Q3 2011 Earnings Call - Glenmark Pharmaceuticals

Dt- 2 Feb'11

Operator

Good evening, ladies and gentlemen. I'm Sandhya, the moderator for this conference. Welcome to the Earnings Call of Glenmark Pharmaceuticals Q3 Results for FY 2011. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing-by for the question-and-answer session. I would now like to hand over to Mr. Jason D'Souza. Thank you. And over to you, sir.

Jason D'Souza, Investor Relations

Thanks, Sandhya. Welcome to the Q3 earnings call of Glenmark Pharmaceuticals. In this, we'll go through the review of operations for the third quarter of financial year 2010-'11.

For the third quarter FY11, Glenmark's revenue was at 7,508 million, an increase of 17%. Revenue from the generics business was at 2,987 million, a growth of 7%. The Speciality formulation business revenue was at 4,520 million, registering growth of 25%.

For the nine months ended December 31, 2010, Glenmark's consolidated revenue was at 21,569 million, an increase of 21%. Revenue from the generic business was at 8,900 million, a growth of 15%. The Speciality formulation business revenue was at 12,669 million, registering growth of 27%.

The Speciality business India, sales for the formulation business in India increased to 2,390 million, an increase of 30%. According to the latest ORG-IMS data, it was reported that the company registered value growth of 25.1% vis-à-vis that of industry growth, which was at 15.8%.

As per ORG-IMS MAT data Glenmark increased market shares in different therapeutic categories namely anti-infectives, cardiac, respiratory, pain, gynecology and dermatology. The IF business introduced six new products, the main product launches were Altacef-CV, Bon-K2 and Candid soap. Flu blast and anti-influenza medication

launched in August '10 has performed well during the quarter.

The Africa, Asia and CIS region for the third quarter of this financial year revenue from this region was at 1,154 million, an increase of 27%. Glenmark filed 30 product dossiers during the quarter and received 22 product approvals. Russia CIS region, the secondary sales for the Russian subsidiary has shown good growth in the third quarter. According to Pharmexpert data on a MAT basis the company is growing at 26% and its consistently improved rankings in the market with the current rank of 62 in December '10.

In this quarter, the company launched Glenset, the brand has received a positive response from doctors in the first month of the launch itself. This launch will help Glenmark consolidate its positions in both respiratory and dermatology segment. The two key segments for the molecule is widely prescribed.

With a growth rate of 54%, we continue to be the fastest growing company in dermatology with healthy growth rates for all the derma brands. Africa, Middle East, this region achieved growth of 36% in the quarter ended December '10 aided by robust growth in South Africa, Nigeria, Kenya, Sudan, Mauritius and Tanzania. The quarter also marked several first-to-market innovative products across therapeutic categories such as the introduction of Glenmark into the lucrative anti-asthma segment in Kenya. The introduction of the high-end cosmetic range in the UAE and the strengthening of the pain portfolio with a launch of Valus-AP in Malawi.

In Asia, the key markets of Malaysia, Vietnam and Myanmar recorded secondary sales growth of 40%. In Malaysia, new registrations for Montelukast, Adapalene MS and Damelene were obtained. These registration will help us make a strong entry in the hospital segment. Deriva-MS and Klenzit MS were launched in Malaysia, Vietnam, Philippines and Sri Lanka.

Latin America, the Latin America region revenue was at 528.26 million, a growth of 88%. The growth is attributed to the improvement in the Brazilian business, the contribution from newer markets of Venezuela, Peru, Ecuador as well as the low base effect of the previous year.

Going forward, we expect strong sequential growth from this region. In this region, Glenmark filed 10 product dossiers and received nine product approvals during the quarter.

Europe, Glenmark's Europe operations registered revenue of 447 million, an increase of 27. The region continues to explore new in-

licensing opportunities to grow each of the businesses.

R&D; the company has a pipeline of six NC and ND. In addition, the company has two in-license molecules, Crofelemer and the novel monoclonal antibody GBR-900. Crofelemer, Glenmark's in-license molecule, Crofelemer for multiple diarrhoeal indications HIV associated acute, adult and pediatric diarrhea successfully completed Phase III clinical testing for HIV associated diarrhea.

The trial was conducted by Salix Pharmaceuticals in the U.S. Glenmark is working on a developmental and regulatory strategy towards obtaining approvals in Glenmark's territories. This could be the first innovative product launch for Glenmark across 140 countries, where it has exclusive marketing and distribution rights. Peak sales from ROW markets are estimated to be around $80 million for HIV associated diarrhea.

Melogliptin; Melogliptin completed Phase IIb studies, a safety and a PK study already subject has been conducted in the UK and final results are awaited. The compound will enter Phase III trials.

Revamilast; Glenmark's PDE4 inhibitor, Revamilast, a candidate for variety of respiratory and inflammatory disorders is progressing well in the clinics. The company expects to initiate multiple Phase II trials for Revamilast in asthma and rheumatoid arthritis in the fourth quarter of this financial year.

Tedalinab; Glenmark's CB-2 receptor agonist, GRC 10693 a candidate for neuropathic pain, osteoarthritis and other inflammatory pain disorders has successfully completed Phase I studies. The company intends to develop GRC 10693 in neuropathic pain as the primary indication. Additional Phase I extension studies are in progress and Glenmark expects to initiate Phase II studies in financial year '11-'12.

GRC 15300 for osteoarthritic pain, neuropathic pain and other inflammatory pain is undergoing Phase I trials in the UK. Globally, this is the only reported TRPV3 specific antagonist molecule to enter clinical trails. So far the trial is progressing well in the single ascending dose phase with good oral availability, and with no safety concerns. A development and commercialization license for 15300 has been granted to Sanofi-Aventis.

GRC 17536,TRPA1 antoagonist, has proven highly efficacious in treating inflammatory and neuropathic pain in animal models. In addition, when tested in an in-vivo model of asthma, it showed promising effect on airway inflammation, bronchoconstriction and cough. GRC 17536 has showed good safety in the Phase I enabling GLP safety pharmacology and toxicology studies performed. Glenmark plans to file Phase I application in February 2011.

NBE GBR 500; a monoclonal antibody, which has the potential to be a broadly applicable anti-inflammatory compound in diseases like multiple sclerosis and Crohn's disease. It is a first-in-class monoclonal antibody, therapeutic with this target and has established proof-of-concept in animals. Phase I studies for GBR 500 are ongoing in the U.S. and are progressing as per plan. We expect to initiate proof-of-concept trial in MS and CD in the first half of calendar year 2011.

GBR 600, an anti-platelet monoclonal antibody has shown good results in pre-clinical testing and has received approval from MHRA, UK to commence Phase I studies.

GBR 900 licensed from Lay Line Genomics, Italy. We have the exclusive intellectual property rights on this monoclonal antibody. TrkA is part against the neuronal growth receptor, TrkA is part of the anti... of the NGF TrkA access, a validated and novel pain receptor system for treatment of chronic pain. Research on GBR 900 project is carried out at Glenmark's Biological Research Center at Switzerland.

Glenmark Generics Limited for the third quarter, the consolidated revenue of Generics' business was at 2,987 million, an increase of 7%.

U.S. formulations; revenues from the U.S. formulations business was at 2,040 million, an increase of 8% in rupee terms over the corresponding quarter of the previous year. During third quarter, Glenmark was granted final approval by USFDA for five ANDA and received enter approvals on two.

The company launched a total of six products in the U.S. marketplace comprising of a mix of immediate relief tablets, extended relief tablets, semi-solid and controlled substance items.

In the final week of the quarter, Glenmark launched Oxycodone capsules and oral solutions in 5 mg and 20 mg presentation respectively. These two items are approved NDAs and comprised Glenmark's primary portfolio of pain management products.

The niche market category maintains a high entry barrier due to the DEA regulations, thereby limiting the number of competitor companies and showcasing Glenmark as the only generic company distributing these USFDA approved products. Oxycodone is

manufactured for Glenmark in the United States through a partnership and is distributed directly from the warehouse located in New Jersey.

In November '10, Glenmark Pharmaceuticals Limited and Glenmark Generics confirmed Triax Pharmaceuticals, Astellas Pharma Europe and Astellas Pharma International filed a patent infringement suit on November 04, 2010 in the U.S. district court for the district of Delaware seeking to prevent Glenmark from commercializing its ANDA for hydrocortisone butyrate cream, the generic version of Locoid Lipocream prior to the expiration of the Orange Book patent. Based on the information available by the U.S. FDA, Glenmark believes it is the first applicant to file an ANDA with a paragraph post-certification for a generic version of this molecule. And should this product we approved, Glenmark will be entitled to 180 days of genetic market exclusivity.

New formulations, the European business continued to grow through a mix of product sales and licensing revenue. During the quarter, GGBV, the Dutch entity participated in different tenders in the Netherlands with leading health insurance companies and one tenders for three more products with supplies commencing in December '10.

The UK business also expanded its coverage of the market by adding several new important accounts across the wholesaling and retail channel and also launched one more product in the UK in this quarter.

The out-licensing business successfully signed four more deals for licensing out and supply of products in various new markets and we also signed three deals for in-licensing products, which will be available for sales for the UK entity in the next year.

In this quarter Glenmark supported two new product launches by third-party customers in new markets. During the quarter, Glenmark was granted five MAs for four products in different markets and we filed an MA application for one product through the DCP procedure. Overall, the business posted revenues of 154 million, an increase of 133% in rupees terms.

Oncology; Glenmark's revenue from Argentinean operations were at 42.90 million, a decline of 44% in rupee terms. The oncology business launched three products in the quarter, the Argentinean unit continues to support oncology businesses of Glenmark's worldwide and has facilitated the finding of 32 product dossiers across subsidiaries.

API revenue, of the sale of API to regulated and rest of the world markets globally was 749.74 million, a decline of 3% in rupee terms. Sugril and Sitagliptin were launched in the ROW markets, combined with the award of the Perindopril, annual tender in Malaysia.

Before we open the floor for question and answers, I would like to introduce the team at Glenmark. We have Glenn Saldanha, MD and CEO of Glenmark Pharmaceuticals; we have Mr. Terrance Coughlin, CEO of Glenmark Generics; we have Mr. Rajesh Desai, CFO Glenmark Pharmaceuticals; Mr. Arvind Vasudeva, COO, Glenmark Pharmaceuticals; Mr. Sanjay Gupta, Senior Vice President Glenmark Pharmaceuticals; Percy Birdy, Vice President, Glenmark Generics; Aditya Renjen, General Manager, Finance and IR, Glenmark Pharmaceuticals.

Before we open the floor for question and answers, I would like to mention that on TrkA, we will not be able to take any questions, the last statement that Glenmark made on TrkA remains as is which is, although Glenmark is disappointed with the jury verdict, the judge has yet to consider Glenmark's defense that the patent is invalid for double patenting, for which the jury's verdict was only advisory. Glenmark continues to believe that the patent is not valid. With this, we open the floor for question and answers.

Questions And Answers

Operator

Thank you very much, sir. We will now begin the Q&A interactive session. [Operator Instructions]. The lines are open for Mr. Chirag from ICICI. Over to you, sir.

Analyst

Growth in the U.S. given the kind of approvals that you've seen seems low, does it mean that the fourth quarter will be an unusually large number and you could see a quarter-on-quarter sharp increase?

Corporate Participant

I think that you will seen an increase in Q4 although throughout the first nine months, we received a very high number of approvals.

As you maybe aware in scaling up that many product, getting that many products through option and getting proper market penetration on all those products does take a few months and it takes us usually six to nine to 12 months to see fall revenues from those products. So you'll see those products taking much more effect into Q4.

Analyst

Okay. So and then these will have the full year impact in FY12 as well?

Corporate Participant

That's correct. So I mean, with the aspect of... with the good quarter of so many products being approved and just managing the pipeline from having a proper raw materials to manufacturing and validating all the batches, you'll get into the supply chain just then on to getting customers committed to the product, its quite lengthy process. So you'll start to see the pick up in fourth quarter and full effect for next fiscal year.

Analyst

Okay. Thank you, sir.

Operator

Thank you very much, sir. Next we have a question from Mr. Manoj from Edelweiss. Over to you, sir.

Analyst

Yeah. Good evening to all of you and thanks for taking my question. Just wanted to understand like for the quarter, we have shown very good growth in the domestic market, contrary to the fact that all over the industry, the growth came down like, the industry growth came down in this quarter and many companies have reported muted kind of performance, so can you put some more light on this?

Corporate Participant

Yes. Given in our report also, we have actually increased market share in all the five therapeutic area. The course is driven by cardio, dermatology and respiratory followed by anti-infectives.

So in this quarter, we have been able to... and there were also couple of roper earnings for launches which happened in the quarter. So put together, this five therapeutic area and new launches has given us this growth.

Analyst

So can we say that going forward probably this kind of growth is sustainable or you feel that maybe it may tapper down and come back to 20-25% kind of growth?

Corporate Participant

We will remain around 25% growth.

Analyst

25% kind of growth. And sir, in terms of your total number of sales per people, do we have added any people during the quarter and what's the current number?

Corporate Participant

It's about 2,300 reps.

Analyst

And have we added any incremental people during the quarter?

Corporate Participant

Not this quarter, earlier.

Analyst

Okay. And last question before I get back to the queue. This quarter like what was the revenue which you've reported in the U.S. had some element of TrkA. Now going forward, essentially we may not have the revenue of TrkA, so how do you see the compensating of the same and the growth in the U.S. market?

Corporate Participant

I think that you have listed the number of product that we received approval over the last six to nine months, we're not seeing the full benefit of that. We'll continue to see growth in the U.S. market, we almost still have several ANDAs pending, which we are hopeful for approval. So I think the full portfolio and products moving forward and we have some guaranteed launches next year be it Malarone and other products and you'll continue to see growth for next year.

Analyst

At the beginning of the year, we had revenue guidance of around 180 to $190 million for the U.S. business for FY11, do we still maintain the guidance?

Corporate Participant

Well, we've not... I mean officially, we've not put out any guidance, but we are still on course to achieving somewhere close to those numbers.

Analyst

Okay. Thank you. That's all from my side.

Operator

Thank you very much, sir. Next we have a question from the Mr. Binu from IIFL. Over to you, sir.

Analyst

I just wanted to recheck on Malarone, we're looking at launching it in third quarter of this calendar, right?

Corporate Participant

That's right, correct, yes.

Analyst

Yeah. And do you know of any other filers generate competition or any other player, third player that could enter the market after the 180 day exclusivity?

Corporate Participant

We are not aware of any other player that have filed to-date. Not that there isn't, but I'm not aware of any.

Analyst

Right, right. Great. It would be great if I could also get the debt and cash position?

Corporate Participant

Debt is around 70, 80 odd crores. Cash is approximately 112 crores.

Analyst

Great. Thanks very much.

Corporate Participant

Yeah.

Operator

Thank you very much, sir. Next we have a question from Mr. Kartik Mehta from Daiwa Capital. Over to you, sir.

Kartik Mehta

Sir, in terms of the LatAm business, which is almost doubled this particular quarter, what should we expect on an annualized basis? Is this predominantly due to new markets or as the inventory levels been on the higher side?

Corporate Participant

Latin America; we've done a lot of work over the last couple of years in Latin America segment, now beginning in terms of top-line growth. I think going forward, you should continue to see on an annualized basis, we should have 13-14%, that's coming out of LatAm on debts for the next year I would assume. The next year is a 30% top-line growth

you should see on the region as a whole.

Analyst

Okay. And will this be through entering into new markets or will this be through new product launches in the existing markets?

Corporate Participant

So right now, the markets where we are operating, that you have Brazil, Mexico, Venezuela, Peru, Columbia and the Caribbean et cetera. I think all these markets we've entered about just a couple of years ago, some of them even longer like other than Brazil, so all of them have now started reaching some kind of scale, right, where it has started making an impact.

So I think most of the growth going forward will come from these existing markets itself. But as approvals keep coming through, you will see the growth numbers expand further.

Analyst

Okay. Sir, I actually missed... I just missed your debt number that was told earlier, is it 1,780 crores or is that number right?

Corporate Participant

That's right.

Analyst

Hello?

Corporate Participant

Gross debt, right.

Analyst

Yeah. So. Isn't that number far higher away than what it was in the last reported number, and is there anything, which has been refinanced or is there really a high amount of working capital that we should... because this seems to be almost where we actually ended the year, right? So if you could just...

Corporate Participant

No, no, this is gross debt. Net debt is 1,680.

Analyst

Yeah, so in the 30th September quarter, where we reported the order number, it was about 1,200 crores, right?

Corporate Participant

No.

Corporate Participant

No, no. It has increased by say around 70-80 crores. Out of that 55 and 60 crores, we used for repay, this for redemption of our... bonds and balance is for working capital and other.

Analyst

Okay, sir. Thank you.

Corporate Participant

So there is no substantial increase.

Analyst

Thank you.

Operator

Thank you very much, sir. Next we have a question from Mr. Nitin Agarwal from IDFC Securities. Over to you, sir.

Nitin Agarwal

Hi. Good afternoon everyone and thanks for taking my question. Just some few questions. On TrkA, what's the way forward from here on in terms of what all are actions, there is obviously a core decision on the other part of the challenges left. And what happens to the one that you've lost? How does it go from here?

Corporate Participant

So Nitin, as we said right, we are not taking any questions on TrKA on the call, right?

Nitin Agarwal

Okay.

Corporate Participant

Just because we are still in litigation.

Nitin Agarwal

Okay.

Corporate Participant

And but it's all out there actually, in terms of our statements are all out there, officially what we are saying, yeah.

Nitin Agarwal

Okay. Fair enough. And on the U.S. business, we've actually seen a sequential decline in the quarter, why would that be? This is little surprising because of the launches. So was there an element of some products, which really contributed in the material manner in Q2, which didn't really come through in this quarter?

Corporate Participant

I think its the only product that we saw a decline on is actually is there is a period, which have been a significant product over the past 18 to 24 months is nitroglycerin. So as some may recall, back in March 2010, nitroglycerin was marketed under unapproved product. We were given a warning letter and the latest... distribution. So we are able to sell through Q1 and 2, but as you see sales for Q3. So, that's the only product that we've seen any decline in sales, which was actually zero for Q3.

For everything, all the innovative products stated that they were slightly increased and just the aspect of taking full advantage of all these other approvals have not come into play yet.

Nitin Agarwal

Okay. And on just couple of other house-keeping questions, what's been the component of other income in the current quarter?

Corporate Participant

In the other operating income, that is basically export incentives.

Nitin Agarwal

Other income? The 26.5 crores of other income, which is there?

Corporate Participant

Yeah. Out of that, about 18-19 crore is foreign exchange gain.

Nitin Agarwal

Okay.

Corporate Participant

The balance is miscellaneous income, which also includes scrap income.

Nitin Agarwal

Is there in the other expenses, a short kind of gone up quite a bit, is there any element of one-off or is this the kind of run rate that we should be running on the other expenses line?

Corporate Participant

The other expenses are more or less inline with what it was last year's rate. So some 28.5% of savings.

Nitin Agarwal

And lastly, what would be our receipt account receivables positions right now? I mean how many data days are we running?

Corporate Participant

Its similar to the September level, no material change.

Nitin Agarwal

Okay. Thanks very much.

Operator

Thank you very much, sir. Next we have a question from Mr. Shah from Quantum. Over to you, sir.

Analyst

This is Krishnandu from Quantum. Thanks for taking my question. Just on the... what you call the Latin America... this dropping up to 43 crores on a like what is the reason like or is it being booked in some other hemispheres?

Corporate Participant

So I think I mean Argentina, very clearly we have shifted the business model to more a supply base. So Argentina for us after we put up the plant, right, a lot of the... we are using it mainly as supply to our own entities within GPL and GGL.

Analyst

Okay. So this is being booked in other countries?

Corporate Participant

Absolutely, its being booked in other geographies. And I think going forward, you will see the same. So where a lot of the shares over time will reduce or flatten, just because its been booked in other entities.

Analyst

Mostly, it will be similar related markets, wouldn't it be?

Corporate Participant

So mainly its supplying... right now, it is supplying Latin America itself. So we're supplying Brazil and various other markets in Latin America. Some of this... markets like Kenya and in Africa, some countries.

But I think I mean given the number of filings right, you can assume that starting next year, you will see a large amount of volume of business coming out of the oncology and in some of the semi-regulated and Latin American markets.

Analyst

Alright. Little bit on the U.S. side, that Oxycodone, which you launched, just wondering how is this going to play out for you?

Corporate Participant

[Inaudible]

Analyst

Sorry?

Corporate Participant

Can you just repeat the specific question...

Analyst

The approval of how do you see the market going to play out for you? The other players are going to move out or like what your attrition going to be out there?

Corporate Participant

Both for the Oxycodone capsules solution, so this is another which was historically classified as a grandfather product, that was a pre-1938 product that the FDA in 2006 being the on approved products and we took advantage of this product like other companies had with other drugs and which we did to the ANDA on it.

So there is a still lot of other suppliers in the market and we are working with the FDA since you have to ensure enough supply to the markets so that they will then be able to knock out any unapproved product, which we will then be... sell

exclusive supplier to the market under the ANDA and which any new player will have to do a new ANDA.

So we see its a very long established volume market, obviously with only one player having an ANDA, the price will go up into the market place and you hear the effect of three plus years exclusivity on that product if not longer depending on how long it will take someone to develop an ANDA and ultimately file and get approved. So I see this as a very attractive product over the next three plus years.

Analyst

Okay. Right now, you're not the only player in the market?

Corporate Participant

And right now, we're probably dominating 75% or more of the market just because of DEA quarters and product line, but there are more than one player as of today. The FDA has made it a practice that they will not make any effort on removing other players until there are certain guarantees from the NDA holder that there is certain supply in the supply chain to ensure certain number of days, which were caused to achieving so that they can move forward and removing the other players from the market.

Analyst

Right. And just on that, how big is that market for you?

Corporate Participant

I think its too early to tell exactly how big that is, I think that we'll know better once we... we know what the volume is. I think... we know volume as the number of units, I do not that off the top of my head, the INS numbers are still the number of units.

The question is that since there are other products in that competing area, tablets and other opioid products, this look in the market bear on a price per bottle for each and I think that will have to play itself over the next three to six months as we become the only player in the market.

Analyst

Okay. Great. And just one last question on the R&D front, so when I see your release, lot of molecules are in Phase II or Phase III, going into Phase I and Phase II, proof-of-concept an all, how do you expect like, what is the finding and what is the scenario out there?

Corporate Participant

So I mean from the entire pipeline, basically there are four or five molecules that we are really focused on. One is Crofelemer is the key product. Then we have got Revamilast, which is the second molecule which we are driving forward. 15300, which we've now partnered with Sanofi Aventis and 17536, which we are starting Phase I at any point and GBR 500 among the monochlorides. I mean these are the five molecules that we are really aggressively pursuing. In terms of funding, I mean if you look at most of these...

Analyst

Sorry, if I may interrupt, there is blip till you've done the PK studies and you're going to do the Phase III trial. So like those trials are not... will be mostly abroad or India?

Corporate Participant

So right now, we're not... again, I can just giving a broad overview of the molecules we are actively. I mean I can't comment on some of the rest of the pipeline as to what we are doing in specifics. But clearly, Melogliptin, the thinking is we moved into a Phase III on our own. If we do something, we would only do in India approval strategy and then look at a global strategy if at all we run something, right?

Analyst

Right.

Corporate Participant

So that's where we kind of stand. So in terms of funding, basically we are funding Revamilast, GBR 500, both these are Phase IIs. This year, we would be funding 17536 Phase I. These are the three which would actively need funding requirements.

Analyst

Okay. And the strategy still remains that if we do cross that part where you actively think its... you can monetize it, you will be outsourcing it to somebody?

Corporate Participant

I mean we've clearly... I mean the partnership model doesn't change. We would partner almost all of these overtime. The question is what's the time change and we would continue to pursue that that model.

Analyst

Alright. Thank you.

Operator

Thank you very much, sir. Next we have a question from Mr. Krishna Kiran from ICICI Securities. Over to you, sir.

Krishna Kiran Konduri

Yeah. Thanks for taking my question. Sir, what is our hedging policy, ForEx hedging policy?

Corporate Participant

Usually, we create the natural hedge this cover the risk of say this... and then sometimes, we do take forward cover.

Krishna Kiran Konduri

Okay. Sir, what will be the CapEx for FY12?

Corporate Participant

It will be about 250, its about 250 crore till now.

Krishna Kiran Konduri

Okay.

Corporate Participant

And we'll close that about 300 crore.

Krishna Kiran Konduri

For next year, sir?

Corporate Participant

That will be in the same range.

Krishna Kiran Konduri

Same range. R&D cost, how much would be for the nine months number, sir?

Corporate Participant

This quarter, we did about 35 crore.

Krishna Kiran Konduri

Okay.

Corporate Participant

We have done about 90, 95 crore till now. We'll close at about 130 crore.

Krishna Kiran Konduri

130. And next year, it would be same thing?

Corporate Participant

Yeah.

Krishna Kiran Konduri

Okay. Sir, regarding the GRC, GRC is that... which you have out-licensed to Sanofi Aventis, sir do you have a chance to get any other out-licensing income in FY12 regarding that molecule?

Corporate Participant

Actually, we don't guide towards any milestones of future income. So we can't comment on that.

Krishna Kiran Konduri

Okay. Thanks a lot, sir.

Operator

Thank you very much, sir. Next, we have a question from Mr. Anubhav Aggarwal from Credit Suisse. Over to you sir.

Anubhav Aggarwal

Yes, sir. One, I missed the number of nitroglycerin, what was the sales number for the last year for nitroglycerin?

Corporate Participant

No, Anubhav, we didn't missed the number. We didn't give it.

Anubhav Aggarwal

Sir, but you did mention that in quarter three, it was zero, quarter one at least there was some amount. So I mean can you give us some idea I mean what is delta we are taking about?

Corporate Participant

No, Anubhav, we can't give product specifics.

Anubhav Aggarwal

Okay. The other question was on the other expenditure. This is not a data question, but just more for understanding, is like what is it that your other expenditure to sales ratio in quarter three is much more than quarter two? Which part of the business or what element does play out there?

Corporate Participant

There could be some reasons on quarter-to-quarter basis, but if you look at nine months as a whole, its inline with nine months of the previous year and for the full of last year. So there is some timing differences in the spend depending on some launches of that sort that could happen.

Anubhav Aggarwal

Okay. Because if I... why I was confused because if I just look at the sequentially the product mix, the product mix is similarly to market, where margins should be higher than average was much better. And LatAm, I know the margins lower, but overall product mix I thought was not that bad that margins sequentially should have declined.

Corporate Participant

No, but that sales mix was reflected in the GC percentage. Other expenses will not go directly with that.

Anubhav Aggarwal

Exactly. So GC was actually much better?

Corporate Participant

Yes, it was.

Analyst

Okay. So other expenses. And the personnel cost, like personnel cost did go up quarter-on-quarter, is that the normal increase in person cost or is there any one-off or like should we just take this base as the level going forward?

Corporate Participant

You can take the current level, no one-off.

Analyst

And on the... can you also give the inventory days? You mentioned the debtor days are same as the September level.

Corporate Participant

No. Overall, net working capitals are at similar levels.

Analyst

Okay. Thank you.

Operator

Thank you very much, sir. Next we have a question from Mr. Sriram Rathi from Anand Rathi Securities. Over to you, sir.

Sriram Rathi

Yeah. My questions have been answered. Thank you.

Operator

Thank you very much, sir. Next, we have a question from Mr. Chirag from ICICI.

Analyst

Yeah. What is the nature of this foreign exchange gain 18 to 19 crores? Is it mark-to-market of financial liabilities or what is the nature, how much is... is there an element of realized foreign exchange gain?

Corporate Participant

This is a mix actually, its combining something, which is the mark-to-market also.

Analyst

Mark-to-market of operational assets as well as financial liabilities?

Corporate Participant

Yeah.

Analyst

So is it possible to give a break-up, sir, broadly I mean...

Corporate Participant

No, it is not that significant, Chirag to give beak-up as compared with the whole... So it is right now, it is not available. Aditya will

provide you if you are interested.

Analyst

Okay, sir. Thanks, sir.

Operator

Thank you very much, sir. Next we have a question from Mr. Girish from HSBC. Over to you, sir.

Analyst

Yeah. Hi. Just a question on the derma new launches in the U.S. like Adapalene and Ciclopirox, if you can just give some color on how the markets share trend had been? How is it performing there?

Corporate Participant

I think the dermatological business is doing very well on the market share. I don't have it off top of my head, but I think that's Ciclopirox... Adapalene, were one or two players, so we're hovering somewhere between 45 and 50% market share. Ciclopirox is three or four player, but we're probably over 30%.

But then again on all the terms that we've really launched, even the smaller ones or the larger ones, we've managed to gain well over 30, all the way up to 50 or 75% market share. So the general line overall is doing very well for us.

Analyst

Right. And then just given on the pipeline, which you have like you've got several ANDA spending approval, are there more products in the similar category that you think are bigger opportunities, which would be somewhat giving you limited competition within a similar period of time?

Corporate Participant

Yes. Most of the ANDAs we have outstanding loans going forward falling to the net categories, we've been talking about whether they will oral contraceptives, dermatological, bottom-line release, those type of products. So I think the product that we are filing that we anticipate approval over the next month or couple of next years should all be very attractive product to the organization.

Analyst

Is there like a number like how much of market you are already addressing with the current pipeline for the dermaceuticals?

Corporate Participant

There were probably... I don't know the exact number, I think we'll get back with you on that.

Analyst

Alright. Thanks. Thanks a lot.

Operator

Thank you very much, sir. Next we have a question from Mr. Prakash from RBS India. Over to you, sir.

Analyst

Yeah. Hi. Good evening, sir. Just wanted to ask... I mean I joined the call little late, sorry for that, but can you give us the data for R&D expenditure for the quarter for the breakup also in terms of NC expenditure and the generics?

Corporate Participant

For the quarter, it was approximately 35 odd crores.

Analyst

35?

Corporate Participant

Yeah.

Analyst

And the breakup, if you could?

Corporate Participant

We don't have the breakup right now.

Analyst

But that could be available after the call?

Corporate Participant

I can check and come back to you.

Analyst

Okay. Second question was on again the U.S. generics business, I mean we've seen lot of approvals in the past 12 months, but any particular reason of 8% growth for the U.S. generics business?

Corporate Participant

So two main reasons, one is naturally for the... nitroglycerin that we have for the first two quarters and with it being taken off of the market at least for us in third quarter was one decline. We saw the approvals... we'll start seeing those really coming into effect in the fourth quarter and beyond. We were very successful over the past 12 months between tentative and final approvals, close to I believe 19 approvals.

But during this year, our efforts of managing 19 approvals from getting the raw materials to putting them into the production, to getting them into the supply chain, to securing customers for that. And some of these products were very unique with limited compensation, which we were able to take quicker uptick, some more were little bit more competitive, which takes a little bit longer.

And historically, we've seen that takes us anywhere from six to 12 months after approval to really get that threshold of maximizing the sales. So just a sheer abstract of getting all the engine up and running to maximize all those products and we should see it take effect here in Q4 and moving forward.

Corporate Participant

Also if you see the kind of effect of the previous year, there was an extreme impact of it, so about 5% of the growth is on result rupee-dollar basis.

Analyst

Okay, okay. But what is the kind of growth rate we should expect going forward Q4 and the fiscal '12?

Corporate Participant

I think overall, you should anticipate about 25% plus growth coming out of the U.S. this year and next year.

Analyst

Right. And any particular reason for the marginal margin pressure that we've seen, is it because purely on account of higher cost as new facilities come in picture and the benefits are due or is it something special?

Corporate Participant

The margin pressure is actually more on account of the lower realization because of exchange.

Analyst

Okay. And any reason of this 30% growth in domestic formulations, is there a one-off there or is it sustainable going forward, how do we see this?

Corporate Participant

I think going forward on a year-on-year basis, we're looking at 25% growth. So this is higher than normal growth in this quarter.

Analyst

Yeah. So any one-off or say stocking something that has happened and we should strip it off say similar quarter next year to take a growth out of it or is it a normal?

Corporate Participant

There's no one-off. We have couple of product launches, which will again grow next year, so it's not one-off.

Corporate Participant

And that year-to-date growth is 23...

Corporate Participant

18%.

Corporate Participant

Pretty much inline with what Arvind is guiding.

Analyst

Right, right. And have you disclosed this net working capital details that you have disclosed last quarter?

Corporate Participant

No, but its at a similar level to the September position.

Analyst

Okay. So there is no... not much change that's what you are saying?

Corporate Participant

Yeah, no material change.

Analyst

Okay. Thanks. That's all from my side.

Operator

Thank you very much, sir. Next we have a question from Ms. Bhavika Thakkar from USGK. Over to you, ma'am.

Analyst

Hello, sir. I have a... can you throw some light on your API business? Hello?

Corporate Participant

Yes.

Analyst

The API business? So it has given year-to-date growth of 12%, is it so we're not that much focusing towards API?

Corporate Participant

I think API has a much longer gestation period in... business. And we're in the process of brand to lean over the past year to these upcoming years of selling fewer kilos into the regulated market, which are much more complicated and longer in the process or much higher margin side.

So... and we utilize lot of capacity also for internal requirements, too risky captured under other effects. API continues to be very much of a cornerstone of our business and third party pricing and we would continue to see that grow as 20% plus rates as more and more products gets commercialized into the regulated market.

Analyst

And this entire amount comes from... what is the domestic contribution and international contribution in this?

Corporate Participant

So I think right now, the bulk of the supplies are to the regulated markets.

Analyst

Okay.

Corporate Participant

I mean that's the transition that we have.

Corporate Participant

Probably 70% is the regulated market, 30% to ROW markets.

Analyst

Okay. 30% to ROW, okay. Thanks so much. And I have another question, what about... what's exactly the Malarone strategy. When... how we are going to.. when you are going to launch and if it is the license bearing thing, how it's going to work?

Corporate Participant

As you said, we look at it as we have settled this with the innovator, we commented on exactly what we delivered and we will have the opportunity to launch this in mid-third quarter. That's fiscal year and we have a specific...

Analyst

Okay. And this is like license bearing opportunity. How does its like we have to pay them something and then it would be... how its going to work?

Corporate Participant

I think all those terms are confidential, pursuant to our settlement agreement.

Analyst

Okay. And after that the 180 days, exclusivity will start?

Corporate Participant

The 180 day exclusivity starts the moment we shift our first product.

Analyst

Okay, okay. Thank you so much. That's it from my side.

Operator

Thank you very much, ma'am. Next we have a question from Mr. Sonal Gupta from UBS. Over to you, sir.

Sonal Gupta

Hi. Good evening everyone. Just couple of things, one, was how big is the derma portfolio as the percentage of your U.S. Portfolio now? Could give some sense on that?

Corporate Participant

In terms of product numbers or...

Sonal Gupta

No, in terms of revenue contribution.

Corporate Participant

I would... off the top of my head, 25% in that range right now.

Sonal Gupta

Okay. And anything... I mean, given the fact that I mean nitroglycerin, you got a warning letter in March 2010 and you located the market just now. I mean could similar thing happen on Oxycodone, where it is a very long drawn process in terms of the other participants going out of the market and may be the benefit accrues much later than for potentially next year?

Corporate Participant

Well, I think the top of things what we've seen in the marketplace. I mean again, a lot of people have exited the market because I think people have been tired of getting warning letters on distributing unapproved products. So it has become a much less of a competitive market situation plus the DEA, FDA field all their closures and took care of some of that issues, where the process in the FDA is taking a much more aggressive approach as against ANDA. So I think that we'll see some benefit this quarter and it will be for second quarter while we see the maximum benefit to that first product.

Sonal Gupta

Right. Okay. So potentially, we should start seeing the impact in FY12, right?

Corporate Participant

Correct, yes.

Sonal Gupta

And anything you gave in terms of update on Q2 rate, where are we in terms of a litigation process and what is your strategy you're looking to launch after your 31 stake buyers?

Corporate Participant

Right now, we're still in active litigation with them on that product and no material updates at this point in time.

Sonal Gupta

Okay. Great. Thank you so much.

Operator

Thank you very much, sir. Next you have a question from Mr. Bhavin Shah from Dolat Capital. Over to you, sir.

Bhavin Shah

Thanks, my question has been answered. Thank you.

Operator

Thank you very much, sir. [Operator Instructions]. Next we have a question from Mr. Surjeet from Elara Capital. Over to you, sir.

Analyst

Yeah, hi. Glenn, you said that you still believe that 25% year-on-year growth you could achieve in U.S. generics in FY11. So that means that in fourth quarter, we can expect year-on-year growth of 58% kind of things, if I go by your number of 723 crore in last year?

Glenn Saldanha, Managing Director and Chief Executive

I think that 25% was more for next year.

Analyst

I mean in U.S. generics, right?

Glenn Saldanha, Managing Director and Chief Executive

Yeah.

Analyst

So that means around 58, 60% kind of growth we're expecting for the quarter?

Corporate Participant

No, FY12.

Analyst

Okay, okay. What are the products or how many products you're planning to sell in Q4, because there is quite a big increase in stock, in inventory level? Could you please throw some light on that?

Corporate Participant

I think we've given whatever visibility we can by the time and the ANDA has all the product approvals. So those will get launched sequentially, product after products, some of them may be in Q4, some of them may end up during next year.

Analyst

Okay. Third question is that in the ForEx, whatever the reason has been given by the leading pharma companies as of now, we haven't seen such a kind of enormous kind of gain, which you were showing because there is not much volatility between the beginning and the end of this quarter. So what could be the reason for such a kind of pretty high ForEx gain this quarter?

Corporate Participant

Firstly, there is no such extraordinary high ForEx gains as reflected and second thing, it is the consolidated number, which is actually, this combined effect of say across the all... entire globe. So,it is not specific. You are looking from the India specific angle, where this exchange fluctuation is not... as against the U.S. rate, rupee has not moved too sharply in this quarter. But across the... this is not the India specific number, it is across all the regions, what is the collective number we are showing.

Analyst

I mean that's fine but that whatever the results we have gone through in terms of the people, who have been doing business... we couldn't find such kind of numbers which has... because generally all of you are following the similar kind of practice because...

Corporate Participant

There is not the question of following any practices because whatever accounting standards are common for all the companies, it is what the... whatever gain or loss what we have realized, it is reflected in our financial statement, what other companies are, what has happened, we are not really able to comment on that, okay? So what has happened to us is in this quarter is reflected in this statement, okay?

Analyst

Glenn, regarding Argentina subsidiary, will you think that you keep on launching product from oncology business. When do you think that they will really contribute in a bigger way in terms of fantastic growth in the product because of the kind of lower base is there. When do you see that that kind of...

Corporate Participant

They are already contributing substantially to the overall operations of GPL and GGL. So I don't think there is... it's only not by way of sales but it's more by way of transfer pricing and capacity utilization.

Analyst

Okay, okay. So when do you think that you will cross the border of LatAm and you will start selling your product in Southeast Asia or part of the...

Corporate Participant

I think what I'd suggest is maybe after the call you can talk to Aditya or just mail your questions and we will further expand on that.

Analyst

Okay.

Corporate Participant

And give clarity on that. Thank you.

Operator

Are you done with the question, sir?

Analyst

Yeah.

Operator

Thank you very much. Next we have a question from Mr. Ashish Thakkar from Emkay Global. Over to you, sir.

Analyst

Yeah. Thanks for taking my question. As far as the European markets are concerned, we have a case, where the rebates, the amount of rebate has been increased by the government as well as the market is getting more tender driven. So what's our take on this?

Corporate Participant

So are you talking about Eastern Europe or Western Europe?

Analyst

Sir, the Eastern Europe.

Corporate Participant

So, Eastern Europe I mean clearly is I think it's very competitive right now. The operating environment is very challenging, because I think there is a lot of the reimbursements from governments, they are closely monitoring and there is a lot of challenges there. So it is a challenging environment overall.

Analyst

Okay. So we are present in both the market, tender based as well as the non-tender based?

Corporate Participant

So in Eastern Europe, we have a branded model, where we still promote products and products through the branded sales force as opposed to government tenders. In Western Europe through GGN, we do tender business.

Analyst

Okay. So as far as the profitability levels are concerned, we are positive on the same?

Corporate Participant

Well, its... I mean our investment in Eastern Europe has been only three or four years old. I think we've entered these geographies over the last three, four years. So we are at a point, where from this year onwards, we will start making profit out of Central Eastern Europe.

Analyst

Central Eastern Europe. And the Eastern markets, we are already profitable?

Corporate Participant

Western Europe we are profitable.

Analyst

Okay, okay. Thanks a lot.

Operator

Thank you very much, sir. [Operator Instructions]. Next we have a question from Mr. Shah from Quantum.

Analyst

When I look at your PLR, purchase trading goods has gone up, its a higher percentage of sales, how do I read that in connection with the increase in stock like just trying to understand that?

Corporate Participant

You have to take three; material consumption, purchase of trading goods and this inventory variation into account for this because it is interchangeable thing.

Analyst

Yeah, right. I got it.

Corporate Participant

Yeah.

Analyst

But in the sense, just a purchase of trading goods like that side, its just a trading activity like probably bought some goods to manufacture further, so like is it for some new launches or something?

Corporate Participant

No, no, it is a common practice in pharma industry that to purchase the finished product from under contract manufacturing. It is the same type of management.

Analyst

Okay, okay, but this is nothing...

Corporate Participant

Nothing, nothing, no special.

Analyst

Okay. Thank you.

Operator

Thank you very much, sir. Next we have a follow-up question from Mr. Prakash from RBS, India. Over to you, sir.

Analyst

Yeah, thanks for taking my question again. Sir, can you give us some number for the nine months for the R&D please?

Corporate Participant

Its 95 crore.

Analyst

Okay. And a broad range of what could be the split like for the nine months?

Corporate Participant

Split will be 10%.

Analyst

For the generics as well as the R&D?

Corporate Participant

No, that's not. You can call back Aditya after wards because right now we don't have these numbers.

Analyst

Okay. And the second question was just wanted to understand are we still capitalizing the R&D cost or the expense for the generics?

Corporate Participant

Not now.

Analyst

So this was done till which period of time?

Corporate Participant

I think FY09 or '10.

Analyst

Okay. And what would be the amount that would be sitting in the balance sheet which has not been amortized yet?

Corporate Participant

As at OpEx, we don't have any number right now because we are discussing here the quarterly result so you can contact Aditya if you've any specific questions.

Analyst

Okay, sir. I'll do that. Thank you.

Operator

Thank you very much, sir. [Operator Instructions].

Corporate Participant

No questions, we can close the call.

Operator

We do have one question. Shall we go ahead, sir?

Corporate Participant

Take it as the last one.

Operator

Sorry, sir.

Corporate Participant

Take this last question.

Operator

Sure. The last question comes from Mr. Anubhav Aggarwal from Credit Suisse. Over to you sir.

Anubhav Aggarwal

Yeah, thanks. Just this question on the Indian market, the 25% underlying growth that you expect for the next year, can you just broadly split it up between volume growth and the new product launches?

And second question is how many products you have launched in the nine months in the Indian market so far?

Corporate Participant

I think we would look at 25% growth, 20 will come from this current brand and about 5 will come from main products. And as of now, we have launched about 20 products in the current nine months.

Anubhav Aggarwal

20 products. And would the split of 30% that we recorded in this quarter, would be very similar?

Corporate Participant

Yeah, will be slightly more this quarter, we are ready to see 24 and 5th.

Analyst

24 and 5th. And the sales force that we have 2,300 teaser, is that sufficient for 25% growth next year or do we need to add to that to achieve 25% sales?

Corporate Participant

We'll be doing some addition next year.

Analyst

I mean will it be like 5% addition or do we assume that you would maintain the current productivity and addition will be like that?

Corporate Participant

We have not further planned because we're still in the current year. So there will be some addition, but especially we don't right now can explain that.

Analyst

Okay. Thank you.

Operator

Thank you very much, sir.

Jason D'Souza, Investor Relations

Thanks, Sandhya. Before we close the call, we'd just read out the disclaimer. Hello?

Operator

Please proceed, sir.

Jason D'Souza, Investor Relations

Yeah, we'll just read out the disclaimer. This document and the conversation call made by Glenmark Pharmaceuticals Limited, the information statement and analysis made in this document and during the call describing the company's objectives, projection and estimates are forward-looking statements and progress within the meanings of applicable security, laws and regulations.

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With this, we end the Glenmark Q3 earnings call. Thank you everyone.

Operator

Thank you very much, sir. Ladies and gentlemen, thank you for choosing WebEx Conferencing Service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice evening.