help on this?

V. S. Mani: So, if you look at it, compared to last quarter, this is better. For the year, we are guiding around a little less than 40%. But going forward, it will come lower as we go by. And also the reason is we have been using our MAT credit over the last two quarters in a good way so obviously, it doesn't amount to cash tax. On a cash tax basis, our tax rate was about 27%. So, I think in a couple of years, we will be able to use up our MAT and so therefore naturally we can offer a lower tax rate. Tax laws allow you to do that, you can apply for a 25% tax rate.

The other thing that will happen is also as we grow and grow our sale, our profitability and the way we have been quite tight on our R&D spending, and especially the innovation side, that should also contribute to improvement in the overall tax rates. Yes, that’s how it will be.

Nikhil Mathur: On the book tax rate in FY'24 and FY'25, it would be around 35% to 36% level?

V. S. Mani: Yes it should be 35% or lower, yes, that should be around those levels. But cash tax will be still around, maybe around 26% to 27%. So, we are not paying any cash because I already use the MAT also right.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Svan Investments. Please go ahead.

Sachin Kasera: Question for you, Mani Sir, what gives us the confidence in terms of being able to reduce the target of debt, the full year target? Is it that you are expecting significant correction back again in the working capital cycle, or you are expecting the profitability to grow significantly hence being able to get rid of the debt?

V. S. Mani: So, obviously, cash comes from profit. So, we should be able to significantly improve, I mean, as you can see, we have guided to a higher number in terms of turnover in the second half so that's one part of it. As far as working capital goes, obviously, if the disruptions are not so much, and they improve, as we are seeing slowly, they will definitely help us to reduce our debt level.

Sachin Kasera: Secondly, will you able to give some sense what is the type of impact, Monroe is having in overall profitability of the company?

V. S. Mani: Monroe as such, I mean, obviously does strategic and all that, but we have not really started any major sales from there. So, to that extent, it is not really hit us in that sense. So, broadly, that is where we are. So, maybe if it was there, some opportunities could have been there, but today it's not there so we are waiting remediating it and hoping that we should be able to start our sales from there.

Sachin Kasera: It must be hitting something because of the costs that we are incurring, apart from remediation also establishment costs. Is that a large number to have or it's a very small number?

V. S Mani: So, remediation costs, if you recollect, last year, we had taken something to our P&L. So, we are seeing how it goes along. Maybe there could be some in future something a little bit coming more. But see, this is part and parcel of the business, I mean, obviously. And the cost, obviously, we have been as careful as possible now that it's under remediation. But these numbers are baked in with those numbers as well. I mean, this is the challenge of running a plant and having some issues, but I think in the long run, it will serve as well. Yes, that's what we feel.

Sachin Kasera: And lastly on the domestic sales to sustain this 10% to 15% growth, we are looking at adding MR for the next couple of years or with existing force you think and productivity enhancement, we can pull through?

Glenn Saldanha: I think India, we will continue to expand and grow in India. I mean, we will give some visibility at the Investor Day, on what is the roadmap right for some of these geographies. But clearly India is a great destination from a growth perspective. So, we will continue to expand into India.

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

Utkarsh Gandhi: Will read the disclaimer before we end the call. The document has been prepared by Glenmark Pharmaceuticals Limited, the information statements and analysis made in this document describing the company's or its affiliates objectives, projections and estimates of forward-looking statements. These statements are based on current expectations, forecast and assumptions that are subject to risks and uncertainties, which could cause actual outcomes and results to differ materially from these statements, depending upon economic conditions, government policies and other incidental factors. Not a presentation or warranty either expressed or implied is provided in relation to this document and it should not be regarded by recipients as a substitute for the exercise of their own judgment. The company undertakes no obligation to update or revise any forward-looking statements whether as a result of new information for future events or otherwise.

With that we would like to end the call of today, a big thank you to everyone for joining us on the call.

Moderator: Thank you. Ladies and gentlemen, on behalf of Glenmark Pharmaceuticals Limited concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.