“Cipla Limited Q3FY '23 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to Cipla Limited Q3 FY '23 Earnings 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 star then zero, on your touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr.Ankit Bhembre from Investor Relations team Cipla Limited. Thank you and over to you, Mr, Bhembre

Ankit Bhembre: Thank you, Tanvi. Good evening and a very warm welcome to Cipla's Q3 FY '23 earnings call. I'm Ankit Bhembre 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 projections or other estimates about future events. These estimates reflects management's current expectations of the future performance of the company.

Please note that these estimates involve several risks and uncertainties, including the impact of COVID-19, 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. With that, I would like to request Ashish to take over.

Ashish Adukia: Thank you, Ankit, and good evening to all of you. I hope you've all gone through the presentation that we have uploaded on our website. So this quarter, we actually witnessed strong performance across all our core businesses with expansion in the profitability, despite increase in the R&D investments. The quarterly performance reflects sustained momentum, in our branded markets and contribution from our differentiated launches, in the US.

And this was amid the challenging macro environment and SAGA missing our internal estimates. While procurement cost remains escalated, but freight cost has improved sequentially, responding to lower rates and improving logistics mix, which is quite reassuring.

Coming to the highlights of the quarter. Overall, we are pleased to report a quarterly revenue of Rs. 5,810 crores. The overall revenue growth for the quarter was at 6% Y-o-Y on a reported basis and a COVID-adjusted basis in comparison to last year, a strong 11% growth. Our One India franchise grew in healthy double digits on an ex COVID basis and the North American business reported the highest ever quarterly revenue, driven by traction in the differentiated portfolio, including market share expansion in key respiratory and peptide injectable products.

Our free cash flow generation and operating efficiency continue to drive our healthy net cash position. Our reported RoIC for the trailing 12 month stood at 19.7% which was towards the higher end of the range that our long-term target of 17% to 20%. In line with our expectation, EBITDA margins stood at robust 24%+ for the quarter, on a reported basis. The reported EBITDA growth is 13% Y-o-Y and 24%, if adjusted for COVID, in the base year.

Our EBITDA margins for the quarter subsumes the impact of lower-than-anticipated SAGA performance, a higher inflationary market and a higher R&D outlay. Higher R&D investments was driven by ongoing clinical trials on a respiratory asset, as well as other developmental efforts, including contribution to biosimilar JV. Total R&D expense was higher by Rs. 100+ crores versus last year, which is incremental 1.75% of our revenue and part of our profitability business plan.

Our reported gross margin after material costs stood at 65.5% for the quarter, which is 450 basis points above last year's figures, driven by contribution from new launches and overall mix change. Total expenses, which include employee costs and other expenses, stood at Rs. 2,398 crores, increased by about 1.4% on sequential basis.

Employee costs for the quarter stood at Rs. 949 crores, which was flat. The other expenses, which includes R&D, regulatory, quality, manufacturing and sales promotions are at Rs. 1,450 crores, increased by 3.2% sequentially, driven by, like I said, R&D expense, which was also followed up with judicious promotional and growth-linked investments.

Total R&D investment for the quarter are at Rs. 363 crores or 6.2% of revenues. The absolute trajectory remains intact, with assets progressing into clinical trials and other portfolio developmental effort continuing. We expect our absolute R&D investment to inch up gradually from these levels in the coming quarters.

Profit after tax is at Rs. 801 crores or at 13.8% of sales. The PAT for the quarter subsumes one-time charge of reversal of deferred tax assets as we revisit our plan for one of our subsidiaries. The adjusted PAT is Rs. 876 crores, which is more normalized or 15.1% of sales.

The adjusted growth rate over last year is 20%, and adjusted ETR would be 27.5%, which is more normalized. As of 31st December, 2022, our long-term debt primarily constitutes ZAR 720 million in South Africa and working capital loan of about $49 million in the US. Driven by our relentless focus on cash generation and rigor on cost discipline, we continue to be net cash positive company as of December 2022.

To close, we saw robust momentum across portfolio and geographies for the year, till now. Our growth levers in the subsequent quarter will include: continuing market-beating growth in India, across all three categories of prescription, trade generics and consumer health.

Full year operating profitability in line with our guidance of 21% to 22%; robust traction in North America portfolio, with continued contribution from respiratory and peptides; incubate and drive, growth in stable geographies in international markets, with focus on growth in core markets and managing the growth in EM markets; and we continue to monitor the geopolitical headwinds, that have ebbed but still continues.

I would now like to hand over to Umang to talk about the business and operational performance. Thanks.

Umang Vohra: Thank you, Ashish, and good evening to all of you. Welcome to our call today evening. We are pleased to report another strong quarter of performance, which demonstrates robust commercial execution and continued investments, in our portfolio and growth-oriented initiatives.

Our Q3 FY '23 performance reflects continued momentum across our businesses of One India and US and has a moderation of the SAGA region coming in lower than our internal estimates. Developmental efforts on delivering a robust future pipeline, investment in capacity creation and high rigor on compliance, including our de-risking efforts, continue to be our top key focus areas.

To accelerate our innovation journey, we also invested in a critical partnership this quarter, to support development in therapies, which are future innovation levers for Cipla. During the quarter, we initiated our investment into a JV focused towards building the biosimilar pipeline. We also partnered with Ethris GmbH for the development of mRNA-based therapies and this fast-tracks Cipla's participation in cutting-edge healthcare solutions to patients.

On our journey to build the consumer health franchise in India and South Africa, we continue our growth driven by new launches, category innovation and actionable consumer insights. Our India consumer franchise grew by 14% year-on-year in INR terms over the last year after adjusting for the acquisition, we made in Q2 FY '23. And the global consumer franchise, including South Africa, now stands at close to 9% of overall Cipla revenue for the quarter. We're expecting the India consumer franchise to be nearly Rs. 1,100 crores, by the end of this year.

Coming to detailed updates for the quarter by market, Our One India segment, the One India core portfolio delivered a 11% year-on-year growth, after adjusting for the COVID contribution in last year base. The double-digit growth reflects solid traction in big brands as well as contribution from launches in the focused chronic categories during the year. Our branded prescription business demonstrated double-digit growth in chronic therapies, in the core portfolio, driven by continued demand.

The market-in beating growth trajectory continued for the seventh consecutive quarter, with the 11% growth significantly higher, than the market growth rate. The core revenue growth is underpinned by a healthy mix of price, volume and contribution, from new launches. And as per IQVIA December '22, we continue to maintain healthy ranks, in market share in key therapies for the quarter.

Our growth in respiratory, cardiac and anti-diabetic therapies, outperformed the market, and overall chronic share has expanded by 240 basis points, over last year and now stands at 60% of mix, for the quarter. We now have more than 21 brands, which have revenues greater than Rs. 100 crores, in the trailing 12 months as compared to 19 in the corresponding previous period as per IQVIA December '22.

Our trade generics business continues to witness strong volume traction, strengthening our leadership in the trade generics segment, in India. The revenue growth for the quarter reflects, a steady order flow from the Tier 2 to Tier 6, in rural towns and demand fulfillment across regions,

translating into sustained scale-up in our flagship brands. We launched over 10 products, and therefore, the launch momentum continued in key therapies such as cardiac, antidiabetic and injectable dosage forms.

Our consumer health business continued to deliver consistent growth across anchor and emerging brands, translating into the growth, we had mentioned earlier. We now have four brands, in well-entrenched categories, scaling up over Rs. 100 crores in revenue under a trailing 12 month basis.

Coming to our US generics portfolio. The US core formulation sales for the quarter was the highest at $195 million, registering a robust 30% growth on a year-on-year basis. This is the 10th consecutive quarter of growth, demonstrating an increasing share in our respiratory peptides and differentiated launches like lenalidomide.

The sales of lenalidomide incidentally, are marginally lower than the previous quarter. We continue to keep market well supplied and focus on maximizing value, from all our new launches. Our peptide franchise continues to track well with lanreotide, steadily gaining market share to 14.1% as of November '22 end. We are on track to achieve our 15% guidance, in this category. We have also launched leuprolide depot, during the quarter, which expands our peptide franchise further. We continue to maintain this launch momentum, in the next fiscal and after.

Our generic market shares in respiratory products have witnessed expansion in the last 12 months, driven by sustainable supplies and competitive cost position. The total market share for Albuterol and Arformoterol, stood at 18% and 39%, respectively, as per IQVIA week ending December 31st, 2022.

On the pipeline front, clinical trials on respiratory assets and filings on complex generics, including peptide injectables are on track. From a launch perspective, we've responded to the queries on the Advair file and are working closely with the USFDA on the approval.

We have been proactively communicating with the FDA on the Goa observations as remediation efforts continue at the site. We continue to focus efforts on derisking our key assets from the site and we'll share material updates, as the situation evolves. We believe our North America franchise will witness continued growth, on the back of new launches.

Coming to our international markets business, we continue to drive superior local market growth and navigate a challenging operating environment, in forex volatility. While excluding COVID growth in INR terms is 6% for the quarter, our reported dollar numbers subsumed the adverse impact of depreciating local currencies against the US dollar, which is offsetting the healthy double-digit secondary growth, we are seeing across our DTM markets.

Coming to our SAGA region, as alluded earlier, the South Africa private business is recovering from a reconfiguration of supply and an evolving business mix between, private and tender. In secondary terms, the strong demand continues for our South Africa private business, which

outperformed the market growth. We continue to maintain our third market position, with a market share of 7.7%, and the business did come in lower than our internal estimates this quarter.

Our EBITDA margin of over 24%, for the quarter tracks well above the 21% to 22% guidance range, for the full year. We expect our overall quarter 4 margins to moderate, with seasonality. We are encouraged by and committed to maintain the high strong launch momentum, in the coming fiscal and continue investments, in developing a robust pipeline across the categories of respiratory, peptide, complex generics and biosimilars. We are committed to accelerating our return on capital employed, which is currently tracking closer to 20%.

Turning now to our outlook. Our near-term priorities include: accelerating growth in our One India engine, with a sharp focus on building big prescription brands across chronic therapies; driving accessibility to trade generics as well as our global wellness franchise. Sustainable scale-up of our US formulations business, driven by maximizing contribution, from complex launches and maintaining the high serviceability of our product families.

Continued execution on branded and generic portfolio brand building, portfolio interventions and launch excellence across our DTM and emerging markets. Continued cost focus, calibrated pricing actions and other interventions to navigate inflationary procurement, freight and other cost elements and maintaining a consistent upward RoIC trajectory, and continued rigor on regulatory compliance across manufacturing facilities and implementing globally benchmarked ESG practices.

I thank you for your interest in Cipla and your attention and will request the moderator to open the session for Q&A.

Moderator: The first question is from the line of Saion Mukherjee from Nomura Securities.

Saion Mukherjee: Umang, on the US, if you can give some color on the growth trajectory. You mentioned Revlimid was lower this quarter, and you expect growth to sort of come back or growth to continue in the quarters ahead. So if you can just give more color what would drive it, Revlimid and other products? And also on Advair, what's the status? Is there a new target action date, any particular time line that we can look forward to?

Umang Vohra: Certainly, Saion. I think let's start with Advair. Our target action date is hopefully in the first week of April. So I think we are quite looking forward to being able to bring the product to the market and it's the first week of April. I think what--last quarter, we've guided to a base of about $185 million to $190 million. Quarter 4 calendar and quarter 3 fiscal, typically, is a quarter in the US, where buying is always a little stronger and the US, has had a pretty strong flu season.

So I think some part of that is there in our numbers for quarter 3. But overall, I think from this base of $185 million to $190 million, we could add new launches, as they come along, and we certainly have a good pipeline of launches, coming up in the next year.

Saion Mukherjee: And my second question would be the challenges in South Africa and Sub-Saharan Africa. So you're seeing lower tender business in South Africa and also, what's the concern in other markets in Africa? And how should we think about next quarter and the year ahead, in this region?

Umang Vohra: I think the South Africa business issue is more around tender, as well as on private. Private, what's happened is, though we are growing faster than the market, the overall market growth is also shrunk. Then I think, this is a post-COVID readjustment that's happening in the supply chains there. I think stock levels of customers are going falling a bit to accommodate this.

And so I think the supply chain is getting reconfigured a bit. So my guess is this is the worst is probably in our numbers over the last two quarters. And I think we'll begin to see a resumption to the normal from quarter 1 of the next year.

Moderator: The next question is from the line of Kunal Dhamesha from Macquarie Group.

Kunal Dhamesha: So first, on the India business, while our reported growth is only 2% and you have said, excluding COVID is 11%, can you just give some color on what was selling in the quarter 3 of FY '22? Because as far as I remember, we did not have a lot of COVID, during that period. So what was the contribution in that particular quarter or something you can help me with?

Ashish Adukia: Sure. So the previous quarter of last year, quarter 3, had COVID sitting there of almost Rs. 200-plus crores. So, that, I just wanted to address first. And if you remove that, then the growth is 11% in quarter 3. And this growth has come across actually chronic therapies as well as in respiratory, where we've grown much faster than the market, which is our core therapy.

So both in chronic as well as including that in respiratory, we've actually grown. So that's why you see that reflection in the gross margin improvement as well versus earlier quarters.

Kunal Dhamesha: So is it fair to say this Rs. 200 crores was more of a product that was supplied to China and then whatever COVID-related provisioning we took in quarter 2 was also kind of more or less related to those because the end market sale of those products were already lower?

Ashish Adukia: Sorry, let me clarify. The Rs. 200 crores was the COVID sales in India, previous year in quarter 3. That's the reassessment of base that if you remove that and then look at the figures, then it's a 11% growth. I'm not too sure--there is no--the inventory provisioning that we did on COVID, if that's what, your referring to, that was done over quarter 1 and quarter 2, of this year.

Kunal Dhamesha: And that was our inventory or that was the inventory which got basically reversed from China?

Ashish Adukia: No, that was our inventory that we were carrying in anticipation of COVID continuing and it was across both API and different products as well. The core directly related to COVID treatment.

Kunal Dhamesha: And second one, just on the Advair. So when we say we had queries and we have submitted it, can you just provide some color on when did we submit these queries and these queries came in as a CRL or information requests? And what was the nature of those queries?

Umang Vohra: Well, I think there was a minor query letter. And so the minor query letter was responded and the new goal date is, as I mentioned, in the first week of April.

Kunal Dhamesha: So typically, if it's the--inspection is not required, then the TAD date is generally four months, which means you would have responded somewhere in November? Is it fair assessment? November or start of December?

Umang Vohra: I'm not sure we'll give that level of detail, but you could do the maths around it, yes.

Moderator: The next question is from the line of Krishnendu Saha from Quantum AMC.

Krishnendu Saha: I'm just wondering that for Advair, the TAD date has been shifted a couple of times. So what happens if, come April, things get through? So I'm just wondering on that. And just on the presentation, I see Brovana gaining market share. But with 10 player market, is it still important? Do you make money on that? You could throw some light on that too.? And that's it.

Umang Vohra: Look, if the FDA continues to have queries, obviously, the TAD dates, they will keep shifting, right? So the FDA has to be satisfied with what we've responded to this. All we know is that we had a major and now we have a minor. So this is the second cycle of review. So I believe this should hopefully result in--if nothing else goes wrong, this should hopefully--we feel we are closer to an approval.

And Brovana, it is our ambition to keep our share, the market well supplied and our share high in the respiratory category because it's a higher profitability category. So whether it's Brovana or it's Albuterol or Budesonide, we'd like to maintain high shares on those categories, in this market.

Krishnendu Saha: And just the last question, you spoke about Goa plant having a couple of important filings from there. Besides the applications, how many filings would you like to shift out from there?

Umang Vohra: No, I think we are only in the process of doing Abraxane and one more. I don't think there is anything significant. Just for your information, the plant has been in that situation just pre-COVID, right?

Krishnendu Saha: If I can squeeze a last one. Just the $15 million incremental revenue on a -- maybe on a quarter-on-quarter basis, nothing to look at, but is it largely to do--has Revlimid has huge contribution to that or it's like you're okay with it?

Umang Vohra: Sorry, are you saying is Revlimid higher in the $195 million versus the previous quarter?

Krishnendu Saha: Yes, just the $15 million incremental revenue. Is Revlimid a fair contribution or it's...

Umang Vohra: Revlimid is lower than previous quarter. So Revlimid in this quarter is lower than the previous quarter.

Krishnendu Saha: So basically, the 3 molecules which you have outlined, those are the ones which have gained the market share, that is what is giving you the fillip of $195 million, for the quarter.

Umang Vohra: Right. That is correct.

Moderator: The next question is from the line of Prakash Agarwal from Axis Capital.

Prakash Agarwal: Just trying to understand Revlimid better. So you mentioned it has lower contribution. But going forward, we see Natco coming in March again, with higher share. How do we see the, is this going to ramp up in the upcoming quarters for the next few quarters? Or how should we think about it?

Umang Vohra: I'm not sure of that, I still think that the market, at least for the next one to two years is still going to be a market where the generics would--all generics added together may not possibly be able to satisfy the full demand of Revlimid, as it exists today in the market. So I'm not sure that there should be intense competition in this segment, despite people getting higher allocations or entering, into the market.

Prakash Agarwal: And with our market share increasing with the time gap, it's fair to say that there could be ramp-up from the current levels?

Umang Vohra: I can't comment on that. I cannot comment on that because that is subject to--that is part of an agreement, with a branded company. I can't comment on that right now.

Prakash Agarwal: And in terms of understanding the US run rate, you mentioned, barring the flu season, Lanreotide as well as another peptide product had contributed, but you seem to be cautioning for Q4. And Q4 typically is a softer in terms of margins also. But with this kind of US run rate, would it be fair to see margin expansion unlike previous 4 Qs?

Umang Vohra: I think we are hoping to be higher than the previous fourth quarter, of the previous year. That's for sure. But it's not going to come at the margin profile similar to this quarter.

Prakash Agarwal: And lastly, on the gross margin side, we should assume the sales mix to be a major contributor. As you said, Revlimid is lower, so since tender business is lower, that's the key contributor for the gross margin improvement. Is that right understanding?

Umang Vohra: I think maybe, Ashish, you can take this one.

Ashish Adukia: So it's a combination of 2, 3 factors out here. So product mix is one. So there is more respiratory, there's more products that are higher margin, tender is also playing a roll out here. There's also a forex element that helps us in the margin, in this quarter versus the previous quarter.

So there are many factors that play a role. There was a provisioning that we took for COVID inventory in the previous quarter, which is obviously not--which is absent in this quarter. So it's combination of all these factors, which has led to better gross margin.

Moderator: The next question is from the line of Shubham Goyal from Motilal Oswal.

Shubham Goyal: Yes, sir, I just wanted to ask that, going forward, considering all the JVs and stuff that is planned, so what is like the kind of projection that you have for like the next two or three years?

Umang Vohra: Projection for?

Shubham Goyal: Like the future, like a few months from now or, say, a few years from now.

Umang Vohra: In terms of R&D or in terms of -- in terms of what?

Shubham Goyal: In terms of business, like, how do you expect the business to be growing?

Umang Vohra: So, I think on India, we do expect to have a growth higher than the market like we've had in the past seven to eight quarters. In the US., it is going to respond to how the product launches come. We would like to believe that between respiratory products, et cetera, we do have a good pipeline. And on the emerging side, I mean South Africa will readjust from the current quarter that we've signalled, it should be back. In the quarter one of next fiscal, it should be back. So, we see a reasonable growth going forward.

Moderator: The next question is from the line of Sriraam Rathi from BNP Paribas.

Sriraam Rathi: Just one question on the US sales. I mean, earlier when we were around $500 million sales, we were guiding for like $800 million to $900 million. And we are already closer to that. And I think you also mentioned that beyond $800 million, $900 million, it becomes a challenge to growth in the US markets. So how should we look at this market now for us, I mean from $95 million, let's say, in the next two to three years? What will be the key drivers on this basis?

Umang Vohra: We have a good line of sight, at least to the level of numbers that you're looking at. We are currently somewhere around the $700-ish mark on a 12-month basis. So, from here, we think that we can get to the $900 million mark over a period of time. And I think from there, we are actively building the pipeline to see what best we can do. There is evidence now, at least in the market that companies can grow higher than that value.

So, we are also investing in pipeline. We've also got our biosimilars engine firing, more respiratory product trials happening. So, we're still -- we're very quite optimistic about the US market and we can see growth in this market even beyond the $850 million to $900 million mark.

Sriraam Rathi: And another question on margins. We have been guiding for 21% to 22% EBITDA margin. Now considering the fact that we are already around 22%+ and probably the share of Revlimid will keep on increasing in the next two years. How should we look at the margin profile over next couple of years?

Umang Vohra: Our intention is to grow margins year-on-year. I think the pace of growth, as we've said earlier, that since we've reached the level of the 21% to 22% now, I think the objective is also to reinvest back in the business and to try and see if we can increase the margin profile further from here because we'd like to invest back to grow business faster, which is the direction we are on.

Moderator: The next question is from the line of Damayanti Kerai from HSBC Securities.

Damayanti Kerai: Umang, my first question is on Advair. So, new TAD date in first week of April. Do you see like FDA reinspection will be required for the facility?

Umang Vohra: So according to us, the PAI inspection is over. Now if the FDA does have to audit Indore in the interim, that's a different issue. But the PAI inspection for Advair is over.

Damayanti Kerai: So, up to FDA, like, they might need to reinspect the plant before the final approval comes in. That cannot be ruled out, right?

Umang Vohra: It can't be ruled out, but it's not our understanding, at least the correspondence we have from them, this was not a pre-condition.

Damayanti Kerai: My second question is on Abraxane. Have you got any update to share after the Goa update in previous month?

Umang Vohra: No update. I think, as we said, we are also trying to de-risk the product, so we do not have a new update.

Damayanti Kerai: So, in most case, we assume this could be a potential second half FY '24 launch, if everything goes as per the plan.

Umang Vohra: Yes, towards the later half of the second half of FY '24, that's the correct assumption.

Damayanti Kerai: Okay. And my last question is on the SAGA and SGA segment. I think you obviously mentioned some of the issues there, but this segment has been very volatile over, I'll say, some time now. So how should we see sales or like business performance moving ahead in coming quarters?

Umang Vohra: See all the markets which have economies which are responding to the current global situation, whether it's in markets in the Middle East, to some extent, Europe as well as South Africa. The economies in Europe as well as in South Africa, some readjustment happens because of dollar and especially if the market is a self-pay market, it also responses to the economic situation. So, if you look at South Africa, market growth has reduced, over the base of the previous year. And obviously, the global situation does not help.

However, our business has always outgrown the market growth. And I think that will continue going forward. But we have some issues in terms of just the market readjusting the amount of supply it needs for its growth. And I think that's currently happening. As I mentioned, I think the worst is over from a growth perspective over the last two, 2.5 quarters. And from quarter 1 of next year, we expect things to be -- and when I say quarter 1 of next year, it's quarter 1 of next fiscal, we expect things to be pretty robust again.

Ashish Adukia: Just to add on numbers specifically, if you see how the business is transitioning into lower tender and higher private, so in FY '19 also, we used to be probably about 30% tender, 70% private, which is now a 80-20 kind of a split in favour of private. And that's also supported by new introductions that we're doing. I think the volatility has come due to the supply issue that we talked about, which,

hopefully, from next year onwards, we should see it going away. And the advantage of growing faster than the market, though market is actually slow, but the fact that we are growing faster than the market, those benefits should be more visible over next couple of years.

Damayanti Kerai: And my last question, if I may. Umang, can you comment on the pricing scenario for Albuterol market? Has it changed meaningfully compared to previous quarter?

Umang Vohra: No meaningful change to the previous quarter.

Damayanti Kerai: So, prices are largely stable, right?

Umang Vohra: Yes, in the sense that the prices adjust during the year, there's no doubt about it. But I think since your question was specific to versus the last quarter, no.

Moderator: The next question is from the line of Surya Patra from PhillipCapital.

Surya Patra: Congratulations for the good set of numbers. Two questions, sir. First is the point of care device that you have introduced. So, in fact, we have been seeing kind of a better performance driven by the One India policy or One India approach in the domestic formulation side. Now this device introduction, do you consider this is a complementing factor rather than the other aspect? Or it is just a one-off kind of introduction that is how we should see?

Umang Vohra: Ashish, can you take that?

Ashish Adukia: Sure. I think, diagnostic and devices, while it is nascent, it continues to be one of our legs in our strategy. Going forward, I think it can grow into a business as well. So that's how we are looking at it. It's at a very nascent stage as we speak, but we want to improve our touch points with patients and actually service the patients from every possible ways. And therefore, devices and diagnostics are some of the legs that we have identified as future legs for ourselves.

Surya Patra: Second question is on the, this gross margin improvement only. So you have clarified about it, but if I see that -- if it looks -- if it is a kind of a normalized gross margin situation, then I think this seems to be one of the best gross margin over the last four, five year, excluding the phase of this COVID. So, how sustainable is this gross margin scenario for Cipla and, how should we see really for the future? Because going ahead, the product mix is likely to improve towards the complex products more-and-more, so whether it is a permanent phenomenon or it is just a one-off quarter-specific scenario?

Ashish Adukia: See, I think, this quarter, you had the benefit of seasonality, and this is probably one of the best quarters of the year as well. I think if you see a little bit long term, you've seen that we've got partnered products, etcetera, as well. And that is the idea of having partnered products is to actually go to the market much faster and tap the potential that exists and share the capability. And that, of course, in partnered products, there will be lower margins. So it's fair to say that we'll be able to maintain the margin, though, to grow the margin, it depends on how many launches we are able to successfully do in the US.

Surya Patra: Just one, sir, on the mRNA, Ethris JV or the acquisition, partial acquisition of the Ethris. So it looks like that's an interesting platform technology that you are getting access to. And because of that, possibly, you can have multiple product opportunity using that technology platform and hence, possibly, complement your lung leadership program. So if you can elaborate a bit on the intent front relating to Ethris, mRNA?

Ashish Adukia: Yes. So I think in terms of, you've probably answered the question yourself. I think in terms of technology, it is something that goes along with our core strength of respiratory and lung leadership. So this is an inhale technology. And therefore, the whole idea is that if there is an existing capability that exists, we have invested in that. And the whole idea would be to actually commercialize that in our core markets through partnership.

Surya Patra: But it is a futuristic project that is how I'm thinking.

Ashish Adukia: Absolutely, yes.

Moderator: The next question is from the line of Parvathi from Course5i.

Parvathi: Just wanted to know, like, do you have any plans to file generic Spiriva in the US?

Umang Vohra: We are not going to comment on that. We're not going to comment on that, please.

Parvathi: And one more question. Could you give some clarity on the respiratory assets for which the clinical trials are ongoing? Like could you reveal the product?

Umang Vohra: Well, we're not going to reveal it. But yes, it's a product like Advair.

Moderator: The next question is from the line of Neha Manpuria from Bank of America.

Neha Manpuria: My first question is on the R&D. As you did mention that R&D would inch up gradually, but we just wanted to get a sense on the guidance for next year. Would it be in the historical range that you've given or would it be much higher than that, given the respiratory trials?

Ashish Adukia: So I think it will remain at what guidance we've been giving, which is about 6% to 7% because the focus has always been complex R&D, and that's what we have -- I think what I meant also was that this quarter, there were certain clinical trials due to which the expenses had also gone up. So just keeping that in mind, there was some increase.

Neha Manpuria: In which stage, given the commentary on the strong growth in the US, that you are expecting? If I look at the percentage of sales, you're not talking about too much -- a very large increase in R&D probably 100, 150 basis points. Should we not be seeing a material increase in EBITDA margins versus what we've been reporting for the last two or three quarters? Any reason for us to say, I understand you're investing back into the business, but should there not be a step-up in margins as we see US grow from current levels?

Ashish Adukia: Yes. I think overall, if you look at EBITDA margin guidance that we've been giving, it's a mix of many things. And in the US, there is price erosion that you constantly witness and you make it up with new launches. So on an overall basis, we expect the margins to be maintained. I think that's what the endeavor is. And then, like I said, the new launches are both self as well as in partnership. So you have to look at margins of both in combination to arrive at overall US margins.

Neha Manpuria: So when you say, margins to be maintained, it's maintained at what you have been reporting?

Ashish Adukia: Yes.

Neha Manpuria: And second question, Umang, just a clarification on Lanreotide, because you're already close to the market share target that you have been indicating. Is there scope to improve market share further in the next year, or are we constrained by certain raw material supplies, etcetera? And from a revenue perspective, was this product in line with what we initially expected at launch?

Umang Vohra: Yes. I think this is -- the current trajectory is in line with our expectations. And market share could expand from here, but these products are not like generic where the share expands significantly in one quarter. So we see some expansion, but it is completely in line with our expectation.

Moderator: The next question is from the line of Bino Pathiparampil from InCred Capital.

Bino Pathiparampil: Congrats on a great set of numbers. Umang, a follow-up on Revlimid. If I remove Revlimid revenues from this 3Q number, 3Q US revenue number, would the US revenue number be higher than the first quarter level when there was no Revlimid?

Umang Vohra: Would it be -- sorry, repeat your question? If you remove Revlimid from this quarter numbers...

Bino Pathiparampil: Would the US revenue be higher than 1Q of this year where there was no Revlimid?

Umang Vohra: Of course.

Bino Pathiparampil: Second, coming to Abraxane, Apotex had launched, after that, I believe HBT Labs has got an approval. Have they entered the market and any other competitive scenario that's changing while you shift the manufacturing?

Umang Vohra: Bino, I'm not sure if -- at least till the last update that was given to me, we believe that HBT had not entered the market. However, I think there is some preexisting relationship that two or three market players have by virtue of an AG agreement. So we are not sure whether the AG stocks are completely liquidated or not. So I'm limited by my understanding of that right now.

Bino Pathiparampil: And lastly, on leuprolide, apart from the AbbVie product, there are a couple of other products in the market, one from Tolmar and one from Accord as well. So would you be competing against all of these and possibly taking share from all of these, or is it only from AbbVie?

Umang Vohra: Bino. I think the market pulls from each other. Exact amount of how much it would pull from which particular type, we are not aware right now.

Bino Pathiparampil: But practically, this is all the same product, right?

Umang Vohra: Technically, they are not, but because even I think in administering the products look different and probably feel different too. So I think they will pull from each other, but I'm not sure exactly to what proportion.

Bino Pathiparampil: But your primary pull would be from AbbVie or would it be spread around?

Umang Vohra: Well, we do have a target to go after, but at this point, we're just being as open as possible in terms of where we could get share.

Moderator: The next question is from the line of Sameer Baisiwala from Morgan Stanley.

Sameer Baisiwala Umang, is it possible for you to give us a broad guidelines over the next 15 months? What could be the complex launches in the US? I mean, we know there's Advair, there is potentially Abraxane. I think you had mentioned one peptide product by September, if I'm not wrong. So anything else that you want to add to this?

Umang Vohra: Sameer, there are a few other products. But at this point, we are not sure we'd like to provide that visibility and not because of any other reason, but because we're just trying to figure out what the likely dates for these products would be based on most recent correspondence with the FDA.

Sameer Baisiwala So they are more complex other than these three, that's what you're saying, just timing is...

Umang Vohra: But at the same time, let me also say that the large -- these three would probably be the larger ones in the kitty.

Sameer Baisiwala Umang, the second question is on Revlimid. If the market does remain undersupplied by generics over the next couple of years, then is there any risk to pricing or the same pricing is going to hold?

Umang Vohra: Sameer, I think that every year on generics there's always a little bit of a pricing drag. Having said that, I'm not sure in Revlimid we may necessarily see a huge drag as more people enter like we've seen with regular generic classes. There would be -- it would be -- I don't think it would be unfair to expect that there would be some amount of erosion, but I don't think it's going to behave like a regular generic product at all.

Sameer Baisiwala And for leuprolide, 22.5 mg, I think three-month depot, you are probably the only generic. So did it contribute materially to 3Q number, or -- and the second is how would the market share ramp-up be, more or less like lanreotide or different or much faster?

Umang Vohra: I think the lanreotide version would be something similar, give or take, a quarter here or there. I think that could be probably a curve that could be a little likely. Again, we have to keep in mind that lanreotide is the only available product, whereas for the others, we have two or three brands in the market right now on the leuprolide side. Having said that, I think the trajectory should be slower than a regular generic, just probably like a lanreotide.

Sameer Baisiwala One final question, Umang is on Ethris. So for EUR15 million, what's the percentage stake you have taken, if you can share? And I saw the pipeline, it looks like all of them are discovery-stage preclinical-type. So it looks like even the science is untested, unverified. So how are you thinking about taking this forward?

Umang Vohra: Yes. I think that the platform they have developed, the area that they are researching is the delivery through an inhale route, which appeals to us significantly. Now, having said that, there is always risk involved in discovery of ops. They have a couple of products, which we believe will also -- could move faster in their pipeline. And I think it is our belief that their technology is pretty sound in terms of what we've seen and analyzed so far. So I think we have about -- I don't know if we have been public with the stake. Ashish, have we been?

Ashish Adukia: No, we have not.

Umang Vohra: Okay. So I would say it's a minority stake, Sameer. You could pencil that in. And the objective is to have the ability to bring these products in India and introduce them in India as and when they are in.

Moderator: The next question is from the line of Nikhil Mathur from HDFC Mutual Fund.

Nikhil Mathur: My question is on the overall One India business. Can you share the overall One India business, what is the share from chronic and acute split in 9 month this fiscal? And if the growth overall is 12% in One India, what is the product in acute growth that the company is starting in 9 months FY '23?

Ashish Adukia: So the split of acute and chronic, the chronic is about 60%, and this is on the prescription side that I'm talking about. The balance is -- chronic is 60% and balances is acute.

Nikhil Mathur: What are the growth levels, sir, tracking in both chronic and acute?

Ashish Adukia: Growth levels in...

Nikhil Mathur: In 9 months FY '23.

Ashish Adukia: So about 6% roughly, at that kind of a number for anti-infectives.

Nikhil Mathur: So in the prescription business, if I'm getting this correctly, 60% is chronic, 40% is acute, 40% acute business has grown by 6%.

Ashish Adukia: Yes. And your chronic is all double-digit, 10%, 11%. And respiratory can be somewhere around 17% is what we showed on our slide as well.

Nikhil Mathur: Sir, my question is tied to the respiratory segment. It seems that this particular year the growth is pretty strong. And in anti-infectives also Cipla might be at 6% when we see the data of some other companies, ex COVID the growth is looking pretty strong this particular fiscal year. Pre-COVID, there were some challenges on the acute side on growth front. So just wanted to understand, is

there some risk building up in FY '24 of an adverse base in India because acute and specifically respiratory sub-supply is doing pretty well this year?

Umang Vohra: I'm not sure that I would -- I think the risk -- so let's try and understand your question. Is your question on whether there is excess stocking in the market? I don't think there is, considering just how the India system operates and our review of secondary data. If your question is, will the incidence of anti-infective and respiratory drop in the next year? I mean that's -- I'm not sure we can predict that. It's very seasonal and it's linked to pathogens and disease favor. I'm not sure we can predict that actually today.

Nikhil Mathur: And one more question on the margin front. I think there was a comment made on some cost also easing, whether it's raw material or packing materials, freight costs have eased sequentially in this quarter. So on the journey of cost normalization across these three heads, which is raw material, packing and freight, where are we in terms of normalization on a scale of zero to 100, are we close to reaching the peak normalization that used to be there or we're still far away from what the normalized cost should be across these three heads?

Ashish Adukia: Sure. See, I think it's a constant endeavor for us to keep bringing down the freight cost, which happens in -- there are two levers. One, of course, the freight cost, the rates itself has come down and moderated. And the second is that you change the mix. You -- the air and sea mix, and so that requires you to do your planning of supply chain very accurately so that you can use the sea route. So it's a constant endeavor. I think there is still room for us to improve further because we still have a mix, and that will continue as a journey. We are reaching a point where I think there will be some optimization that should happen.

Nikhil Mathur: And sir, what about API prices and raw material costs, what's the outlook on this?

Ashish Adukia: On the procurement cost also, we've seen some stabilization. But some of -- it's difficult to say, because China is still evolving from the supply situation. So I can't say for sure what the next year contracts would be. But the cost increase that we saw earlier in the previous year that seems to be ebbing.

Moderator: The next question is from the line of Nitin Agarwal from DAM Capital.

Nitin Agarwal: Umang, you mentioned about the biosimilar initiatives that you've undertaken during the year. Can you just highlight if there's any more incremental developments on that account?

Umang Vohra: We have two products that are in development, one more that's been selected, which will be going into development. We're also now steadily ramping up the team. So Kemwell is the partner, and they're doing the manufacturing. So I think we're pretty satisfied. Most of the programs are in line with our internal targets.

Nitin Agarwal: And what would be the time line for these regulated and unreg market launches -- non-reg market launches for these products?

Umang Vohra: Non-reg could happen in the next three to four years because I think the patent estate for some of these would be four years out. Reg markets would still be five, six years out.

Nitin Agarwal: And secondly, on in terms of the significant cash that we have and the cash generation that's happening in the business, I mean, what are your thoughts on utilization of these proceeds -- of this cash which is there on the balance sheet, given the fact that we keep accruing cash, I presume, the way this is going at this point of time?

Umang Vohra: No. But I think we have also signaled we are open to acquisitions. So we will look at the right acquisition. Of course, India is a market we're very interested in as well as the capex program could go up a little bit in the next one to two years. And then, of course, the Board would always discuss the ability of the company to pay some cash back to shareholders with higher dividends or other manner. So effectively, this is only our second year of surplus cash. It's not that we have been having surplus cash for a long period of time.

Nitin Agarwal: I mean, on M&A, India, you rightly mentioned, but beyond India, what would be our strategic objectives from M&A perspective?

Ashish Adukia: So we keep looking at opportunities across the globe in the international market as well as selectively in the US as well. I think it's to fill the gap that we have rather than anything else. But in terms of -- if I have a $1 then the proportion allocation to India would be high because it continues to be a growth market, and we are keen to grow share out there.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to management for closing comments.

Ankit Bhembre Thank you, Tanvi. Thanks, everyone, for joining our earnings call. If you have any other follow-on queries, please do reach out to investor.relations@cipla.com. Thanks, and have a good evening.

Moderator: Thank you very much. On behalf of Cipla Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.