“Cipla Limited Q4 FY22 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Cipla Limited Quarter 4 FY22 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Naveen Bansal from Cipla Limited. Thank you, and over to you, sir.

Naveen Bansal: Thank you, Faizan. Good evening, and a very warm welcome to Cipla's Quarter 4 FY22 Earnings Call. I'm Naveen from the Investor Relations team at Cipla.

Let me draw your attention to the fact that on this call our discussion will include certain forward-looking statements, which are predictions, projections, or other estimates about future event. These estimates reflect 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, which would 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.

With that, I would like to request Umang to take over, please.

Umang Vohra: Thank you, Naveen. Good evening to all of you, and thank you for joining us on the call today. I hope that all of you and your families are safe and well. We appreciate you joining us today for our fourth quarter earnings call for the financial year 2022. I hope you received the investor presentation that we have posted on our website.

As you are aware, after a successful 6-year stint, Kedar Upadhye has moved on from his role as a Global CFO. I sincerely thank him for his partnership in spearheading some of the most successful reimagination initiatives in finance and strategy during his tenure. I wish him very well for his future and his career ahead.

I would also like to welcome Dinesh Jain, who is on our call, and has been appointed as the Interim Global CFO by the Board. Dinesh has had an illustrious career with Cipla of close to 3 decades across several domains of finance.

Dinesh Jain: Thanks Umang, for the introduction

Over the last 24 months we have made significant progress across all our strategic priorities while navigating the uncertain trajectory of the pandemic. Our company recorded the highest revenue and achieved several major milestones in our One-India and U.S. business, pivoting the business on an accelerated growth and margin trajectory. In FY22, we continued the strong momentum across India, U.S. and other key markets, while continuing investments in portfolio and several other growth-linked initiatives.

Coming to the key highlights for the last quarter and full year FY22:

Overall revenue for the quarter was Rs. 5,260 crore, recording a year-on-your growth of 14%. As you are aware, reverse seasonality kicks in during quarter 4, which impacts the overall business mix for the quarter. Despite that, we've been able to drive strong double digit revenue growth through focused execution and maintaining a high serviceability across our markets. The revenue growth for the full year was also at 14%. Excluding the COVID portfolio, the core revenue growth was a robust 12% for the quarter and for the full year.

For the quarter, our One-India business across branded prescription, trade generics and consumer health recorded a robust 21% growth over the last year, and 15% adjusted for the COVID portfolio. We crossed the $1 billion milestone in our domestic-branded prescription business, driven by the sustained growth across our acute and chronic portfolios. In line with our One-India strategy, we have seen strong execution across portfolio and distribution synergies, helping us drive strong growth across the 3 businesses, which are now tracking close to the Rs. 10,000 crore mark. The strong equity of our brands amongst the patients and physicians is reflected in the high growth rates for our flagship brands, which are now a household name. Our focused growth-linked investments, coupled with top line leverage in our India consumer health business has led to EBITDA breakeven in FY22 for that business. And we wish to grow sustainably from here in FY23.

Our efforts are now focused on identifying more brands with high consumer potential across India and South Africa to build a strong global wellness franchise. I'm also pleased to see the transformation of the U.S. business, led by sustained ramp up in our respiratory franchise and the peptide injectables, which is improving the run rate and offsetting price erosion being witnessed in parts of our portfolio. Our U.S. core formulation sales stood at a multi-quarter high of $160 million, driven by strong traction in respiratory assets, as well as a contribution from the peptide portfolio. We are gearing up for the upcoming complex launches expected in H2FY23, which would drive both the top line growth as well as the operating profitability of our business.

While the uncertainties and challenges related to the pandemic seem more manageable now, geopolitical conflicts and associated supply chain challenges have kept procurement and freight costs at elevated levels. We are managing some of these external headwinds by passing on cost escalations where possible, continued cost optimization and mix management to insulate the core margins to the extent possible. Our operating margins for this quarter subsume the impact of certain onetime charges to the extent of Rs. 200 crore, which I shall explain a little later; business mix due to reverse seasonality; elevated procurement and freight costs; as well as higher R&D investments driven by the initiation of the clinical trials of one respiratory asset which is almost Rs. 45 crore higher than the last year. Adjusted for these onetime charges, the core operating margins remain healthy at 18%, delivering a growth of 20% over last year quarter 4 with continued expansion in base business profitability.

The Rs. 200 crore onetime charges pertain to 2 items. The first item is an item related to an inventory charge on account of largely the COVID portfolio lying with us. And that is approximately Rs. 160 crore in the gross margin line and about Rs. 20 crore in the onetime operating expense line. Post this, we continue to carry marginal inventory, which we believe can be liquidated in the coming quarters. And hence, this quarter's charge covers us for any material unforeseen risks of inventory in the future.

We also have a charge in this quarter of about Rs. 20 crore, largely on account of the restructuring we have carried out in our South African business. Adjusting for these onetime charges, our core operating profitability was Rs. 960 cores and represented at over 18%, which is an expansion of 100 basis points versus last year's quarter 4.

Our reported gross margin after material cost stood at 59.2%. As alluded earlier, there is an approximate 300 basis point impact due to change in material cost line, largely pertaining to demand uncertainties linked to the COVID, which I have explained in terms of the Rs. 160 crore charge we have taken.

Total expenses which include employee costs and other expenses stood at Rs. 2,364 crore, an increase by 12.3% on a sequential basis. Employee cost for the quarter stood at Rs. 892 crore, an increased by 2.3% versus the last quarter. The other expenses which include R&D, regulatory, quality, manufacturing and sales promotion are at Rs. 1,471 crore, an increase by 19.4% sequentially given largely by the higher R&D expense as well as the onetime charges that we explained. Total R&D for the quarter is at 6.1% or Rs. 322 crore. The absolute trajectory remains intact with assets progressing in clinical trials and other portfolio developmental efforts ongoing.

Reported EBITDA for the quarter was Rs. 763 crore, or 14.5% of sales. If we adjust for the Rs. 200 crore charges that we have spoken about, which are one-time, the EBITDA for the quarter then comes in at Rs. 960 crore with margins of 18% plus. Tax charge for the quarter stood at Rs. 71 crore. And the ETR was 15.9%. The lower ETR is attributed to the creation of a deff tax asset in our subsidiary, driven by the restructuring of certain businesses, which has been approved by the Board. The full year ETR is at 26.7%.

Profit after tax (PAT) is at Rs. 362 crore or 6.9% of sales. Apart from the one-time charges above EBITDA, our PAT for the quarter includes the impact of the following 2 items: Nearly Rs. 70 crore of impairment in certain assets, largely on account of our investment in Avenue. The depreciation on account of the Sri Lankan currency versus the U.S. dollar, where we have booked a FOREX loss of Rs. 42 crore on account of the outstanding receivables from our subsidiary. We are closely monitoring the situation and exploring options to secure the future business.

The adjusted PAT, excluding all of the one-off items in the P&L is nearly Rs. 610 crore or 11% of sales. Our reported pretax return on invested capital continues to track at a healthy rate of over 21.6%. As of 31st March '22, our long-term debt stands at ZAR720 million in South Africa and $7 million in Uganda. We had working capital loans of $49 million and EUR2 million.

These act as natural hedges towards our receivables. Driven by the relentless focus on cash generation and the rigor on cost discipline, we continue to be a net cash positive company as of March 22. And we continue to be appropriately hedged for few global currencies as per the policies.

Our elevated inventory levels reflect our commitment to ensure availability of medicines and de-risk any business interruptions due to the global supply chain disruption.

I'll now come to detailed business updates by market:

We will start with India. In India, our One-India business grew by 27% for the year and 21% in the quarter. Core portfolio growth, excluding the COVID portfolio was 25% for the year and 15% for the quarter. The branded prescription business delivered sustained momentum across therapies in all our core portfolios. As per IQVIA MAT March '22, we continue to deliver market-beating growth on the overall portfolio and maintain healthy ranks and market share in key therapies.

We have sustainably invested in our core electronic and acute portfolios to build high-quality formidable branded franchise with power brands which have shown a healthy CAGR of 13% over the FY18 to '22 period on the chronic side of our portfolio. Over the last 4 years, driven by focused product selection, our share of core chronic to core branded prescription has expanded by nearly 750 basis points. 23% of our overall branded prescription portfolio is under NLEM, and here too we continue to demonstrate a healthy 6% growth over the last 4 years.

The trade generics business continues to witness strong demand traction for the flagship brands with strong order flow across regions. Our consumer health business has crossed Rs. 500 crore in FY22, and some of our flagship brands, which were transitioned have grown bigger and bolder. As alluded earlier, our India consumer health business has turned EBITDA breakeven in FY22, and we wish to grow that sustainably from here in FY23.

Coming to the U.S. generics:

The U.S. core formulation sales were at $160 million for the quarter and full year revenue stood at $594 million. In FY22, we have taken significant strides in transforming our portfolio footprint, adding more complex products and sensing our direct-to-market operations. Our respiratory franchise, including albuterol and Arformoterol is ramping up sustainably with 21% growth for the quarter and 28% for the full year.

On the pipeline front, our Advair file is under active review, and we are hoping for a H2FY23 launch. As mentioned earlier, we have initiated clinical trials on the respiratory assets during the current quarter. And filings in the complex generics, including peptide injectables shall continue in FY23.

Coming to our SAGA business, which includes South Africa, Sub-Saharan Africa and CGA:

The overall SAGA region grew by 8% on a year-on-year basis in dollar terms. The private business reported a robust 17% growth over the last year for the quarter in local currency terms. The growth continues to be diversified across base business and new launches. We continue to maintain our third position with a market share of 7.5% in the overall market.

In markets outside South Africa, the CGA business has witnessed strong order flow in one of our key products, while the Sub-Saharan business-maintained scale over the last year base driven by continued order flow. Our international markets include emerging markets in Europe, and the business navigated very strong geopolitical headwinds to maintain scale at $385 million for the full year and a 4% growth for the quarter. Our DTM franchisees have delivered strong double-digit growth, which helps us offset the emerging market for its volatility and the muted B2B demand in Europe for the quarter. The business continues to track high margins and robust covenants and receivables during the year. Our operations in some of the emerging market geographies are facing currency headwinds, the impact of which is also baked in our Q4 numbers. We are closely monitoring the situation and exploring options to mitigate any risks that may arise.

Turning now to our outlook:

We have established a strong threshold for revenue and operating profitability in FY22 with core margins trending in the 21% to 22% range. Geopolitical crisis, which is contributing to the current inflationary environment has driven up procurement and trade expenses over the last year's cost base. We are monitoring these trends closely and working on plans to mitigate these in the coming quarters. As we mitigate these challenges over the next 3 to 4 months, we expect the business trajectory to improve given the upcoming complex launches expected in the second half of this fiscal. Our near-term priorities include: Focus on monitoring and monetization of our respiratory filings and launches across geographies to accelerate our global lung leadership journey. Active advancement on innovative consumer-centric products to accelerate the augmentation of our global consumer wellness franchise across India and South Africa. Continued execution on our branded market portfolio, including peptides, brand building and improvement in ramp up productivity. Sustainable scale-up of our U.S. core formulation sales on the back of high serviceability of respiratory and peptide franchise. Continued focus on cost management, especially amid the inflationary environment we are, which is impacting our procurement costs and others. Accelerate the digital adoption across businesses and functions through focused agenda under the new digital health company Cipla Digital Health. And focus on regulatory compliance across our manufacturing facilities and implement globally benchmarked ESG practices.

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

Moderator: We will now begin the question and answer session. The first question is from the line of Prakash Agarwal from Axis Capital.

Prakash Agarwal: So, my first question is on outlook on the India business. While we are seeing robust growth with COVID, without COVID, just some outlook would help given that we are on a good base.

Umang Vohra: I'm sorry, I had a problem following the question. Could you repeat it again, please? Maybe the line was bad.

Prakash Agarwal: So, just wanted some outlook on the India business. How is it looking? I mean given the strong growth we have seen with and without COVID, I understand there would be COVID-related therapeutics which had also helped growth. How do we see growth outlook for India business in particular?

Umang Vohra: So, we are quite clear, I think we would like to see very high growth, better than market for the non-COVID portfolio. And I think our business momentum is very strong across all the 3 businesses. And I think it will be for us, big brands becoming bigger. So, we remain bullish on India. Of course, we have COVID in our mix in the previous year. But if it is non-COVID, I think we will be showing growth much higher than market.

Prakash Agarwal: Also I wanted to understand the current goodwill is about Rs. 3,000 crore. I understand tramadol is largely written off. Now currently it largely pertains to Invagen acquisition or there is more subparts to it?

Dinesh Jain: Dinesh Jain here. I think it has again a South Africa part also. We've done an acquisition of Medpro in 2013. So, goodwill is also pertaining to the South Africa business in addition to Invagen.

Prakash Agarwal: And tramadol is largely done?

Dinesh Jain: Yes, tramadol is already done.

Prakash Agarwal: And lastly, on the U.S., just wanted some color on albuterol. I mean, is it seeing flattish performance or you continue to gain market share and dollar value is increasing for us?

Umang Vohra: So, the market share, we don't answer specifically on each individual product, but what I can tell you is that market share has expanded versus the last quarter. I think based on recent data that I saw, we are almost a 22 share.

Moderator: The next question is from the line of Anubhav Aggarwal from Credit Suisse.

Anubhav Aggarwal: Umang, one question on the other expenses actually. So, you talked about the adjustment. But even after doing that, roughly about Rs. 40 crore adjustment that you talked about, other expenses seems to be higher by Rs. 100 crore in this quarter versus the run rate that you are

doing. Any particular reason that you call out -- you want to call out for? Because you're not calling that as an extra, so is that the new base now?

Umang Vohra: No, I don't think it's the new base, Anubhav. I think what we are looking at, we've only taken the Rs. 200 crore for the calculation of the 18% margin, which is the inventory write-offs. We haven't even taken the R&D or anything else into that computation. It's just the inventory charges and the exit charges that we added back. I think the expenses are higher because in quarter 4, particularly our India business had more expenses than usual. And I think this was on account of quarter 4 for us is a respiratory quarter. And the fact that we were not able to spend it in quarter 3 on account of COVID-related. So, it's not the new base. Having said that, yes, expenses are higher by Rs. 30 crore, Rs. 40 crore even from a normalized basis for us on sales promotion.

Anubhav Aggarwal: So, just to ask the other way, and maybe I missed out in your comments earlier, what's the expectation for the margin for next year? I mean what kind of range? I heard you talking about 21%, 22%? Or you think even without Advair you can do 22% plus margin for next year?

Umang Vohra: So, let me put it this way. I think at margin range what we are guiding towards is upwards of 21%. And from the last call, we were somewhere closer to the 21.5% to 22%. But considering the procurement costs, et cetera, this time, the high inflation in commodities, we are in the 21% to 22% range.

Anubhav Aggarwal: And this is with or without Advair. So, let's say if Advair doesn't happen for whatever reason this year, you can still do 21% plus or lower?

Umang Vohra: Yes. I think we can still do that. And also, Advair for us is penciled in only in half 2.

Anubhav Aggarwal: And just last question on Advair. What are the kind of queries you're getting on this from the FDA? I mean not particular query, but is it more on the device side, more on your trial data side, et cetera? Because so far you have given us very high confidence that a very high chance of getting this asset in second half, but just trying to get some more confidence that what are queries you're getting from the FDA on this?

Umang Vohra: So, I think, Anubhav, here the queries that we have received from the FDA are more around the CMC. I don't think we've received anything on trial. Obviously, they have to come and visit the facility because it's our first DPI product. So, I think maybe the file is pending on account of that as well.

Anubhav Aggarwal: And when was the last time you received any query on Advair?

Umang Vohra: About 4 months back, 6 months back.

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

Neha Manpuria: Umang, you mentioned in your opening remarks that U.S. also saw contribution from the peptide asset. Last call you had mentioned sort of a sustained increase in market share over time. Post the launch that you've seen over the last 2 months, has there been any change? Or would you change your market share expectation and the time line for ramp-up on the product?

Umang Vohra: No. I mean, we are not changing any of our expectations from the product. And I think our plans largely remain on track.

Neha Manpuria: So, it would still be a gradual increase in market share?

Umang Vohra: Yes.

Neha Manpuria: And what could be the fair market share for a product like this in your view?

Umang Vohra: So, I think we have an internal estimate. I'm a little hesitant to give it out right now because the product is fairly competitive, and matters of this product are also kind of subdued in some way or the other. So, I don't think I'd like to give a commentary on market share, et cetera, but I'd just like you to know that it is well on track to what we have as an internal goal.

Neha Manpuria: And Umang, on the R&D expense, now that we have 1 respiratory asset in trial, how should we look at the expense for next year? Would it be in the 6% range that we have reported in the quarter or slightly higher as the expenses probably goes up?

Umang Vohra: I think we had -- we have also booked in this quarter some amount of clinical trial expenditure on account of the respiratory trials. So, I think between 6% to 7% would be where we would end up mostly in R&D.

Neha Manpuria: And last question, if I may. On Abraxane, what is the time line there? Any view on that? And that will also depend on Goa inspection. Have we heard from the FDA on that happening anytime?

Umang Vohra: No, we have not -- we don't have a specific date as yet on the inspection, but you're aware that inspection has started in the country and quite significantly. So, hopefully, we will -- we are also hoping to be audited soon.

Neha Manpuria: So, Abraxane could therefore be a second half launch in that case?

Umang Vohra: Yes. We are hoping it is.

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

Saion Mukherjee: Umang, just one question on India. Can you share what's been the growth in trade generics in this fiscal year, FY22 over FY21? And any dynamics there? Is it acute, chronic, what kind of products are driving the growth in trade generics?

Umang Vohra: I don't know if you're giving segment-specific, but I put it this way, that our highest growth probably was in our consumer business, followed by our branded prescription business in the last year. And I think trade generics was also significantly comfortable in double digits. That's what I would put it, is higher than market. And the portfolio there I think is more acute, more acute, more pain category rather than chronic, and we are building the chronic franchise.

Saion Mukherjee: And Umang when you mentioned like COVID and non-COVID, I mean, the growth rates that you mentioned, so you consider only the products which are exclusively used for COVID or you also include the impact of the products which got sold higher during COVID.

Umang Vohra: For us it is largely the COVID. The antibiotics which sold larger is within our base.

Saion Mukherjee: And you expect on this non-COVID base to grow next year?

Umang Vohra: Very correct. We expect to, yes, we expect to grow on the non-COVID base.

Saion Mukherjee: And just one last question, if I can. You talked about in your opening remarks about various inflationary pressures. Is it possible for you to quantify like what level of raw material or freight costs we are currently seeing versus, let's say, a couple of years back in a normal situation? Is it possible for you to sort of quantify the impact?

Umang Vohra: I don't know if I can do over 4 years, Saion, but maybe a good reference point would be from, let's say, last year, right. What could be the overall impact broadly that one could see of this in the category, my guess is about 50 basis points could be the freight and the procurement cost impact. And to some extent, you would try and offset this through levers available to a company through pricing, et cetera. So, overall, I would say about 50 to 70 basis points broadly. Dinesh, is that roughly?

Dinesh Jain: Yes, Umang, you're correct.

Saion Mukherjee: And you would say this is probably most prominent in this quarter or even in the third quarter you had. So, sequentially, has things materially changed?

Umang Vohra: Yes, I think they did because the Ukraine crisis changed. Which was already a slightly worsening situation, I think the Ukraine crisis has added to it. So, materiality of crude price swings, et cetera, happened more in quarter 4 than they did before it.

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

Bino Pathiparampil: Umang, could we get an update on generic Revlimid? Are you still looking at launching in the second half? And would you be in the next wave of launches?

Umang Vohra: Bino, yes. The first wave has already formed and there could be exclusivity linked to some spends with another player. But yes, amongst the people who will launch in half 2, we are hoping to be in that wave.

Bino Pathiparampil: For the strengths for which already the exclusivity is getting over, you will be in…..

Umang Vohra: That is correct.

Bino Pathiparampil: And just one follow-up on Advair. I believe Teva got an approval recently of late. Have they launched and how has the market changed if they have launched after that?

Umang Vohra: I think what the intelligence we have picked up is that there has been a very limited launch by Teva, but we are aware that had shipped in the market in limited quantities. We haven't seen any material change to pricing in the market division.

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

Sameer Baisiwala: Umang, did you say that the impact because of higher cost of procurement and freight is just 50, 70 basis points in Q4?

Umang Vohra: Broadly on a full year basis, yes, Sameer. And I think on quarter 4, yes, it could be in the same range.

Sameer Baisiwala: Just looks a fair bit lower because considering what other companies are saying, and I'm seeing across the sector like including chemicals and other sectors is a few hundred basis points I would have thought the way the inflation is raging.

Umang Vohra: Well, no, 1 minute, Sameer. I'm only talking about procurement and freight, I'm not talking about overall inflation. In an overall inflation and people costs on some of the promotional materials, all that is over and above this and extra.

Sameer Baisiwala: Not including those, just procurement and just raw mat, freight and maybe you can include power, if you were to do that, I thought the impact is much higher, but it's fine if it's not so for you.

Dinesh Jain: Actually this doesn't include power, and I think the impact we will see maybe going forward also because a part of it will be in the inventory.

Sameer Baisiwala: Umang, the other question is on the price increases. In which market have you been able to pass on the input cost inflation? And roughly to what magnitude?

Umang Vohra: Actually, to some extent, prices are adjusted in the emerging side of the world to the extent we can. And India, I think companies have got the permission to price higher. Some of the other markets it should not be impossible.

Sameer Baisiwala: And when you say that emerging markets, what's the magnitude? Is it like a mid-single-digit kind of price increases that you've managed the last 6 months?

Umang Vohra: No, actually, you lose more there, Sameer, because what happens is you try and index pricing based on where the currencies are. And then what happens is that even though you pass on a little bit of the cost, the currencies take it away. So, while you're price adjusting, you're losing more on the currency and its translation back to you. So, you can price up, but your net currency translations bring you back down.

Sameer Baisiwala: So, net-net, are you neutral or what?

Umang Vohra: You try and be neutral in the emerging side of the world, but you don't get the benefit if you're asking of price increases to margin in those markets.

Sameer Baisiwala: And just on the U.S. side, I was just wondering how important is Advair launch going to be in the sense that we would be fourth player, if I'm not wrong, maybe more. And I think 50% volumes have already gone generic. So, you're right to win. And do you think this can be a triple-digit sort of an opportunity on a 12-month basis?

Umang Vohra: I don't know if I would give specific guidance, Sameer, on whether it's triple digit or high double digit or anything close to that. All I would say is that 50% of the market is still branded. That's a pretty sizable opportunity to go after for all generic players, not just us. And I think over a period of time, even that branded share would reduce, in my view, with more people entering the fray.

Sameer Baisiwala: But Umang, would you not think that generics have been around for a couple of years, if not a bit more. And this part has been very sticky with the brand and brand has matched a lot of rebates. So, it just makes your job that much tougher. And being a fourth or fifth entrant, including also generic, winning market share could be very tough in this market.

Umang Vohra: I don't disagree with that. I think winning market share is always going to be tough in markets like this, which exhibit a little bit of stickiness. But I also think that if you were to look at where generics were maybe 1.5 or 2 years back, they were at a much lower level. So, the delta that has happened with generic launches increasing over the last 24 months is also significant in this category. So, I think that is one shift. And the second thing is that we have overachieved what we thought we could do with albuterol, which was again a market category where we were launching as probably the third or the fourth variant of albuterol in this market. And while the overall category has 3 sub-brands, we were not clearly the first to market share. But we've consistently tried to gain share there. So, I think those share conversions happen. It's a matter of time. And we're quite bullish about it.

Sameer Baisiwala: Umang, with your permission, if I can ask one last one. That's on Lanreotide. You've been in the market for the last 2 or 3 months, where do you see is a more challenging part? Is it contracting

with clinics, GPOs? Is it supplies? Is it getting the reimbursement? Like if you can just share your thoughts and experience on Lanreotide, please.

Umang Vohra: I think because this is a B2 product, what happens is that it has to in some way get the approval, the reimbursement listing, et cetera. So, I don't think it's a challenge. I think it's more -- it has a different time line than a generic product. A generic product enters pretty much the same classification, et cetera, as a branded product, whereas this one has slight differences and tweaks to it. So, it takes time for price listing, for reimbursement listing, et cetera. And that's the time period we are in right now.

Moderator: The next question is from the line of Anubhav Aggarwal from Credit Suisse.

Anubhav Aggarwal: So, this is continuation on Lanreotide actually. So, last time you mentioned that you need to reach out to a lot of clinics in order to address this market. Just trying to understand, in the last 3 months, you've been in the market, let's say, what percentage of clinics that you want to address? I'm just trying to understand what's your progress over there. It's like 10% of your clinics that you want to address, you reached out already 20%, you reached out already something that we can track just to get a sense of how this opportunity is panning out for you guys.

Umang Vohra: Anubhav, I won't be able to give you specifics. We have a list internally of who are the big decile prescribers, et cetera, which clinics are the ones where this happens. That data is available. So, you would attempt your outreach to those clinics. But beyond that, I'm not sure we'll give the level of detail that you're seeking on this question. All I would say is that we are on track with what we had as our own targets.

Anubhav Aggarwal: So, just to get a sense, let's say, a good launch, would you say that by end of this year, if you think that double-digit market share is possible for you guys? Or you think that's a high target.

Umang Vohra: I think it's possible.

Anubhav Aggarwal: And second is on what about the European opportunity for Lanreotide. Have you already filed for Europe? Are you waiting in the queue? Or you're yet to file?

Umang Vohra: I think we were authorized as a partner in this side of the world on the U.S.

Moderator: The next question is from the line of Nithya Balasubramanian from Bernstein.

Nithya Balasubramanian: Umang, just one on EBITDA, and this is a follow-up on the guidance you had given earlier. So, this year you ended at around 21%. And next year as well, you're guiding to the same 21% to 22% range in spite of hopefully generic Advair, generic Abraxane and generic Revlimid coming?

Umang Vohra: Yes. Nithya, I think what we are guiding to is also a fair amount of cost increases that are going to likely to happen. So, both as designed from our side on account of higher R&D as well as on account of the procurement and freight that we spoke about. So, I think cumulatively, if you look at it, like-to-like between the 2 years, I think that cost delta would almost be close to 200 to 250 basis points. So, we are trying to offset that through the business.

Nithya Balasubramanian: Second one on Lanreotide, who is the key influencer here? This is the doctor or the clinic or is it the GPO?

Umang Vohra: I think it's the clinics where the administration happens. I would think the clinics would be the influencers. And within the clinics, you have doctors, you have clinics which are associated with the chains and clinics which are associated with GPO franchise. So, I would imagine it's the -- the nodal point in the clinic.

Nithya Balasubramanian: So, I'm just going back to a question you answered for me in the last earnings call which you said you might not require any additional commercial infrastructure. I'm just thinking, GPOs are obviously a very concentrated bunch, but your clinics should be fairly fragmented. And in spite of that, you do not see any infrastructure, commercial infrastructure requirement?

Umang Vohra: I think, for a health systems team it is quite common to have 5, 7, 10 people as reps in the market. And I think Cipla has that. So, I'm not sure that we require significant commercial infrastructure to market this product.

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

Tushar Manudhane: Sir, just on Advair, so as you responded in the call about, it's been 3 to 4 months that there has been no query spending on this product. Have I heard that right?

Umang Vohra: I don't think. I think this is the usual process. You receive questions from the FDA and then you answer them, then the FDA takes time to review it. So, we got a last set of questions about 4 months back, which is in line with how we've seen most products.

Tushar Manudhane: And you've responded to all of them as of now?

Umang Vohra: Yes. That is correct.

Tushar Manudhane: And would the inspection would be subject to resolution of the all queries and then subsequently you will get the inspection time line or that can happen parallel?

Tushar Manudhane: I'm sorry; I could not hear you. I lost you because there's a lot of noise. Could you repeat, please?

Tushar Manudhane: The inspection time line can be parallel or that will be only after the resolution of all the U.S. FDA queries on this product?

Umang Vohra: It's supposed to be parallel because the FDA gives a certain date that they expect to complete the inspections also by. But considering the fact that there is a lot of inspection the FDA has to do, I'm assuming that these inspections have now resumed. So, we should be hoping to be inspected anytime soon.

Tushar Manudhane: Because at least given that this still remains a limited competition product, so from that angle at least that is the compelling reason to come to inspect the facility.

Umang Vohra: Yes. We don't have any specific time line for inspection, if that was your question, which means no specific intimation for when the audit would happen. Let me put it that way.

Tushar Manudhane: Similarly, even Revlimid, like so any time line for inspection on Revlimid product?

Umang Vohra: I'm not sure that for Revlimid we would need an inspection because it's not a new category of product.

Tushar Manudhane: And just lastly on gross margins, while even after adjusting for the COVID-related inventory, there is a sequential improvement in gross margin despite having cost pressures or raw material cost pressure. So, any specific factor you would like to highlight here?

Umang Vohra: Dinesh?

Dinesh Jain: I don't think so. I think it will be in line, if it can come back. But I don't think it is to be higher.

Moderator: The next question is from the line of Nikhil from SIMPL.

Nikhil Upadhyay: Umang, my question is a little bit longer. If you look at our presentation, in U.S. we say incremental opportunity to add $300 million to $500 million by FY25. Now some of the pipeline products which we understand is like one of the respiratory on which the clinical trial started, there was another partnered respiratory product, and we have Revlimid and Advair. But other than the existing pipeline, do you think we need to probably add more through some inorganic acquisitions so as to get to this number? Or the existing pipeline based on what is happening at the back end is good enough to give us this $300 million to $500 million? The reason is also because if I look at our balance sheet, the cash generation remains strong and with Advair, Abraxane, Revlimid, it's only going to step up on. So, how should we understand the cash generation and achievement of this additional $300 million to $500 million incremental revenue opportunity in U.S.?

Umang Vohra: Dinesh. I think he had addressed this to you.

Dinesh Jain: Sir, was it regarding like M&A?

Nikhil Upadhyay: So, I'll repeat my question.

Dinesh Jain: Go ahead. Please repeat.

Nikhil Upadhyay: Yes, I'll repeat my question. My question is that in our presentation, we say by FY25 in U.S. there is incremental opportunity to add $300 million to $500 million. Now if I divide it in 2 parts, one is based on the existing pipeline of products which are in R&D or in clinical trial, do you think they are sufficient enough to help us grab this $300 million to $500 million opportunity or would you say that probably we would need some acquisitions also in terms of some tie-ups or some acquisitions so as to fill this gap? The reason is that we are generating good-enough cash and we already have good-enough cash on the balance sheet. So, how should we understand the usage of cash in terms of meeting these objectives by FY25?

Umang Vohra: Let me clarify. Let me clarify. The $300 million to $500 million is largely from work that has already happened through our P&L. So, it does not include any acquisitions, et cetera. It is largely our organic pipeline that we are doing. So, I think that is one. M&A as a focus will continue to be what we have for India. India and some of the other strong markets for us will continue to have M&A focus. And that cash it can be borrowed or it'll come out of internal accruals

Nikhil Upadhyay: So, the amount of cash which we have and we are generating, how should we understand the division between like what should be the payout? What should be kept for acquisition because we are already sitting on Rs. 4,000 crore of cash and it's only going to add up more? So, where are we missing in terms of the business requirements for which probably we are keeping so much cash?

Umang Vohra: Actually, it's the other way around. I'm happy that we are in this situation because 2 years back, we were a net debt company. So, with our strong cash flow generation, today we have reached a point where we have Rs. 4,000 crore of cash. And now if you are able to, we have a balance sheet which we can lend to, to buy some assets in India. So, that is our overall objective. The first would be to support our CapEx program and to buy some assets in India where we can acquire. And the second item there would be that if you are able to do that, then that cash will generate future returns because our internal return in the company is significantly higher than the return of putting this in the bank account.

Moderator: The next question is from the line of Sonal Gupta from L&T Mutual Fund. Please go ahead.

Sonal Gupta: The first question I had was, could you sort of quantify what was the total contribution of COVID to the India revenues? I mean, like absolute contribution as a percentage.

Umang Vohra: Dinesh or Naveen, can you quantify that?

Naveen Bansal: Thanks, Umang. So, Sonal, at this point in time, as we've alluded in earlier earnings calls, we're not quantifying the exact number. But what we have done is we've given the full year growth

numbers with COVID and without COVID. So, maybe we would request you to refer to that number.

Sonal Gupta: No. But the thing is that both numbers have in the base also COVID revenue, right?

Naveen Bansal: That is right, Sonal. The challenge is that as maybe Saion was also asking earlier in the conversation, so what we've done is we've specifically looked at only the COVID products. But the ancillary has also been kept in the base. So, those factors do play out in our overall numbers, and therefore it becomes difficult to then split our numbers with COVID, without COVID from a pure play standpoint. So, we request you to just refer to the adjusted numbers which have been provided.

Sonal Gupta: So, I mean, like ballpark, would it be in the 5% to 10% range?

Naveen Bansal: Yes, it would be in that range.

Sonal Gupta: And just the other question, Umang, in your opening comments you mentioned something about Sri Lanka, some Rs. 45 crore. Is there any provision that you've taken for that? Just trying to clarify on that.

Umang Vohra: Yes. That's an accounting provision which relates to the currency loss in value. And what happens is that our subsidiary owes us money which will now be at a lower currency. So, which is why we have taken a charge on that.

Sonal Gupta: And that is again reflected in other expenses, right?

Umang Vohra: Yes, it is the charge expected in the FOREX line. Yes. Dinesh, it's other expenses.

Dinesh Jain: It goes to reduce the other income. So, for the overall, we have got we have exchange gain for the full year. So, therefore, this negative also is sitting in other income line.

Umang Vohra: So, it's reduced other income by Rs. 45 crore.

Dinesh Jain: Yes.

Sonal Gupta: Because like previously Anubhav had also asked this question around other expenses being a significant step up on a sequential basis. So, you said that around Rs. 30 crore, Rs. 40 crore is coming from India, higher spending, but just trying to understand what else is boosting this so much.

Umang Vohra: So, R&D is one, definitely, right. So, R&D is higher on a sequential quarter basis because the trials have started. Also, the One-India expenditure is higher on the trajectory. So, those are the 2 big reasons.

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

Saion Mukherjee: So, Umang, on the M&A front, what kind of opportunities you're seeing in India, particularly given the valuation that we have seen? I mean, are you looking at small bolt-on acquisition? Are you sort of even open to do some large acquisition? How should we think about the opportunity and what Cipla wants to do on the M&A front in India?

Umang Vohra: I think, Saion, it will obviously depend, I think creating an opportunity in India now for an acquisition is now difficult. What we've realized is it's only assets that people have made up their mind that they want to sell. Those are the type of assets that are in the play. So, for us, I don't think there is a limit, anything that could be Rs. 200 crore in sale is also attractive to us as a portfolio. Anything that could be Rs. 500 crore in sale is also attractive to us as a portfolio. It has to fulfill a strategic need. And I think we have to see over a period of 10 years, considering the way India is growing, that we would be able to create significant presence with that asset over a 7- to 10-year period. I think that is what we are looking at.

Saion Mukherjee: And a related question, Umang, you were selling Azmarda in India, and it has now been acquired by JB Chemicals. So, what are your thoughts because you had already built that brand? So, why to sort of let that go before the patent expiry?

Umang Vohra: Ideally, we would not like to let it go, the innovator has other plans, right? So, if you are not the highest bidder, then somebody else would take it. I think in this case, I think both us and another competitor also had a similar issue. And it is a function of what you think the true value is, and we could not, at that point in time justify a value higher.

Saion Mukherjee: And just one last question, if I can, on your ANDA pipeline of 69 pending approvals. How many would you sort of consider as complex in this, which has like a revenue potential of $30 million plus?

Umang Vohra: Naveen, are we giving that level of clarity? Could you give some path for that?

Naveen Bansal: Directionally we can come back to you. But at this point in time we're not sharing that information. But we can come back to you. We can take this offline.

Saion Mukherjee: And just one, Naveen, one question. The depreciation seems to be a little higher this quarter. Is there any onetime that you have put in depreciation?

Dinesh Jain: There is small onetime charges, it is there, some write-offs are there. But it's small amount, yes.

Moderator: We'll take the last question from the line of Sameer Baisiwala from Morgan Stanley.

Sameer Baisiwala: So, Umang, just did you say that you'll be filing one peptide injectable in fiscal '23?

Umang Vohra: Yes, should be.

Sameer Baisiwala: And also, for the respiratory filings, can you just quickly summarize how many are in clinicals and how many have been filed?

Umang Vohra: Filed and not on market?

Sameer Baisiwala: Yes.

Umang Vohra: I'm assuming your question is to the U.S.

Sameer Baisiwala: That's right.

Umang Vohra: So, filed and not in market are 2. To be filed in clinic is 1. And hopefully, there'll be another in clinic later this year.

Sameer Baisiwala: And one final, Umang, from my side. You mentioned about the India business. You mentioned 4-year CAGR for chronic 13% and acute 5%. So, is it possible for you to just broadly tell us what's the volume component and what's the price increase component? And do you think this is what we should expect going forward as well?

Umang Vohra: I think we can break that down, Sameer, and send it to you. All I would say is in chronic, I would think a large portion would also be volume because this is a segment that Cipla was never historically strong in at all, whether it's cardio or its diabetes. And we've built this over the last 4 years. We have always been strong in respiratory and some acute therapies, but never so much in chronic. So, a lot of the work has happened in dermatology, in cardiovascular and diabetes, and we can send you that data.

Naveen Bansal: And Sameer, just incrementally, the numbers that you see on that slide are basically coming in from the IQVIA data. So, maybe while we can also stay in touch, you can also refer to that to split the growth into volume, price and NI**.**

Moderator: Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Naveen Bansal for closing comments.

Naveen Bansal: Thank you, Faizal. Thank you so much, everyone, for joining us on our earnings call today. In case you have any follow-on questions, please feel free to reach out to us. We wish you a very good evening ahead. Please take care.

Moderator: Thank you. Ladies and gentlemen, on behalf of Cipla Limited, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.