LUPIN

November 15, 2019

BSE Limited
Department of Corporate Services,
P. J. Towers,
Dalal Street,
MUMBAI - 400 001.

National Stock Exchange of India Limited
Exchange Plaza,
Bandra Kurla Complex,
Bandra (East),
Mumbai - 400 051.

Dear Sir/Madam,

Sub: Business Update Kyowa Divestiture Conference Call.

Pursuant to Regulation 30(2) read with Schedule III Part A(15) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, enclosed is a copy of the Transcript of the Kyowa Divestiture Conference Call on Tuesday, November 12, 2019 at Mumbai.

Kindly confirm having received and noted the above.

Thanking you,

Yours faithfully,
For LUPIN LIMITED

LUPIN LIMITED
MUMBAI
INDIA

R. V. SATAM
COMPANY SECRETARY
(ACS – 11973)

Encl.: a/a

"Lupin Business Update Kyowa Divestiture Conference Call"

November 12, 2019

MANAGEMENT: MS. VINITA GUPTA – CHIEF EXECUTIVE OFFICER, LUPIN LIMITED
MR. NILESH GUPTA – MANAGING DIRECTOR, LUPIN LIMITED
MR. RAJIV PILLAI – SR VICE PRESIDENT, CORPORATE PLANNING, LUPIN LIMITED

MR. ARVIND BOTHRA – HEAD, INVESTOR RELATIONS AND CORPORATE M&A, LUPIN LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Lupin Limited Business Update Kyowa Divestiture Conference Call. 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 opening remarks. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Lupin management. Thank you and over to you all.

Vinita Gupta: Thank you very much. Hi friends, it is really good to speak with you again, couple of days after our earnings call. I have with me Nilesh, Arvind and Rajiv Pillai in the room. We are very pleased to announce that we have entered into this transaction to divest our Kyowa business to Unison. Most of you know, that we have had a tremendous run in Japan. We invested into Japan at a time when Japanese government had just instituted incentives to increase generic utilization. Since then, we have come a long way over the last 12 years. We have grown the business multi-fold and emerged as the fifth largest generic company in Japan. However, as we look at the state of the industry today, the market has undergone significant changes. We have certainly been able to absorb the pressures that we have experienced over the last couple of years. The government has reached its stated goal of 80% generic utilization and as a result, we have seen a lot of headwinds from a pricing erosion and margin standpoint over the last couple of years.

As we looked at options for Japan, we believed, to be able to really grow the business on a sustainable basis, we have to invest into new growth drivers, in particular on the specialty front - a differentiated model. As a company, we decided, given the priorities we have, in particular major markets like US as well as India, our strategy, our commitment to evolve our business into complex generics and specialty, we decided to focus our efforts into our core markets, into our major platforms and therefore determined that if we get a right partner, we get the right transaction, we were open to divesting the business. We are not used to divesting businesses as you know, but in the current situation and given our strategic priorities, we felt it was the best thing for the organization. We were very pleased to find a partner in Unison that really valued our business, valued the platform that we had built, valued our people. They are taking on all of our workforce in Japan and have a commitment to invest into the business into areas like devices, really building the company into a broader CNS cum healthcare provider in the market as opposed to just a prescription drug player. We believe it is a very good outcome for both the company, our entity in Japan as well as our people.

In terms of financial perspective, it puts us in a very good position and strengthens our balance sheet significantly. We receive US $300 million of net cash and have the option in the near term to pay down our debt, as well as have growth capital to drive both our organic as well as inorganic initiatives, that we are pursuing aggressively both in US as well as India. We are very pleased with the transaction again and we will be happy to take any questions that you may have. Thank you.

Moderator: Sure. Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Chirag Talati from Kotak Securities. Please go ahead.

Chirag Talati: I have two questions. Firstly, on the capital allocation side, now that the balance sheet has been substantially strengthened, what are the near-term priorities? Would you be looking to really pare down debt or do we see an acquisition on the cards over the next 12 months and if so, what territory would you be looking at?

Vinita Gupta: We are looking at acquisitions, but nothing that is imminent in the next couple of months. In the meantime, Chirag, we obviously have the flexibility to pare down debt which we will plan to do.

Chirag Talati: And then secondly, now that you got a very strong accretion on your book value that will happen on account of the exceptional gain, just wondering if you had any further thoughts on actually taking an impairment on Gavis, I know cash is important, but then we got an overvalued asset possibly and particularly in light of what is happening in the US market. How are you looking at the intangible side of the balance sheet? Would you be looking to kind of bring that down given that there is no impact on your book value now?

Vinita Gupta: We will take a look at it again at the end of the year, but we took a significant impairment on Gavis in the last fiscal year. We do not see any material challenges. At the same time, we will look at the intangibles at the end of the fiscal year and see if there is any impairment required.

Moderator: Thank you. We take the next question from the line of Aditya Khemka from DSP Mutual Fund. Please go ahead.

Aditya Khemka: Vinita, could you help us with understanding two things. First, the Japanese operations that we are selling, how integrated or non-integrated was that with your standalone domestic entity and was it operating as non-integral subsidiary with its own operations, IT, finance, functions and therefore there will be no related operating deleverage on your P&L or would you say that there would be some cost of the Japanese entity which was being operated from India and therefore once that business is gone, there could be some sort of cost that you may need to relook at your Indian entity?

Nilesh Gupta: I will take the question. As a business, it was very well aligned with Lupin, but Japan being Japan, obviously there was fair bunch of costs which were contained within the entity itself. That being said, from India, we extended services like research, manufacturing and other areas like finance and IT support as well. We'll look to clean up some of that over a period of time. As we mentioned yesterday, there is an ongoing supply that we are negotiating which will continue for a period of a few years. That will remain something that we will continue doing, so I do not think it will go away altogether. Also, we are not going away from Japan altogether. The idea very much is to look selectively at our complex generics, at our biosimilars, at our specialty and look at bringing those assets to Japan and then finding the right partners for it. We continue with the biosimilar business, in particular Etanercept which we launched with our partner, but there is another launch which will happen hopefully this month. There will be a Japan focus, but obviously there would be an idea to sweep up some of the expenses and just some of the cost heads that we would have supporting the Japanese entity and to address them.

Aditya Khemka: Could you give us some quantification on how much manufacturing sales were you doing between Japan and India for the divested entity?

Nilesh Gupta: It is not sales, but as units we talked about it in the past as well. We do 300 million plus units out of India and the intent would be for that to continue for a period of a few years. We will thereafter decide whether we take that up or down.

Aditya Khemka: Understood. And when it comes to the option of paying down debt or doing inorganic initiatives, I know Vinita spoke of that there isn't anything in the near term, but if you were to acquire assets, what were your key priorities? I know specialty in the US is one, you want to support your Solosec and Women franchise there, but outside of that, what are the other priorities that the company has?

Nilesh Gupta: India clearly. Specialty in the US and India are the two priorities. We selectively are looking at specialty elsewhere in the world as well. We are very happy with how NaMuscla is shaping up in Europe. That will be an opportunity, but obviously US and India are the big growth drivers again organically, but also for what we do inorganically.

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

Neha Manpuria: Just to understand, now that possibly this deal gives us flexibility on the balance sheet, what is the comfortable net debt to EBITDA that we will look at when considering acquisition. Till what extent would be comfortable levering up our balance sheet from the current level?

Vinita Gupta: Around 2 – 2.5 times, as we have said in the past. We have tremendous amount of flexibility now. As far as our acquisition plans go, we hope to acquire portfolio of assets. Our balance sheet position really gives us tremendous flexibility.

Neha Manpuria: And is my understanding right that the branded business, the Shionogi portfolio and Bipresso is also being sold as a part of this deal?

Vinita Gupta: Yes, the Shionogi portfolio was long-listed products, so it was branded generics. Bipresso which was a specialty product is also being divested as part of the transaction.

Arvind Bothra: All of them were consolidated in Kyowa as operations, so it essentially goes all away. But, just to clarify the biosimilar business that we have, and we are marketing it through our two partners - Yoshindo and Nichi-Iko, that stays. We have flexibility to monetize our other complex generic assets including specialty portfolio in Japan through any other partner including Unison. But the existing business as it stands in Japan, ex of biosimilars will go away to Unison.

Vinita Gupta: And Neha, we also took a hard look at the specialty product, Bipresso to your question and determined that it needs a lot more fire power. We entered into a partnership with Yoshindo, that yielded really good results and probably needs more investment. So determined it was best to partner with Unison for that product.

Moderator: Thank you. We take the next question from the line of Surya Patra from Phillip Capital. Please go ahead.

Surya Patra: Ma'am, in your opening remarks, you mentioned that okay., Japan was one of the top three markets for us and with some sort of defocus what we will be having, so what are the key strategic areas that we will have real emphasis and hence the strategic initiatives will be slightly different possibly from the current activities, if you can highlight something on those?

Vinita Gupta: Actually, we are focusing even more, Surya. If you look at our current strategy, the path that we have been on for the last 5 years - on the generic front we have been working very hard to evolve into complex generics into the new platforms; whether it is inhalation, complex injectables, biosimilars and simultaneously build a specialty business in the US for certain and select markets where it make sense. The Women's Health business in the US is a major focus for us. Then, in India, we have a very solid position, growing double digit on a consistent basis, but we are opportunistically looking at investments that would complement our position especially therapeutic areas that complement ours. We have strong positions in many, but also aspire to build our position in other therapeutic areas. So, selectively we are looking at those and we are looking at closer adjacencies. Geographically, as you look at our other markets, our focus in other markets whether it be South Africa, Latin America, Australia, Canada and the rest, has been to really get all our entities to self-sustenance, primarily organically. The goal in all of the other subsidiaries has been to really get them to the company's average EBITDA margin and have the ability to invest through the entities.

Surya Patra: Do you really mean that the geographic diversification, see anyway that US and India is getting the right share of attention, can further happen with the exit from the Japan?

Vinita Gupta: No, we are actually focusing more.

Nilesh Gupta: We feel pretty good about the footprint that we have - US, India, even markets like Canada, Europe, more in the specialty and the complex generics. LatAm, we are already where we want to be. The footprint is pretty solid. The time now would be to focus on this and make sure that we can grow each of these to scale.

Surya Patra: Just couple of bookkeeping questions ma'am. See this tangible asset or intangible asset, whatever that is associated with the Kyowa, can you quantify that and also any R&D that was incurred on behalf of Kyowa or any export incentives that you are getting out of Kyowa, can you just say it?

Arvind Bothra: I will take it offline with you, Surya. You can call me.

Rajiv Pillai: When talking about R&D, while R&D was being done for Japan market, in terms of materiality to the overall spends, it is not so material.

Moderator: Thank you. We take the next question from the line of Prakash Agarwal from Axis Securities. Please go ahead.

Prakash Agarwal: If you could just walk us through the commentary you made on the EPS accretion, I understand company level EBITDA margin is about 15 to 18%, if you could just help us on that ma'am?

Arvind Bothra: The deal is EPS accretive and as you would estimate with the cash proceeds that we will be getting, there will be substantial capital gains. Even that aside, on the EBITDA margin front, while we do not discuss geography specific margins, by and large the EBITDA margin of Japanese business is in line with the number that you mentioned, which is our corporate number. So, we do not see a margin dilution as a result of this divestiture.

Rajiv Pillai: We will continue to remain in line with what we have committed.

Prakash Agarwal: And the debt also would be sitting in Japan, right, so which would be like almost 15% kind of rate?

Arvind Bothra: As you would also understand, our overall debt is largely international acquisition led, and overall cost of debt is less than 4%. Understandably, the Japanese cost of debt is much lower. Specifically, the Kyowa debt which would immediately go away - would be around US$ 176 million, so that aside like Vinita mentioned, we have the flexibility to pay down debt as necessary. All of that is cash in our books as of now and our overall returns on the cash in books is much higher than the cost of debt. That is why to us, net debt is a metric that we really care about. Our overall business whether it is Kyowa or ex-Kyowa continues to generate free cash flow in a comfortable manner and we would like to continue that way.

Prakash Agarwal: So just to sum it up on a topline of US$ 250 million odd, we do a 15% to 18% EBITDA margin and knock it off on the interest side, so that is how you are getting it?

Nilesh Gupta: Yes, the only point was that, while the EBITDA was close to the company average, the EBIT, more the PBT was significantly lower because there obviously was a significant amount of depreciation and amortization which was in the Japanese business.

Prakash Agarwal: And just on the specialty side, as you said that the biologics and other specialty complex generic initiative continues, so you talked about there might be acquisition not in the near term but in the medium term in the US and India, but you think US is more certain than India or you would say you are looking equally on the India side giving?

Nilesh Gupta: There is certainly a lot more assets on the table at all times in the US, but we are very disciplined. You guys might disagree with us at times, but I think we are pretty disciplined with how we are looking at specialty assets. Obviously, our intention would be to shore up the earnings. The intent is to try to get accretive assets, but we do not want to pass away from assets which are really good from a long-term perspective as well. But there are certainly more assets on the US table than the India table.

Moderator: Thank you. We take the next question from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

Chirag Dagli: Sir, what quantum of the Japanese business still remains with Lupin?

Nilesh Gupta: Two parts; One part is the Etanercept supply which will continue - the entire Etanercept biosimilar relationship. The second part will be the product supply, that we would do for the Kyowa entity.

Chirag Dagli: This would be profitable, the product supply?

Nilesh Gupta: Yes, both would be profitable.

Chirag Dagli: And sir, can you share the 1H PBT and PAT of this entity, Kyowa?

Nilesh Gupta: We don’t call out entity wise profitability, so we shared the sales but not the other lines.

Chirag Dagli: Is it significantly down versus FY19 sir, full year?

Nilesh Gupta: Not really, as a percentage, profitability is more or less in line.

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

Sameer Baisiwala: Just on the previous question, I think you disclosed in your balance sheet or annual report the net profit number and that was about US$ 10 million for last fiscal from Kyowa, would that be correct?

Nilesh Gupta: Whatever the annual report has, yes.

Arvind Bothra: It is largely the same, Sameer. There could be certain additional profit beyond that, but that is very immaterial. It is largely the same direction that you are looking at. Japan as you are aware, the growth number Y-o-Y does not change materially, so even for this year as Nilesh mentioned, we are looking at similar levels.

Sameer Baisiwala: This is helpful. And the second is just a maths between the deal enterprise value is US$ 500 million, but what you are getting and you mentioned is US$ 300 million, so the difference is US$ 176 million gross debt on Kyowa and some taxes, is that the way to read it?

Arvind Bothra: Yes and obviously some deal related expenses but your understanding is correct, Sameer.

Sameer Baisiwala: And third question here is, when you reported this deal, so did Sandoz yesterday and they are at 3 times EV/sales, so I am sure there are differences, but anything to say that why you are 2 times EV/sales versus them at 3**?**

Vinita Gupta: Sameer, that business was primarily specialty, it was not generic business. It was the GSK and I think AZ Anesthesia portfolio, that was all branded.

Arvind Bothra: As you are aware Sameer, in Japan, the generics and the long-listed products are subject to annual price cuts by NHI, which is much more than the branded business. Also, the oroshis in particular are more conducive to take on brand, as they have promotion activity. So, it is a fundamental difference in the kind of business, that we are looking at.

Vinita Gupta: When we looked at the deal comparables, we were very pleased with how Unison valued our business, both from a revenue multiple as well as EBITDA multiple standpoint.

Sameer Baisiwala: And just one final one, what sort of a gross debt reduction that you are thinking of post the deal?

Arvind Bothra: Sameer, we have still not closed the deal. What we are sure as you would be aware, US$ 176 million immediately goes off. Depending on the final deal proceeds and how we evaluate other opportunities, we will definitely take a call in the direction which helps the overall strategy.

Nilesh Gupta: I think in the next 3 full months, we will have really good clarity on how this goes.

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

Shyam Srinivasan: Just a short one on the timelines again and do you foresee any FTC equivalent kind of issues that some of the other deals have faced in Japan to close the deal?

Arvind Bothra: As you would appreciate, Unison is a private equity entity and it is a separate entity that is acquiring Kyowa. Prima facie, merger-control analysis did not indicate any concern. But, as with any regulatory body, we would let the regulator decide. Typically, the Japan FTC is likely to respond within 30 days of application. What I am aware of, is that the application has been sent.

Nilesh Gupta: There are obviously a fair bunch of procedural steps that have to be taken. As you know, there is a shareholder approval as a special resolution that needs to go through as well. All of these will probably take place over the next month. Our goal is to obviously complete this within the fiscal.

Moderator: Thank you. We take the next question from the line of Rahul Sharma from Karvy Stock Broking. Please go ahead.

Rahul Sharma: Just wanted clarity on the supply issue which will be continuing to Unison post the acquisition, so will it be substantially lower, and will it be much lower than company margins?

Nilesh Gupta: No, it will be pretty close. The only difference is earlier this was an entirely integrated business, now it is just product supply. We are still working through some of the details, but it will be close to company margins.

Rahul Sharma: But on the topline part also, will it be similar or there will be substantial cut which will come in?

Nilesh Gupta: Obviously, that will come down. It becomes a transfer price rather than sale to a third party. So, obviously that will come down. It is a nice business to have, but it is not that material in the bigger scheme of things.

Rahul Sharma: How do we look at it in the sense what type of cut would be there compared to H1 which is there where we have supplied at?

Nilesh Gupta: From a consolidated business perspective, it is the entire part that moves out. Given that the rest of our company grows much faster, we are pretty much hoping that in the next fiscal, we will plug this entire gap that would form out of this. Given that this is really going to be a Q3-Q4 event, chances are, we will probably grow a little bit in the next fiscal as well. Other than that, all of this moves out; it becomes a supply agreement and it will be like other similar supply agreement that you would do for manufacturing.

Arvind Bothra: And Rahul, just to clarify the proportion of volume which Nilesh mentioned, which is being supplied to Japan right now, is relatively low compared to the overall operations. So, what kind of supply business that we are talking about is to maintain the same level of business activities and to ensure a smooth supply to the partner. The idea is not to make it CMO operations, if that is what you are trying to look at.

Moderator: Thank you. We take the next question from the line of Surjit Pal from Prabhudas Lilladher. Please go ahead.

Surjit Pal: My first question is that I need to understand this calculation, what you are saying is that your enterprise value and your net cash inflow vis-a-vis if I look into your reduction in net debt, so that amount is much higher than your net cash inflow? That is what I don't understand? Does it also imply your tax rate you are calculating around 43%?

Arvind Bothra: It is a simple one. From the enterprise value, you will reduce the gross debt which is there in Kyowa straight away US$ 176 million, plus the net tax cash flow proceeds of around US$ 300 million that also helps bring down the net debt, as you would appreciate. To help you do the math simpler, 526 or 527 whichever way you take the exchange rate on dollar, less 176, less 300 or may be 476 is the approximate million dollars of net debt reduction that you should see. Regarding the tax rate, the post-tax cash flow factors the tax rate that would be applicable to this deal. Just before it leads to further clarification, the ETR that we mentioned is not the cash tax rate that we pay, which is why the post-tax amount is relevant here. Please take that into consideration.

Surjit Pal: Second question is that you said it will be EPS accretive, now if you are assuming that if you are supplying your product close to your company margin and your profitability will not improve because as you were saying is that your previous profitability and post deal profitability will remain the same, where do you see it will be EPS accretive other than the savings in your interest cost?

Arvind Bothra: When we said EPS accretive, firstly you would appreciate that we have sold this at a value higher than our book value. So, there will be capital gains, that adds to my EPS. Importantly on a longer-term basis, we mentioned both from margin profile as well as growth, we will see an improvement, as a result of this. Obviously, a part of the business that goes away would have some impact in the near term, but since the growth profile of the rest of the business which continues on a relatively robust pace is going to be reasonably high. We will be able to plug that gap in a year's time as Nilesh mentioned earlier. Does that address your question?

Surjit Pal: Okay, understood. So basically what you were saying is EPS accretive will be in mid to longer term when you will be expanding your business from outside?

Nilesh Gupta: I think it will be EPS accretive this year obviously, just because of the deal flow. Thereafter it is based on how we build the rest of the business.

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

Nitin Agarwal: Vinita, in terms of, beyond India and US which are our core focus markets, are we looking to deploy capital to grow, sort of buildup in the other geographies which are there or we will let them grow on their own merit as they are?

Vinita Gupta: As I mentioned earlier, Nitin, the focus on the other geographies is really to get to self-sustenance. But opportunistically if there are good investment opportunities in any of our geographies, we will consider it.

Nitin Agarwal: And secondly, with this move, we now become significantly more dependent rather aligned on US and India for our future growth and in India, we have near term outlook is obviously pretty interesting but there is always a concern around how is the outlook for the Indian drug, pharmaceutical market may change, in terms of move towards our eventual genericization and all of that, but does that really expose a long-term business model to literally two of these businesses and with the diversification which we have in Japan or something like that or some other geography sort of been taken away going forward?

Nilesh Gupta: At the core of it, we need to consider, where the generic market is headed. We cannot have the same lens of where we were in the last 12 years. As you know, now we are talking of a regime where there are annual price cuts; we are talking about a government that is happy with the level of generic utilization and taking away incentives from further genericization. So, increasingly the Japanese market is getting more competitive. Versus that, obviously there are challenges in markets like India as well, but the bigger macroeconomic growth factors ensure much better visibility on long-term growth. The same is for the US. The US is the biggest pharmaceutical market. It is certainly the biggest generic market as well. Obviously, there is a clear intent to build out the specialty. At one level, diversification equals defraying risk a little bit; at another level, if you look at the outlook, the outlook is very positive for the US including even for regular oral solids. I think we see growth even in oral solids in the next 5 years, and it is certainly positive for India as well.

Vinita Gupta: I will just add to that. This reduces complexity significantly for us and given our focus markets as well as priorities around complex generics, specialty and then maintaining our growth in India, this gives us the opportunity both from a management bandwidth as well as resources to really get the most out of these focused areas.

Nitin Agarwal: Just one housekeeping question, our depreciation/amortization on the asset would be US$ 35 odd million or sort of a longer number?

Arvind Bothra: Around US$25 to $30 million.

Moderator: Thank you. Next question is from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

Chirag Dagli: FY19, there were some exceptionals in the Kyowa P&L, when you say margins in FY20 are similar to what they were in FY19, is this pre-exceptional or on an adjusted basis?

Arvind Bothra: It is on normalized basis, Chirag. When we say at our company level for the last year as well as this year, we say around 18% to 20%. I would say the Japan business would be more or less at the same level.

Moderator: Thank you, I hand it back to the management for closing comments. Over to you, all.

Vinita Gupta: Thank you everyone. Hopefully, we were able to answer all your questions and again, we are very pleased with this transaction. Look forward to closing it soon and hopefully share with you our new opportunities that we are working on over the next couple of months, to help grow our business in both in the US as well as India. Thank you.

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