8th November, 2022

(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,
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Scrip Code: CIPLA

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

Sub: Q2 FY23 - Earnings Call Transcript

Dear Sir/Madam,

We are enclosing herewith copy of the transcript of the Company's Q2 FY23 earnings conference call dated 4th November, 2022. The transcript is also available on the Company's website i.e. https://www.cipla.com/sites/default/files/Earnings-Call-Transcript-Q2FY23.pdf .

Thank you,

Yours faithfully,
For Cipla Limited

RAJENDRA KUMAR CHOPRA
Digitally signed by RAJENDRA KUMAR CHOPRA
Date: 2022.11.08 19:02:38 +05'30'

Rajendra Chopra
Company Secretary

Encl: as above

Prepared by: Juzer Masta

“Cipla Limited's Q2 FY'23 Earnings Conference Call”

November 4, 2022

MANAGEMENT: MR. UMANG VOHRA – MANAGING DIRECTOR & GLOBAL CHIEF EXECUTIVE OFFICER, CIPLA LIMITED
MR. ASHISH ADUKIA – GLOBAL CHIEF FINANCIAL OFFICER, CIPLA LIMITED
MR. NAVEEN BANSAL – HEAD, INVESTOR RELATIONS, CIPLA LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY'23 Earnings Conference Call of Cipla Limited. We have with us today, Mr. Umang Vohra – M.D. and Global CEO; Mr. Ashish Adukia -- Global CFO; and Mr. Naveen Bansal -- Head of Investor Relations.

As a reminder, all participant lines will be in listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone.

Please note that this conference is being recorded. I now hand the conference over to Mr. Naveen Bansal, Head of Investor Relations from Cipla Limited. Thank you, and over to you, sir.

Naveen Bansal: Thank you, Steve. Good evening, and a very warm welcome to Cipla's Q2 FY'23 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 new confirmation, future events or otherwise.

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

Ashish Adukia: Thank you, Naveen. Thank you, Steve, and good evening to all of you.

First of all, I'm pleased to join Cipla Limited as Global CFO and honored to be part of company's rich legacy of "Caring For Life."

On the quarter results, I hope you've received the "Investor Presentation" that we posted on our website.

For Cipla, the last three months have been tremendous learning in terms of navigating the business amid the ongoing geopolitical headwinds, while continuing to make progress across all our strategic priorities. In a continuing volatile macro and geopolitical environment, we are very pleased to report historically the highest quarterly revenue of Rs.5,829 crores. The overall revenue growth for the quarter was at 6% on a reported basis, and a strong 12% on a COVID adjusted base of last year. We continue to service demand across all our markets and demonstrate robust commercial execution of new launches during the quarter. This was achieved despite a challenging operating environment and helped us deliver a robust EBITDA margin of over 22% for the quarter on a reported basis, and approximately 24% on an adjusted basis. On these adjustments, I'll come to later.

Coming to key highlights of the quarter, the core revenue growth was driven by sustained momentum in One India Business and differentiated portfolio unlocking in the US. Our global inventory levels reflect our commitment to ensure the continuity of supply given the headwinds in the sourcing environment.

Our free cash flow generation and operating efficiency continue to drive a strong net cash position. Our operating margins of 22.3% for the quarter subsume the impact of sharp moderation in COVID contribution in last year's phase and geopolitical uncertainties.

As alluded earlier, the demand for COVID products is negligible in line with sharp drop in new infections. Accordingly, we have taken an inventory charge on all of the marginal COVID inventory we were carrying and we're expecting to liquidate, which is in the materials cost line item in the P&L. Adjusted for this, our EBITDA margin would have been higher by nearly 150 basis points, or at approximately 24%.

The higher R&D costs investments driven by ongoing clinical trials on respiratory asset as well as other developmental asset, is higher by Rs.61 crore versus last year, which is incremental 1% of our revenue.

Our reported gross margin after materials cost stood at 63% for the quarter, which is 165 basis points above last year's figures driven by contribution from new launches and overall mix change. As alluded earlier, reported gross margin subsumes the impact of inventory charge in the material cost line item.

Total expenses which include employee cost and other expenses stood at Rs.2,366 crores which has increased by 7.2% on sequential basis. Employee cost of the quarter stood at Rs.951 crores flat on sequential basis.

The other expenses which includes R&D, regulatory, quality, manufacturing and sales promotions, are at Rs.1,405 crores, increased by 12.3% sequentially driven mainly by higher R&D cost, which I talked about which is up 22% YoY, judicious promotional and growth-linked investments. Total R&D investment for the quarter are at Rs.335 crores of 5.8% of revenue. The absolute trajectory remains intact with assets progressing in clinical trials and other portfolio developmental efforts continuing.

Reported EBITDA for the quarter was at Rs.1,302 crores, or 22.3% as I pointed earlier. The reported growth over last year's base was 6%. On adjusting the one-time COVID inventory charge, our core operating profitability for the quarter was approximately 24% or at Rs.1,389 crores. At the current run rate, we are tracking in line with our full year guidance of 21% to about 22%. The profit after tax is at Rs.789 crores or at 13.5% of sales.

As of 30th September 2022, our long-term debt primarily constitutes ZAR720 million in South Africa and working capital of $49 million in the US apart from some of the other facilities that

we have in other geographies, Driven by our relentless focus on cash generation and rigor in cost discipline, we continue to be net cash-positive company at the end of this quarter. Importantly, we are constantly monitoring the current macroeconomic situation and proactively addressing the risks, including any FOREX downside impacting our revenue and profit and inflation as is yet.

To close, we saw robust momentum across portfolio and geographies for H1. Growth levers in the subsequent quarters will include continued growth momentum across branded and consumer business in India and South Africa, robust traction in our North America franchise across complex portfolio and continued contribution from respiratory and peptide to product, and thirdly monitoring geopolitical headwinds, driving elevated procurement, freight costs and foreign exchange depreciation-led, translation loss in INR.

I'd like to now hand over to Umang for Business and Operational Performance. Thank you.

Umang Vohra: Thank you, Ashish, and welcome to all of you on the call. Our Q2 FY'23 performance reflects strong execution in our One India and a solid launch momentum from our differentiated US portfolio, driving our overall revenue to a multi-quarter high of Rs.5,829 crores. The reported growth is 6% and 12% year-on-year after adjusting for COVID in our Q2 FY'22 base. Ashish has already explained the numbers to you. Our core business continues to demonstrate sustained momentum despite the impact of geopolitical headwinds. I'm pleased to share that our reported EBITDA margins for the quarter came in at 22.3% and adjusted margins at approximately 24% which continues to track in line with our guided range of 21% to 22% EBITDA.

Coming to the Detailed Updates for the quarter by market. In a One India franchise, we are making strategic bold moves, transforming into a holistic ecosystem driven by new science, better reach and a digital-first approach. We are significantly investing in investments in portfolio, diagnostics, channel and digital initiatives.

Our global consumer franchise continues to witness strong traction across India and South Africa. The overall franchise now stands at 9% of the overall Cipla revenue for the quarter. There is a slide on our investor deck that captures some of these distinctive structures and winning capabilities being added to fortify our One India franchise under the Wellness theme as well.

For this quarter, the One India core portfolio deliver a 6% year-on-year reported growth despite the continued normalization of COVID contribution compared to the quarter in the last year. After adjusting for COVID products, revenue growth stood at a robust 15% year-on-year, reflecting strong demand traction across our therapies and our businesses.

The branded prescription business demonstrated double-digit growth across therapies and core portfolio driven by continued demand. The market beating growth trajectory continued for the sixth consecutive quarter with 15% growth for the quarter on an ex-COVID basis. This core

revenue growth is underpinned by a healthy mix of price, volume and contribution from new launches.

During the quarter, we launched eight new brands in Cardiology, Diabetes, Urology, Gynecology and Respiratory. As per IQVIA MAT September '22, we continue to maintain healthy ranks and market share in all our key therapies.

The trade generics business continues to witness strong traction across the flagship brands with steady order flow from the tier-two-to-six rural towns and the demand fulfillment across regions translating into double-digit growth over last year. Our launch momentum continued with 10 products in key therapies within the generics franchise.

Our consumer health business continues to do well and is tracking well in line with the Rs.600 crores plus annualized revenue, we alluded to previously. The transferred brands are tracking at a robust 14% growth momentum during the quarter, with the overall business delivering over 20% growth versus last year.

Coming to US Generics and Lung Leadership Franchise. The US core formulations sales for the quarter registered a high of $179 million. This is a 25% growth year-on-year. Our continued focus on driving business through strong execution of our differentiated pipeline is demonstrated by the launch of Lenalidomide in this quarter. We're committing to maintain sustainable supplies and maximize value.

The contribution of differentiated dosage forms in our North America Generics portfolio continues to expand which translated into this 15% growth over the quarterly average run rate of 155 million over the last three quarters.

Our generic market shares in respiratory products continue to be healthy. Market share for Albuterol and Arfomoterol stood at 16% and 38% respectively as per IQVIA MAT ending September 30, 2022.

Our peptide franchise continues to track well since its launch in Q4 of FY'22. Lanreotide 505(b)(2) has steadily gained market share with 4.6% share in Q1, which was last quarter moving to 9.6% in this quarter. We are tracking to our earlier guidance of reaching 15%-odd percent market share by the end of this year in this category.

On the pipeline front, clinical trials on the respiratory assets and filings on complex generics, including the peptide injectables are on track. From the launch perspective, we have geared up for some of the upcoming launches and closely working to secure our approvals.

We have proactively responded to the FDA's observations issued for our inspection of the Goa plant in August '22. As part of our business derisking practices, we had already initiated plans

to derisk some of our key assets. At this stage, we do not expect any material impact to our planned launches for FY'23. We will continue to share material updates as the situation unfolds.

Coming to SAGA, which includes South Africa, Sub-Saharan Africa and the CGA. As alluded earlier, the South Africa private business demonstrated continued recovery on a sequential basis. In secondary terms, strong demand continues with our South Africa private business outperforming our market by over two times. We continue to maintain the third position with a market share of 7.5% and grew by 7.2% versus a market growth of 2.8% as per IQVIA MAT August '22.

Our international markets business despite the challenging operating environment and FOREX volatility, maintained scale over last year's COVID base. Our reported numbers in dollar terms also subsumed the adverse impact of a depreciating euro, the British pound and other local currencies against United States dollar, which is offsetting the healthy double-digit secondary growth across our DTA markets. We continue to monitor this volatile operating environment for currency and demand headwinds and are proactively exploring options to mitigate risks and protect them.

To close, adjusted EBITDA margin of approximately 24% for the quarter tracks above our 21% to 22% guidance range. Unlocking of our complex pipeline while balancing incremental R&D investments in future is in progress and we are committing to accelerating our return on capital employed, which is currently tracking at a healthy 20% for the 12-months period in line with our commitment of 17% to 20% range.

Turning now to our Outlook, our near-term priorities include accelerating the growth in the One India engine with building big prescription brands across chronic therapies, driving accessibility of the trade generics brands, and a sustained portfolio expansion in the wellness categories. Sustainable scale up in the US business driven by maximizing contribution from complex upcoming launches. And this includes our respiratory and peptide products. Continued execution in the branded and generics portfolio across our DTM markets in the emerging side of the world and SAGA, continued focus on cost, and offsetting the cost inflation through calibrated pricing actions and other interventions to navigate the procurement freight and other cost inflation we have seen, and a focus on regulatory compliance across our manufacturing facilities, and implementing globally benchmarked ESG practices.

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

Moderator: We will now begin the question-and- answer session. The first question is from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

Tushar Manudhane First, on the generic Revlimid. There has been a stark difference in terms of the kind of business which has been done by the company already launched the product. The competitor is doing

almost kind of $100 million. So, is this more or less in line with the kind of agreement with the innovator or there has been some amount of kind of production or the supply chain management which has led to this difference, if you could clarify?

Umang Vohra: Tushar, I think the reporting universe numbers are still to come out, but I guess what you're referring to competition, I think if you are first-to-file on this product, and two companies are, obviously, the share allocation will be high.

Tushar Manudhane And just secondly, given that this was just maybe a month kind of a launch for a limited competition product, and we are already tracking 64% gross margin, so if you could just share the outlook for the second half FY'23 on the gross margin front? And subsequently, if at all, any revision in the EBITDA margin guidance for second half?

Ashish Adukia: So, we don't give the gross margin guidance, but EBITDA margin, we have given the guidance, that will be in the range of 21% to 22%. So, we will stay with that margin.

Tushar Manudhane Given that in second quarter, we are already at 24% and it's not a full quarter impact of the niche product launch?

Ashish Adukia: So, what I'm saying is 21% to 22%, it is for the full year, that's one, and second, there is also seasonality quarter-on-quarter which we have to take care of.

Tushar Manudhane And just lastly on Lenalidomide, just if you could share some color in terms of the kind of price erosion that would have happened because of the competition?

Ashish Adukia: Nothing significant over Q1 which is the previous quarter.

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

Prakash Agarwal: Just one clarification. First on, the inventory write-off related to COVID, it is largely done or we have some bits left?

Ashish Adukia: This is all done, all COVID-related inventory has been taken into the books.

Prakash Agarwal: Another clarification on Revlimid. So, I heard one saying on, obviously, the competition has FTF understood, but for us, would it be well spread across the quarters to come by or is there a front-ended stuff, or it is back-ended for us, just a little color will help?

Umang Vohra: I think our sense at this point in time is that there will be repeatability at least for this year. And as we get closer to next year, we'll be able to give more guidance. So, it's also linked to how players come into the market, etc., and the settlements. But if your question is, whether this becomes a kind of a new base for the US business, I would say, yes.

Prakash Agarwal: And when you say this year means financial year?

Umang Vohra: This financial year, but I also think that this current level of our business at 175 to 180, unless there is something that goes dramatically wrong. I think you could translate this to seeing this as a new base for the business.

Prakash Agarwal: One question on your presentation. It talks about high value launches in second half fiscal '23. So, you talked about generic Advair, which also had an EIR from the facility side. So, question is, which are the products we should pen in and what is the update on it?

Umang Vohra: So, on Advair update, as we had mentioned, we were looking at it in the second half of the year of this fiscal year and I think we are sticking pretty much to that guidance today. Obviously, the FDA has to review any responses to questions or information they may have asked during the review period, which hopefully is the process that's ongoing now. On Abraxane, obviously, it is linked to the Goa site approval. We are in the process of derisking the asset as well. If the Goa site approval comes, then obviously this will be in track with first quarter of the next financial year, which is the first half of the next calendar year, and if it is delayed, then it could be pushed out by six months.

Prakash Agarwal: Any other products you are penning in with high value launches?

Umang Vohra: At this stage, I'm not sure we're giving that level of guidance. I think we did disclose the pipeline. Because these products are in public domain, we talk about these. The other ones, obviously we have products in the pipeline, but we're not giving granularity at this stage on their launches.

Prakash Agarwal: And pipeline, what we saw was under development, under filing, etc., So, it might take some more time, right?

Umang Vohra: Yes, you could assume. There are a few I think that were in post filing as well.

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

Kunal Dhamesha:: So, on Lenalidomide we are kind of tracking well in terms of market share. So, would we be kind of increasing our aspiration there in terms of gaining more market share from what is guided at 15%?

Umang Vohra: Yes, I think we were at four last quarter, we are at nine, close to 10 this quarter. We are assuming an actual progression trying to get as close as possible to the guidance we gave, which was around 15%. And I think as we mentioned earlier, this is a very gradual ramp up product. So, I think, we will assess this closer to when we reach this goal of 15%.

Kunal Dhamesha: Can you provide some color on our launch of the Leuprolide Depo Injection, what is the addressable market size? What are our expectations there? Any field force requirement?

Umang Vohra: Let me answer the last one because I think that's easier, we already have an infrastructure that we created for Lanreotide and we are hoping that infrastructure will be able to support

Leuprolide. Obviously, Leuprolide is not a single brand market, there are almost two, three brands in the market with three players. So, we will be launching the product anytime now. I think it will also ramp up slowly, just like Lanreotide has, but we think it's a fairly attractive product for us.

Kunal Dhamesha: Any comment on the addressable market size?

Umang Vohra: I think the way IMS would probably suggest that the full market is somewhere around 200-odd million. And I think, obviously, both are brands, so I think it's a fairly attractive market, that's what I would say at this stage.

Kunal Dhamesha: One last housekeeping question. If I look at the launch of Lenalidomide, it seems that we have just launched the smaller quantity bottles. Is there any reason that why you would not have launched a larger quantity?

Umang Vohra: No, I don't think there is any specific reason for that. I do know that there are a few strengths which we do not have first-to-file position. The other thing that I would like to tell you is Lenalidomide has a large number of SKUs. So, I think I recall there are almost 15, 20 SKUs on Lenalidomide by the brand. I don't think anyone would launch all 20. So, between the different players, I think the market may get covered.

Kunal Dhamesha: And your agreement would mention like those kind of different SKUs or no?

Umang Vohra: I'm sorry.

Kunal Dhamesha: Your agreement with innovator would mention the SKUs that you can launch or no, it is -?

Umang Vohra: Other than what you're barred from launching because of FTF, I don't think there's anything there.

Moderator: The next question is from the line of Neha Manpuria from Bank of America. Please go ahead.

Neha Manpuria: Just on the EBITDA guidance, given the 24% margin that we're doing in this quarter adjusted for one-off, and second half does seem to be seasonally strong in India, we'll have Revlimid contribution, Advair coming through, any reason for keeping our guidance at the '21 to 22%, I mean, just trying to understand if you're planning higher investment, higher R&D, any color there, please?

Ashish Adukia: First of all, 24% is adjusted for the COVID provisioning, right. So, if you look after that, it's 22%. Then, Q3 is expected to be a quarter where some of the therapies does well, but Q4 is generally a more muted quarter in comparison to others. So, looking at all those things, the full year guidance is somewhere around in the range of 21% to 22%.

Neha Manpuria: And just on R&D we've already seen a fair bit of increase in this quarter. As we are progressing on respiratory assets, should we expect a further increase from the run rate that we're doing in the quarter?

Ashish Adukia: So, you will have this run rate continuing for rest of the year, the 5.8% that we've seen is something that is likely to continue, because the products and clinical trials that we are carrying out on some of the products.

Neha Manpuria: On the US business, if I were to look at the base business ex-Revlimid, given we've grown Lanreotide very nicely, is it fair to assume there has been more or less stable or has the rest of the portfolio seen higher erosion?

Umang Vohra: Neha, I think every quarter that we see a little bit of erosion in the US, which is there in the past couple of quarters as well. It's not as if we will not see erosion in any quarter. So, there is erosion and then there is Lanreotide increase, and then there is Lena as a new launch.

Neha Manpuria: Is it fair to assume that therefore the base business would have been flat quarter-on-quarter?

Umang Vohra: Flat or there could be a little bit of a decline or anything. I think this is the trend, in terms of price erosion, nothing untoward.

Neha Manpuria: My last question on India. The generic-generic business, we have seen a double-digit growth seems pretty strong especially with the COVID base that we had. Are we doing anything additionally to help maintain this growth momentum and I ask this because it seems like a lot of our peers are also becoming or launching trade generics business. Are we going deeper and how difficult is it to grow that business from the base we are?

Umang Vohra: I think if you were to just segment our businesses in India, the branded business, which is our prescription business, overall growth was 12, the branded business growth was higher than that excluding COVID. Trade generics was roughly at the same mark. So, I think the branded business is actually growing a little faster than trade in the second quarter. And I think what happens in Q2, we always see a bump up on the growth rate and that's because that is the season. So, the same growth rate in a non-season, you could take off 300 or 400 basis points from it. So, I don't think 15% is a representative growth for the rest of the year. But we are hoping that we would always continue to be higher than industry growth, even in Q3, Q4 adjusted for COVID.

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

Surya Patra: My first question is on the kind of cash flow that we are likely to see from the Revlimid. So, generally, say Cipla is known for generating strong free cash flow and now on the top of that this Revlimid cash flow is likely to be kind of really robust. So, given that our investment towards the specialty projects or about product development, are we going to see any kind of

meaningful change to our developmental pipeline, strategic growth initiatives and all that, could you give some color on that, sir?

Ashish Adukia: So, let me cover the cash flow first, and then I'll hand over to Umang to talk about some of the strategic initiatives. So, on the cash flow this quarter, of course, we did well. I think the couple of things that we need to bear in mind is that this was a dividend paying out quarter. So, some of the cash that we generated went out there. And the other is that with the launches in the US, etc., so there was an increase in the debtors. So, of course, that cash release will happen over this quarter and the next. So, that's broadly on the cash flow. On the strategic priorities, of course, we are constantly discussing various capital allocation priorities, which includes both investment into new line of businesses, as well as looking at some of the opportunities that are available in the market to grow some of our existing businesses, and there are capex proposals as well, which could be towards more modernization of our facilities, or reducing cost, etc., But I would like Umang to come in out here as well.

Umang Vohra: I think further to what Ashish said, I think our strategy at least for the US is about being very selective with products, maybe the average R&D spending per asset is higher. But we don't subscribe to the breadth model of assets, where we do more projects necessarily. So, in that way, we keep a watch on how much we're investing in R&D. I think specialty projects, we have a few in our pipeline as they begin to gain steam, the R&D spending will go up. As it will go up as biosimilar programs advance. So, long term trends, we have said, we can't afford R&D higher than seven in our financial model. And as these expenditures begin to ramp up, I think that's roughly where we will go.

Surya Patra: Just one clarification about Revlimid. Do you expect a second wave of generic launches before the patent expiry?

Umang Vohra: I can't say that with certainty because I don't know the terms of everyone's settlement with the innovator. Now that the market has been created with everyone who has filed for Revlimid, I would expect perhaps that they would have similar settlements with the innovator and allowing them to launch at different time points. So, yes, your assumption on that there could be more people entering the market, it may not be completely wrong.

Surya Patra: Just two small questions. One on the Advair. Do you find this price erosion scenario in the adware is a kind of much sharper than our expectation? And secondly, the Indore facility which has got this fourth industrial revolution lighthouse rating, whether it has got any kind of commercial or any kind of business benefit to us?

Umang Vohra: You mean, whether four IR has resulted in any commercial benefit to us?

Surya Patra: Correct, in the sense, any new contract in terms of CDMO or is there anything getting out of it?

Umang Vohra: It's too recent as a certification. But I can tell you that what has happened as a result of four IR is that our overall yields have gone up, and therefore, the cost per tablet has come down, and we've seen that almost impacting our cost per tablet there for most of our categories by about 15%, 20%. The second thing that we have also seen is that our greenhouse gases have reduced. And if you reduce greenhouse gas, obviously your input quantity is lesser of what you consume. So, I think those are the impacts of it. Has anyone signed a business because we had a lighthouse? I'm not sure like how certifications are more to make sure that your internal processes are more holistic.

Surya Patra: About Advair, please sir?

Umang Vohra: Yes, on Advair, from how we understand the price in the market even today, is very attractive for us. And because we're one of the players who's localized this chain in India. We'd like to believe, just like for Albuterol, that our cost position is fairly superior.

Moderator: The next question is from the line of Damayanti Kerai from HSBC. Please go ahead.

Damayanti Kerai: My first question is on India business. So, can you broadly give split between the branded generic and then other components which is the trade generics plus consumer health business? And second part of that question is we have seen very strong growth in the trade generics part. So, does it present some kind of risk in the future to the overall India business profitability?

Umang Vohra: I think if you were to look at our overall growth rates… so we don't give you specific by line of business, but I think what we are seeing is that, if you were to look at the consumer business of roughly 650-odd crores and split that into quarters, that's roughly what our consumer business will show you and that this business is growing the fastest right now. If you were to look at our trade generics business and our branded business, both are growing… the branded business is almost 60% to 70% of our India business, and that's growing at the same rate as perhaps the trade generics business. So, I don't think there's too much of lopsided impact on account of trade generics, but the trade generics businesses is not as big as a branded generic.

Damayanti Kerai: But in the future, you will continue to focus on growing the trade generics part of businesses also?

Umang Vohra: Because the trade generics business is essentially a business that services our tier-two to six cities, where actually growth is higher today than the metros and tier-ones.

Damayanti Kerai: My second question is on the current comment on the input cost part. So, have you seen any notable difference in raw material or logistic cost, etc., compared to first quarter?

Ashish Adukia: What we're seeing is that, on the procurement cost, there has been some pressure, but we're seeing a trend of stabilization out there. On freight, we have taken certain steps to mitigate the cost increase. So, we have very closely looked at the mix of freight air to sea etc., to bring down

the cost, at the same time making sure that we're able to service the market with no compromise. So, overall, on the cost side, I think we've been able to maintain that discipline through certain actions from our side, even if we are seeing some trend outside to ensure that we are able to maintain our margins. On the forex, I think already Umang has covered, we have certain imports, and we have certain underlying currencies in some of the markets that we have, right. So, that also, on one hand, we lose out on those because of those currencies depreciating against the dollar, but at the same time, we have gains when we report our financials, where we make our dollar revenue. So, overall, these are the are big items that we focus on closely to ensure that we are well within our desired range.

Damayanti Kerai: My last question is, you mentioned that your R&D projects including peptide are on track. So, how soon we can see any one of those products coming into your launch portfolio in two years, three years, any timeline?

Umang Vohra: Well, actually, the first set of lunches there hopefully will be towards the latter half of the first half of next fiscal.

Moderator: The next question is from line of Nithya Balasubramaniam from Bernstein. Please go ahead.

N Balasubramaniam: One on Leuprolide. So, you have approval for the 22.5 make, which is about 40% volumes of Lupron. Now, given that you're a 505(b)(2), how do you look at your target market, do you look at the other strengths as well as fair game, do you also look at the other brand as the game, so how are you defining the target market, and should we expect to see some of the other strengths as well?

Umang Vohra: As of now, it's just a single strengths launch. You could calculate the addressable market by looking at the 22.5 strength across the two brands. I think that's one way to look at the market and then take a phased some kind of a B2 type share uptake for modeling purposes.

N Balasubramaniam: Quick one on the partner asset, Umang, any updates there when are you expecting the partner respiratory asset to be launched in the market?

Umang Vohra: I think there were some questions that the FDA had, which I believe the partners responded to. So, since based on the regulatory thing, it's another nine month time period. So, this was responded I think sometime back, so we are in that nine months' time period.

N Balasubramaniam: And one on India, I think Umang, you were alluding to stronger growth from chronic therapies. If you can give us a bit more color on which therapies are actually supporting growth, and what is actually supporting growth, is the new launches, is it because you've expanded your doctor coverage or is it actually because now you have brands that are no longer exclusive and Cipla can participate, if you can give us a bit of color on what is driving growth in branded generics?

Umang Vohra: I think respiratory has shown strong growth over the last two year, three year period. Initially, it was aided by COVID. But now the market is also responding to some of the work that Cipla has been putting in for awareness and diagnosis. So, I think that's expanded. On the other chronic therapies, cardio, diabetes, very strong growth. We're also seeing growth back in neurology, where for some time we had an issue in terms of our execution, that growth is back as well. And our emerging therapies are going also very strongly. and of course in this last quarter, acute has done well because it's also the season quarter for India. So, pretty much across all therapies,

N Balasubramaniam: And would this be market share gain or new launches or market expansion?

Umang Vohra: I think in the case of respiratory, it's both expansion as well as market share gain. I think in the case of cardiology and diabetes, it's a function of high very high volume growth as products have become generic. I think as more people have launched, the markets really expanded, because we believe that some of this market has shifted from other sub-therapies to the therapy that went off that became generic. So, it's largely a function of these two. And the third is, versus the last two years. the clinics have increased, because of just a lot of people who sat out from the treatment, now coming back to seek active treatment.

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

Prakash Agarwal: Just two quick ones. One is on Advair, just to understand better, once approval comes through, is it the LRx, which will be more critical, or we have chance to take share from the other players as well? And how fast is the ramp up in market share, if you could guide what is the expectation there?

Umang Vohra: I think it's logically should be from both sources. But we are also cognizant of the fact that the brand still holds over 40% share in Advair. So, obviously, the share should start converting from there. But also, there would be some amount of share that we take from existing players. I think because there are three players in the market, I think over a period of time the share would come. So, we're not guiding specifically. But the share uptick would come in due time.

Prakash Agarwal: And do you expect competition to pick up there as well, I mean, more players or it would stay less competitive for some time?

Umang Vohra: Actually, we are only aware of one subsequent filing. So, I think there was some guidance they provided recently about their file. We haven't heard of anybody else after that as yet. So, I think based on that, at least for the next two years or so, we think that it will be limited.

Prakash Agarwal: And as per you, what is the addressable market currently, I mean, innovator plus the completion, it should be 700, 800 or less than that?

Umang Vohra: No, I think it is less than that. I think 700 is possibly a little higher of that.

Prakash Agarwal: And lastly on the PLI, is there a benefit that we get or we have started booking already or what is the outlook there?

Umang Vohra: We have a marginal benefit that is coming in. Also, some of our launches are not exactly from our facilities in India. So, we don't have a huge benefit coming on account.

Prakash Agarwal: Outlook sir?

Umang Vohra: For example, if Advair launches, then Advair is a product that will have that benefit. It's very product specific.

Moderator: The next question is from line of Vivek from Citi. Please go ahead.

Vivek: My question is related to the US market. When we expect to file the next inhaler asset, that is currently under clinical trials?

Umang Vohra: I think towards second half of next calendar year.

Vivek: Would you like to highlight what is the addressable market of this particular product?

Umang Vohra: I don't think we will give that level of detail.

Vivek: You have alluded that $180 million number in US, that is more or less sustainable. So, are you comfortable with this number even after let's say Revlimid comes down maybe a few quarters away?

Umang Vohra: We also have other launches. So, they should hopefully be able to offset this. And I think what range we are guiding to is $175 million to $180 million as the new base.

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

Kunal Dhamesha: So, one of the branded players in Albuterol market is going to stop marketing. Do you believe that would offer us more opportunity in that product or any dynamic change because of that?

Umang Vohra: Are you referring to a change that is being made by one of the innovators for a climate-friendly version or what?

Kunal Dhamesha: Not really. They said they would stop marketing that product in a way that they would cut down on the field force for that product.

Umang Vohra: I'm not sure we've heard that. Do you know the name of the company? Sorry, we've not current with this.

Kunal Dhamesha: So, Teva yesterday in –

Umang Vohra: Oh, you are talking about ProAir?

Kunal Dhamesha: Yes.

Umang Vohra: So, I think basically from how we understand, Teva has an AG also to the same product that they sell which means they will move the whole market generic. But then, if they stop marketing to their generic is essentially what's going to happen.

Kunal Dhamesha: But then the new prescription would also be just written, as maybe Albuterol. Earlier that –

Umang Vohra: Today, a large share of the prescriptions are already generic.

Kunal Dhamesha: I think we used to say 55, 60. Has it changed?

Umang Vohra: It is significantly higher once the authorized generic versions have come and our belief is a large share of the prescriptions today are generic. And where they are not generic, they are dispensed generically.

Kunal Dhamesha: And the second question on the trade generics business or the consumer health business. I think we transferred some of the brands from trade generics to consumer health, where we had good brand equity. Is it going to be a continuous process where you launch the trade generics products, and two years, three years down the line, then once the demand is strong when you move to consumer health?

Umang Vohra: Well, it is a progression. We realize that some of our trade generics portfolio has very strong customer equity. And it is those products where we think that the customer equity is strong, and where potentially new uses and formats can be derived for the product. So, those products, we feel have a very active consumer potential. So, yes, depending on product-to-product, we will evaluate and see.

Kunal Dhamesha: But as of now let's say when you look at your trade generics, do you see a meaningful portion of that u potential?

Umang Vohra: I'm not meaningful. I think obviously we have been working with these two products that sit today in our generics division, but where we seek input from a consumer division. So, that work is already on. So, at overall Cipla level, the transfer creates a new phase of life for these brands.

Moderator: The next question is from the line of Ritesh Rathod from Nippon India. Please go ahead.

Ritesh Rathod: Just on this guidance of US business of $175 million to $180 million, need to clarify, you're not assuming any revenue from the upcoming respiratory launch in Q4.

Umang Vohra: This is we have guided towards what is the new base for us.

Ritesh Rathod: In a yearly cycle for Revlimid, the revenue booking would be more front-loaded like assuming September or October is the start of the year for Revlimid?

Umang Vohra: I think it is following how any regular generic product is launched, no difference.

Ritesh Rathod: Maybe last one on Albuterol, can you share how pricing has behaved in last one and a half, two years, and how it has been in line with your internal expectations, so it has been more than that, can you share something over there?

Ashish Adukia: We have obviously witnessed competition, and therefore there is some erosion. And that's true with generally the base business as Umang has talked about earlier, are the three components of US business.

Ritesh Rathod: I was talking about from Albuterol specific as a product, pre genericization entry of a couple of players and the way pricing has played out in last two and a half years. Was it more than your internal expectation, how it has panned out, if you can give any color would be really helpful?

Ashish Adukia: I think it's more or less in line with our internal estimate.

Ritesh Rathod: Would Advair be larger than Albuterol, would that be a fair assumption on its peak revenue if one want to see?

Umang Vohra: I'm not sure we can give that level of detail and not because we don't want to, but because there are multiple factors that will go into the launch. So, even with Albuterol, though right now, we are in line with our internal estimates, but we've gone through a cycle, there were periods where we were higher, and there were periods when we were lower than our internal estimate. And also COVID was a factor, that was playing out as well at that time.

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

Nitin Agarwal: Umang, On the US business, I think, with the new base that you've created, and with the growth that is expected to come through with some of the newer launches, we're getting to a about $1 million plus quarterly revenues. I mean, a point where most of the other competitors have typically started to face growth issue at some point in their growth trajectory. So, when you philosophically looking at the US business trajectory for us over the next three to five years, how are you approaching this does a business get to a point from whereon incremental sales growth begins to become a challenge, and how we look to sort of tackle that at maybe a point two, three years down the line?

Umang Vohra: I think, Nitin, we are not going to be any different or immune from what is an industry phenomena. So, I think at some point in time, as we become larger, our growth will also not be as high as we have seen in the past. I think we have a base effect, plus, we have two things for us going for us right now; one is a very smaller base compared to the other company; and the

second is that we have made some pipeline choices, which probably have helped us, including respiratory and the peptide. So, I think at some point in time, the base becomes larger, but the pipeline choices will continue to hopefully be distinctive. But yes, I don't think we will see that level of growth that we may have seen in the past after two to three years.

Nitin Agarwal: How do you propose to sort of either, do we go the specialty way or US remains as the business doesn't grow much beyond that, any focus on growing other parts of the business?

Umang Vohra: Other parts of the business to grow and they are independent of the US. I don't think we will make a choice to say that the India business should grow faster than the US because they pretty much have different resources allocated to them. So, we will try and grow the US as much as we can. Specialty is definitely an option. We have a pipeline that we are building out between organic and we already have one asset. So, if you look at the 28 to 30 time period, that's the time the biosimilars we are working on, will be launched in the market. So, that's one way to take a look at the problem, while continuing to invest in some of our respiratory assets. Cipla really changed its model to get into its own front-end sometime in 2015, '16 time period. And that's when we started Albuterol, Advair journey. And it took us this six, seven years to launch. And by the time we launched, we were already number two or number three in the market. Our goal would be for subsequent products to try and reach the market faster than our position today. So, I think if you are able to do that, then the market is fairly attractive for players.

Nitin Agarwal: Just one housekeeping. There's a very sharp increase in depreciation cost on a QoQ basis. Any specific reason driving that?

Ashish Adukia: That has some COVID-related impairment also sitting there. So, that's why it is higher. We go back to a more normal depreciation amount from next quarter onwards.

Moderator: As there are no further questions, I would now like to hand the conference over to Mr. Naveen Bansal for closing comments. Over to you, sir.

Naveen Bansal: Thank you, Steve. Thank you, everyone, for your attention in joining us for the earnings call. In case you have a follow-on questions, feel free to reach out to the investor relations team. Thank you and have a good evening ahead.

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