2nd February, 2021

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

Scrip Code: 500087

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

Scrip Code: CIPLA EQ

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

Sub: Q3 FY21 - Earnings Call Transcript

Dear Sir/Madam,

We are enclosing herewith copy of the transcript of the Company's Q3 FY21 earnings conference call dated 29th January, 2021. The transcript is also available on the Company's website *i.e.* www.cipla.com under the Investors section.

Thank you,

Yours faithfully,
For Cipla Limited

RAJENDRA CHOPRA

Digitally signed by RAJENDRA CHOPRA
DN: c=IN, o=Personal, 2.5.4.20=4987ad48c3965cfde78c8ea69e6f40ac9153587bf12ba1fa5ba45cc5cc8db6cb, postalCode=122001, st=HARYANA, serialNumber=0be85c0408d0e3afd6636 69f5314248a72fdcdf34d01d48d472d7cf926269616, cn=RAJENDRA CHOPRA
Date: 2021.02.02 15:22:01 +05'30'

Rajendra Chopra
Company Secretary

Encl: as above

Prepared by: Juzer Masta

“Cipla Q3 FY21 Earnings Call Hosted by Kotak Securities Limited”

January 29, 2021

MANAGEMENT: **MR. UMANG VOHRA - MD & GLOBAL CEO, CIPLA LIMITED**
MR. KEDAR UPADHYE - GLOBAL CFO, CIPLA LIMITED
MR. NAVEEN BANSAL - INVESTOR RELATIONS TEAM, CIPLA LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Cipla Q3 FY21 Earnings call hosted by Kotak Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Kumar Gaurav from Kotak Securities Limited. Thank you, and over to you, sir.

Kumar Gaurav: Good evening, everyone. On behalf of Kotak, I thank the Cipla management team for giving us the opportunity to host this earnings call. From Cipla, we have with us, Mr, Umang Vohra, MD and Global CEO; Mr. Kedar Upadhye, Global CFO; and Mr. Naveen Bansal from the Investor Relations team.

I now hand over the call to the management team for their opening remarks. Over to you, sir.

Naveen Bansal: A very warm welcome to Cipla's quarter three earnings call. I'm 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 expectation of the future performance of the company. Please note that these estimates involve several risks and uncertainties, including the impact of COVID-19 that could cause our actual results to differ materially from what is expressed or implied. Cipla does not undertake any obligation to publicly update any forward-looking statement whether as a result of new confirmations, future events or otherwise.

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

Kedar Upadhye: Thank you, Naveen. Good evening to all of you. I hope that all of you and you are families are safe and well. We appreciate you joining us today for our third quarter earnings call for financial year 2021. I hope you have received the Investor Presentation that we have posted on our website. From the calendar year 2020 till now, while the uncertainties and challenges continue to evolve, we achieved several milestones across multiple strategic areas such as servicing demand across global markets, continued portfolio expansion along with resilience in our manufacturing and supply chain infrastructure. And this continued during the December quarter as well with a strong and robust performance.

We are pleased to report EBITDA margin of 24.8% for the quarter, which is the highest ever reported EBITDA for the company in the recent history. While on-ground field activity has largely resumed, we have been able to maintain a tight control on the cost base on account of our balanced mix of digital initiatives and face-to-face engagements. Optimization of our FY21 operating expenses continues to track far higher than the potential of Rs. 400 crore to Rs. 500 crore against our operating plan that we have referred to in our earlier quarterly interactions.

Our free cash generation continues to be robust enabling us to prepay our debt obligations. We repaid $137.5 million of InvaGen acquisition loan during this quarter, which was due several months later. We've also repaid working capital loans of Rs. 300 crore in India during this quarter. Our return on invested capital has seen expansion by about 900 basis points over the last nine months, driven by our focus on growth, margin expansion, coupled with cost discipline. While part of this expansion is attributable to some levers which may not always sustain fully in the coming year, this puts us on an accelerated journey towards achieving a sustainable range of 17% to 20% over the long term which is our aspiration.

We're constantly simplifying our manufacturing network to unblock capacities and improve operational efficiency. In line with the same objective, we have divested our manufacturing facility located in Satara, India with an agreement to ensure there is no disruption in supplies.

Furthering our commitment to carbon neutrality, which is one of our 2025 sustainability goals, we're pleased to share that we are the first pharmaceutical company in Maharashtra to commission a large open access solar power plant of 30 megawatt capacity in partnership under group captive scheme. This project is also a testament to our relentless commitment to use cleaner and renewable sources of energy and contributing towards a greener environment.

Coming to the financial performance for the quarter:

The EBITDA for the quarter includes the benefit of COVID product sales, tender supplies in our Global Access business, Lenalidomide settlement cost optimization. Some of this may not sustain in the coming quarters. In line with sharp reduction in COVID-19 cases in India, which was anticipated, the contribution of COVID products in the overall mix is normalizing on a quarter-to-quarter basis. And the recovery trend in core therapies has helped offset the impact on revenues and profitability. Overall income from operations for the quarter is 5,169 crores which recorded a year-on-year growth of 18% driven by focused execution and demand-led growth across our businesses.

All the three businesses under our One India, which is Prescription, Trade Generics and Consumer Health have performed quite well for the quarter with overall, the strategy progressing well. The U.S Generics business continues to exhibit strong momentum supported by new launches including Albuterol. In other businesses such as SAGA, EMEU and API, the performance also was robust.

Gross margin stood at 61.4% on a reported basis. There is a marginal decline of 93 bps on a Y-o-Y while on a Q-on-Q it's flat. The Y-o-Y decline is attributed to sharp reduction in MEIS's income and contribution of COVID products having lower than company average gross margin in the overall mix.

Total expenses, which include employee cost and other expenses are at 1,944 crores, increased by a margin of 2% on a sequential basis. Employee cost for the quarter are at 844 crores,

increased by 2.9%, largely by increments. The other expenses, which include R&D, regulatory, quality, manufacturing and sales promotion are at 1,100 crores, increased marginally and continue to be benefited by cost control and digital engagements. The R&D expenditures include depreciation worth 221 crores, or 4.3% of the revenues. While the percentage to sales appears low, part of that is on account of healthy revenue growth accompanied by last year's Advair spend in the base. We do not foresee much delay in our priority projects. We expect the spends to increase as the respiratory assets progress in the clinical trials.

Overall reported EBITDA for the quarter was Rs. 1,281 crores, or 24.8% of sales. Tax charge is at 269 crores and the effective tax rate has been reduced to 26.3%. We are looking at a full-year ETR of 27.5%. Profit after tax stood at Rs. 748 crores or 14.5% of sales. As of 31st December 2020, our long-term debt stands at US $138 million towards the U.S. acquisition and ZAR720 million for the Mirren acquisition and other operational requirements at South Africa.

We repaid working capital loan of Rs. 300 crores in India, as I mentioned. We also have loans of US$41 million and ZAR285 million which act as natural hedges towards our receivables. Driven by relentless focus on cash generation, we continue to be a net cash positive company as on December end. Our outstanding derivatives has a hedge for receivables as of 31st December are US$172 million and ZAR705 million. We do also have hedged a certain portion of our forecasted export revenues and the outstanding cash flow hedges are at US$192 million and ZAR403 million.

Today, the Board also announced approval for a scheme of arrangement that needs to be filed with multiple regulatory authorities, including stock exchanges, SEBI, NCLT and others. This simplifies our group structure with subsidiarization of our India-based U.S. undertaking to drive further growth and transfer of consumer business undertaking to Cipla Health Limited, in line with our One India strategy.

I would now like to invite Umang to present the business and operational performance.

Umang Vohra: Thank you, Kedar. Before moving to business and operational updates, I would like to thank our employees for their resolve amidst the challenging and uncertain phases of the pandemic. We've delivered on our ethos of Caring for Life. I found inspiration in their acts of courage and commitment.

I would like to start by sharing Cipla's continued commitment to offer a comprehensive portfolio of products for battling the pandemic. We have served more than 4 lakh severe COVID-19 patients with our portfolio breadth of Cipremi, Actemra and Ciplenza. We've also supplied Remdesivir to other emerging market countries, including South Africa. We have now enhanced our COVID-19 diagnostic franchise with Covi-G rapid antibody detection under partnership for emerging markets in Europe. We've also launched a rapid antigen detection test under partnership for the India market.

While nearly a large portion of our field force have resumed activity, we continue to leverage teleconsultations, virtual conferences and remote detailing for physicians. We are implementing a hybrid return to office approach for all our associates and have offered the choice to work from anywhere between home and office under most stringent protocols that ensures a safer workplace.

With that, let me come to the strategic updates and operational performance for the quarter. Over the last five years, we have taken concrete initiatives to drive focused execution of our strategy, capital allocation, portfolio development, talent and governance. The pandemic significantly accelerated several business and cost reimagination programs, translating into quarters of strong performance. I'm pleased to see this continued effort on cost management and productivity during the quarter, helping us drive revenue growth and EBITDA higher than expectations.

In India, our One India Strategy continues to see seamless execution. We continued the momentum in our Prescription business and have reported market-beating growth for the sixth consecutive quarter now. Prescription business grew at 25% on a year-on-year basis, led by contributions from the COVID portfolio, healthy traction in respiratory and chronic therapies, recovery in the hospital and acute businesses with the opening up of several OPDs.

As per IQVIA October-December '20 quarter we continued to deliver market-beating growth in Respiratory where we were 14% versus the minus 4% in the market, Urology 8% versus a 7% and Derma 15% versus 8%. Cipla ranked number two with a market share of 8.1% in chronic therapies, and grew by 6% in the chronic therapies. We're pleased to inform that Berok Zindagi 3.0, Cipla's flagship respiratory initiative was viewed by already 9 crore people across India reflecting the power of digital reach.

The Trade Generics business grew by 7% adjusted for branch transition to Consumer Health businesses. The business witnessed healthy seasonal demand across regions. Our Consumer Health business has now scaled up to 250 crores-plus revenue in nine months, led by growth in organic, as well as continued traction in our consumer brands, post transfer from the Trade Generics business.

Coming to the U.S. Generics, the U.S. Generics business grew by 6% to US $141 million in the quarter, supported by continued traction in the new launches, as well as growth in the institutional channels supporting the business. On a nine-month FY21 basis, the U.S. business continues to deliver robust profitability. We have consistently managed the supply of Albuterol HFA in the U.S., and I'm pleased to inform you that we are ranked number one in the Proventil market with 84.6% share. The overall Albuterol market as per the latest data, we are trending closer to 14% market share. This unlocking has enabled our U.S. respiratory franchise to cross $100 million in the nine months of fiscal year '21.

Our respiratory asset generic Advair is under active review and we're constantly engaging with the agency. We will have two complex assets in the respiratory space that we will move into

clinical trials shortly. On the complex generics side, the settlement of generic Revlimid improves the earnings visibility and enhances our U.S. product portfolio towards complex products in addition to our respiratory franchise.

Coming to South Africa and emerging markets. While sales in South Africa private business were in line with last year for the quarter, a nine-month growth remains strong at 11% year-on-year in local currency terms. Cipla continues to maintain its third position with a market share of 7% and is growing faster than the market. In the OTC space, we grew at 6% where the market grew by 3% and we ranked third overall in the OTC market. Overall, the SAGA region grew by 6% in U.S. dollar terms, supported by solid performances in the Sub-Saharan and our Tender Access CGA business with 15% and 63% growth on a year-on-year basis.

During this quarter, we also entered a strategic partnership with Alvogen for four oncology products, which will enhance our oncology presence over the long term. The emerging markets business grew by 46% on a year-on-year basis in U.S. dollar terms, driven by continued demand across all regions. We are pleased to share that Cipla is the largest Indian exporter to emerging markets as per the IntelliMax for the period April to November. The European operations grew 28% driven by consistent end market performance and market share gains in some of our key direct market businesses. Our flagship respiratory products continue to demand double-digit market share. Our API business grew by 18% on a year-on-year basis with seamless execution of order book and customer relationships. On the regulatory front, we are actively engaged with the agency and working towards the resolution of observations for our Goa plant.

Turning now to our outlook. We are encouraged by the agility and responsiveness demonstrated by the business units across the Cipla geographies as one of our FY21 strategic priorities. We have formaly embraced our sustainability goals and we'll continue to update you on the progress of the journey.

Our priorities for the next couple of quarters include maintaining market-beating growth in large branded and unbranded generic franchises of India, South Africa and the consumer wellness franchise, expanding our lung leadership footprint globally and maximizing value opportunity in the U.S. complex generics, prioritizing key U.S. launches with focused execution, scaling our businesses across branded and generic direct-to-market businesses of Europe and emerging markets through execution, organic and partnered launches, accelerating our digital transformation, capitalize opportunities across markets, focusing on regulatory compliance across manufacturing locations and embracing best-in-class globally-benchmarked ESG practices, and sustained expansion in RoIC over the long term.

I know this has been a long day for most of you and I would like to thank you for your attention. And I'll request the moderator to open the session for Q&A.

Moderator: Thank you very much. The first question is from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

Tushar Manudhane: Just on the U.S. side, given that Advair is under review, I would like to understand the product launches in terms of on the complex generics side or rather in addition to the market share gain for the Albuterol over the next 12 to 15 months.

Kedar Upadhye: So, Tushar, I think there are both these levers possible, one is Albuterol and all other products, which are yet to see their full potential. So that's clearly a lever, and some of the other products, what we would do is, we would talk about them as the things comes to fruition. So, we would want to avoid guiding ahead in terms of specific products, but I think the launch calendar is quite busy. And, overall, Cipla system, both in terms of commercial and the manufacturing and R&D, is all geared up to optimize. In our view, I think the next 12 to 18 months, I think, could see one of the largest number of launches from our portfolio.

Tushar Manudhane: And so you may not share the name of the products per se, but when we say complex, could it be in the range of $15 million to $20 million per product kind of the launches?

Kedar Upadhye: Yeah, it could vary, it could be even higher than that. So I think the complexity of a product is not always shaped by the value per se, but yes, I think if there is a barrier for entry, either by virtue of our filing position or litigation or anything else, I think you should expect that the revenue per product could be in the range that you said or in fact higher than that.

Tushar Manudhane: And just secondly, in terms of capacity utilization for Albuterol currently?

Kedar Upadhye: Capacity is not an issue for Albuterol. I think supplies and capacity is not an issue, either on the device, stocks or the inhaler manufacturing capacity. That is not an issue now.

Tushar Manudhane: And even on the procurement side in terms of devices per se.

Kedar Upadhye: No, we are well protected. I think our contracts and our arrangements are sufficient enough in terms of supply ability. So that's not an issue.

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

Kunal Dhamesha: So, the first question pertains to the savings in other expense. So, I think last quarter we guided for around 450 crores to 500 crores savings in this year, but I think we are tracking slightly on the higher side. So, if there is an update on that guidance. And secondly, I think last quarter you also suggested that you will be providing a number in terms of how much of that is sustainable going forward in the next year. So, if you could provide an update on that.

Kedar Upadhye: Yeah. So Kunal, we have crossed that guidance, annual guidance, and I think like what we mentioned, we continue to be energized with a mix of offline and online model. So, I think the field will need to have face-to-face engagements and, in fact, as we are speaking, a large part of our field, especially in India, is in the market, actively trying to interact with the customers and healthcare practitioners. But we also have very active digital engagement, which is going on and either that and overall cost optimization focus has allowed us to exceed the target that we had

mentioned. In my view, that promise and potential continues in quarter four and, in fact, next year.

Kunal Dhamesha: At the same level?

Kedar Upadhye: I would hesitate to give you any number at this stage. But, as I said, I think multiple levers for our reimagination projects have allowed us to benefit from that opportunity. And the exact quantum of saving either in quarter four or next year could be based upon certain discretionary activities that we may want to undertake. But suffice to say that our attempt is to preserve lot of this savings which has been pocketed this year.

Kunal Dhamesha: And the next question is on the two inhalation asset that you suggested that will be moving to clinics. So, can you provide some color on what would be the spend on those assets? Would it be in line with what we have seen with Advair or it could be moderately lower or relatively if you can explain in terms of spend on each of these assets?

Umang Vohra: It will be much lower. And compared to what we've spent on Advair, it's much lower. These are trials which are not as extensive as the Advair trials.

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

Neha Manpuria: Umang, in the last call, I think you had mentioned that the COVID contribution was roughly about 400 crores to 450 crores in first half. Has that number materially gone down? If you could give some color on what was the contribution in the third quarter, that's my first question.

Umang Vohra: Neha, I think the ballpark number range is marginally lower than quarter three but it's broadly the same, quarter two, but it's broadly the same. And I think we are seeing it go down further as the cases comes down. It's lower than 5%, much lower than 5% this quarter. But it's probably going to be much lower going forward.

Neha Manpuria: Understood. And in terms of the U.S. business, given that Albuterol has ramped up, is there a reason why the sale was flat quarter-on-quarter? Is it because we've reached our fair share and therefore, we're just refilling the rather than seeing incremental sales on Albuterol or was there any other reason for the flattish quarter-on-quarter sales in the U.S.?

Umang Vohra: We have seen increased Albuterol sale in line with the market share. I think the U.S. had a product recall accounting entry that was done for one of the products that probably led to the overall recognition being at $141 million.

Neha Manpuria: And is all the cost associated with that recall in the quarter? Or could we see some spillover?

Umang Vohra: It's all in the quarter.

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

Nithya Balasubramanian: I just want a bit more clarity on the respiratory pipeline, specifically generic Advair you filed in April, May last, which means if it's a 10-month review cycle, you should have been hearing back from the FDA, your TAD date now, if you have an update from the FDA for a TAD date. Where are we on Advair? And the second question is actually on the partnered asset. I think in different forums, we have heard that the partner asset is filed or it's still in clinical trial, if you can just throw a bit of clarity on what exactly is the status there?

Umang Vohra: So Nithya, the Advair TAD date is late quarter four, early quarter one, around that time period. And I don't think there's ever going to be a first pass approval of any asset of this kind. So, realistically like we guided in May, when we filed in May, we are looking for a two-year cycle on Advair. But we are looking forward to receiving correspondence from the FDA through a formal letter now. We've obviously had many questions that they raised already on the program. But we are waiting for the formal letter to come and I think that will happen sometime in late quarter four, early quarter one in which we will answer and then there will be obviously the FDA would review it for its merit again. The partnered asset is an asset that was already filed by the partner and the partner was thereafter asked some further query, including some queries around their clinical study. And I think the partner is in the process of responding to that.

Nithya Balasubramanian: So, the partner conducted the clinical trial, it was developed by Cipla, though the partner actually was the lead on the clinical side?

Umang Vohra: That is correct, yes.

Nithya Balasubramanian: Is there a TAD date on that? Sorry, not a TAD date, as in a response date, when are you likely to respond back and any visibility on that?

Umang Vohra: So, because it's a partnered asset, Nithya, we can't provide too much color, but I think the response should be going shortly, if it has not already gone.

Nithya Balasubramanian: Understood. So, the other two assets which are likely to enter the Phase 3 clinical trials now, does it then mean that, so the R&D spend this quarter seemed a little low than what you would normally expect, given that the pipeline is maturing. Is it likely to inch up materially compared to where we are today, now that we have two more assets in Phase 3?

Umang Vohra: I don't know if I would call it materially, but yes, I think the R&D spend will increase. Advair was not the right competitor and I think this will be fairly meaningfully less than Advair. But I think you're right, it will inch up as the trials begin.

Nithya Balasubramanian: Any guidance on what is likely to look like in FY22, the R&D number?

Umang Vohra: I'm not sure that we would be higher than the range of 6% to 6.5%. I don't see us being higher than that. And that's part of our global, we've been giving this guidance for a while. So, I don't think we'll be higher than that in any case.

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

Nitin Agarwal: Umang, on Albuterol, the market is now getting settled with yourself, two of you been there, and Perrigo is looking to come back. Now, on a sustainable basis with this competitive landscape, do you see the pricing sort of settling down below $5, $6 per unit or this is where eventually on a long term, this market settles at a broader market level?

Umang Vohra: I can't comment on that. I can probably just say that it's difficult to see who enters and how they enter or re-enter. It is very difficult to do that. I just know one thing that from a cost perspective, we believe we have the lowest cost in the market. And so therefore we will defend our share responsibly and sustain it.

Nitin Agarwal: Thanks. And have you seen in the recent weeks or months any change in the pricing sort of dynamics in the market?

Umang Vohra: No, not in the recent quarter.

Nitin Agarwal: And secondly, in the past you've guided to typical, a complex launch per quarter sort of a run rate going for our U.S. launches. I mean, when you look through the next year, year and a half, two years, how should we look at that dynamic now?

Umang Vohra: Yeah. I think starting quarter one, we should be probably seeing the complex launches starting again. So, quarter one of next financial year, I think that's when they would start.

Moderator: Thank you. The next question is from the line of Girish Bakhru from Bank of America. Please go ahead.

Girish Bakhru: Umang, just on this $100 million franchise, which you said respiratory for nine months, just correct me if I'm wrong here, including Albuterol and Budesonide or anything else also?

Umang Vohra: Yeah, I think those should be included. Kedar, do you have any? I think it would include all but Kedar just, if you could confirm?

Kedar Upadhye: Yeah, it could include all, but, yeah, predominant share would be by these two products.

Girish Bakhru: And when you look at like the run rate, 25% of the business now respiratory, U.S. business margins would have it come close to the company margin now?

Kedar Upadhye: Yeah. The fully loaded EBITDA of U.S. is now equal to, I mean, slightly lesser but in the same zone as the company level margins now.

Girish Bakhru: That's helpful. And like you shared TAD on Advair, possible to give update on where is Abraxane?

Umang Vohra: I don't think we are commenting on, Girish, on each specific asset. But could you specify what you would like to know?

Girish Bakhru: I mean, do you have a TAD? And I mean, given that there are settlements in this product, do you still see that for you, potentially, this could be a fiscal '23 launch?

Umang Vohra: I can't comment on launch timing because I think that is confidential. We see this as an attractive product, limited by technology. And I think while settlements are there, it's also pretty challenging product to manufacture.

Girish Bakhru: And just lastly, again, I am not sure how much you can speak here on Revlimid, if you could throw some more color on if there is any color you can give on how big this product could be from March '22?

Kedar Upadhye: So, Girish, I think, firstly, we are sort of limited by our agreement with Celgene on how much to talk, but I think this is going to be quite material. I mean this is, as you know, outside the biosimilar, this is the largest product on the chemistry side and whatever is the percentage share that we are allowed to seek, this is going to be quite sizable.

Girish Bakhru: And you would believe others would also likely settle in this product, right?

Kedar Upadhye: We don't know, tough to say yes or no, how many more. But, I mean, difficult to forecast, Girish.

Moderator: Thank you. The next question is from the line of Ashish Thavkar from Motilal Oswal Asset Management. Please go ahead.

Ashish Thavkar: On this Revlimid, obviously, I have two questions on this. Whether we are backward integrated, it's first, and second one is, what are the advantages, given the fact that we now get to share the innovators REMS program?

Kedar Upadhye: No. Probably this is the most complex REMS program, Ashish. And if that was our own program, setting it up, etc., would have been highly obligated, time consuming, costly. So, I think the ability to share the innovators REMS program allows us several advantages. And that's why I think in our view, this is quite unique settlement. So that was the, I think, the answer to your second question. The answer to the first question is yes.

Ashish Thavkar: And again on this India One strategy, we have always mentioned that we are looking to extract synergies between the Consumer Health, the Trade Generics and Prescription business, but you

could help us understand what kind of synergies would accrue at the EBITDA level or at least in terms of how much percentage point more can we extract?

Kedar Upadhye: The synergies are in several forms. Firstly, on the distribution, there could be some benefit. The most important is what we are trying to do now in terms of consumerizing some of the stronger brands in the Trade Generics business, which have actually have very high customer recall. And the potential to add value through consumerization is quite enormous through the Cipla Health, the Consumer Health business. So, I would say, in terms of stickiness to revenues, in terms of pricing, in terms of margin expansion, and in terms of establishing a strong consumer brand, that's the value accretion. Some of that could be in P&L, some of that could be in the valuation in terms of the long-term value of a consumer brand. So I wouldn't put any percentage at this point of time, but this is some out of the recently articulated goals, if you have noticed in one of the conferences recently, I think this is one of our biggest objectives; to take the global consumer business in India and South Africa from the current, let's say, around 5% to 7% of revenues to beyond 12% of revenue. So I would believe that in cash flows, EBITDA and valuation, I think, this could be a great lever, plus an opportunity to get into the consumer healthcare meaningfully.

Ashish Thavkar: Just one more question on this Albuterol. Like almost like 50% of the market is controlled by the AGs. Now we and Lupin being the major players in the market, is there more headroom for us to take more market share?

Umang Vohra: No, I think it's more dependent on share etc. and how the market reacts. So, obviously, every company will want to increase its own share, whether it's us or it is some of the other competitors and the market offers that opportunity.

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

Sameer Baisiwala: So, first question on Albuterol. Few months in the market. Umang, do you think there's fair bit of porosity between the three different brands or more specific two largest brands or do you think generic is a bit tied up to the respective brand?

Umang Vohra: I think it's a mix of both, Sameer. There are, I think it's a mix of two, there is a tie up to the respective brands so there is some amount of porosity we've seen in the market.

Sameer Baisiwala: You being a generic Proventil, does it limit your ability to increase market share beyond a certain point, therefore?

Umang Vohra: But when we started in the market, the Proventil share was some amount, and today we see that the amount is higher actually today. So, we think that there is the potential to increase and I think we are happy with a marginal increase happening. As I mentioned in the last call, we want to make a sustainable product here and a product that is backed with good quality in manufacturing.

So even if it's going to creep up from here slowly, we are fine with that. But I do think there is room to grow, if that was your question.

Sameer Baisiwala: Yeah, exactly. And just on Revlimid, Umang, it confuses me or rather surprises me a bit that here is the one of the largest products, 4 players have settled. There are 6 more in the queue. And from the look of it, at least half of them if not more will settle and everyone gets the 5%, 10% piece, volume share piece. I mean, how does it kind of qualify from a regulatory standpoint from FTC standpoint? That's question number one. And second, if there are indeed 4 goes to 7-8 settlers, then what happens to pricing? Is pricing protected over there and would market dynamics come in play? So just your thoughts on this.

Umang Vohra: I can't comment on the pricing piece unfortunately, Sameer, because we really don't know. We've never had a situation like this. This is almost like a pretty benchmarked sort of a scenario and that's playing out in Revlimid. So I can't comment on what happens in the market finally, but obviously the fact that there are multiple players but no multiple player has enough to take large shares of the market for a few years, I think lends us to believe that there might be, that the market behave responsibly and more sustainably. So, I think that's the thought we have. But we could be completely wrong on this because we've never seen something like this. As regards to your first query, I can't comment, but I think most of these get clearance from various council in any case.

Sameer Baisiwala: And one final, if I may. So, a great move over last 4 to 6 quarters from sub-20% EBITDA margins, now almost mid-25%. So, would you want to consolidate around these levels for some time? Or is this a base camp to move up higher? Your thoughts on this, please.

Umang Vohra: No. I'm not sure, Sameer. I think there are two sets of discussions we're having within the organization also. It's a great question. I don't want our EBITDA margins to compromise our growth. And we are in no tearing hurry to push this higher. In fact, we think, because of some normalcy returning, because of the stickiness of maybe some of the digital initiatives we planned have not been, probably not stick, I think, it won't be uncommon to see the EBITDA probably creep down lower a bit. But I'm not sure, we are in a hurry to push this EBITDA higher. We actually want to push our top-line higher, while maintaining this responsible EBITDA that we think we should have.

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

Vishal Manchanda: Thanks for the opportunity. Could you share how many respiratory inhaler filings would you have with the USFDA?

Umang Vohra: Vishal, we'll come back to you.

Vishal Manchanda: Okay. And again on your Qvar filing, there is a litigation there. So, any sense on how long the litigation can take?

Kedar Upadhye: No, typically, we avoid commenting on under-litigation products, Vishal. So, I mean, whenever there is a milestone reached there, I think we will communicate appropriately.

Vishal Manchanda: And just one, do you have any exclusive FTF launches lined up in FY '22?

Kedar Upadhye: We can't comment at this stage, Vishal.

Moderator: Thank you. Next question is from the line of Sayantan Maji from Credit Suisse. Please go ahead.

Anubhav: When you mentioned that your U.S. sales will increase by $300 million - $500 million delta over the next 3 to 4 years, my question was do you include Revlimid revenue there? And if you do, then, because you have a fair amount of certainty on the market share because they promised percentage there. Do you include it in the lower end of the guidance here or the upper end?

Umang Vohra: I think Revlimid is included for sure. And I think the beauty of the range is also one that takes into account product delays and launches, because we have quite a few complex products in the pipeline. So, I think, as long as they come in the range we have, I think we would have done quite well. So, I don't think I'd be disappointed if it's not 500, but it's 350 or 400. I mean, we'll try and get the max we can. But that's the range that we have provided.

Anubhav: And second, one more clarity on the other guidance that is given with this RoIC of 17% to 20% that roughly amounts to the same kind of margins that we're looking right now. I know current margins are elevated to an extent as some costs are not normalized. But over the next 3 to 5 years, when we're talking about Revlimid included, Advair coming in, etc., we're largely talking about the same margins at that time as well.

Kedar Upadhye: No, I was just saying the capital base, Anubhav, might be a bit higher and while a large scale acquisition is not factored in this, there could be low-to-medium scale acquisitions. So, I mean, but you are right, I think, we have an opportunity to do more than what we have said. But I mean, for the time being, since the sustainable RoIC till last year, was tracking at 12% to 13%, we felt it appropriate as a first step to target 17% to 20%. But, yes, there is an opportunity to do more on that goal.

Umang Vohra: But, having said that, Anubhav, I think one of the things which I would like to just mention. These complex assets are, I think it's the execution here is, the potential unlock here is the ability to execute on that, both from supply and manufacturing and do that sustainably. So I think, while we could do better, I also want to just caution that it's not like any of the regular product which can pick up share immediately in the market or for that matter be difficult, be easy to deliver. These are difficult products to do. So that's the reason that we also want to be cautious about what we are giving out.

Anubhav: Okay. Just one question on Albuterol. I was just reading the market, the brand has a market share right now 18%. Would it be fair to think like, as long as the brand market share, roughly, the past experience suggests that brands typically retain market share as soon as multiple generics enter about somewhere between high single-digit thereabout. So, that is easy still for the generic to take more market share, but after they're taking market share up, other generics or authorized generics will be difficult, and that would be normalization of market share?

Umang Vohra: I think right now the market is mixed, you're right, with the brand holding share, the AGs holding share and then the two generic players and one generic player who possibly will re-enter at some point in the future. So, yeah, I think there is scope for the generic share of the market to go up definitely. I think there is scope between for that to happen. So, I'm not sure that I can guide to a number, Anubhav, but I think we're clearly seeing potential for this market for generic players to grow.

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

Prakash Agarwal: Pardon the background noise. First one, on your scheme of arrangement into Cipla Biotech you are using the term for U.S. subsidiary. I mean, how should we read that? And the other one is Consumer business and more so, what's the rationale of doing it, turning into a wholly-owned subsidiary?

Kedar Upadhye: Yeah. Prakash, as we've said, the announcement is just an initial approval by the Board for us to file the scheme with multiple authorities. So, I think there is a long time between the procedure that we will need to navigate. We have to approach shareholders also. So that's the first one. And I think like what we said, this allows us to simplify our structure and this allows us to align the resources in the Indian facilities with the needs of the market. I think the Trade Generics to CHL consumer undertaking transfer is, we have referred to it. So this, sort of, cements what we have been doing and the subsidiarization of the assets in India which are focused on the U.S. business, that also I think in terms of bringing efficiencies, bringing a structure, which is more efficient that enables us to operate with lot of focus. So, that's the rationale and objective. In future, this also opens up multiple strategic options. But nothing is on table now at this stage.

Prakash Agarwal: Strategic option, you mean funding or expansion to fund?

Kedar Upadhye: Possible, yes. I mean, basically growth options, because I think we are quite excited with the launch momentum in the next 12 to 18 months and 24 months. And while that goes on, I think, this is just an enabling structure that we are creating. As I said, at this stage, there is nothing on the cards.

Prakash Agarwal: And the term biotech use is like…

Kedar Upadhye: This is a company within the Group. it's a 100% wholly-owned subsidiary within the Group.

Prakash Agarwal: But we should not read into turning into a biotech investment.

Kedar Upadhye: No, not at all. This is just, I mean, a vehicle, which is our 100% wholly-owned subsidiary and we have been advised that that's the appropriate entity to use.

Prakash Agarwal: And secondly, on the U.S. business, I'm sorry, I joined the call little late, multiple calls today. But U.S. Q-on-Q is still flattish and your presentations says that market share has picked up in Albuterol. So, has the base business eroded significantly? How should we read into it?

Kedar Upadhye: Not really, Prakash, we answered that question. I think we are in the zone in which we wanted to. The increase in market share appropriately reflects in the sales of Albuterol that we booked in the financials. So I think there is a recall of about $2 million, $3 million that we had to take, and if you adjust for that, I think, there is appropriate quarter-on-quarter growth.

Prakash Agarwal: Okay, and base wouldn't have eroded significantly. It's the normal….

Kedar Upadhye: Not really.

Prakash Agarwal: I'm not sure you answered this also, India ex-COVID, I mean, India has phenomenal growth, right? So, there is a base business, there is COVID-related sales. So, if you eliminate or ex of COVID-related sales would be? Have you answered that already? I'm sorry about that.

Kedar Upadhye: No, I think it's about 6%, 7%. So the growth in non-COVID portion is about 6%, 7% and we are happy to see that many therapies outside COVID have seen growth coming back now.

Prakash Agarwal: And very quick ones. EM, phenomenal growth again, understand it's been for couple of quarters. How do we see this forward and what is leading to this growth?

Kedar Upadhye: Well, I think the sequential run rate, Prakash, should continue. I think, good thing for us is this is quite broad-based between Middle East, LATAM, Asia Pacific, Australia, so all the countries like Sri Lanka, Nepal, etc., and many of our B2B arrangements. I think this is pretty broad-based. And it should continue sequentially. We'll be able to better forecast the Y-o-Y growth next year around May, but I think the sequential run rate should continue.

Prakash Agarwal: What I'm trying to understand is, could it be related to the COVID-related sales also because these countries would highly depend on India, larger players like you.

Kedar Upadhye: Not really, not really. I think our basket for emerging markets at this stage does not include too many COVID medicines.

Prakash Agarwal: This is the base portfolio that you are selling.

Kedar Upadhye: Correct.

Prakash Agarwal: And last one, with your permission, on the R&D side, you've done the big filings. How do you see the R&D going ahead for the year '22, '23?

Kedar Upadhye: No, we do have priority projects. As you know, we have brought a lot of focus now in the portfolio under development and that is going ahead well. In terms of the percentage to revenue R&D spend, I think that could hover. I think, current quarter is low and we have always said that it could marginally inch up.

Prakash Agarwal: With keeping the margins at similar levels with growth being the priorities.

Kedar Upadhye: That's true.

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

Charulata Gaidhani: I had two questions, one about Albuterol. What is the current market share and where do you expect to reach in a year or two?

Kedar Upadhye: Yeah, Charulata, within the overall Albuterol market comprising all brands and all AGs and all generics, I think, we are beyond 12 or so. And we do expect gradual ramp-up from here onwards.

Charulata Gaidhani: Okay. And why is the ramp up gradual in Albuterol?

Kedar Upadhye: It's in line with the prescription pattern. It could be higher as well, but I think we are happy with where we are and I mean you have seen a sharp increase in the last few months. There is always an opportunity.

Charulata Gaidhani: And second, how do you plan to increase in Consumer Health? Consumer Health, currently, is around 300 crores. Where do you see it going over the next two years?

Kedar Upadhye: See, globally, we have that in India, the Consumer Health business is in India and South Africa. And I think there are several growth levers which excites us as we look forward for the next 5-years' journey and that's what we said that potentially the opportunity is to do more than 12% of our global revenues in the next 3 to 5 years. And that's based on, Charulata, multiple levers, like what we have done this quarter in terms of transferring certain channel brands from the Trade Generics business, organic growth in several therapies, where we are present currently, and possible in organic modes**.**

Moderator: Thank you. The next question is from the line of Sameer Shah from ValueQuest. Please go ahead.

Sameer Shah: I just wanted to check on what would be the extraordinaries during this quarter. I mean this Revlimid settlement amount etc., or whatever is nonsustainable? If we remove that, then what would be the margin?

Kedar Upadhye: It could still be quite decent, Sameer. And the reason for that is, I mean, both, I think robust performance across geographies with very good product mix and cost control.

Sameer Shah: Right. But Revlimid settlement amount would be high, right?

Kedar Upadhye: That's about 50 crores, that's booked in other income line. Even if you ignore that, Sameer, I think we have still done well.

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

Nitin Agarwal: On the emerging markets, in the past, you've talked about using biosimilars as a key. Over the last few quarters, how has the experience been in terms of pickup in biosimilars across these markets? And is there any rethink on how you're looking at that space as an opportunity?

Kedar Upadhye: We could only hear about biosimilars and emerging markets, Nitin. What's the next question, please?

Nitin Agarwal: Something on the biosimilars in the emerging markets, we've talked about, how has the experience been in terms of our scale up in this space during the out-licensing strategy that you have been using for doing biosimilar business in the emerging markets for us?

Kedar Upadhye: So, Nitin, we have signed multiple high-value in-licensing arrangements at quite decent margin in line with our thresholds for the margins. And I think many of these are lined up for monetization from the year after next, some of them next year, but largely the year after next, and all going well till now in terms of the milestones towards launch, in terms of filing, approval, interactions with regulatory authorities, market study, customer feedback, all going well.

Nitin Agarwal: And, Kedar, when you guys are looking at the markets, I mean, how compelling do you see these product's opportunities are going to be? Are they going to be, I mean, it is going to be a limited competition opportunity across markets or it's going to be a reasonably competitive market where your distribution presence is going to make all the difference from different players?

Kedar Upadhye: No, we think that they will be fairly limited. We don't expect multiple entry. We do think they'll be fairly limited and overall decent pricing and I just rightly said, I think our ground presence allows us to target good market share. And I think country-by-country, per country or per product, the value may not be as high, but as we cumulated towards the entire emerging market, including South Africa, in our view, this is going to be quite sizable business from the year and the year after next.

Nitin Agarwal: Lastly, Kedar, on the API business, I mean, what's been our thought process In terms of the PLI scheme? Do we see that as an opportunity? Have we applied for certain products on the scheme?

Kedar Upadhye: It is an opportunity, Nitin. I think we are sort of working with the government and the regulators to ensure that the product lines in which we are present are included in the scheme. In the current schemes, which have been announced and awards have been made, as you would notice, we are not present. But we do hope that in future we can participate and join the scheme.

Moderator: Thank you. Next question is from the line of Rithesh Rathod from Nippon India. Please go ahead.

Rithesh Rathod: Can you help us understand your outlook on 4Q, next quarter, across businesses, Q4? Why I'm asking this because of the seasonality, at the same time, India may not see that kind of COVID, at the same time in U.S. you may see a full quarter reflection of the Albuterol market, higher market share?

Kedar Upadhye: So, some of those will play out, Rithesh. I think, region by region, I think, variety of factors could play out and India, especially, I think you're right. I think there is a reverse seasonality. So that's part of our operating plan. I think a little bit of a reverse seasonality playing in India business, we referred to the COVID medicine being linked to a trajectory where the cases are significantly low. So that will play out. And to some extent I think a part of our Global Access revenues by virtue of higher import clearances by our customers are a bit higher this quarter. I think those are the factors which will play out. All this is known and all this is part of our operating plan.

Rithesh Rathod: And in case of the U.S., would the quarter-end market share, that would get fully reflected in next quarter's numbers?

Kedar Upadhye: We do hope. Yes, we hope that. I mean most likely that will happen, correct.

Rithesh Rathod: So net-net basis, you will be flattish kind of or positive bias?

Kedar Upadhye: I would tend to think that there is a positive bias.

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

Naveen Bansal: Thank you, Mallika. Thank you everyone for staying with us on this call today. In case you have any follow-on questions, you can always reach out to us. Thank you so much. Have a good evening ahead.

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