S&P Global
Market Intelligence

Gland Pharma Limited BSE:543245

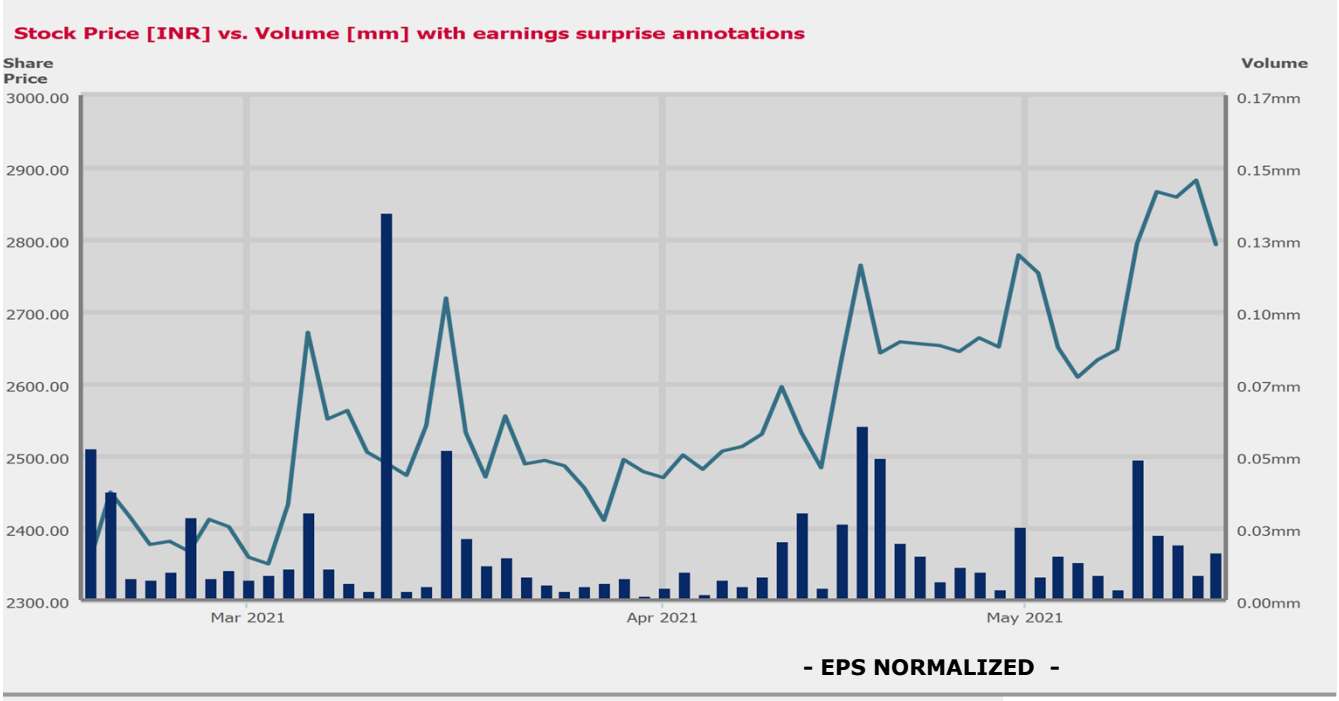
FQ4 2021 Earnings Call Transcripts

Monday, May 17, 2021 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2021-		-FY 2021-		-FY 2022-
	ACTUAL	CONSENSUS	ACTUAL	CONSENSUS	CONSENSUS
EPS Normalized	-	-	59.87	62.99	74.50
Revenue (mm)	8608.25	8877.48	34194.67	34628.76	40576.33

Currency: INR
Consensus as of May-10-2021 1:38 PM GMT



- EPS NORMALIZED -

	ACTUAL	CONSENSUS
FQ4 2021	-	-

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Call Participants

EXECUTIVES

Ravi Shekhar Mitra
Chief Financial Officer

Srinivas Sadu
MD, CEO & Director

Sumanta Bajpayee

ANALYSTS

Amey Chalke
Haitong International Research Limited

Nithya Balasubramanian
Sanford C. Bernstein & Co., LLC., Research Division

Ravi Srikant Veturi

Ritesh Rathod

Saion Mukherjee
Nomura Securities Co. Ltd., Research Division

Sudarshan Padmanabhan
Sundaram Asset Management Company Ltd.

Tarang Agrawal
Old Bridge Capital Management Private Limited

Tushar Manudhane
Motilal Oswal Securities Limited, Research Division

Unknown Analyst

Presentation

Operator

Ladies and gentlemen, good day, and welcome to Gland Pharma Limited Q4 FY '21 Earnings Conference Call. [Operator Instructions] Please note that this conference is being recorded. I now hand the conference over to Mr. Sumanta Bajpayee, Vice President, Corporate Finance and Investor Relations. Thank you, and over to you, Mr. Bajpayee.

Sumanta Bajpayee

Thank you. Good evening, everyone, and warm welcome to Gland Pharma's earnings conference call for the fourth quarter and financial year 2021. I have with me Mr. Srinivas Sadu, MD and CEO; Mr. Ravi Mitra, our CFO, to share the business outlook and to answer queries. We will begin the call with opening remarks from management, followed by Q&A session.

Before we proceed with the call, please note some of the statements made in today's discussion may be forward-looking and these must be viewed in conjunction with the risks and uncertainties involved in our business. The safe harbor language, contained in our press release, also pertains to this conversation. The transcript of the call is made available in our website shortly.

I will now hand over the call to Mr. Sadu for his opening remarks. Thank you, all. Over to you, Mr. Sadu.

Srinivas Sadu
MD, CEO & Director

Thank you, Sumanta. Good evening, everyone.

Last year has been a challenge years with the world wrapping with numerous announced in the wave of the COVID-19 crisis. The health crisis not only impacted human rights, but also had a widespread impact on the economy. We are in the business of saving lives and true to this philosophy, our employees exhibited extraordinary dedication to help combat challenges post the COVID-19 to ensure that we maintain a continuous production and supplies of critical needs. Our ability to respond to changing market demands during COVID-19 was visible bearing the registered growth in markets of the U.S. Europe, Canada and Australia and back of new launches and volume growth in existing portfolio, supported by our increased capacity. Our focus on vertical integration strategy in APIs, adding alternate raw material sources, optimizing science and streamlining supply chain management have ensured sustained growth even in these tough times where raw material availability was otherwise impacted.

We continue to invest in R&D as we believe it is core to building a sustainable business. In FY 2021, total R&D expenditure was INR 1,220 million, which is nearly 3.5% of our revenue from operations and an increase of 32% over the last year. As of March 31, 2021, we have 284 ANDA filings in the U.S. and 1,501 product registered globally.

We had a good quarter in FY '21 and continue to move forward on a well-defined strategy. We have shown year-on-year growth of 40% in revenue for the quarter, Q4 FY '21 and 32% for FY '21. We saw year-on-year growth impact of 34% for the quarter, Q4 FY '21 and 29% for the financial year '21. We have generated INR 49 million of cash, cash flow from operations despite inventory buildup from last year-end level, which was impacted by content. To be able to deliver such sustained business performance in these challenging times is testimony to our business model and strength of our product portfolio, there were several onetime costs that were incurred in the year on account of COVID-19 yet we managed to rise up to a challenge of absorbing these costs with business growth. Let me take you through the business highlights across various geographies.

As highlighted on the last call, our focus on geographic expansion in the emerging markets continues and the new partnerships that we have built over the years are showing sustained demand. Our emerging market business is growing rapidly and has accounted for 16% of our FY '21 revenue. We have seen 196% year-on-year growth in revenues for the quarter and 136% growth in revenues for the financial

year period. We entered new markets like Singapore, Israel, Saudi Arabia and CIS countries through new partners during this period. Our ability to turn around orders in a short period of time and also offer a broad portfolio of products has helped us achieve this phenomenal growth in the financial year 2021.

Our key markets in the U.S., Canada, Europe and Australia accounted for 68% of the revenue during FY '21. We have seen 25% -- 29% year-on-year growth in revenues for the quarter and 22% growth in revenues for the financial year period. The growth was on account of launch of new products and volume growth in existing products with ramping up of capacities.

New launches include products like Micafungin and differentiated products like Bivalirudin in RTU format as well as Olapatadine Ophthalmic products in branded markets. We launched the 6 molecules in the last quarter. We filed 21 ANDAs and received 32 ANDA approvals during the 12-month period, including our first PanAm approval for the U.S. market as a panel. We also filed 5 DMFs during the same period.

Our domestic market accounts for 16% of our FY '21 revenue. We have seen 15% year-on-year growth in revenues for the quarter and 19% growth in revenues for the financial year period. The new capacities being made available for the domestic market has helped ramp up volume growth in the core portfolio of products. We ramped up Remdesivir supply and ensured sufficient available to Enoxaparin for the domestic market, considering the requirement for Indian patients. We launched 10 product SKUs in the domestic market during FY '21.

The reasons for the quarterly changes in gross margins are primarily because of product mix variations and geographic expansion. But when you see the margin profile in an annualized manner, you will not find much difference. Again, I would like to add here that strategically, we're trying to diversify our geographical presence by entering into new markets, while maintaining the growth momentum of our key markets of the U.S., Europe, Canada and Australia. As we enter these new markets, we will benefit from higher volumes, resulting in better operating leverage.

On the quality and regulatory front, all our plans continue to remain approved by U.S. Given the restrictions on charge on account of COVID-19, customers are conducting audits virtually during this period. I'm confident on the preparedness of our team or any audit virtually or in person.

We successfully completed purchase of R&D and manufacturing facility of Vitana Biotics, a biopharmaceutical company located Valley in Hydrovac recently. And they're now working towards a seamless operations integration of the assets into plant and thereby build on vaccine drug service manufacturing capability while continuing investment in creating infrastructure for the development and manufacturing of biosimilars. We have entered into an agreement with RDIF to supply Sputnik with COVID-19 vaccine. Presently technology transfer process is underway, and efforts are to commence production of vaccine in the third quarter of fiscal 2022. Learning for infrastructure support from vaccine business will accelerate our long-term strategy of entering the biosimilar space, well supported by our parent, Fosun Pharma.

We are also exploring other M&A opportunities that will help build capabilities to strengthen products and technology infrastructure, such as long-acting injectables, steroidal hormonal products, suspensions and nasal and inhalation products. We're also looking at niche API suppliers with complementary capabilities, especially in fermentation technologies, APIs and hormonal APIs. We have started investing in our new biologics facility to make it ready for vaccine and our future biosimilar plans. We will be spending about INR 2,700 million, including the cost of the facility acquired. In addition to that, our existing CapEx plan for our combination and API facilities of nearly INR 3,000 million in FY '22 and INR 2,000 million in FY '23 is on track. The growth CapEx will help us in building additional manufacturing capabilities for complex injectables as well as debottleneck our capacities.

As an organization, GPL has been transformational. And despite the COVID situation, we have delivered on all key organizational KPIs. Working on the key pillars of focus as laid down at the beginning of the year, we have managed to work on intensive knowledge across our manufacturing facilities. We're going to manage building the vaccine in biosimilar space. We are able to streamline our human capital. It is also important to ensure utmost safety and well-being of employees in this train times. With new capacities

coming online and efficient life cycle management of products, we continue to maintain our strength in efficient supply chain.

We are pleased to inform you that today, Ms. Nina Nal Kidwai and Dr. Alan Zhang has joined our Board. Ms. Kidwai is an MBF in Harvard business school and brings in rich experience in the field of banking and finance. She's recipient of many awards, including the by the government of India for a contribution to trade and industry. She's presently the Chairman of Advent Private Equity India Advisory Board, a non-Executive Director on the Board of Latacha; Max Financial Services; and Supla, a trustee of Asia House in the U.K. in the advisory council; a member of the U.S. India Business Council; and in the past, President of the of Indian Chamber of Commerce and Industry. She chairs the financial services working group of the Bricks Business Council and a member of the Innovation Business Council as well.

Dr. Alan is a scientist with rich experience in pharmaceutical research and development and cohorts more than 21 patent applications and had mentioned disclosures and more than 40 publications in the paper journals to his credit. We are confident that you will take a critical role in setting of strategic direction of organization R&D initiatives. I'm sure that under the guidance of Ms., Dr. Alan and other members of our Board, we are on to sustainable growth. We hope to continue delivering strong results for all our stakeholders in the coming year as well. I wish everyone good health.

I now hand over the call to our CFO, Mr. Ravi Mitra, who will share some more insight about the financial performance for the quarter and financial year. Thank you very much. Over to you, Ravi.

Ravi Shekhar Mitra
Chief Financial Officer

Thank you, Mr. Sadu. Good evening, ladies and gentlemen. Thank you very much for attending our fourth quarter and financial year ending 2021 earnings call. Our earnings presentation has been uploaded on the website. Let me begin with sharing the financial performance of fourth quarter and financial year of 2021.

Revenue from operations for the fiscal '21 stood at at INR 34,629 million, a year-on-year increase of 32%. For the fourth quarter, we have reported revenue of INR 8,877 million, which is a 40% growth year-on-year basis. The key drivers for this growth were increase in volume of existing portfolio, new product launches and geographic expansion. We have achieved a very good growth across all the markets in the fourth quarter and during the full year.

Gross contribution margin for fourth quarter was 56%, and for the full year was at 57%. In spite of the discontinuation of the scheme, we were able to maintain healthy gross contribution margin. We have reported an EBITDA of INR 3,749 million in Q4 FY '21 compared to INR 2,861 million, which is an increase of 31% compared to same period last financial year. EBITDA margin for Q4 FY '21 stood at 40% as compared to 42% for the same period of previous financial year. EBITDA for the full year ended March 2021 was at INR 14,370 million compared to INR 10,946 million for the previous financial year, a growth of 31%. We have reported EBITDA margin for FY '21 at 40%, which is an improvement of 46 basis points as compared to last financial year.

We have managed to improve the EBITDA margin despite decrease in gross contribution margin and increase in some of the expenses due to higher operating leverage achieved on increased capacity utilization during the year.

Our net profit for fourth quarter was INR 2,604 million, a growth of 34% compared to Quarter 4 FY '20. During the financial year 2021, our PAT was INR 9,970 million, which is an increase of 29% as compared to last year. We have reported PAT margin for FY '21 at 28%, which is in line with last financial year. While there was a onetime gain of deferred tax liability reversal in the fiscal '20, the increased volume and time operate leverage enabled us to maintain PAT margins.

The total R&D expense for the financial year 2021 were INR 1,220 million compared to INR 922 million of the previous financial year, which is an increase of 32% and in line with our revenue growth. It stands at 3.5% of the revenue. R&D expense for fourth quarter was INR 304 million, which is at 3.4% of revenue. Our effective tax rate remains at about 25% in fourth quarter and for the fiscal year 2021. In the previous

financial year, the effective tax rate was lower due to one-time reversal on defer tax liability of INR 324 million on account of reduction of corporate tax debt in fiscal '20.

Cash flow from operation for the 12-month period ended March 31, 2021, was and INR 6,049 million. EBITDA to cash flow from operation conversion was -- has come down during this year compared to previous financial year due to higher inventory on restocking of inventory from the lower level in March '20 when inventory levels went down due to initial supply disruption. We have since then restocked our critical inventory requirements, considering planned launches and increased demand in the coming months. Cash conversion cycle stood at 229 days for the financial year 2021 as compared to 200 days as of last financial year-end. We have improved our receivable days and payable days compared to previous year, but due to increased inventory level, our overall cash conversion cycle has increased.

All our planned CapEx plans are progressing well. Total CapEx incurred during the financial year ended March 31, 2021 was INR 2,288 million, used for increasing capacity at the Pashamylaram facility, our new R&D establishment at Pashamylaram and for routine maintenance CapEx. Our ROC on cash basis as of March 31, 2021, stood at 33%, an improvement of 130 basis points over the previous financial year. Our fixed assets turnover also increased from 2.4x to 2.8x as we increase our capacity utilization. As of March 2021, we had total of INR 30,058 million of cash, which we intend to utilize for CapEx and to fund our organic and inorganic growth strategies.
With this, I would now request the moderator to open the lines for questions. Thank you.

Question and Answer

Operator

[Operator Instructions] First question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund.

Sudarshan Padmanabhan
Sundaram Asset Management Company Ltd.

Sir, my question is on the working capital as you had earlier mentioned that this would increase in the year, inventory. I mean going forward, what should we look at should this number kind of normalize? Or do you still continue to see issues as far as availability?

Srinivas Sadu
MD, CEO & Director

Right. So the year-end was -- the inventory for the year-end has gone up a basis of when we restock our critical inventory for new launches and increased demand for especially for products like Micafungin. Going forward, if you look at an average basis, this will stabilize, but this is in line with our business model and we would continue to ensure that enough product is available for meeting our demand.

Sudarshan Padmanabhan
Sundaram Asset Management Company Ltd.

And sir, my second question is primarily on now that we have vaccine in place and I think first, us getting this vaccine up and running, this plant can also be kind of repurpose to buy our products. It's -- I mean, our parent has also got fair amount of capabilities over there. Official things over here, I mean, whatever the amount that we have talked about, the INR 270 crores investment incremental, would that be sufficient enough to primarily set up that capacity, whatever is required for us to supply the 252 million dosage to RDIF? And second is whether do we need to incrementally invest further into fermentation process and bios, the biosimilars are repurposing this capacity even beyond COVID to basically take our capabilities to the next level.

Srinivas Sadu
MD, CEO & Director

Yes. So in terms of vaccine demand of INR 250 million, this is in line with whatever we are investing today to expand our drug substance infrastructure. And also some part of the investment is going into the finished dosage, wherein we have to build the storage facilities because this is managing degree product. So this is -- this will take care of the supply side of 250 million vaccine doses.

Now moving forward into biosimilars, probably 70%, 80% of this infrastructure will be useful for it. But as you know, on every product has specific requirements in terms of bioreactives or from a technology perspective. So there will be add-on investments whenever we get into a development of a biosimilar or we do a plant or something. So the idea is probably 78% is good enough to get into that space. And this will actually trigger our speeding up our process, getting into this, especially on the CDMA side, where companies are looking at biosimilar drug substance manufacturing capabilities and especially with Fosun parent company has themselves have the biosimilar capability. So that opportunities will open up.

Sudarshan Padmanabhan
Sundaram Asset Management Company Ltd.

And how soon can we see this, sir?

Srinivas Sadu
MD, CEO & Director

Which one, the vaccine?

Sudarshan Padmanabhan
Sundaram Asset Management Company Ltd.

No, no, the biosimilar opportunity. Vaccine, I think we have talked about fourth quarter.

Srinivas Sadu
MD, CEO & Director

So initially, the focus is on vaccine first. Till the finish of this project, we don't want to enter the biosimilar space. We initially build the capabilities of vaccine and at least the next 1 year and focus on that and to deliver the product, what we are into the agreement for.

Sudarshan Padmanabhan
Sundaram Asset Management Company Ltd.

And just one more final question on the panel. Now that we have in place, and I understand that we have a sweet spot given that we have dedicated capacities where most of the players don't have. Should we be looking at the of penal now, I mean, including guys, I mean, venturing into various other and make it itself into a separate portfolio?

Srinivas Sadu
MD, CEO & Director

So meropenem, also, we have actually an approved NDA. We looked at a second source to be more competitive. So we're expecting an approval soon. So that will also be launched at later part of this year. So Meropen and Attana will be part of our book for you.

Operator

Next question is from the line of Nithya Balasubramanian from Bernstein.

Nithya Balasubramanian
Sanford C. Bernstein & Co., LLC., Research Division

Congratulations on another good quarter. So a quick question on your U.S. portfolio. So we just have that again because of COVID, there are certain products of yours which saw heightened demand, right? that we were more in the. Would you say that your fourth quarter numbers, these are largely normalized numbers and this does not include the forward impact? Or are you still seeing heightened demand for these quarters?

Srinivas Sadu
MD, CEO & Director

So the COVID demand in the U.S. kind of normalized by the second quarter of last year. And like I said in my earlier call, also, our portfolio has a larger breadth while we do get benefit of the COVID-related products, but we also lose some on the other products because of the synergies coming down because if you see our portfolio impact has come down a bit last year because of this. So overall, we always manage -- we are able to manage because of the portfolio in what we have. So we had some benefits of core products in the first quarter of last year, but we also lost some of it because of COVID.

But on the second quarter onwards, we kind of normalized. Now there's no impact of COVID in the U.S., it's more in India, but that impact is now being Q4.

Nithya Balasubramanian
Sanford C. Bernstein & Co., LLC., Research Division

Understood. My second question was on China. So I think there will be 6 products that Fosun has said which are at various stages of getting an approval, I think 3 under Q3 revenue and the others are yet to start Q3 revenue. When do you think these products can actually be in the market? What is the approval in the revenue cycle you're seeing in China right now?

Srinivas Sadu

MD, CEO & Director

Although we can't give an exact time line, but the guidance that we're getting is from 2 years -- 2 products in third and fourth quarter of this year, will get first approval. And then last quarter of this fiscal, we market on the 3 products. And that's what the guidance is the regulatory we're getting from China.

Nithya Balasubramanian
Sanford C. Bernstein & Co., LLC., Research Division

So would it be FY '20 -- can we look at FY '23 as a year where China is starting to be a meaningful contributor?

Srinivas Sadu
MD, CEO & Director

Well, total revenue-wise, it may not be very meaningful. But at least you see some numbers coming in from the FY '22 and more in FY '23.

Nithya Balasubramanian
Sanford C. Bernstein & Co., LLC., Research Division

Understood. One very quick follow-up on the questions with the previous gentlemen -- or the gentlemen had asked. So in terms of the biosimilar opportunity, are you -- is your aspiration to be a contract manufacturer? Or would you be previously looking at contract development and manufacturing?

Srinivas Sadu
MD, CEO & Director

We always started with a contract manufacturing compact development as they get into our own development. I think that's the part we want to take. We want to dive in quickly into our own development. So there's opportunity what we took now is kind of a learning profile for us. And last year, we've been talking to people, and they are expressing interest to move biosimilar manufacturing to us. What also we realized is just not the feeling people look at. They also look at that substance manufacturing because most of the brands in pulp stability has a limited time and transporting across geographies is difficult. And that also kind of expedites our entry to the segment.

Operator

The next question is from the line of Saion Mukherjee from Nomura.

Saion Mukherjee
Nomura Securities Co. Ltd., Research Division

Yes. Sir, my first question is we have seen a step-up in performance in ROW in this fiscal year. How should we think about that going forward? And secondly, on the U.S. market also, I mean, what is the impact of COVID in terms of lower demand? Is it -- can you quantify that number which can potentially come back in next fiscal? So Europe and U.S. put together, your already established markets, right?

Srinivas Sadu
MD, CEO & Director

So U.S. is a larger market. Europe is comparatively smaller. So U.S., I can't put a number, but if you look at the numbers compared to the previous years. Like we mentioned with previous, has gone down at least for a couple of quarters because of the kind of admissions happening in the hospitals. And -- but we also sold more of some of the anticoagulants and the neuromuscular blocking agents. So overall, the number still we could manage because of the portfolio we have. And if you see products like vancomycin and top 5 products before. It's not anymore, and that's one of the reasons because of the lesser sales of in practice. So that's one comment I can make. But I can't quantify exactly the impact.

Saion Mukherjee
Nomura Securities Co. Ltd., Research Division

Yes. And sir, how should we think about the rest of the world market where we have seen a step-up in revenues this year?

Srinivas Sadu
MD, CEO & Director

That's very intentional. If you see, we had been building up the portfolio and registrations. One was the capacity utilization. We are focusing to give more capacities for the U.S. market now that we have built in capacity from the last 3 years, we've been trying to launch our products in these markets. And in a way, COVID also helped us to get to this market quicker than we anticipated, especially in markets like Saudi Arabia and Singapore, where the registration are longer. Because of COVID, we could do some supplies and that kind of helped us get to your other products because the site got approved and stuff. So it -- and moving forward, because of the additional capacities we have installed last 2 to 3 years, we are able to cater to these markets, and that will be a focus area as well to increase geographically. So that both from operation levels that will help our margins and also this some dependence on 1 or 2 markets.

Saion Mukherjee
Nomura Securities Co. Ltd., Research Division

Okay. So basically, do you think it will be more driven by -- the growth driven by new markets opening up or the markets which have already opened up, you would have more products coming in? I mean, what would be the more important driver of growth in the ROW market?

Srinivas Sadu
MD, CEO & Director

It's a combination of both. If you see U.S., we have grown around 21%, 20% last year. And the rest of the world is going faster. And they've always been very strong in South American LatAm markets. And there are a lot of distributors. And the other advantage we got is now currently the partners who are in the U.S. They are spread across several countries, we're bringing these products also. So you see some of the products going globally, whether it's fiber, whether it's, they're taking across some of these markets. So that also will add up to the geography to expanding.

Saion Mukherjee
Nomura Securities Co. Ltd., Research Division

Okay. Sir, the second one is on vaccine and biosimilar. Sir, firstly, on vaccine, I mean, this 250 million dose contract to start with, will in be fill and finish only? Or it will be even the first dose -- first vaccine will include the drug substance production at your end?

Srinivas Sadu
MD, CEO & Director

It's a substance and fully finished. So the agreement is the substance and fully finished. That's one reason why we're investing into the substance manufacturing there.

Saion Mukherjee
Nomura Securities Co. Ltd., Research Division

Yes. Okay. And sir, the other broader question on biosimilar is like you mentioned -- I mean, what's the thought process here given that there are large players in Korea, China, et cetera, what -- and Gland Pharma is entering into this space as a new entrant. I mean what would make Gland differentiate in this space? And why do you think Gland would succeed in the scaling of this business over a period of time? What does Gland bring to the like table of -- also bring to the table to make it a successful business for us?

Srinivas Sadu
MD, CEO & Director

Yes. I mean, if you look at our business model, that will continue, right? We always partner with people, we don't get products or -- we don't get into the development unless we have some partnerships, and

that model will continue. I just started a journey in generic and in the markets, that will also will add up to that. The companies we've been interesting with several companies are looking at outsourcing, the filling outsourcing that substance. And they're also challenging for just filling and getting that substance from them. And with our capabilities and infrastructure and the experience of handling at economical levels, we had that advantage. So the first step is to get into the feel of kind of a business. And there because of both the area and they are being the buyers in the space. One thing is looking at the Asian markets and other U.S. markets where we can produce here and take to those markets across there. And moving forward, the injection space itself, right, I mean, there's a lot of opportunities in terms of biosimilars and the new molecules are coming as the larger ones. So it's an entry now. And I think moving forward, 3, 4 years down the line, that could be substantial growth prospects for the company.

Saion Mukherjee
Nomura Securities Co. Ltd., Research Division

Okay. Sir, just to clarify, is it likely that Gland Pharma would be doing contract manufacturing for Fosun or its subsidiaries who are in biosimilars? Is that -- what would be the first step in stone here?

Srinivas Sadu
MD, CEO & Director

Well, we are looking at different opportunities. That could be one, but it could be several others as well. So big companies are looking at outsourcing this activity for acceptance of the formulation side.

Operator

Next question is from the line of Utsav Mata from Edelweiss Asset Management.

Unknown Analyst

Could you just -- I mean, if not in too much detail, then at least qualitatively, sort of take us through some of the economics of these 250 million doses? How much revenue, how much margins and what is the investment that is entailed?

Srinivas Sadu
MD, CEO & Director

The investment part, we have already said, it's about INR 270 crores investment, getting into the substance as it formulation. We can't really talk about the economics on the revenue side.

Unknown Analyst

Okay. But okay, anything in sense of the hurdle rate that you would have considered? So are you basically looking to, let's say, make 15%, 20% ROC on just this particular investment through the vaccine itself? Or are you sort of factoring in the longer-term income from these assets?

Srinivas Sadu
MD, CEO & Director

So we maintain the same level of ROCE threshold target when we do any investment. Considering that, even for this new drug up since infrastructure investment, we will continue to have that same kind of IRR expectation.

Unknown Analyst

Okay. Understood. And just one simple bookkeeping question. This acquisition that we've made, could you just provide some broad controls in terms of the cost and I think it's a cash investment, yes, in terms of costs?

Srinivas Sadu
MD, CEO & Director

Yes. So this happened subsequent to financial year 2021 end. And this is actually an asset purchase. So we have -- subsequent to March, we have purchased their facility and recruitment, et cetera, total amounting to about INR 90 crores. On top of it, we are going to invest the balance amount to scale up for the vaccine purpose, which includes bioreactors, storage capacity, et cetera.

Unknown Analyst

Okay. And the existing facility has bioreactors, single-use or multiuse?

Srinivas Sadu
MD, CEO & Director

It has single-use bioreactors, but to a certain extent, to get to that -- the scale of vaccine, we need to invest into an expansion for the commercial production as well as procure the bioreactors.

Operator

The next question is from the line of Ritesh Rathod from Nippon Mutual Funds.

Ritesh Rathod

Yes. Ritesh here. Can you help us what the existing capacity will create in vaccine once the plant is up and running? And you are contracted with RDIF, what we can do with other places? Can we empty capacity, which can be contracted with other place on the vaccine side?

Srinivas Sadu
MD, CEO & Director

So currently, the drug substance capacity, what we are building is 252 million for the year. So that's how the capacity is getting built. And for the finished product side, again, we have allocated 2 manufacturing lines for these, which are dedicated for vaccines. And it may not complete within the 2 lines, but probably 70% to 75%, it can fill that capacity. If we get an opportunity to fill other vaccines, we'll certainly do.

Ritesh Rathod

And what kind of other vaccines you can to finish? Or will it be additional second also into an to MRI now also?

Srinivas Sadu
MD, CEO & Director

Yes, it can be done. Yes.

Ritesh Rathod

Okay. And this contract with RDIF, is it an annual contract? Like every year, you have that option? Or it's a one-time contract and the second contract will be dependent on how it gets executed? Later on...

Srinivas Sadu
MD, CEO & Director

The current contract is for INR 252 million. And it all depends on how the situation will be after that, right.

Ritesh Rathod

And it would be -- we will be agnostic, like the supply to India market or exports, your profitability, your margins will be fixed, given your contract is with RBI, right?

Srinivas Sadu
MD, CEO & Director

Absolutely. So our product is not dedicated to up the market. We have to supply to them, and they'll decide what to supply their products. Our pricing and supplies for RDIF.

Ritesh Rathod

And that is already fixed, irrespective of which geography, whatever pricing they get?

Srinivas Sadu
MD, CEO & Director

Absolutely, absolutely.

Operator

The next question is from the line of Tarang Agrawal from Old Bridge Capital.

Tarang Agrawal
Old Bridge Capital Management Private Limited

Hello, sir. Congratulations on a strong set of numbers. Just wanted to check what was the export incentives that were not received this year versus the last year?

Srinivas Sadu
MD, CEO & Director

Yes. So the export incentive MEIS scheme was there up to August. And from September onwards, we have not received. The total would be about INR 60 crores.

Tarang Agrawal
Old Bridge Capital Management Private Limited

Okay. So just wanted to check, sir, if I adjust for it, your profitability, the gross margin has actually improved on a year-on-year basis, despite a significant change in your business mix. So from what I understand, the profitability in the developed market -- in the emerging markets is maybe lower. So despite that, you've been able to improve your gross margins. So if you could comment on that?

Srinivas Sadu
MD, CEO & Director

So the portfolio, what we're taking to other markets, we're now focusing on products where we have better margins than normal products. And that's how we started. And if you look at the markets, we have grown like Singapore or Saudi, they are better margin markets. Yes. Again, although we have a large portfolio of products, we're selecting what will keep us in terms of margin percent better than compromising on the margins.

Tarang Agrawal
Old Bridge Capital Management Private Limited

Okay. And how's the competition -- competitive intensity in these markets, sir?

Srinivas Sadu
MD, CEO & Director

Some products, not many players are there. That's one of the reasons you see -- even if you look at the top 10 products in our companies, 5 or 6 products, we make our own APIs. So that kind of gives an advantage in terms of that to integration. And the capacity of what we have in terms of facility utilization, capacity utilization, that also is helping us keeping this margin. So it's a mix of back integration, mix of the output we are giving through maximizing sites. And also the product mix we are launching in this market. It's a combination of these, which is helping us to keep those margins impact.

Operator

The next question is from the line of Tushar Manudhane from Motilal Oswal.

Tushar Manudhane
Motilal Oswal Securities Limited, Research Division

So just on the -- first of all, congrats on a great set of numbers. Just on this Sputnik vaccine, has any of the contract manufacturing companies? I mean, there are, I guess, 7 to 8 companies who have tied up with RDF, has any of the company scaled up to the commercial level production as of now?

Srinivas Sadu
MD, CEO & Director

I can't really comment because it's still prior to a lot of these companies. But people have -- companies have tied up with RDF at different time lines, right? Some have entered agreements end of last year, we entered only March. So I would say, of course, not every -- and if you see the companies have tied up mostly on the bio side, not a real vaccine manufacturing side. And the technology, like everybody is saying vaccine, actually, is not that we use to. And we need -- they have to interact with a lot of companies in India and then get the technology this year. So what we hear is people are coming closer to scaling up and getting launched in June, July. But that's a hearsay. So we can't really comment on other companies, but I think we will see soon some assets happening in India.

Tushar Manudhane
Motilal Oswal Securities Limited, Research Division

Okay. Secondly, on the pace of the ANDA filing has moderated in 4Q FY '21. Any color you would like to give?

Srinivas Sadu
MD, CEO & Director

Yes. One is, of course, there is an impact on COVID for at least a month or so because of people attending the and all that. Second, is the kind of product mix we selected. We talked about getting into the complex generics. So there's a mix of those products also, which has a longer time line. If you see, we have started working on almost 17 -- 16, 17 complex injectables. You'll see some filings happening this year, but 2 or 3 will happen this year. So this has a longer development time compared to normal ANDAs. Other than that, there's no particular reason, I would say.

Tushar Manudhane
Motilal Oswal Securities Limited, Research Division

So overall, ANDA filing as like a India target for FY '22, including these complex products?

Srinivas Sadu
MD, CEO & Director

It will be around '20, similar. And because every year, we have set up complex products under the 4 or 5 products will be complex, which may take a longer time. So that way, earlier, if we kind of target or the '24, normal generics. And we're putting some complex mix into that. So 2022 and falls between that.

Tushar Manudhane
Motilal Oswal Securities Limited, Research Division

And just to complete this, so the overall R&D cost is also expected to increase because we are having more complex products filing?

Srinivas Sadu
MD, CEO & Director

No. So if you look at percentage-wise, we'll still say it will fall 3% to 4%. Because they're growing faster, so the absolute number is substantial. As you see absolute number, we have increase of 30%. So that will take care of the complex. And our model itself is like tying up with companies. So they do take some of the cost of -- if there is a requirement of bio or a chemical. That rate still continue to maintain that 3% to 4% of revenue as R&D expense.

Tushar Manudhane
Motilal Oswal Securities Limited, Research Division

And just lastly, on the operational cost side, by the kind of CapEx which we are doing. So the rate of increase of the operational cost for the next 2 years in terms of employee costs or other expenses, how do we look at it?

Srinivas Sadu
MD, CEO & Director

Yes. So going forward, employee cost is going to be in line with requirements from a volume perspective. Other operational costs will not increase in that fashion because there is a leverage bit. You may not need to spend the same amount proportionately as the volume go up because the facility is same and we'll just scale up within the same facility. So we'll get that advantage.

Operator

The next question is from Vishal Manchanda from Ramalan Institution Equities.

Unknown Analyst

On Sputnik vaccine, I wanted to understand, is the RDF willing to purchase 32 million doses that they are contracted for?

Srinivas Sadu
MD, CEO & Director

Yes. Once the technology transfer happens, and we can show them the construction is available, then they are going to pay 32 million doses.

Unknown Analyst

Assuming if there is no recurring demand that they have for the vaccine, will you be able to put this facility for an alternative use?

Srinivas Sadu
MD, CEO & Director

Yes. So like you said, first, the firstly, 32 million is a binding agreement. So they have to take it. And this is not for this one market. They have approvals in over 50 countries. So they have a demand. It's the question of supply now. From alternate, post base, if there is an extension of requirement because still, nobody knows whether it's annual demand, everybody has to vaccinate every year. It's not clear yet. So if COVID goes away, the facility can be used for biospace. Like I said, probably at 15% of this is specific to this particular vaccine. The rest can be utilized for other products.

Unknown Analyst

Even other vaccines and other biosimilar products as well?

Srinivas Sadu
MD, CEO & Director

Other vaccine, yes. Correct.

Unknown Analyst

And was there any contribution of Remdesivir during the -- all of that will come in the next financial year?

Srinivas Sadu
MD, CEO & Director

So during the quarter, Q4, it is not much. But Q3, yes. And then after a previous quarter. And then in this current April to June, where you'll see this.

Unknown Analyst

Okay. Okay. And just one more on the Sputnik vaccine. So you would be incrementally investing INR 270 crores, but that doesn't -- that does not include a build and finish facility because you already have that in place?

Srinivas Sadu
MD, CEO & Director

Correct. So we are going to add on -- we're going to spend some amount into that INR 270 crores, to add capabilities to fill in terms of storage specifically because almost 20, 25 stock have to be maintained at the side before we get an approval. Some investments are going at the peripheries, but mostly at the substance level.

Unknown Analyst

And will there be a large expansion in employee costs to support this vaccine production?

Srinivas Sadu
MD, CEO & Director

No, it's not going to be substantial employee cost.

Operator

The next question is from the line of Amey Chalke from Haitong Securities.

Amey Chalke
Haitong International Research Limited

And congratulations to management for the good set of numbers. Most of the questions are answered, but just a follow-up question on vaccines. Sir, one of the partner with RDF has said that they are doing clinical trials for which they are manufacturing those vaccine in India. So do we also have to do clinical trials before we launch this product in India? And the second question I have is on the peptides. If you can highlight where we are in terms of filing these products and also the manufacturing capabilities because I believe we were looking for API companies a few months back. So where are we in terms of manufacturing capabilities in this category?

Srinivas Sadu
MD, CEO & Director

Yes. So from the vaccine side, from our perspective, I know which company you're referring to, so unless we sell in Indian market, we do not do a study here. They're expecting a bridging study within the site. But that's not going to come under our view. Our agreement is to fill -- give the finished product to RDIF and they decide where to sell it. And if they want to sell the product in India, then whoever is marketing or however they want to do, they have to do the big new study. We are not responsible to that. That's on the vaccine. From the peptide side, yes, we -- like I just mentioned before this call, we are working on some of the complex products, including some peptide and some hormonal products and on suspensions. So one of the peptides, we -- is expected to be filed this year. And next year, there'll be a couple more. On the API acquisition front, yes, we are looking at some of the manufacturing development side. But as of now, nothing concrete yet on this side.

Amey Chalke
Haitong International Research Limited

Sure, sir. So just last bookkeeping question on the other income. Because for last 2 quarters, our other income has been similar to what we used to report before the IPO. So just wanted to know like how it will move up since we are upsetting on around INR 3,000 crores cash for next 2 years?

Srinivas Sadu
MD, CEO & Director

Yes. So other income is largely constituting interest on the fixed deposits, our treasury. And the foreign exchange on our operations. So going forward, this cash will continue to run this kind of other income until we utilize that for any manor large investments.

Amey Chalke
Haitong International Research Limited

Sir, any strategy on the dividend side, if you want to highlight?

Srinivas Sadu
MD, CEO & Director

So we are a high-growth company. And at this point of time, Board has decided to reinvest into the business. So based on both position in the future, the event will be decided.

Operator

The next question is from the line of Ankush Bawa from Rapro Capital.

Unknown Analyst

Firstly, on the biosimilar business, what kind of business model are you targeting? Like how are you looking to develop our own IP, given that it's a very long time line that is required of the IPO and the costs involved are also higher or it would be largely a CMA operation that we will be looking at?

Srinivas Sadu
MD, CEO & Director

To start with, it's largely CMO, TDM kind of business we're looking at some

Unknown Analyst

Okay. Got it. And sir, secondly, any update on the inorganic opportunity that you are targeting, specifically the respected substance in the U.S.?

Srinivas Sadu
MD, CEO & Director

Not in the U.S., not on that area yet. What I said a because of COVID, there are some limitations in terms of M&A in some geographies. But we are looking at some of the M&A opportunities in Europe. But I don't think that we can't comment much.

Unknown Analyst

So the Europe and are related to expanding the manufacturing infrastructure? Or it would be expanding like the geography of the product portfolio that we can't do in India?

Srinivas Sadu
MD, CEO & Director

Yes, it's more into the -- it's a combination of product portfolio and capabilities in terms of manufacturing, which we don't have.

Operator

The next question is from the line of Jigar Valia from OHM Group.

Unknown Analyst

My question is slightly on the similar lines of the prior one. In terms of biologics, we'll be looking at vaccines peptide. Are also we're looking at in GPM side. And to what extent the capacity can be fungible?

Srinivas Sadu
MD, CEO & Director

Can you repeat that? I lost it in the end.

Unknown Analyst

So my question is, will be -- on the side, we look at vaccines, meds, peptide products. Or we also look at proteins or exipient or products like that?

Srinivas Sadu
MD, CEO & Director

Yes. To start with the vaccines, and some peptides. And then we can give into all these products. But primarily, we are looking at this area.

Unknown Analyst

Finally, and what capacity generally be fungible when it is for products like that project, there will be a dedicated separate business required?

Srinivas Sadu
MD, CEO & Director

Some might need some additional equipment and some reactors. But otherwise, most of it can be fungible.

Operator

So our next question is from the line of Vikas Mri from Ventures.

Unknown Analyst

Congrats on good set of numbers. Actually, sir, I want to ask questions again on biologics. What is your reason for next 5 years whether you will be doing some stepping some cell lines and all that? And what is the capacity of kiloliters you are thinking in terms of establishing?

Srinivas Sadu
MD, CEO & Director

We're just now we're just entering it. So the first step is, of course, vaccine, we're going up to 1 kl, I would say. And yes, then we'll get into the other areas and then understand the demand and the technology. It's all all depends on the technology as well. Like I said, our IDA is to enter into core kind of a business, CM or CDMO. And that will dictate what in a reactive we need getting with that business.

Unknown Analyst

Okay. Okay. One more question on top 20% of -- what is the revenue contribution from your 20% or 10% of molecules?

Srinivas Sadu
MD, CEO & Director

Our top 10 molecules contribute about 57%. And at the company level, yes.

Unknown Analyst

Okay. Sir, do you understand that the kind of growth you're showing, is your CapEx in line with this kind of growth to sustain for a good amount of time?

Srinivas Sadu
MD, CEO & Director

Yes. If you see last 3 years, we've been investing into capacity for next, next, I would say, still '24, '25. That's where we've been investing into. And as we speak, given the slide where we are filling, that we want to show the vaccine that still have capacity to add more lines. And in injectables, like I always said,

almost 85%, 90% is fixed cost, you need to have a site and the suites ready. And add-on lines might require some CapEx, it's not huge compared to building a site. So yes, we are building up for a few years.

Unknown Analyst

Sir, last question from my side. What is the volume and value in terms of growth can take down for me?

Srinivas Sadu
MD, CEO & Director

Yes. If you look at the 32% growth for the last year, about 14% came from new launches, 9% from volume and 7% from value price.

Operator

The next question is from the line of Ankush from ACE Securities.

Unknown Analyst

Yes, congrats, sir, for a good set of numbers. Sir, I just want to understand last year, we have launched 46 new products in the 4 markets. And with the launch of these new products and expansion in emerging markets, the kind of growth is there. Sir, what is the target for the new products for this FY '22 and what is the strategy for this emerging market? And can I get us some more sense in which category that we are going to launch all these new products in this year? Like dermatology, oncology, diabetes, something like that?

Srinivas Sadu
MD, CEO & Director

So we don't go by the therapeutic area. If you look at the FY '22, there are almost 62 SKUs planning to be launched and which is about 36 molecules. And the quarter 1, the plan is to launch about 10 molecules and quarter 2, about 9. And if you look at our approvals, we already have approvals for many of those. And if you see the last quarter, Q4, we had a second, how many. We had 8 approvals in the Q4. And so we have a pipeline of products we need to be launched. And there are also 7 tentative approved products, which we launched in second quarter. So we have a robust pipeline to get launched in this year as well, FY '22.

Unknown Analyst

So we are looking for 62 SKUs?

Srinivas Sadu
MD, CEO & Director

SKUs -- yes, 62 SKUs, but if you go by molecule-wise, in 6 months, it's about 20 molecules we'll be launching.

Operator

The next question is from the line of Vivek Agrawal from Investments.

Unknown Analyst

So the first question on EBITDA margins. We saw good expansion in this year. What is your further improvement from here on in the medium term?

Srinivas Sadu
MD, CEO & Director

So we cannot really give a guidance on that matter, but we'll continue to maintain the kind of EBITDA margin we are doing.

Unknown Analyst

Okay. Secondly, on US segment, apart from ertapenem, do we see any other important high-value launches for the company in FY '22? Anything that we want to call out on?

Srinivas Sadu
MD, CEO & Director

Some of the products that we launched last year active annualized as well. If you look at micafungin, which we launched last year, it's -- the numbers are looking good. We are the only ones there. And most of the contracts are in place. So that will add substantial revenues for us. And from launch perspective, several ANDAs, I mean, not many billion-dollar products out there. But products we have -- we're launching so many molecules is a mix of several products that giving us this growth.

Unknown Analyst

Okay. Sure, sir. Sir, lastly, earlier, you had called out that a good part of supplies for Enoxaparin will be shifting from innovator to land in FY '22. So could you through light on how meaningful this opportunity can be for the company in '22?

Srinivas Sadu
MD, CEO & Director

So we're expecting to do it in the last quarter of this fiscal that an agreement. So we'll see a quarter of sale of this year and then moving forward next few years.

Operator

The next question is from the line of Ravi from the Red Investments.

Ravi Srikant Veturi

Sir, all about the CapEx plan, I could not hear properly for next 2 years?

Srinivas Sadu
MD, CEO & Director

Right. So for the next year, we indicated a CapEx of INR 300 crores?

Ravi Srikant Veturi

Yes, for next year?

Srinivas Sadu
MD, CEO & Director

Net investment in our Pashamylaram facility. Our APS and facility in Vizag and our facility in Vizag. And year after that, FY '23, we expect to spend about INR 200 crores.

Ravi Srikant Veturi

INR 200 crores and the INR 500 crore plan is there. And sir, the one thing is there, last in this pandemic time, most of the pharma companies margin has increased this year, but our margin is stable. So any specific reason for that?

Srinivas Sadu
MD, CEO & Director

It all depends on product portfolio what we have, right? I mean, there are some companies where they struggle because they don't have the particular kind of a product. And some, they do well, if they have a set of products which are good to COVID. For us, like said, we have a better portfolio where we're not dependent on 1 or 2 products where good times, it's very good, but then you also have bad time. So we have that balancing as so we kind of continue to do it. If you look at whether it is within a year, seasonal change not impact is big way and also year wise, there's no big impact. So I would say that's one of the reasons we kind of maintained a stable business in terms of growth and margins.

Ravi Srikant Veturi

Fine, fine. And sir, lastly, we have over 3.39% of R&D. So next few years, this will be our best or something we are doing great in this R&D?

Srinivas Sadu
MD, CEO & Director

No. We continue -- if you look at our plan, the 5-year plan, it will be between 3% to 4% in terms of R&D expenditure. And the absolute number, of course, we are growing faster. So the absolute number is growing that fast, right. I mean, 30%, 30%, you're growing or 25%, 27%. So you are an extent you're also growing that way. So investments are increasing in terms of numbers.

Operator

Ladies and gentlemen, that will be the last question for today. I will now hand the conference over to Mr. Sumanta Bajpayee for closing comments.

Sumanta Bajpayee

Thank you, again, everyone, for joining us today. If any of the caution still remain unanswered, please feel free to get in touch with me. We will provide our feedback. Thank you, sir. Good night.

Operator
Thank you very much. On behalf of Gland Pharma Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.