18th May, 2021

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Dalal Street,
Mumbai 400 001

Scrip Code: 500087

(2) National Stock Exchange of India Limited
Listing Department
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Scrip Code: CIPLA EQ

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Sub: Q4 FY21 - Earnings Call Transcript

Dear Sir/Madam,

We are enclosing herewith copy of the transcript of the Company's Q4 FY21 earnings conference call dated 14th May, 2021. 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
Company Secretary

Encl: as above

Prepared by: Juzer Masta

“Cipla Limited’s Q4 FY’21 Earnings Conference Call”

May 14, 2021

MANAGEMENT: **MR. UMANG VOHRA - MD & GLOBAL CEO, CIPLA LIMITED**
MR. KEDAR UPADHYE - GLOBAL CFO, CIPLA LIMITED
MR. NAVEEN BANSAL - INVESTOR RELATIONS TEAM, CIPLA LIMITED
MODERATOR: **MR. KUMAR GAURAV – KOTAK SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Cipla Q4 FY'21 Earnings Conference Call hosted by Kotak Securities Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. I would now like to hand the conference over to Mr. Kumar Gaurav from Kotak Securities Limited. Thank you and over to you, sir.

Kumar Gaurav: Good evening, everyone. On behalf of Kotak, I thank the Cipla management team for giving us the opportunity to host their 4Q FY'21 Earnings Call. From Cipla, we have with us Mr. Umang Vohra – M.D. and 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 and a very warm welcome to Cipla's Q4 and Full Year FY'21 Earnings Call. I am Naveen from the Investor Relations team of Cipla.

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

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 the Q4 earnings call for financial year 2021. I hope you have received "Investor Presentation" that we have posted on our website.

Cipla continues to be at the forefront in the global fight against the pandemic. I would like to express my sincere gratitude to healthcare and other frontline workers, doctors, nurses, compounders as well as our employees who have been working tirelessly to serve the patients across the country and globe. In this testing time, the pharma industry with the strong support from the central and state governments, have been working to ensure continuous supply of lifesaving medicines. While the uncertainty, the challenges related to the pandemic are evolving, we stay committed to service demand across our markets, monitoring critical filings, continued portfolio expansion along with the resilience in our manufacturing, supply chain and distribution. Our business and cost re-imagination initiatives, supply consistency and rigor on the operational excellence have helped us drive the healthy performance for the quarter and the full year.

Our profitability improvement journey has sustained across all the quarters during the year and you may have noticed that in the Q4 also, we saw 240 basis points year-on-year expansion in the EBITDA margins. This is despite the fact that Q4 is seasonally a weak quarter and COVID-19 cases continued to decline sequentially for most part of the quarter.

We have also moved a historical trend line from 16% to 19% of EBITDA to over 22% this year and I believe this is quite structural, sustained and will improve from hereon.

Our free cash flow generation and operating efficiency helped us become a net cash company and we improved our pre-tax return on invested capital metric by over 750 basis points.

We are noticing strong tailwinds across our India portfolio which is likely to play out in Q1 and onwards, this includes a surge in demand for COVID drugs, including Remdesivir and expected pickup in the antibody cocktail among others once we launch.

We are also noticing strong demand trigger for our core respiratory product including Budesonide which is now a part of the ICMR protocol. This is quite an interesting trend as compared to what we saw in fiscal '21 and should help drive core portfolio growth in FY'22.

For the quarter, overall income from operations stands at Rs.4,606 crores, recorded a year-on-year growth of 5% driven by focused execution that I referred earlier. Full year revenue growth is 12%. For the quarter, our One India business which includes Prescription, Trade Generics and Consumer Health portfolios performed in line with our expectations. Our US Generics core formulations sales are at $138 million. Gross margin after material cost stood at about 60%, this is across by 200 basis points impact due to charge on the material cost, that pertains to some of the inventories of products which we build during this COVID period, but couldn't liquidate, it also includes certain overhead charge-off and the one-time shelf stock adjustment for Albuterol.

Total expenses which include employee cost and other expenses stood at Rs.1,988 crores, increased by 2% on a sequential basis. Employee cost for the quarter stood at Rs.815 crores and it declined by 4% over the sequential quarter.

Other expenses which include R&D, regulatory, quality, manufacturing and sales promotion are at Rs.1,123 crores, increased by 7% sequentially.

Total R&D investment is about Rs.277 crores. As a percentage of revenue, the spends will moderate in line with the expected surge in revenue, but absolute trajectory of the spends and the filings, it remains intact with assets progressing in the trials and other portfolio development efforts continuing.

Reported EBITDA was at Rs.796 crores or 17.3% of sales. Tax charge for the quarter is Rs.128 crores and ETR is lower at 24% or so, the full year ETR was 27%, profit after tax is at Rs.413 crores or 9% of sales.

As of 31st March 2021, our long-term debt stands at USD138 million towards the InvaGen acquisition and ZAR720 million for the operational requirements at Cipla Medpro in South Africa. We also have working capital loans of $49 million and ZAR75 million which acts as natural hedges towards our receivables.

Driven by relentless focus on the cash generation and rigor on cost discipline during the quarter and the year, we continue to be a net cash-positive company as on March end.

Outstanding derivatives and the hedge for receivables as of March '21 are $175 million and ZAR684 million apart from additional loans in the Australian dollar and GBP.

We have also faced a certain portion of our forecasted export revenues and outstanding cash flow hedges as of 31st March are US$252 million and ZAR654 million.

The growth we saw strong execution across our key priorities in FY'21 and that included continued growth across our markets, structural expansion in our EBITDA trajectory by over 350 basis points to over 22% and expansion in our pre-tax return on invested capital by more than 750 basis points.

I would now like to request “Umang to present the Business and Operational Performance.” Thank you.

Umang Vohra: Thank you, Kedar. Firstly, I would like to wish all of you and your families to continue to stay safe and well. At Cipla, we continue to support the nation in its fight against the pandemic with our portfolio of COVID products. We salute the grit and sacrifice of healthcare heroes as well as our employees who have been tirelessly working to ensure continuous service to our patients. Our topmost priority in supporting the government’s efforts on increasing availability of the COVID and other life-saving products through strategic inventory build-up and ensuring continuity of operations at our plants. We have enhanced safety protocols across our network to ensure safe operating environment for our colleagues including 24x7 ambulance, consultation and quarantine facilities. Our teams have been working relentlessly to ensure supply continuity of Remdesivir monthly supplies now approaching almost 5x of what we have done during the previous peak of the pandemic.

We have also expanded our COVID portfolio with new novel formulations and partnership with MSD for Molnupiravir, Roche for the anti-body cocktail and El Lilly for Baricitinib. We are proud to bring these products to the country and are working on the logistics to ensure availability in the coming weeks and months.

With that, let me come to the “Strategic Updates on the Operational Performance.” I am pleased to see the sustained expansion in our EBITDA margins through this year, including in Q4, now trending at over 22% and I believe this trajectory will improve and grow henceforth.

In India, “One India Strategy” continues to see seamless execution with One India business growing 15% for the year and 4% for the quarter. This is I think the seventh or eighth quarters that we are beating market growth.

The prescription business grew 14% for the full year. As per IQVIA MAT March '21 we continue to deliver market-beating growth in our respiratory where we grew 4%, versus the market decline of 8%, Urology, we do 7% versus the market at 4%, Derma at 8% versus the rest of the market at 6%.

Cipla consistently ranked #2 with the market share of 8.1% in chronic therapies and grew by 12% versus market growth of 8% from MAT March '21.

We are observing strong demand across the COVID portfolio which will reflect in our Q1 numbers. We expect these products which are used to supply, which are used for the COVID effort, will see strong traction in the coming months. Apart from the COVID portfolio, we are also noticing strong volume trend across our acute and respiratory portfolio including Budesonide. Our teams are working to ensure serviceability across these categories.

Our Trade Generics business continue to do well with the full year growth of 18% adjusted for transfers to the consumer business. We are seeing demand tailwinds emerging in this part of the business as well.

Our Consumer Health business has now scaled up to over Rs.360 crores in revenue, led by a growth in organic anchor brands as well as the continued traction in the transferred consumer brands. In line with the “One India Strategy”, Cipladine brand was transferred to CHL from the Trade Generics business during the quarter. This makes the total number of brands transferred in the last year to 3 and 6 till date. Our participation in the industry’s digital initiatives through the investment in ABCD Technologies and subsequently by ABCD in Pharmarack will also add to the digital channel transformation in India.

In the US Generics & lung leadership space, the US Generics core formulation sales for the quarter was US$138 million and factors the one-time shelf stock adjustment for Albuterol based on the competitor entry. Our full year revenue stands at US$551 million.

Reflecting on FY'21, I am pleased to see the unlocking of our respiratory portfolio with launch and ramp up of Albuterol which is ranked #1 with the TRx market share of 87% of the Proventil market, 16.5% in the generic market, and 13.2% in the overall market as per IQVIA week ending 23rd April '21.

Our focus continues on our complex launch engine along with driving growth in the institutional channel. I am pleased to report that for the full year the overall profitability in the US Generics business is very close to company level profitability.

Our Advair files under active review with FDA. We are working on responding to the queries and we will continue to share the updates.

In line with our strategy for the US markets, the non-respiratory portfolio during the year also includes two filed partnered peptide injectables; one of which is an NDA application.

Coming to our South Africa and Global Access business which includes South Africa, Sub-Saharan Africa and our Cipla Global Access; the South African private business reported a strong 13% growth over last year for the quarter in local currency. We continue to maintain a third position with the market share of 7% in OTC segment as well as the overall market as per IQVIA MAT March '21.

In markets outside South Africa, rest of Saharan business grew by 10% in dollar terms and the decline in the CGA business performance was in line with expectations as higher orders were serviced in the last quarter.

In emerging markets, happy to see the business scaling up to US$250 million, growing almost 21% during this year and 4% for the quarter driven by healthy demand across all regions.

During the quarter, we also expanded a partnership for four biosimilars in a strategic market of Australia, across immunology, osteoporosis, oncology and ophthalmology.

The European business grew 17% on a full year basis and 7% for the quarter, driven by strong in-market performance in key DTMs and market share expansion in our flagship respiratory portfolio.

Turning now to our outlook, we have established a new threshold for our operating profitability in FY'21 with margins trending over 22% now. Our focus and efforts will be to continue to sustain this in the coming period.

On the business side, we see commercial tailwinds across our business which we believe is significantly higher than some of the grids in certain parts. We continue to stay energized with these opportunities and are working to ensure we will be able to service patient demand across our markets.

Our long-term priorities remain intact including leveraging the emerging opportunities across our markets and maintaining market-beating growth in branding and branding generic franchises of India, South Africa and also augmenting consumer wellness franchise in both these markets; ramping up the COVID portfolio supply to increase availability and maximize patient reach; continue high vigil on cost and cash management amid the uncertain trajectory of the pandemic; expanding lung leadership globally and by maximizing the value opportunities in US complex generics space; focus on regulatory compliance across manufacturing locations and embracing best-in-class growing benchmarked ESG practices; accelerating our digital transformation to

capitalize opportunities and growth opportunities across continents and also building a sustainable talent pipeline for the company's future plan over the next three to five years.

I would like to thank you for your attention. I 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. The first question is from the line of Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: My first question is around the India business. Kedar, if you can break it up please for FY'21 between the key COVID-related products, how much they contributed, Trade Generics, the normal prescription business and the consumer business, that would be helpful? And second question on India is you mentioned about 5x increase in our Remdesivir supplies from last year. What is the outlook on supplies for antibody cocktail and Tocilizumab for this year and how that compare to last year?

Kedar Upadhye: Saion, I will take the first question. The total COVID medicine sales for the full year at a company level is around 4% or so, it is still less than 5% on full year basis. In Q4, it is less than 3% or so. So I think you should work with some of those numbers. The split of prescription, generics and CHL, we do not want to go into too much details, but generics continues to be less than 20% of the overall One India revenue that we have declared, the total One India is around Rs.7,700 crores and the Trade Generics is less than 20% of that, but it gets little tricky because as you know we have launched an active program to transition consumer brands to the CHL business. I think the best way to look at the whole thing in totality going forward because the base would be different, Saion. But you can roughly work with those numbers. Overall COVID medicines for the full year is between 4% and 5% at company level, split largely to India but some into EM and South Africa and other geographies as well and the split on Trade Generics is less than 20% of total One India. To your last question, it's actually the cocktail deal has been signed and as you know we have announced it, we feel quite good about it, I think the reports are pretty strong and it's a great weapon in the fight against pandemic. All these details, Saion, we would be more comfortable to announce once the actual launch happens… the launch by the way is not far away from today, but I think with respect to capacity, number of orders, pricing, all that we will be comfortable to share once the launch happens.

Saion Mukherjee: My second question would be around the US market. You had ramped up Albuterol. So how should we think about fiscal '22 now both with respect to Albuterol and new launches if you can provide some color or growth prospects for fiscal '22?

Umang Vohra: Saion, where we are in terms of Albuterol, we still see some expansion in the market going forward and I think we adjusted Q4 as response to the competitive entry into that segment. I think in terms of launches, we have a reasonable launch in this year. I think some of those will start coming out starting with Q1. And I think the big year for launches obviously for us will be the next year, but we will have a reasonable year of launches this year which will allow us to

sustain and grow the trajectory in the US as well. We aren't providing sector guidance Saion; so there will be growth in US and there will be a reasonable number of launches.

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

Prakash: A question on the gross margin. I missed your comments. You spoke about shelf stock adjustment in Albuterol with the new player coming in. Was that correct listening or you want to repeat that for the benefit of doubt please?

Kedar Upadhye: Yeah, Prakash, there are two, three reasons. This keep happening based on quarter-on-quarter stocking of inventories but some of the products that we had built during this period which we couldn't liquidate and the charge off on our inventory overheads that happens when the stock goes down, you would have noticed a significant drop in this quarter in the inventory holding, that was with respect to the plant shutdown. So the overhead charge-off, that is a one-time thing which hit in this quarter. And there is a third shelf stock adjustment for Albuterol. So, all the three contributed the total quantum is approx. 200 basis points, Prakash.

Prakash: Because YoY and QoQ you have improved on the US with higher profitability business. So I would have assumed that the gross margin would have improved.

Kedar Upadhye: Correct, so if you adjust I think this two, three reasons, there is an improvement in the margins.

Prakash: You mentioned one more generic entry in Albuterol, is that correct?

Kedar Upadhye: This is Sandoz, right?

Prakash: No-no, but that's just replacement from one distributor to other, right?

Kedar Upadhye: Yeah, that's the same.

Prakash: So is it fair to understand that they have seen some collection in the market in terms of prices and hence you have to take readjustment, is that understanding correct?

Kedar Upadhye: Yeah, that was expected, I mean, every single additional player, while the adjustment was not very disruptive given the fact that we enjoy very high share within the Proventil market, the magnitude is not very high by the way, but after entry player, I think minimal pricing adjustment is expected.

Prakash: Second one on your market share today and where we expect to reach by end of this year for your products?

Kedar Upadhye: So within generics, TRx share is about 16.5. If you take the total market which is brand plus AG plus GA, it's about 13.2. Within the generic Proventil it's obviously as you know we hold the

whole franchise, so that's about 87%. And as Umang explained, there is a headroom for us to grow on the shares during the next year.

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

N Balasubramanyam: My first question is on US specialty. So Avenue Therapeutics, we understand they do not get an approval for IV Tramadol before April 30. So if you can explain to us what does it mean, is Cipla still likely to go ahead with the transaction, would you be renegotiating, any color on that would be helpful?

Umang Vohra: Nitya, the approval is awaited. Cipla is still invested in Avenue and Cipla has an option to close the transaction deal on Tramadol up to a certain point in the future which I believe is six months from now. And I think a lot of what happens will depend on what we hear from the FDA going forward. So, I would think that the obligation for Cipla to close the deal has expired on 30th of April, but I think the right to close still exist for some time about six months or seven months later and obviously that depends more on what we hear from the FDA.

N Balasubramanyam: Do you have the option to renegotiate if the labor changes are not as expected?

Umang Vohra: There is nothing in the agreement that allow either party to renegotiate. So, I think as long as the agreement is not mandating any of the parties to renegotiate, I don't think there is an absolute necessity to renegotiate.

N Balasubramanyam: My second question is on India sales and marketing spend. I think in one of the earlier calls Kedar you had mentioned that you would be expecting 400-500 crores savings. If you can update us on which was that, what part of it you potentially see being sustained that to FY'22 as well, if you can throw some color on have they normalized already if Q4 is a normal quarter in terms of the spend and how do you see that shaping up in FY'22?

Kedar Upadhye: Nitya, this is an evolving matter for us. So for FY'21, I think we exceeded what we thought the saving target we could have vis-à-vis our operating plan. We also said in the last call that we are pretty energized and excited with respect to the levers that we have been able to unleash during this period through multiple ways; one is obviously virtual mode of engaging with channel partners, customers and healthcare practitioners; secondly, introduction of digital wave to run our own business; and thirdly relooking at what is actually discretionary spend and what is the cost of doing business. So, I think our discovery of how efficient our model can be for our domestic business has unleashed a lot of potential, our attempt is to preserve it in the next year and the expectation is not at all to plough back all the costs that we saved in fiscal '21. And that's the comment that I made that vis-à-vis our historical trajectory of EBITDA to 16%-19% or so, we have been able to go to 22.5% or something and idea is to sustain and the structural levers have been unlocked. And a large part of this improvement especially on the cost side and sales and distribution side has got to do with the India business the way it works and engages.

N Balasubramanyam: Can I assume Q4 was a fairly normal quarter for you in terms of what you would have normally spent on the ground with doctors, sales, marketing, etc.,

Kedar Upadhye: To a great extent, the team starts getting ready in the Q4 to deliver in Q1 to some extent. While that's true the activity is lower as well, so, I think more or less I think you could model that way, but obviously the sales base of next year is higher, so the investment and the activities which are required will be different as well. So, I would just caveat your statement with respect to this change in the shelf space.

N Balasubramanyam: On Advair, Umang, you had mentioned that you are working on a query. Can you tell us a bit more about, have they asked you to generate additional data, is it the major CRL, minor CRL, what could be the regulatory cycle, just give us a bit more sense of when we might see this product in the market?

Umang Vohra: I don't think we have to generate any further pharmacodynamic clinical data. I think clinical data is, from what we submitted does not have too many questions and generate data the FDA always ask for the additional information but for us it is all information related to the non- clinical portion of the product. So, we are in the process of replying and I think we should get be able to reply shortly to it and then that would start the inspection review of the product as well.

N Balasubramanyam: This is usually six to eight months regular timeframe once you have submitted your response?

Umang Vohra: I would hope so, but I think on this product, Nitya, we had already said that from the time we filed which was May of the year before this, we said that the earliest that we can expect anything is going to be a period over two years. I think from the time we filed, you could make the calculation, two, two and a half years period is pretty normal for a product like this.

Moderator: Thank you. The next question is from the line of Niraj Khetan from VT Capital. Please go ahead.

Niraj Khetan: For the quarter, year-on-year growth has been 4% for India. Can you tell us the ex-COVID growth for the quarter?

Kedar Upadhye: There are a lot of moving parts, Khetan. I explained you the contribution of COVID on a full year basis, you should model based on that, but all the businesses continue to be strong and you would have seen the market data for April as well, so, I think you should model based on what we just said.

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

Neha Manpuria: Just want some clarification on the EBITDA margin trajectory that you talked about. Several times you said that the margin would improve from the 22%, you also mentioned that the efforts will be to sustain at this level. Given that India cost will normalize to some extent next year, what are the additional drivers for the margin versus FY'21 level?

Kedar Upadhye: Neha, the investments for India business will be highly productive. So we are not worried about that. Even if there is an escalation which happens, as I said, we will link it to the activity and we will link it to the sales base of fiscal '22. So any incremental marginal plough back that we have to do from the saving that we did in fiscal '21, we are not worried about that. But I think there are several levers available; pricing is one, mix is another and the portfolio, the launch momentum as well. So I think between these three, four across businesses, we have a plan, Neha, which suggests that the sustainable trajectory of the EBITDA is the range in which we are reporting now.

Neha Manpuria: Just to understand, what you are trying to say is that it will fluctuate, 22% to whatever percent is the range you would like to move over the medium-term?

Kedar Upadhye: That's true, Neha.

Neha Manpuria: On the gross margin, historically it was 63% to 65% number. Even if I were to adjust the 200 basis points, we are in the lower end of the number. Does it mean not only US markets to come through and therefore it's more FY'23, FY'24, is that the way to look at gross margin?

Kedar Upadhye: I think so. And another reason is a large part of our Trade Generics business, to some extent our prescription business the items are bought out. So the loan licensing operation we have, the TPO operations that we have is where we buy the product. I certainly agree gross margin is more we should track but EBITDA is more representative when you the businesses which do not have organic source of the material, but we buy it from outside because the material cost subsumes overheads of our vendors. I think EBITDA is a little more representative. So, I think mix of a particular quarter and typically Q4, Neha, you have seen the trend over the years that by virtue of change in mix and the gross margin get subdued to some extent. It's more of a blip issue in a particular quarter rather than any weakness per se**.**

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

Nimish Mehta: First, can you offer some clarifications regarding the shelf stock adjustment that you have taken on Albuterol, I mean are they lost sales or you see you will be able to recover it?

Kedar Upadhye: No, I think the shelf stock adjustment is typically given when you match the price, let’s say after every entry of additional player there is a price adjustment that happen, then you match and for the quantities which are being held by the customer, you offer this discount. It's not very material by the way. If you normalize for this, I think we are in line with the sequential revenues for the US Generics business. But this is a regular happening within the US Generics market, Nimish.

Nimish Mehta: But you mentioned that there has been a 200 basis points impact. I guess that would be a margin which is why….

Kedar Upadhye: No, 200 basis points impact on the margin is primarily because of certain inventory write-offs and the overhead charge-off that I refer to, the shelf stock adjustment is not the major reason and as I said I think there is a headroom from the market standpoint, I think for Albuterol there is a strong headroom that we have in fiscal '22.

Nimish Mehta: Other question is regarding again on the US Generics pipeline. A couple of products that we see are important for Cipla and that can be launched. If you can give some color, one is Lanthanum Carbonate and second is the Nanopaclitaxel?

Umang Vohra: I think we don't offer product-specific. One of these is probably slated for launch in the next few months and other one is we will probably launch sometime in the latter half of next year.

Nimish Mehta: Both of them are important opportunities, right, is that a fair understanding?

Umang Vohra: Yes, if you are asking me whether these could be meaningful launches, I think one is obviously much bigger than the other, you could say these are meaningful launches for us.

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

Sameer Baisiwala: Umang, you mentioned that fiscal '23 for US will be a big year for new launches. Can you expand on that?

Umang Vohra: Sameer, there are quite a few products that are lined up for FY'23 for launch in the US which are meaningfully big. Obviously, it depends, they are complex in nature and they depend on the timeline, but I think we see FY'23 is a fairly significant year for the US generics business.

Sameer Baisiwala: Other than these three, is there something else on your mind?

Umang Vohra: Yeah, there are a few others as well, Sameer, in FY'23.

Sameer Baisiwala: Secondly, on peptide products, I probably missed your comment, did you said you are partnered for five products and the presentation says of which you have filed for two including one ANDA, is that correct?

Umang Vohra: A lot of the peptides we are doing, we have partnered. It's a fairly complicated API science as well as most of these are issues with devices and things like that. So we have partnered and of that we file too and these filings will increase as we go forward.

Sameer Baisiwala: What do you think would be the approval cycle here, is it like three years plus going forward?

Umang Vohra: Some have IP, Sameer, so obviously that we have to follow that. But generally for those which IP is not there, I would expect 24-months would be a regular expectation.

Sameer Baisiwala: On EBITDA margin, I am little confused, because I think in Q1, Q2, Q3, all the three quarters you were doing more like 23%, 24% and 22% looks good on a full year but in Q4 suddenly it comes down to 17%, Kedar, I think you have explained for 200 basis points. What about the rest and why such a sharp dip and how should we think about it going forward?

Kedar Upadhye: Sameer, in Q4, historically the trend is that sequentially typically go down from Q2 and Q3 because typically Q2 and Q3 are respi seasons for us in India and sort of that changes in Q4. This is basically the mix in domestic in the overall company which is probably the only reason which causes this change. Because fundamentally and structurally, business-by-business nothing changes, it's more the mix at the company level rather than anything else.

Sameer Baisiwala: Umang, just your thoughts on vaccines. I know you are doing so much on the COVID, on the therapeutic side and thanks for that, it's a wonderful job. But on vaccine side, Cipla has not done much. Are there any big entry barriers to this business in terms of manufacturing, etc., how are you thinking about it?

Umang Vohra: People have made a business out of vaccines and some of those companies are as big as Cipla and they have large manufacturing footprints like Cipla does. Its been there for the years in the vaccines business. So, I think for somebody like us to overnight compete with any of them is very difficult, we would not probably engage for us to do that. Having said that, I think what is the easier part of vaccine is more the fill, finish. The drug substance part of it is, science is different than what we want. So, I don't think we have any immediate plans of developing our own vaccine, I don't think we are going to do that. But as I mentioned earlier, we are always open to partnerships that we can have if people are interested to partner with us.

Moderator: Thank you. The next question is from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

Charulata Gaidhani: I had two questions. One, pertaining to the increasing cost of raw materials that has been in the news for quite some time. How well is Cipla protected against this? And do you see increase in realizations happening relating to COVID products?

Kedar Upadhye: Charulata, we have been vexed with this procurement cost escalation in fact throughout the last year, but fortunately, it is happening in select products, it's not that the whole portfolio is going up and getting escalated in terms of cost. I think for selected products, where there is an issue with respect to closure of a particular plant or something else happening in China. That's what we have experienced and on the whole while we have seen an escalation we have been able to handle it well from the EBITDA standpoint. So that's how I would answer. Our big priority actually is to secure the quantity of material that we need and we have been able to manage both the quantity and the cost of procurement. To your second question actually the COVID products cannot have a price increase, as you know, all the seven manufacturers of Remdesivir took a price decrease in line with the affordability and access goals in India. So that's the reality. We are happy to work with the Indian government on those angles.

Charulata Gaidhani: Another question relating to South Africa. This quarter we had seen a slightly lower growth in South Africa compared to the other quarters. So do we think that this is a new base?

Kedar Upadhye: No, it's not a new base, I think we grew by 10% in ZAR in this quarter which is significant, I think our outperformance in South Africa across each quarter for the full year and is more than three to four years is phenomenal and within that you can see from our presentation the private market actually has grown by 13%. So, when you read South Africa as an overall pharma market, is either declining or growing in low single digit, I think this performance is incredible and that goes to our leadership on the ground there. So, I wouldn't say that Q4 growth is muted or anything like that. I think the outperformance vis-à-vis the overall market continues.

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

Krishnendu Shah: Wanted to ask on Umang alluded to on '23 launch of Nanopaclitaxel and Lanthanum, are they partnered drugs or we are solo on that?

Umang Vohra: It's our own.

Krishnendu Saha: Just on the margin front, this quarter we are having a percentage increase, we are going to ramp up our R&D expenditure going ahead, a couple of filings to be done with partners. So do you still maintain that EBITDA margin of 22% in spite of that going up to 6%, 7%?

Kedar Upadhye: We would do that, Krishnendu because I think add the increasing revenue scale anywhere 6% to 7%, I think now considering the pipeline that we have and the programs that we are running. I don't think that should prevent us from growing our EBITDA. I think there is good headroom to improve EBITDA percentage and we had committed to that.

Krishnendu Saha: It's coming to roughly around 4.8% for the full year this year. So next year it will probably inch up on that. Thanks a lot.

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

Surya Patra: Kedar, the kind of digital initiatives that we have taken, that is known. So, what is the kind of saving that one can anticipate on the cost front, let us say if we consider FY'20 is a kind of base year, from that to FY'22, what is the kind of a sustainable saving that one can anticipate on this front because of the digital initiative?

Kedar Upadhye: Surya, this initiatives span on our each area of operations throughout the company, I think starting from sales and distribution and commercial within India and across the globe, then going to manufacturing and quality, then supply chain and all the other corporate functions as well. I think in each function we have been able to identify a very specific case of lever, Surya, which means that I think we digitize our operations which convert the activity to a virtual mode and

we identify efficiency to unlock the time and the cost to run each activity. So either you eliminate the activity if it is not value adding or you digitize, make it virtual, I think we are encouraged with this work that we have been doing throughout the company. I would not be able to tell you the quantum which gets subjective at times because sometimes you eliminate non-value adding activity, sometimes you stop discretionary activity and sometimes you run the activity but in a different mode. But all throughout I think we are energized, that much I can tell you and we don't want to have them as a flash in the pan for fiscal '21. As I said, our attempt is to preserve this going forward and I can tell you one of the most active workstreams within the company.

Surya Patra: Second question is on the kind of COVID portfolio and it's kind of a profitable contribution going ahead. How sustainable is the opportunity it looks like although there are talks and things are moving every day or it's not very clear on many aspects about COVID, but how sustainable the opportunity could be so far as contribution from this portfolio is concerned? Is it relatively more better profitable segment compared to the current blended margin of the company?

Kedar Upadhye: I just said that the total COVID sales in fiscal '21 are around 4% or so at a company level primarily to India but into other geographies as well. From our vantage point, we are looking at the second wave how lockdowns are evolving in each state, tough to say how much contribution will sustain but we see this longer-term business and as a responsible pharmaceutical company, we are deeply committed to it. And the reason we are doing these deals with Roche on the COVID antibody cocktail, Baricitinib and products like that, I think it comes from this vision of caring for life. So, it's not going to go away in months or so if that was your question, but it would be tough for us to tell you precisely, but as I said, at a company level in revenues and profits not that it's a huge contributor but whatever it is, it will sustain to a great extent in the near-term and overtime obviously it will be taper down as the cases go down and all of us want that to happen.

Surya Patra: Umang sir, if you can just share your thought on the Cipla Biotech what you have created for US?

Kedar Upadhye: I can take that, Surya. We announced in the last quarter, this is scheme of demerger, the intention of that is to have a sharper allocation of assets. So I think all the assets in India which service the US business, will get housed in the subsidiary. Its not yet fully done, because it needs to pass-through several regulatory approvals. It is been taken with all the regulators and whenever it gets completed, we will speak to you, but as you would recollect, last time we had spoken, there are two schemes to this demerger; one is US business and second is the consumer brands, which are currently housed in the generic. So I think both these are being taken to various regulators for their approval and as of now there is no specific corporate actions subsequent to that which we have on the table, but this is just appropriate reorganization of the assets at the corporate level.

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

N Balasubramanyam: If you could throw a bit more visibility into the respiratory pipeline, the one partnered asset and the two, you mentioned are in clinical trial stage?

Umang Vohra: The partnered asset, Nitya, that partner's process, as we mentioned last time, they are in dialogue with the FDA and submitting the data that's required. So that is on the partnered respiratory asset. From the rest of the pipeline, we are likely to be in clinical in two products in this year. So, beyond that, rest of the work for India, emerging markets and Europe continues.

N Balasubramanyam: So the partnered asset you have visibility, when you might be able to launch the product and are the clinical trials already underway and when do you expect to conclude those?

Umang Vohra: I think the clinical trials are done and I think the partner is probably in the process, if not already of filing with the FDA, and post-filing it will probably take at least 12 to 18-months from an FDA.

N Balasubramanyam: On the two products which is Cipla's own where you are on clinical trials, what is your best visibility and when you are likely to file?

Umang Vohra: Nitya, we won't share that detail, but you expect filing in the mid of next year.

Moderator: Thank you. The next question is from the line of Arpit Kapoor from IDFC Mutual Fund. Please go ahead.

Arpit Kapoor: This is regarding the US business. If I look at the numbers, we did close to $135 million in first quarter and we are exiting the financial year this quarter at $138 million and we saw a gradual ramp up of Albuterol in all the four quarters and the numbers for the second and third quarter also in the range of $140-odd million. So has the base business eroded so much that we don't see any delta of Albuterol sales in the overall US sales number or am I missing anything else?

Umang Vohra: I don't think there is erosion in the base business more than what we signaled. The US business responds to launches. The price erosion is there which is a regular feature in the US business. As your launch trajectory starts to increase, your launches offset a significant portion of price erosion and allow you to grow. In our case, I think if the launches start coming in, you will see the traction in the US business, even at about 115 to 120 trajectory before we launched Albuterol, we are now at our current trajectory post-Albuterol. That's how it is in the US. So we will see trajectory ramping up as the launches come in.

Arpit Kapoor: No, I understand but I guess even Albuterol market shares have ramped up over the last four quarters, yet our US sales have been pretty sticky around $140-odd million mark and you would have had a couple of other launches as well. So has the base business eroded so much that, we don't see any impact of…?

Umang Vohra: Nothing more than what we look at as a normal erosion, is that your question? No, in a quarter where we may have not had any significant launch, we may see a two, three million impact on

overall numbers in that, that doesn't mean that there is erosion, it just means that launches have not come in to supplement the business. I don't think we are seeing any major erosion at this point.

Arpit Kapoor: I am still not able to understand why. At least on a sequential basis our business every quarter should have improved whereas we have just remained flat for almost all the four quarters. Okay. So, the current base of $138 million should be the base that we should take and most of the pricing adjustment that Albuterol at least for the new generic we have taken in and that should be the base going forward for the next year?

Umang Vohra: Correct.

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

Umang Vohra: Thank you, everyone for joining us on the call today. In case you have any follow on questions you can reach out to the investor relations team at Cipla. Have a good night and stay safe.

Moderator: Thank you. On behalf of Kotak Securities Limited, we conclude today's conference. Thank you all for joining. You may now disconnect your lines.