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Q3 2016 Glenmark Pharmaceuticals Ltd Earnings Call

Mumbai Jan 29, 2016 (Thomson Street Events) -- Edited Transcript of Glenmark Pharmaceuticals Ltd earnings conference call or presentation Friday, January 29, 2016 at 3:00:00am GMT

Corporate Participants

* Jason D'Souza

Glenmark Pharmaceuticals Ltd. - VP & Head-Corporate Strategy & IR

* Glenn Mario Saldanha

Glenmark Pharmaceuticals Ltd. - Chairman & CEO

* Robert Matsuk

Glenmark Pharmaceuticals Ltd. - President-North America & API

* Rajesh Desai

Glenmark Pharmaceuticals Ltd - CFO

Conference Call Participants

* Nitin Agarwal

IDFC Securities - Analyst

* Neha Manpuria

JP Morgan - Analyst

* Abhishek Sharma

IIFL - Analyst

* Girish Bakhru

HSBC - Analyst

* Prakash Agarwal

Axis Capital - Analyst

* Sameer Baisiwala

Morgan Stanley - Analyst

* Anubhav Aggarwal

Credit Suisse - Analyst

* Kumar Saurabh

Motilal Oswal Securities - Analyst

* Surjit Bhalla

Prabhudas Lilladher - Analyst

* Deep Master

ENAM Holdings - Analyst

Operator [1]

Ladies and gentlemen, good day, and welcome to the Glenmark Pharmaceuticals Limited Q3 FY16 Results Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. (Operator Instructions). Please note that this conference is being recorded.

I now hand the conference over to Mr. Jason D'Souza. Thank you, and over to you, sir.

Jason D'Souza, Glenmark Pharmaceuticals Ltd. - VP & Head-Corporate Strategy & IR [2]

Thanks, Inba. Welcome to Glenmark's Q3 earnings call. Before we begin the call, the review of the operations for the quarter ended December 31, 2015. For the third quarter ended December 31, 2015, Glenmark's revenue was at INR17,782 million, recording an increase of 4.53%. India business, sales for the formulation in the India business was at INR4,880 million, recording a growth of 12.69%. As per IMS MAT December 2015, Glenmark gained one rank from 18 to 17, with increase in market share by 0.11%, exhibiting value growth of 21% vis-a-vis IPM growth of 14%.

For the month of December 2015, as per IMS, the business registered a growth of 23% vis-a-vis market growth of 17%. Glenmark presently has nine brands among the Top 300 brands in the Indian pharmaceutical market. The Indian business strengthened itself in all its main therapeutic segments. The cardiac segment market share increased from 3.74% to 3.87%, respiratory segment rose from 3.65% to 4.02%, Anti-diabetics market share rose from 1.95% to 2.28%, and the derm segment market share rose from 7.97% to 8.40%.

During this financial year, Glenmark launched Teneligliptin, a DPP-4 inhibitor for the first time in India, brand named Ziten and Zita Plus. As per IMS for the nine months ended December 31, Glenmark has achieved sales of more than INR230 million for this molecule and its combination. This is one of the most successful launches in India in the recent few years.

US formulation; Glenmark Pharmaceuticals US registered revenue of INR6,088 million, recording an increase of 20.04%. During the third quarter of the fiscal year, Glenmark was granted final approval for two products and tentative approval also for two products. Glenmark received 13 ANDA approvals, including three tentative approvals from the US FDA in this financial year. During the past nine months, Glenmark filed six ANDA applications with the US FDA and intends to file another six to eight ANDA applications with the US FDA during the fourth quarter.

Africa, Asia and CIS regions; for the third quarter, revenue from this region was at INR2,363 million, recording an increase of 14.09%. The Russia business continues to

remain challenging. While demand conditions are still weak, the currency continues to create turbulence for this business. For the third quarter of the previous year, the average currency of the ruble to the dollar was 47.7 as compared to 66.1 in this current quarter. In local currency, the business grew 5%, and was 10% for the nine months ended December 31. Secondary sales growth for the Russian subsidiary was at 16% for the third quarter.

The Asia business recorded strong secondary sales growth of 24% during the quarter. The Asia business continues to record strong growth. The regions of Malaysia, Sri Lanka, Philippines and Cambodia recorded secondary sales growth in excess of 20%. During the quarter, Glenmark launched one product in Sri Lanka, four products in Philippines, and four in Vietnam.

The Africa region recorded secondary sales growth in excess of 30%. The good growth for this quarter was led by the performance of South Africa, Nigeria and Kenya. During the quarter, Glenmark launched three products in the region.

Glenmark's Europe operations revenue for the third quarter was at INR1,763 million, recording growth of 1.97%. The secondary sales growth for the Europe region continues to be -- remained very strong, and the German business continues to perform very well. During the quarter, Glenmark entered into a strategic development and licensing agreement with Celon Pharma to develop and market a generic version of GSK's Seretide Accuhaler product, Fluticasone/Salmeterol dry powder Inhaler in Europe upon commercialization.

As per the terms of the agreement, Glenmark has obtained a semi-exclusive marketing and distribution right of the product across 15 European countries. Celon on the other hand, shall receive an upfront payment, followed by certain milestones during the various stages of product development from Glenmark, including royalties on sale. The distribution agreement was concluded for a period of 10 years, with an option of a two-year extension.

Latin America; Glenmark's revenue of its Latin American operations was at INR1,237 million, recording a decrease of 47.23%. In local currency, the subsidiaries of Brazil and Mexico grew 10% and 50% respectively for the third quarter. Glenmark stopped supplying the Venezuela subsidiary from the month of November and is evaluating the situation on a constant basis. The Brazil currency depreciated significantly as compared to the previous quarter. For the third quarter of the previous year, the Brazil real was at 2.5 average to the dollar, as compared to 3.8 to the dollar in the third quarter of this financial year.

The API business; revenue of sales from the API business globally was at INR1,449 million, recording a decrease of 1.03%. Glenmark has filed three products in the US, one each in Japan and Europe.

R&D; the Company has a pipeline of three NCEs and five NBE molecules. GRC 17536, a TRPA1 antagonist has proven highly efficacious in the treatment of inflammatory and neuropathic pain in animal models. Glenmark has submitted an IND for a Phase 2b dose-ranging finding study with the US FDA. The agency has requested additional information with some additional changes to the clinical protocol. Glenmark is working to address questions and ensure minimal delay in the startup of the study.

GRC 27864; Glenmark's novel entity GRC 27864, is a potent, selectively and orally bio-available inhibitor of the mPGES-1, a novel therapeutic target in pain management. Glenmark has successfully completed preclinical studies and Phase I enabling toxicity studies for this molecule. A Phase I, first-in-human single ascending dose and a multiple ascending dose study has been completed in the UK with no safety concerns. A relative bio-availability study with a tablet formulation is currently ongoing in France.

Glenmark is planning a pre-IND meeting with the US FDA in the fourth quarter of the current financial year.

Vatelizumab GBR 500, a monoclonal antibody is an antagonist of the VLA-2 integrin. GBR 500 has been licensed to Sanofi for testing in multiple sclerosis Phase II clinical study. Sanofi has made a decision not to pursue further Vatelizumab as a potential Relapsing-Remitting MS therapy, following the results of a pre-planned interim analysis that revealed the primary efficacy endpoint was not met. The decision is not due to safety concerns. Glenmark will continue to pursue the relicensing of GBR 500 after its return from Sanofi.

GBR 900; Glenmark licensed the exclusive intellectual property rights for monoclonal antibody against neuronal growth factor receptor TrkA from Lay Line Genomics, Italy. TrkA is part of the NGF-TrkA axis, a validated and novel pain receptor system for the treatment of chronic pain. A Phase I clinical trial has been initiated in the UK. GBR 900 is the first anti-TrkA monoclonal antibody to enter clinical development.

[GBR 830]; the first anti-OX40 monoclonal antibody was discovered at Glenmark's Biologic Research Center located in Switzerland. The development of OX40 antagonist has been challenging and Glenmark has achieved a significant milestone with the successful generation of an antagonistic OX40 monoclonal antibody, coupled with generation of data validating the role of OX40 in autoimmune diseases.

GBR 830 completed the clinical Phase I dosing successfully in the Netherlands. GBR 830 was well tolerated and its safety and pharmacokinetic profile in healthy volunteers fully support the transition into clinical Phase II studies. Glenmark has an open IND at the US FDA and Health Canada approvals to initiate dosing for a Phase II study in atopic dermatitis.

GBR 1302, a HER2xCD3 bispecific antibody is the first clinical candidate based on Glenmark's proprietary best-in-class BEAT platform, and also, GBR 1302 is Glenmark's first clinical candidate targeting oncology indication. The BEAT antibody platform facilitates the efficient development and manufacturing of antibodies with dual specificities called bispecific antibodies. Glenmark has submitted an application to conduct a Phase I clinical trial for GBR 1302 with the Paul Ehrlich Institute, Germany, and expects to initiate dosing in this financial year. If confirmed in clinical trials, GBR 1302 could constitute an innovative treatment for HER2 positive cancers, potentially superior to the currently available monoclonal antibody treatments.

GBR 1342; GBR 1342, a CD38xCD3 bispecific antibody based on Glenmark's proprietary BEAT platform. GBR 1342 is the second clinical development candidate based on the BEAT technology. It is also Glenmark's second clinical candidate targeting oncology indications. GBR 1342 targets CD38, a target for multiple myeloma and potential other malignancies of hematopoietic origin. Glenmark has initiated IND-enabling studies for GBR 1342 and is committed to moving [GBR 13] and 1342 rapidly into clinical trials.

Crofelemer; Glenmark is the sole supplier of Crofelemer API for Salix's Fulyzac brand in the US. Glenmark continues to expand the filing of Crofelemer within the 140 countries, where it has exclusive marketing and distribution rights. Glenmark has successfully filed Crofelemer in 13 countries and received approvals in four countries. It expects to receive additional approvals over the next quarters.

Some more notes to the results. Gross debt was at INR3,455 crores as on December 31, 2015 as compared to INR3,253 crores as on September 30, 2015. Cash was at INR650 crores as compared to INR798 crores as on September 30, 2015. Net debt was at INR2,805 crores as on December 31, 2015 as compared to INR2,455 crores as on September 30, 2015. The MTM impact for the nine months on account of the depreciation of the rupee on the loans was to the extent of INR198 crores. During the quarter, the Company has paid the TrkA liability, which was to the extent of INR208 crores.

Total asset additions for the quarter was INR140 crores, totaling to INR542 crores for the nine months. R&D expenditure for the third quarter was INR162 crores, resulting

in 9.11% of net sales, and INR512 crores for the nine months, resulting in 9.6% of net sales for the nine-month period ending December 31.

Net ForEx loss for the third quarter was at INR27 crores. Inventory was at INR1,740 crores as compared to INR1,539 crores as on September 30. Receivables have come down to INR2,443 crores as compared to INR2,606 crores on September 30. Receivables in number of days is now at 121 days as compared to 132 days in September. Payables was at INR1,800 crores as compared to INR2,052 crores as on September 30.

I would like to introduce the management of Glenmark, which is on the call today. We have Glenn Saldanha, Chairman and Managing Director Glenmark Pharmaceuticals; Robert Matsuk, President, North America & Global API business; Mr. Rajesh Desai, Executive Director & CFO Glenmark Pharmaceuticals Limited.

With this, we would open the floor for question and answers, over to Inba.

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Questions and Answers

Operator [1]

(Operator Instructions) Nitin Agarwal, IDFC Securities.

Nitin Agarwal, IDFC Securities - Analyst [2]

Hi, thanks for taking my question. Glenn, the question is on -- couple of questions. One is on the US, now we've had a fairly prolific run as far as the approvals are concerned in the early half of the year and some of them or rather quite of them are pretty decent approvals also in terms of the potential, but still the scale up in the business hasn't quite happened. So what's really happening there?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [3]

I mean, the operating environment continues to be very challenging, Nitin. The significant pricing pressure that we're witnessing on the base portfolio and it's also taking us time to launch some of the new products and ramp up. But, I think, as far as the US business goes sequentially, right, quarter-over-quarter, you'll continue to see growth coming through, which I think will drive the business going forward. So I think it's, obviously there is some lag that we are seeing in terms of quarter-over-quarter growth, but I think there is significant pricing pressure in the environment, that coupled with the fact that it's taking us time to launch some of the new products.

Nitin Agarwal, IDFC Securities - Analyst [4]

Well, on this pricing pressure, I mean, when do you see this? The sense was, it would have ceased, it should have begun to taper off over the last couple of quarters because we haven't seen a new consolidation coming through. So what exactly is happening there, in your own assessment?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [5]

Can you say that again?

Nitin Agarwal, IDFC Securities - Analyst [6]

I'm saying that, it's a fact that there haven't been any new consolidation in the US, the expectation was this pricing pressure should begin to ease off, but what exactly is happening in your assessment in the market there now?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [7]

See, the reality is, you got the three major players, right, who control 70%, 75% of the market. If you see, virtually every new product that's getting approved, the last one Linezolid, for instance, where you had seven, eight players launch on day one. So, I mean you can just imagine with seven, eight generic companies approaching three players, right, how the pricing environment is shaping up. So there is significant pressure out there on some of the oral solids and the core business. I don't know, Bob, if you want to add something.

Robert Matsuk, Glenmark Pharmaceuticals Ltd. - President-North America & API [8]

I think we are re seeing additional marginal consolidation with a few of the customers, but right now, we're continuing to see the pricing pressure. To Glenn's point, we're offsetting that with some of the other parts of the portfolio such as the derm portfolio as well.

Nitin Agarwal, IDFC Securities - Analyst [9]

Thanks. And secondly, on the emerging markets now I guess you've gone through some fairly turbulent time as far as the currencies are concerned, how do we see this piece of the business shaping going forward for us?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [10]

Well, emerging markets now is a very small percentage of total revenues to the Company, right. And every quarter, that seems to get smaller and smaller as a percent to revenues. So, strategically, we are not investing in emerging markets other than

running the businesses as it is, right, but we are not putting any plans or any cash investments into EM.

As far as the emerging markets as a whole goes, I think the in-market growth is not bad. I think in most places, we are seeing 15%, 20% kind of growth numbers found in local currency. But I think where we are losing out heavily is obviously the translation, the currency depreciation and the translation. So I mean, I think going forward, emerging markets already is 20%, 25% of total revenues, and I think that will keep on diminishing from here on. So I don't think it's going to have any significant impact on the overall operations.

Nitin Agarwal, IDFC Securities - Analyst [11]

Okay fine, thanks very much.

Operator [12]

Neha Manpuria, JP Morgan.

Neha Manpuria, JP Morgan - Analyst [13]

Thanks for taking my question Sir. My first question is specifically on the Venezuela comment that you've made in the press release. Now that we've stopped supplies to Venezuela, how much amount is there in the country to still to be repatriated? And do we see risk to that amount even coming through, given that we do not have any additional supplies going to that market?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [14]

Yes. So Neha, in Venezuela, we have stopped supplies from India. So whatever inventory is there in that market is what we are selling from the subsidiary. Now, in Venezuela, as we note, we are getting our money back from the wholesalers and the distributors, but the issue has been on repatriating the money back to India. So as of now, whatever inventory is lying out there is getting liquidated, and if you see in this quarter, it has virtually come to single-digit in terms of million dollars, and by next quarter, it will shrink to a very, very minimal amount. And in Venezuela, we are evaluating the situation on a constant basis. So we will come back with some updates to you all on the business every single month.

Rajesh Desai, Glenmark Pharmaceuticals Ltd - CFO [15]

And we have almost INR20 million, INR21 million to get from the subsidiary.

Neha Manpuria, JP Morgan - Analyst [16]

Okay. That's the outstanding as of the end of the quarter?

Rajesh Desai, Glenmark Pharmaceuticals Ltd - CFO [17]

Correct.

Neha Manpuria, JP Morgan - Analyst [18]

Okay. And my second question is on the R&D spent. How should we look at this number going forward. I'm talking about FY 2017, FY 2018 perspective particularly given, we want to take our innovative pipeline further, but rather than doing in-licensing deals earlier, we're also now stepping up investment in the specialty portfolio. So how should we look at that number two years out?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [19]

I mean, clearly, as far as the Street goes, I mean, we will make sure that we keep R&D spend at about 11% of sales. That's what we are going to cap it at. Any additional spends that come up, right, we will look at how we'll deal with that, right. We look for partnering opportunities and so on and so forth to make sure we don't cross the 11% of sales number as far as R&D spends go.

Neha Manpuria, JP Morgan - Analyst [20]

Okay. So 11% over two years out is a fair assumption?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [21]

Correct.

Neha Manpuria, JP Morgan - Analyst [22]

Okay, got it. And Sir, lastly on the US business, if I may. We have seen certain key approvals get pushed out. What is the status with this one? We've got target action date for our pipeline, part of our pipeline. Should we see approvals picking up because

the trend seems to indicate that it is improving for the industry, but we're still not seeing some of the more important approvals come through. So, what's your sense on that, given that we're expecting quarter-on-quarter growth in the US business going forward?

Robert Matsuk, Glenmark Pharmaceuticals Ltd. - President-North America & API [23]

I mean, I think basically on a go-forward basis, we're planning for about three to four new approvals per quarter. But again, we don't have any visibility to how effective FDA is going to be with GDUFA, so we'll be hesitant to guide any higher at this point.

Neha Manpuria, JP Morgan - Analyst [24]

Okay, thank you so much sir. Thanks for taking my questions.

Operator [25]

Abhishek Sharma, IIFL.

Abhishek Sharma, IIFL - Analyst [26]

Hi, good morning and thanks for taking my questions. When I was just looking at numbers, and if I adjust your numbers ex -- for the ForEx loss of INR27 crores, you have largely been able to retain the EBITDA margin of 22.3%, which came in last quarter. So I was just wondering, despite the fact that there has been a drop in the

India business and in the Latin America business, which I believe would be high margin businesses, how has that come through?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [27]

So I think, in the US, we have some unique situations, right. I mean, there are one or two products where we continue to drive margins. I mean, for instance, a product like Mupirocin continues to play out, right, in terms of the margins of the business. So, I think that is what's driving the overall margins.

Abhishek Sharma, IIFL - Analyst [28]

Understood. And, if you were to look at US business, the base being what you had at the beginning of this fiscal, I believe that would have shrunk, given the fact that you were saying that there are challenging environments. So what would that have come down to, and what would the new approvals contributing now?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [29]

I mean, we can't give any specific visibility on the break-ups. All we can say is, structurally you're seeing pressure on the base business, and a lot of the new products are compensating for some of the declines that you're seeing in the base business. And from a margin perspective, Mupirocin has now started to play out, so that is driving the overall margins for the US business and for the consolidated entity.

Abhishek Sharma, IIFL - Analyst [30]

So, out of these 13 products which you had launched this fiscal, how many have you launched?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [31]

So, it was 10, three were tentative approvals.

Abhishek Sharma, IIFL - Analyst [32]

Right. But all the final approvals have launched -- you have launched?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [33]

Correct. I mean one or two are in the process of getting launched, right. I mean they were hardly approved in a month or two ago.

Abhishek Sharma, IIFL - Analyst [34]

Understood. And last one, if I may. Just this question on tax rate, it has been progressively moving up. So what's your guidance on that? What does it look like going forward?

Rajesh Desai, Glenmark Pharmaceuticals Ltd - CFO [35]

For year, we are expecting around 30% to PBT is the tax. This quarter, we have seen little increase, but it will get settled in Q4. So overall rate, we are expecting around 30%.

Jason D'Souza, Glenmark Pharmaceuticals Ltd. - VP & Head-Corporate Strategy & IR [36]

I think from next year our tax rate will start coming down quite substantially because of all the different things we are doing.

Rajesh Desai, Glenmark Pharmaceuticals Ltd - CFO [37]

Yeah. And then this year, particularly last two years and more this year, we have seen lot of our manufacturing units are moving out of this tax exemption thing, which we are -- and in other units, which are located in SEZ, will -- they start giving revenue in coming years. So, that will definitely help tax rate to improve.

Abhishek Sharma, IIFL - Analyst [38]

So, what could be an indicative figure for the next year, if you have?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [39]

About 25% basically.

Rajesh Desai, Glenmark Pharmaceuticals Ltd - CFO [40]

Yeah.

Abhishek Sharma, IIFL - Analyst [41]

Got it. Thank you.

Operator [42]

Girish Bakhru of HSBC.

Girish Bakhru, HSBC - Analyst [43]

Thanks for taking my question. First one on India, I mean, I think growth has come off this quarter. Is it largely because of Sitagliptin? And just wanted your view on pricing on Teneligliptin given so many players have come, have you made adjustments to that?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [44]

So, in India growth, I wouldn't read too much into it, right. It's a one quarter phenomenon, but I think you can attribute some of it to Sitagliptin. But I think Teneligliptin has compensated a lot of that gap which has come out of Sitagliptin. However, it has not covered the full gap yet.

As far as pricing on Teneligliptin goes, we are very competitive. We took down prices but despite everything, I mean, the brand is tracking at something like INR5 crores to INR6 crores a month, right, in terms of sales between the mono and their combinations and this is just month six of launch. So it continues to do exceedingly well for us, despite all the number of players and the competition in the market.

Girish Bakhru, HSBC - Analyst [45]

Right, that was helpful. The second one was on your respiratory side, I know you have shared some color on the filing with Celon. I was not sure if UK has already been filed with Celon?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [46]

So we're not guiding to any specific filings yet, but we continue to file in various European markets.

Girish Bakhru, HSBC - Analyst [47]

Right. But I mean, if I have to understand from the head start per se that you would have got with this partnership. Would you say the larger markets like UK would play out in next three years in Europe or would it be beyond that?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [48]

No, no, definitely. I think three years is a long time. So if everything goes well, we anticipate we will start launching in the next, I would say, starting from 12 months to 18 months and beyond.

Girish Bakhru, HSBC - Analyst [49]

Right. And on the US side, I mean, you recently got approval for Multaq Dronedarone. I was actually under the impression there is still a case going on. Is this product a FY 2017 launch or would it be beyond that?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [50]

Can you just repeat that?

Girish Bakhru, HSBC - Analyst [51]

I mean, you received tentative approval for Multaq Dronedarone. If you could throw some color on the launch timeline for that product?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [52]

I don't think we can guide to any specific date in terms of when we will launch, right.

Girish Bakhru, HSBC - Analyst [53]

Yes, I mean, I'm more interested in knowing if there was an active litigation going on the product. So I mean, I was under the impression that launches should probably be somewhere around 2018, 2019. Given that tentative approval has come this early, is there a possibility that this could be an opportunity earlier than that?

Robert Matsuk, Glenmark Pharmaceuticals Ltd. - President-North America & API [54]

We don't want to say.

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [55]

I mean we can't comment on that, right. The landscape keeps changing on a regular basis, right. So it's impossible to target whether it could be before that.

Girish Bakhru, HSBC - Analyst [56]

Right. Thanks a lot. I'm in the queue.

Operator [57]

Prakash Agarwal, Axis Capital.

Prakash Agarwal, Axis Capital - Analyst [58]

Yes, you spoke about that you expect tax rates to be lower from currently 30% to 25% and you have taken some initiatives. If you can throw some light, how you expect that to happen?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [59]

We can't give any insights into that, Prakash.

Prakash Agarwal, Axis Capital - Analyst [60]

But any new facility coming up in Sikkim or something like that or?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [61]

I think anyway, our existing facilities now are fully operational. So I think in Sikkim, Indore, all these facilities, right, continue to give us the tax break. But in addition to that, there is a lot of different things we're doing to improve our tax planning and to get more efficient in terms of our tax structures.

Prakash Agarwal, Axis Capital - Analyst [62]

Okay, understood. And in terms of nature of ForEx loss, if you could help us understand what is the nature of ForEx loss and which countries specifically?

Rajesh Desai, Glenmark Pharmaceuticals Ltd - CFO [63]

Yeah, if you take the Russia, Brazil, or say, Czech Republic, all this -- they depreciated almost in the range of 30%, 32% as compared with rupee. So whatever this receivable from this thing, from those subsidiaries are actually accounted for certain ForEx losses. And other, this markets also depreciated against the rupee to the extent of 7% to 8%. So collectively, we have incurred in this quarter around net, after recording depreciation in rupee as against the USD, net is INR27 crore.

Prakash Agarwal, Axis Capital - Analyst [64]

Okay, thanks for this. And sir, one more on Zita, the big opportunity that we're getting starting December, just trying and understanding. So this is revenue share or profit share, just re-conforming?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [65]

It's a profit share. It's a 50-50 profit share.

Prakash Agarwal, Axis Capital - Analyst [66]

So whatever billing or the sales partners, he excludes this cost and then the profit is shared. Is that the right understanding?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [67]

So Prakash, the way it is that, is that Par is the marketing partner and we are the guys supplying the entire product from here. So there is a certain agreement that we have between Par and us. So basically, I think the idea is that the cost in this product is going to be extremely minimal. So whether it's revenue or profit, there's going to be hardly any difference. So I think that's the way we're going to kind of structure this transaction. But I think the overall opportunity, the market is growing pretty significantly in Zetia and we see a pretty sizable opportunity when we start to launch this product in December 2016.

Prakash Agarwal, Axis Capital - Analyst [68]

And you don't expect [any due] on this product?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [69]

No, we don't anticipate in this.

Prakash Agarwal, Axis Capital - Analyst [70]

Perfect. And any color you could throw post-settlement. Could it be a pure play market or you expect a significant amount of competition?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [71]

I mean, you've seen what's happening to most of day one launches, right. So you will have quite a few players getting approved, post the one entity.

Prakash Agarwal, Axis Capital - Analyst [72]

Right, understood. And lastly, Sir, on your guidance, if I could, on the revenue growth, I understand there has been lot of currency volatility. So if you would like to give a fresh guidance?

Rajesh Desai, Glenmark Pharmaceuticals Ltd - CFO [73]

Prakash, we had kind of guided at that time at a constant currency basis. If you look at the net impact that we have lost on EBITDA, that has been significant in the excess of INR100 crores itself. So when you look at the guidance, we had given it at a constant currency and now we are kind of trending much lower than what the guidance was. But once again, I would like to reiterate, at that time we had said very clearly that it was [1,700 to 1,750] at a constant currency. And you've seen what has happened in emerging markets, I think currencies have played turmoil in this financial year.

Prakash Agarwal, Axis Capital - Analyst [74]

Yes, I understand that. I think currencies have been pretty volatile, but would you say that ex of this volatility, you would have been on track?

Rajesh Desai, Glenmark Pharmaceuticals Ltd - CFO [75]

Yes.

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [76]

Yes, absolutely.

Prakash Agarwal, Axis Capital - Analyst [77]

Okay, great. And lastly, if I may squeeze in one more. This Ortho Tri-cyclen Lo approval, what's happening there Sir, any update would help?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [78]

I mean, look, we can't guide to any specific approvals, right, Prakash. It's impossible to talk about when which product is going to get approved because there's really no visibility around that.

Prakash Agarwal, Axis Capital - Analyst [79]

But nothing related to 483, which is delaying the approval?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [80]

We have nothing pending in -- we have a clean bill of health as far as the agency [goes], so there's nothing pending on any facilities.

Prakash Agarwal, Axis Capital - Analyst [81]

Great, thanks and all the best.

Operator [82]

Sameer Baisiwala, Morgan Stanley.

Sameer Baisiwala, Morgan Stanley - Analyst [83]

Hi, thanks. Good morning everyone. Glenn, any thoughts on potential out-licensing for your innovation pipeline?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [84]

I think, I mean, we continue to look for partners there, Sameer. So, hopefully we should have something getting concluded in the next 12 to 24 months. While we say that we are aggressively pursuing, we have a Phase II ongoing for 830 in atopic dermatitis. We have 1302 currently being dosed in HER2 positive cancer patients. We have 900 where we are dosing osteoarthritic patients.

So we have three or four critical studies ongoing this year, which will all report in this calendar year. So I think while we would continue to look at outlicensing, I think this year will be a critical year in terms of data points that we'll get out of the four or five different molecules we are aggressively pursuing.

Sameer Baisiwala, Morgan Stanley - Analyst [85]

Okay. And I heard your comment on the emerging markets. It looks like you don't seem to be too excited about it, but current currency volatility aside, do you not think about these markets in the longer term opportunities, some of them like, Brazil, Mexico, Russia, et cetera or do you think it's pretty much time to slowdown or maybe not focus too much on these?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [86]

I think, I mean, we are just taking a cautious approach right now, okay, as far as emerging markets goes. Our primary focus continues to be in US, Europe and India, the three major markets, which we are driving. Emerging markets, particularly Latin America and Russia CIS, right, we continue to be very cautious in terms of how we are approaching these markets.

Sameer Baisiwala, Morgan Stanley - Analyst [87]

Would your new product registration engine be running in these emerging markets that you've mentioned?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [88]

Yes absolutely, that continues. So we continue to file new products, get new products approved. We continue to have the sales force launch these products, right. But other than that, we are not actively putting any investments as far as manufacturing or anything else goes, right. In fact, some of the markets, we are even re-looking at, if we need to do anything to further improve the efficiencies in those markets. So I think EM for us is a challenging place to be right now.

Sameer Baisiwala, Morgan Stanley - Analyst [89]

Okay. And just on the US business, Glenn, I heard your commentary. Is it possible to just indicate what is the outlook over here, which means two things. Do you see the firepower in your existing portfolio, specifically the [ATL] launches that you've done this year, are they pretty much matured in a way to same? And second, in terms of new approvals over next 12 months, do you see this business scale up meaningfully as we go forward ex-ATL?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [90]

I mean we have some excellent products, okay, which are pending with the agency. And there is tremendous amount of firepower, but the unfortunate part is there's absolutely no visibility on when these will get approved. Most of these we have nothing outstanding as far as the agency goes, no pending. We've addressed all queries, got complete response letters, we have target action dates, we have everything in place, right. But, I mean it's extremely hard to predict as to what will get approved, when it will get approved, and with what time frame. I mean that's the bottom line, right.

But as far as pipeline and products and portfolio goes, we have some of the best products, which are in those portfolios. Some of them are very niche, one player, two player markets. Some of them are multiple players for large products. So I think it's a very good mix that we have right now in terms of portfolio. And I think, I mean even we continue to file products which we think will be very differentiated, right, compared to what everybody else is working on.

Sameer Baisiwala, Morgan Stanley - Analyst [91]

And Glenn, is it fair to assume that some of these nice opportunities are more than three year old age of the ANDAs, right?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [92]

Absolutely.

Sameer Baisiwala, Morgan Stanley - Analyst [93]

And just to understand your definition of excellent product, would Ortho Tri-Cyclen be part of that or would actually be less than that?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [94]

I don't think -- I mean, Ortho Tri-Cyclen is a product where you already have a bunch of players right, four, five players. So, obviously it's not in that -- It doesn't fall in that excellent products or nice products for us.

Sameer Baisiwala, Morgan Stanley - Analyst [95]

Okay. And I would imagine, none of the seven to ten approvals that you've seen so far would fall in that category either?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [96]

Correct.

Sameer Baisiwala, Morgan Stanley - Analyst [97]

Okay. Perfect. Thank you so much.

Operator [98]

(Operator Instructions) Anubhav Aggarwal, Credit Suisse.

Anubhav Aggarwal, Credit Suisse - Analyst [99]

Thank you. Good morning guys. Mr. Desai, one question that, out of INR650 crore cash that we have on the books, how much is lying in Bolivar?

Rajesh Desai, Glenmark Pharmaceuticals Ltd - CFO [100]

Almost INR35 million or INR36 million.

Anubhav Aggarwal, Credit Suisse - Analyst [101]

So about, let's say INR220 crores kind of number?

Rajesh Desai, Glenmark Pharmaceuticals Ltd - CFO [102]

Yes.

Anubhav Aggarwal, Credit Suisse - Analyst [103]

Okay, that's helpful. Secondly, I just didn't understand the decline in receivable days from September 2015 to December 2015. We had about 135 days in September 2015 quarter and now we have 125 days. If you look at the sales, in September 2015 quarter to now, the mix of India sales have come down significantly. We stopped selling in Venezuela. Both of these countries where the receivable days are about 60 days to 70 days for us, when proportion of sales, which are less receivable days is coming down, how are receivable days coming down? It should go up right?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [104]

Anubhav, I think you can take this question offline. All we can say is, I mean, we'll give you the detailed break up, right. All we can say is, I mean there is a mark, if you see, when we started the year, right, we've clearly guided that receivable days will come off, right, in this year quite substantially, and we are demonstrating that that is happening, right. I think there are some changes in terms of the business mix and we made some structural changes in terms of some of the business inside, where we want to focus, how we want to focus, and where we see the receivable days coming off and so we've made some structural changes, right, which is actually leading to this decline in receivable days. I think we'll give you full visibility. If you want to get into some further details, Desai can always share it with you.

Anubhav Aggarwal, Credit Suisse - Analyst [105]

That's helpful, Glenn. Just one clarity on this. I'll get details from Jason, but just one clarity on this, is that, are you saying, when you said you made structure changes means, beyond the business mix, in some of the markets you have changed your receivable day's terms?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [106]

Exactly. We have walked away from some business, we've changed -- so there is a lot of structural changes that we've made to businesses which we don't see as attractive in terms of collections.

Anubhav Aggarwal, Credit Suisse - Analyst [107]

Sure, that's helpful. I have one more question. If we look at GBR 830, which we are studying for autoimmune disease, what are the indications we are studying for? Of course, you do mention atopic dermatitis, but is that the only indication we are studying GBR 830 for?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [108]

So right now we are on Phase II ongoing for AD. Now the AD market is expected to be a \$9 billion market by 2025, and we are, I think, second in class right now in terms of drugs being developed for atopic dermatitis. So it's a very large opportunity, large indication.

And there are no biologics, so we're the second biologic in development for AD. So we have a very good shot at this opportunity. However 830 will work in multiple

other indications. So, I think as part of the development, we will also pursue some other indications as we go forward. But right now, we want proof of concept in AD because we think we have a fairly good shot at it.

Anubhav Aggarwal, Credit Suisse - Analyst [109]

Okay, that's helpful, Glenn. Last question, on this R&D number, that you talked about currently from 9% to 10% capping at 11% of sales, when do you expect, for us, this number reaching, let's say, I know you're starting Phase IIb for 830, 1302, 900, the dose ranging studies and the spend on the Seretide. So do you expect this number to reach for us next year or in FY 2018? Some granularity will be helpful.

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [110]

I think 11% you should assume, from FY 2017 we'll go to 11%.

Anubhav Aggarwal, Credit Suisse - Analyst [111]

Okay. I don't have an idea about it -- that's why a very nice question. Is Phase II dose ranging study, before you move to Phase IIb, Phase II dose ranging study will not require lot of amount, right?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [112]

No, no. The current studies we're running are not expensive.

Anubhav Aggarwal, Credit Suisse - Analyst [113]

Okay, sure.

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [114]

You can assume till -- on the current studies till FY 2017 end should not consume a lot of cash. They are at the normal run rate.

Anubhav Aggarwal, Credit Suisse - Analyst [115]

Thank you.

Operator [116]

Kumar Saurabh, Motilal Oswal Securities.

Kumar Saurabh, Motilal Oswal Securities - Analyst [117]

Hi, thanks for taking my question. My first question is on Mupirocin. I believe this would have been a key contributor and would have boosted our margins in this quarter. A; have you seen the full impact of this in this quarter, or fourth quarter could be a little better than third quarter? And B; how sustainable this price increase according to us?

Robert Matsuk, Glenmark Pharmaceuticals Ltd. - President-North America & API [118]

Yeah, I think you'll see the full impact this quarter. And we don't have any visibility per se as to when we're going to see an end to this at this point, so we continue to monitor the situation.

Kumar Saurabh, Motilal Oswal Securities - Analyst [119]

Okay, fair enough. And Glenn, when you say that, in emerging markets, we are taking a cautious approach, in Venezuela, we have stopped supply. Are we curtailing supplies in other markets also or the supplies are going at the normal pace?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [120]

I mean, we continue to supply at the normal pace. But all other markets for us, right, almost every market we operate in continues to be cash generative and cash positive. So we are not taking any steps in other markets in terms of stop supplies or shutting down operations.

Kumar Saurabh, Motilal Oswal Securities - Analyst [121]

And in Venezuela, we have around \$35 million to \$36 million of cash sitting, and then around \$20 million to \$21 million is outstanding. So am I right to understand that around \$50 million, \$55 million is at risk?

Rajesh Desai, Glenmark Pharmaceuticals Ltd - CFO [122]

No, no. Cash in the subsidiary is around \$37 million, \$38 million. Out of that, \$21 million payable to India.

Kumar Saurabh, Motilal Oswal Securities - Analyst [123]

Okay, fair enough. And we are not planning to take any write-offs as of now regarding this. We'll wait and watch?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [124]

We'll wait and watch.

Kumar Saurabh, Motilal Oswal Securities - Analyst [125]

Yeah, thank you. That's it.

Operator [126]

Surjit Bhalla, Prabhudas Lilladher.

Surjit Bhalla, Prabhudas Lilladher - Analyst [127]

Than you. Glenn, If it'd be possible, I mean, you have given a brief idea about what we could expect in US, and none of the product which you have got approval in recent times are one of those key product, which you can expect some good revenue flow in US market. Would it be possible to give us an idea in terms of therapeutic area-wise in 2016? I mean, what are the products you believe that could be a key product or how many products could be key products in US market?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [128]

I don't think we can't give any more visibility. I mean, obviously derm is a big area for us, and we continue to make a lot of progress there, but outside of that also, there are various products in various therapeutic areas, which are exciting as far as opportunity goes, which will come up in the future. But, it's impossible to break it up for you.

Surjit Bhalla, Prabhudas Lilladher - Analyst [129]

Okay. No, I'm not asking of a breaking out, I'm just asking if it is quantifiable in terms of how many products could be key product in this year.

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [130]

No, I don't think we can answer it, sorry.

Surjit Bhalla, Prabhudas Lilladher - Analyst [131]

Okay. Second point is that, given the kind of guidance you have given in terms of your expansion in respiratory business in European market, I believe that you are pursuing a strategy where you don't have to maintain or create a sales team, rather you will be targeting mainly the (inaudible) business in European market. So, could you throw some light on this, when and how you are going to get into those market?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [132]

I mean, look we have the existing infrastructure in Europe, which we will continue to leverage as far as penetrating the European market. So, I think most of the products we are targeting now are pretty much AB related products. So I mean, substitutable for the most part. And, we also have sales forces in many of these markets already in place. So, whatever existing infrastructure is there, we'll continue to leverage to build a respiratory franchise.

Surjit Bhalla, Prabhudas Lilladher - Analyst [133]

Okay. Another point is that your gross debt has increased mainly roughly around INR350 crore. Any particular poppers or?

Rajesh Desai, Glenmark Pharmaceuticals Ltd - CFO [134]

No, you can see the -- during current quarter, we have paid TrkA and other liabilities, as well as some of these other liabilities, trade liabilities are clear, which has actually resulted in marginal increase.

Surjit Bhalla, Prabhudas Lilladher - Analyst [135]

Okay, thank you.

Operator [136]

Deep Master, ENAM Holdings.

Deep Master, ENAM Holdings - Analyst [137]

Yeah, thanks. I just have a question on Venezuela. Could you tell us what your fixed cost would be there on a yearly basis now? And are you looking to scale down in terms of cost as well?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [138]

The fixed costs are pretty low and I don't think, see -- I mean, I think now if you look at Venezuela in terms of keeping it in perspective, it is hardly contributing anything to the total revenues of the firm and the cost that we are incurring. So I don't think it doesn't warrant as much attention that whether we need to give any sort of pick-up on it.

Deep Master, ENAM Holdings - Analyst [139]

Okay, but would you look to scale down in terms of costs, or will you just maintain your business as status quo?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Ltd. - Chairman & CEO [140]

Obviously the goal is to scale down, right. I mean, if you're not selling anything, you're not going to keep all that infrastructure up and running. But we can't give you any visibility on where we stand and how it's playing out.

Deep Master, ENAM Holdings - Analyst [141]

Okay, thank you.

Operator [142]

Nitin Agarwal, IDFC Securities.

Nitin Agarwal, IDFC Securities - Analyst [143]

Hi, just a housekeeping question. Mr. Desai, once we move on to IGAAP, will there be any difference in the way we treat our mark-to-market losses on the ForEx loans, right now?

Rajesh Desai, Glenmark Pharmaceuticals Ltd - CFO [144]

Yes, this, suppose say you mean in IAS or this...

Nitin Agarwal, IDFC Securities - Analyst [145]

In IAS.

Rajesh Desai, Glenmark Pharmaceuticals Ltd - CFO [146]

IGAAP?

Nitin Agarwal, IDFC Securities - Analyst [147]

In IAS. In the new accounting standard -- IGAAP, when will you adopt going forward?

Rajesh Desai, Glenmark Pharmaceuticals Ltd - CFO [148]

The new accounting standard is similar as IFRS. So our accounting will not make any changes what you have seen under IFRS. Only IGAAP is more conservative than IFRS, so this whatever IGAAP is not allowing this -- they have taken into this Ind AS, particularly in ForEx thing.

Deep Master, ENAM Holdings - Analyst [149]

So I guess (inaudible) especially on the loans restatement, which we take into the balance sheet, as per the non-integral assets, that will continue to happen even going forward?

Rajesh Desai, Glenmark Pharmaceuticals Ltd - CFO [150]

That is what our understanding is as far as Ind AS is concerned.

Deep Master, ENAM Holdings - Analyst [151]

And is there any other major change that you see coming through in your -- the way you're reporting the P&L right now going forward?

Rajesh Desai, Glenmark Pharmaceuticals Ltd - CFO [152]

We have not seen any major changes in IFRS or say newly India version of IFRS.

Deep Master, ENAM Holdings - Analyst [153]

Okay, fine. Thanks very much.

Operator [154]

Thank you. Ladies and gentlemen, that was our last question. I now hand the floor back to Mr. Jason D'Souza for closing comments. Over to you sir.

Jason D'Souza, Glenmark Pharmaceuticals Ltd. - VP & Head-Corporate Strategy & IR [155]

Thanks, Inba. We'll just close it with a disclaimer. The information, statement and analysis made during this call describing the Company's objectives, projections and estimates are forward-looking statements and progressive within the meaning of applicable security laws and regulations. The analysis contained herein is based on numerous assumptions. Actual results may vary from those expressed or implied depending upon economic conditions, government policies and other incidental factors. No representation or warranty either expressed or implied is provided in relation to this judgment. This presentation should not be regarded by our recipients as a substitute for the exercise of their own judgment.

With this, we end Glenmark's Q3 earnings call. Thanks everyone.

Operator [156]

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