



“Cipla Limited Q1 FY’21 Earnings Conference Call”

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

Moderator: Ladies and gentlemen, good day, and welcome to the Cipla Limited Q1 FY'21 Earnings Conference Call hosted by Kotak Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference 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. Chirag Talati from Kotak Securities Limited. Thank you. And over to you, sir.

Chirag Talati: Hi, good evening, everyone. This is Chirag from Kotak Institutional Equities. I thank the Cipla management team for giving us an opportunity to host this call today. From Cipla, we have with us today, Mr. Umang Vohra – M.D. & Global CEO; Mr. Kedar Upadhye - Global CFO; and Mr. Naveen Bansal from the Investor Relations team. Over to you, sir.

Naveen Bansal: Thank you, Chirag. Good evening, and a very warm welcome to Cipla's Q1 Earnings Call. I am Naveen from the Investor Relations team at Cipla.

Let me draw your attention to the fact that on this call, our discussion will include certain forward-looking statements which are predictions, projections or other estimates about future events. These estimates reflect management's current expectation 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 Kedar to take over please.

Kedar Upadhye: Thank you, Naveen. Good evening to all of you. I hope that all of you and your families are safe and well. We appreciate you joining us today for our first quarter earnings call for the fiscal '21. I hope you have received the 'Investor Presentation' that we have posted on the website.

Before I come to the quarter, hope you have had the time to review our recently published integrated annual report for FY'20. This is our third integrated annual report and it significantly enhances the quality of our disclosures and presents detailed information on various types of capitals under the sustainability reporting framework. This initiative is in line with our focus on improving transparency, governance and setting best-in-class disclosure practices.

Coming to the quarter:

While the global pandemic continued largely unabated, impacting demand drivers through the quarter, I am sincerely grateful to our employee's dedication and perseverance during these uncertain times. With a single-minded focus on ensuring patient access, our teams across manufacturing, supply chain and business and various functions have worked tirelessly. Robust contingency planning has helped us manage our operations and deliver on strategic priorities as

we transition to post-COVID operating environment. We mobilized significant resources and offer tremendous support for battling COVID with comprehensive product offerings by organic route and through our global partnerships as well.

Logistics and distribution have largely normalized now via advanced bookings and close coordination with service providers and port and air authorities to ensure smooth operations.

We are also proactively derisking the import dependence on raw materials by developing alternative sources for some of our leading products.

Our manufacturing facilities are now operating at healthy levels, with dynamic planning and coordination between procurement and manufacturing supported by strong safety protocols.

We have also significantly leveraged digital platforms for smooth engagement with healthcare practitioners and channel partners on a regular basis.

For the quarter, despite the continued uncertainty, it saw strong execution across the board and demonstrated the resilience of our operations. We remain strongly anchored to our business reimagination, cost optimization agenda, along with focus on the basics of business including cash and liquidity management. You will notice that these initiatives have translated into a robust performance for the quarter. We are also pleased to report the highest ever quarterly collections, which strengthen our liquidity position significantly and helped achieve a zero-net debt at the end of quarter.

Similarly, lower on ground activity and our cost re-imagination initiatives across businesses have led to cost saving which drove the EBITDA margin for the quarter to almost 24%.

While the variance in expenses versus last year will be difficult to predict at this stage, but given the strong execution on cost optimization in Q1, we believe our FY'21 operating expense will potentially be lower after absorbing all the COVID-linked escalations by almost Rs.400 crores to Rs.500 crores in the full year as compared to our intended FY'21 operating plans.

Coming to the revenue growth. The quarter also witnessed robust performance. Overall, India business which include prescription, trade generics and consumer healthcare grew 16% in the quarter on a YoY basis. Our Prescription business delivered 9% growth led by chronic therapies, which offset the subdued acute therapy demand and gradually recovering base hospital business.

The Trade Generics business delivered strong adjusted growth of 46% despite lockdown and impact on the acute business.

We continue to make good progress on our "One India" strategy through successful portfolio transition.

Our private branded market franchise in South Africa grew by 24% in local currency terms year-on-year and continue to outperform the market.

The US generics business delivered \$135 million of revenue in the quarter supported by ramp-up of Albuterol and other new launches.

For the financial performance, we would like to highlight certain specific items which are subsumed in our reported numbers. The contribution of the COVID medicine portfolio in the India Prescription business is marginal for the quarter. Remdesivir sales began in the month of July and hence, Q1 numbers do not include any contribution of Remdesivir. Also, the incremental margin from COVID-linked medicine was fully diverted towards our COVID-related efforts of supporting healthcare providers and frontline workers with PPE and other safety requirements.

The expenses for the quarter include COVID linked escalations in material cost, freight and distribution and admin and safety, etc., which have been more than offset by strong optimization.

During the quarter, we contributed approximately Rs.18 crores towards COVID relief efforts including employee contribution. Overall income from operations is Rs.4,346 crores, recording a YoY growth of 9%. Gross margin after material cost is at 63.4% for the quarter on a reported basis. The decline on a YoY basis was attributed to contribution of high margin Cinacalcet in last year; however, on a sequential basis, this is almost 200 basis points expansion.

Total expenses which include employee cost and other expenses are at Rs.1,708 crores, decreased by 17% on a sequential basis. Employee cost for the quarter is Rs.772 crores, increased marginally by a per cent versus last quarter.

Other expenses for this quarter, which includes R&D, regulatory, quality, manufacturing and sales promotion are at Rs.936 crores. This declined by 27% sequentially largely driven by the optimization initiatives and lower on-ground activity during the lockdown.

Total R&D investment for the quarter is Rs.200 crores approximately which is 4.6% of revenue. This is largely due to expected moderation in the R&D post completion of the Advair trials, lower clinical trials and other developmental activities due to the lockdown.

Reported EBITDA for the quarter is Rs.1,049 crores, which is 24% to sales. Tax charges at effective rate of 28.5% and we believe the rate for the full year of FY'21 will be in the same range. Profit after tax is Rs.578 crores or 13.3% of sales.

For the quarter ending June 2020, our long-term debt now stands at USD 317 million, out of which USD275 million is towards Invagen acquisition and ZAR720 million is for Mirren acquisition in South Africa and other operational requirements.

We also have working capital loans in rupees, dollars and rand which act as natural hedges towards our receivables.

Driven by strong focus on cash generation during the quarter, Cipla is now a zero net debt company as on June 2020. Outstanding forward and option contract as a hedge for receivables as of 30th of June are USD217 million and ZAR678 million. During the quarter, we have also hedged a certain portion of our forecasted export revenues. Outstanding cash flow hedges are USD256 million and ZAR475 million.

I would now like to invite “Umang to present the Business and Operational Performance.”

Umang Vohra:

Thank you, Kedar. Before moving to the business and operational updates, I would like to first thank each one of Cipla’s employees, all our vendors, our partners, in order to help us go through the upheaval of the COVID pandemic has resulted in.

I would like to share Cipla’s response in battling the COVID pandemic. At Cipla, every one of us has been fortunate to have an opportunity to contribute significantly to a global cause and deliver in our promise of caring for life.

Under our partnership with Gilead for Remdesivir, we launched Cipremi in July for India. In India, this product is currently being made available through the government and hospital channels with appropriate safety and regulatory protocols required for distribution.

To help patients further, we also started a 24/7 toll free helpline to disseminate safety and procurement information on our high-quality offering which included: Cipremi; Actemra; Imulast which was Hydroxychloroquine; Azithromycin; and Ciphands.

Our relentless efforts in supporting severe COVID patients included the supply of 20,000+ vials of Actemra to 150+ government hospitals and institutions.

Recently, we have also launched Ciplenza, which is Favipiravir in India to expand our offerings to fight the battle against COVID-19.

We continue to engage with physicians through multiple digital touch points and we have retained top of mind recall through these times. We have also contributed significantly to their supplies of PPE and other equipment which is required during COVID. We have also taken several company-level initiatives to ensure employee safety and support to their families.

With that, let me come to the “Strategic Updates and Operational Performance for the Quarter.” We commenced this quarter by establishing a strategic task force to deal with the challenges unleashed by the pandemic. Restricted business activity presented us an opportunity to reimagine our business models across multiple dimensions. The performance for the current quarter is an indication of the execution across these initiatives. The sustainability of which we will continue to drive as the trajectory of the pandemic evolves over the subsequent quarters.

I am extremely pleased to note the effort on cost management resulting in significant spend optimization during the quarter and helping us drive the strong EBITDA that we have reported.

In India, despite the COVID-related challenges, the progress on our “One India” strategy that we announced earlier, continue to see seamless execution to integrate the three businesses of Rx, Gx and Consumer.

Coming to the business performance, we continued our strong momentum and have reported a market leading growth for the fourth consecutive quarter now. We are confident that the momentum will continue in the quarters to come.

India Rx business grew at 9% on a year-on-year basis supported by strong traction in chronic therapies thereby offsetting subdued acute demand due to closure of individual clinics and the impact of slowdown on our hospital portfolio. We continue to deliver market leading growth in respiratory, inhalation and urology despite the lockdown restriction during the quarter as per the IQVIA April to June '20 numbers.

Cipla ranked #2 in the market share of 7.4% in chronic therapies and grew by 7% as per IQVIA in April to June '20, while market grew at 5%.

Driven by cost controls and lower on-ground activity during the quarter, the India Rx business saw a significant improvement in the EBITDA margin.

The Trade Generics business continued its healthy growth trajectory and delivered another quarter of strong growth despite the lockdown adjusted for the transfers we made to the CHL business. The quality and health of the business has significantly improved as we continue to maintain channel hygiene and improve margins.

To further support our domestic business, we recently announced a partnership with Boehringer Ingelheim for three oral anti-diabetic products, which are SGLT2 and DPP4 inhibitors and extended our partnership with Roche for three oncology products, which are Trastuzumab, Bevacizumab and Rituximab.

We continue to transition of select high consumerization potential brand from Trade Generics to our CHL franchise. In the current quarter, we successfully transferred two brands - Naselin and Clocip -- from the trade generics business. With this, the total number of products transferred is already five and we are also planning to transfer a few more in the next few quarters.

We continue to build on the Ciphands Sanitizer franchise, the new extensions under the hygiene category. We are pleased to announce that Ciphands is now a mature and reliable brand in just three months of launch.

Strong execution across all these initiatives helped us drive double-digit revenue growth on a year-on-year basis.

“US Generics and Lung Leadership.” As you’re aware, our expertise in developing effective therapies for respiratory ailments stems from our lung research over the last six decades. FY’21 marks the successful execution of high investment, limited competition pipeline and a significant growth driver over medium to long-term in the US market. The US generics business delivered \$135 million in the quarter supported by a ramp up of Albuterol as well as growth in the base business.

In line with our previous commentary on limited competition launches every quarter, we launched our first Dihydroergotamine nasal spray with 180-day CGT exclusivity.

We are also pleased to announce another key approval of Icatibant PFS recently. We will continue to maintain this launch momentum in differentiated and limited competition launches over the subsequent quarters.

We have accelerated the supply of Albuterol HFA in the US markets and I am pleased to inform that we already have 65% share of the Proventil market in four weeks following the launch as per IQVIA. All major retailers are under coverage for Albuterol HFA. Across the three Albuterol HFA products, which is Proventil, ProAir and Ventolin, Cipla has 6.2% of weekly prescription market share in the total market and 8.3% of weekly prescription market share in the generic market as per IQVIA ending in July 2020.

Coming over to our “Emerging Market Businesses and our SAGA Business.” The South Africa private market grew strongly by 24% over Q1 FY’20, and the tender business grew at about 6% in local currency terms. We are pleased to report that Cipla was the fastest growing corporation in the South Africa market with new product launches forming a significant growth driver despite the crisis. Our private branded market franchise in South Africa grew at 6.6% while the market declined by 1.2% as per IQVIA MAT June ‘20.

We continue to maintain and solidify our position with the market share of 7.16% as per the IQVIA MAT June ‘20 data.

In the OTC space, we grew at 9.3%, while the market declined by 0.5% and maintained and grew our market share of 7.65%. The emerging market business grew 50% year-on-year on Q1 FY’20 in USD terms supported by strong demand and base effect from the last year. The adjusted growth for the quarter was 10%. The European operations grew 9% year-on-year over Q1 FY’20 in US dollar terms. The European operations were driven by market share gains in flagship respiratory products and key DTMs in direct to market and new introductions. We continue to drive new biosimilar and other partnerships with deals that we have signed for the emerging markets.

Coming to the “Regulatory Update.” On the regulatory front, we are working with the US FDA to comprehensively address the Goa observations. Our last and final update was submitted to the agency recently. We will continue to provide regular updates of the same in our quarterly

communications and continue to remain focused on maintaining the highest standards of quality across our network.

Turning to the “Outlook.” We understand that the COVID-19 situation is dynamic. And while the underlying fundamentals of our business remain extremely strong, demonstrated by our performance, we are also cautiously optimistic about the ensuing quarters and what they bring to us. We are navigating the peak phase of the pandemic with sharp rise in infections which threaten the recovering healthcare ecosystem. Supported by the strong back-end operations and the front-end logistics, we continue to approach the coming one to two quarters cautiously as clearer demand pattern emerge from our market.

Across our operating geographies, business units are actively reimagining their models to transform in the next avatar. We are witnessing a significant traction against digitally efficient means of engagement which cuts across markets and functions, identifying product market opportunities as a direct, indirect outcome of the pandemic. We are developing and building sustainable leaner models built on a strong cost focus. And there is a fair amount of focus on automation and process simplification that can support more informed decision-making. Balancing growth while maintaining cost leadership is going to be the mantra going forward for our businesses across the world.

Our India businesses will scale across the three-pronged strategy of Rx, Gx and CHL. And our One India strategy will continue to drive the quality of revenue growth and health metrics. In South Africa, we will continue to maintain leadership across the private and OTC markets.

And on the US generics business, we shall continue to build a respiratory franchise and solidify our position as lung leaders globally. We continue to engage with the USFDA for the approval of the filed Advair product, a partner for an inhalation asset will respond to the FDA letter this year on queries that they had received. We are looking at healthy launch pipeline for the next year and have already seen traction across the recent launches that we have had. We will continue to keep our facilities in a state of compliance and control.

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

Moderator:

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

Saion Mukherjee:

Umang, just two forward-looking questions on India and US on the growth trajectory. How do you see US Proventil particularly ramping up? You mentioned about 65% market share. But are you able to take market share from the other Albuterol brands? And what is your target market share of the overall Albuterol market? And if you can generally comment on growth outlook for the US? And similarly, on India, I think the growth has been one of the best of 9% in the branded

market. Do you see this range of antivirals and COVID-related products that you have recently launched will be a meaningful contributor to revenues going forward?

Umang Vohra:

So, let me take the India question first. I think on India, looking at the case load that we are going through as a country, I think that there will be perhaps continued momentum for some of the products that we have been selling. Also, the monsoons here, the rains, though the season is limited, I think there will be a little bit of a viral outbreak as well. So, we are well prepared for the India business. I think we hope to see momentum continue here. Saion, we also had a low base effect for our Rx business last year. So just keep that in mind as well when you look at our results. But overall, I think we see our momentum continuing for the India business. We are seeing a decline in hospital sales and we had a large share of the hospital market. But we are beginning to see that hospital procedures and to some extent surgeries are now coming back possibly not at the same rate that they were before, but I think we see them recovering over a period. So yes, I think Q2 momentum, Q3 momentum in India hopefully should continue. We are working towards that. On the US, the 65% is just the Proventil market share. It is not the total category. But Saion, our belief is that there is a large share of this market that still writes Albuterol generically. And that we do believe that Albuterol as a category and not specifically as a brand substitution is a thesis at play. I cannot give you details on how much volume and our targeted market share, etc., but I believe we have capacity and the cost position to compete in this market.

Saion Mukherjee:

Kedar, you mentioned about Rs.400 crores to Rs.500 crores lower operating expenses compared to what you had initially budgeted. In this quarter itself, we have seen Rs.200 crores. It appears to me that there is some savings beyond the pandemic. Will it be possible for you to quantify that?

Kedar Upadhye:

See, there are two, three components, Saion. First, obviously, the activity on the ground itself is lower across various functions and businesses. And secondly, I think this forced the entire industry not only us to think about reimagination of operations and business models. And in our view, we have done a pretty decent job at it, be it digital, be it supplementing the current state of operations for virtual engagement with customers and channel partners. And multiple other initiatives, Saion, have offered us a way to run the business in a different model. So, I think the two, three components have come together to give us that leverage. And that is where we feel that we will have that kind of benefit this year.

Saion Mukherjee:

Basically, Kedar, what I was mentioning is that there is a forced benefit because of the lockdown. Now let us say next fiscal year, when things normalize, I mean this base that you would form, you would grow at a normal rate from this base and there would not be a step jump as you open up, I mean, there is an element of sustainability in this, that is what I was trying to...?

Kedar Upadhye:

Exactly. So, I think that element which is linked to reimagination and a different way of running our operations and commercial geographies, that would sustain beyond the pandemic as well. You are right.

- Saion Mukherjee:** You think 20%-plus EBITDA margin is sustainable I mean, with all these initiatives?
- Kedar Upadhye:** As you know, we would not like to give guidance, but yes, given that this quarter is 24%, I think our target would be to reach somewhere in those levels.
- Moderator:** Thank you. The next question is from the line of Krishnendu Saha from Quantum Asset Management. Please go ahead.
- Krishnendu Saha:** On Albuterol, what is the reason you think that you are not getting market share from the other franchises?
- Umang Vohra:** No, I do not think we are saying we cannot get share. I think we are saying that a part of the market is written as Albuterol, and it is a little fluid on how each created category can take share from the other within the Albuterol space. So, we believe that could happen.
- Krishnendu Saha:** So, it is a little bit difficult to get from the other franchises, is that can be understood?
- Umang Vohra:** That is not our belief right now. Our belief is that it is possible to get from other cat, that is our belief.
- Krishnendu Saha:** Last question on settlement of Amgen. Like Teva and all, how do this will play out for us?
- Umang Vohra:** I think it is a fully generic market now. So, the settlement that we had was I think to address the past of what we have done.
- Krishnendu Saha:** So, there is no liability on us in any model?
- Umang Vohra:** There is no liability.
- Moderator:** Thank you. The next question is from the line of Prakash from Axis Capital. Please go ahead.
- Prakash:** I missed the initial comments, but the Rx I heard it right 9% growth. If I see your table across therapeutic segment, respiratory inhalation, all are between 5% to 6% growth except cardiology. I understand these are IQVIA numbers. So, the remaining would be COVID-related products that you might have sold?
- Kedar Upadhye:** Prakash, I clarified. The contribution of COVID medicines during Q1 was not as high; it was not more than a per cent or so at a company level. So, I think, yes, it will take some time for the IQVIA numbers to relate to primary numbers which we report in the financials.
- Prakash:** Coming to COVID-related treatment, like you are leading the pack in terms of Remdesivir and Tocilizumab, just wanted to understand the math since these are in-licensed products, how does it work, I mean, we get marketing margins, we are doing manufacturing also and what is the quantum if you can share?

- Kedar Upadhye:** In case of Actemra, we will get marketing margins, Prakash. In case of Remdesivir, we used to source the product from a contract manufacturer for some time and we have our own product in the market as we are speaking now. So, going forward, large part of the supplies will be from our own manufactured version on the Remdesivir. Actemra is as you know we will get marketing margins.
- Prakash:** And in terms of quantity, there was some shortage issue. Are we like full scale capacity now with our own source for Remdesivir, if you can help us understand that?
- Kedar Upadhye:** To a great extent, we would say the backlog has been cleared, but we still will have to do continued work on fulfilling demand.
- Prakash:** But you are not quantifying in terms of million units that you are doing or something like that?
- Kedar Upadhye:** We do not want to do that. I think the situation is quite evolving day-by-day and the demand keeps changing day-by-day. So, I think it will be difficult for us to give you any overall view at this point of time, but we will have to continue to work on fulfilling the demand for these products.
- Moderator:** Thank you. The next question is from the line of Nithya Balasubramanian from Bernstein. Please go ahead.
- N Balasubramanian:** I have two questions: One on Albuterol. What kind of price erosion are you seeing in the market -- does it seem like a stable market, what is the kind of discounts prevailing in the market right now?
- Umang Vohra:** Nithya, the market from what we understand is largely stable. There has not been too much of a price decline, I think maybe from a two, three months prior to our launch sort of a setting till today, I think prices are down by about 25% to 30%, but still very-very respective.
- N Balasubramanian:** So just a clarification of the 25% to 30%. This is against ProAir or Ventolin is selling at?
- Umang Vohra:** No, this is around the Jan period, pricing that I am comparing with. So, the pricing is still respectable in the market.
- N Balasubramanian:** Do you see this changing meaningfully once the third player is in the market and your competitor is guiding for an imminent launch?
- Umang Vohra:** I think the category is large enough; it is a 55, 60-million-unit category. And I think scale up in this category takes a while. It is not because of the inhalers. The scale up is going to take a long time. I think the scale up, the volume and the price-mix equation will play out the way we think it will in this market because there is a huge volume and there are units as well. The good news is that there is nobody that we know of other than another competitor who is going to enter. But

the market price is the market price and we will respond to it. As I mentioned, we have very strong cost position here and we also have a large enough capacity to make this.

N Balasubramanian: My other question was on the gross margins. Maybe, Kedar, you can help me here. If you look at the business mix in this quarter, it is favorable, you got India doing well, emerging markets is doing well, and Proventil is also scaling up as we speak. Should we not have seen a slightly higher gross margin than what has been reported? Is there anything that you are missing? Is there any one-off in the line item that we are not seeing?

Kedar Upadhye: No, Nithya, of late I think given the mix that we have of both high margin and relatively lower margin therapies in each geography and overall geography mix within Cipla, I think more or less this is where we were also driving towards. I think some more basis point expansion is possible. But you have seen that the Gx business grew very high this quarter. So, I think the gross margin is a derivative of the, as I said, business mix and therapy mix within businesses.

N Balasubramanian: Trade margin comes in at a slightly lower gross margin which is why there is some...?

Kedar Upadhye: Percent of trade generics business is quite close to the prescription business, but gross margin wise, it is lower.

Moderator: Thank you. The next question is from the line of Sameer from Morgan Stanley. Please go ahead.

Sameer: Umang, I missed your opening comments on the partnered inhaler products for the US who is engaging with US FDA and answering queries. So just if you can clarify on that?

Umang Vohra: Sameer, we had last time also mentioned that we have one in partnered asset that we were not disclosing the name for and I think it is a partnered asset with a partner. That partner will probably finish addressing their queries and their submissions to the FDA before the end of this year.

Sameer: Yes, exactly. So, therefore, I was a bit confused. So, the query should begin after the filing no or is it some other type of queries? So, the filing has not been ...

Umang Vohra: I do not want to comment on that, Sameer. All I can say is that they are responding to certain queries that were raised to them.

Sameer: When would the filing, the official...?

Umang Vohra: I think there is a filing that has happened and there were queries received on the filing and that partner is hopefully going to respond to those queries by the end of this year.

Sameer: Second on Advair, where you mentioned you are engaging with the regulator. So, what is the expectation? I think a couple of quarters back, you mentioned that it cannot be cleared in one cycle review. So, any change to that or when do you think earliest you can be in the market?

Umang Vohra: I think we are sticking to the same, Sameer. I would find it hard to believe that Advair would be a first pass clearance asset. So, we had guided that from our filing it could be 18-to-24-months and we are holding on to that.

Sameer: Just on Albuterol, did Q1 had a fair bit of launch quantities channel selling and therefore numbers were higher and 2Q can moderate or that is not the case?

Umang Vohra: I think 2Q might moderate a little bit because, Sameer, what also happened was around the time we launched, there was also a shortage in the market in Albuterol. So, I think a little bit of stocking happened at that point in time. But I also think that time, there were only two or three states, which had the peak pandemic. Now we are realizing the pandemic is across most of the popular states in the US. So yes, I think it would marginally moderate. That is what I would say from where Q1 was.

Moderator: Thank you. The next question is from the line of Neha Manpuria from JPMorgan Chase & Co. Please go ahead.

Neha Manpuria: So, in your annual report, there is a mention about calibrating your US investment. Now that we are resetting our US sales with Albuterol. Do you see the need of sort of broadening your launch pipeline for next year having a greater number of launches other than the differentiated launches to continue double-digit growth in the US?

Umang Vohra: Let me clarify, Neha. I think the first thing that happened was that we had a very large share of Advair in our expenditure. So, if I was to look at this last year, Advair itself was almost \$30 million plus. And no other asset will come that close to the type of clinical spend that is required. So, it was effectively like running three respiratory programs was the type of effort it took to run the Advair program. So, I think part of what we said was a moderation on account of that which is that, that major spend is away, it has gone now, so, we do not have that in our mix. Other than that, what we have also tweaked is we have tweaked our portfolio a bit to go back to based on how we have made money in the last two or three years in the US to go back to products where we think these opportunities could arise. And so therefore some amount of the tweaking has happened. So, I am not sure that at a point right now where we will broad base expand. But I think we will be very selective going forward because I think the true power of each of the assets, we have is quite significant. The bigger issue for us is to be able to execute this material. Even if we take 12 or 15 assets per year, almost we mix the type of execution we would put in for 30 assets in terms of effort. Because finally even within those 12 to 15, there will be only a few that will deliver meaningful returns.

Neha Manpuria: My second question is on the “One India” strategy. Earlier this week, there was news about a fair bit of churn in your India management. Does this impact the strategy that you will see for India, would you like to comment on that?

Umang Vohra: Certainly, I would be happy to comment. I think we hope it will not have an impact. I am trying to also personally step in now to make sure that the business is stable, and it is growing the way we expect it to. And of course, the current leader is also there pretty much till the end of September. So, I do not think it will disrupt. I think Cipla has a long tradition of leadership bench, we have very strong cluster head leads. This is an 80-year old company you have many leaders who find attractive opportunities outside, but also many leaders who they groom internally to be able to take the slot. So, hopefully not. We are looking forward to the momentum continue.

Neha Manpuria: One more for India, in the trade generic business, have we gone back to our pre-reorganization efforts that we had last year, have sales recovered to that level?

Umang Vohra: Yes, pretty much.

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

Anubhav Aggarwal: When you talk about reimagining India business post-COVID, so are we talking about lower reps now or are we talking about let us say physical conferences to doctors, what has changed in terms of activities on the ground?

Umang Vohra: Let me put it into two parts. Obviously, reimagining conferences, etc., is a big part. And I think a), it is helped by the fact that there are no major conferences happening physically. So, people are now experimenting with formats on how to do it. I think some of that experimentation has given rise to ideas on how this could or some portion of it could be sustainable going forward to happen let us say digitally. The second thing, maybe I could mention is we are also trying various formats where the reach to doctors can be optimized using digital solutions. So, I think it is a combination of both, Anubhav. There are multiple things that are being tried. Some of these will stick. Some will not stick. For example, we have a relatively large organization in India. We have almost 8,000, 9,000 people on the field. Just reimagining this for those 8,000 or 9,000 people is going to unleash tremendous amounts of growth and coverage of doctors who we otherwise could not and tremendous amounts of productivity.

Anubhav Aggarwal: But the larger piece of savings will come from the conference itself, just to understand if we look at this to two buckets?

Umang Vohra: Both that and also travel to some extent, Anubhav, because I think a large portion of the sales infrastructure cost is also travel, right, the supervisors will go to travel to figure out how the reps are performing on the field, etc., and a lot of that now can be reimagined. So, it is conferences, it is also the reach model to doctors, so all of it is in the mix. At this time, if your question is, how much of it will stick? I cannot give you very credible answer, but we are trying multiple formats to see what will stick and we want to stay with that.

Anubhav Aggarwal: The second question was on South African market. Very strong growth. Portfolio would have largely remained safe. So, this quarter, would you say it was an exception? I am talking only about the private market. Or this whole year we can look at more than 15% kind of growth in the South African market?

Umang Vohra: So, two things are happening there, Anubhav. I think some portion of the could be exception, but we are hoping to see very high senior or double-digit growth for our private market there as well, right. But I think this quarter is slightly more because I think there might have been a base effect over the last year. But also, the other thing that is happening with the health authority there, the SAHPRA, is that they are also trying to expedite approvals for a lot of the products and they are running a program which is trying to get more and more products approved which were backlogged earlier. So, I think we are hopefully also going to benefit with that.

Anubhav Aggarwal: Any more respiratory filing for this year other than the partner product that you talked about?

Umang Vohra: That is correct. Well, that has already been filed. I think the partner is going to respond to queries. But this year, no. We will be starting clinical trials on two more products in later half of the year.

Moderator: Thank you. The next question is from the line of Girish Bakhru from Bank of America. Please go ahead.

Girish Bakhru: First question on Remdesivir. I mean do we have a broad assessment of what is the current demand, I understand COVID numbers are increasing, but what is the unit demand overall in the market?

Umang Vohra: I think overall, the unit demand right now is far in excess of the capacity in India, so let me start by saying that; however, I think on Remdesivir now, we are aware of at least six players are going to sell the product in the country. So, if you accumulate capacities across these six players, my belief is that this product will not be capacity constrained give or take another two weeks or three weeks. So Remdesivir will significantly reduce the shortage.

Girish Bakhru: And would it be fair to assume let us say most of the severe patients will have this product in their treatment protocol?

Umang Vohra: I cannot comment on that. It may not necessarily also be characterized as a product that just the severe people are getting now. I think we are also hearing reports where this is being given to mild to moderate patients also, but who have a higher risk factor. So, it is somewhere in the middle. I think every state government is treating this differently and some state governments have also said that this should be started from moderate cases as well. So cannot quantify that, Girish. I think it is across all, that is my sense.

Girish Bakhru: Just linked to this, I know, it is a very broader question again, I mean, given so many options are coming slowly, and you are going to participate in many of those. So, let us say, comparing some

of these Favipiravir versus Remdesivir, where do you see market will become bigger or will it be largely equally distributed from your understanding?

Umang Vohra:

So, I think this is largely a question perhaps to doctors, etc., but I can give you my view having seen this market and the way it has moved from product-to-product. Unfortunately, we do not have a cure for this. Remdesivir, Tocilizumab, to some extent, Favipiravir, they are all showing they are reducing the hospital stay for a large number of patients now and therefore it is helping patients recover faster which frankly is good news in a way for a market and for countries which are capacity short-lived because of the hospitals coming under pressure. So, I think if you look at Remdesivir, based on data published that reduces hospital stay by six days, I think Actemra showed closer to eight or nine days from the clinical trials that they did. So, they are reducing hospital stay, but from the data that has been published so far, none of them is a full cure. And so, now, I think it is difficult to imagine a fully set protocol for treating this disease.

Girish Bakhr:

Second question on just the respiratory franchise. I am taking liberty to quote number from 2015 overall Cipla had a respiratory franchise of almost \$300 million and I think that time Cipla was commenting potential of a billion number in 2020. Possible to give what would be the number today given you have significant pipeline emerging, where do you see overall respiratory franchise going for the company?

Umang Vohra:

Girish, we have the numbers. I am not sure we would want to be as public about these in terms of where we see it going, but I will just say this that across the world, the US, Europe, emerging markets and India, we expect to solidify our leadership in respiratory and we did some data analysis and across the world, we are the second highest seller of inhalation products and GSK is number one, we are number two and we want to solidify our leadership position. In terms of numbers, we are not commenting, but a large portion of our capital allocation and resource decisions will go through the respiratory franchisee.

Moderator:

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

Shyam:

The first one is just a clarification on the fourth quarter comment of about 2 billion of delays that we had because of logistic issues. So, all of that has come through this quarter?

Kedar Upadhye:

Shyam what is happening is because of the COVID or otherwise, I think the transportation schedules are in the process of getting back to normalcy. So, I think some part of that got spilled over to Q2 also. 30th June spillovers are also relatively higher than what they are usually as at the quarter end. So, to answer your question, what we had as at March end, probably not more than half has come in into Q1, less than half has come into Q1.

Shyam:

And these logistic issues, Kedar, we have heard others comment about freight charges and stuff. Can we just understand what is happening there on logistics specifically?

Kedar Upadhye: During the quarter, we have seen escalations on three, four items we said, materials cost and some of the admin and safety items, then transportation, driver charges and everything and we have been able to offset it by savings everywhere else. As we are speaking now, these are getting normalized, Shyam, both the schedules, availability of freighters and charges as we are speaking.

Shyam: My second question is on the net debt and us achieving it which means that now going forward, we will have decent amount of free cash flow that flows through. So, what is the outlook for that? If I look at R&D for this quarter, clearly, it is down 36% QoQ. I think Umang also talked about more trials. So, can you help us understand, one, on R&D, how it is going to ramp up probably in the remainder of the year and what should be the levels for fiscal '21? And what are we doing with the free cash?

Kedar Upadhye: See, the R&D as a percentage of sales probably will not see much of a ramp up because we have not rationalized too many projects. All the high value and high margin and strategic projects are being fully funded including a couple of these respiratory assets that we referred to. And we also as you know have IV Tramadol to plan for. So, I think between both the R&D funding and use of cash, we have enough for the foreseeable future. And as you know during the COVID times, the definition of what is excess cash itself gets changed. I think we must have some buffers. So, we will plan for and we will think for what the best use is, but between organic CAPEX, between the R&D and some of the dividend and other items, I think as of now probably we are set. But as we start the next year, I think we will have to just see how we think of some of these matters.

Moderator: Thank you. The next question is from the line of Nikhil Mathur from Ambit Capital. Please go ahead.

Nikhil Mathur: My question is around the consumerization of certain brands that was talked about in opening comments. Now what I am trying to understand is that a, what was the need to adopt this kind of strategy of consumerization of certain brands? My understanding is it is more from the trade generic side, that is being done. And second is that does it lead to higher prescription generation or gross margin accretion, so what does it eventually lead to that can give merit to the strategy being adopted?

Kedar Upadhye: See, from our point of view, I think we had two avenues. If you remember, a year back, I think there was a noise about genericizing and trade margin capping and various things that we will have to keep watching how do those things progress. But I think while all that is being sorted out to preserve and grow some of the portfolio of trade generics business which is amenable for consumerization. I think that was a great lever for us to create value. So, I think it will achieve all the objectives that in fact you referred to. So firstly, I think creating stickiness and creating more consumer-led demand algorithm rather than probably a channel-led demand algorithm. That is one. And secondly, backed up by that a little bit of pricing premium, a little bit of stickiness and predictability of demand pattern and associated enhancement in gross margin. Now this obviously would not happen in a month or a quarter, but it will take time. But whatever shifts have happened, we are seeing healthy ratios of stickiness, we are seeing healthy ratios of

customer acceptance and all these metrics of consumerization that one could track based on market status, those are looking quite healthy.

Nikhil Mathur: So, two things there. One is that, what kind of therapeutic areas you are more targeting to convert into more of OTC and consumer brands? And second is can you share some internal target as to what percent of domestic sales can eventually be more consumer-oriented maybe two, three years down the line?

Kedar Upadhye: So, we will be comfortable to share some of these targets in the coming few quarters. But you should expect us to be quite aggressive on that part. I think consumer agenda is one of our top two, three passion objectives that we have laid out in our overall strategic framework. So, you should expect us to be aggressive. Specific numbers once we are comfortable to share, we will come back to you in the coming few quarters. And the first question that you asked in terms of therapeutic areas are obviously with respect to what could be consumerized and not necessarily medicine per se, but something like pain management, vitamins and I think, as you know, we have one of the leading players in nicotine replacement therapy. So, I think we have very interesting plans there.

Nikhil Mathur: If I look at over the next three years, FY'20 to FY'23, given the stated strategy of focusing more on the domestic business and working more on limited completion products in the US,, it seems that the domestic business should outgrow the US market, obviously ex of certain products like Albuterol and Advair. If I just keep them aside, it seems the domestic business will outpace all the other business segments that you have in the portfolio. So, does it mean that we are looking at a structural business mix upgrade every year here or am I missing something here?

Kedar Upadhye: As you know, all the businesses in our portfolio have their interesting economic characteristics. And India and US are obviously the largest ones. And both have significant tailwinds in their respective geographies. So, I think it is difficult for us to compare between these two businesses. Both are strategic for us like all of the other businesses of emerging markets, API and SAGA, etc., So we would not want to get there and it is tough to say now, which one will grow faster than the other because I think some of the tailwinds may not be fully predictable. So, we would probably not want to comment on which one will grow faster and which one will have higher mix. But strategically, the direction is clear when we announced One India, that our focus One India, resource allocation, bandwidth will obviously have results.

Moderator: Thank you. The next question is from the line of Ashish Agrawal from Motilal Oswal. Please go ahead.

Ashish Agrawal: We also have an approval for TLD. So, are we not planning to monetize this opportunity given that it is a big market in South Africa and the US PEPFAR?

Umang Vohra: So South Africa, yes, TLD has already started and it will continue. And for the US, of course, it is an IP product. So, I do not want to discuss any of it right now on this call.

Ashish Agrawal: Just one more question on this cost of the API. So, we were hearing from a lot of guys that the API companies have taken a steep price increase in Q1 and last week onwards, it has been coming to the news that the Chinese guys are now taking a steep price cut in the KSM. So, any views you have would be very helpful?

Kedar Upadhye: Some of this is still evolving. And while this price increases or the recent price decreases that you referred to, what we have seen is that does not happen on the entire portfolio. That happens on select molecules and select APIs or KSM. So, while they impact our bottom line, either positively or negatively, I think usually overall basis, the sensitivity of this decreases or increases is not very high unless it happens at a portfolio level which is very rare.

Ashish Agrawal: And what would be the kind of inventory we might be maintaining with us?

Kedar Upadhye: Yes, on overall basis, we do maintain more than five months, that includes API, KSM, excipients, finished goods, work-in progress. So, I think all put together company level inventory holding is roughly a little more than five months.

Ashish Agrawal: On the hospital side of the business in India on the anti-infective portfolio, are we seeing good enough ramp up coming in, in the sense is there a pent-up demand visible now?

Umang Vohra: We have not seen that coming up, but it is marginally better than before.

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

Nitin Agarwal: Two things. One is, a, on the emerging markets, you mentioned about some more biosimilars being licensed. Now how are you seeing this over next, say three to five-year view, how do you see biologics opportunity plays in this whole emerging market given the strategy that you have adopted?

Umang Vohra: Each one of these can be meaningful for the country because biosimilars are typically bigger products. And some of our competitors have shown that these franchises can last for a long time and demonstrably contribute. And, what we have seen in South Africa is the same experience which is a large deep market for us as well. So, our plan is to take this to some of our large emerging markets, which is where we have been trying to get and leverage as many biosimilar products across the countries. And I think that is what we are doing. But you are right, it will take about two to three years for these to unlock. The good thing is a lot of these filings have been made or will be made by the end of this year and most of the partnership agreements are all concluded.

Nitin Agarwal: Umang, how do you see the market for some of these larger opportunities in some of these larger markets? A) These kind of partnering opportunity is available on the tap literally for multiple players to sort of participate in these opportunities or are these going to remain like limited competition products across markets?

Umang Vohra: I think that they are going to be limited by time on the emerging side because what has happened is that the number of people offering a biosimilar has gone and increased significantly. So, there are lots of people who have biosimilar products now. From where we were about three years back to where we are today, I think the number of people supplying these treatments have gone up quite significantly. So, I think they will be limited by time and limited by reach, for example, a lot of people do not operate in the markets that we operate in and so to vice versa. And therefore, you must choose the market carefully where this could give you a relatively nice uptick which could stay at least for a year or two years before the other competition enters.

Nitin Agarwal: And secondly on this API business, there has been a lot of momentum that you have seen across most of your peer set on their API business and people sort of recalibrating their API plans to double down on this business. What is our strategy towards this business going forward from a third-party supply perspective?

Umang Vohra: Let me put it this way, we work with certain advantaged APIs. For us, our overall API business in terms of third-party sale is approximately \$100-odd millions of sizes. But a lot of our captives come from this business as well. So, we are trying to only focus on those molecules which we think are big, but at the same time we are, like many other companies, also seeing how to derisk our reliance on China and other places in the world. So I think there is a list of targeted APIs that we are trying to reduce our reliance there and that may give rise to either a better cost position or a different product category that could add to a third-party API business as well.

Moderator: Thank you. The next question is from the line of Tarang Agrawal from Old Bridge Capital. Please go ahead.

Tarang Agrawal: I have a couple of questions. The first one is do you see any structural decline in your India SMB spend. If so, if you could give us a sense on the nature of spend and the quantum of spend that are likely to not come back in a meaningful way post the pandemic? The second is, if you could give us some sense on the size of your injectables and inhalation franchisees in US in FY'20? And what percentage of your pending ANDAs are from these franchisees?

Kedar Upadhye: If I could take your first question, so like what we said, there are two components to the decrease in the spend that we are noticing in this first quarter. And we would certainly like to believe that there is an element and it is a large element of the spend decrease which is structural and which is led by our reimagination efforts that will continue post-pandemic as well. And we would probably get a validation of the magnitude of that spend in the next one or two quarters because we need to see the sustainability of it, but we would like to believe that large element of the spend decrease would sustain beyond the pandemic as well. And that is associated with the fact that our customer engagement activity is becoming more virtual now. Our travel and commute and other angles of market activity would probably shift to digital world and you have seen that for all the companies plus our own efforts on reimagining, there are several initiatives that we have taken internally to see how do we actually achieve speed, agility and greater delight of our channel partners, of our customers to virtual mode. So, several of these initiatives are coming

together and those act as levers for us to do what you said, Tarang, that post-pandemic, this will not continue. In a quarter or so, we will be better placed to give you an estimate of how much would that kind of spend be. That is the answer to your first question. On the second question with respect to injectables, let us take it offline, we will come back to you with facts.

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

Naveen Bansal: Thank you, everyone for joining us on the call today and staying till 8 o'clock. In case you have any follow-on questions, please feel free to reach out to us. You can also write to us at investor.relations@cipla.com. Have a great weekend and stay safe.

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