"Cipla Limited Q1 FY22 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to Cipla Q1 FY2022 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. Kumar Gaurav from Kotak Securities. Thank you and over to you Sir!

Kumar Gaurav: Good evening, everyone. On behalf of Kotak, I thank Cipla's management team for giving us the opportunity to host their Q1 FY2022 earnings call. From Cipla, we have with us Mr, Umang Vohra, MD & Global CEO; Mr. Kedar Upadhye, Global CFO; and Mr. Naveen Bansal from the Investor Relations team. I now hand over the call to the management team for their opening remarks. Over to you Naveen!

Naveen Bansal: Thank you Gaurav. Good evening. A very warm welcome to Cipla's Q1 FY2022 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. A very good evening to all of you. I hope that all of you and your families are safe and well. We appreciate you are joining us today for Q1 earnings call for FY2022. I hope you have received the investor presentation that we have posted on our website. Before I come to the quarter, I hope you have had the time to review our recently published integrated annual report for fiscal 2021. This is our fourth integrated annual report and reflects our relentless focus on improving transparency, governance and setting best-in-class disclosure practices. In this edition we will also give significant updates on our business re-imagination, sustainability, and digital transformation journey. Over the last 15 months Cipla has entered into multiple strategic global collaborations to support the healthcare ecosystem in the fight against the pandemic and living up to a purpose of caring for life. We continue to stay committed to servicing demand across global markets, monitoring the critical filings, continued portfolio expansions, rigor on cost control, digital engagements along with seamless coordination in our manufacturing, supply chain and distribution.

Coming to this quarter we pleased to report another quarter of robust performance with historically the highest reported quarterly revenues with 27% year-on-year growth. As we communicated earlier, we have made a conscious effort to sustain a good share of the operating efficiency in the expense line, which has also helped to deliver sustained EBITDA margin of 24.5% for the quarter. We expect this efficiency is to continue in the coming period as well. The revenue growth for the quarter was driven by sustained momentum in our branded markets of India and South Africa as well as US and API. As alluded in our prior quarterly interactions we did experience significant traction in our One India business led by the strong core portfolio tailwinds in the Prescription and Trade Generics business along with the support from the COVID portfolio during the second COVID wave in India. Excluding COVID, the portfolio momentum continues to be on track with solid double-digit growth during the quarter. You would have noticed the elevated inventory levels which have been a conscious decision on our part to ensure the continuity of supply of our medicines; this also includes a portion towards antibody cocktail inventory that we launched in May.

We continue to see strong traction in our US revenue run rate both on a sequential and YoY basis led by further expansion in the Albuterol share and continued respiratory unlocking with the addition of Arformoterol in our portfolio. This has helped us offset the erosion seen in the rest of the portfolio. Our profitability for the quarter continues to track well above our full year targets. For the quarter there is no significant increase in opex on a sequential basis, the Y-o-Y increase is in-line with core revenue growth. We believe that there is reasonable headroom to drive EBITDA on a full year basis versus fiscal 2021. Our free cash generation and operating efficiency continues to drive over net cash position and pre-tax return on invested capital ratio, this metric is now at almost 22.1% on a trailing 12 months basis.

Coming to the financial performance for the quarter, we would like to highlight certain specific items, which are subsumed in the reported numbers. At a company level the contribution of COVID is in the high single digit for the quarter and after adjusting for this the revenue growth maintains a strong trajectory of high teens for the company and respective businesses. There is a low base baked in this numbers we are happy to see well diversified growth in the therapy divisions. Our reported API numbers include a profit share on the commercial supply of an API to a partner. Our emerging market business was slightly impacted by timing deferral pertaining to in-country currency allocation for our

Middle Eastern supplies during the quarter. We are highly optimistic that the issue is getting resolved and as we are speaking, infact the initial funding release has happened.

As you may be aware that South Africa in the early part of this month went through challenges related to civil protest. Our Durban plant operations did not get impacted much other than some marginal damage to equipments and storage items. We had sufficient inventory on hand as per the norm and look forward to starting full scale normal operations of the plants soon and resume supplies of lifesaving medicines. We have been very closely monitoring the progress of our specialty assets and evaluate options to structure this part of our business for a sustainable future. As you are aware that Avenue received the second Complete Response Letter on IV Tramadol and subsequently concluded a Type A meeting over June-July 2021. In light of this developments and good accounting practice standpoint we have taken one-time impairment of Rs.125 Crores on our investment in Avenue during the quarter. It is captured as an exceptional item.

For the quarter overall income from operations is Rs. 5,504 Crores, gross margin after material cost is at 62.4%, approximately 100 basis points decline on a Y-o-Y basis is attributable to contributions from relatively low margins COVID and COVID ancillary products and lower contribution from international markets as well which will offset partly by one time profit share in API; however, on a sequential basis there is almost 200 basis point expansion driven by the improved mix.

Total expenses which include employee costs and our expenses are Rs. 2,090 Crores, increased by 5% on a sequential basis. Employee cost for the quarter is at Rs. 887 Crores and that is the function of the increments as well as COVID linked compassionate relief to employees. Other expenses increased by 2.5% sequentially. Total R&D investment is 264 Crores; as a percentage of revenue spends are lower owing to the scale-up in revenues and the absolute trajectory is intact and the portfolio development efforts continue in full swing through the quarter. The reported EBITDA is Rs. 1,346 Crores or 24.5%, tax charge is Rs. 284 Crores and ETR is 28.5, the higher ETR is a function of the fact that we have taken the charge of the impairment, which does not have the tax shield. Profit after tax is about Rs. 715 Crores.

As on June 30, 2021, our long-term debt is USD 138 million towards the US acquisition and South Africa loans over ZAR 720 million for the operational requirements in Cipla, South Africa. We also have working capital loans in dollars and rand which act as natural hedges towards our receivables. Driven by the relentless focus on cash generation and rigor on cost discipline we continue to be a net cash positive company. Outstanding derivatives and the hedge for receivables are USD 144 million, ZAR 651 million, AUD20 million, GBP 7 million and EURO 5 million. We have also hedged a certain portion of our forecasted export revenues. To close, we saw strong tailwinds across portfolio and geographies for Q1. Growth levers in a subsequent quarters will include; Continued market beating growth across branded and consumer businesses; Robust traction in our respiratory franchise across Albuterol and Arformoterol; Sustaining and driving expansion in the operating profitability and pre-tax ROIC; reinvesting the incremental free cash flow into suitable growth linked opportunities. With that I would now like to invite Umang to present the business and operational performance, thank you.

Umang Vohra: Thank you, Kedar. I would like to wish all of you and your families good health and well being. Amidst the looming threat of a third COVID-19 wave in India our topmost priority is supporting the government efforts on increasing availability of our COVID and other lifesaving products. Our teams have been working relentlessly to ensure supply continuity for the entire COVID portfolio. We have also conducted large scale COVID vaccination drives for our employees, depot associates and families. We have also initiated a compassionate relief policy to the bereaved families of deceased colleagues to stand by them and support them in these moments of grief.

Coming to the strategic updates and operational performance, in FY2021 we laid the foundation of our strategic re-imagination journey led by digital transformation of our value chain including stakeholder engagement, R&D, manufacturing, supply chain and business functions. I am pleased to see the continued delivery reflected in the robust performance of the quarter driven by branded markets of India and South Africa and the continued unlocking of our respiratory franchise in the US. Last year we redefined our earnings trajectory both in terms of absolute and EBITDA margins at over 22%. Our EBITDA margins for this quarter came in at 24.5% in line with our commitments to maintaining this trajectory in the current year as well. Our endeavor will be to closely match the operating profitability in the coming quarters despite significant moderation to the contribution of COVID versus last year. In India, Our One India strategy continues to see seamless execution. The One India business grew 68% year-on-year driven by traction in core therapies along with a contribution from the COVID products during the second wave. Adjusting for the core COVID portfolio the revenue growth was still 47% over Q1 of last year. While the impact of COVID-19 will continue to play out in line with the spread of infections and the results of the vaccination drive, we continue to witness strong volumes across core therapies, which is likely to sustain over the coming quarters. The prescription business continued the market beating performance during the quarter driven by the strong volume growth in core therapies and support from existing and new introductions in the portfolio. Our acute and respiratory nebulization businesses have also recovered well. As per IQVIA MAT June 2021 we continue to deliver market beating growth against the IPM, we grew at 20% versus the 14% growth of the IPM. On the therapy side, the MAT growth versus broader market for respiratory is 14% versus 4%, anti-infective is 10% versus 9%, antidiabetic is 11% versus 9%, derma is 13% versus 12% and cardiac is 10% versus 15%, gastro is 13% versus the 17% and urology is slightly degrowing versus the market. Cipla consistently ranked number two with a market share of 8.2% in chronic therapies and grew by 16% versus the market growth of 12% as per the IQVIA MAT June 2021. We intend to maintain the market beating momentum in the coming quarter and ensure serviceability across our portfolio. The generics business delivered a strong growth adjusted for product transfers to CHL and witnessed healthy quarter flow across regions benefiting from strong demand tailwinds across the core portfolio and the other products that were linked with COVID sales. Consumer health business reported healthy revenue for the quarter led by growth in organic anchor brands as well as continued traction in all of the six consumer brands transferred in FY2021 from the generics business.

Coming to North America business, we are happy to report that we have entered the top 10 generic companies in the US by prescriptions driven by the respiratory franchise as well as the strong limited competition launches over the last two to three years. Our portfolio efforts on selection and execution have limited the impact of price erosion on our portfolio and we hope to continue this momentum and scale up as new launches come in. The US generic core formulation sales for the quarter were USD 141 million with a growth of 5% over a high Q1 FY2021 base which included Albuterol. It is also in line with a sequential ramp up despite incremental competition in select product categories. The Albuterol share is also ramped up and today Kedar has already covered the market share that we have in the external reported numbers. I am also delighted to see the continued unlocking of the portfolio with the launch of Arformoterol during the quarter. Our contracted shares for Arformoterol look extremely well and we are working with the channel towards achieving our fair share by maintaining adequate supplies. Our focus on 2022 will continue to deliver complex launches along with driving growth in the institutional channel, which will accelerate in FY2023, which we expect to be a big year of launches. On Advair we are working with FDA and responding to the queries and will continue to share the updates on the progress of the file. We continue to work with FDA on the observations in the Goa plant. We have equipped the plant with required infrastructure to facilitate any virtual audit in case the agency requires one.

Coming to SAGA, which includes South Africa, Sub-Saharan Africa and CGA, the overall region reported a robust revenue growth of 13% in USD terms, and South Africa private business reported a 7% growth over last year for the quarter. In secondary terms we continue to maintain market beating growth of 7.6% versus 5.1% as per IQVIA MAT June 2021. We continue to maintain the third position with a market share of 6.6% in the OTC and 7.1% in the overall private market. The Sub-Saharan business also witnessed strong demand in markets impacted by COVID-19 as compared to the previous year.

Coming to international markets which include emerging market and Europe business; the emerging market business was impacted by issues of timing deferral that Kedar mentioned in his commentary. We are optimistic that this issue will get resolved and subsequent billing shall happen in this quarter. The API business reported a growth of 69% in US dollar terms and includes a profit share of the commercial supplies of an API to a partner. Turning now to our outlook, we look forward to building this strong start to FY2022. The underlying momentum of our growth drivers for the portfolio continues to be robust across markets. We will allocate capital to enriching our capabilities across portfolio and digital technology platforms to enable the patientcare continuum. Our near-term priorities include a continued execution on the demand levers in the chronic and acute therapies, improving the manpower productivity across branded and generic markets of India and South Africa. Active advancement and innovative consumer centric products to accelerate the augmentation of a global consumer wellness franchise across India and South Africa continue to lead the respiratory categories such as for Albuterol and for Arformoterol and strengthen and accelerate lung leadership aspirations. Maximizing the value opportunity in the US complex generics space with launch momentum and with facilities always in compliance and control and continued vigil on cost and cash management, operating margins and return on capital employed. I would like to thank you for your attention, and we will request the moderator to open the session for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. The first question is from the line of Neha from JP Morgan. Please go ahead.

Neha: Thank you for taking my question. My first question is on the US business we have seen a fair bit of momentum in Albuterol market share over the last few quarters, I am not only looking at this quarter but over the last few quarters, but our US business has been rangebound in the 135 to 140, this quarter 141 million, is the core portfolio seems higher than anticipated erosion and when do you see the next inflection in the US business in your view?

Umang Vohra: Neha, I think the portfolio actually has done quite well overall, we have grown it to this level and I think the new launches will take this higher, the big year for launches is next year for us. We have a few launches coming this year, which will improve the trajectory further, but the next material shift will probably happen after a few quarters.

Neha: Okay in FY2023 timeframe?

Umang Vohra: Around that time because we are expecting launches of some of the big products then.

Neha: Kedar on the operating cost despite the second wave and lockdown it seems like we did see some increase in operating costs quarter-on-quarter despite the restrictions, how should we look at this cost from the current level that is the quarter in the first quarter as things have opened up completely should we see acceleration of SG&A spends in the India business and other branded markets going ahead?

Kedar Upadhye: Yes, Neha, there are certain elements in the operating cost, which are quite responsive to revenue, so some commission, some data fees and all that; so I think that will respond to the revenue growth which we have seen very high this quarter, so part of the increase is towards those variable costs and balance is something where activity was there in the market, so a large part of the field force is operating in the market, the operations and the manufacturing plants, depots and all the offices continuing so while most of the office based staff is work from home everything else is having a physical operation, so that is going on, in addition there is an increase in R&D as well, which is subsumed in opex.

Neha: What I am understanding other than the fact that the number representing to revenue most of the cost is at a normalized level in this quarter?

Kedar Upadhye: Yes, that is correct and maybe I think sequential quarter comparison is probably more appropriate comparison as we continue to believe that we have been able to retain some efficiency that we realized last year.

Neha: In terms of the R&D cost you said that the absolute number should maintain the trajectory that we have seen; on an absolute basis will the spend this year be similar to what we have been doing in this quarter or more like FY2022, which also included some cost and other?

Kedar Upadhye: It will be somewhere in between and that will be a function of how the trials get initiated, so Neha it will be somewhere in between.

Neha: Understood. Thank you so much for that.

Moderator: Thank you. The next question is from the line of Nithya Bala from Bernstein. Please go ahead.

Nithya Bala: My question is on the complex products that you are expecting in FY2023 so Advair for example or Abraxane for example, these require a prior approval inspection by the FDA and if that is the case do you have any visibility on when that might happen?

Umang Vohra: For the sites that are clear, I do not think there will be GMP inspections required and there might be PAI inspections that could happen virtually, but for sites like Goa, which is there probably a prior approval is required.

Nithya Bala: Specifically for Abraxane and Advair would that require a prior approval inspection that is a physical inspection or have you any indication from FDA that they would be okay with a virtual inspection?

Umang Vohra: That is something that we will have to get more guidance.

Nithya Bala: Got that, second one is on India you had mentioned that removing COVID therapeutic the base portfolio actually grew at 47% would that include the benefit that your base portfolio got some COVID for example Budecort or other anti-infective brands as well, so that is 47% include the benefits from those COVID therapeutics?

Umang Vohra: Yes, partially it does.

Nithya Bala: Understood. Thank you so much.

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

Anubhav Aggarwal: First question was cash, we have $400 million right now and with conservative estimates that will achieve double next year to $800 million so in the past you talked about expanding consumer healthcare business, etc., going for inorganic initiative there also, so I just wanted to understand what are the one or two things on top of your mind in terms of different businesses you have if you are looking for inorganic opportunities that is consumer healthcare the top priority right now or what was the second priority there?

Kedar Upadhye: See actually there is some debt on balance sheet so I think some of those debt servicing obligations do exist, they may have to be some payments towards some of the stocking which we have done and not paid and dividend which we have enhanced; two to three years back used to be around Rs.2 per share now we increased it to 3 then 4 then 5, so the dividend, etc., will get paid, but you are right I think the cash build up is likely to happen and while organic capex maybe high in selected areas like respiratory APIs or oncology APIs, etc., there might be some sterile capacity enhancements that we have to do we will be left with sizeable cash and all the possible value enhancing initiatives are open and that might include acquisitions, that might include other strategic uses of cash specifically the targets, which do often get evaluated are around India branded markets, South Africa branded markets and consumer health as well; potentially anything which is a longer tail in the candidate and in the unbranded generic, which is US, Europe or other markets I think niche capacity is the target, so it is difficult to give with precision, which target will work out and which will not, but I think the catchment area is meaningful enough, the idea is to pursue value enhancing initiatives.

Anubhav Aggarwal: On the complex launches in the US we have already seen the generics Brovana being launched right now, but for the remaining part of the year how many complex launches you are expecting?

Umang Vohra: Anubhav we are not disclosing exact numbers. I think there are a few and I think we will wait to launch before giving the details there.

Anubhav Aggarwal: One clarity on this generic Advair last quarter also you mentioned that you are responding to FDA, so in terms of these launches when do you think that you will go back to FDA which give complete response?

Umang Vohra: I think this month.

Anubhav Aggarwal: Thank you.

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

Nitin Agarwal: Thanks for taking my question. Just to clarify on the earlier comment about the EBITDA margin sustainability, so we had 24.5% EBITDA margin for the quarter, so is it understanding right that for a year we are expecting to maintain margin around this level despite the COVID impact are hitting in the numbers?

Umang Vohra: No, I understand where you are coming from, we are saying that we will maintain our trajectory versus the last year despite the last year having COVID, so there might be a quarter where COVID may have taken a margin to 24% or 25%, but net of that we will continue to maintain our trajectory at the 22.5% to 23% that we have guided quarter-on-quarter.

Nitin Agarwal: Secondly, on India sales now obviously April-May were huge sales for industry and especially for people like you done a phenomenal job in servicing the demands now assuming there is no major fresh outbreak of wave 3, which comes through how should one think about India sales for industry and for ourselves for the balance 9 months?

Umang Vohra: I am not sure that I can give you the way to look at it, what I can say is that minus COVID the market should show the 10% to 12% growth, with COVID obviously the COVID product sales take over, so I think doctor visits have resumed more or less people are going so I think the 10% to 12% growth in the market is possible minus the COVID impact, so the last year had lots of COVID quarters as well, so if you take out COVID core product portfolio should probably show that amount of growth of the industry.

Nitin Agarwal: We should continue to outpace the market growth as you have done in the last several quarters now?

Umang Vohra: Yes, we are hoping to do that, but I think the market should come so at the same time I have to say it is very difficult to predict when a wave will come or not and also there will be a shift in what gets used in every wave, so I think that is also going to make a change.

Nitin Agarwal: In the recent annual report you had mentioned about a peptide in-licensing strategy peptide product, so there was one NDA of peptide also that we filed, we have not discussed much of this in the past around this peptide portfolio can you just throw some light on that?

Umang Vohra: Well, we have about three peptides now in our portfolio and peptide as an API it is a pretty specialized game, so we have got in-licensing strategy where we worked with some peptide, some peptide companies that deliver the API and just like everyone else there is a lot of characterization, etc., that is needed in our peptide product, so we are working on these three and I think we have alluded the filing one.

Nitin Agarwal: Thank you and best of luck.

Moderator: Thank you. The next question is from the line of Kunal Randeria from Edelweiss. Please go ahead.

Kunal Randeria: Abraxane is likely the first generics could enter a market on March 2022, so would you be also entering at that point in time or would you come maybe a three months later?

Umang Vohra: No, I think this is a settlement agreement that the innovator has signed, so I cannot give any information on this, but I would not be surprised if the person who enters first has got some level of exclusivity in the market.

Kunal Randeria: Sure. Second question is antibody cocktail it seems to be getting increasing traction from the medical community and the developed world as it means to prevent COVID infection so just wondering what your thoughts are on potential in India and what are your commercialization plans?

Umang Vohra: So, I think India, the antibody cocktail I think as a therapy in terms of data that is available to us now both for prophylaxis internationally available in terms of prophylaxis as well as both vaccinated and unvaccinated people who is getting COVID outside of India are being administered this cocktail if they need it and remember the cocktail is only approved for mild to moderate conditions, so I think they use outside is significantly higher today many fold compared to what they use in India is and I think this market needs to be, I personally think for somebody who has not been vaccinated or who has had just one shot, but has unfortunately got COVID I think the antibody cocktail has a fair amount of utility especially if the patient is very high risk right has another comorbidity or is high in age so we have seen a lot of data in India where this has been administered to people and even several people and they have had good results after the administration of the cocktail, so I think it is really a function of the medical community agreeing with this and over time we have seen that the numbers are growing of people who are administering it and actually even patients were asking for it as an option from a doctor and then the doctor decides whether they are eligible for it or not, so I think it is not something which is a created market, it is not a Remdesivir, but it will take some time to create, but I think we stay positive based on the scientific data that we have seen on the cocktail.

Kunal Randeria: It is fair to understand that it could potentially have a longer tail?

Umang Vohra: That is correct and considering even the vaccination status in India, I think the tail could be longer but I also think the product may have more utility over a longer period of time as well.

Kunal Randeria: Got it. Thank you very much and all the best.

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

Sameer: Thank you and good evening everyone. Just on the margins if I see the pattern over last five quarters for example, so first three quarters last year had about 23% to 24% and suddenly dipped to 17% in Q4 and now that you are guiding for 23% but I am just wondering one down quarter and that kind of messes up the full average so just your thoughts on this?

Umang Vohra: Actually Sameer Kedar will probably add more colour so just to stand a little corrected I think Q4 for us seasonally is the weakest quarter and it is across the US pretty much stays where it is, but I think if you look at India sales, if you look at the sales in emerging markets it is actually a weakest quarter and it is seasonal, it is not any other factor, so when I mention 2022-2023 what I was trying to guide to is that we will try and match the previous year and try to be higher than the previous year quarters minus COVID so our base portfolio will deliver that much, but in Q4 if there is reverse seasonality I think the margins fall on an account of that, it is not for any other reason, so I think product mix and margins fall in that quarter, so we will hope to do better than the previous quarters for sure in the core business without COVID, but I cannot predict the COVID base and how they will work, so for example Q1 of the previous year had no COVID with relatively no COVID sales, but Q2 of the previous year has very high COVID sales, but in Q2 it is unlikely that we will have COVID sales to the same amount in this quarter, but we are quite confident that our core business will beat last year's core business in this quarter and quite significantly so that is how we are planning a quarter, so endeavor is to beat last year's core business profitability, which we believe was in the range of 21% to 22% most quarters rather than Q4 where reverse seasonality reduces our margins so therefore in Q4 also we will try to beat last year, they may not be 21%, 22%, but average for the full year we will come in at that level.

Sameer: Okay Umang, this is very helpful, thanks and just on this Q1 there were two big one-off item if I can consider and one was the one-time profit share on API versus 125 Crores I think you mentioned write off on Avenue Therapeutics; if I just offset one versus the other then would you say that you have Rs. 715 Crores net profit is the core underlying profit for the quarter?

Umang Vohra: Maybe Kedar can answer that.

Kedar Upadhye: So I think on a PAT basis one can offset that Sameer, but there is growth which is linked to COVID so that is something which we would not be able to predict going forward.

Sameer: Got it and just one last question from my side and that is on the India pricing environment that you can share how is Q1, which I think is when price increase happened in the outlook for fiscal 2022 for India pricing?

Kedar Upadhye: Sameer we do not understand your question, you are referring to the Y-o-Y pricing?

Sameer: That is correct, the price increases that you would take for India portfolio, so what is your outlook for this year and how was the Q1?

Kedar Upadhye: So that is all regulated as you know I think we do have almost 30% and upwards of the portfolio under DPCO after prescription business and that follows the WPI pattern which was miniscule this year and the balance I think our attempt is to see to what extent price increase gets absorbed in the market and then we do to take price increases.

Sameer: But what you say that for that 70%, 3% to 4% increase is what is a normal and that is what your take for fiscal 2022?

Kedar Upadhye: Yes, actually it comprises several buckets Sameer, I think one bucket is injectable where actually we do take price dips and there is another bucket, which is highly competitive and we take a call so I think there are two, three buckets and that is surely one bucket where the pricing window is available and there we go to extent what is allowed by the regulations.

Sameer: Great, thank you so much.

Moderator: Thank you. The next question is from the line of Harith Ahamed from Spark Capital Advisors. Please go ahead.

Harith Ahamed: Last quarter you had indicated your plans to initiate clinical trials for a couple of products this year, so are we on track for this and have we initiated this already?

Kedar Upadhye: We are in the process of initiation, we have not yet initiated, but I think the pre-work is going on?

Harith Ahamed: For both the products?

Kedar Upadhye: Yes.

Harith Ahamed: You have taken up impairment this quarter, so does it mean that we would not be exercising the option to acquire the remainder of the company?

Kedar Upadhye: Yes, I guess so, we have not chosen that option, I think the impairment is a function of the fact that it is a listed company and the investment needs to get mark to market in the quarter end, so appropriate discount has been applied and the impairment has been taken, but at this stage it is not definitive whether we are going ahead or not going ahead, so that evaluation is still on.

Harith Ahamed: Last year we had a very strong growth for this segment we talked about Y-o-Y, so what is the trend we are seeing for this business currently what is the contribution from trade generics towards our One India business for the quarter approximately?

Kedar Upadhye: So, that continues in the same zone, if you take the COVID uplift away from the prescription business, so on a normalized basis the proportion of trade generics to overall one we are fairly in the same range which it was and the tailwinds do exist in this business even in this quarter also it seems very healthy growth and we believe that will continue.

Harith Ahamed: That is all from my side. Thank you very much.

Moderator: Thank you. The next question is from the line of Prakash from Axis Capital. Please go ahead.

Prakash: I just missed the India growth breakup, so are you breaking down into ex-COVID and generics growth rate?

Kedar Upadhye: What we said Prakash if we take the direct COVID products out I think the One India growth is 47% vis-à-vis 68% which we have reported and split of that into 3 we are not giving at this stage, but all three have grown at very healthy ratios.

Prakash: But would be fair to say Rx would be higher given the low base last year?

Kedar Upadhye: Not necessarily all three businesses have grown in very healthy percentages.

Prakash: Okay, got it and on the capacity and the capex, so capacity wise what is our capacity utilization currently and with US maybe coming in the next 6 to 12 months how do we see this capacity ramping up and what would be our capex requirement for this year and next year?

Kedar Upadhye: So, the capex is in the zone of Rs. 700 Crores to Rs. 900 Crores on a normalized basis unless we choose to enhance some Greenfields or respiratory API or the existing blocks, so that would be additional, but on a normalized basis I think you should expect us to spend about Rs. 700 Crores to Rs. 900 Crores and work on capacity for new launches is ongoing for the last one-and-a-half to two years in fact, so both API and formulations, the work is ongoing and at selected plants be it Indore or Goa or other places, I think when the respected products get launched capacity should not be a constraint.

Prakash: What would be our current capacity utilization?

Kedar Upadhye: See, there is plant by plant, I do not know what number to give it to you is varied site by site and unit by unit, so tough probably to give you one number.

Prakash: But this Rs. 700 Crores to Rs. 900 Crores is like what largely maintenance with some add on or how do you think about this are you adding some more blocks?

Kedar Upadhye: No, that is interesting question, I think one theme, which will be emerging and that is contributing to this capex is digitization, so I think we are on a very ambitious automation program across all our manufacturing facilities and the censors or other technologies that could get deployed I think that work is going on so that is something which is as a mix of the capex is going up from this year, it was smaller to the extent last year, but I think this year onwards I think that component is going on, but it is partly maintenance and growth affair but not necessarily in terms of new Greenfield.

Prakash: Great, thank you and all the best.

Moderator: Thank you. The next question is from the line of Vishal Manchanda from Nirmal bang. Please go ahead.

Vishal Manchanda: Could you give us the guidance on R&D spend as a percentage of sales how it would look in FY2023?

Kedar Upadhye: R&D spend is a function of the portfolio and the activity, so based upon certain high spend activities like clinical trial based upon which quarter or which year they fall into I think the overall percentage to sales would get determined, but that is a corollary I think we do not have a percentage of sales, what we try to do is, as long as the product as a sound business in I think we initiate and continue the development so tough to give you that over long-term I have seen I think at a scale of which we are seeing on the revenue line I think anything up to 7% should be enough to funnel our future growth.

Vishal Manchanda: Just a clarification on the profit contribution that you have booked as part of the API sales so when this not recur in subsequent quarters?

Kedar Upadhye: Yes, it is for the quarter so we have received that for the quarter; unlikely it will be at back level in the balance quarter.

Vishal Manchanda: It will be slightly lower?

Kedar Upadhye: Significantly lower, it will get moderated to a great extent.

Vishal Manchanda: Thank you, that is all from my side.

Moderator: Thank you. The next question is from the line of Surjith Pal from Prabhudas Lilladher. Please go ahead.

Surjith Pal: You have guided that you will be in India formulation will be beating the IPM could you please give some idea, I can understand the IPM, what could be your idea for IPM growth and what could be your growth in that area?

Kedar Upadhye: Surjith I think Umang clarified that I think what he said is on a normalized basis we could expect IPM to be between 10% to 12% on non-COVID basis, but I think the whole thing is becoming a bit muddle to take COVID out of the extended COVID products now, I think there is a large state of products which too benefit from the COVID, so let us see how does evolve on a month-to-month, quarter-to-quarter basis, but we do hope that we will be able to outperform the IPM.

Surjith Pal: In US when could we expect that the typical range which we are saying of 141, 145 million per quarter when could we expect that range could be crossed?

Kedar Upadhye: See, that will be function of a meaningful launch and I think let us see how do the coming three quarters go and how does the next year go, but that is a function of a large meaningful launch.

Surjith Pal: Any guidance that when could you see that barrier to be broken?

Kedar Upadhye: Surjith, not at this stage I think let us take it as the way it comes.

Surjith Pal: Thank you and all the best.

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

Surya Patra: My first question is that on the COVID side you see this antibody cocktail that is still not I think part of the common treatment protocol what ICMR is against any specific reason for that whether it is because of the availability is limited and that is why it has not been part of the common treatment protocol and also if you can just add something on the Moderna vaccine opportunity what it has been talked in the media and the approval that is also that we have seen?

Kedar Upadhye: See, the work is on there is no specific reason why it is not, the work is on and let us see how it pans out in the coming days, but on availability there is no constraint at this stage, I think the awareness among the doctor community continues to be high and we do hope that wherever it is required I think it gets picked up on the market. On the Moderna vaccine we have spoken in the past that there is no commercial arrangement in place and our arrangement for facilitating the importation was only after donated vaccines.

Surya Patra: My second question is on the potential benefit that we get out of the kind of top 10 position in that we have achieved in terms of prescription generation by US despite being a kind of a late entrant to that market we have now achieved a kind sizeable position in terms of prescription generation, so given our specialty product portfolio and innovation product pipeline and all that can you give some sense how do you be capitalizing this achievement for your subsequent pipeline and hence better qualitative growth in the US?

Kedar Upadhye: I think you have seen over the years of bigger basket of portfolio, reputation and credibility for a sound supply chain and customer relationship always help, all these factors come together along with your ability to launch on time I think these are obviously some of the fundamentals of generics so I think in that sense I think this helps us.

Surya Patra: But you have no specific pipeline what you are building that would be meaningfully benefited or it is just a facilitation or something or you think that even much demanded product like Revlimid which is going to be there in the portfolio which positioning like this is really be complemented significantly, do you see those kind of scenarios emerging?

Kedar Upadhye: It is an interesting question and there are aspects of synergy which is inherent, in portfolio in supply chain, in customer relationships, in ability to launch on day one, so all of those clubbed together and obviously every factor would support your business.

Surya Patra: Just one clarification Kedar rather two clarifications, one is on the global consumer business front what is the profitability of that business or whether that achieved break even or if not then when do you think that it can be achieved and secondly on the depreciation side see last few quarters almost 8 to 9 quarters that it has been flat although there has been some or other kind of capex that has been continuing so any specific reason?

Kedar Upadhye: Consumer business comprises the India and South Africa, South Africa is a very healthy and profitable business, the Indian part is incubation, but we do both that we achieved break even slowly now, so I would want to tell you whether this quarter or this year, but a target is to get to break even scenario soon enough on that so that is on the consumer business and your second question was on depreciation I think that line includes amortization as well, so I think what is happening is there is an interplay of depreciation and amortization in that line and the fact that some of the acquired intangibles are running from the useful life I think that gets over in the last couple of years maybe that must be what is happening, but I can check and come back.

Surya Patra: Sure, thank you and wish you all the best.

Moderator: Thank you. The next question is from the line of Forum Parekh. Please go ahead.

Forum Parekh: I just wanted to understand on the North America side. Albuterol has recorded good sales but with entry of new competitor and how sustainable it is and if you can throw some colour whether you are going take a price cut or not and what market share are we expecting?

Kedar Upadhye: Overall generic albuterol market is a large market and there is a meaningful headroom for us to grow even on the current date and that is why we are targeting, it will be tough to give you specific target in terms of market share, but you are seeing the traction every month over the last 14 to 15 months we have launched the product.

Forum Parekh: Sir you spoke on the new launches in the next year in North America region so just wanted to understand how much percentage of the sales would there be in the new launches?

Umang Vohra: I think it is extremely difficult to tell exact timing and everything else.

Forum Parekh: On the India business I just wanted to know how much percent of the branded portfolio would be of India's business?

Kedar Upadhye: That would be upwards of 70% to 75% or so.

Forum Parekh: That is helpful, thanks a lot.

Moderator: Thank you. We will take the last question from the line of Krishnendu Saha from Quantum Asset Management. Please go ahead.

Krishnendu Saha: Kedar just to get the understanding of the margin, sorry for coming back to the margins again, if I look at the revenue just on a quarter-on-quarter basis itself because of the COVID and the India business is doing well besides that API little bit probably so what I am trying to understand is that EBITDA margin and with the cost in manpower and the materials there is a shape up of 1.5%, 1% so going ahead just to understand the EBITDA margin a little bit more if do we see one the costs be contained at the absolute level as it is right now at the EBITDA level and what happens if the COVID revenue starts falling in the next two quarters, so how does it look I know you said is 23% margins what you are going to get but is it because of a lot of being driven by cost or a lot of being driven by revenues because of that and will the cost come back is what I am trying to understand?

Kedar Upadhye: I will give you two, three pointers to help you understand how it will evolve, so firstly the gross margins of COVID product you can see usually it is lower than the overall company reported gross margin so that makes us to determine how much will be gross margin going forward. The opex includes a portion which is linked to sell so there are commissions and other discount and some of the data, etc., which are linked to sales so I think to the extent sales move up or down I think back portion of the office would change and R&D is especially based upon the progress of respect to molecules I think that is how the P&L would get shaped up, but I think like to clarify that our attempt is to despite not having as much as COVID as last year out attempt is to meet or exceed what we reported for the last year.

Krishnendu Saha: On the Brovana point basis 11% market share do you think it is going to be a meaningful going ahead?

Kedar Upadhye: Yes, it will be, the contracted markets business the way is far higher than what it is reported obviously there was a lag effect, but it is an important product.

Krishnendu Saha: What is the market share could you give us for that if possible?

Kedar Upadhye: Healthy double digit, I cannot give you the exact number.

Krishnendu Saha: Thank you.

Moderator: Thank you very much. I now hand the conference over to the management for closing comments.

Kedar Upadhye: Thank you so much everyone for joining us in the earnings call today. In case you have any further questions you can reach out to us, write to us or our investor relations. Wishing all of you a great evening ahead. Thank you so much 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.