11th February 2019

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

Scrip Code: 500087

(2) National Stock Exchange of India Ltd
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: Q3 FY19 - Earnings Call Transcript

Dear Sir/Madam,

We are enclosing herewith copy of the transcript of the Company's Q3 FY19 earnings conference call dated 6th February 2019. The transcript is also available on the Company's website *i.e. www.cipla.com* under the Investor Information section.

Thank you,

Yours faithfully,
For Cipla Limited

Rajendra Chopra
Company Secretary

Encl: as above

Prepared by: Juzer Masta

“Cipla Ltd. Q3 FY19 Results Conference Call”

Feb 06, 2019

MANAGEMENT:	**MR. UMANG VOHRA -- M.D. & GLOBAL CEO, CIPLA LIMITED**
	MR. KEDAR UPADHYE -- GLOBAL CFO, CIPLA LIMITED
	DR. R. ANANTHANARAYANAN -- GLOBAL COO, CIPLA LIMITED
	MR. NAVEEN BANSAL – INVESTOR RELATIONS TEAM, CIPLA LIMITED
MODERATOR:	**MR. CHIRAG TALATI – KOTAK SECURITIES**

Moderator: Good day, ladies and gentlemen and welcome to the Q3 FY'19 Earnings Conference Call of Cipla Limited hosted by Kotak Securities Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Chirag Talati from Kotak Securities Limited. Thank you and over to you, sir.

Chirag Talati: Hi, good evening, everyone. This is Chirag from Kotak Institutional Equities. I thank the Cipla management team for giving us the opportunity to host this call today. From Cipla we have with us today, Mr. Umang Vohra -- M.D. and Global CEO; Mr. Kedar Upadhye -- Global CFO, Mr. R. Ananth -- Global COO and 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 Q3 Earnings Call. I am Naveen from the Investor Relations Team at Cipla.

Let me draw your intention to the fact that on this call our discussion will include certain forward-looking statements which are predictions, projections or other estimates about future events. These estimates reflect management's current expectation of the future performance of the company. Please note these estimates involve several risks and uncertainties that could cause our actual results to different 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.

I would like to request Kedar to take over.

Kedar Upadhye: Thank you, Naveen, and good evening to all of you. Welcome to our Earnings Call for the Third Quarter of Fiscal 2019. I hope you have received the 'Investor Presentation' that we have posted on our website.

Let me start with an overview of our quarterly performance: Our Q3 performance was on expected lines as the challenges that we alluded to in our last quarterly call played out. This quarter saw the full impact of normalization of our business in Middle Eastern markets and the rebasing of tender business in the Global Access Business. The internal challenges which we referred to in our last call they are being addressed on war-footing and they are in advanced stages of getting resolved.

During the quarter we saw strong performance in select lines of businesses across our focused markets. While the high base effect for India business creates comparability issues for primary sales booked in the financials, we are happy to report very strong traction on the secondary sales accompanied by increase in market share for the quarter to about 5.4% as per the IQVIA Report.

South Africa private business continued to drive strong momentum growing almost 4x the market as per market data. The US business saw strong sequential and year-on-year growth on the back of scale up of new launches. As we enter FY20, we believe some of these challenges will subside and hence our overall outlook continues to remain optimistic.

With that let me take up the financials for the quarter. For the quarter, overall revenues from operations stands at Rs.4,008 crores, on nine months revenue from operations is that Rs.11,958 crores, which recorded year-on-year growth of 4%. As mentioned earlier, the growth was driven by buildup of the US DTM business with new launches which was offset by challenges in other parts of the business such as emerging markets and Global Access tenders. Gross margin after material cost stood at 64% for the quarter. The quarter's gross margin numbers are impacted by certain one-time low margin kind of business sales in South Africa and for liquidation of inventories thereby avoiding hit in coming quarters.

During the quarter we continue to maintain tight control on expenses. Total expenses which include employee cost and other expenses stood at Rs.1,837, crores declining 3% on a sequential basis. Employee cost for this quarter stood at Rs.718 crores, flattish on a sequential basis. Other expenses which include R&D, regulatory, quality, manufacturing and sales promotion expenses stood at Rs.1,119 crores, declining 6% on a sequential basis. Total R&D investment for this quarter stood at 7.5% of revenues. This is on expected lines as we progress on our key US assets as well as the Advair clinical trial program. With all this, EBITDA for the quarter stands at Rs.720 crores, which is about 18% of sales. Tax charge for the quarter is Rs.126 crores, we are tracking at a full year effective tax rate of 28% and profit after tax is at Rs.332 crores, which is about 8.3% of sales. As you are aware for the last two years we have focused on cash generation. Our efforts in this direction includes taking various strategic decisions including closing and settling open litigations, divesting non-core businesses, ensuring that past investments are fructified through IPO or other means and monetization of dormant ANDAs, dossiers and intellectual property. Our long-term debt remains at USD 577 million which was mainly used to fund the InvaGen acquisition. We also have working capital loans of about $60 million which act as natural hedge towards our receivables. Total net debt-equity is quite healthy at 0.14. Outstanding forward contracts as a hedge for receivables as of 31st December 2018 are USD 43 million and RAND 396 million. During the quarter we also hedged certain portion of our forecasted export revenues. The outstanding forward contract as cash flow hedges as of 31st December 2018 include USD 208 million and RAND 175 million.

With this, I would like to invite Umang to present the Business and Operational Performance.

Umang Vohra: Thank you, Kedar. Welcome to everyone on the call. Let me start with the key highlights for the quarter: The US business continued its strong trajectory, growing 18% year-on-year and 10% sequentially. We maintained a strong quality and compliance record with inspections across Kurkumbh, InvaGen which ended in minor and procedural observations. We have already received EIR for InvaGen. For the recently concluded USFDA PAI and GMP inspection at Goa we have received some observations which we deem procedural, which we submit our response

to the observations within the stipulated time. Our R&D pipeline is progressing as per plan. Our respiratory trial program is on track and we are expecting to file two products next year and have one launch every year starting next year.

As you would have seen, we recently announced the approval of Medroxyprogesterone injectable and we are tracking well on our guidance of one limited competition asset per for quarter. The quarter delivered continued growth across our branded markets though reported numbers are lower for some of our private market businesses. As per IQVIA Q3'19 our India business grew 12% year-on-year versus market growth of 10%. In South Africa our private business grew thrice the market at 9% as per IQVIA MAT December '18.

Our emerging markets Biosimilar franchise is continuing to expand and we have signed new deals on Bevacizumab and Trastuzumab for multiple markets.

From last quarter's call, you would note that this quarter played out as expected and per our commentary to you in the last call. We believe we are bottoming out and crossing over the period where high based levels in the previous year due to GST one-off resulted in subdued performance. The current quarter and YTD numbers represent multiple headwinds as I explain below, most of which will probably be non-existence post the end of Q4.

Over the large base of Q2 and Q3 our India business stayed largely flat with the strong prescription growth and improvement in market share. We now look forward to coming back to double-digit rates in the quarters ahead. Also post GST, the India trade had de-stocked significantly and our YTD numbers almost include the impact of nearly six days of lower primary sales.

With the lower crude and stabilization of China commodities, procurement costs have now reached a point where they are beginning to abate. The current quarter includes the full impact of normalization of the Middle East business. Our commitment to the patients in these countries stay solid and we will continue to examine avenues to show continued business.

For the South Africa tender and CGA, the CGA component has completely rebased and South Africa will rebase in the next two to three quarters. There is growth in our private market in South Africa and other sectors which can absorb this reset as the new tender with the three year clock sets in.

Quarter numbers are soft considering certain one-time low margin sales both for SA and CGA tender business which ensure the liquidation of inventories to avoid the subsequent hit. At a company level the impact from these sales is almost 150 basis of sales in gross margin.

Let me move to the Quarterly Performance now. In India reported numbers are largely flat year-on-year due to the one-time restocking impact in Q3 FY18 and destocking this year in trade. Adjusted for this, the reported growth would be 6%. We are also noticing trends of inventory

normalization in certain pockets. Having said that we remain optimistic of our growth in India in Q4 and expected to be strong on year-on-year basis despite the seasonality kicking in. Our efforts on prescription generation and therapy focus have resulted in strong market share improvement across our key therapies from Q1 to Q3 of '19. Respiratory Inhalation market improved by over 200 basis points, Urology improved by 30 basis and Cardiology by another 30 basis. We are pleased to note that the Chronic segment is increasingly becoming the growth driver for business. In Q3 as per IQVIA, Cipla gained the rank to become the #2 Chronic segment in India, growing 19% versus the market growth of 13%. 15 Cipla brands of the top-22 brands that feature among the top 300 of the IPM have outpaced the IPM growth in Q3 FY19.

We are happy to report that the award winning BerokZindagi Campaign has become a benchmark initiative to build public awareness. We are on track to achieve our target of Rs.6,300 to Rs.6,400 crores in the domestic business which includes branded, trade generics and the Consumer Healthcare business.

For the US, we are happy to report that in the second quarter in a row, our US business delivered both sequential and year-on-year growth. The business grew 18% year-on-year to 118 million despite a heavily moderated contribution from the B2B segment which is only at 10% of the total sales of the US business now.

I am also pleased to report the North America business reported a positive post R&D EBITDA during the quarter and is poised to scale up further in the coming quarters. This was driven by improvement in gross margins as our DTM launches scaled up. We continue to maintain our exit guidance rate of 120 to 125 million. We also continue to do well on our guidance of one limited competition launch every quarter and maintain this as we progress.

We are progressing well on our trials and targeting to file two respiratory products in the US, and have one launch every year starting with the next year.

The SAGA region which include South Africa, Sub-Saharan and Cipla Global Access business declined 20% year-on-year in Q3 when reported in US dollars largely behind the rebasing of the CGA business which de-grew 48% in the quarter in line with our commentary in the last quarter. Our South Africa private market continued its strong trajectory going 4x the market at 9.1% as per IQVIA MAT December '18. We believe our private market business in South Africa remains fundamentally strong to consistently drive growth in the future. During this quarter, the South Africa tender business has seen some softness as we referred to earlier. As the new SA tender sets up, our private market will absorb this impact.

The emerging markets business declined 19% on a sequential basis largely attributable to the higher shipments made in last quarter before certain sanctions were expected to set in. In line with our strategy to consolidate our base, we divested our French-West Africa business. As alluded to earlier we believe the impact of the emerging markets uncertainties and sanctions

have largely played out. We continue to maintain a good momentum in expanding a biosimilar franchise in emerging markets.

On the Specialty business, we expanded our portfolio in the CNS base by signing a deal with Concert Pharmaceuticals for an exclusive worldwide license to develop and commercialize novel GABA alpha receptor subtype selective modulator. Based on Concert's initial preclinical and clinical evaluation, Cipla intends to develop 354 for the treatment of spasticity movement disorders. The product will have strong commercial synergies with our existing pipeline product of the Tizanidine batch.

To close, we believe the challenges we referred to in the last quarterly call have played out and our business is bottoming out and has surpassed the high base effect of Q2 and Q3. So overall while this financial year has been challenging operationally, we remain bullish as we enter FY20. While India seasonality will hit in Q4 we target double-digit growth in the quarter. In the US, we remain focused driving to the 120 to 125 million sales trajectory level for Q4. With several limited competition approvals like Budesonide, Diclofenac, Isoproterenol and Metoprolol we now have a proven track record of getting strong and differentiated approvals in the US. We have indicated the launch of one differentiated product and delivered on that. Recently we also saw approval of Medroxyprogesterone, a limited competition asset for us.

South Africa private market business including the Mirren OTC portfolio will continue to significantly outperform the market as the South Africa tender resets.

On the operational side, we have made very good progress towards capacity debottlenecking for some of our key impacted products we have significantly improved throughputs to ensure our teams across businesses can fulfill orders and build inventory. There has also been a strong focus on de-risking important products with alternate sites and plans. We have continued to maintain a strong pipeline of launches across markets including roughly about 150 to 200 million in the NPV of US launches and we have continued to operate facilities with the highest level of compliance and control.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Neha Manpuria from JP Morgan. Please go ahead.

Neha Manpuria: Sir, on the India business, we maintained the guidance, but usually if you look back, our fourth quarter does tend to be seasonally slow. What changes in this quarter for us to maintain our guidance and indicate double-digit growth for fourth quarter?

Umang Vohra: I think, Neha, we have seen a fair amount of destocking for our products in the channel, largely for the Acute portfolio of Cipla, and this is a portfolio that has not been growing, if you really

look at our numbers Chronic which includes Respiratory and our new launched Diabetes and Cardio is actually growing very fast, we do not have an issue of destocking there, but in Acute we have had this issue, and as a result of that we have lost as we mentioned about six days of sales. So I think we are still confident the Q2 and Q3 had base effect, we know we are slightly behind competition in terms of performance in Q3 from an India perspective the six versus 10 or 11, but I think we are confident of Q4.

Neha Manpuria: So it is more normalization of the six days of sales lost?

Umang Vohra: I do not think we are going to recover it in the next quarter, but it will stay at the same level. So we would not lose anything incrementally.

Neha Manpuria: My second question is in the opening remarks you mentioned about 150 basis points impact from selling down some inventory in South Africa. I could not catch that clearly. If could you repeat yourself, sorry?

Kedar Upadhye: Neha, 150 basis points impact for the quarter is because of certain pricing related discounts that we had offered in the quarter both on the South Africa tender and on Global Access business in the current quarter and I think largely throughout the nine months be it in terms of liquidation of some of the inventories that we had built earlier at lower prices, roughly around 150 basis points impact in gross margins we have seen.

Neha Manpuria: This should not continue pretty much. All of this pricing discount is done for the tender market because you also indicated the South Africa tender business was soft in this current quarter, so I am little confused?

Kedar Upadhye: It is largely done, because the inventories are quite normalized now especially for the Global Access business, but I think there could be variations once a while, but this is largely done.

Umang Vohra: On South Africa now a new tender which is floated which will start getting serviced only sometime around Q2 of next year. There the prices are lower but there I think our private market business and the Mirren acquisition will help us offset that impact. So, I am saying largely from the Access business, the business is rebased. The South Africa tender business will go through a little bit of compression, but we are hoping that the private market will offset that.

Neha Manpuria: US we are tracking to achieve 120, 125 exit. Next year we have a good pipeline plus we will ramp up a lot of the products that we have launched. How should we look at growth for the US business in FY20 in terms of run rate?

Kedar Upadhye: Neha, our thoughts on the next year probably we will be able to share in the May earnings call. You are right, largely the current base which we have achieved 118 and fourth quarter very high confidence of 120 to 125 million that will get demonstrated.

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

Anubhav Agrawal: Umang, you mentioned about South Africa tenders, on the pricing they are lower, but how about volumes – have we able to renew most of the volumes we had?

Umang Vohra: To answer, yes, I think we are also hoping that the allocation could be slightly higher also in terms of volume, but we have been able to get roughly the same amount of volume so far in terms of an award. General performance has always resulted in us being able to supply more than what is being allocated.

Anubhav Agrawal: Just for the US, can you just roughly explain about this Voltaren. IMS reflect about 30% market share. So, most of this Voltaren benefits has already reflected in this quarter or we are yet to see good part of it to reflect in the Q4?

R Ananth: It has already reflected in this quarter, in fact, we are clocking now 35%, we have actually gained market share.

Anubhav Agrawal: Just one clarity on this. You mentioned capacity constraints last quarter, that is Rs.100 crores kind of impact. Which geographies it reflected in this quarter?

Umang Vohra: It is across our geographies because it is specific to a couple of plants and with Cipla most of our plants supply all markets, it is not sequestered for US separately and India separately. So the impact is reflected in top line across markets, and it is now at a stage wherein Q4 we are hoping that it will be lower and at the end of Q1 hopefully I would say it will be very stable post that.

Moderator: Thank you. The next question is from the line of Chirag Dagli from HDFC Asset Management. Please go ahead.

Chirag Dagli: Just a couple of clarifications: Are you saying that your gross margins would have been higher by 150 basis points on an overall basis for nine months had some of these inventory clearances would not have been?

Kedar Upadhye: That is right, Chirag, the impact of inventory liquidations and some of the tender pricing, had that not been there, the gross margin would have been higher by 150 basis points in itself, but as you know gross margin is a function of several variables across geographies and cost lines. So, yes, if you have taken this particular item out, gross margins would have been higher by 150 basis points.

Chirag Dagli: So this should bake in FY'20 right, at some level this has to benefit if this does not pick up?

Kedar Upadhye: Something goes up, something comes down, that is what I said, probably the next year thoughts we will share in a quarter from now when we meet again for the call.

Chirag Dagli: Did you indicate that the B2B business is now for the quarter, just 10% of US sales?

Umang Vohra: Close to yes, that is right.

Chirag Dagli: This four quarters back was how much sir?

Kedar Upadhye: Upwards of 25. About two-and-a-half or three years back, the whole US business was B2B only practically.

Chirag Dagli: There was some comment you made on NPV of R&D. I am sure if I got that. What exactly is that? Umang, you made some comments in your opening remarks.

Umang Vohra: I think we are saying that we have a launch pipeline which is roughly targeting at about 150 million of NPV and look, our NPV is calculated over three to five year basis right, not just every year. So what we try and do is we keep adding to our pipeline at that rate every year because that provides a little bit of stability to grow.

Moderator: Thank you. The next question is from the line of Kumar Gaurav from Kotak Securities. Please go ahead.

Chirag Talati: This is Chirag. Umang, on and off we keep on hearing chatters about you are leaving the management or management instability in the company, can you really address some of these issues and tell us about how the management team is looking at the company from the next three, five years point of view?

Umang Vohra: Thanks for asking. I think several one-on-one interactions have had this question coming to me directly, but I am happy to address this on the call today. There has been a little bit of turbulence in the sense that there was one gentleman who left from the management team and then also Prabir decided to leave, but I think these are natural in our course and journey, we finished one wave of our transformation over the past three years and there is a new challenge now for the next three years. So some people will leave, some people will come, Ananth also joined just six months back, so I think the people who come new bring new thinking, new perspectives, new energy and help us reset where the business is. As far for myself, I am very much here and looking forward to the next couple of years of strong growth, next couple of years of repositioning Cipla to be an innovation company. So right now there is no truth to any of the rumor and we are all very much here, the management team is very committed to building Cipla to a greater future.

Moderator: Thank you. The next question is from the line of Shariq Merchant from Quest Investments. Please go ahead.

Shariq Merchant: My question is on the North America business. In your earnings presentation, you called out InvaGen where you are expecting 223 million run rate of last year fall in closer to 200 million this year owing to pricing challenges in the US. Now, given that you all are still sitting on close

to $380 million of goodwill on your books, how often do you revisit the goodwill amount and when do you decide to maybe revalue it – is it on a quarterly basis or annual basis if you could throw some light on how we should think about this?

Kedar Upadhye: Accounting standard require us to revisit goodwill at least once a year and we have been doing it every year, we will keep doing it, the goodwill because of Invagen is actually common because our DTM business and Invagen business is integrated, there is very significant degree of closeness in manufacturing, R&D, Pharmacovigilance. So part of the goodwill is attributable to the whole US business as such. Till now we are comfortable with the value of goodwill that we are carrying and yes, we will keep doing the impairment testing every year.

Shariq Merchant: But part of the goodwill will also be attributed to specific drugs in your pipeline, right? So, do you believe that there could be some challenges when you may be evaluated in the fourth quarter? I am referring to the goodwill that is carried on the subsidiary books of Invagen, that is the one you disclose annually.

Kedar Upadhye: Strictly, the goodwill which we are carrying on balance sheet is entity level, what we call as cash generating unit level attribution of that asset. What you are probably referring to the intangible assets. That goodwill as I said is more an entity level asset and that includes the benefits of all the assets which we are carrying and the future synergy of the platform that we have acquired. What is probably subject to frequent assessment and possible is product level intangible and that also we keep checking quarterly for any triggers and once a year annually again.

Shariq Merchant: So that is also checked quarterly. So maybe it is not only done in Q4?

Kedar Upadhye: Intangibles is more frequent, goodwill is once a year.

Shariq Merchant: My second question is on the South Africa business. So the private market you called out is growing at 1-2%. Do you believe that these are challenges that the market is facing for a longer period of time, I am talking about the private market. So what are your thoughts on how we should look at the market growth going forward?

Umang Vohra: I think the numbers you are talking about are if you were to look at it over the past four quarters, the overall market growth has slipped down by about 500 to 600 basis points and that is largely to do with the appreciation of the RAND and the movement in the currency, because of that the government has a set pattern in which it allows price increases. So, the fall in the market has been because companies have not been allowed to pass on these prices which is why start of the year it is about 8% or 9% ending the year at about 1% to 2% for the market growth. I think what is happening now is those prices are getting reset again for the next year and I think the market should hopefully start picking up growth going forward. But despite this Cipla's performance has being very strong; we have actually grown almost 3, 4x market for the past three to four quarters because of our execution and which is why we feel strong about the private market being able to offset the tender outcome that we are seeing in the next year.

Shariq Merchant: What would be the quantum of price increase allowed for CY19 or FY20?

Umang Vohra: It could be in the range of about 3% to 3.5% or so or thereabouts which actually in the past year reduced to almost one or less than one and it was in the year before that almost 5.

Shariq Merchant: Normal volume growth for the market will be in the 4-5% kind of range?

Umang Vohra: That is about right.

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

Sameer Baisiwala: Umang, just your thoughts on CPN101. What are the key timelines, milestones that you are looking for this asset?

Umang Vohra: Sameer, where it is right now, it is in phase, we will start hopefully our Phase-2 study, the dose finding study will start sometime around this quarter end and then from there I think we will move to a Phase-3. So right now we are not seeing it as a launch before 2021 or mid-2022 calendar years.

Sameer Baisiwala: Which means filing by end of 2020?

Umang Vohra: That is how we are seeing it right now.

Sameer Baisiwala: What kind of outlay would you have for the studies?

Umang Vohra: This will not be much, Sameer, I think we are looking at roughly about 20 million, the sample sizes are not that large. Sorry, I want to correct the statement I made; the filing will not be in 2020, it will be in 2021, so the launch will be probably 2022-23 mid, so I got one year wrong on that.

Sameer Baisiwala: On CTP-354?

Umang Vohra: That has just come in, Sameer. We need to make sure there is something that we are checking into the drug from a toxicity profile perspective, the drug had a tox signal which we believe is species-specific. So we are just trying to make sure that if we can cross that bridge which is approximately the next six to nine months and will cost us about million-and-a-half or two then I think this is a fantastic drug. If we are not able to cross that bridge, then this product will obviously not be in the pipeline going forward.

Sameer Baisiwala: Umang, what data do you have so far on this?

Umang Vohra: We have got Phase-1 and we have got tox studies in certain species and because it is a GABA alpha receptor, we are quite well aware of how this would work, it has basically got the similar

action as any of the other GABA alpha receptors, so it is pretty potent. It is just the tox signal that we have seen in some species and the Phase-1 that we have which is a small Phase-1 seems to suggest that the drug is a promising one to take. But we need to confirm that this drug is indeed what we think it has species effect. So we will spend the one-and-a-half to two million to get there and if we get there then we will develop this further, if not then we will have to see what to do with the drug.

Sameer Baisiwala: Further on post the tox check, what would be the development timeframe for this one till NDA filing?

Umang Vohra: It will probably not be a product that we will be able to file before '23 or '24.

Sameer Baisiwala: So it is a full-fledged?

Umang Vohra: Full fledged drug, yes.

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

Nitin Agarwal: Umang, following up on the previous questions, on this whole Specialty business, on a broad basis how are you looking at R&D cost outlay or investment outlay towards the Specialty programs over the next two to three years?

Umang Vohra: We have given guidance on this that we will not want to spent more than a percent-and-a-half on R&D going forward in some of these assets. So I think that is the max that we can do from a P&L perspective. The real expenditure will start coming in as our Advair trial cost begins to ease out by the end of next year. So overall, we might not see too much of an uptick on R&D as we see it today and then also we are saying that we will probably try and acquire some IP as against spend all the money through our P&L as well. So, there is an advanced asset which is in Phase-3, etc., we might end up picking that up closer to the launch of Tizanidine or another asset, that is in the pipeline.

Nitin Agarwal: So you said 1.5% of R&D spend towards specialty assets?

Umang Vohra: Of sales will be probably specialty spend and we would like to cap at that.

Kedar Upadhye: That is the P&L money, Nitin, balance probably about $250 million over the next three to five years in the balance sheet side, that is for acquisition of assets, inorganic largely.

Nitin Agarwal: Kedar, on the inorganic front, barring looking at specialty assets, are there any other inorganic sort of agenda which is there for us?

Kedar Upadhye: We have been looking at targets be it for certain select therapies in India, certain country entry strategies for emerging markets, certain assets for US businesses, and we will keep looking at it,

we do have borrowing capacity based on strategic fitment, I think that will continue, but selective.

Moderator: Thank you. The next question is from the line of Tushar Manudhane from Motilal Oswal Securities. Please go ahead.

Tushar Manudhane: Just on trade receivables have been sharply higher over March 2018. Anything in particular there?

Kedar Upadhye: This trade receivables for us our base in US was little low and as you make new launches, the gross to net deductions come in. So I think every company in its growth phase for US market has invested additional amount in receivables subject to new launches. So that has happened for us also. And you would have noticed that between March to September most of that increase has happened. Between September to December we have been largely flattish. We are also examining ways to see whether some of this could be addressed through factoring, some of this could be done through receivable sales programs. So we will keep examining that, but yes, answer to your question is largely because of the US business.

Tushar Manudhane: Now that US business is breakeven, if you can help us understand whatever incremental revenue now comes in, how much will that affect in terms of EBITDA?

Kedar Upadhye: Incremental revenue will be margin-accretive because most of these are DTM launches based on in-house manufacturing largely. So you should expect that additional gross margin benefit because of incremental sales is very high. You will have to also keep in mind little bit of Advair trial investment which comes in. So this is post R&D EBITDA which we are talking about and there are several variables. We will keep updating you how this progresses in the coming days.

Tushar Manudhane: But on a ballpark figure incrementally let us say $1 relating to how much of EBITDA post R&D including that of Advair?

Kedar Upadhye: I would desist away from giving away the granular details at this stage. We will update you as things move forward.

Moderator: Thank you. The next question is from the line of Chirag Dagli from HDFC Asset Management. Please go ahead.

Chirag Dagli: If I sort of do some basic math based on your guidance that for the quarter post-R&D, US is now EBITDA breakeven, it seems that the US is a 55% kind of gross margin business and incrementally the growth on this business that kind of profitability should flow to EBITDA, is this understanding right sir?

Umang Vohra: That is right, Chirag, subject to any money that we will need to invest in R&D. I do not think there is any incremental SG&A that we will have to invest for the US business. I think we just have to keep in mind how much the R&D budget goes up.

Chirag Dagli: So is it fair to say that Rs.1200 crores R&D largely spent on Generics because respiratory trials have not started as yet meaningfully?

Kedar Upadhye: Yes, little less than 80% is on R&D, about four-fifths of the total R&D is on US, balance is for all non-US markets.

Umang Vohra: The trials are on for respiratory for Advair.

Chirag Dagli: So from here on the run rate will not increase at least from a spend standpoint?

Kedar Upadhye: Run rate marginally might increase, percentage wise we would want to keep it flat.

Chirag Dagli: Just one clarification sir. You said quarterly Rs.100 crores of sales impact due to the supply constraint?

Kedar Upadhye: That is right, I think last time we alluded to that, that is over and above the basic tolerance are impacting us by about Rs.100 crores per quarter.

Chirag Dagli: Is there any specific market that this is impacting sir or across the board?

R Ananth: Yes, this is across the board nothing specific to our market. As Umang mentioned earlier because they are from facilities that cater to multiple markets.

Chirag Dagli: So then in FY20 we should assume some of these will come back, right?

R Ananth: That is correct.

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

Shyam Srinivasan: Just looking at the other segments, emerging markets and Europe, I think you talked about Middle Eastern markets specifically. So can you just clarify what is the reason behind the weakness sir?

R Ananth: Europe for us seems to be showing some good pick and we will see Europe starting to do better. Emerging markets of course we do have this impact on the Middle-East and that will continue to have its impact as well as the impact that we had from some of the markets like Venezuela.

Shyam Srinivasan: Is there any risk in terms of either receivables or any write-downs we may have to take in these markets in Venezuela or Middle East?

R Ananth: We do not have to take write-offs, but probably some of the receivables will go up.

Shyam Srinivasan: Do you want to quantify how much that number would be?

Umang Vohra: We might see some ageing go up, but it is not material most of those are secured. So we have already secured most of the receivables. So it is not going to be material to our numbers. I think what Ananth was trying to highlight was that in Q3 we had a fairly low emerging market base because Q2 on account of the sanction in the Middle East had, there was probably buying that happened more in Q2 versus Q3 and now I think in Q4 hopefully that will stabilize a lot more and that will continue and the receivables will go up because the base will be going up. So Q3 base is 53 million or 55 million, Q4 base may be slightly higher than that. So that will automatically take receivables up.

Shyam Srinivasan: Just back on Europe again, your presentation talks about respiratory franchise expansion. I am just curious, we had like a launch Seretide sometime back. How is it doing now and how much would respiratory be today as a percentage of the Europe business?

R Ananth: We are pretty happy to report that it is doing well and we will continue to keep tracking that, there has been a good positive movement and positive progress. I am not sure we declare as a percentage how much that would specifically be at this time.

Moderator: Thank you. I would request Mr. Srinivasan to come back in queue for follow up question. We will move to the next question which is from the line of Anubhav Agrawal from Credit Suisse. Please go ahead.

Anubhav Agrawal: Kedar, one clarity. When you mentioned about liquidation of inventory and selling some of that at discount, I was just doing quick numbers from that. That number suggest like almost quantum to be like Rs.150 crores plus. Is that quantum significantly off or it is in the range?

Kedar Upadhye: It is in the range I think and that is the nine months period I refer to and it is both liquidation of inventory at a price which is lower than the cost, some of the write-off that we had to take because of shelf life expiries and certain pricing discounts that I refer to, all put together ballpark it will be in that range.

Anubhav Agrawal: So Rs.150-200 crores all taken in this quarter for the nine months inventory which you accumulated?

Kedar Upadhye: No, I think 150 basis points both in this quarter and nine months period. I think Rs.150 crores is a number more for the nine months, it is not as high to take all of that in this quarter, Anubhav, it is about 150 basis points of sale on YTD basis.

Anubhav Agrawal: So, what I was trying to do was that on a gross margin that you said if we adjust for it, your gross margin for the other business should be higher by 150 basis points. That is what I was trying to adjust that, assuming that gross margin on the other business which you are talking about is 30, 35% and the number of that order was Rs.150 crores. Maybe I can take offline.

Kedar Upadhye: We can take it offline. The math is logical Anubhav way you did it, but I think probably it is a little more accurate number, it will be 150 basis points either for this quarter or for nine months period.

Umang Vohra: But broadly in terms of value it is not very off, but you are right, so on nine months basis that is roughly the impact we have taken because I want to go back, the last call and a couple of calls before we had a fair amount of stock because the global fund changed their ordering pattern and as a result of that lot of companies including us had fair amount of stock which was created for which there was suddenly no orders, and the stocks began to date an age and they had to be liquidated and we are glad that we are pretty much at the end of it now.

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

Nimesh Mehta: You mentioned about the input cost increase mainly because of disruption in China. So has that come to an end or how do you see that and what is the quantum you have seen it?

Kedar Upadhye: I think incremental impact of this cost increase either because of China sourcing or commodities is roughly at a company level about 50-60 basis points of sales. It is more plateaued now, Nimesh, we are not seeing that it has started easing but it is plateaued, which means increment increase we are not seeing, but it has not come down as well. We are hoping that it reverses in the next year. We have heard about some anti-dumping duty being removed on couple of molecules, etc., So, let us see how that pans out. But it is about company level 60-70 basis points plateaued.

Nimesh Mehta: For the nine months period you are talking about?

Kedar Upadhye: Yes.

Moderator: Thank you. The next question is from the line of Ritika Aggarwal from Quest Investments. Please go ahead.

Ritika Aggarwal: Sir, my question is on domestic business. So, how are we seeing the risk of NLEM and DPCO impact on our India portfolio?

Kedar Upadhye: Ritika, as you are aware, the methodology for pricing in India regulated is a market-based pricing. So we have always experienced that cases where you have to reduce your prices for an inclusion of a drug in NLEM are rare. Usually your future price increase gets capped to WPI because of inclusion in NLEM. But beyond this, there is nothing to sort of mitigate as such. We have to comply with the regulations in India and some of the work which we are doing especially on therapy shaping initiatives, be it for respiratory or for other clusters, that helps us drive volume grow which is in our hand. That is how we are approaching the NLEM issue for India market.

Ritika Aggarwal: My second question is on the emerging markets. So out of 52 countries, 13-countries we have DTM approach. So how has that strategy been doing on the emerging markets, how are we taking it going forward? How does strategy to enter into the China and the Brazilian markets?

R Ananth: I think we will continue with the approach. The DTM where we are present in, we are now outperforming in all the markets that we are present in the DTM and therefore our focus will continue to be to build on the momentum. The strategy that we have therefore will continue to stay.

Moderator: Thank you. The next question is from the line of Christopher Siow from RWC Partners. Please go ahead.

Christopher Siow: Just wanted to get an update on your comment on market like Yemen?

Kedar Upadhye: Yemen market has seen little bit of currency volatility. As a company we are conscious of our responsibility to service the patients in that market and subject to a risk assessment as to how much exposure should we take on inventory receivables and other assets, we continue to supply. In Q3, our primary billing substantially got reduced which is what we said in our initial opening remark and we will look forward to the market returning to normalcy.

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

Saion Mukherjee: Kedar, can you just help me with the Global Access numbers and tender numbers approximately which are there for the quarter? Understand they would have come down significantly previous year.

Kedar Upadhye: We were tracking about 150 million, Saion, two years back and this year we could track half of that. On a full year basis, we will be probably half of what we are tracking two years back and large part of this drop actually has happened in pricing which means the contribution to gross margin and EBITDA has been severe and to some extent we have been able to mitigate this because of growth in other businesses.

Saion Mukherjee: So, this is the Global Access number, 75?

Kedar Upadhye: Yes, this is the Global Access number.

Saion Mukherjee: Next year how much will that be – it will fall further?

Kedar Upadhye: Subject to our stance on products portfolio and the little of churn which is happening away from TLE combination to TLD combination, it could change but unlike it will grow significantly here upwards.

Saion Mukherjee: Second on CAPEX that you have done for nine months and the plan this year and next year if you can share?

Kedar Upadhye: CAPEX is substantially lower if you see the cash flow statement, nine months capital expenditure is quite low and that reflects our ability to redeploy the existing capital investments made over the last several years and we will continue to keep the same stance on capital productivity. In the rupees crores probably I would think that our operational footprint, we will probably need about 600-700 crores of routine CAPEX. This year has been low; in nine months we have done only 370 crores odd globally but next year it could increase subject to some of the API investments that we are required to make.

Saion Mukherjee: So, Rs.600-700 crores maintenance plus some expansion?

Kedar Upadhye: Yes, 700 crores would probably factor everything.

Moderator: Thank you. The next question is from the line of Hari Belawant from Tech Financial Consultant. Please go ahead.

Hari Belawant: The question is your revenues have gone up by 2% whereas your EBITDA and PAT margins are on very low side; (-12%), (-17%). Some of the reasons you showed in the API prices from China is affecting. But what are the other reasons for so low of your profitability?

Kedar Upadhye: I think most of the compression has happened in gross margin this quarter. So if you analyze either YoY or sequential numbers, there is a compression in gross margin and that we referred to some of the ratios in the tender part of the side partially. I think expenditure is in control, be it people cost or other expenses. The compression on the gross margin side has led to this and you always see this operating leverage playing out, the sort of decline in EBITDA usually is much higher than the decline in sales. So increase in EBITDA is also higher than increase in sales. So, I think probably this is the quarter where negative leverage has played out along with its gross margin pressure.

Hari Belawant: What is the reason, interest cost going up, it was from Rs.9 crores YoY, that is now Rs.44 crores? I do not think the debt has increased to that; from 4,100 crores to 4,538 crores.

Kedar Upadhye: Part of the interest is because of the rupee depreciation. Most of our debt is in denominated in dollars. So that has come in. Other than that, I think the base of debt itself is not high. In fact, net debt has improved compared to last year. I think we could come back to you offline with the FOREX impact on interest component for the quarter.

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

Harith Ahamed: Umang, you did mention about two respiratory filings targeted for the next year. Could you provide some color on those two assets – is one of them Advair and some color on the second one, is it a inhaler product we are targeting?

Umang Vohra: One is Advair and we are hoping that we will get a clinical trial result which will allow us to file. It is not an easy product to get a clinical outcome. So we are hoping that is one. The second one is also an inhaler product. I do not want to comment about it at this stage because of the confidentiality that we are doing competitively on this product.

Harith Ahamed: Second question is on the 68 ANDAs pending approval, are there any nasal spray filings that you have done already?

Umang Vohra: I do not want to confirm how many are nasal spray, whether they are pending or whether they were filed, all I would like to say is that nasal spray is a part of our portfolio.

Harith Ahamed: Have you filed them already, could we expect?

Umang Vohra: I do not want to be on that specific at this stage. I think that category is also highly competitive. So at this stage, yes, it is part of our portfolio and if we have not filed, within a year, I am sure we would have that filing for that. So it is there in our portfolio and we do not want to comment on the exact timing.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference over to the management for closing comments.

Naveen Bansal: Thank you, everyone for joining us on the call today. In case you have any follow on questions, feel free to reach out to me or Kedar, we will be happy to respond.

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