19th May 2020

(1) BSE Limited
Listing Department,
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai 400 001

Scrip Code: 500087

(2) National Stock Exchange of India Limited
Listing Department
Exchange Plaza, 5th floor,
Plot no. C/1, G Block,
Bandra Kurla Complex,
Bandra (East), Mumbai - 400 051

Scrip Code: CIPLA EQ

(3) SOCIETE DE LA BOURSE DE LUXEMBOURG
Societe Anonyme
35A Boulevard Joseph II,
L-1840 Luxembourg

Sub: Q4 FY20 - Earnings Call Transcript

Dear Sir/Madam,

We are enclosing herewith copy of the transcript of the Company's Q4 FY20 earnings conference call dated 15th May 2020. The transcript is also available on the Company's website *i.e.* *www.cipla.com* under the Investors section.

Thank you,

Yours faithfully,
For Cipla Limited

RAJENDRA CHOPRA

Digitally signed by RAJENDRA CHOPRA
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Date: 2020.05.19 11:38:39 +05'30'

Rajendra Chopra
Company Secretary

Encl: as above

Prepared by: Juzer Masta

"Cipla Limited's Q4 FY'20 Earnings Conference Call"

May 15, 2020

MANAGEMENT: **MR. UMANG VOHRA – MANAGING DIRECTOR & GLOBAL CEO, CIPLA LIMITED**
MR. KEDAR UPADHYE – GLOBAL CFO, CIPLA LIMITED
MR. NAVEEN BANSAL – INVESTOR RELATIONS, CIPLA LIMITED
MODERATOR: **MR. CHIRAG TALATI – KOTAK SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Cipla Q4 FY'20 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. and 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 Q4 Earnings Call. Hope you and your families are well and safe. I am Naveen from the investor relations team.

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 expectations of the future performance of the company. Please note that these estimates involve several risks and uncertainties including the impact of COVID-19 that could cause our actual results to differ materially from what is expressed or implied. Cipla does not undertake any obligation to publicly update any forward-looking statement whether as a result of new confirmation, future events or otherwise.

With that, I would like to request Kedar to take over.

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 Fourth Quarter Earnings Call for Fiscal 2020. I hope you have received the 'Investor Deck' that we have posted on the website.

Globally and as a country we are going through a health crisis of unprecedented proportions, raising a lot of uncertainties about our operations. Before sharing commentary on the numbers for the quarter, I would like to talk about how we are managing our operations through the pandemic. I am pleased to report that our teams across operations including manufacturing, supply chain, R&D and marketing have demonstrated strong resilience on the back of robust business continuity plans. We did experience some logistics and dispatch challenges towards the end of March. But the situation has significantly stabilized now as we speak. For long-term pandemic preparedness we are proactively de-risking the business with increase in inventory holdings for critical API, intermediates and KSM and adequate levels of finished goods.

Our manufacturing facilities are operating at healthy levels with a bit of differing attendance at plants in various parts of the country. We have also temporarily reduced production for some of

our low margin non-critical products to release manufacturing bandwidth for more critical products. All our product approvals as we speak we do not anticipate any major delays in approvals, but we continue to monitor the same and we will provide update as and when appropriate. In the coming quarters, we will continue to focus on cost optimization and strong cash generation.

This FY'20 profit after tax is historically the highest profit after tax for Cipla. And before you make any year-on-year comparisons, you should note that in the previous year we have the contribution of Cinacalcet which is not there in the current year at that level.

Coming to the "Quarter." There are certain items which have impacted our quarterly numbers. These are as follows: Towards the end of the quarter because of the lockdown announcement and related logistics and dispatch challenges, our sales were impacted by almost Rs.200 crores. Most of this sales pertain to our India prescription and emerging market geographies which are very high margin. While this will be recovered in Q1, this has impacted the EBITDA for the quarter by about 200 basis points. Included in the EBITDA is a sizeable cost for Goa remediation when work was fast-tracked and majority of the costs are now already booked and hence we believe the subsequent quarters will not have any major P&L charge.

For the quarter, overall income from operations stands at Rs.4,376 crores, recording a YoY 7%. Normalized for contribution from IP-enabled opportunity in US in the base along with strong performance across our branded markets in India and South Africa. As mentioned earlier, the sales for the quarter were impacted by over Rs.200 crores because of COVID-linked dispatch situation.

Gross margin after material cost stood at 61.4% for the quarter on a reported basis. Total expenses which include employee cost and other expenses stood at Rs.2,054 crores, increased by 4% on a sequential basis. Employee cost for the quarter stood at Rs.764 crores increasing by 2% versus last quarter. The other expenses which include R&D, regulatory, quality, manufacturing and sales promotion are at Rs.1,290 crores, increasing by 6% sequentially largely driven by Goa remediation expenses and other growth-linked investments. Total R&D investment for the quarter are at 7% of revenues. Over the last three to four months, we have seen strong validation and successful execution of high investment, limited competition portfolio with the approval of Albuterol and completion of trials for the generic Advair and filing of another complex inhalation asset. This will result into moderation in our R&D spend in FY'21 as we had guided earlier. Reported EBITDA for the quarter was at Rs.652 crores or 15% to sales. As highlighted earlier, the COVID link cut off has impacted this by about 200 basis points. Tax charge for the quarter stood at Rs.86 crores. In fiscal '21, we expect tax rate to moderate downwards given the changes in the corporate tax regime. Profit after tax is at Rs.256 crores or 5.6% of sales. During fiscal '20, we maintain very strong focus on cash generation. We prepaid USD275 million of InvaGen acquisition loan ahead of schedule during the year. Our long-term debt now stands at USD315 million, out of which USD275 million is towards the InvaGen acquisition and ZAR720 million for the Mirren acquisition in South Africa. We also have

working capital loans of about USD41 million and South African ZAR280 million, which act as natural hedges towards our receivables. Total net debt-to-equity is about 0.05 and very healthy. Outstanding forward and option contract with the hedge for receivables as of 31st March 2020 are USD197 million and ZAR510 million. During the quarter we have also hedged certain portion of our forecasted export revenue. Outstanding cash flow hedges as of 31st March are USD121 million and ZAR312 million.

From a capital allocation perspective, we have significantly improved our return on invested capital over the last two-three years by almost 300 basis points. We continue to maintain our aggressive investment stance in established branded franchises of India, continued focus investment in South Africa and calibrated investments in US generics and specialty business which will drive further improvement in the return metrics. As I mentioned in the beginning, we will remain focus on ensuring a healthy cash position and reimagining the cost base across our businesses in these times.

I would now like to request "Umang to present the Business and Operational Performance."

Umang Vohra: Thank you, Kedar. Before moving to the business update, I would like to start with some thoughts on the COVID-19 pandemic and Cipla's response. In the wake of the unabated spread of the COVID-19 pandemic, Cipla has stood strong by India as the country's oldest pharmaceutical institution. I would like to express my sincere gratitude to healthcare workers on the frontline as well as our employees who have been working relentlessly to deliver on our promise of caring for life. In order to ensure business continuity, we had set up a global task force with a robust contingency plan to safeguard the wellbeing of our employees stationed at our facilities, depots and other offices so as to ensure uninterrupted supply of medication support and care to the patients. We also launched a spate of relief efforts for advanced testing to safeguard healthcare providers and supply communities with medicines, essential hygiene items and food. We had also contributed to the government's PM CARES Fund. We are pleased to partner with Gilead for Remdesivir. Our partnership with Gilead represents our unwavering commitment to providing patients with access to lifesaving treatment and is a significant step towards saving millions of lives impacted by the pandemic.

With that said, let me come to the strategy updates and operational performance for the quarter. I will briefly talk about our outlook at this stage for FY'21 thereafter. Last quarter in India we had announced "One India" strategy which brings together the might of our three businesses. I would like to share some more updates on the same. We are working on some areas to integrate the three businesses which are the Prescription business, the Generic business and our Consumer Wellness business that have converged under the overall "One India" umbrella. We are transferring select brands which have high consumerization potential from trade generics to our consumer business. Some examples include the Prolyte, Maxirich and an entire new range of Mamaxpert.

We also launched Ciphands Sanitizer under the hygiene category to cater to an emerging consumer need during the early stages of the pandemic.

We have also recently launched an "Omnigel Consumer Campaign" where Omnigel which is a generic product is benefiting from the inputs provided by the consumer team in trying to create a new market segment for Omnigel. We are in the process of creating a channel taskforce to deepen channel engagement, investing in strategic partnerships and smart analytics through our entire portfolio and range.

We have also improved patient connect through our "Berok Zindagi Campaign" and several other one therapy platforms that we are compensating.

Coming to the "Business Performance." India Rx business delivered its third consecutive quarter of market beating double-digit growth. Chronic therapies ranked #2 driving a significant share of our growth and grew by 12% for IQVIA MAT March 20th broadly in line with the market growth. Cipla continued to maintain its leadership position across Respiratory, Neurology, while maintaining a #3 position in Anti-Infective and #4 in Cardiology. As mentioned by Kedar, the trade generic business continues to drive strong momentum with strong consecutive growth quarter post stabilization of the model change we have implemented in Q1.

To further support our domestic business and allocate capital to the India market, Cipla acquired the four umbrella brands in a Nutraceutical segment from Wanbury Limited to further strengthen the four decade long presence they had in the women's health category. Value-accretive investments like those as well for Elores which is an anti-infective critical care asset and Vyzov which is the DPP-4 inhibitor that we had bought from Novartis are likely to reinforce Cipla's strong play in key domestic therapeutic segments.

In the US Generics segment we optimize the IP-led opportunity in fiscal year '20 and scaled our US business significantly. The US business delivered the revenue of US$118 million in the quarter as revenues from the IP-enabled opportunity have normalized and we have taken certain shelf stock adjustments. We also launched Esomeprazole for oral suspension during the quarter with the first-to-file status on the 10 mg strength.

From a "Launch Outlook Perspective" the limited competition unlocking has already started with the launch of Esomeprazole and generic Albuterol MDI.

Over the rest of the quarters and next, we expect to launch one limited competition asset each amongst the other launches planned in a normal basis.

In South Africa and our emerging markets business, the South Africa business delivered strong numbers growing 10% in local currency terms during the quarter. Cipla ranks as the 3rd largest pharmaceutical cooperation within the South Africa private market by both volume and value.

We are also pleased to share that Cipla emerge to be the largest player in the addressable OTC market and the 3rd largest player in the ARV market in the private side.

Other businesses like the sub-Saharan African business were impacted with certain receivables related challenges while the CGA business remained flat for the quarter.

Our European operations continued strong in-market performance and grew 14% on a full year basis in US dollar terms. The emerging market business was flat for the quarter on COVID-19 related logistical challenges impacting sales which we hope to recover in Q1.

In the US Specialty segment in line with our previously announced strategy of partnering out our CNS assets, we have successfully completed the sub-licensing of our NCE CNS asset to a partner for further development. We are also actively exploring partners for the other CNS assets like the Tizanidine Patch. This strategic de-risking deal has enabled cost recovery, significantly to reduce future R&D payouts while retaining some future upside benefits from successful filings and commercialization.

I would like to talk a little about lung leadership there where over the past few years we have invested significantly in lung leadership across our markets. In the US business, we have been creating a sustainable pipeline that offers strong medium to long-term visibility on revenue and profitability. As you know, Cipla has been a leader in the inhalation therapy and the milestones achieved in the last two months are a testament to the strong R&D capabilities in the space. This also marks the successful execution of high investment, limited competition pipeline particularly in the lung leadership and the inhalation space and hence the R&D investments will see moderation to that extent in the coming year. The recent US FDA approval for generic Albuterol MDI and the successful completion of the Phase-III clinical study of generic Advair Diskus reiterates the commitment of strengthening our regulated respiratory franchise.

We would also like to share that we have filed another complex inhalation asset recently in the US. And another partnered asset is in late stage clinical trial.

I am also delighted to share that according to the latest IQVIA numbers, Cipla is ranked #2 as the largest seller globally for both DPI and MDI devices with more than 120 million units sold globally.

As we aspire to become the lung leaders in the world, we are positioning global respiratory efforts under the ‘Breathe. Think Cipla.’ branding. The positioning will bring together an internal task force geared to ensure that we achieve our goal of becoming a global lung leader across our focus markets.

I would like to turn to the regulatory section of the analyst call today. On the regulatory front, we are working with the US FDA to comprehensively address the Goa observations. Our last update was submitted to the agency in April end. Over the last 15-months FDA inspections covered most of our facilities outside Goa, where we have already received the EIR for all of

them. We will continue to provide regular updates on the same in our quarterly communications and continue to remain focused on maintaining the highest standards of quality across our manufacturing network.

Turning now to our "Outlook." We understand the COVID-19 situation is dynamic, but the underlying fundamentals of our business remain extremely strong. While we see some near-term opportunities, positive trends across our backend operations and front-end logistics, we are approaching the coming one or two quarters cautiously as clearer demand patterns emerge from our market.

Inspite of the uncertainty, our business teams have actively reimagined their operating models which include aspects such as creating a digital roadmap for the future, optimizing overall resourcing across businesses, speed and agility and making informed choices in areas which matter the most.

Managing supply across all key markets is a key priority for us. We have robust plans in place for manufacturing, supply chain, R&D and marketing with a focus on cost optimization and cash management. We are proactively working on ensuring adequate inventory levels for critical raw material and finished goods in the channel.

We will scale our India business across the three businesses on the back of "One India" strategy to drive the quality of revenue growth and health metrics.

In South Africa, we will continue to maintain leadership positions across both the private and OTC market.

And our US generics business shall continue to build upon our respiratory franchise and solidify our position as lung leader globally. We are looking at a healthy launch pipeline for the year and have already seen traction in the last two months with the launch of Albuterol and Esomeprazole for oral suspension.

We will also hope to focus on and resolve the regulatory issue at our Goa plant.

With this I come to the end of our message. I would like to thank you for your attention and request the moderator to open the session for Q&A. I would like to wish all of you good health in the months ahead.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.

Anubhav Agarwal: A couple of questions from my side. First is on the cost angle. Just want to understand the dynamics how cost would be playing out now? I am just not talking about Q4, but just cost playing out now under the COVID situation. So for example, in the Branded Generics market, you have the lesser promotion cost now, but on the manufacturing side, we will have maybe

higher cost due to social distancing and other norms, etc., So, just want to understand the interplay of the cost, what is the net impact on us from this different angle?

Kedar Upadhye: Anubhav, broadly what you said is, that is our experience, so the activity in the branded markets on the ground has substantially gone down from the day of the lockdown in various markets we operate. So, on those activities we are certainly seeing lower spend. On some of the safety related expenditure in manufacturing facilities and our depots, we are spending more on masks, sanitizer, food and distribution, etc., So I think those categories of spends have increased, but on the whole we are able to balance it out because in the plants as well because of the lower activity there is some reduction in repairs and maintenance and stores and spares and power as well. So after June quarter gets completed, we will be able to quantify this better for you, Anubhav, but trend wise what you said is appropriate.

Anubhav Agarwal: So, trend wise, you are calling neutral-ish to positive right now from the cost side?

Kedar Upadhye: Yeah, I would say as of now neutral-ish to a little bit positive, but let us see how it progresses in the coming days.

Anubhav Agarwal: Second question was on the Albuterol. I just wanted to understand two points here. One is when we track IQVIA volumes, it shows a significant jump in the month of March and now it shows that volumes which are panning out for last three, four weeks are like 13-15% lower than what it was before the shortage level itself. This IQVIA number is one. But in the market, is there still a significant shortage of Albuterol. Second is how is the substitution working now? You have been selling this drug for three, four weeks in the market. Because what we have seen is Perrigo has taken all the market share, only from ProAir, brand for which they were AB-rated. So is it really all the three substitution? So is Ventolin market also fully open to Cipla when they are going to commercialize Albuterol?

Kedar Upadhye: **I will request Umang to take this question.**

Umang Vohra: Anubhav, you are right, I think Albuterol expanded by almost 15% from a normal basis on account of the COVID crisis and I think a lot of it had to do with the characteristics of the product. We believe this is normalizing now. But even without it, this is a 60 million unit market with fairly attractive pricing even today. On your second question, yes, I think the market is interchangeable. The issue is for anyone to take a share of the other side of the market, they have to have adequate capacity because both ProAir and Ventolin have a fair amount of unit; 30, 30 million each. So any one player trying to come in and take up this, will take a long time to ramp up. But it is our belief that the market is interchangeable.

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

Prakash Agarwal: A question is on the demand scenario. So obviously we saw a lot of pre-buying both in India and US markets in Feb and March, and April onwards in India at least we have seen 11% IPM

decline. So how do we see the year panning out when we have clearly have the ambition to outperform the IPM, but what is our view on the IPM growth -- could it be like plus/minus 5% or you think it will be positive 5% to 10%? And similarly the US market, at least half of the patients not able to go and get treated, so what is the outlook for the volume front.

Umang Vohra: In India, I think we saw a rise in the chronic segment of the market. I do not think the acute segment of the market showed the type of rise that you are mentioning. So there was some uptick in chronic buying which we also saw as the pattern even at the GST time, the chronic medicine buying had gone up at GST or demonetization time. So this normalizes over a period of time. And I think this is what we are also thinking. I am not sure we are at a point where we can tell you where demand will be because there are multiple moving parts on what is a red district, what is an orange and green district and clearly, the trends are very different at least from the initial three days or four days experience that we have had which in no way is indicative of where the market is. So I think we are still looking at the demand pattern. There is nothing as yet which seems to suggest that there is going to be deep panic. There is also nothing as yet that suggests that demand is going to outpace supply in the way that we are commenting. We are not seeing any panic signals, at the same time we are not seeing a huge surge in demand anymore. From a US perspective, I think in that market we have already noticed that a lot of prescriptions have shifted to the digital. A lot of fills have shifted to probably slightly longer in terms of tenure. So doctors from what we notice from other companies were reporting 30 days have become 90 days. In terms of fills as well as tele-consultation has spiked up considerably. So even there I think over a period of time the initial perhaps one month or the periods before the COVID might have resulted in a little bit of stocking. I think that will also decongest over a period of time.

Prakash Agarwal: But any number you like to give for the IPM growth this year?

Umang Vohra: No, I do not think anyone will be able to give you any number because it is too early because we do not have a sense of how the districts behaving itself. So any number given now will be...

Prakash Agarwal: My second question is a follow up on the earlier question of earlier participant on Albuterol. So clearly there were shortages till March and we got a fast track approval so to say. How do we see the competition coming up now since you have in your press release talked about staggered launch, would you assume that the shortage situation could lead to one more player at least coming in the next six, 12-months, any color you can give?

Umang Vohra: Yeah, I think it could be expected. There is one more player in the queue. And I think after that we have not heard of anyone else doing a clinical trial. So I think we could expect more competition, but even before the shortage, if we just step back, this was a 55 to 60 million unit market in the US. And during the shortage, it is analyzed to somewhere around 65 million units. So even if the shortage goes away this is a fairly significant 55 to 60 million units market. Albuterol is a fairly large category size by value terms as well. So the shortage is only accounted for 10% or 8% trigger on a quarterly track rate which will normalize. But yes, there could be one more player that we are aware of who is in the queue for an approval

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

N Balasubramanian: Two questions; one is a follow up on generic Proventil. So you alluded one would need adequate capacities to be able to target let us say the Ventolin market or the ProAir market. So does Cipla have enough capacities already or are you actually increasing capacities as we speak, is there a timeline when you think you will have adequate capacities? And the second question was more around the US generic pricing environment. I think we have been hearing that pricing is better now because supply is more important than pricing given the COVID situation. So your thoughts on how the pricing is in the US generic environment and whatever is happening do you think it will stick?

Umang Vohra: Nithya, We have capacity for what we believe is an adequate share of the market. The thing with any inhaler that recently gets launched is that you just have to make sure that the scale up happens properly and that is why we had announced a staggered launch because clearly there are multiple parts involved in this starting with the API to the device to everything. So just getting all of that full kitted is I think is important for us and therefore we announced a staggered launch. But, yes, from our perspective, we believe we have adequate capacity to get an adequate share of this market. On the second price point, Nithya, yes, we have seen I would say a little bit of stabilization of prices in the US and in some way maybe a lot of us are also not noticing an adverse environment there because there is just so much more to worry about at this point in time. So, I do think the things have stabilized, but the general trend of a price decrease being there every year will still continue because that is the nature of the US market. But the aggressive declines we saw, I think those are beginning to stabilize. So every year the US market, even before three years or four years back, every year there was a decline in the market. And that trend will continue. I think it got accelerated with the levels which were pretty high which we think now are beginning to stabilize.

Moderator: Thank you. The next question is from the line of Vishal Biraia from Aviva Insurance. Please go ahead.

Vishal Biraia: Umang, does COVID-19 lead to any changes in the business strategy that you have communicated earlier this year?

Umang Vohra: It does not lead well for us, yes, in the sense that a lot of the strategic themes get accelerated. We had a theme around “Wellness”, which was a consumer business, we had a theme around “Lung Leadership” which is really around respiratory medicines reaching across the markets. Those are of course getting accelerated. I guess the fallout is that our capital allocation towards specialties is now more measured. We are partnering out assets in CNS and on the institutional side we are looking for how we can strategically ally this business between ourselves and somebody else.

Vishal Biraia: Last one is the complex inhalation assets that you have in Phase-III. So how big is the opportunity here, any perspective that you could share at this stage?

Umang Vohra: Since the assets been filed we will begin to see news in the public domain. But at this point I do not want to comment. I think it is a fairly attractive asset.

Moderator: Thank you. The next question is from the line of Manoj Garg from Whiteoak Capital. Please go ahead.

Manoj Garg: One is basically on the domestic market given the supply and the logistic challenges what we have seen, have you seen any impact in terms of the inventory at the stockiest level or you think there is enough inventory and it will not impact overall?

Umang Vohra: So by and large, Manoj, my feeling is that there is enough inventory in the stockist channel and I think there was a period in the last week of March where this inventory really ran down, so I think that was one. Second, I think most of this inventory in April kind of recovered. So I do not believe that the stockist channel does not have inventory. I think the stockist channel has a fair amount of inventory. Issue is really around the red districts where a lot of stockists may still be shut and who are beginning to now reopen. Initially everybody was shut for two weeks or three weeks and now they are all beginning to reopen. So, I think there is adequate inventory in the market.

Manoj Garg: Kedar, if we look at year-on-year, we have almost done 4%, 5% growth. But when we look at purchase of stocks in trade, that has almost grown up by 30%, 35%. Would you like to have any specific out there?

Kedar Upadhye: Our purchased finished goods, Manoj, are for generics business and about 30%, 40% of the prescription business. And over the last few ones, we have shifted some of the other market supplies as well to contract manufacturers. So depending upon the mix, it has gone up. There is nothing unusual there. I think we operate our inventories with respect of the norms that have been defined. So I do not see anything unusual with respect to this increase.

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

Sameer Baisiwala: Just two questions on COVID. A) What is your current capacity utilization? Are the manufacturing operations by and large on track? And second what is it that you are seeing in India on the ground in terms of doctors opening up the private practices? Are the prescription generation happening also given that hospitals are not having any out-patients. And also what is what about the feet on the ground for you with the medical reps -- are there visiting doctors, any color on this.

Umang Vohra: I can talk about a couple of them. I think from a capacity perspective, utilizations will vary by plant and by location because there are some locations which are closer to Mumbai where there

is a big lockdown and there are some locations where operations continue as normal. But if your general question to me is pre-COVID, where you were versus post-COVID where are you in terms of overall, 80%, 85% percent is back in terms of utilization. And it is my belief that the other 10% or 15 percent will also get there very-very soon within a week or so. So since most companies carry the inventory, I do not think that this has resulted in a shortfall. across the chain. So I think that would be on capacity. And I am talking about global view here, Sameer, so India plus our plants in the US plus our plants in South Africa. If we look at maybe the domestic market, yes, we have just resumed… I think some parts of the market just began, the green zones opened up, so the field work has started to close to a limited extent and on a very precautionary basis. But we have also seen that a lot of connect with the doctors shifted digitally in the last month or so. And I think that is what we are seeing. From a red perspective, I think a lot of engagement is happening digitally across companies including Cipla. And once the districts begin to reopen, I think the field force will be working optimally across this.

Sameer Baisiwala: And when you say digitally, you mean to say is virtually either video calls or concalls?

Umang Vohra: That is right.

Sameer Baisiwala: You said you would not talk too much about the inhaler product that you have filed, but I will just try anyway. So, a) is it patent protected or is it a genericized opportunity we can talk about that? And are you first to file based on the clinical trial data that you may have? And third what could be the potential time to launch -- is it one year cycle review or are there any IP issues that may delay you beyond that?

Umang Vohra: Sameer, there is an IP situation on the product. And I think that this will therefore go through the regular period of review. I do not think it is a one year review in any case for any respiratory product. So would not be unusual to expect the same 24 to 30 months clock period on this.

Sameer Baisiwala: Umang, just to clarify, on the doctor side the prescription generation, is it like 50% of what they were doing pre-COVID or is it higher or lower, any idea on that?

Umang Vohra: No, I think Sameer, it also depends by practice. So for example, we see dermatology is down quite significantly, we see dentist down quite significantly, but there are some practices which are just physicians for example is pretty robust at this stage across zones because even though the doctors may not be meeting people and may not be meeting people physically there has been some prescription generation that they are doing, tele and 'E' and virtual wise. So it depends across the universe. Some categories worse affected than the other.

Moderator: Thank you. The next question is from the line of Neha Manpuria from JP Morgan. Please go ahead.

Neha Manpuria: Umang, if I heard in one of the questions before you talked about re-looking at the institutional business for the US either partnering or on your own, is there a change in the way we are looking at commercializing Tramadol?

Umang Vohra: No, we will still commercialize Tramadol, but we are looking for a way in which we can do it optimally with perhaps lesser capital allocation to it because the first one or two years could result in some amount of increased expenditure to build market. So, we are looking for ways on how to offset that expenditure. We clearly do not want entire expenditure to be hitting us.

Neha Manpuria: So more on the commercialization front?

Umang Vohra: That is right.

Neha Manpuria: Second, on the India business, leaving aside the impact that we saw in March and April in terms of inventory, do you think there is scope for further inventory reduction at the distributors which could potentially impact primary sales or how should I look at the working capital for the India business, is there a risk that number goes up this year?

Umang Vohra: I do not think the inventories would go up in India simply because a) in my view there are just too many modes. Inventory may go up with companies, that may not go up with the trade. And it is my belief, Neha, that the trade is well supplied. So I do not think that is an issue. I think there could be some stress within the market on the receivable side especially from the hospital part of the network. There I can clearly see a little bit of stress that could emerge over a period of time if the demand does not resume properly and this is not across the big hospitals which are bulk of the buyers but perhaps out of the smaller guys in the network.

Moderator: Thank you. The next question is from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.

Nimish Mehta: I am sorry I could not get your earlier comment. You said that there have been COVID-related districts issue which has impacted the sales. So which part of the business is exactly impacted?

Kedar Upadhye: Nimish, once lockdown started in the second fortnight of March…typically our cutoff date is in the last week and during this period some of our dispatches to emerging markets and India prescription business, the cut off was unusually higher as compared to the usual year-end cut off.

Nimish Mehta: Let us say in India we see a good growth of 12%, 13% this quarter itself.

Kedar Upadhye: Whatever we wanted to dispatch; it would have been higher than that. Our plan was a little bit higher that what we have demonstrated.

Nimish Mehta: It could have been unusually high, but how do you explain the EBITDA margin coming down because this is kind of getting normalized is what I understand because of the logistics issue, had there not been COVID-related situation and it would have been a normal quarter for us but in that case why the margin been down?

Kedar Upadhye: So there are two factors, Nimish, that we explained; one is that the margin on the cut-offs is higher than the company margins. And if you sort of adjust it back, then the gross margin steps up significantly. And in the cost, we said that there are certain remediation charges for the Goa that we have fast tracked. So most of the remediation charges have been booked in this quarter. So, these are the two reasons why the EBITDA margin for the quarter looks a little bit lower.

Nimish Mehta: Next question is about Proventil and ProAir. You mentioned that these are interchangeable markets. What exactly is the difference between these two products? My understanding was that the device itself is different if you can correct me. So why are the two ANDAs different and why do we say that they are still interchangeable?

Umang Vohra: The products itself are different. They are all Albuterol. They are packaged differently, the devices are different and I think that is the reason that the three brands are on the market. Even insulin has so many fast release, basal release, these are so many insulins on the market even in the US. So the products itself are different.

Nimish Mehta: The only question was that if the device is different, then still will it be interchangeable market because device is a significant value addition to the overall product?

Umang Vohra: Yes I think the question in the US is how prescriptions are written -- are they written as Albuterol or by the brand. And it is our belief that significant share of the market is written as Albuterol and therefore it is a substitute.

Moderator: Thank you. The next question is from the line of Vishal B from Aviva Insurance. Please go ahead.

Vishal Biraia: Sir, on the OTC business in India, we were planning to introduce many more products. Could you give some perspective, are these new products or these are products that you plan to advance from the trade generics to OTC as was the strategy?

Kedar Upadhye: Vishal, there are two sets of products. There are certain products which will be newly introduced by the consumer business and we have two-three areas in which we operate for the consumer business. Recently, considering the COVID, in fact, we introduced a sanitizer with the brand name “Ciphands” and that has very wide acceptance, in the month of March and April we did really well on this product. But outside that, whatever product have high consumerization potential and which today are in the generics portfolio, we will be doing a sequential introduction through the consumer portfolio and that has begun from the last six to nine months or so and the pickup in volumes, a little bit of bump up in prices and the appeal has gone up. We also track some of the metrics that we track for consumer products and they look fairly good. So, this is the early response on this, Vishal. We will be sharing additional details as this shapes up in the coming months and quarters.

Moderator: Thank you. The next question is from the line of Nikhil Upadhyay from Securities Investment Management. Please go ahead.

Nikhil Upadhyay: We repaid a huge amount of debt and as you said that we would be looking at generating more cash and looking at creating more cash avenues in a stronger way. So, how do you think about deployment of this cash over the next three to five years and parallelly there is enabling resolution which we have also asked for, how should we understand our RosCE journey over the next three, four years because cash accretion will remain strong for us?

Kedar Upadhye: Nikhil, good question. So this enabling resolution is just a carry forward of what we have been taking from the board and shareholders for the last three years. And it just means to arm us in case there is a large opportunity. So that is about that resolution. As far as the cash generation is concerned, we have this second installment of IV Tramadol opportunity in the US to be repaid and there is still some long-term loan on the balance sheet. And there are opportunities to deploy in the business both for our branded business and organic capex. We keep looking at our capital allocation and deployment strategy very carefully and we will go by that, Nikhil. I think what we have been doing is that both in the fixed capital and working capital, the optimization efforts have been very significant and we will keep looking at opportunities there in the coming quarters. And yes. I mean every year we have increased RoCE by more than 100, 150 basis points for the last three years and that journey will continue. We should expect us to have higher RoCE in the coming years.

Nikhil Upadhyay: Is there a targeted RoCE that we plan to achieve in next three to five years which you can share with the shareholder probably this is where we want to bring our business because we are getting complex products with the better margin profile and the investment has already been happening, as a take away, what should be our idea that three to five years where the company plans to reach?

Kedar Upadhye: I would tell you that for the last two, three years we have shared that our RoCE has increased by 300 basis points and that is the historical record. I am looking for that for the next three to five years. I think directionally the journey is going to enhance the RoCE. I would not like to quantify now because there are various investments which might be on the way and three years business trajectory could evolve very differently. There are risk and opportunities, both which are present. So, I would not quantify, but directionally, our efforts are all to increase the RoCE.

Nikhil Upadhyay: Just one bookkeeping question. Last Q2 and Q3, our US base business you were mentioning that 130, 135 should be the stable state revenue profile for us. This quarter we have come to 118, 119. So, is it like some one-off, so what should be the base revenue of US business on which we will build up?

Kedar Upadhye: I think we have said that our US base business is around only USD 120m to USD130m, in that range. So we will continue to be in that range and the opportunity such as Albuterol will have opportunity for us to meaningfully lift it up.

Moderator: Thank you. The next question is from the line of Krishnendu Saha from Quantum Mutual Fund. Please go ahead.

Krishnendu Saha: I joined in a little bit late, so I might have missed it. I am just repeating. On the Advair trials where results were supposed to be out in March, so post that have we filed for approval to US?

Umang Vohra: Yes, the filing is imminent. It will probably be done in a day or two

Krishnendu Saha: Timeline, what you are looking at for this?

Umang Vohra: We do not have. It depends on how the FDA reviews it. There is no IP around this at all. For most respiratory products you should pencil in around 18 to 24 months.

Krishnendu Saha: Kedar, what is the expenditure, which is there for the plant remedial measures, can you give figure please?

Kedar Upadhye: I think we have spent some money on the consultants and additional charges, that is in the OPEX line and there are certain write-offs. I would say put together all of this would be about a per cent or a little bit higher than a percent of revenues.

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

Surya Patra: Sir, just wanted to have a sense. Whether the full impact of the COVID that was already seen in the fourth quarter or there is some impact that we should be seeing further in the first quarter? I am asking this question means are you seeing further impact on the export side because of the kind of a lockdown situation, various kind of lockdown situation in various parts of the world including India. And also what incremental benefit on the chronic side that we would have seen in the fourth quarter that could be a relatively lower demand situation generally globally in the emerging market as well as India? And third, do you really worry about the kind of the acute therapy which is the season should be starting in June or something like that and the channels filling would have started by now for the rainy season for the acute season generally, so given all these factors do you really see there could be a sequential more impact of COVID that would be visible for Cipla?

Kedar Upadhye: See, we would avoid giving any forward guidance on financials. What we are doing now in terms of supply ability to all our global markets is we are tracking basically the attendance in the plants, production activity, dispatches, order flow and cash collections. We are tracking important lead indicators to drive our business as a business continuity measure. And we do believe that our internal preparedness is very high. The inward supply chain is at the highest reliability now. And all of the things that I mentioned are at varying degrees. So plant-by-plant attendance, there is a differing trend that we alluded to, dispatches do have certain challenges, but subject to a little bit more to drivers, transporters and cargo and charters, we are able dispatch. I think domestic and export businesses to various geographies, there is a varying trial of supply ability. But we do believe that subject to cost escalation, we will be able to handle the shipments. So this actually has to be moderated with respect to the credit and liquidity situation, for example, Umang spoken about the hospital business. Now the liquidity there is little bit lower. So you

should certainly factor that the hospital supply could be a little bit lower. So I think that is how we are taking it. We are almost taking it day-by-day and we believe that we have a very robust process on the business continuity. Coming back to your next question on the acute, we would like to watch the situation in the coming weeks because the season is all subject to the hygiene and weather and everything. And as of now it appears that it may not be at its peak, not that the demand will collapse totally, but the season may not be at its peak. So we have to watch it week-by-week.

Surya Patra: Second question on the cost optimization thing what you have mentioned. In fact, we have been there in the cost containing kind of mode since sometime and we have certainly seen that kind of improvement in the earning efficiency over the last couple of years period. But I think in the recent period, whatever one-off impact or something like that despite having one-off positive, we are stuck somewhere in terms of margin. So do you see that okay, we should really be kind of like expanding hereon? And if you can quantify also this Goa plant remediation cost that you mentioned, how much that could be, something directionally on the margin front.

Kedar Upadhye: As I said both the profit margin and the RoCE, directionally management's target remains to expand. As I said for the last two or three years, we have expanded by 300 basis points which is very meaningful at our scale and in the coming days also that is going to be our target. This one-off that you referred are a part of the pharma business, once a while inventories that you have tilted as a forward cover, I think once a while it will go for expiry. Nothing to defend the inefficiencies. We will work on it. But I think directionally you should assume that the journey of margin expansion and return expansion will continue. I think you asked the question on the Goa remediation. Between the opex line and between the material cost line, I think you should take about a percentage or so of revenue as the cost incurred in this quarter.

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

Kunal Dhamesha: So the first question relates to the Remdesivir opportunity. In terms of how much supply we can do, if you can throw some light? And another is on the Actemra. So I think we have a in-licensing with Roche. So, what is the agreement characteristics in terms of do we get the profit share and are we also able to manufacture it or not, some light on that?

Umang Vohra: So Tocilizumab, yes, we buy it from our partner, we do not manufacture it, it comes from the partner. So it is a licensing transaction like we have done for several other products. So we do not have a profit share or anything with that. On your first question on Remdesivir, it is still early days. I think right now the licensing agreement is signed. All the companies are looking with Gilead on a war footing basis to manufacture the product in the facilities in India.

Kunal Dhamesha: But what Gilead has said in terms of long lead time. So, is it a possibility to reduce that somehow by chemistry improvement or process improvement?

Umang Vohra: I think we are all trying hard to get this to the market as soon as possible and of course everything will be backed by data in terms of how each of these molecules are, whether it is Tocilizumab or Remdesivir. But there is effort on to bring it to market as soon as we can.

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

Pratik: I just have one small question is that we see that the depreciation charge for this quarter is on the higher side; it is Rs.346 crores versus last year of Rs.278 crores for the same quarter. So can you please explain why is this on the higher side?

Kedar Upadhye: Pratik, usually in the March quarter, we do examine our carrying values for recoverability and wherever we feel they are not adequate, we have to impair them. There is a marginal charge that we have booked this quarter.

Pratik: So you said this is specifically for March quarter, right. So last year in March in the depreciation it was high.

Kedar Upadhye: So I think that is one factor. Plus as you are aware, this year onwards the IND AS 116 which is the lease accounting has got triggered in. Earlier rental charges which were booked in the OPEX line are part of the depreciation and amortization line. So there has been these two factors which are accounting for the increase.

Pratik: So quarter-on-quarter increase is mostly due to impairment because IND AS 116 was for last quarter, right?

Kedar Upadhye: Yeah, yeah, if you are doing YoY comparison, then this will be applicable, but for sequential you are right, that would be only with the impairment.

Moderator: Thank you. Ladies and gentlemen due to time constraint that was the last question.

Naveen Bansal: Thank you, everyone, for joining us on the call today. In case you have any follow-on questions please feel free to reach out to me or you can write to us at investor.relations@cipla.com. So thank you again for joining us on the call today. Stay safe and have a very good evening. Thank you.

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