10th November, 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: Q2 FY21 - Earnings Call Transcript

Dear Sir/Madam,

We are enclosing herewith copy of the transcript of the Company's Q2 FY21 earnings conference call dated 6th November, 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: 2020.11.10 14:52:14 +05'30'

Rajendra Chopra
Company Secretary

Encl: as above

Prepared by: Juzer Masta

“CIPLA Ltd. Q2 FY21 Results Conference Call”

November 06, 2020

MANAGEMENT: **MR. UMANG VOHRA – MANAGING DIRECTOR & GLOBAL CHIEF EXECUTIVE OFFICER, CIPLA LIMITED**
MR. KEDAR UPADHYE – GLOBAL CHIEF FINANCIAL OFFICER, CIPLA LIMITED
MR. NAVEEN BANSAL, INVESTOR RELATIONS TEAM, CIPLA LIMITED

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

Moderator: Ladies and gentlemen, good day and welcome to the Cipla Limited Q2 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 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. 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 this opportunity 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 Q2 Earnings Call. I am Naveen from the investor relations team at Cipla.

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

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

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

Resilient operations and focused execution of strategic priority was the highlight for the quarter. We continue to applaud our employee's dedication and persuasions during these uncertain times. We are privileged to have served the patients in India with our India and global markets with our in-licensed and organic product offerings in battling COVID-19. Dynamic capacity planning and coordination between procurement, manufacturing and logistics teams have enabled us to continue uninterrupted supply of medicines to our global markets. We continue to support our business partners via various initiatives and further deepen our digital ecosystem across businesses.

Coming to the quarter, we saw strong execution across the board, demonstrating good demand levers across geographies. As we had highlighted in the Q1 call, we have been also able to sustain a good share of cost optimization in Q2. We have also continued the focus on cash management

leading to healthy balances at the end of the quarter. Our business and cost reimagination initiatives and rigor on operational excellence continue to drive robust performance.

We are pleased to report EBITDA margin of 23.4% for the quarter. While some proportion of costs linked to resuming on-ground activity has come back, we have been able to retain a good share on account of digital and efficiency initiatives. Our operating expenses continue to track a bit higher than the optimization potential of Rs.400 crores to Rs.500 crores against our FY'21 operating plans that we referred to in the last call.

In the coming quarters, we will also be investing in growth-linked initiatives such as "Berok Zindagi 3.0 Campaign" and other campaigns for consumer health products.

Coming to growth for the quarter, the overall revenue grew by 15% on a year-on-year basis. Overall India business which include prescription, trade generics and consumer business grew 17% on a year-on-year basis. The India Prescription business delivered 14% growth on a year-on-year led by COVID portfolio, traction in chronic therapies, coupled with the recovering hospital business partially offset by subdued seasonal triggers on the acute side.

The Trade Generics business delivered healthy growth for the quarter driven by strong demand and high order flow. Overall, our "One India Strategy" continues to be on track.

Private branded market franchise in South Africa grew by 9% on year-on-year business in local currency and outperformed the market very significantly.

The Tender business also delivered very healthy growth of 28% on a year-on-year basis.

The US Generics business delivered USD141 million in the quarter supported by continued momentum in the new launches which include Albuterol.

We are pleased to report that the US business is trending very close to company level profitability in the first half of FY'21.

Despite the contribution of Cinacalcet in Q2 of last year, we have seen very healthy and sustainable expansion of US EBITDA margin in this quarter.

Coming to the "Financial Performance" we would like to highlight certain specific items which is subsumed in our numbers. At a company level in the first half, the contribution from COVID portfolio was less than 5% of the revenues and EBITDA.

As you are aware, there is a cap on the MEIS export incentives reimbursement scheme and we have strong growth levers across businesses that will help offset this impact.

For the quarter, overall income from operations is Rs.5,038 crores. Gross margin after material cost stood at 61.4% for the quarter on a reported basis. The decline on a year-on-year basis is

attributable more to the contribution of high margin Cinacalcet last year; however, on a sequential basis there was 200 basis points decline largely due to the change in product mix.

Total expenses which include employee cost and other expenses stood at Rs.1,915 crores, increased by 12% on a sequential basis. Employee cost for the quarters stood at Rs.821 crores, increased by 6% driven by the increments that were announced w.e.f. from July.

The other expenses for this quarter which include R&D, regulatory, quality, manufacturing expense and sales promotion stood at Rs.1,095 crores, increasing by 17% sequentially. This was driven by normalizing on-ground activity which is sales linked, offset by strong cost optimization and digital initiatives. Total R&D investment for the quarter stood at Rs.226 crores, while the percentage to sales appears a bit lower, part of that is on account of healthy revenue growth, accompanied by last year Advair spends in the base. All priority projects are on track and we expect R&D spends to increase as the respiratory assets progress in clinical trials.

Reported EBITDA for the quarter Rs.1,177 crores which is 23.4% percent of sales.

Tax charge is at an effective rate of 28.5% and the annual ETR is expected to be in the same range.

Profit after tax is Rs.665 crores or 13.2% of sales.

As of 30th September, our long-term debt stands at USD275 million, is largely towards our InvaGen acquisition in the US and ZAR720 million for Mirren business acquisition and other operational requirements at the South African subsidiary.

Working capital loan stood at Rs.300 crores in India, about USD51 billion and ZAR342 million which act has natural hedges towards our receivables.

Driven by very strong focus on cash generation, we continue to be a net cash positive company as on September-end.

Outstanding derivatives as a hedge for receivables as on 30th September are USD210 million and ZAR660 million. We have also hedged a certain portion of our forecasted export revenues. Outstanding cash flow hedges as of 30th September are USD179 million and ZAR435 million.

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

Umang Vohra: Thank you, Kedar. I hope everyone is well on the call. And before moving to the "Business and Operational Updates", I would like to thank our employees for the relentless commitment and perseverance during these uncertain times.

I would like to start by sharing Cipla's continued response in battling the COVID-19 pandemic. We have continued to face the uncertainties of the pandemic with strength, determination,

confidence and strong patient focus to deliver what matters the most which is our ethos of "Caring for Life." We serve more than 1.5 lakh severe COVID-19 patients with our portfolio breadth of Remdesivir, Tocilizumab and Favipiravir. While our 24x7 toll free helpline offered support for COVID-19 treatment products to more than 95,000 patients, we have also offered support for post-recovery of mild-to-moderate COVID-19 patients.

Under the partnership with ICMR and NIV, we are also pleased to share that we have launched ELIFast which is a diagnostic kit for the detection of IgG antibody, against SARSCoV-2 which is COVID-19 in the receiving plasma of the patient. We will be supplementing this with new launches in the diagnostic space for COVID as well.

We have successfully implemented several business reimagination initiatives such as enabling teleconsult, virtual conferences, remote e-tailing and tools to improve diagnosis and treatment for physicians in a digital environment.

Ensuring the safety of our employees and well-being, continues to be the top priority for us as a company.

With that let me come to the "Strategic Updates" and the "Operational Performance for the Quarter." The strong performance for the current quarter is a culmination of relentless execution on several business and cost reimagination programs that we initiated at the onset of the pandemic. I am pleased to see the continued effort on cost management resulting in a significant optimization during the quarter and helping us drive the strong EBITDA margins that we have reported.

In India, despite the COVID-related challenges, our "One India Strategy" continues to see seamless execution.

Coming to our "Business Performance in India" we continued a strong momentum and have reported market beating growth now for the fifth consecutive quarter. India Prescription business grew 14% on a year-on-year basis supported by continued traction in the COVID portfolio of Remdesivir, Tocilizumab and Favipiravir along with a regular core growth in the rest of the portfolio.

The quarter also saw traction in chronic therapies and modest recovery in the hospital portfolio which offset the subdued demand in our acute business.

As per IQVIA, July to September-20, we continued to deliver market beating growth in respiratory where we were 29% versus the (-3%). In the Inhalation segment we were 10% versus a market of 7%. And in Urology where we were 6% versus 3% as the lockdown restrictions continue to ease during the quarter.

Cipla ranked #2 with the market share of 7.6% in chronic therapies and grew by 9%.

We are confident that the momentum will continue in the quarters as we have outperformed the market across several therapies on a sequential basis.

We are also excited to launch Berok Zindagi 3.0, Cipla's flagship for patient focus respiratory initiative on a digital platform.

The Trade Generics business continued its healthy growth. The quality and health of the business has significantly improved, led by strengthened hygiene, strong governance and review mechanisms leading to healthy traction in margins.

In our Consumer Healthcare business, we are happy to see the scale of roughly around Rs.180 crores in H1 of FY'21. This includes a sanitizer sale which may not continue at the same level. We see strong traction with our consumer brands post transfer from the trade generics business.

We will continue to watch the evolving volume growth patterns in our core therapies as demand levers stabilize in the common quarters.

Coming to our "US Generics and Lung Leadership Update." The US Generics business delivered 141 million in the quarter, supported by continued traction in new launches of Albuterol, Esomeprazole oral suspension, the DHE Nasal Spray and these are supporting the base business growth.

In line with our commentary on limited competition launches, we launched Dimethyl Fumarate in Q2. We expect the momentum on new launches to continue.

We have maintained robust supply of Albuterol HFA in the US and pleased to inform that we have the prescription share of 84% of the Proventil market now as per IQVIA week ending 2nd October. Across the three Albuterol products of Proventil, ProAir and Ventolin, we have over 8% of weekly TRX market share in the total market and over 11% of the generic market. We continue to monitor our market share given the evolving competitive landscape in the larger Albuterol market.

Our respiratory pipeline which includes Generic Advair and other complex inhalation assets is progressing well.

On a first half basis, the US business is now trending close to company level profitability. The business has seen healthy and sustainable margin expansion over last year despite the contribution of Cinacalcet in the base numbers of the last year.

Coming to our "SAGA" which is a South Africa and Global Access business and the emerging market, the South Africa private business delivered strong growth of 9% in local currency over Q2 last year while the Tender business grew by 28% in local currency terms. We are pleased to report that Cipla was the fastest growing corporation in the South Africa private market with new product launches forming a significant growth driver. We maintain a market share of 7%

as per IQVIA MAT September '20. In the OTC space, we grew by 8.2% and maintained a strong market share of 7.2%. We also entered into an exclusive partnership with Alvotech for their commercialization of five biosimilar candidates in immunology and oncology.

The emerging markets business has performed as per expectations and maintain scale on a year-on-year basis in US dollar terms driven by demand across all regions. The European operations grew 24% year-on-year. The growth was driven by strong in-market performance and market share gains in key direct-to-market businesses. We are happy to report that Remdesivir supplies have commenced for multiple emerging markets.

On a specialty front, through our associate Avenue Therapeutics, we will continue to engage with the USFDA to understand the observations on the CRL for IV Tramadol. We will continue to evaluate multiple options to structure our specialty investment and also further the progress of this asset with the FDA

In regulatory, we have submitted our last response to the USFDA regarding our Goa site and we will continue to engage with the agency to comprehensively address the observations.

Turning now to our "Outlook," we continue to monitor the evolving demand patterns across our businesses. We believe the underlying fundamentals of our business remain strong which along with the operational agility has helped the company deliver a resilient performance enhancement.

We will continue to transform healthcare delivery for physicians and patients from digital platforms and we are tracking our productivity metrics in the progress of our product pipeline.

Our priorities for the second half of the year include

- Strong governance around the safety, supply security, cost control and working capital management,
- Scaling up our businesses across branded and generic markets of India, South Africa, US and emerging markets
- Prioritizing key launches with focused execution in collaboration with regulatory authority
- Continuing to operate our facilities globally with the highest levels of compliance and control
- Constantly building capabilities and talent for transformational business outcomes
- Turning adversity into an opportunity by continued focus on digital adoption and cost reimagination across our businesses.

With this I would like to thank you for your attention. I wish you and your family well and 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 Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: First question on India business. So you mentioned Rx business growing mid-teens. If you could help us understand what would have been the growth just the Rx ex-COVID, that would be useful?

Umang Vohra: I am not sure we are giving that guidance, but I can just say that Rx ex-COVID is at market for most of the therapies that we have spoken about.

Prakash Agarwal: You mean market IPM growth of mid single digit?

Umang Vohra: Each therapy is a different growth. So what I meant was that if we take out the COVID products which we are not guiding to right now…I think Kedar has mentioned that overall COVID is roughly about, 5% of the company numbers. Is that right, Kedar?

Kedar Upadhye: Yes, for the first half, correct.

Umang Vohra: Yes, so he has mentioned that in his commentary. So I think if you exclude more or less that I think by therapy we have performed mostly at market.

Prakash Agarwal: And secondly on gross margin, so we have seen some decline both quarter-on-quarter, year-on-year, what would be the main reason, I understand global, the share mix has changed, would it be also these COVID-related products, Global Access, Tender business, anything I am missing here and what should we build in going forward as well as COVID I think is here to stay for another six months?

Kedar Upadhye: Prakash, largely it is a mix of COVID portfolio. But as you know while gross margin level COVID portfolio appears little lower than the company level, the EBITDA is in fact quite higher than the company level. So yes, gross margin is largely a mix issue at a company level.

Prakash Agarwal: How do we see that sir?

Kedar Upadhye: See, it will depend. There are multiple variables including mix and other things, but there is nothing adverse I would say individually in the lines of businesses that we have.

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

Nitya B Subramanyam: I had a couple of questions initially on the US business. So on Proventil you mentioned that you are hitting 84% TRX share of generic Proventil which means that you are maxing out the potential there. So, from here on, the capture share of the "Prescription" that are written as Albuterol, I am seeing a little bit of softening in terms of your market share ramp up in the weekly TRX data, are you finding it a little challenging from here on grabbing shares from Albuterol prescriptions?

Umang Vohra: So, Nitya, the latest data of October 23rd actually shows us even higher in terms of prescription capture and if you actually go back approximately a year back, the Proventil category was somewhere around 6% or 7% of total Albuterol category. And Proventil as a category was roughly around 6% to 7%. And I think we are seeing that we are now definitely higher than 10%. So I think we are trying to do both, of course, it will depend on how we expand Albuterol further and from 6% to get to 9% is easier from 9% to get to 11% is tougher. So I think, yes, but we are continuing to see the ability to supply and market more volumes here.

Nitya B Subramanyam: Just to help us understand what would it take, right, for the prescriptions that are written purely as Albuterol, there is a Cipla, Lupin, maybe Perrigo at some point of time, there are all your AGs as well competing for that market which is written as a Generic Albuterol. What are some of the reasons why a pharmacist is likely to substitute it with a Cipla product rather than somebody else's?

Umang Vohra: Nitya, I think the mechanics of the market are not very different; there are five consolidated or six consolidated buyers here and I think if you were to broadly look at it, and of course now it is quite public in evident, we believe from the data that there is a large number of prescriptions are written as Albuterol, right, and therefore there is a switching hypothesis here and I think it is not something that we control, it is clearly something that is a mechanic of the market. So, it is a function of how each one of the market participants are going to shape this market. So, I think it is working on that principle, Nitya.

Nitya B Subramanyam: What I was trying to get at was, does this mean that from here on to grab share of that market, the pricing might actually come down because you might have to offer something?

Umang Vohra: No, I do not the pricing is something that we are concerned about, Nitya, because there have been people who have exited the market as well in recent times, and I do not think this is a pricing category and also the share volume of this market is very high; 60, 65 million units, this is a very high volume market and for anyone to sustainably continue to manufacture at this level of high volumes is a little bit of a worry. I do not think pricing is a concern for us.

Nitya B Subramanyam: Quick one on Tramadol. Umang, do you now have visibility on whether you are getting a Type-A meeting and when that Type-A meeting is happening?

Umang Vohra: We cannot disclose the next steps with the FDA in particular detail, but Avenue is in the process of obviously scheduling an interaction with the FDA and which is typical of any company which will get a CRL in the specialty space. So, I think avenue is taking this discussion forward. We are conscious that they are a public company as well, and therefore would not want to comment, but yes, there is an interaction that Avenue would seek, if not it has already from the FDA on next steps regarding IV Tramadol

Nitya B Subramanyam: Kedar, did you mention that the 400 to 500 crores savings that you had anticipated this year, we are tracking lower than that, it is a little less than anticipated?

Kedar Upadhye: No-no, I said in fact more. So we are pleasantly surprised with the power of digital engine which has started working for us in all areas of the operations in the company, Nitya

Nitya B Subramanyam: Any guidance on how much of this is likely to sustain going forward?

Kedar Upadhye: Yes, we would like to have a large part of this sustain in the coming quarters and become part of the business model actually. So I think the reimagination initiative that we have launched in each of the market and each of the functions will allow us to sustain a large part of this efficiency going forward and let us see a couple of more quarters we will be able to give you some precise estimate of how much has that synced in, in our base numbers. But suffice to say that the potential to save is much higher than what we spoke earlier.

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

Anubhav Agarwal: One question on Albuterol. Just wanted to understand, Umang, why is this product still in shortage? When I look at IQVIA data, it shows me that the total units now are not higher than what before the generics came in, they are largely same number of units being consumed by the market right now, whereas Cipla and Lupin have added capacity only, even Perrigo has gone out, the capacity is still being added to the market than what it was before generics came in.

Umang Vohra: I personally do not believe that this product is in shortage. I certainly do not think that is the signal we are getting from the market. I think what may have happened is because of the fact that we had a significant competitor exiting the market recently that there might have been a little bit of, I would say discontinuity in the market and maybe that is the reason it went on to that list, but I think the market is likely to be well supplied and what we are seeing is possibly a substitution of some of the branded players including the authorized generic, some recent people who have come into the market including us.

Anubhav Agarwal: And like the question, Nithya was asking, actually that is the question doubt I also have, that you have been in the market now for almost seven plus months, so is there any capacity constraint, etc., that you could not get enough market share when Perrigo exited? Today's data also show some market share increase for you now 10% market share but we would have expected you to take a higher percent in the market share than some of the new guys who have taken. So are you capacity constraint and you are in the process of adding capacity, that is why you could not take it or are the dynamics that you are a substitutable version for Proventil not for Proair, did that impact you taking market share?

Umang Vohra: It could be a mix of all of them because when we were approved, we did not have any product which was available to be selling in the market, right, we were approved in March when we thought we would be approved six months later. So for us it was not as if we were ready for a launch or had gone through a set of CRL that we knew there was a particular goal date that we were targeting. So we had limited stock and based on that we ramped up with it. So realistically

the six or seven months that we are talking about possibly only equates to three to four months. But one thing that I would like to say and I mentioned this to Nithya as well earlier, Proventil has a total share of the Albuterol market, was about 6% to 7% earlier and we believe in terms of weekly prescriptions, this is now over 10%. So the market is showing the hypothesis where Proventil as a category itself can be driven up and I think that is something that we are trying to shape in the category. Just from my perspective, I do not think anyone's objective in the market like this would be to hog market share because these are difficult products to make and very complicated supply chain. So the day you try to hog market share in a large volume product like this which is at 65 million, I think it is not so much pricing but it is more your own supply chain that you have to be concerned about, and the product is attractive enough even at this level of volume.

Anubhav Agarwal: So just one clarity on the response that you said. So should we assume even now going forward your market share gains will be gradual or let us say there will be a time a quarter down the line or something like that where your capacity comes in and you could see a step jump up in your market share?

Umang Vohra: We have adequate capacity. I do not think the issues are capacity. I think the issue is how sustainable we want to see our production going forward. So we can produce at a much higher play, but I would always like to keep a relatively high share of inventory in a category in a market like this. So, I think that is one answer. To specific to your question, I think whether the market share gains would be gradual, yes, they could be gradual, I think if you look at our overall positioning, even in the last four months, we moved from almost 7% or 8% to I like to believe over 10% or 11% ,and I think this type of a movement could keep happening over the period of time.

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

Krishnendu Saha: Umang, On Albuterol if this price erosion in the market is stable, why would you want to hold inventory, is it not natural for us to be in a higher market share? Question one. Question two on the South African market. We have been doing well. How much of that is sustainable and what has actually happened out there? It is around 15% to 20% percent of our revenue.

Umang Vohra: Certainly, so I think the South African market from the way we look at it, I think it is quite sustainable and we have shown the ability to continuously beat market growth now, I think we have done that in my opinion at least for almost eight, nine quarters that we have been looking at it or even more than that. So I think it is sustainable. I think it is a relatively strong business in South Africa. So I do not think it is not a flash in the pan, it is a sustainable trajectory. And the first question is on Proventil, why do we want to keep inventory. I think the reason…

Krishnendu Saha: Because you spoke about the fact that the pricing is stable, we have capacity to produce, you want to hold inventory, so just trying to understand what is the logic what we see out there?

Umang Vohra: Because I think this is a category of products where if you even have a blip of a missed week or two weeks of production, it is not easy to recover, I mean the same linearity does not happen because these are devices and everything else. So I think the biggest problems happen when you produce too fast, right, and at the same time do not have adequate inventory of materials with you. So, now out of our experience of doing Albuterol and several respiratory devices elsewhere in the world, I think we are quite clear on how we would like to manage the supply here which is to be cautious with both our inventory as well as and the flexibility in our production system to take on higher production.

Krishnendu Saha: It is not a bottleneck at the material level or at the device level. It is a purposeful going?

Umang Vohra: There is no bottleneck absolutely.

Krishnendu Saha: And a couple of small questions. How much you think is the current number of Rs.210 crores is sustainable going ahead for the quarter? And Kedar, if you could just throw some light on the margins going ahead for H2 please?

Kedar Upadhye: So, Krishnendu, I think we have seen some of the orders in the trade generics business which have got bunched up a bit in Q2. So to some extent, I think there could be marginal moderation in Q3, but demand environment continues pretty strong. So, that is the thing. And the supply for COVID medicines is here to stay and like what Umang alluded, in addition to one site which is captive, now we have two outsource sites and we continue to scale up manufacturing and supply for Remdesivir, and that is here to stay. In terms of margins, actually the margins of prescription business and generics business have gone up year-on-year. So our gross margin for most of the businesses on a year-on-year basis have gone up which is quite healthy. So I think mix is the only thing that we have to watch for. Otherwise there is nothing adverse, the pricing continue strong, the work on cost reduction continue strong, except COVID, I think the mix is good as well.

Krishnendu Saha: How much of the cost to be added let us put it one year?

Kedar Upadhye: Krishnendu, like what we alluded, we are quite energized by the promise of digital initiatives in each part of the company's operations, and that has allowed us to reimagine our ways of operating and our investments are going on in that direction and we would like to believe that we do retain a larger part of the cost control that we have seen as inherent part of the business model itself. So let us see a couple of more quarters, then we will be able to come back to you with precise estimate as to how much of that has gone into base, but as I said I think we would be able to save a bit more than what we thought we will be able to save for the year.

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

Sameer Baisiwala: Just a couple of questions; so one is for the US, the Tecfidera launch. Umang, is this a meaningful launch given the competitive intensity the prices have gone down to nothing?

Umang Vohra: I think it is a fairly competitive launch. I do not think it will be meaningful enough the way we had perhaps envisaged it.

Sameer Baisiwala: Second question on the India business. So if I am not wrong, the COVID-19 drugs contributed roughly about Rs.250 crores to sales in the quarter. How much of this is sustainable and how much of this you think is one-off and is that is the right way to think about it?

Umang Vohra: No, I think it is the right way, Sameer. I do not think all Rs.250 crores will be sustainable, but the more we are understanding of this of COVID now it is going to be endemic and will continue, may not be at the same level as right now but I think it is going to be endemic when we will continue. So I would like to believe that in its worst form I think about 30%, 35% of this should perhaps always be sustainable, that is my sense. I think the other thing that I would probably also say is that it also depends on cases. If there are no cases, then obviously there is no demand. But we have seen this pattern of cases go up and down, right, and the rest of the world is now going through a huge outbreak again. So, I think it would be responsive to those two, but I clearly see from a current level at least 25% to 30% seeing in the mix at least due to the endemic nature of this pandemic.

Sameer Baisiwala: Umang, just on the doctor connectivity and I think it is very impressive that I could see on your slide, 2.5 lakh doctors… maybe unique doctors that you could connect through virtual conference for CME, looks like what about 20% of India's total doctor population. So if you can talk a bit more about it, I mean, is the entire doctor fraternity now digitally connected with the manufacturers, so any thoughts on this?

Umang Vohra: I think it is obviously by therapy and by indication, but we have certainly tried to engage with doctors especially around the time when there was limited activity due to COVID. And I think some of that is sticking, some of that is going back to how it was earlier, but we have seen a propensity in doctors to engage more virtually. I think it helps their time, for one. We bring them and their patients more safety. Usually in a doctor's chamber, there could be 10 or 12 reps waiting to meet the doctor. We are seeing with the virtual assist program that a) the doctor has more time on his hands, they can meet the reps when they want to even on a way to the office if they are being driven in their car they can have a virtual consult with a rep, so it allows them to manage their time a lot better, and at the same time avoids crowding in a doctor's clinic. So a lot of the doctors are responsive to these changes and I hope that this trend continues because it allows doctors to use their time better people in their clinics to be less susceptible to infection.

Sameer Baisiwala: On Albuterol, Umang, a couple things, if there was a demand, do you have capacity to take say double your current sales and say maybe move up to 20% market share? Second is how has been the behavior of three authorized generics in the market -- do you think that they will get more competitive or do you think at some point they may want to exit? And third is your take on the

margins where you mentioned the US business is now trending close to the company average in the presentation. I would have thought this is much higher given the Albuterol contribution?

Umang Vohra: I think on the last point, the US margins that we spoke about are net of R&D, fully loaded margin, there is no central cost that is not being taken, so it is a fully loaded margin in that company. And I think that is good because just a year back, Sameer, we were just about breakeven. So I think there has been a big uptick on account of Albuterol, but just specific on this, in as much as we think that there are only two generic players, there are seven competitors in the Albuterol market, there are three AGs, there are two brands and then there are two generics; now one generic has just exited, right. So if you look at it there are seven players in this market. And I think one has to also understand our market in that perspective. Having said that it is a 65 million unit market which is a very big market. So I just like to say that if we were to look at the overall capacity, yes, we have capacity to go up to 20% to 25%. Would we want to go there is a question at some point in time that we will obviously answer over a period. Now, of course, there is enough flex to be able to reach a certain level of targeted share that we want to get to, but it is not something where we want to build it overnight. I think that we are pretty clear about because what we are also very clear out of our experience of running respiratory products in the rest of the world is that I think the sustainability of your supply in your product is more important than just how quickly you reach a targeted share and frankly there is enough value in this market to do it over a quarter or two quarters. So I do not know if I answered your question but that is how I look at it.

Sameer Baisiwala: No-no, you definitely did, Umang for this, but just your thoughts on the three AGs which are there in the market?

Umang Vohra: I think they are competitive and I think they are pretty much functioning like proper generic competitors. Actually the way we look at it, there are five generic players in the market already because of the three AG, plus the two generic players now and when the third one who has exited comes back, then there would be almost seven players who are non-brand in this market already.

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

Nitin Agarwal: Umang, we have had a very dramatic improvement in our position over the last few quarters. In the past, you indicated that you changed a little bit of track on the specialty side. So what are the thoughts about capital deployment that we go forward from here on given the balance sheet, I guess, given the run rate you could see further spending from here on?

Kedar Upadhye: Nitin, I think the efforts on generating and preserving cash would continue. I mean, that is a key part of our internal KPI matrix now. And across businesses, we are doing good work and that will continue. And as you would see we still have certain debt servicing obligations on the balance sheet, there are aspects of investing in capital expenditure for development and capacity for respiratory. So, I think there are multiple usage, Nitin and all that will continue.

Nitin Agarwal: But on a more strategic level, any specific M&A space we are looking at from a two to three year perspective?

Kedar Upadhye: M&A, I mean, our ability to fund a large M&A continues to be there…it was always there and either by working of cash on the balance sheet or by virtue of being able to raise cash at a competitive interest rate, I think ability to fund a large M&A day is always there and it will always be there. And subject to a strategic target being in front of us, I think that would probably be a determinant rather than saying that we have cash balance and hence let do it. So I think we would continue the governance on cash. That will be important for us.

Nitin Agarwal: On Truvada, has the supplies for the product started or is it going to be a relevant product, supply product for us or as an option, partnership with the first-to-file?

Umang Vohra: So I think we have been told the first-to-filer has launched their product in the market.

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

Vishal Manchanda: So in the last call you had indicated there is a partnered respiratory asset where you have received a CRL. So just wanted to understand if that CRL has been addressed and responded to?

Umang Vohra: Well, it is linked to the closure of some studies that were done by the partner. So I think the moment the studies are done, the partner will revert. So around any time now or in this quarter we are hoping that the partner will revert back.

Vishal Manchanda: Could you give some color on whether it is a nasal spray or it is an MDI inhaler and in terms of size whether it is less than $500 million or greater than $500 million?

Umang Vohra: We do not provide that level of transparency on the portfolio, but I think what I could say it is an inhaler product.

Vishal Manchanda: So you guide for one respiratory launch per year. So, will this partnered asset would be over and above the guidance that you have?

Umang Vohra: It could definitely depend on the timing of the launch.

Moderator: Thank you. The next question is from Shyam Srinivasan from Goldman Sachs. Please go ahead.

Shyam Srinivasan: Just this one to Kedar. You talked about gross margins being lower but for COVID portfolio and for the overall portfolio margins being similar. So how should we look at for the second half, do you foresee that the gross margins will be whatever the 61%, 62%, but margins on the EBITDA line could not be very different?

Kedar Upadhye: Actually as you can imagine, gross margins are subject to multiple variables primarily mix is playing a large role for us. And as I said COVID portfolio gross margin is lower than the

company but EBITDA level they are higher than the company, and that will continue in the balance of the year as well. So I do not want to hazard a guess on how much mix will be there for COVID and non-COVID but as I said excluding COVID, most of the businesses, if not all, have seen a significant gross margin improvement on a YoY basis. And that is based on the mix in those part of the businesses as well as pricing levers as well as cost containment levers. I think all these levers have played out and I think those will continue in the balance of the year in the second half as well. And as the proportion of some of the niche opportunities in the US business, some of the chronic therapies in India business, I think if all of that improves, we do have strong tail winds.

Shyam Srinivasan: Second one is on R&D expenses. You said that optically it is looking lower on a percentage basis. Are there any projects that are coming up for just to go back to 5% or 6% of sales or this is a level that it will be like a slow creep rather than like a step jump in terms of R&D?

Kedar Upadhye: I would think so, I mean, probably one should model up to say 1% percent, I do not think it can dramatically go from now to say one immediately, but it could be rather slow and I think a bigger determinant is a high value clinical trial which we saw last year in terms of Advair. So, I think a similar spend in terms of the ongoing respiratory projects the quarter in which that gets triggered I think you could see some increase. But as we said most of the key projects are on track. And on an annual basis, I think quarterly some of these things are not fully predictable, but you should expect us to continue to invest between 6% to 7% of the revenue.

Shyam Srinivasan: D&A, we saw 5% this time. Is there something specially changed because this number seems to be trending down, is that something we keep in mind?

Kedar Upadhye: I think the biggest charge there is on account of the US acquisition and as we have completed four years to the acquisition, some of the assets are sort of getting retired from the gross block, and that might be the reason why amortization charge is low, but depreciation could continue at this rate and depreciation could marginally go up but amortization would come down.

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

Nimish Mehta: I actually missed your comment on the opportunity in Truvada. I understand we are an API supplier or supplier to Teva who is 180-day exclusivity. So is this opportunity captured now and how big do you think is the opportunity?

Umang Vohra: I think that when you say opportunity capture, there is only one first to file in the market right now. So like any other generic product, for us also, this will be an opportunity when it becomes a generic. I think if your question is whether the first filer launched with our API, yes, that is correct and we were public about it.

Nimish Mehta: I mean, did we not have any profit-sharing agreement with them so as to make it a very valuable product even if it is API? My question is not just limited to Truvada it is also I think Atripla probably where you might be a supplier. If you can let me know about both the opportunities, I mean, opportunity in the sense whether they are high value opportunities or not, how should we look at it?

Umang Vohra: Well, they are reasonably sized opportunities. Here the full product is not ours, the first filers got this product pretty much, the rest of the chain is with them. So it is like any other regular API product. It is a reasonable opportunity, but I cannot say that this is not an Esomeprazole like we had earlier.

Nimish Mehta: So what I understand is that Teva themselves also might be manufacturing their own API because they might be sourcing from Cipla, is that how we should look at because if Cipla is the only supplier, then it is a significantly great opportunity enough to show up on the numbers, so that is what I am trying to understand?

Umang Vohra: I do not think Teva is manufacturing API for this, but the rest of the chain is with them. In the case of Esomeprazole with Teva, pretty much the whole product was manufactured. So I think that is the difference I was mentioning to you. And therefore profit sharing, etc., is not the same economics like we had for Esomeprazole. That is what I am trying to say. So it is like a reasonable product for somebody who has a first-to-file where you are a supplier to a first-to-filer, it is something reasonable like that. It is not a huge curve bender for the company.

Moderator: Thank you. The next question is from Kunal Dhamesha from Emkay Global. Please go ahead.

Kunal Dhamesha: I think last quarter you provided some detail in terms of the size of the consumer healthcare business and growth in the trade generics business adjusted for the consumer health business. So can you provide details for the quarter?

Kedar Upadhye: Kunal, roughly, the magnitude of percentage growth remains in that same range. In fact, for trade generics business this quarter as I mentioned there is some bunching of the orders is fairly high and the consumer healthcare business also continues at that run rate. So both these businesses are on that trajectory. We want to avoid too many growth numbers being spoken about because the more granular we go I think there will be expectation and responsibility on us to keep talking every quarter and we want to avoid too many growth numbers but suffice to say that these two are growing very strong and the process of consumerization is very healthy and it is getting good traction. The early metrics of consumerization that we track for the brands which have got transitioned look very healthy. We are quite happy with that.

Kunal Dhamesha: Just if you can provide the qualitative color on if the CHL gross margins are significantly better than trade generics business, would it be fair to assume that?

Kedar Upadhye: I would not compare head-to-head or like-to-like because the portfolio is different and the trade generics as you know is more a channel business and the consumer health is more a consumer business. So I think head-to-head comparison is not appropriate but going forward we do expect each of the transition brands to have much higher gross margin, pricing and demand stickiness. So, all these intended objectives are being seen in practice as we transition each branch, Kunal.

Kunal Dhamesha: The other question is on the other expense saving. As you have alluded that you are looking at the reimagination of each business vertical. So if you can just throw light on which all the line items which could be by this process transformation maybe in the other expenses or in the cost of goods sold item, if you can just throw some light in terms of what kind of processes are being reimagined, whether it is the selling process or…?

Kedar Upadhye: Actually each function and each market is seeing this reimagination. A large part of that is in the markets where we interact with customers. So the process is where we engage with channel partners and we engage with healthcare practitioners and patients. All of those have been reimagined to a great extent for the virtual reality of the business model. Where you are seeing this impact from a four, five line P&L that we disclosed is in other expense and people to a great extent. And within other expense, I think there are multiple line items which is getting impacted. And as we said, we are pretty energized with the efficiency and the speed, the simplification and the agility that this thing brings in and we will continue on this journey.

Moderator: Thank you. We will be able to take one question. We take the last question from the line of Surya Patra from PhillipCapital. Please go ahead.

Surya Patra: In fact, about the COVID portfolio, the contribution what you have mentioned, is it possible to split between what is that for India and outside India or if you can give some sense that the export business opportunity or what times of India COVID opportunity or anything on that side that would be really helpful? And simultaneously, is it possible to have a sense about the kind of the volume in the Remdesivir side because we have multiple facilities that we have arranged for this opportunity?

Kedar Upadhye: So, Surya I think we are conscious of the feedback that we are getting from some of you that we probably are being over-transparent in terms of granularity. While we are keen to engage with the street on a basis which is quite candid and transparent, I think we are also conscious that multiple granular numbers do not help beyond a point. So I think suffice to say that COVID is an important part of the portfolio, but it is not that the whole growth and the whole profitability improvement has come from that portfolio. Currently the COVID portfolio is split into India and emerging markets, the international business and the promise to grow exists in both these territories and going forward some of the other therapies which had an impact such as acute I think they will shape up as well. So I think the way our revenue trajectory and profitability trajectory would shape up in the coming periods, will depend upon how we are able to influence the growth of other therapies which have seen a little bit of operation now. We are confident

because a lot of customer actions and a lot of field action is going on there as well. So that would shape up positively and this in our view also there is lots to play here on the COVID side.

Surya Patra: My point there for which that I was asking this question is that since there is an alliance for Remdesivir, let us say that is for larger so many countries, and obviously at this current juncture this product is also kind of a shortage-based product. So opportunity while going ahead in the subsequent quarter possibly this portfolio can be even stronger more and more…..

Kedar Upadhye: That is true and I think not only Remdesivir by the way, I think we have Favipiravir, we have a few other opportunities, we have recently launched under our diagnostics initiative ELIFast test, you must have seen that. So, I think COVID will remain. We are conscious of our responsibility to service the needs of patients during pandemic, so we will be occupied in servicing the COVID needs of our global patients.

Surya Patra: My second question is just on the "One India Strategy." We have seen some benefit flowing from the COVID portfolio. But otherwise excluding that, whether the One India strategy has really contributed the way that we have anticipated or what incremental benefit that we should really be trying to achieve through this in terms of growth or in terms of profitability for Indian operations?

Kedar Upadhye: Surya, the synergies of One India business between prescription, trade generics and consumer healthcare exists in portfolio, exists in go-to-market approaches, it exists in commercial excellence, it exists in distribution, logistics and digital. So there are multiple avenues in which we could synergize these three businesses together and all of them are playing out as we are speaking and we will continue. And as we said, at a specific time, when we are able to communicate in much precise terms, we will do that, but one example I just mentioned about the consumer business, I think it is playing out well.

Surya Patra: So a portion of the margin expansion is purely from that, can we say so despite the business impact because of the COVID excluding the…?

Kedar Upadhye: One is margin expansion. Secondly, stickiness of the demand. And thirdly, some of the price improvements which always is not possible in the channel business. I think all these objectives are being serviced, Surya.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Naveen Bansal: Thank you, everyone for being on the call. In case you have any follow-on questions, please feel free to reach out to myself or to our Investor Relations ID at investor.relations@cipla.com.

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