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Ladies and gentlemen, good day, and welcome to the Q1 FY '20 Earnings Conference Call of Glenmark Pharmaceuticals Limited. (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 Limited - Senior VP & Head of Corporate Strategy [2]

Thank you, moderator. Welcome to Glenmark's Q1 Earnings Call. First, a review of operations for the quarter ended June 30, 2019. For the first quarter of FY '19-'20, Glenmark's consolidated revenue was at INR 23,228 million, recording an increase of 7.26%.

India business. Sales from the formulation business in India for the first quarter was at INR 7,522 million, recording growth of 13.41%. The India business continued to outperform the industry growth. As per IQVIA Q1 FY '20, Glenmark's India business recorded growth of 12% compared to IPM growth of 10%. As per IQVIA MAT 2019, Glenmark's India formulation business is ranked 14th, with market share of 2.18%.

In April 2019, Glenmark announced the launch of its novel, patent-protected and globally-researched SGLT2 inhibitor Remogliflozin etabonate in India. Glenmark is the first company in the world to launch Remogliflozin. The response from KOLs has been extremely positive, which has resulted in this being one of the successful product launches for the India business. As per IQVIA June 2019, the sales for Remogliflozin is already tracking at INR 2 crores per month in less than 2 months from launch.

In July 2019, Glenmark announced that it has entered into a nonexclusive sublicensing arrangement -- agreement with Torrent Pharmaceuticals Limited to co-market Remogliflozin etabonate in India. Glenmark is also targeting to close one more co-marketing deal for Remogliflozin in the second quarter. The company is also developing various line extensions for Remo, which would be launched over the next 12 months.

India, Glenmark consumer care business. Glenmark's consumer care business continued its strong growth trajectory in Q1 FY '20. The consumer business grew around 27% to record sales of INR 556.30 million for the first quarter. Multiple line extensions were launched in the first quarter of FY '19-'20, such as VWash Bikini Line and Scalpe Pro Anti-Dandruff shampoo. The business growth was observed in all retail channels across chemists, modern trade and e-commerce.

The U.S. Glenmark Pharmaceuticals Inc., USA registered revenue of INR 7,308 million or $105.16 million as against INR 7,037 million, which is $105.21 million for the previous corresponding quarter.

The generic business. In the first quarter of FY '20, Glenmark was granted final approval and launched Solifenacin Succinate Tablets. The company also obtained 3 additional approvals during the first quarter. Even though the company -- on Mupirocin cream, even though the company has normalized supplies of Mupirocin cream, the product sales have been impacted due to changes in the reimbursement environment and higher patient co-pay for Mupirocin cream, which is reflecting in the increasing share of prescriptions for Mupirocin ointment as against Mupirocin cream.

As per IQVIA June 2018, total prescriptions for Mupirocin ointment were 851,865 and the total prescriptions for Mupirocin cream were 56,490. As compared to that, Mupirocin cream -- ointment prescriptions were 879,000 approximately, which was 97%, and total prescriptions for Mupirocin cream decreased significantly in June 2019 to 31,068. The overall generic topical dermatology market also

continues to witness significant price erosion for the third consecutive quarter. Despite the decline of Mupirocin cream, the company witnessed flat growth in Q1.

The company anticipates 2 significant generic approvals, a limited competition injectable approval and topical product with a CGT designation, in the second quarter of FY '19-'20, which would provide positive impetus to the U.S. generics business. The company filed 3 ANDA applications with the U.S. FDA in the first quarter and plans to file an additional 4 applications in the forthcoming quarter.

Manufacturing facilities. Glenmark has 5 U.S. FDA-approved manufacturing facilities: Goa, Indore, Baddi, Aurangabad and Monroe. In July 2019, the U.S. FDA inspected the manufacturing facility in Monroe, North Carolina. The inspection covered the OSD, injectable and the nebulizer units and concluded with the facility receiving one observation. The company will respond to the observation as per the regulatory time line. Since this inspection was also a preapproval inspection, it is expected to facilitate the approval of Glenmark's first in-house injectable product in the fourth quarter of FY '20.

The company has received a letter from the U.S. FDA classifying the inspection conducted at its Baddi facility from 15th to 20th April 2019 as Official Action Indicated. The company has responded in detail to all the observations made in the Form 483 and is awaiting further information and clarity from the U.S. FDA. The company is committed to implement the necessary corrective actions required to address the procedural deficiencies raised by the U.S. FDA and will resolve them as soon as possible. The manufacturing and sale of existing products from this facility will not be impacted. Glenmark has no other outstanding observations of the U.S. FDA at any of its other formulation manufacturing facilities.

Specialty business, GTI. Dermatology. In FY '19, Glenmark announced its foray into the branded dermatology segment in the U.S. when GTI acquired rights to 7 branded dermatology products from Exeltis USA. During the quarter -- first quarter of FY '19-'20, the sales from this franchise has been insignificant, and the response from the market has been far below expectations.

Ryaltris. Ryaltris nasal spray is the company's leading respiratory pipeline asset and is currently under review with the U.S. FDA as a treatment for seasonal allergic rhinitis in the U.S. The company is currently in the process of bringing in a partner to commercialize Ryaltris in the U.S. market. Additionally, Glenmark is close to concluding a partnership deal for Ryaltris for EU markets. The company has already completed partnership deals for Ryaltris in other markets, such as Australia, New Zealand, South Korea and China. The company will continue evaluating partnership opportunities in various markets and also launch the product in some of our key operating markets.

During the first quarter, the U.S. FDA issued a CRL regarding the New Drug Application for Ryaltris. The CRL cited deficiencies in the Drug Master File pertaining to one of the active pharmaceutical ingredients and in the manufacturing facilities. The CRL did not specify any deficiencies with the clinical data supporting the NDA for Ryaltris. The company is targeting to resolve these issues pertaining to the CRL in the next 6 to 9 months by working closely with the FDA and will continue to pursue regulatory approval for Ryaltris.

Africa, Asia and CIS region. For the first quarter, revenue from this region was at INR 2,587 million, recording an increase of 5.43%. As per IQVIA MAT 2019, Glenmark Russia recorded growth of 7.2% in value vis-à-vis overall retail market growth of 3.8%. The Asia region recorded moderate performance in the first quarter of FY '19-'20 with secondary sales growth [de-growing by] 3%. The Africa region also recorded moderate growth in the first quarter and witnessed new product launches in markets such as Kenya and Egypt.

Europe. Glenmark's Europe operations revenue for the first quarter was at INR 2,428 million, recording an increase of 10.50%. During the first quarter, the Western European business continued to expand through increased penetration in the U.K., Germany, Spain and Netherlands, why Nordic countries witnessed some de-growth. Overall, Western European business recorded growth of 10%. The Central and Eastern European region recorded moderate growth in the first quarter. During the first quarter, multiple new products were launched across major countries of the European region. The company also signed 2 in-licensing agreements during the first quarter.

Latin America. Glenmark's revenue from Latin American and Caribbean was at INR 811 million, recording a decrease of 16.89%. The company's overall performance remained subdued in the region in the first quarter.

In June 2019, Glenmark announced that its Brazilian subsidiary has entered into an exclusive partnership with Novartis AG for 3 respiratory products indicated towards the treatment of symptoms of COPD. Under the terms of the agreement, Novartis will remain the holder of the registration of these medicines and will be responsible for manufacturing and supply. Glenmark will be responsible for exclusively promoting,

commercializing and distributing of these products in Brazil. The deal is expected to strengthen Glenmark's respiratory franchise and further consolidate the company's position in Brazil.

GPL specialty/innovation R&D pipeline. GBR 310. During FY '18-'19, Glenmark announced results from a Phase I study that suggest similarity in pharmacokinetic, pharmacodynamic, safety and immunogenicity profiles between GBR 310 and the reference product omalizumab. The company is in active discussions with potential partners and is targeting to conclude a deal before initiating Phase III studies.

GSP 304. This program is currently ongoing in Phase II for patients with mild to moderate COPD as established by the Global Initiative for COPD.

GRC 39815. GRC 39815 is an NCE currently being evaluated as an inhaled compound for the treatment of COPD. It is an inhibitor of the ROR y -- gamma t. The compound is currently in preclinical development, and the company plans to initiate a Phase I study in FY '20.

Glenmark Life Sciences. For the first quarter of FY '20, external sales for Glenmark Life Sciences was at INR 2,036.01 million (sic) [INR 2,306.01 million] as against INR 2,100 million, recording growth of 9.77% over the corresponding quarter. The domestic and Lat Am regions led the growth in the first quarter with both regions recording 20% plus growth over the corresponding period last year.

GLS has 3 U.S. FDA-approved API manufacturing facilities: Ankleshwar, Dahej and Mohol. In July 2019, the U.S. FDA and Health Canada jointly inspected the Ankleshwar manufacturing facility of GLS. Subsequently, the U.S. FDA issued a Form 483 with 4 observations. GLS has responded to the observations within the specified time period.

Innovation new company. As part of its strategy to create a leading and cutting-edge biotech organization, Glenmark announced the spin-off of its innovation business into a new company headquartered in the U.S. Setting up of this company would provide enhanced focus to the business and help accelerate the pipeline towards commercialization. The new innovation company will be a wholly-owned subsidy of Glenmark.

The subsidiary creation process is on track with various work streams, such as HR, finance, legal, branding and IT systems transition currently under progress. The company expects to announce the name of the new innovation organization by mid-October 2019. During this period, the newco would also announce the strategic blueprint for the new innovation organization with the objective of becoming a leading, cutting-edge biotech company in the near future. Newco has also instituted an independent Board of Directors which would govern the functioning of the new innovation organization.

During the first quarter of FY '20, Glenmark invested INR 1,900 million, USD 27.34 million, in the newco innovation business. During the financial year '18-'19, Glenmark invested approximately USD 113 million in the innovation business, and the company expects to invest a similar amount in the current financial year. Newco would initiate the process to raise capital in the U.S. starting Q4 FY '19-'20 to fund the development of its pipeline and for future growth.

Update on the clinical pipeline. GBR 830. A Phase IIb study of GBR 830 has been initiated and will enroll 312 patients with moderate to severe atopic dermatitis. As of July 2019, 225 patients have been recruited with 80 sites actively open to enroll patients in the U.S., Canada, Germany, Czech Republic and Poland. Of the 225 enrolled patients, 71 subjects have been completed -- have completed the 16-week treatment period and 60 subjects have been rolled over to the 52-week open-label extension study. Top line results of the Phase IIb studies in AD are expected to be available in H1 CY 2020.

GRC 27864 mPGES-1 inhibitor is an orally bioavailable inhibitor of the mPGES-1. Enrollment for a Phase IIb study in 624 patients with osteoarthritic pain of the knee and hip is progressing as per plan with 47 active sites and 519 patients recruited for the study as of July 2019. Top line results of the Phase IIb study are expected to be available in Q1 CY 2020.

GRC 17536. A positive Phase IIa proof-of-concept study of 17536 conducted in Europe and India in patients with painful diabetic neuropathy has been completed. The company is targeting to initiate a Phase IIb dose range finding study in neuropathic pain in CY 2020.

GBR 1302 Phase I, first-in-human study with biweekly dosing to determine the MTD in patients with HER2-positive cancer has completed enrollment as of May 2019. The company plans to initiate a Phase I study to evaluate a weekly dosing regimen in H2 CY 2019.

GBR 1342. For GBR 1342, a Phase I, first-in-human study to determine the MTD in a biweekly dosing regimen in patients with refractory multiple myeloma is ongoing. Cohorts 1 to 9 have been completed, and the study continues with the enrollment of patients into Cohort 10. The company has amended the current

protocol include a weekly dosing regimen in the current study, and the enrollment into the weekly dosing regimen is expected to begin in H2 CY 2019.

The company is also developing GRC 5xxxx, a MAP4K1 inhibitor compound which has the potential to be used as a monotherapy or in combination with approved therapies to address unmet medical needs in cancer treatment. The compound is currently progressing through preclinical studies. The company is targeting to initiate Phase I studies in H2 CY 2020.

A few notes. The gross debt as on June 30, 2019, was at INR 4,568 crores as compared to [INR 4,448 crores] as of March 31, 2019. Net debt as on June 30, 2019, was at INR 3,545 crores as compared to INR 3,427 crores as on March 31, 2019.

R&D expenditure for the quarter was at INR 295 crores, which is [12.7%] percentage to net sales. Innovation and R&D expenditure with at INR 190 crores for the first quarter.

Total acquisition during the first quarter was INR 198 crores, which includes INR 118 crores of (inaudible), INR 10 crores is from computer software and INR 70 crores of (inaudible) and license.

ForEx loss during the quarter was INR 25.2 crores, which was recorded in other expenditure, but EBITDA, after considering ForEx loss, was at INR 367.1 crores.

With this I would like to introduce Glenmark's management. We have Glenn Saldanha, Chairman and Managing Director of Glenmark Pharmaceuticals Limited; V. S. Mani, Executive Director and CFO, Glenmark Pharmaceutical Limited; Robert Matsuk, President, North America; and Utkarsh Gandhi, Deputy General Manager, Investor Relations and Strategy. With this, we would like to open the floor to question and answers. Over to you, moderator.

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Questions and Answers

Operator [1]

(Operator Instructions) The first question is from the line of Prakash Agarwal from Axis Capital.

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [2]

My first question on this target revenue growth of 10% to 15% within the fact that we have grown 7%. So which area we have seen are expecting higher growth? U.S. [derm] portfolio continues to be under pressure. I just wanted to understand your thoughts.

Jason D'souza, Glenmark Pharmaceuticals Limited - Senior VP & Head of Corporate Strategy [3]

So I think we're expecting a strong second quarter, right? And I think from second quarter onwards, you'll see growth pretty much across all our businesses. I think India, with the launch of Remo, I think you should continue to see the July IMS numbers that just came out, right? Glenmark business grew at 20% in July. So in India continues to be a strong growth destination for Glenmark. If I look at Latin America which has been underperforming. And in Latin America, because of the Novartis deal that we just concluded in Brazil, we will see significant growth numbers kicking in from Q2 onwards. So that deal from day 1, we grew all the revenues that they were accruing so far. So I think Latin America growth should come back very strongly from Q2. Europe, we still continue to grow at 10% to 15%. As far as the U.S. business goes, we think Q1 was pretty much the bottom. And I think on Q2, as we [need to] get these 2 approvals, you should see growth coming in the U.S. market, Q-over-Q growth and maybe Y-over-Y growth. So I think -- I mean we still continue to remain very comfortable with the guidance of 10% to 15%, [followed by] the growth across the different geographies.

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [4]

Sir, the 2 approvals you spoke about, can you give some more light to that? And especially we already -- half of the quarter is done. So I mean, so we were already, like, really big and you will have, like -- in 1 month we see a good (inaudible) and how should we think about it?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [5]

So one of them is an injectable product. We have a tentative approval. Day 1 launch is the 22nd, I think, of this month. So that should be a good [approval] and we think it will be a little bit [competition]. So we should get at least a month of sales in this quarter. And then the second one is [very solid] where we have CGT designation, which again we are -- there's only one other generic player. So it should be a limited competition opportunity, almost [$200 million] plus. So I think both these opportunities will -- could give a good upside to Q2, and then for the rest of the year should look positive. The other thing is as far as the U.S. goes is after, post the Monroe inspection, one of the injectables that got inspected in Monroe we anticipate approval around the Jan time frame and that, again, could be a limited competition, big opportunity. So I think for us, the U.S. business at this time, we think we've pretty much hit the bottom. And given that Mupirocin also has come up a lot, like, and it's not a big contributor anymore to the U.S. business. So we think from here on, growth should come back into the U.S. business.

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [6]

Sir, would it be fair to say that in the past you said high single digit growth in the U.S., that is possible given the current pipeline?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [7]

I think mid -- between 5% to 10% we think it's still possible in the U.S. given the current pipeline.

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [8]

Okay. Fair enough. And second question is on -- your comment again on the fiscal '20 outlook that concluded with one partnership in your innovative specialty assets. So are we talking about the decline in U.S. or the smaller markets like you have done in the past like China and others?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [9]

So Prakash, we've kept that as a very broad objective for us. We have a number of partnering discussions ongoing between our Xolair biosimilar, between the Ryaltris partnerships that they're talking of in the U.S. and Europe and some of the innovative products, right, that we are talking of. So we've kept it very broad as an objective. On the innovation side, clearly, if you see we have a number of milestones coming up. So we have 27864 Phase IIb data coming out in Jan, we have GBR 830 Phase IIb data coming out in March, April, the Phase IIb trial. So along with all the oncology [roles] that we're doing where we can -- we think we can get some positive results out of the oncology stuff we have this year. So there are multiple

milestones. And our current focus on the innovative entity is we think -- we would go beyond the capital raised in Q4 (inaudible) going out and aggressively looking for partners on the innovation side. But as we speak, we also have partnering discussions on them. So we don't know how they're doing at the end of the day.

Operator [10]

(Operator Instructions) The next question is from the line of Neha Manpuria from JPMorgan.

Neha Manpuria, JP Morgan Chase & Co, Research Division - Analyst [11]

My first question is on Ryaltris. It seemed just in the previous question that we would now like to out license Ryaltris even possibly Xolair. Any reason, sir, for the change in strategy? Because the last quarter we were expecting to commercialize some time in October, November. I understand that (inaudible) for this change rather than doing it ourselves (inaudible) licenses.

I's our mean view is -- there are some substantial changes happening in the U.S. environment, right, the whole specialty environment. And we think the reimbursement environment is very challenging. And given these changes, we think just to -- we think the [backdrop] partnering this out as opposed to putting feet on the ground because at the end of the day, we do put people to [long-drawn] payback period. So this time, we change that strategy on the respiratory side. And our view is partnership, we think, would be a better strategy for Ryaltris just given the broad infrastructure required.

And in that case, we've acquired Exeltis. I know it's not for the (inaudible) but eventually do you see that phasing out also given it's performing below expectation?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [12]

So, yes. I think what we do what -- on the derm side and we'll see how it goes, right?

Neha Manpuria, JP Morgan Chase & Co, Research Division - Analyst [13]

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Okay. Understood. My second question is on [dermo]. We've announced a partnership with (inaudible) What's the top process here? You think the brand could see more growth because of these? I mean given that we already have a (inaudible) sales force, why partner with other companies?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [14]

Look, if you see the general trend and it's not just if you see what big pharma has done in India it's also -- right? The other 2 or 3 (inaudible), which are available, they all have partnerships with at least 2 or 3 other companies to increase the share of wallet and the (inaudible) level, right, in the states. So in order to come back that kind of knowledge level, right, we think it's important to have partners to [co-promote side by side in the past] for the market, right, to increase the overall noise level for other molecules. And so far I think the response to Ryaltris has been very positive. We're talking every month we are seeing substantial improvement in the sales for Ryaltris -- I'm sorry, for(inaudible) . And I think going forward this could be a really big product. I mean(inaudible)show -- that it's already up to -- in [unit shares] we are already up to

the top 4 or 5 players. And now we really gained share from the other SGLT2 but we think given the price points, you could see a lot of switching of prescriptions even from the DPB4s for on the (inaudible) classes.

Neha Manpuria, JP Morgan Chase & Co, Research Division - Analyst [15]

Understood. And my last question on Latin America. Other than Novartis, do we expect the core business to -- how do we expect that to pan out? (inaudible) will it take some time to ramp up?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [16]

Actually Novartis is -- we've taken over an existing business. So there's no ramp up. So we've already taken over their existing business, right? So there is existing sales. And that's why Q2, you'll see a big delta in terms of growth coming to us, right? But besides that, we launched -- we are in the process of launching (inaudible) in Brazil. It should be a big driver. We have a couple of other launches coming up this year in Brazil. In Mexico we have a few launches. So I think Latin America for us other than the broad economic challenges and the currency challenges, which are highly unpredictable, right. But in terms of the core business and the secondary sales growth, we'll continue to stay strong.

Neha Manpuria, JP Morgan Chase & Co, Research Division - Analyst [17]

Understood. And what about the size business you've taken out from Novartis?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [18]

So we're not disclosing that. But it's an existing business, right? They were starting the 3 brands and those 3 brands are now -- we've taken over that. So we will accrue the sales and the profits for those brands.

Operator [19]

The next question is from the line of [Fam Phillip] from [Wellington Management]. The next question is from the line of Chirag Dagli from HDFC Mutual Fund.

Chirag Dagli, HDFC Asset Management Company Limited - Senior Equity Analyst [20]

Sir, you indicated that Mupirocin has [come out] a lot. Can you indicate the contribution in first quarter? Was there (inaudible) 4 quarters back now.

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [21]

Well, my guess, Chirag, is we'll have lost maybe about INR 5 million, INR 7 million in the quarter on account of Mupirocin.

Chirag Dagli, HDFC Asset Management Company Limited - Senior Equity Analyst [22]

So (inaudible) annualize -- so this used to be about for $15-odd million a quarter that's now down to $10 million?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [23]

Correct.

Chirag Dagli, HDFC Asset Management Company Limited - Senior Equity Analyst [24]

And, sir, where are we on the API [stakeholders]?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [25]

So we're still in discussions on the minority investor in API. But I think the way to look at it is we also have a backup plan there. We have a number of -- we are divesting a number of noncore assets. So I think this year we've kept ourselves an objective of picking up maybe about INR 700 crores to INR 800 crores of debt this year. And next year, given -- if all goes well in Q4 and we are successful at the capital raise in Q4, we think automatically that investment from GPL will reduce. So you could safely assume from hereon, every year we will take off a minimum of INR 700 crores, INR 800 crores of debt.

Chirag Dagli, HDFC Asset Management Company Limited - Senior Equity Analyst [26]

With INR 700 crores, INR 800 crores, this assuming to end up consummating the API?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [27]

Even if we don't consume it, as I said, we have a backup plan of divesting certain noncore assets, right? So there are multiple things that we're doing.

Chirag Dagli, HDFC Asset Management Company Limited - Senior Equity Analyst [28]

And, sir, is there an EBITDA margin guidance that you want to insist?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [29]

So EBITDA margin we -- if you -- you can safely assume we are tracking at around 16.5%. But if you add back the investment that we are making in newco, right? The actual cash EBITDA is close to about 25%, right? I mean if you see every quarter, we're investing almost $30 million from an average into newco. So if you add that back, assuming we did a capital raise in Q4, the adjusted EBITDA, the cash EBITDA is close to about 25%. It should play out when treated to capital increase in newco.

Chirag Dagli, HDFC Asset Management Company Limited - Senior Equity Analyst [30]

Understood. And sir, is there an impact of the Argentina currency crisis on our business if you can articulate what sort of impact will it have?

V. S. Mani, Glenmark Pharmaceuticals Limited - President, Global CFO & Executive Director [31]

Chirag, nothing really substantial here. I mean our weekly [local] (inaudible) currency impact we do our local production have done. It's more than internal. So I don't think (inaudible) .

Chirag Dagli, HDFC Asset Management Company Limited - Senior Equity Analyst [32]

But we convert those profits into INR, would it be (inaudible) .

V. S. Mani, Glenmark Pharmaceuticals Limited - President, Global CFO & Executive Director [33]

(inaudible). It's not (inaudible) an overall difference.

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [34]

And we basically, Chirag, use Argentina manufacturing only as a conversion site. So materials are imported, then converted on there, exported from there. So...

Chirag Dagli, HDFC Asset Management Company Limited - Senior Equity Analyst [35]

(inaudible) currency is not much.

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [36]

(inaudible)

Chirag Dagli, HDFC Asset Management Company Limited - Senior Equity Analyst [37]

And, sir, what explains the difference between the [coat] impact and the [OCI]. There's a INR 41 crore difference for the quarter. What explains that?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [38]

So that is basically -- as you look at your results across the geographies, the other entities, I'm sure you transmit those asset liabilities, et cetera, based on closing rate or average rates. So especially in some of the geographies like (inaudible) et cetera we have some impact, which was more on the positive side. So that's why that's come to the part of the foreign currency (inaudible) transition.

Chirag Dagli, HDFC Asset Management Company Limited - Senior Equity Analyst [39]

All of this (inaudible)

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [40]

Sorry?

Chirag Dagli, HDFC Asset Management Company Limited - Senior Equity Analyst [41]

All of this INR 41 crores is (inaudible)?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [42]

Mostly. Most of it, yes.

Chirag Dagli, HDFC Asset Management Company Limited - Senior Equity Analyst [43]

And is this a cash (inaudible). INR 41 crores, would we have received this cash in the quarter?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [44]

No. It (inaudible) . It will not be a cash income entitlement.

Operator [45]

(Operator Instructions) The next question is from the line of Alok Dalal from CLSA.

Alok Dalal, CLSA Limited, Research Division - Research Analyst [46]

Glenn, which are the noncore assets that are you're looking to divest?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [47]

Alok, they are spread across multiple geographies. So I really can't give you a list. But basically these are assets, which are not in areas of derm, respiratory and some of our core therapeutic areas, right? So these sell outside of that in various geographies. And (inaudible) don't have a pipeline to support the portfolio, and we think they are (inaudible) at a loss to us.

Alok Dalal, CLSA Limited, Research Division - Research Analyst [48]

Sure but will that give you a substantial raise that will help you reduce the debt level?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [49]

Yes. Absolutely, Alok, and that's why we've given that objective, right?

Alok Dalal, CLSA Limited, Research Division - Research Analyst [50]

So one question on the U.S., sir. Glenn, in the past we've had quite a few limited number of or other limited competition product opportunity. You've been in the first wave of product approval for quite number of products. But unfortunately, the ramp up has not happened. So what needs to change with the next set of limited competition product launches for you in the U.S.?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [51]

I don't think, Alok, you can -- I mean the environment is very different as you know, right? There no such thing as a true limited competition product. It's only how long and will you get and what's the window that's available. And I think increasingly, gone are the days where you could have sustained amount of exclusivity or (inaudible) de facto exclusivity on the product. So I think given that environment, it's important to keep things in context, right? But our base is small. I know, I mean [$105] million base, right? I mean even a $10 million string or $30 million string can make a big impact to the growth numbers, right, because of the low base of the U.S. business.

Alok Dalal, CLSA Limited, Research Division - Research Analyst [52]

Glen, when you say you have a fairly strong pipeline with, let's say, next quarter 2 limited competition launches and a stronger pipeline going forward. But your growth guidance on low (inaudible) as you mentioned is only 5% to 10%. So where do you (inaudible).

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [53]

The reasons for that, Alok, is we're losing [$20 million] on Mupirocin alone. It will take on an annualized basis, right? So you are losing Mupirocin. You have a 5%, let's say, close to a mid-single-digit price erosion on the rest of the portfolio. And then on top or that you're losing the (inaudible). So when you do the math, right, you'll see it becomes very hard to grow to 30%. I mean that's the way to think about it, right. Obviously, once the Mupirocin effect is gone, which we're hoping that there's 2 more quarters, I think Q4 is a loss (inaudible). And then automatically the growth will also jump accordingly. Then we really have to deal with the 5% to 10% regular price erosion that we see on the product. And the new product approvals keep kicking in. So that's what we're dealing with in the U.S.

Operator [54]

(Operator Instructions) Our next question is from the line of [Nimal Goby] from IDFC Securities.

Nitin Agarwal, IDFC Securities Limited, Research Division - Analyst [55]

This is Nitin. On the U.S., how do you look at the whole generic given the market things happening. A, you are having both the specialty and the generic piece? I mean how are you approaching those businesses with a 3-year view? I mean if you look at the current run rate for generic R&D spend, there's really below what is -- 100-odd crores a quarter that is about? So how we're internally approaching these 2 pieces now going forward?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [56]

I think on the generic side, very clearly, we think it still continues to be a good business from a margin profile. So we continue to file limited competition products and some complex generic and so on and so forth, across different dosage forms. So from that perspective, we still continue to file and grow that business as far as the U.S. growth. On the specialty side, obviously, I mean, we think that's a much more challenging environment, and we think we need a much deeper pipeline of products, right, which has significant value creation to get reimbursed and to get the real value out of the U.S. market, right? Because of the changing dynamics in terms of the reimbursement environment and patient copay and on the rebates and all the other stuff that the U.S. is going through. So I think specialty sign continue to build our portfolio but it's very limited and It's very focused, right? In terms of what we'll eventually bring into market over a 3- to 5-year period, but in the long term we don't see specialty contributing anything significant to Glenmark over next 2, 3 years with specialties.

Nitin Agarwal, IDFC Securities Limited, Research Division - Analyst [57]

And on XOLAIR, would you go ahead with the program if you find a partner? Or where do we stand on that?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [58]

We are very close to being a partner on board.

Nitin Agarwal, IDFC Securities Limited, Research Division - Analyst [59]

And how long the trials go on gone for this product? So what could be a potential launch timing for this product?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [60]

I can't give you the details Nitin. Because there are too many complexities, right? As you know for a biosimilar, I mean you've got the patent, all kind of other activities so much look at. And not just a filing and the filing dates and stuff like that. So I think, I mean, the good news is on XOLAIR we are the first biosimilar, right, that we know of, right, in the generics completed Phase I and we can start Phase III. So we're ahead of the game. But it's hard to give you a timeline.

Nitin Agarwal, IDFC Securities Limited, Research Division - Analyst [61]

And on the cost front, how should we look at -- any sort of sense on how the fixed cost -- we talked about the cost optimization in the past -- how should we look at this year or next year?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [62]

So I think there's a lot of thought internally that we are looking to control cost, trim down cost. Manpower cost is that we have guided towards that we will see lower manpower cost going forward. And even other areas in terms of the cost of goods, you know, procurement we're working with multiple initiatives within the company ongoing to improve the overall cost line items, as many as...

Unidentified Company Representative, [63]

And just to add to it on the (inaudible) on the program last year, so we see some benefits last year and we see more realized in the current year. And the cost it will depend on how you manage all of that again. Another one of the procurement costs, et cetera. We had realized on an revenue programs that we try and maintain our margins and that's been the ongoing plan.

Nitin Agarwal, IDFC Securities Limited, Research Division - Analyst [64]

And the help, has there been any meaningful impact -- what's the impact of IndAS on the different line items for us, because like depreciation cost is indicating high?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [65]

Yes, so depreciation is up by about INR 10 crores it's about INR 8 crores due to the new change in this IndAS lease accounting. So the that thing nobody knows. And that one portion finance cost but also we

have some one-time upfront fee to be paid, so all this -- that's the reason why some of these line items went down.

Nitin Agarwal, IDFC Securities Limited, Research Division - Analyst [66]

And given the corresponding impact on our EBITDA is it like for that?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [67]

Partly, but not too much because we are want to come in from a long time back, we have, Nitin, first of something. We have not taken a bigger cost difference from there.

Operator [68]

(Operator Instructions) Our next question is from the line of Girish Bakhru from Bank of America, Merrill Lynch.

Girish Bakhru, BofA Merrill Lynch, Research Division - VP [69]

On renewal, just wanted your sense, can you share the patient number currently on renewal?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [70]

I don't have the details offhand Girish, but we can get you that. But I think if you see direct sales reported by IMS, IQVIA, I mean, we are among the top four India GLC already, right in terms of unit sale, just in the first 2 months. So a lot of the other -- and there are about 12 or 14 players in the CRD, to date the core marketing partners, right? Are we are already #4 in unit cells. So that to tell you the success that we are having with the demo. So I think this is only month 2, month 3 right. And of course, the reason you are units sales pipeline because people have lower. And this is quite good compared to some of the guys. But it's still very early days and we are seeing some very good success.

Girish Bakhru, BofA Merrill Lynch, Research Division - VP [71]

Were generally given that there's more new started do you think current days of 700,000 patients, will that double in 3 years? Or broad sense where this market is going to go, any idea?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [72]

I think this is going to be huge because at the end of the day so far I mean unless there's some new side effect or something which comes up for the class, right? Which one never knows, right in how things develop. But if that doesn't happen this will clearly be the #1 prescribe product over time right, going

forward. Because the way to have, to control -- the right to control you think back in from his fantastic. So you've seen significant impact. And I think overall the class has been very well, right? The growth numbers are 30% plus, right? Even though it's a INR 800-plus crores markets, growing at 30%, 40% in excess of the whole class in terms of value and we see that sustaining. And now because we have marketed -- we're launching at a lower price point you can see doctors moving from other antibiotic medications to alternatives because it is much more affordable to the patients.

Girish Bakhru, BofA Merrill Lynch, Research Division - VP [73]

Right. Just to clarify the price points for the other molecules in the class especially for the particles will also being 50% higher than here?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [74]

Yes. Yes. So the whole class is at between INR 40 to INR 60 a tablet. And we are at all new therapy near, at 40 to 60. When we are at INR 35 cost of the therapy, right?

Girish Bakhru, BofA Merrill Lynch, Research Division - VP [75]

And when do you see the first line extension here?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [76]

So hopefully, this quarter we launched our first line extension.

Girish Bakhru, BofA Merrill Lynch, Research Division - VP [77]

Okay. So broadly on what India front, can we confidently take 15-percent-plus growth?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [78]

I think so.

Girish Bakhru, BofA Merrill Lynch, Research Division - VP [79]

And then last one on the expense side, given the quarter also it shows good control, with righteous costs offload and room for further control in other expense line?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [80]

Yes. We should continue to look at our indirect expense in a big way. It's obviously, we moved a lot of the expense, but the manpower one (inaudible). I think we should see some benefit for the results.

Girish Bakhru, BofA Merrill Lynch, Research Division - VP [81]

Were there any front -- front-ended costs already there for actino that will come up, no?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [82]

There's nothing so much, we are actually more phase one ramp up. So at that point in time we feel looking at the market conditions the gullibility of something.

Operator [83]

(Operator Instructions) And our next question is from the line of Saion Mukherjee from Nomura Securities.

Saion Mukherjee, Nomura Securities Co. Ltd., Research Division - Head of India Equity Research [84]

And Glenn, on the India formulation of 13% growth, can you tell us, excluding the divestment you did last year, what's the underlying growth? And also the consumer business seems to be doing well at 30 or 20 -- high 20s growth rate. So how do pharma underline business growth?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [85]

Well, I would say it's about 17%, 18% and somewhere thereabout, right? If you are given the divestment that we did last year. It should be around 17%, 18%.

Saion Mukherjee, Nomura Securities Co. Ltd., Research Division - Head of India Equity Research [86]

And within that, the consumer which is like 10% is growing at 27%. On the other side, what's your view, like what's the impact, how much AND is pending from there?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [87]

So we are naturally not fighting pending approval. So and currently it's less than 10% of our U.S. sales actually comes from the because it makes only one product for us right So it's a small piece, less than 10% of total sales. Nothing really pending from there. All -- most of our new filings are all coming -- the bulk of them coming out of Mandra right now. So we probably have, I would guess, about 8 filings going out this year from Mandra and maybe on the injectable side and nebulizers and those kind of dosage forms. So that's our current situation. As far as the 25 filings that we target every year, this year almost 8 of them are

going on in Mandra direct. Some of them are going from [Indor] some from [Arandabat]. So I think that's the spread/

Saion Mukherjee, Nomura Securities Co. Ltd., Research Division - Head of India Equity Research [88]

Okay. On the specialty side, on the Denmark position and strategy, what's the impact on the P&L on -- I would resume regularly on and wondering what's the kind of cost that you're incurring and the impact it is having on the EBITDA level? And what's your plan on this going forward?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [89]

Actually it's more like the generics are in the brand that would really ramp up in the big year to increase our cost on that front. So obviously we watch and work and see how this thing plays out in the next couple of quarters.

Saion Mukherjee, Nomura Securities Co. Ltd., Research Division - Head of India Equity Research [90]

At this point, I mean, compared to Q1 financials it's not having a major impact?

Unidentified Company Representative, [91]

It's not a major impact.

Saion Mukherjee, Nomura Securities Co. Ltd., Research Division - Head of India Equity Research [92]

And just finally, on the strategy addition in intangibles, the INR 70 crores that you mentioned, does it include the Morocco deal in Brazil?

Unidentified Company Representative, [93]

Yes. Some portion is.

Saion Mukherjee, Nomura Securities Co. Ltd., Research Division - Head of India Equity Research [94]

I mean there would be more in Q2?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [95]

No. Grew but we have some front end that we have to do for that. Going forward, obviously, it's the one licensing product in Europe, et cetera. (inaudible).

Saion Mukherjee, Nomura Securities Co. Ltd., Research Division - Head of India Equity Research [96]

So can you -- sorry, can you just read to it -- send me your numbers for this year for your expectation in intangibles?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [97]

So the INR 800 crores complete addition with INR 750 crores to INR 800 crores upwards 6% could be from INR 400 crores to INR 500 crores. The other are intangibles are therefore INR 300 crores or so.

Operator [98]

Our next question is from the line of Chirag Dagli from HDFC Mutual Fund.

Chirag Dagli, HDFC Asset Management Company Limited - Senior Equity Analyst [99]

So first of all you can looking at the partner who can -- just funded the development or also market?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [100]

This will also be the commercialization partner, Chirag. So we're looking at someone who can run the Phase III, invest i nthe Phase III and commercialize the product, right? And we will end up keeping some rights for some of the markets where we have a presence. And (inaudible)

Chirag Dagli, HDFC Asset Management Company Limited - Senior Equity Analyst [101]

Okay. And on the 2 products that you mentioned, 1 ingestible approval, what is the size of this product that is -- the one that is expected?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [102]

It's about $350 million.

Chirag Dagli, HDFC Asset Management Company Limited - Senior Equity Analyst [103]

$350 million. And can you talk about the sustainability of this limited competition environment is this?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [104]

Chirag, you know the in the U.S. environment is hard to predict, right? So how many players will end up being there, so that's something we can't comment on.

Chirag Dagli, HDFC Asset Management Company Limited - Senior Equity Analyst [105]

Sure. And so CGT products, sir, I think you mentioned there's one generics player already.

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [106]

Yes. There is one.

Chirag Dagli, HDFC Asset Management Company Limited - Senior Equity Analyst [107]

So you'll be second in line, right?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [108]

Yes.

Chirag Dagli, HDFC Asset Management Company Limited - Senior Equity Analyst [109]

But you still get exclusivity?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [110]

I mean I think the technical aspect of this is that we have fugitive cycles appear.

Chirag Dagli, HDFC Asset Management Company Limited - Senior Equity Analyst [111]

And this will last for 6 months?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [112]

Again Chirag, I don't know the details. So I think its best that we take it offline.

Chirag Dagli, HDFC Asset Management Company Limited - Senior Equity Analyst [113]

And last one, in terms of working capital if you can indicate reasonably what's the working capital days and how have they changed over the last couple of years?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [114]

I think the share we are doing a very good job on the working capital side. Particularly inventories and you will see inventories coming off quite substantially by the end of the year. So overall the number of days will keep improving from there.

Chirag Dagli, HDFC Asset Management Company Limited - Senior Equity Analyst [115]

No, sir. But across regions, which are the high working capital regions versus the low ones?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [116]

Actually if you look at high, not exactly the high-end I mean overall basis, Europe has more working capital. So I think we have from working capital raise in the U.S. in some of the other markets. So we have been working very consistently to ensure that across the line, there is inventory that has credit us, so trying to bring it down.

Chirag Dagli, HDFC Asset Management Company Limited - Senior Equity Analyst [117]

So what is which? How difficult is the ROW working capital?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [118]

ROW will become markets where we are working capital maybe a little bit on the high side, like per share et cetera. But there will be some markets like where share where it will be a little bit lower, so it give approximate market share.

Chirag Dagli, HDFC Asset Management Company Limited - Senior Equity Analyst [119]

On net basis, this is not substantially different in U.S. or in ROW?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [120]

It is not so much indifference, yes. Because variable credit terms depending on the channel is 60, 90 days, whatever you can take.

Chirag Dagli, HDFC Asset Management Company Limited - Senior Equity Analyst [121]

The aberration is really India, sir, which will be significantly lower versus otherwise. Also the other markets are significantly higher?

Glenn Mario Saldanha, Glenmark Pharmaceuticals Limited - Chairman, MD & CEO [122]

Definitely, yes, on this export markets will always be on the high side, yes.

Operator [123]

Ladies and gentlemen, that was the last question for today. I now hand the conference over to Mr. Jason D'souza for closing comments.

Jason D'souza, Glenmark Pharmaceuticals Limited - Senior VP & Head of Corporate Strategy [124]

Thank you. I'll Just read the disclaimer and close the call. The information, statement and analysis made during the call describing the company's objectives, projections and estimates are forward-looking statements and progressing within the meaning of applicable security laws and regulation. 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 recipients as a substitute for the exercise of their own judgment. With this, we end this call. Thank you, everyone.

Operator [125]

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