28th May 2019

(1) BSE Ltd
Listing Department,
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai 400 001

Scrip Code: 500087

(2) National Stock Exchange of India Ltd
Listing Department
Exchange Plaza, 5th floor,
Plot no. C/1, G Block,
Bandra Kurla Complex,
Bandra (East), Mumbai - 400 051

Scrip Code: CIPLA EQ

(3) SOCIETE DE LA BOURSE DE LUXEMBOURG
Societe Anonyme
35A Boulevard Joseph II,
L-1840 Luxembourg

Sub: Q4 FY19 - Earnings Call Transcript

Dear Sir/Madam,

We are enclosing herewith copy of the transcript of the Company's Q4 FY19 earnings conference call dated 22nd May 2019. The transcript is also available on the Company's website *i.e. www.cipla.com* under the Investor Information section.

Thank you,

Yours faithfully,
For Cipla Limited

Karan Tanna
Associate Director
Corporate Secretarial

Encl: as above

Prepared by: Juzer Masta

“Cipla Limited Q4 FY19 Earnings Conference Call”

May 22, 2019

MANAGEMENT: **MR. UMANG VOHRA – MD & GLOBAL CEO, CIPLA LIMITED**
MR. KEDAR UPADHYE – GLOBAL CFO, CIPLA LIMITED
MR. R. ANANTHANARAYANAN – GLOBAL CHIEF OPERATING OFFICER, CIPLA LIMITED
MR. NAVEEN BANSAL – INVESTOR RELATIONS TEAM, CIPLA LIMITED

MODERATOR: **MR. CHIRAG TALATI – KOTAK SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY19 Earnings Conference Call of Cipla Limited hosted by Kotak Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' and then '0' on your touchtone phone. I now hand the conference over to Mr. Chirag Talati from Kotak Securities Limited. Thank you and over to you sir.

Chirag Talati: Good evening everyone. This is Chirag from Kotak Institutional Equities. I thank the Cipla Management Team for giving us the opportunity to host this call today. From Cipla, we have with us today, Mr. Umang Vohra – MD and Global CEO; Mr. Kedar Upadhye – Global CFO; Mr. R. Ananth – Global COO; and Naveen Bansal from the Investor Relations team. Over to you, sir.

Naveen Bansal: Thank you, Chirag. Good evening and a very warm welcome to Cipla's Quarter 4 and Full Year Earnings Call. I am Naveen from the Investor Relations team at Cipla. Let me draw your attention to the fact that on this call, our discussion will include certain forward-looking statements, which are predictions, projections or other estimates about future events. These estimates reflect management's current expectations of the future performance of the company. Please note that these estimates involve several risks and uncertainties that could cause our actual results to differ materially from what is expressed or implied. Cipla does not undertake any obligation to publicly update any forward-looking statement whether as a result of new confirmations, future events or otherwise.

I would like to request Kedar to take over.

Kedar Upadhye: Thank you, Naveen and good evening to all of you. Welcome to our earnings call for the fourth quarter of financial year 2019. I hope you have received the investor presentation that we have posted on our website.

Overall, for the financial year despite challenges in the first half, we had a strong second half and are entering FY20 on an optimistic note. We are happy to see that our focus markets have performed in line with our expectations and guidance. EBITDA margins expanded by 700 bps in quarter 4 versus last year and by about 80 basis points in the full year,.Our profit after-tax for the full year also increased by 8% despite higher tax incidence in the year.

FY19 was an extremely successful year with many firsts in Cipla's growth story. To highlight a few: In India, we launched one of the largest consumers awareness campaign, called as, Berok Zindagi for respiratory, which is a therapy which continues to be our biggest growth driver. We also significantly ramped up our specialty portfolio with in-licensed offerings in diabetology, cardiology and women's health. Recently, we also launched Synchrobreathe and Niveoli as novel offerings in the respiratory.

To build a specialty business in U.S. as our second engine, the year saw our largest speciality deals with a proposed acquisition to Avenue Therapeutics. This business will continue to see traction as we progress and will have its own capital requirements.

Adding our first respiratory specialty asset, we have licensed Pulmazole, which is an inhaled Itraconazole solution. On the generic side, we significantly ramped up our market share in differentiated product categories and IP-enabled products.

In South Africa, we expanded our OTC offerings with the acquisition of Mirren. The acquisition has given us access to a high growth portfolio with strong synergies with our existing commercial infrastructure. We also became the third largest pharma company in the private market in South Africa.

As you are aware, in Uganda, we concluded the IPO of the subsidiary on the Ugandan Stock Exchange. To go beyond the pill and help patients manage their conditions better, we invested towards establishing a digital footprint. In India, we invested in Wellthy along with a commercial partnership to expand our offerings in diabetology and cardiology. In South Africa, we invested in Brandmed and acquired 30% stake to provide connected health solutions to the patients.

Coming to the quarterly and full year results:

The quarter overall revenues from operations are Rs 4,404 crores, which registered a growth of 19% on a year-on-year basis. The quarter saw all our businesses performing in line with our guidance. India business grew by 11% on Y-o-Y basis and U.S. business saw significant ramp up, driven by the launch of cinacalcet and grew 41% year-on-year and 38% on a quarter-on-quarter. When normalized for the contribution from cinacalcet, the U.S. business trajectory was quite in line with our expected exit run rate as guided in the last call. We also saw strong growth in the Europe and API businesses during the quarter.

On a full year, the revenue from the operations are at Rs 16,362 crores, which grew by 8% on a year-on-year basis, supported by strong growth across focused markets. This is despite the fact that we saw significant rebasing in the tender side of the business, challenges in the Middle Eastern markets and certain supply challenges throughout the year.

Gross margin after material cost stood at 66.3% for the quarter, which increased by 300 basis points on a sequential basis and 200 basis points on Y-o-Y basis. The expansions in the quarter's gross margins are driven by contribution from the U.S. launches we alluded to earlier. For the full year, the gross margin stood at 65% marginally higher of fiscal 18.

For the quarter, total expenses, which include employee costs and other expenses, stood at Rs. 1957 crores, increasing 7% on a sequential basis. The employee cost for the quarter stood at Rs. 712 crores, declined marginally on a sequential basis. Other expenses, which include R&D, regulatory, quality, manufacturing and sales promotion expense stood at 1245 crores, increasing

11% on a sequential basis. This increase was largely driven by our growth investments in branded markets and clinical trial expenses. Total R&D expenses are at 7.1% of revenue. It is on expected lines as we progress on our key assets and as Advair clinical trials progress. EBITDA for the quarter stands at Rs. 972 crores or 22.1% to sales. During the quarter, these margins expanded by 700 bps and 75% on an absolute terms.

For the full year, we saw an expansion of EBITDA margin by 80 bps. A part of this expansion has come on the back of new launches this quarter, which may not sustain fully going forward and hence we would like you to be aware of possible moderation. At the same time, this quarter includes certain litigation and provisions linked to delayed receivables and other spends in toto of approximately Rs. 50 crores over the usual baseline.

Adjusted for this benefit, on a sustainable basis, the EBITDA has shown a very strong double-digit growth versus last year and at our base levels, despite seasonality in the current quarter. You would have noticed an increase in the amortization and impairment line. There is a noncash impairment adjustment of Rs. 206 crores pertaining to our U.S. business. There is a corresponding release in the tax line because of this item. Tax charge for the quarter stood at Rs. 128 crores. For the full year, ETR is at 27%. Profit after tax for the quarter is Rs. 367 crores or 8.3% of sales, which is an increase of 106% over last year. For the full year, profit after tax increased by 8% to Rs. 1528 crores, despite higher tax incidence.

Our long-term debt is at US $550 million, which was mainly used to fund the InvaGen acquisition and RAND 100 million for Mirren acquisition. We also have working capital loans of about $48 million and South African RAND 250 million which acts as natural hedges towards all receivables.

Total net debt-to-equity is 0.10. Outstanding forward contract as a hedge for receivables as on 31st March is US $135 million and South African RAND 374 million**.** During the quarter, we have also hedged a certain portion of our forecasted export revenues. The outstanding forward contracts as cash flow hedges as of 31st March are US $162 million and South African RAND 240 million**.**

As we enter FY20,capital deployment and intelligent resource allocation to support growth across our businesses and capital productivity will be important themes.

I would now request Umang to discuss the business and operational performance.

Umang Vohra: Thank you, Kedar. Welcome all of you on the call today. I would like to start with an update on the overall year and the guidance, but I am happy to note how our base numbers on both sales and EBITDA have ramped up this quarter.

Overall, the first half of the year was challenging with multiple headwinds,we came out strongly in the second half of the year with key market showing good momentum in line with our

expectations. As we enter FY20, most of the challenges are largely behind us and our core business numbers are largely rebased. As guided, we are happy to report that the overall domestic business, which includes branded, generics and our OTC business delivered INR 6,420 crores. This is in line with our guidance range of 6,300 crores to 6,400 crores from our domestic sales in the year. The branded pharma business continued to deliver strong market performance and grew 11.2% versus market growth of 10.5% as per IQVIA MAT March 19. Our outperformance across key therapies of respi, cardiology, urology continued during the year. Our generic business in India continued its consistent performance and grew in double digits.

In South Africa private market, where Cipla is the third largest player, we continued to deliver consistent market-leading performance, growing 3x the market at 10.4% versus the market growth of 3.1% as per IQVIA MAT March 19. The Mirren portfolio, which we recently acquired, will further strengthen our position in the fast-growing OTC market in South Africa.

The tender business rebasing played out in line with our commentary and may play out in the next 1 to 2 quarters of the year. As we announced during the quarter, we are happy that Cipla has retained its fair share of the South Africa tender for TEE and TLD and will start supplying these quantities soon.

In line with our expectations and on the back of strong launches during the year, the U.S. business continued its strong trajectory in Q4. The Q4 sales grew by 38% on a quarter-on-quarter basis driven by strong performance in existing differentiated launches and sales from our launch of Cinacalcet. Normalized for Cinacalcet, our exit run rate was in line with our guidance of US $120 million to $125 million for the quarter.

Our global tender business went through rebasing this year. We are continuing to evaluate our portfolio choices in this business and play selectively for value.

Our emerging market territory declined 4% year-on-year, behind challenges in the Middle East markets. We continue to invest towards expanding our biosimilars franchise in the region. During quarter 4, we added pegfilgrastim for Australia, New Zealand, Colombia and Malaysia into our biosimilars portfolio. We expect biosimilars to become an important growth driver for the business in the near to medium term. As we had articulated, we are progressing well on establishing our presence in the growth markets of China and Brazil.

On specialty, we further expanded our portfolio and licensed Pulmazole, which is inhaled itraconazole. This is an important asset for us from a respiratory specialty perspective and gives us a unique opportunity to address an important unmet need in asthmatic patients suffering from allergic bronchopulmonary aspergillosis.

Maintaining our facilities at the highest standard of quality and compliance is non-negotiable for us. During quarter 4, we were inspected at our Kurkumbh plant. We have already responded to the agency. We were also inspected recently at our Indore plant where we had 0 observations

from PAI inspection. We also received the EIR for the January 19 US FDA inspection at our Goa plant.

Our R&D pipeline is progressing as per plan. We filed 4 more assets during the last quarter, taking the full year filing come to 20, including 2 in-licensed assets. Going forward, our target would be to invest towards high-value opportunities. Our respiratory trial program is on track and we are expecting to file 2 respiratory products in FY 20 and have a launch 1 year after that.

Let me move to the business wise performance. In India, on a full year basis, we reported an 8% growth adjusted for GST. Through the year, our prescription growth continued to remain at 9% versus the market of 7%. This year, with secondary sales on track and destocking in the market largely done, we believe our inventory has normalized to healthy levels and this gives us a comfortable base for FY20.

As per our guidance in the last call, for this quarter, the business delivered a reported double-digit growth rate of 11% on a Y-o-Y basis with both prescription and generic businesses showing strong momentum despite the reverse seasonality kicking in. This has been driven by strong execution supported by superior prescription generation and market-leading growth across our therapies.

As per IQVIA MAT March 19, Cipla continued its strong performance with respiratory growing by 19% versus a market growth of 11%, cardiology growing at 18% versus a market growth of 12%, urology growing at 19% versus a market growth of 17% and CNS growing at 16% versus the market growth of 10%. Overall, in chronic therapies, Cipla became the second biggest player in India during the year growing over 18% versus the market growth of 13% and market share increasing from 7.5% to 7.8%.

We are also very happy to share that we recently entered into a strategic partnership with LG Life Sciences and in-licensed their entire portfolio of marketed products in India. This partnership marks Cipla's foray in the high growth and specialty segments of infertility and the human growth hormone business.

For the North America business, we are extremely pleased to report the business grew 41% year-on-year and 38% quarter-on-quarter to US $163 million during the quarter, driven by a ramp-up of existing products and the launch of Cinacalcet. Normalizing for the sales of Cinacalcet, the base business delivered a robust growth and in line with our guidance of US $120 million to US $125 million. For the full year, the business registered an overall growth of 18% on a year-on-year basis. We also continued to do well on our guidance of one limited competition launch every quarter and we will maintain this as we progress. As we alluded to earlier, we are progressing well on our trials for respiratory products and are targeting to file 2 products in the U.S. this year, launch one and have one launch every year starting with the next year.

In the South Africa and Global Access region, what we call SAGA, our South Africa private market recorded its strong trajectory growth growing 3x the market as per IQVIA MAT. With the Mirren portfolio fully integrated, we believe the business is set up for strong growth across the OTC and prescription side of the business. Expanding our offering to patients in South Africa beyond medicines, we acquired a 30% stake in Brandmed, a connected health solutions company. Our investment in Brandmed follows our investment and partnership with Wellthy Therapeutics in India. As mentioned earlier, Cipla South Africa has retained its fair share in the South Africa tender awarded for the next 3 years. We expect to initiate supplies based on this tender soon.

Outside of South Africa, we believe that the tender business has rebased largely during the year with the CGA business degrowing almost 36% this year. We will continue to evaluate our portfolio of choices in the Global Access business. The emerging markets business declined 4%, largely due to challenges in the Middle Eastern markets. We will continue to watch the global developments concerning some of these markets and stay cautious. We have also mentioned about biosimilars earlier. We are working towards accelerating our entry in China and Brazil which are chosen growth markets within the region.

On the specialty business, outside of Pulmazole, we also had expanded IV Tramadol in the earlier part of the year. We expect Avenue to report data by the end of quarter 1 from the pivotal Phase III trial of IV Tramadol for management of postoperative pain in patients following abdominoplasty surgery.

To close, we remain optimistic and believe there are strong growth opportunities across our businesses. FY20 will be a year for us to further enhance our operational execution and leverage the opportunities offered across markets.

I would like to summarize our objectives by market. In India, we would like to ramp up our chronic therapies and the acute therapies across the in-licensed and specialty brands. We expect this business to deliver market-beating growth.

In South Africa, while the tender business softness linked with price declines will kick in, we believe our private market portfolio can deliver significant delta to drive growth in the overall business. For the U.S. market, we will continue to focus on building the trajectory backed up by ramp up of the existing launches. This year is also expected to see Cipla's first inhaler launch in the U.S. We will maintain a strong filing trajectory focusing on high-value products.

On specialty, we remain committed to building the next regime of sustainable growth for the company. We will continue to evaluate assets that serve unmet needs and expand the portfolio in the areas of respiratory, CNS and the channel of the institutional business. Quality and compliance remain the bedrock of our business, and we will continue to operate our facilities with the highest level of compliance and control and on the operation side, we have progressed

significantly from the challenges we faced in FY19. Our focus will be to ensure strong backend execution to deliver products to serve patients across our markets.

I would like to thank you for your attention and I will request the moderator to open the session for Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: I am just trying to understand the U.S. business better. You did mention about the base business at $120 million, $125 million. How do you see this opportunity of generic Sensipar, given the fact that it is a phased launch, at-risk launch and how sustainable do you think it is versus other players not being able to launch? So, I mean, what gives us confidence, is it the Teva pulling back us triggering that or if you could just through some broad-level highlight?

Umang Vohra: Prakash, we are not commenting on Cinacalcet due to the nature of the litigation that we are involved in but as we mentioned, we have done a phased launch and it is our belief that there is value that can serve the market in the U.S., so we can't give more details than this at this stage. I'm sorry about that.

Prakash Agarwal: So, the other way, if you can help me understand on the base of $120 million, $125 million and given the pipe that we are expecting for 20, how do we expect the U.S. business to ramp up?

Kedar Upadhye: Prakash, Umang alluded to in his speech that for the full year, factoring for whatever contribution we get from cinacalcet, we do expect to grow in double digit. We are continuing to focus on the trajectory. We do expect some ramp up in existing launches and then we will come up with new launches as we progress on the review as well. We are also likely to see our first inhaler launch in the U.S. towards the end of this year. So, I think we should consider all these factors and model, Prakash. So, at this time, specifically on Sensipar beyond is because of the nature of the product, we won't like to comment beyond what we have spoken.

Prakash Agarwal: And second question on the India business, we, particularly, have done much better than the peers, especially for the 4Q. We did take one inventory correction in 2Q, if I am not wrong. So, how is the market changing? I mean, most bigger companies, smaller companies, we see they are taking 1 inventory correction in the last 7 quarters post the GST, so what is the sense on the industry and for ourselves that is the channel correction largely done and are we seeing consumption and demand coming back because the volume growth doesn't seem to suggest that?

Umang Vohra: We have 2 lines of business, our prescription business and our generics business. We would like to believe that on the prescription side of the business, which is the results that you have been seeing across competitors that I think that destocking is probably more or less done. On the generic side of the business, we do see that there is some scope still for destocking to happen.

Moderator: Thank you. The next question is from the line of Anubhav Aggarwal from Credit Suisse. Please go ahead.

Anubhav Aggarwal: Umang, question on the India business. When we have grown this year at 7% overall, what would have trade generic business grown for us, would it have been single digit or double digit?

Umang Vohra: We are probably slightly higher than our prescription business, but not hugely different, if that is your question.

Anubhav Aggarwal: So, basically, it is single digit only, you would say, because we have grown 7% overall?

Umang Vohra: Well, it could be double digits, but remember the base of this business is a lot lesser than the Rx business. It is almost one fourth or one third of our Rx business overall.

Anubhav Aggarwal: In just previous response, you mentioned that there is some destocking scope is still there in the trade generic business, can you just elaborate on that, what is driving that?

Umang Vohra: No. I think across the trade this year we have seen, especially in the prescription business, we saw the trade had destocked quite significantly in areas for us at least that concern the acute therapy. And on the Gx business, we are still seeing that destocking is continuing to happen. So, the Gx business trade is a lot more diffused and a lot bigger than the prescription trade in terms of the number of outlets and the chemists, etc. So, we are still seeing some destocking happening in that side of the business, but on the Rx side of the business, which is our prescription business, we believe that this is largely done.

Anubhav Aggarwal: And just last clarity on this 50-crores thing that you mentioned, this is there in the other expenses and what is this nature, you mentioned something related to litigation costs. Is this part included in R&D or in other expenses?

Kedar Upadhye: Anubhav, it is in the other expense line. This is partly litigation, partly some of the provisions we have taken in line with accounting standards for receivables and there has been certain other spends at the plants. This is booked in other expense line.

Anubhav Aggarwal: When you say some provision for receivables, can you just elaborate what does it mean? Why would it take that? Is just like precautionary of taking provision for bad debts there? Or what are you taking?

Kedar Upadhye: Absolutely, I think our accounting standards and internal policies dictate certain provisioning in case collections are delayed beyond a particular ageing bracket, so our attempt is always while we provide to recover it later, but at this stage, given our internal policies, we have provided for it.

Moderator: Thank you. The next question is from the line of Neha Manpuria from JP Morgan. Please go ahead.

Neha Manpuria: Sir, given the 2 deals that you have announced in the specialty side, we get data read-out for one, at the end of first quarter and you mentioned, I think the Pulmatrix goes into trial sometime in the second quarter of this calendar year. I am assuming that these investment requirements from Cipla towards these would increase significantly from next fiscal onwards. Could you give us some colour on how the investment would pan out more from a longer-term perspective, not necessarily for FY20?

Kedar Upadhye: Neha, both these deals will near about $150 million to $175 million, largely in balance sheet, partly in P&L and this is over next 3 to 4 years. We are comfortable to fund this kind of spends because business cases look pretty attractive and, in our view, that is something that we need to do as part of our specialty strategy for the U.S. market.

Neha Manpuria: And the P&L spend would start from next fiscal. That assumption is correct, right?

Kedar Upadhye: Yes and the 7% and 8% to sales of R&D that we have spoken subdues these investments as well.

Umang Vohra: Actually, P&L spend has also started this quarter, right? We have already taken a fairly large amount of spend on account of Avenue in this quarter.

Neha Manpuria: My second question is on the South Africa business. Now that the South Africa tender business has been rebased or the CGA has been rebased, when should we see the impact of the TLE and TLD and private market growth, pricing, etc., any concern there that you could highlight?

Umang Vohra: No. I don't think we are concerned about private market at all. In fact, private market doesn't have the pricing issue that we spoke about. This South Africa tender process works. It is a 3-year tender and so prices get reset every 3 years. This is the first year of the 3-year tender. So, from the last tender to this tender, the prices have moved South, which is usual of this business. So, therefore, on the tender side, we may see a little softness in South Africa, but overall, the business is aiming to cover that softness with the strong growth on the private side of the market. In the Global Access business, our business has kind of rebased. A) We are not starting off a high base, and the TLE, TEE prices have moved significantly South, but we will only play the market for products where we think because we are margin accretive.

Neha Manpuria: I understand the pricing on the tender, sir. I think last year, there was also issue with us taking price hikes in the private market because of currency, I was referring to that. Does that concern still continue for South Africa?

Umang Vohra: Well, last year, average price increases, if I am not mistaken that were allowed in South Africa were closer to 1%, so I don't think there were any price increases per se. It was what was allowed by the government and it was 1% increase.

Moderator: Thank you. Next question is from the line of Kulsun Shaikh who is an individual investor. Please go head.

Kulsun Shaikh: Sir, I have one question about the consol balance sheet on other financial liabilities, there is a sharp increase in other financial liabilities, if you can throw some light over that?

Kedar Upadhye: The increase in other financial liabilities for the quarter is warranted by our investments in some of the joint ventures and subsidiaries. That is the accounting, as per standards we are required to do for our investments and some of our subsidiaries and joint ventures, it is noncurrent and noncash in nature.

Kulsun Shaikh: Sir my question is about the women health portfolio that you are launching in consultation with LG Lifesciences?

Kedar Upadhye: Yes. It is a portfolio of product. Some of them have been launched in quarter 4, balance few, you will see launches in subsequent years.

Umang Vohra: It is in the area of hormones and women's health.

Kulsun Shaikh: Any colour on the commercialization, that when would you expect it?

Umang Vohra: It is already commercialized.

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

Nitin Agarwal: Umang, on the Albuterol launch which is there or that you just mentioned towards the end of the year, how do you guys see the competitive landscape in the market post these authorized generic moves by the innovators?

Umang Vohra: First of all, I think these markets just formed recently with the AG. There are 3 AGs. Each brand has launched the other, so there are 2 things that we see happening in the market. The first is that we think that as long as your Albuterol, you can take share from any of the other 3 brands that are available, so the launch of the 3 authorized generics has actually helped doing that somewhat. The second is it is a 55 million or 54 million units market and right now, our understanding is that the unit price of each is significantly higher than $20, so if you were to look at what price we could come in with, there is still a significant potential depending on the share we take.

Nitin Agarwal: And you haven't seen the pricing dynamics worsen a whole lot even after the AGs come in?

Umang Vohra: Yes, because right now, the 3 AGs are by themselves and they have priced higher than the $20 mark and our math says that we have cost competitiveness to price this significantly lower than that and possibly take a fair share of the market.

Nitin Agarwal: And secondly, Gilead launched, talked about this early Truvada launch next year, so is this launched earlier than what was the initial expectations were?

Umang Vohra: No. I think, we were aware of this.

Nitin Agarwal: And lastly, you have talked about the biosimilar being an important business for us going forward. I mean, the fact that we have not invested much on our own either in development or manufacturing, how competitive does it make us to compete in this market? How do we see this thing playing out for us?

Umang Vohra: Maybe I could answer saying that in the regulated markets, we don't know because we have no product for the regulated markets and those dynamics are playing out. In the Rest-of-the-World markets, we believe we are competitive because it is not solely about price, it is also about your reach in the market and what you can do with the product and we have seen that in India. We are likely to see that in several of the other markets where we made these filings. So, I think where we stand competitive. What we have not invested in biosimilars is not in our own facility and not in our own development because we believe there are many players who can do that and are already doing it in the marketplace.

Nitin Agarwal: And when do you see this business become to be meaningful for you in size?

Umang Vohra: I think bulk of our launches will probably only start scaling up may be a year, year and a half later, so at this stage, depending on when we get approvals in most of these markets and the competitive intensity at that stage, that is the best time for us to make a guess. Right now, we are just focusing on completing our portfolio offering for most of the 5 or 7 biosimilars across our range of emerging markets.

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

Shyam Srinivasan: Just back on generic Sensipar again. I am not going to ask specifics, but can you help us size the risk, if there is any in this launch per se? What could be the tail risk here because I am just trying to understand, do we have to pay very heavy penalties in case the next few quarters change this? I am just trying to understand, is there something that we can kind of fall back on?

Umang Vohra: I am sorry. I can't answer that question. We are in litigation with the branded company and I can't answer that question. All I can say is that Cipla has declared that this is a launch at risk and there is a risk element to it. There is a threshold that the company has set as the path for its risk and based on that, we had indicated we have done a phased launch.

Shyam Srinivasan: My second question is on the U.S. part, both the DTM and the Invagen. Can you just tell us if you see the chart there clearly things that are coming off? So, what is the outlook for these 2 businesses?

R Ananth: So, clearly, as we have been mentioning about even the last quarters, our focus has been significantly to grow the DTM. As you know, on B2B relationships and products that we have

we continue to support, but we are not specifically focusing on increasing B2B in the U.S. because clearly, for us the opportunity is to launch our own ANDAs and be present and grow our DTM market.

Shyam Srinivasan: Okay. And in Invagen as well, is there a plan to kind of divest these 2 parts?

KR Ananth: No, Invagen continues to be an important part of our overall U.S. strategy and will continue to be a part of our strategy there.

Shyam Srinivasan: And my last question is on the guidance for margin expansion next year. What is the normalized EBITDA margin for fiscal 19?

Kedar Upadhye: Shyam, we wouldn't want to be specific on normalized EBITDA margin, but I think every year between the revenue growth, cost improvements and productivity capital and human resource and other elements productivity, there will always be effort to grow the margins. We have been on this journey for the last 3 to 4 years. It will continue next year as well. There will be portfolio momentum also which will come handy and I would keep it at that for the time being.

Shyam Srinivasan: But Kedar, I am asking only fiscal 19 what your number is. I am not asking for quantum on 20, but is it 19.4 the right margin number?

Kedar Upadhye: 19.4 is what we reported. That includes a benefit of Cinacalcet for the fourth quarter. Outside that benefit, as we alluded on a year-on-year basis, there is very healthy double-digit strong improvement in the base level of EBITDA. What we wouldn't like to do is to separate these elements for the sake of confidentiality.

Moderator: Thank you. The next question is from the line of Surya Patra from Phillip Capital. Please go ahead.

Surya Patra: This is Surya here. Kedar, can you just indicate what is the nature of the intangible impairment that we are witnessing? I think a couple of times that we in the recent have witnessed, so is it relating to the kind of product withdrawal or the products were we are not finding any major hope there or something relating to that and any scope for further more impairment?

Kedar Upadhye: Surya, this is from the pipeline products category of the acquired intangibles in U.S. and one of the products where competitive situation has become adverse and our discounted cash flow was short as compared to the carrying value in the books. This may change that we keep doing every year and having done it at this level, we can't guarantee, but the chances of any impairment of intangibles is pretty low henceforth.

Surya Patra: And about China, you have said that okay, there is a kind of well said thought process for the China business. So, can you just provide some sense about it like what is your thought process there? Have you identified product or you have started filing product or what all that you have already thought about it? And what is your plan there?

Kedar Upadhye: In terms of organization, in terms of portfolio, in terms of the plants for manufacturing development, I think it has progressed at a stage where we feel quite good and energized and in the subsequent quarters, as specific, let us say third party agreements gets signed, specific filings are made, I think we will be happy to communicate, but there is a very dedicated work stream in the company which is working on China now.

Surya Patra: Can this influence the overall growth of the company and then, let us say, next 1 to 2-year period?

Kedar Upadhye: Probably not as much in 1 to 2 years, but after that this work stream could contribute in a very meaningful way.

Surya Patra: And just last question on the margin side again, Kedar, sorry for that. See, on the margin front you would say that, okay, whatever the margins that we have reported that will be for following year that may not be the case because obviously, the adverse impact of the Sensipar going down that will be there and do you see any pressure on the domestic business side so far as margins are concerned?

Kedar Upadhye: See, our operating plans factor an expansion of the domestic business margins as well, Surya. As far as the products like Sensipar are concerned, the company has worked on it. There has been a fair degree of efforts by the development team, by manufacturing team, by legal team. At this stage, as we said we can't talk too much about it. We believe the residual litigation risk is minimal. I also said that on a Y-o-Y basis, if I strip off cinacalcet, the base EBITDA margin have grown in healthy, strong double digits. I will leave it here.

Surya Patra: And SAGA business, whether that is really going to add or your Y-o-Y basis whether the margin profile will improve given the kind of incremental business on the tenders that we are witnessing now?

Kedar Upadhye: Yes. Probably, they may not improve and they may not worsen as well. I think given the fact that this is once in a 3-year price adjustment we are doing on the tenders, I would be happy if this stay flat and that will come on the back of growth in private market revenues that will come on the back of some bit of cost improvement on the APIs and between tender and private market and the Global Access business. Our target would be to keep it flat Y-o-Y while the U.S. business and India business supports margin expansion.

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

Chirag Dagli: Kedar, did I hear you correctly when you said, base business EBITDA has grown in healthy double digits for FY19 versus FY18?

Kedar Upadhye: Yes, primarily I said for quarter 4 but yes logically for the full year as well.

Chirag Dagli: For the full year as well, so margins would have logically expanded because this is on the back of single digit sales growth?

Kedar Upadhye: Yes.

Chirag Dagli: And you mentioned 2 respiratory products you will file. Do these require clinical trials? And have those costs been incurred already?

Umang Vohra: We are currently incurring those costs.

Chirag Dagli: So, both these products need clinical trials and both these are already on?

Umang Vohra: Yes, one is a larger trial, one is a smaller trial and yes, both need trials and the cost are incurred.

Kedar Upadhye: Chirag, we have spoken about Advair, we are public about it.

Chirag Dagli: I understand, sir. And when you look at your specialty business, of course, you are taking small steps but as you look at the next 2 years, what are the kind of key milestones that you think we should sort of track as far as this whole speciality effort is concerned on the clinical side?

Umang Vohra: Clinical side will be clear. It will be the initiation. Right now, the objective is the initiation of trials both for Tizanidine patch as well as for inhaled itraconazole and for Tramadol, it would be the readout because Tramadol dosing pretty much will come to an end in another quarter or quarters from now.

Chirag Dagli: So, the results will be out in a couple of quarters?

Umang Vohra: Yes, the Tramadol results will be out in quarter 1 of next year, which means the dosing will ideally be stopping in this quarter or early next quarter and the other 2 will initiate their trials right now.

Moderator: Thank you. The next question is from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.

Nimish Mehta: I just have 1 question. Are we likely to launch Atripla also along with the launch of Truvada? And second is would these launches initially be through Teva or we will be on our own from the first day itself?

Umang Vohra: We are not giving that level of detail. All we can say is that Cipla has been a strong player on both the API as well as the formulation side of the business when it comes to HIV medications.

Nimish Mehta: But will we be launching Atripla also around the time if that is what you…

Umang Vohra: So, I think as the earlier person had mentioned and one earlier caller had raised a question on exclusivity related to some competitor, so obviously, there is a provision of exclusivity and therefore, that player will launch first.

Moderator: Thank you. The next question is from the line of Anubhav Aggarwal from Crédit Suisse. Please go ahead.

Anubhav Aggarwal: Just one question. We talked about supply constraints in last 2 quarters, now those are fully resolved?

Umang Vohra: Ananth will take this question.

R. Ananth: Yes, certainly. They are fully resolved as we said, getting into the last quarter, we gave the same commentary and broadly, all the challenges that we had in the first half of the year are behind us.

Anubhav Aggarwal: And second question is on the China market. Initially, my sense was that we were targeting largely the respiratory portfolio, have we broadened our portfolio now? And when we talk about accelerated approach, what does it exactly mean? Are we trying to file more products than we were initially thinking?

R. Ananth: Yes, it is broadly respiratory products, but also, we are looking at Oncology segment as well and we are looking to increase the pipeline, increase the portfolio significantly from where it was in the past.

Anubhav Aggarwal: So, you already had a facility in China, which can do respiratory. Can you do oncology as well? Or will you make oncology products in India and export to China?

R. Ananth: We don't have a facility currently.

Anubhav Aggarwal: But not even for respiratory?

R. Ananth: For respiratory, we are in the process of creating it.

Anubhav Aggarwal: So, for oncology pipeline, you will manufacture in India and export?

R. Ananth: We would look at both the routes, manufacturing in India and export as well as look at potential facilities in China for manufacture.

Moderator: Thank you. The next question is from the line of Damayanti Kerai from HSBC. Please go ahead.

Damayanti Kerai: My question is regarding Advair trial progress, so how much of the planned R&D spend has been incurred so far? And if you can also update us on potentially when we will be completing the trials and then potential submission timing for the product?

Umang Vohra: So, I think the trials started very early part of this year, mid-last year and the very early part of this year, the calendar year and the trial will be almost 12 to 14 months trial. So, if you look at it from that perspective, the expenditure is already in our numbers and for Advair, it will probably continue to be in the numbers for the next 8 to 10 months.

Damayanti Kerai: So, 12 to 14 month for the trial?

Umang Vohra: From the time it started, which was late last year and early this year.

Damayanti Kerai: My second question is regarding your CAPEX outlook for next year?

Kedar Upadhye: Yes. Damayanti, I think the spends next year broadly would be same as this year. I think this year our total cash flow spend is below 500 crores. Our attempt would be to keep it at that level in FY20 as well.

Damayanti Kerai: And how much of that will be maintenance?

Kedar Upadhye: Large part of that will be maintenance. We do not have plans for a large greenfield or brownfield expansion as of now.

Damayanti Kerai: And one clarity on that 50 crores, one of you said that is in other expenses, right? Or other income?

Kedar Upadhye: It is in other expenses and the nature of that is litigation, the lawyer fee for cinacalcet and some of it is provisioning that I alluded to for delayed receivables and couple of other items.

Damayanti Kerai: Finally, your tax guidance for next year, if you can provide?

Kedar Upadhye: We are at ETR of 27%. For the next year, we will be somewhere between 27% to 29%.

Moderator: Thank you. The next question is from the line of Tushar Manudhane from Motilal Oswal Securities. Please go ahead.

Tushar Manudhane: So, just on the U.S. base business excluding Sensipar with the kind of run rate which we will be having in FY20. At least till FY19, I guess, we were breakeven or slightly below breakeven, so how do we see the profitability improving in the base business? And so let us say incremental revenue will fetch what kind profitability?

Kedar Upadhye: We have turned positive, Tushar. Post R&D, EBITDA for the U.S. business is positive and it is in single digit percentages, it will keep jumping up as we get a contribution from each new launch. Our operating plans for next year factor an expansion in U.S. business profitability.

Tushar Manudhane: So, is it like safe to assume like the incremental revenue to fetch 25%, 30% margin, for the incremental revenue, I am saying?

Kedar Upadhye: It depends on the quality of every new launch and most of our new launches are of high quality in terms of margin profile.

Moderator: Thank you. The next question is from the Pratika Aggarwal from Quest Investment. Please go ahead.

Pratika Aggarwal: Sir, my question is on limited launches per quarter guidance. Could you highlight on important launches coming out for the company in the next 2 years?

Umang Vohra: We are not public about the specific products and molecules, but I think the target to keep adding to our limited competition bucket in that stage.

Pratika Aggarwal: And we expect this to continue for the next 2 to 3 years, the limited launches per quarter?

R Ananth: Limited competition launches, you mean, yes.

Pratika Aggarwal: Sir, my next question is on the Mirren portfolio that we acquired. We acquired that 150 million RAND in FY18, so if you could highlight on how it has performed in FY19? And how do we see it going forward being a very high margin and good growth profile?

Kedar Upadhye: It has been few months of integration. In our hands, it has been about 3 to 4 months till now. We are happy with this. We have factored a stronger growth on this part of the portfolio. It is in the cough and cold category, OTC segment as you are aware and our business gets factored market expansion, synergy and relatively higher growth than our existing private market business.

Pratika Aggarwal: Sir, my last question would be on the U.S. piece. From the FY19 levels, how do we expect to add on our base business the revenue growth?

R Ananth: So, as we said earlier, we do expect some launches during the year and as mentioned by Kedar earlier, we do expect double-digit growth on the U.S. business.

Moderator: Thank you. The next question is from the line of P. Srihari from PCS Securities. Please go ahead.

P. Srihari: In the Indian concept, what is the share of the chronic portfolio currently and how do you see this going over the next 2 to 3 years? And what is the scenario on the U.S. base business and how do you see that panning out?

Kedar Upadhye: The share of chronic in our prescription segment is about 40% to 45% now.

P. Srihari: And how do you see this growing?

Kedar Upadhye: All chronic therapies put together, which is respi, urology and cardiology. All of that put together is around 60% in the prescription segment of the India business.

P. Srihari: And how do you see this growing?

Kedar Upadhye: Yes. So, I think chronic segment, as you know, has higher co-relation in terms of growth and profitability growth and the market trends also suggest that the chronic therapies will have higher growth compared to acute and that is playing out for us as well.

P. Srihari: Okay and on the U.S. base business?

Kedar Upadhye: U.S. base business, Ananth just made a comment to a previous question. I think, there are 2, 3 levers. One is new launches of the year; second is share expansion; and thirdly, full year effect of what we have launched last year. I think between all these three, our target is to see a double digit growth for the U.S. business.

P. Srihari: I am talking about the older product basically. I mean how is the pricing pressure on the older products?

Kedar Upadhye: The older products, we do not have too much of product concentration risk and we do see erosion in the normalized manner now, which is around 6% to 10% per year. Our operating plans do factor that kind of erosion.

Moderator: Thank you. The next question is from the line of Charulatafrom Dalal & Broacha. Please go ahead.

Charulata: My question pertains to India business. What type of growth do you expect overall in India?

Kedar Upadhye: We said we would like to beat the market. I think the market is somewhere between 8% to 10% and our attempt between both our prescription generic segments, again on the back of several efforts that we have done, therapy-shaping initiatives, field force execution efforts, new launches, in-licensing. Based on all these levers, our attempt is to outperform the market.

Charulata: And my second question pertains to the raising of funds of 3,000 crores. Is this largely for the trials?

Kedar Upadhye: That is not for the trials, Charulata. Trials can be funded by our operating cash. This is for inorganic initiatives and other capital expenditure requirements. As you are aware, we have been taking this enabling resolution from the board and shareholders for the last 2 years. This time is also in the same spirit.

Charul Datta: So, do you envisage expenses in the current year?

Kedar Upadhye: I did not get the question, so if it is linked as I said this is an enabling resolution, this in total about 6,000 crores; 3,000 crores for debt and 3,000 crores for equity. It is not for operating expenses, it is largely for capital expenses, either organic or inorganic.

Charul Datta: So, do you expect inorganic acquisition in the current year?

Kedar Upadhye: No. We keep scanning various targets based on our evaluation whether these targets meet our strategic needs and based on our evaluation whether they are coming at a price at which we can consume transaction, a transaction could happen.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Naveen Bansal: Thank you, everyone for joining us today on this call. In case you have any follow-on questions, please reach out to the Investor Relations Team at Cipla. So, once again, thank you so much for joining us. Have a good evening.

Moderator: Thank you very much. On behalf of Kotak Securities, that concludes the conference. Thank you for joining us. You may now disconnect your lines.