Cipla

"Cipla Limited's Q2 FY'24 Earnings Conference Call"

October 27, 2023



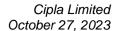


MANAGEMENT: MR. UMANG VOHRA – CIPLA LIMITED

MR. ASHISH ADUKIA – CIPLA LIMITED

Mr. AJINKYA PANDHARKAR - HEAD (INVESTOR

RELATIONS), CIPLA LIMITED





Moderator:

Ladies and gentlemen, good day and welcome to Cipla Limited Conference call.

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 call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ajinkya Pandharkar – Head (Investor Relations) from Cipla Limited. Thank you and over to you, Mr. Ajinkya.

Ajinkya Pandharkar:

Thank you, Zico. Good evening and a very warm welcome to Cipla's Q2 FY24 Earnings Call. I'm Ajinkya Pandharkar from the Investor Relations team at Cipla.

Let me draw your attention to the fact that on this call, our discussions will include certain forward-looking statements, which are predictions, projections or other estimates about future events. These estimates reflect management current expectation about 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 confirmation, future events or otherwise.

I hope you have received the "Investor Presentation" that we have posted on our website.

I would like to request Umang to take over please.

Umang Vohra:

Thank you, Ajinkya. Good evening to all of you. Thank you for joining us today for our Second Quarter Earnings Call for the year.

In Q2 FY24, we have continued the trend of strong performance and we have recorded our highest ever quarterly revenue at Rs.6,678 crores with a year-on-year growth of 15% and an EBITDA margin of 26%. This was made possible through double-digit growth across our core markets of India, North America and South Africa.

In our One India franchise, I'm pleased to share that the franchise has yet again posted a healthy year-on-year growth of 10% despite a weaker anti-infective sale and a slower consumer growth for our CHL business. This growth was largely supported by continuing faster than market growth in branded prescription where we grew at 11% against the IPM growth of 10% as per IQVIA MAT.

The share of chronic therapies in our portfolio has improved by 140 basis points year-on-year to 60%.



Trade generics consolidated its leadership position in the market despite the season which continued to be muted, Gx posted a strong year-on-year growth, supported by performance across realization, volume and a lower cost of goods.

Our generics business has embarked on a journey of constant evolution through new product introductions, leveraging partnerships with our associate company GoApptiv and deepening our distribution network.

Our priority has been to grow our big brands across all the branded prescription and the OTC businesses. In India, branded prescriptions, we have 22 brands with revenues over Rs.100 crore as per IQVIA MAT September '23. Our leading inhaler brand, Foracort, is one of the fastest growing amongst the top 10 IPM brands.

Trade generics now has seven brands over Rs.50 crores in the trailing 12 months.

Cipla Health derives its growth from five brands, which are flagship and well above Rs.100 crores in the trailing 12 months.

In North America, in this quarter, we progressed further on strengthening the core by delivering quarterly revenue of \$229 million, which represents a 28% growth over last year.

Our key asset of Lanreotide has improved its market share to 20% as per IQVIA August 2023. There is generic Revlimid performed in line with Q1.

We continue to execute multiple work streams in Albuterol where market share has improved by 90 basis points to 12.9% compared to Q1 of FY24.

In our South Africa in Global Access business, we continue to outperform the market at a significant pace. We registered a solid 12% year-on-year expansion in top line led by South Africa private market where the secondary market grew at 10% versus the market growth of 4%. Private market growth was achieved through an uptick in focused therapies in our prescription business, new launches as well as solid performance in the OTC portfolio. Our aim is to reach the top position in the prescription business. In our South Africa OTC business, brands of BRONCOL and CORYX continue to gain market share. BRONCOL has now captured close to 50% market share as per IQVIA MAT August '23.

One of our most important focus areas in the past has been efficient capital allocation. Most recently, we announced the acquisition of Actor Pharma in South Africa. The market there is poised for growth in the OTC side and Actor has strong OTC brands which complement the existing offerings and have potential to grow bigger leveraging Cipla's existing marketing network.



We also divested our stake from Cipla QCIL in Uganda and Saba Investment Limited for our business in new DMF. While it has helped us in derisking our asset base, we will continue to service these markets via our B2B market.

R&D investment has also been consistently increasing. In terms of pipeline for North America, we have made significant progress on clinical trials across some of our complex pipeline. We have three complex products undergoing clinical trials, with filings targeted in FY24 and '25. Generic Symbicort being one of them, where we have successfully completed our clinical studies. Filing for this asset is planned for Q3 of this year. In addition, we're likely to file another generic inhalation asset shortly where hopefully we can aim to be among the top filers.

On our peptide portfolio, we plan to launch one product in Q4 of FY24, while there are three, four launches planned in FY25.

Derisking of generic Advair, a partnered inhalation asset and generic Abraxane has been progressing as per our expectation.

On the compliance front, at Long Island, New York, all our units at InvaGen have recently completed their CGMP audits. While the Unit-3 inspection resulted into classification as VAI, the Unit-2 inspection has no observations by the US FDA.

We received an OAI in our Indore facility, which was audited in February 2023. We have already initiated corrective measures for observations as performed 483 from the US FDA and have made satisfactory progress as on date.

At Goa, the CAPA implementation and remediation exercise has completed. We will soon be submitting requisite data to enable the reinspection.

I would now like to invite Ashish to present the financial and operational performance.

Ashish Adukia:

Thank you, Umang, and good afternoon to all. Continuing with the strong Q1 performance, we progressed further with exceptional performance across core businesses with expansion and profitability.

Coming to the key numbers for the quarter, we are pleased to report a quarterly revenue of Rs.6,678 crores, highest ever in Cipla history. The overall revenue growth for the quarter was at 15% YoY. Our ex QCIL sales stands at Rs.6,490 crores with YoY growth of 14% and EBITDA at Rs.1,690 crores or 26% of EBITDA. EBITDA margin stood at record 26% for the quarter on a reported basis. As always mentioned by me, this EBITDA margin does not include other income.



Calibrated price actions in core portfolio across branded and generic markets combined with easing input cost, continued freight decline and favorable forex have contributed to improved operating profitability.

One India franchise further expanded its market share by growing at healthy 10% and exceptional performance in an acute-heavy quarter which was difficult for the industry due to inconsistent seasonality. This growth was supported by mix shifting to chronic portfolio, gross margin improvement and new launches.

North America yet again reported the highest ever revenue driven by traction in the differentiated portfolio with revenue of \$229 million growing at 28% YoY.

South Africa grew by 9% YoY in local currency, powered by a solid performance in private market and OTC. Private market growth was supported by a strong secondary channel performance in oncology, CNS and CVS, as well as the hospital segments. OTC continue to focus on big brands as well as new launches. Our free cash flow generation and operating efficiency has helped us to drive healthy net cash position.

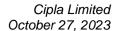
R&D investments for the quarter are at Rs.379 crores or about 5.7% of revenue driven by ongoing clinical trials on differentiated asset as well as other developmental efforts higher in the quarter by 13% versus last year.

Depreciation, impairment and amortization expense includes a partial impairment of a non-operational domestic manufacturing unit. And it also includes an impairment of an acquisition cost of an intangible in the form of product in the US. Both these totals up to impairment of about Rs.53 crores.

Reported gross margin after materials cost stood at 65.4% for the quarter, which is 240 basis points above last year's figures, driven by overall mix change, contribution from new launches as well as lower procurement cost on key APIs. Total expenses for the quarter include employee cost and other expenses which stood at Rs.2,631 crores, up by 1% on a sequential basis. Profit after tax for the quarter is at Rs.1,131 crores or at about 17% of sales. ETR is constant sequentially at 27.5%.

As of 30th September 2023, debt primarily constitutes ZAR720 million in South Africa with cash equivalent balance of about Rs.6,811 crores overall post payment of dividend in this quarter.

Key focus areas and growth levers in the subsequent quarters will include the focus area for One India would be to recoup the growth in the Wellness portfolio, while maintaining the market beating growth in Rx and Gx.





In North America, our focus would be to grow the core revenue, resolve the US FDA observations, maximize our partnered launches and also derisk assets in order to accelerate new launches. We will continue to derisk our key launches for FY25. Sustaining performance of Q2 for South Africa with focus on private markets and select tender business with focus on margin expansion. While margins in EMEU have been very strong, the focus of H2 would be to drive growth in top line there. So, we are increasing our guidance on EBITDA from 23% what we had given earlier to 23% to 24% with bias towards the higher end. Our ROI continues to be strong and in this quarter on an LTM basis comes up to about 27%.

I'd like to thank you for your attention and request the moderator to pick up the questions now.

Moderator:

We will now begin the question-and-answer session. Our first question is from the line of Saion Mukherjee from Nomura Securities. Please go ahead.

Saion Mukherjee:

Just my question is on India. You mentioned 10% growth in India. Now, if I were to exclude the acquisition that you did, it looks like the growth is around 7% and you mentioned trade generics growing in double-digits. Does it mean that the overall prescription and the consumer business is trending around 5% to 6%? And if that's the case, what's the reason for the slowdown and how do you see this moving forward in the second-half?

Umang Vohra:

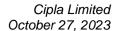
Actually, Saion, the internal growth estimates for the branded prescription and the generic business are well over 11%. If you take out the acquisition, which is what we're doing, I think you have to take out from last year we had a certain tender position in one of the products we had won and that's basically replaced by the acquisition we've made. So, core business growth both on the Rx and Gx side is close to an over 11%. So, those businesses are growing stronger and much higher than market. I think on a consumer franchise, we've seen a fairly significant slowdown more because of the weather pattern. We sell a lot of the ORS product and I think we've not seen that level of sales of that product because of the weather pattern in Q2. And this result is fairly consistent with the category of beverage and with some of the other consumer products we've seen in this quarter. Having said that, I think this quarter we are looking at it bouncing back quite significantly. So, no, I think the branded growth and the generic growth is very strong in the previous quarter, it's the consumer growth which had a little bit of an issue.

Saion Mukherjee:

The other question I had on expenses and on the margins. So, your other expenses are quite flattish quarter-on-quarter despite a seasonally sort of heavy quarter in terms of revenues and also R&D cost moving higher. So, is there anything there and how should we read this going forward?

Ashish Adukia:

So, I think it's a combination of two things. One is you must have noticed the improvement in your gross margin which is flowing through to your EBITDA and that's primarily because of the mix change that has happened in the favor of chronic in India as well as in North America, some of our high margin products, we've been able to do better. So, it's combination of these two things that led to improvement in gross margin and there is some bit of operating leverage that





exists due to which the increase in sales, your other expenses have got absorbed. And if you are comparing to just previous quarter, the previous quarter had some recall cost sitting out there of Albuterol that we had talked about, which of course is not sitting in this quarter. That has also led to improvement if you're looking at it from quarter-to-quarter.

Umang Vohra: Overall, Saion, I think if you were to take the employee benefit expenses and the other expenses

and total it between last year and this year, we're seeing about 11% to 11.5% increase. From our business perspective, I think that's roughly the range that we will see year-on-year for the

expenditure to expand.

Moderator: Our next question is from the line of Tushar Manudhane from Motilal Oswal Financial Services.

Please go ahead.

Tushar Manudhane: Just with respect to the product which you have highlighted to be launched in FY24 the peptide

product, if you could share some market size competitive scenario for other products?

Umang Vohra: I'm sorry we can't give that detail due to the competitive nature of the product.

Tushar Manudhane: The market size at least?

Umang Vohra: The market size of that product could be anywhere upwards from \$300 to \$400 million, so, I

would say the available market size for us; pre-our entry and pre-generic pricing could be

somewhere in the \$300 to \$400 million.

Tushar Manudhane: And this is after some years already?

Umang Vohra: Sorry?

Tushar Manudhane: This is after some generic player here already in the market?

Umang Vohra: I think there might be a player, but the market is fairly complicated.

Tushar Manudhane: With respect to one comment of generic filing, which Cipla is expected to do shortly, so will

that be subject to litigation, would it be more like a para-IV filing?

Umang Vohra: Yes, you could expect that, it would be a para-IV filing.

Tushar Manudhane: Lastly, considering US\$230 million, any ballpark range you would like to give in terms of the

annualized run rate for the US generics?

Ashish Adukia: I think we're guiding to US\$220 to US\$225 million as a sustainable range at least for the next

quarter going forward. We don't know what will happen in Q4 because Q3 typically also has a

little bit of buying on account of the holiday season.





Tushar Manudhane: And then post that you'll have this peptide launch. So effectively then this run rate should ideally

be much better, right?

Umang Vohra: Well, yes, depending on how the peptide will scale and if it depends on when it launches within

that quarter. If it launches right at the end, then the impact will be muted. If it launches right at

the beginning, then obviously, there will be a full quarter impact.

Moderator: Our next question is from the line of Aman Vij from Astute Investment Management. Please go

ahead.

Aman Vij: My first question is on our diabetes portfolio. So, if you can talk about how are we placed to

take the advantage of the upcoming GLP-1 opportunity -- will we be participating in both the

oral and injectable form, if you can talk about the same?

Umang Vohra: The first one that's probably going off-patent is like in India is likely to be Semaglutide.

Liraglutide, anyway is only available as an injectable. You have Semaglutide, and then you have Teduglutide. I think we will do Sema. We definitely have plans for the oral version of the product. And if required and based on our current understanding if the market is there for an

injectable, we will hopefully also try and introduce the product there.

Aman Vij: On this part only, so oral, do we plan to file the FTF on that side? And also, do you think this

market itself for us can become like a \$100 million market plus over the next five years as a

company?

Umang Vohra: I think my answer was more for India. We can't give you a view of the US. I think some

Semaglutide is a very exciting product, no doubt. If there are multiple players on day one, then

obviously the market size will reduce significantly.

Aman Vij: Sorry, just a clarification part on this before I move to the second question. So, you are only

focusing on the India market, not US and the other markets for this opportunity?

Umang Vohra: No, I think we will focus on all markets, but our strategy is maybe a little different for each

market. But in the US, depending on how many people are first-to-file, it will decide what the

competitive nature of the product will be.

Aman Vij: But, we will be also participating in US first-to-file market also, right?

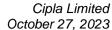
Umang Vohra: Yes.

Aman Vij: My second question is on one of the biosimilar products in osteoporosis. I think US opportunity

is coming up. So, if you can talk about what is our market share in India of this product and are

we looking at the US filing of that product as well?

Umang Vohra: So, which is the product you're talking about?





Aman Vij: Teriparatide itself.

Umang Vohra: No, I think what the product we sell in India for Teri is not that large. So, I don't think we will

provide too much commentary. In fact, I don't think it's a very large product for us in any case. We are not providing too much color on the US pipeline right now. I think as the launches of the

peptides happen, we'll be able to give you some color on that.

Moderator: Our next question is from the line of Kunal Dhamesha from Macquerie. Please go ahead.

Kunal Dhamesha: First one is on the gross margin improvement. So, we have cited that there was favorable product

mix, etc., But would you say that improving US generics environment was one of the key drivers

in this quarter in our sequential gross margin improvement?

Ashish Adukia: It does contribute to the improvement, but it's a mixed bag in US on certain cases, we've got

volume improvement like in case of Albuterol, we've gone from 12% to about to 12.9% share. On Lanreotide there has been increase in volume and then there is price improvement in certain

other products. So, it's a combination of volume and price. Overall, the gross margin improvement is on account of a price like I said in India in select products and mix has also

played a role where the volume increases happened more in the high margin products.

Kunal Dhamesha: We have mentioned that we are getting good traction with respect to several contracts in US and

business development and everything. So, is that on account of lot of shortages that you are seeing or there is kind of pre-buying that is more driving that, what would be your assessment,

so would it continue, let's say beyond Q3 in your sense or the activity is going to probably be

muted little bit in Q4?

Umang Vohra: No, I think the shortage situation until there are new capacities that come up will probably

continue. I think there's a list that the FDA puts out quite routinely about shortages in the US.

At least for those product families, we are not seeing price erosion. That's why there's a balance,

because there's a fair number of products that are on the shortage list for various reasons that there is an equal counterbalance to lesser price erosion. So yes, I think from a US portfolio also

there has been some amount of margin expansion. The other thing is I think if you broadly look

at our India business, as the ratio of chronic in our overall mix begins to increase, margins will

go up in the business, because if you look at high chronic businesses in India, they operate at much higher margins than high acute business. So, as your chronic mix, the last two to three

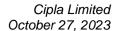
quarters, we've seen a chronic mix improving because our teams are focusing in building those

therapies. I think the natural impact of this is also on some amount of margin expansion.

Kunal Dhamesha: The second question is on the generic Symbicort filing. So as a risk management, would we be

filing it from multiple facilities?

Umang Vohra: Yes, the idea is to file it from multiple facilities.





Kunal Dhamesha: Multiple facilities would be internal or -?

Umang Vohra: Both would be internal.

Kunal Dhamesha: Just a clarification, so we said that there were 43 crores impairment and then there was some 10

crores other charge. What was that? I just missed it.

Ashish Adukia: One is one of our domestic units where we have taken impairment, which is non-operational

unit. So, it was not operating since some time. That's the major part of the impairment. And the other one we constantly keep testing for impairment of intangible. So, one of the products in the US which we had acquired, we had one of the products there we have impaired the intangibles

that was created when we acquired that product from the partner.

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

Damayanti Kerai: My first question is on your Advair investment which you mentioned are progressing as for your

expectation. So, if there are no incremental query, hurdle, etc., is it safe to assume like these

opportunities will likely come in first half of next fiscal?

Umang Vohra: Depends on the review cycle at the FDA. I think we would have finished the transfer process.

After that we filed with the agency. Depends on the agency's view with respect to shortage in the market, with respect to competition and the data that they see. So, it's difficult to predict. But

we are hoping that this comes as soon as it can.

Damayanti Kerai: But from your perspective, you are broadly done with the transfer process or a lot needs to be

covered?

Umang Vohra: They are still on.

Damayanti Kerai: My second question is, in the US business, obviously you are seeing good pick up or good

contribution from depreciated products. So, can you just broadly indicate of the total US sales, how much contribution are currently coming from the differentiated products and how does the

US portfolio look in terms of profitability compared to the corporate average?

Umang Vohra: So, I think over 70%, 75% of our pipeline in the US today is differentiated. So that's a significant

portion. So, we've reduced the number of filings and gone on the side of differentiating our

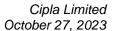
portfolio significantly.

Damayanti Kerai: In terms of current profitability of the US portfolio?

Ashish Adukia: EBITDA for overall US if you see, right, it's above the company average EBITDA margin today.

Damayanti Kerai: My second question is on India business. So, obviously, I guess you maintain outperformance

against the broader market despite slowdown in volume. But, if we see similar muted volume





situation to persist in the market, how do you see your growth look for India getting impacted in near-to-medium term or you remain comfortable that because of increasing chronic you will always be going better than the market?

Umang Vohra:

No, I think in the therapies where we are strong, pediatric, respiratory, urology, anti-infective, cardiac we will expect to grow significantly higher than market. And I think if we're able to do that, then it's easier to show the overall growth for India. So, volume this year is also the impact of the base of the previous year. I think as that begins to even out, we will probably see an expansion in volumes. See, we are sliding to a multiyear assumption of where India will grow somewhere around the 12-ish percentage range on a long-term five-year basis. We think a 12% CAGR for India is not uncommon. Actually, our numbers are quite close whether the volume is low or the price is moderated. So, if you really look at it, our YTD growth will be somewhere at least, in the branded prescription business also around 12% range. And this is happening despite volume growth being lower. There might be a year where volume growth is higher, but price growth may be lower. So overall, the 12% number will probably hold as a CAGR over the next couple of years.

Damayanti Kerai:

So, you remain comfortable with this 12% growth? My last question if I can, can you comment on the US pricing environment? You said you saw mixed performance across products, etc., but across the market, should we assume prices are more or less stable compared to what we saw in recent quarter or there has been any change?

Umang Vohra:

I think pricing in the US always there is some change quarter-on-quarter. So, there will always be some depression, but I don't think we are seeing accelerated compression and pricing in the US. I would say more or less the trend is the same.

Moderator:

Our next question is from the line of Neha Manpuria from Bank of America. Please go ahead.

Neha Manpuria:

Umang, in the last call if I remember correctly, we talked about US base of about 200, 215 and now I think you mentioned about 220, 225 given the momentum that you're seeing in some of your complex products. But other than that, has anything fundamentally changed quarter-on-quarter in the US or this is just improvement that you're seeing in the base portfolio that is driving this higher US guidance?

Umang Vohra:

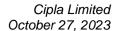
Yes, I think Neha, it's basically a slight increase in our Albuterol shares, slight increase in the share of a few other product families, and also the share increases in Lanreotide.

Neha Manpuria:

Is there scope to improve that further, I'm just trying to understand if there's upside to this 220, 225 number that we are mentioning?

Umang Vohra:

Yes, I think on Lanreotide specifically we are looking at incremental gains that we've seen historically to play out. It's never going to be huge delta that comes in, but it would be something that creeps up over a period of time. And on Albuterol is the same, right, we used to be high,





then we came back down from the beginning to go back up again a little bit. So, it will be that and then quarter-on-quarter buying patterns there's always a little bit at a 200 million base, there could be 3-4 million here, there. So realistically from the previous quarter to this year, not so much of a delta, even though it was 215 to 230, I think some of these share increases, some of that 3, 4 million, buying pattern shift so I think you'll roughly get there.

Neha Manpuria:

It's not as if we've seen a material improvement in the pricing environment or a big upside from these shortage products that's driven this?

Umang Vohra:

No, not really. In fact, there's also a fair amount of demand for a set of products which I don't think the industry can supply such as Budesonide, etc., where frankly whatever you can produce can be sold.

Neha Manpuria:

On the margin guidance, again we have raised the guidance. But if I still look at the first half run rate, we're close to probably 25 versus the guidance that we've given based on your commentary everything that you've mentioned in terms of gross margins, the India momentum, US momentum, are we expecting spend to go up, is that the reason we're being conservative on the margin guidance particularly given what we've seen in the first half or is there some other dynamic that I'm missing out?

Umang Vohra:

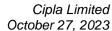
I think, Neha, maybe I can add and then Ashish can comment. I'm not sure we will see expenditure going up. Expenditure between last year and this year is up 11.5% to 12%. I think we may see some seasonal, we do a "Berok Campaign" in this quarter which will probably result in a little bit of delta, but that's not significant to the overall expense hypothesis. First of all, the margin we've probably seen in the last quarter is the highest we've ever seen in our company. I think it's a large portion of it is due to mix. It's a mix and possibly some amount of abatement in the cost of procurement. I would not be surprised in the future quarters if our margin is not at the same level that it was in the quarter that's gone by because the mix may change of the way our business runs. The other thing is Q4 -

Neha Manpuria:

Umang, to your point, because the mix in India, given a focus on chronic and the higher investment, 75% of the pipeline being complex, the peptide launch coming up, so it's not as if the gross margin comes off from here and if your costs are the same, leaving aside in the quarter-on-quarter volatility, shouldn't this quarter margin be sustainable?

Umang Vohra:

Well, not really, because I think what we've been saying is that the sustainable margins the way we see it in this quarter is in the range of 24 to 25. Because if you look at the type of mix we've seen this quarter is very different, hardly any anti-infective and we know that there is some amount of anti-infective that comes in the winter months. So, we see a delta there. That's where we think our margin will be. Q4 is always, Neha, a reverse seasonality quarter for us. Some part of the margin will compress in that quarter as well.





Ashish Adukia:

Umang has covered it. I think if you look at the second-half, it's a combination of Q3, which we believe will hopefully continue to be strong as it has been. But Q4 is something that we are mindful of and combination of the two will probably get us to about 24% overall for the year.

Moderator:

Our next question is from the line of Surya Patra from PhillipCapital. Please go ahead.

Surva Patra:

About the US business, my first question is that is it fair to believe that kind of thing that you would have seen in the Albuterol possibly that has been covered by new launches like Revlimid and all? Is that the understanding right, sir because in terms of the prescription, there is more than 20% kind of decline in Albuterol that we are witnessing?

Ashish Adukia:

So sorry, your question is that the market share loss in Albuterol, has it been made up by. So, there are other products which has made-up for that loss like we talked about Lanreotide which has increased in volume and there are other Excela business as well, which has done very well in the first two quarters, which has helped us to get there.

Surya Patra:

Since after Revlimid launch, we have crossed that 12 months period, so generally there was a kind of a term that in the 12 months period the volume limit means whatever the volume that one need to achieve, that will be based on the 12 months period achievement. So, from that angle, is it possible to have a sense that okay what is the kind of volume that we would be tracking there in US so far as Revlimid is concerned?

Ashish Adukia:

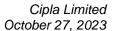
For the balance of the year H2 will more or less like Umang talked about Q2 over Q1 is not a material and significant increase. So that trend will continue for the balance year.

Surya Patra:

The second question is about the South African market. In fact, in the opening remarks, sir, you mentioned you are currently second in the private market and which has been consistently delivering double-digit growth and you are targeting to achieve the #1 position there. So, could you tell if that is achieved, then what would be the kind of scenario in terms of revenue mix, the South Africa business would be having for us?

Ashish Adukia:

If you look at the growth in US and in India, has been fairly strong, right? And US is about 25% roughly, I'm just talking about 25% of revenue, India is about 40%, 45% of the revenue. So, they form a significant portion and they're going at double-digit, right. So South Africa even at 10%, they will still be at par or in terms of growth with them. So, therefore, the share of South Africa will remain same even if they become #1 for us. I think the constant focus in South Africa is also a margin for us and we want to get close to company average margin. Therefore, the growth out there will always be calibrated to make sure that the margin is not compromised and that's why you've seen over last many years the shift that has happened from tender business to private market and now looking at OTC as another lever of profitable growth out there. Actor Pharma that we have acquired, which comes with a portfolio, there is a huge synergy that sits out there to actually leverage our distribution network to push those products in. And the success that we've seen in CORYX and BRONCOL is likely to get replicated in Actor Pharma. So, OTC is





another leg of growth like I said for South Africa, which will help us with both growth as well as margin.

Surya Patra: Sir, is it possible to share that what could be the gap in terms of size, scale between the number

one and the second place so far as the private market is concerned?

Ashish Adukia: I think it's about ZAR200 in prescription. That's the gap that we have between #1 and #2.

Surya Patra: About the domestic formulations business, from the various studies what it is available that

respiratory segment which generally is one of our leading segments has seen some kind of a moderation in terms of growth possibilities because of the high base of the last period. Despite that, we have seen a kind of improved margin scenario what you are mentioning about the domestic formulations business. So, is it not right that respiratory is one of the most profitable

business considering our scale and the kind of end-to-end integration what we are having?

Ashish Adukia: If you look at the IQVIA data, respiratory and cardiac are the two therapies where we've grown

faster than the market in this quarter. So not sure why you're saying that it's been subdued. Of course, like you have said, which is absolutely right, the margins in respiratory, because it's

primarily in-house is better. So, we get the benefit of that.

Surya Patra: So, that means once we see the revival in the respiratory, then possibly that will support the

margin profile going ahead?

Ashish Adukia: Yes, which we've already witnessed partially in this quarter and hopefully we'll continue in Q3.

Moderator: Our next question is from the line of Nitin Agarwal from DAM Capital. Please go ahead.

Nitin Agarwal: Umang, just following up on the US, I think if I remember correctly for the last two quarters you

mentioned that the Revlimid sales have been broadly in line with what we were in Q4 and there is almost \$25-odd million delta we've done in this quarter versus Q1. So, I just want to double check, is it fair to assume that all of this \$24 or \$25-odd million delta which has come through

 $versus\ Q4\ is\ all\ on\ our\ regular\ business\ primarily\ driven\ by\ the\ non-Revlimid\ business?$

Ashish Adukia: No, no, it's a combination of increase in Revlimid as well as other products as well. I'm referring

to Q4 to Q1. So, there was some increase in Revlimid as well. In Q1 to Q2, there has been

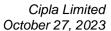
insignificant increase in the Revlimid, yes.

Moderator: Our next question is from the line of Krishnendu Saha from Quantum AMC. Please go ahead.

Krishnendu Saha: Most of the questions have been answered, but just two follow-up questions. In Albuterol, we

had a market share of 16%, 17%, but I heard you said 12.5% or 9%. So, when do we get back to the number? And #2 another question is that the Goa plant capacity increased by 200%, 128

million what I read. What does that Goa plant, which region does it actually related to? If you





could just tell us the plans where the inhalers are filed for, so Indore, Goa, above all, so just you can let us know with the future filings for the FDA?

Ashish Adukia: I'll just take the second question first and then maybe Umang can give some color on Albuterol.

The capacity that we're talking about in Goa, that's primarily for the international EMEU market. And that's where we had an increase in the capacity. On the first question on Albuterol market

share -

Umang Vohra: I think the market shifts between three versions of Albuterol. We sell one of the smallest versions

of Albuterol. Every time the market shifts between these, that market share gets impacted. So,

that range is always 2% to 3%. Now, we are hoping to build our share.

Krishnendu Saha: So, we hope to get back to 6%, 7% in the near future?

Umang Vohra: I think that fortunately or unfortunately is not completely in our control because the market

buying behavior is dependent on which variant they keep. So, in the event that they decide to keep the variant, obviously, the share will go up. In the event they don't, then the share will only

increase marginally as it has been doing.

Krishnendu Saha: If you could just talk us about the plants which are for the USFDA for the filings for the inhalers?

Umang Vohra: So, we have two inhaler plants and we are trying to file; one is Indore and one is in the US.

Moderator: Our next question is from the line of Vishal Manchanda from Systematics. Please go ahead.

Vishal Manchanda: In the US, can you update on what's our market share in Luprolide?

Umang Vohra: We are going to increase share now because there was price listing, etc., that needed to happen.

Current market share is sub-3%... actually, it's close to 1% right now, but it will be built up over

a period of time.

Vishal Manchanda: So, it starts ramping up as we have seen in case of Lanreotide, right?

Umang Vohra: The trajectories won't be similar, but yes, we will be increasing market share.

Vishal Manchanda: Just one more on the sub-Saharan market. Your sales have doubled on a QoQ basis. So, one

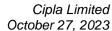
should assume the current cost of run rate to remain stable over the subsequent quarters and what

led to this doubling of sales on a QoQ basis?

Ashish Adukia: SAGA is a combination of South Africa, sub-Saharan, you have CTA also sitting in that where

increase of sales has happened and QCIL is also sitting there. So, we've seen some growth out there. Main growth is in QCIL, which is anyways under sale. So, we will discontinue showing QCIL from next quarter. But, of course, that is mainly tender business, so, it comes at a lower

margin. So yes, that's how you should look at the SSA numbers.





Vishal Manchanda: Any broad sense on what could be a sustainable quarterly run rate for this market for the current

year?

Ashish Adukia: It's a very small contributor to our overall revenue. Of course, it's a tender dependent, so it can

be lumpy as well. So, keeping that in mind, it's difficult to talk about sustainability of that. But,

of course, like I said, QCIL will go away from the numbers.

Vishal Manchanda: What is the number that we should knock off for QCIL?

Ashish Adukia: We've given those numbers in the investor deck, right, and the press release as well. So, 6,678

crores become 6,490 crores after knocking off QCIL.

Moderator: Our next question is from the line of Ankush Mahajan from Axis Securities. Please go ahead.

Ankush Mahajan: Sir, with this year, we are launching one peptide product and except this product what is in the

pipeline, will you throw some light on the pipeline of the products?

Umang Vohra: I think we've mentioned that we have four to five partnered products in the peptide range and

hopefully one we will launch in the next quarter and then in the next two years we will launch

the others.

Ankush Mahajan: Despite these peptides, what are the other products?

Umang Vohra: We have inhalation assets as well and some will be filed shortly, some are in the process of filing

and then we have some other products.

Ankush Mahajan: So, in the initial commentary sir, it was mentioned that logistic cost has improved. So, would

you throw some light on it, how it will take shape in the upcoming quarters?

Ashish Adukia: We monitor our air-to-sea mix, right, of all the products that we export out of US to our

geographies internationally. So, over a period of time has obviously moved in favor of sea, which has actually helped us with the reduction of overall freight. That's one factor. The second factor is that overall the air rate as well as sea rate, both have actually come down substantially; on YoY basis, air rate has come down, close to 8% to 9% and sea rate has actually come down by

almost 60%, 70%. So those are the advantages that we're getting and at least in near term we are

expecting this great advantage to continue.

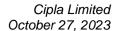
Moderator: Our last question for today is from the line of Kunal Dhamesha from Macquarie. Please go

ahead.

Kunal Dhamesha: So, sir, directionally, when we started the year and gave the guidance of 21% to 22% EBITDA

margin and we are currently giving guidance of 24% and if I look at the various moving parts, the biggest delta which has come from US, right. So that kind of speaks that there is improvement

in pricing, there's improvement in volumes of existing product, but then your commentary is mix





on pricing. So, can you throw some light because if it's just volume improvement, it might not have led to a lot of EBITDA improvement, right, because some of these products would be low margin and we have kind of lost market share in the high margin products on a year-on-year basis. So, what explains the delta in EBITDA margin guidance improvement?

Ashish Adukia:

So first of all, it's a combination of US and India market, it's not just the US market, I would like to just clarify that point. In India as well, like we said, the chronic mix has gone up, right. With the chronic mix going up, which has higher gross margin that leads to better EBITDA margin as well and there is some bit of operating leverage also that we're seeing in India. Likewise, in US, certain products we have better volume albeit could be with some price erosion, but there are certain products where we have taken price actions as well. So, overall, these two geographies have driven the margin because they are a large portion of your business as well. At the same time, there are other businesses where like South Africa I talked about where the margin improvement is clearly visible between Q1 and Q2, and hopefully that trend will continue there for three and four as well.

Kunal Dhamesha:

Let's say in the current guidance of 24%, I think what we are baking in is probably a good \$220 million to \$225 million in US in Q3. But let's say if the trend continues in the US into Q4 as well, would it be fair to say that there could be upside to this 24%?

Umang Vohra:

If the trend of buying changes, there could be an upside, but it's difficult for us to estimate that at this stage.

Kunal Dhamesha:

So right now, we are just building in Q3 because that's what we are seeing kind of good trends?

Umang Vohra:

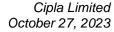
If the certainty of launches in the US improves because of the remediation we are doing at our sites and the transfers, obviously, our confidence in the margin will increase as well. So, to answer your question, there are at least three of our businesses are running ahead of their internal estimates both on the top line and also on the bottom line; one is India, the second is the US and the third is South Africa. So, there is a margin beat on account of all three that we have seen. On our emerging markets business, even though we are running slightly lower than the internal estimates on top line, on bottom line we are running because of expenditure control almost to the same extent. So, that is the reason that I think the margin trajectory has improved. If you look at our costs overall, the cost basis is 11.5% over the previous year. Realistically, in our business, we never increased more than 11%, 12% of cost year-on-year. I think the real increment we're getting is on the margin. Also, in the previous year we had a fair amount of remediation cost built in on account of our facilities which now is reducing because a lot of the remediation is already underway.

Kunal Dhamesha:

What is the PLI benefit that we would have recognized in this quarter?

Ashish Adukia:

So that's part of the other operating income and it has increased versus Q1. We're not giving out the specific numbers, but there is an improvement because of the products that qualify for this





thing. Just on the OPEX part just to complete the picture what Umang was saying, I think with derisking that's happening in the US, there could be marginal increase in the OPEX as well in

the coming quarters.

Moderator: Ladies and gentlemen, that brings us to the end of the Q&A session. I would now like to hand

the conference over to Mr. Ajinkya Pandharkar for closing comments.

Ajinkya Pandharkar: Thank you for joining in. If you have any questions, please e-mail us on

investor.relations@cipla.com. Thank you once again and have a very good evening.

Moderator: On behalf of Cipla Limited, that concludes this conference. Thank you for joining us and you

may now disconnect your lines.