“Lupin Limited Q4 FY2023 Earnings Conference Call”

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MANAGEMENT:

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Moderator: So good evening and welcome to Lupin Limited Q4FY23 Earnings conference Call. Please note that all participants line will be in listen only mode and there will be an opportunity for you to ask questions after the opening remarks. Please note that this conference is being recorded. I now hand over the conference to the management. Thank you and over to you.

Vinita Gupta: Hi Everyone. This is Vinita here. I'm very pleased to welcome you to our Q4 FY23 earnings call. I have with me our MD, Nilesh, as well as our CFO, Ramesh. We're very pleased to close the fiscal year with continued improvement in operating margins. Our team has had a sharp focus on getting our India business back to double digit growth and quarter after quarter improvement in US margins as well this focus along with growth in other areas like API, EMEA and APAC enabled us to deliver margin improvement as planned.

We are committed to sustaining this positive momentum into the new fiscal year and driving strong growth across all our regions in particular: India, based on our recent salesforce expansion; and the US aided by material new product launches. Our India business as you would have noted recorded an 11% plus growth per IQVIA, ex the diabetes portfolio growth was 15% plus, in line with the market growth. In Q4, we made a significant investment to expand our sales force in India and enhance our reach. We're very pleased that overall we delivered margin improvement for the organization despite this material investment.

In the US we improved our margins for a third quarter in a row through portfolio optimization, maximizing the high value products and continued cost optimization efforts. We were able to improve our margins despite increase in R&D spends quarter over quarter. Overall, when you look at it for the year, the R&D spend for the US was $100 million with an increasing proportion of complex generics in particular inhalation and injectables. Apart from India getting to double digit growth and U.S. business improvement, our API business recovered in the quarter with demand growth in our core products. Our EMEA business grew driven by South Africa quarter over quarter and Fostair (Luforbec) in Europe year over year. In APAC, our Philippines subsidiary performed very well.

Switching to R&D, we continue to drive the shift to complex genetics with a focus on respiratory and injectable products. We filed 19 products in the US and 10 ex-US. Of the US filings, we had four injectables, 3 nasal sprays and we made progress on Respimat and Ellipta products on both platforms. Apart from generics, on the R&D front, we optimized the New Chemical Entity (NCE) R&D spent in Q3 to focus on only two of our oncology pipeline programs, significantly reducing the discovery spend.

Switching to compliance, we've made progress in part with positive outcomes on the Ankleshwar, Vizag, Nagpur injectables and Somerset sites. We've also

made substantial progress on our remediation efforts in Tarapur, Mandideep Unit 1 and Pithampur Unit 2. We are committed to ensure that we get all our sites to a consistent and sustainable level of compliance. I'm sure we'll see more progress on this front in fiscal year 2024.

On the M&A front, our recent acquisitions have performed well with Anglo French; Southern Cross; Xopenex, Brovana in the US and Paloma in Brazil, all delivering as per plan. Our recent acquisition of Medisol in France enables us to accelerate our injectables franchise in Europe. We are very pleased to be able to close that. We have come a long way in fiscal year 2023 and I am excited about the prospects in fiscal year 24 as we launch products like Tiotropium, Darunavir and others in the US and drive consistent double-digit growth in our India business. We remain focused on driving operating margin improvement as we grow our business. With this, I will hand it over to Ramesh for a deeper analysis of our performance.

Ramesh Swaminathan: Thank you, Vinita. Friends, welcome to a refreshing set of numbers. We are hopeful that it sets a stage for better numbers here on. Sales for Q4FY23 are at 4,330 crores as compared to 4,245 crores in Q3FY23, which is a growth of 2% quarter on quarter. On a yearly basis, the company registered at 12% growth over Q4FY22 sales. In the US, during the quarter, we registered a small degrowth of 1.3% in local currency terms. On a sequential basis, the sales have come down from $177 million to $175 million. During the quarter, Albuterol sales came down marginally due to a seasonal impact.

In India region, India branded formulations business declined by 3.1% in Q4 FY23 versus Q3 FY23, whilst on a year-on-year basis the sales grew by 8.9%. For full year FY23 year on year the growth was 3.3%. Overall market growth during Q4FY23 was 14.9% whilst Lupin grew by 11.3%. Lupin which has highest growth in Q4 as compared to the earlier quarters, Q1 was 1%, Q2 was 6.2% and Q3 was 7.5%. Adjusted for diabetes, we were close to market growth rates, at 15.2%. Due to loss of exclusivity and geneticization, the anti-diabetes business has impacted our growth rate as patented portfolio is a large chunk of our diabetes portfolio. We have also done well excluding the top three areas of Lupin, also in gynaecology and GI.

API business sales grew by 14.6% on quarter-on-quarter basis. As core Cephalosporin API sales continued the path to recovery from higher sales in Cefaclor and 7-ACCA; On a year-on-year basis sales growth was 46.4%.

EMEA sales for the region grew quarter on quarter by 19.3%, year on year the growth was 11.4%. For South Africa, quarter on quarter growth of 35.3% in local currency terms led by higher sales in various products. For UK, the year-on-year degrowth was 6% but the higher sales over the last quarter is primarily driven by Fostair. For Germany, quarter on quarter degrowth was 12%: Q3 was higher for Germany due to competition stock outs.

For Growth Markets, sales grew by 4.7% quarter on quarter driven by Philippines. Traditionally, Q4 is a strong quarter for Philippines. Nearly all divisions perform well in comparison to the last year charting a growth number of 14%. For Australia, quarter and quarter and year on your growth was led by higher sales and acquired portfolio of Southern Cross. For Australia, Q3 was lower due to shipments getting deferred to Q4. For Grin, quarter on quarter degrowth was 23.6% led by stock out of certain products due to plant shutdown. For Brazil, quarter on quarter growth of 9.4% was led by the by acquired products from Paloma.

On gross margins, Q4 FY23 gross margins is 59.7% as compared to Q3FY22 gross margins at 59.8%. The sales mix especially India regions played a part in the slight lowering of the gross margins.

Since the beginning of this year, we spoke about optimization initiatives on various fronts. I'm glad to state that we did achieve good progress on some elements of the program as in the case of sales returns, air freight and so on, both elements of which get folded into this line. Secular inflation of over 5% in input prices has however eroded into the gains which were marking visible progress here. We continue to work on write offs and other initiatives including launch of meaningful products that would further make a difference in the gross margins and hence to the bottom line.

The employee benefits line in Q4FY23 is 773 crores vs 764 crores in Q3FY23 and 703 crores in Q4FY22. Quarter on quarter increases mainly due to field force expansion in in the India region, higher bonus accruals, ESOPs in US etcetera. On an ongoing basis, we expect employee cost be around 19%. Despite the lower growth on the top line, the year-on-year increase has been only 3%, reflecting the initiatives on the workforce reduction that we carried on at various functions. This also captures a negative impact of FX translation resulting from a depreciating rupee.

On manufacturing other expenses, Q4FY23 is 1,303 crores vis-à-vis 1,333 crores in Q3FY23 and 1,321 crores in Q4FY22. Quarter on Quarter savings is a result of reduction in business settlements and other expenses of a one-time nature. Year on year, savings is on account of reclassification done in in travel in Q4 last year from employee benefits. Friends, whilst there are savings as a result of optimization measures, the translation impact of outside India expenses, as well as an increase in sales promotion spends in India along with and minor investments in adjacencies businesses offsets the gains made.

Operating EBITDA excluding Forex and other income at 13.9% for the current quarter, reflecting an improvement of 170 basis points in comparison to the previous quarter. The improvement of EBITDA is primarily driven by optimization endeavours, lowered other expenses and PLI benefits. With

launch of newer products and sharper focus on cost, we expect material continued optimization of EBITDA across quarters over the next year.

R&D expenses are 7% of sales at 350 crores in the current quarter as compared to 289 crores that's 6.8% of sales in Q3FY23 and 8.9% in Q4FY22. We continue to pivot to more complex products and platforms while continued to focus on costs and outcomes. Year to date, ETR was 36.9% and for the quarter, the ETR was only 5.9%. The lower ETR in the current quarter was mainly due to higher profit in the US apart from normalization of accounting for the effective tax rate.

Other operating income, Quarter on quarter, there is an increase in other operating income on account of inclusion of PLI benefits, somewhat reduced by other settlement income, other milestones and the like. Forex gains is at about 26 crores in Q4 FY23, Q3FY23 was 16.6 crores. So that I would like to open the field for discussions.

Moderator: Thank you very much Sir. We will now begin the question-and-answer session. Please raise your hands from the participant tab on the screen to ask questions.

So, the first question is from Damayanti Kerai.

Damayanti Kerai: Thanks for the opportunity. So, my first question is can you update us on the status of your Tiotropium filing because you had earlier given two TADs, right, one in April and one in June. So, if you can talk a bit about it?

Vinita Gupta: Yeah, so we've been in active dialogue with the agency back and forth on information requests over the last two months on Tiotropium. The TAD date right now on paper is July and August, so instead of April and August and we hope that we will get approval sooner. We've had communication on monthly basis with the agency on the application. Just last week they cleared a drug master file for the product which is a very positive sign. So, we hope that we should be able to get approval in the next month or two on the outer side by July / August.

Damayanti Kerai: Why two TAD dates? is it similar like plant and without plant inspection?

Vinita Gupta: Yeah, that's the two TAD dates. But the extension of the TAD dates is based on the information request that the agency is making. And when we respond to the information request, they have an automatic 90 day from the response, that they give us as a TAD date. So, we've been trying to work with the agency to figure out how we can avoid that. So, some of them are just clarifications that they're asking of us.

Damayanti Kerai: Okay. My second question is on R&D. So now you are down to say 3 billion a quarter. So but at the same time you are progressing in some of the complex

generic products you talked about Ellipta, Respimat, etc. So my first question is how should we look at R&D expense from here on and if you can split R&D into your complex generic spend and NCE spend that will be helpful.

Vinita Gupta: Overall strategically we've been pivoting more towards the complex generic platform and continue to do so. So even when you look at our generic R&D spend at this point, the percentage oral solids versus complex platforms (inhalation and injectables) has changed in favour of inhalation and injectables and we continue to drive that that shift towards complex platforms, I mean, the NCE spend that you asked about is very small in the scheme of things is less than 5% at this point.

Ramesh Swaminathan: 10% really, but it's actually coming down to about less than 5%. In fact, in the course of this current fiscal, we're pivoting more towards the complex generics. So the salience of the oral solids is actually coming down. That used to be well above 45%. It's coming to much lower figures. And the spends for injectables and inhalations is certainly going up in the course of this fiscal and certainly would be the way forward as well.

Damayanti Kerai: Just to clarify, so OSD you said earlier it used to be 45% of say generic spend. It is coming down and more is going for the inhalation and …

Ramesh Swaminathan: … Inhalations and injectables for sure.

Damayanti Kerai: OK. And Sales force? Fourth quarter number include cost for the MR addition in India. Does it reflect fully or like more to come in coming quarters?

Ramesh Swaminathan: Yeah, a huge chunk of it is actually captured in Q4 but is of course the annualization impact of that because these were recruited in the fourth quarter. The annualization impact will certainly be captured along the full current fiscal year.

Damayanti Kerai: OK. Thank you. I'll get back in the queue.

Moderator: Thank you very much. The next question is from Kunal Dhamesha.

Kunal Dhamesha: Hi, this is Kunal from Macquarie. First question again on Spiriva, would you be able to share the nature of the information requests that we are getting from FDA? And secondly on the same generic Spiriva? Would we have clarity as to whether we will require plant inspection or not by now? And if yes, hypothetically, let's say if we require what is our preparedness, have we done any mock inspection, have we proactively employed consultants, etc?

Vinita Gupta: Yes. So, I'll take the second question first that we have always been inspection ready in the Unit 3 for FDA in case they come to inspect the site for Spiriva. At the same time, we don't know for certain, but we believe that at this point we are pretty far along with the agency. The information request that we're

getting beyond the last CRL that we responded to was really clarification on the testing method, sample size and the like, the rationale for it and what is giving us comfort is the fact that they started clearing parts of the application. We we've been already informed that the pD-pK was cleared a while ago and the fact that the DMF has been cleared last week and we continue to get minor queries at this point gives us the comfort that we're pretty close.

Kunal Dhamesha: Sure. And we are still sticking to a September timeline or second half of FY24 for launch.

Vinita Gupta: We're hoping first half,

Kunal Dhamesha: OK, because last time I think we said September 23 launch well. So, I think August was the outside TAD date. So we hope that we'll be able to get approval before that and we are getting launched ready.

Kunal Dhamesha: Sure. And secondly, I think know Ramesh, one for you, whatever cost savings that we have done that is getting offset by some of the line items which have seen increase like sales and marketing etc. But still would it be possible for you to quantify in terms of our target of 550 crore cost savings which we said at the start of FY23, where we would we be right now and what's the runway left for us for FY24.

Ramesh Swaminathan: Yes, we have been able to achieve well over 325 to 350 crores across at least three of the four levers that we have progressed along. There is of course some more steam left as far as the inventory write off's concerned and we believe on the idle time as well which is not a switch on, switch off kind of a thing. So it has to be over a period of time. So we will exercise those levers and potentially see gains over the next several quarters.

Kunal Dhamesha: Sure. And I think last year we had a failure to supply penalty roughly around 26-27 million dollars. Would you be able to share the number for this year?

Ramesh Swaminathan: Yeah, but I don't want to actually make it explicit, but it's come down dramatically. It's in fact in a high single digit numbers right now.

Kunal Dhamesha: Sure. And lastly, on the profitability expectation for next year, would you be able to share any form of guidance or range?

Ramesh Swaminathan: We believe that the momentum would be sustained. And also going forward, you'd like to see that Q2-Q3-Q4 would see successful improvements for sure after the launch of Spiriva and other products we're speaking about: Darunavir and others in America and of course there is expansion of Fostair in Europe and the like. So with the cache of products that we're launching across various markets and you would see the top line lifting up to double digit growth rates for the entire year. And, of course with the tight leash on costs, you would expect the better margins also to go up. We do think that towards the end of

this current fiscal, you would find a substantial increase closer to impact where we think we should be a part of 18% plus percent

Kunal Dhamesha: 18% plus percent exit run rate.

Nilesh Gupta: Yeah, exit run rate.

Ramesh Swaminathan: That's what I meant. And for the full year, you could talk about upward of 15%. Sure. Perfect.

Kunal Dhamesha: Thank you and all the best.

Moderator: Hi, Thank you very much, Kunal. Next, we'll take from Krishnendu Saha.

Krishnendu Saha: Hi, thanks for the just want to get a hang of the US numbers for the quarter, its flat. So just trying to understand we had one extra month of Xopenex and Brovana, we had an AG also in the mid of December. So, is this $175 mn number sustainable? So, what were the misses and what were the additions to it which get to this $175 mn? I'm trying to understand that part.

Vinita Gupta: Yeah, so the difference was $2 mn. And there's a good amount of seasonality that you see in Q3 especially with flu products as well as albuterol. So albuterol while the share remained the same, the volume came down a little bit in Q4. But otherwise Suprep was very strong and offset some of that, as well as our inline products were fairly stable.

Krishnendu Saha: So Suprep we still have two player market, right?

Vinita Gupta: That's right, it is the authorized generic and us, so far most we see this

Krishnendu Saha: How long do you think that this can continue any case I'm not an expert I'm so I can understand your view on this.

Vinita Gupta: Yeah it's hard to predict so far we don't see any new entrant imminent.

Moderator: Thank you very much, Krishnendu. So, the next question is from Neha Manpuria.

Neha Manpuria: Thank you so much. Vinita, on Spiriva, you don't see a scenario of FDA giving us a possible CRL when the TAD date comes, right, based on the queries that we're getting or is that still a risk

Vinita Gupta: That would be highly surprising. I mean it's hard to predict the agency at any point in time, but just based on where we are, we feel like we are close to the finish line here.

Neha Manpuria: OK, got it. And second, Ramesh, given Spiriva launch etc, still tough to predict and there's also the market share that we end up ramping up to. if there is any

delay in Spiriva then how should we look at the margins from the 13% that we are doing? Could there be lags to the margin or all of that margin guidance? That we've given is dependent on the new launches

Ramesh Swaminathan: I don't envisage this situation where Spiriva is going to be in doubt, but in the unfortunate event it does happen to be something like that, the base is set with the current levels and we expect in fact better numbers to come in from our India business and we have products across others also. So I would certainly say that there would be margin improvement but of course the needle really moves sharply when Spiriva is really launched.

Vinita Gupta: I would just add to that, other than Spiriva, which of course will be the largest opportunity as we see it right now. And we also have Darunavir in June. We have Cyanocobalamin that we hope to launch out of Somerset in August. We have Diazepam Gel that we hope to launch in July. We have a Varenicline that we hope to launch. We have a TAD date of October for that product, and we have bromfenac, the ophthalmic product, where we are exclusive first to file that is at the tail end, March. While we have Spiriva as a major new product opportunity, we also have few others that will help us grow the business. Needless to say, I mean the margin guidance that we just spoke about there will be some impact hypothetically Spiriva would not come through. But again, we we've looked hard, we've worked hard on cost optimization and we'll continue to do that to make sure that we continue to drive our margins forward.

Neha Manpuria: Understood and we need to one other question in the US business, I think you mentioned in the television interview about price erosion being, if I heard correctly, low single digit, mid-single digit. Just wanted to understand are you seeing, let's say things improve on the price erosion front or let's say at least customers not coming back to you with repeated request for price revision on the baseline products given what's happening with the plants for competitors

Vinita Gupta: We're starting to see that. And I think I said mid to high single digit in the interview, but because that's a normalized level that we saw in previous years. We've given the supply chain challenges that companies have had, our customers have become again very, very focused on reliability of supply and again engaging in more longer term relationships, contracts or at least the commitments, which gives us comfort that they are prioritizing reliability of supply over price. I mean of course they always like to get the best price, but they've struggled a lot this past year with the flu season products. So the flu season products in particular, we are finding that they're engaging with us in a most strategic dialogue on how do we really ensure that we meet the market demand. How do we partner to meet the market demand. So the partnering dialogue is gaining momentum over the transactional model of business with our channel partners

Neha Manpuria: Understood. OK. Thank you so much.

Moderator: Thank you so much, Neha. So next question is from Prakash Agarwal.

Prakash Agarwal: Just on the India business, we talked about you know we expect double digit growth when we see April data, the month is pretty flat, volumes are down 5%. So the first question is what is the strategy that we are following? I did hear you have added some MRs, if you could explain how much you have added with therapies? And what is the strategy despite a very soft start for the industry

Nilesh Gupta: We've added close to 1,000 representatives and we've done 5 new divisions out of that. There's a 6th division that will come up in this first quarter as well. We're seeing growth across the board coming back. We're seeing growth on respiratory. We're seeing growth in cardiac. We're seeing some normalization of growth in diabetes even and the intent would be for that to continue. Good growth in areas like gynaecology for example. So, I think the mood is extremely upbeat. Our own internal numbers on April look higher than whatever estimates we originally had. So yeah, I do think we are moving in the right direction. I think there's two of these of the divisions that we've added in March that have started giving us some returns, the others that we've just set them up in Jan, Feb, March. So that will really come in the quarters to come.

Prakash Agarwal: OK. And what's the final count as on the March for after thousand MRs. getting added?

Nilesh Gupta: Yes, about 7,000 and about 9,300 The number, so 7,000 MRs. and 9,300 including the total sales team.

Prakash Agarwal: Fair enough. Secondly on the facilities issue that we are having across the US FDA issue, just wanted to have a flavour in terms of what is the remediation expenses we are incurring currently across, and which ones would be the first one that could get out of the FDA scanner. And by when, I mean if you could just very ballpark what is the thought currently.

Nilesh Gupta: Sure we can talk about the remediation. I think when they'll get cleared is a little bit of crystal ball gazing. I think the spend is definitely higher at this point of time. You know for example there's a considerable amount of spend being done on nitrosamines and the like. Part of it would be for the industry as well, but certainly for us basis some of the observations we had in Tarapur. So, we've made great progress. I think we're close to remediation of that site. We're close to remediation of Mandideep as well.

Pithampur, we're hoping with the next update we close out all the observations that we had and the next step obviously would be to engage with FDA and get feedback. I think there is definitely additional spend at this point

on the compliance front which we would hope to see normalize in the second-half.

Prakash Agarwal: That would be to the extent of what couple of million dollars or it's a larger number to look at.

Nilesh Gupta: No, it is larger than that.

Ramesh Swaminathan: Yeah, we spend fairly large amounts on consultants itself,

Prakash Agarwal: OK. So about $10 million something like that. I mean some ballpark number?

Vinita Gupta: Times two

Prakash Agarwal: OK. And this is annual, right?

Nilesh Gupta: That's right. There was a certain number in the base also. All of this is not incremental, but there is definitely room to optimize here.

Prakash Agarwal: Okay. And at best, it would be what, 6-12 months while we see like a clean state or it could be long drawn as well?

Nilesh Gupta: Yes. So large part we expect to complete in the first half. So definitely, there would be optimization that we would expect to get in there after, and some of it will flow into the next half as well.

Prakash Agarwal: Got it. And just last one here on looking at past notes, we had talked about ForDoz pharma for injectable tie-up. Just wondering, if there's any update on the tie-ups we had, if I'm not wrong two injectables. Is that plan still on? Or where are we on that?

Vinita Gupta: Yes. So, they filed doxycycline. I think we have a TAD date pretty soon. it's a product that we intend to launch in the next 12 months.

Prakash Agarwal: And the other one?

Vinita Gupta: Ambisome is still in development

Prakash Agarwal: Okay. And it is limited to two products or are we planning more?

Vinita Gupta: The ForDoz partnership was the two products.

Prakash Agarwal: And are we doing more such types or.

Vinita Gupta: Yeah. Yes, on the injectable front, we have a pretty active effort ongoing to partner as well as acquire injectable products that can accelerate our build of the injectable franchise.

Nilesh Gupta: You would have seen the approval that we had with some of the Caplin point products.

Vinita Gupta: Yes. And so we have, I think, five or six point Caplin Point products that we intend to launch in the next 12 months.

Prakash Agarwal: Okay. Perfect. Great. Thank you. All the best.

Vinita Gupta: Thank you.

Moderator: We'll take the next question from Mr. Bino Pathiparampil.

Bino Pathiparampil: Thank You. Hi. Good afternoon. We have a couple of questions. One, pegfilgrastim, what's the update? I thought that was also expected this fiscal.

Vinita Gupta: Yes. So, we're just waiting to hear back from the agency on pegfilgrastim. We have after the inspection of the Pune site, we have responded to all of the queries that the agency had and believe that we should be getting that approval if they have no objection. Maybe just waiting to get that approval to really determine next steps with the product.

Bino Pathiparampil: Understood. Could you please repeat the product you said, the ophthalmic product you said could get launched in March?

Vinita Gupta: Bromfenac (Prolensa).

Bino Pathiparampil: And the list of products that you mentioned for launch this fiscal. Do any of them depend on clearance of these FDA issues at the facilities or are they all de-risked?

Vinita Gupta: Actually, only Prolensa does. Prolensa is Pithampur Unit-2, which we hope to clear.

Bino Pathiparampil: Okay. Great. And finally, Ramesh, this year, we had a very high tax rate. Going forward for next couple of years, what do you expect the reported tax rate to be?

Ramesh Swaminathan: As you can imagine, the tax rate has been high only because we had the loss-making subsidiaries across. But since then, actually Brazil has turned around, America is expected to, of course, do well next year. So I expect the rates to come back to normalize to around 30% next year. It could be a little lower than that also.

Bino Pathiparampil: Got it. Thank you very much.

Moderator: Thank you so much, Sir. So, the next question is from Surya Patra.

Surya Patra: Yes. Thanks for the opportunity. First question on the general overall cost. See, thanks for the improved performance in the quarter, but still generally the margins are below par versus the industry trend. We know the kind of challenges what we have been facing. But having seen the kind of cost containment measures and all that, so we have started seeing some kind of signs of improvement.

But could you give some sense that which are the key cost element that we are targeting currently, and where that we can see some improvement. Because that will give some kind of confidence about it. Because we have been under the sub 15% kind of margins since long, and one of our big revenue driving market that has been under loss. So could you give some key cost line items that you are targeting to really control?

And also, what is the update on that hiving of the discovery research division what we have been talking about to improved our overall margins? So let's say, over next two to three year kind of horizon, what are the kind of margin progression that we can see? And for that, what cost line items or cost items that we are really considering in this?

Ramesh Swaminathan: I'll start with the easiest, starting with NCE, we have actually ramped down the overall infrastructure associated with that. So INR150 crore spend is actually coming down to much lower numbers. That's the first. So essentially, we would save close to about INR70 crore toINR80 crores on that. On the cost lines, yes, we do realize, whilst there has been considerable savings and progress along with various initiatives, and I spoke about INR 325 to 350 crores kind of savings.

We still believe that there is a good INR250 crores that is possible across lines like inventory write-offs, which still remain high because of the products that we are dropping, impurities, nitrosamines, and the like is impacting those as well. And that would, of course, come down. It's not going to be a situation of continuing for long. We've taken active measures in terms of looking at inventory control, and evidence of that is really seen in the working capital optimization measures which is actually bearing fruit even in this particular quarter.

There is a base below which it is impossible to go below, when it comes to cost thresholds, so to speak. So there is a minimum infrastructure that we need to maintain in terms of staff and across various functions. But for sure, we do believe that there is still some scope when it comes to, for example, facilities, on the infrastructure, on the R&D, oral solid dosages front and so on. Because if we're going to keep it lower, then potentially there is scope for optimization.

If the volumes are what they are, then potentially there is scope for footprint reduction across manufacturing lines and the like. So it is going to be a continuous process. But it's not as though it is going to be something which

can be achieved within a period of two quarters or three quarters. It is going to be over an elongated run, possibly over the 18 - 24 months period. The only thing that we can actually assure you is that the focus is going to be constant. it's going to be razor sharp in that sense. And it will show results over time.

Nilesh Gupta: Ramesh, if I can just add, I think first of all, on the gross margin line, I think you guys did a bunch of efforts around that. We did a bunch of efforts around that. A very large portion of that got wiped out by inflationary costs as we discussed. Same way on the SG&A front, there's a significant increase, the majority of that increase is towards India and the related adjacencies that we have. In fact, we've optimized expenses on a bunch elsewhere.

So there is an optimization plan in the US that is actually what's helping getting the numbers to a better level at this point of time. But there's also an investment plan in markets like India that is resulting in increase in some of these lines as well. So it's not going to look linear from that perspective. It's going to be different strokes in different markets. But US clearly moving down the optimization path, clearly the focus on new product launches as well.

In markets like India, we're obviously investing. Like we said, we added the sales force, there's a cost attached to it, that's just started. So there's going to be additional selling promotions spend that will come around that as well. But that obviously is with a clear visibility of return that we will give starting within 12 months from the time that we get the sales force on the ground. So I think the margin will obviously improve, but there are these forces moving things up and down a little bit.

Ramesh Swaminathan: True. We've mentioned a lot of that at the start of the session itself in terms of my opening remarks.

Surya Patra: Yes, sure. So, so my second question is on the, let's say, in all your effort for the ramping of your injectable base, how does the acquisition of the Medisol fare, the one recently that we have done. This is a very small company, although it is not very influential one to the overall size, but whether it is having any capability apart from the products? And secondly, on the injectable front for our existing key market, what is the core strategy that or when are we expecting to see meaningful contribution from the injectable portfolio as a whole? That is my second question.

Vinita Gupta: Yes. So your two-part question on the injectables, the first Medisol just gives us access to France. You know France is a market where we've had very little exposure right now in Europe. We're really in Germany, UK directly and then France, with NaMuscla. But this small, toehold, so to say just gives us entry into the hospitals in France. And it allows us to really take our injectable pipeline that we have put in place for the US as well as other developed

markets and bring it into France. The hospital segment in the France is actually pretty attractive, for the portfolio that we have invested in.

So, it gives us an access point. It doesn't give us material infrastructure or a sales force. It really gives us access to the market and it's a very accretive deal. It's a small asset, but accretive, which our focus has been on all our acquisitions to really buy accretive assets that don't dilute our earnings. So on the, contribution from injectables, I'd say that FY25 onwards, I mean so we have been building a pipeline. We have a good number of products filed even in FY23 we filed Liraglutide, we filed Glucagon and the Caplin products were filed. So, we'll see six or so injectable products coming to market in FY24.

There will be these smaller products, and the larger products, whether it's Glucagon or Risperdal Consta, we expect in FY25. So that will be our hopefully a big ramp up year for injectables. And then we are trying to figure out ways and means that we can accelerate that with products that we can partner, products that we can acquire. The US generics team is actively working on it to figure out how we can accelerate the injectable build.

Surya Patra: OK. Just a last question if I may, on the domestic formulation business how should we see because see having seen this segment really contributing meaningfully to everybody's growth during the difficult time of the last two years. So hence everybody is now kind of for trying to enhance, expand or whatever in the domestic business. So it is nothing but just enhancing the competition. So while the growth of the industry or growth of the base is kind of known and the trend is kind of getting followed only. So is it because of the incremental competition and everybody trying to have their share in that? So whether the profitability is likely to be compromised going ahead?

Nilesh Gupta: I couldn't help but smile when you were saying the question. I think there's a massive opportunity in India. There is a massive need in India as well. For example, the 6th division that we're going to launch is an extra urban division where we will go to doctors and geography that we don't even cover at this point of time. So I don't think it is competition with each other. Definitely when you launch products, obviously you compete against other companies, but I don't think it's that and I don't think it's going to have a reflection on pricing.

There is an opportunity in the bigger scheme of things, I think it's the GDP, the amount of spend on healthcare out of GDP, affordability, the ability for people to pay, to get diagnosed and tested, that is the bigger story in India. And I think anybody who's really focused on India is driven towards that story, certainly we are. So, I don't see this as a limiting opportunity going forward. I actually see this hopefully as something that should accelerate in the next few years.

Surya Patra: Sure, sir. Wish you all the best. Thank you.

Moderator: Thank you very much, Mr. Patra. Now may I request Mr. Sameer Baisiwala to go ahead with his question.

Sameer Baisiwala: Yes. Thank you, so much, and good evening, everyone. Vinita just quickly how many complex injectables and inhalers have been filed and what's the approval visibility over next couple of years?

Vinita Gupta: So, on the injectable front, we have a few. I mean, glucagon that I mentioned, I think four or five products, the liraglutides, glucagon, ganirelix, and then, of course, the ForDoz product, doxycycline. On the inhalation front, it's been the products like Spiriva and Dulera. But we've been, like this year, we filed three nasal sprays as well. So while smaller opportunities, but still meaningfully add to the respiratory portfolio.

And I'd say that the Ellipta filing as well as Respimat should really happen in the next fiscal year. We are making good progress on these products. But in terms of the development cycle based on where we are, they will really be fiscal year '25 filing.

Sameer Baisiwala: Okay. Excellent. And just talking about albuterol, what's the outlook for the current year fiscal '24, both in terms of pricing? And is there a room for market share gains over here?

Vinita Gupta: If there are any market disruptions, we certainly will be ready to take share. I mean, so far the market has been fairly stable, and we've got this 20% plus share. And we hope to be able to sustain it at the current pricing or as close as possible. So I mean, I think if there are any disruptions, certainly we'll have the opportunity to gain share. But it's turned out to be a really nice product for us.

Sameer Baisiwala: And you said, you expect the pricing to be stable for the foreseeable future.

Vinita Gupta: Yes, we think so.

Sameer Baisiwala: Okay. Great. And just one final on India. For the full year fiscal '23, I see you have grown at 1% or so, whereas the price increases, I would imagine, have been more like 7% - 8%. So, does that mean there's been a quite big volume erosion in India? That's one. And second, what's the pricing outlook for fiscal '24 for India?

Nilesh Gupta: Yes. So I think the biggest story we impacted on diabetes and we have de-grown there, rightly so from a value perspective. So that certainly happened. As far as the pricing outlook, so obviously, the WPI was 12.2 or the likes or the scheduled products. For the most part, we would have taken that increase. We typically don't take it on anti-infective, for example. And then obviously, we optimize other products and take an annual increase as well.

There have been input material increases as well last year. So I think we definitely wanted to take more of the increase. Typically, I think in the non-scheduled portion, 5% - 6% is the price increase that you end up sticking to.

So last year, if you take out diabetes, it's a growth story. With diabetes, it's actually a de-growth. So from that perspective, obviously, there's significant room to move. That diabetes part is starting to stabilize. Diabetes is about 20% of what we do in India. So, there is direct impact on the overall India number when we do it.

But we're starting to see all of that starting to even out. Respiratory was slow to start. But now, that's growing nicely. Cardiac is starting to get to the double-digit number as well. I think other than diabetes, everything else will be at double-digit.

Sameer Baisiwala: And then just to conclude on this, after 7% - 8% price increase last year, 5% - 6% this year, I mean 14% put together. I mean, do you think markets, doctors are quite okay to absorb this kind of a price increase? I can't remember when last we had such high price inflation in the drug industry there from last year.

Nilesh Gupta: Yes. So as far as these controlled products, there was an additional NLEM list. So net-net, there actually a negative impact on that portfolio from what happened in November, December. So on that, that list of products, which was there, obviously, there is impact. I'm not sure where you're getting the 7% - 8% from, that certainly was not our pricing increase last year either.

Sameer Baisiwala: But that's a number you get if you see industry-wide volume versus value growth for the industry as a whole and most companies, and that's where it's coming.

Nilesh Gupta: No. I think that would also be the portfolios that they're shaping. If there's going to be more oncology, then the value will go up and everything. But I can't comment on that. You can comment on that better. From our perspective, we look at products very closely from affordability as well, certainly with our peers as well, we would not be priced at the lowest product. We would certainly not be priced as the most expensive product as well.

And there have been significant cost increases which have happened over the last couple of years, right. If you look at the base product, look at anti-infectives, look at vitamins, look at some of the materials starting out of China, massive inflationary costs, the same thing that we're explaining on the gross margin line. You can't directly pass them on in India. I think you only get an opportunity once a year to go and address that. And you would address it where it's possible to do. Where you feel that it's not, you don't.

Sameer Baisiwala: Okay. Great. Thank you so much.

Moderator: Thank you so much, sir. The next question is from Mr. Madhav Marda.

Madhav Marda: Hi, just had a few questions. Just wanted to understand on the R&D side, we're at about 7% of sales in Q4 and about, I think, INR 300 crores on absolute basis. I'm not sure if you gave some guidance in terms of where we could be as a percent of sales or an absolute basis. If we should be like, annualised our Q4 number or can this go up?

Ramesh Swaminathan: So essentially, there would be actually a pivoting to more complex products, but the magnitude will be around the same vicinity, in INR 1,300 crores to INR 1,400 crores max.

Madhav Marda: INR 1,300 crores to INR 1,400 crores R&D. Okay.

Ramesh Swaminathan: Yes.

Madhav Marda: And then the second question was on the India business. By when does the diabetes portfolio generalization impact come through in the base, like is it Q1 FY '24, where it's fully in the base and then sort of we can start doing it at a faster pace?

Nilesh Gupta: No, it goes into '25 as well, I think as some products go, right. So I think there's two things here, right. Products that we would have in-licensed, where competition comes in or we reduce pricing in line with competition or other products which are getting genericized, both of these things are the two elements eating away diabetes, right.

So you would have seen in the DPP-4s, one by one, each of them has been going off patent. In the SGLT2, same way, that's been happening as well. That keeps impacting the market over time because certain prescription behaviour keeps switching when a higher priced product remains, but a lower priced in the same category is available as well. I think that will go on till 2025. From our Indian region perspective, while that's a top-line story, it's not a bottom line story because in the in-licensed portfolio, you make a lower margin profile versus products that you would make yourself.

But I think we obviously enjoyed the wave of the increase in the entire diabetes sales over the years as these new products were brought to market by us. But on the flip side, we are seeing this as well. I think it's part of life. It's going to pan out in the next two years. But till then, the growth I think on diabetes will remain possibly in my opinion, possibly high-single-digit, not getting to that double-digit category.

Madhav Marda: Got it. And just one clarification. You mentioned about INR 250 crore cost impact from the nitrosamines. Could you just clarify what that was? Like that's a saving which can come through or.

Ramesh Swaminathan: INR 250 and anything like that. We said about $20 million

Nilesh Gupta: Well, we said $20 million on consultant spend. We did not say, total everything put together.

Madhav Marda: Okay. Thanks.

Moderator: Thank you so much, sir. May I request Mr. Chirag Dagli to go ahead with this question, please. Thank you.

Chirag Dagli: Yes, sir. Thank you for the opportunity. Sir, we spent INR 1,500 crores CapEx – organic CapEx in FY '23. Can we have some details on what this CapEx is on?

Ramesh Swaminathan: Acquisition. So essentially, in India, CapEx is far lower, in fact, less than half of what you're mentioning. A huge chunk of it is actually for M&A. It is spread across, in fact, what we bought in India, what we bought in Australia, and what we bought in America.

Chirag Dagli: So there's a separate line item, Ramesh, which says payment for acquisition of business, that's INR291 crores at separate. And there's also another one on capital expenditure on property plant.

Vishal Rathi: So what are you seeing there on the acquisition, that's only for one piece, which is on AFDIL. All the other acquisition, whether it was with the Sunovion for Xopenex, Brovana or the Paloma acquisition in Brazil, those are all getting accounted in the line, which is where you see the capital expenditure. And both this acquisition, specifically the Sunovion one was a significant one from an acquisition perspective, which we did this year.

Chirag Dagli: So this line item says about property plant equipment.

Vinita Gupta: So we need to clarify it.

Ramesh Swaminathan: The intangibles actually, what we bought into brands and so on. So it's actually coming as part of that.

Nilesh Gupta: Like we said, the CapEx is basically of the order of INR 600 – 700 crores, that's Global. And about half of that would be really going towards maintenance kind of spend and the other part would be for newer capabilities.

Vishal Rathi: So both lines together is INR 1,700 odd crores is what you see overall.

Chirag Dagli: And we hope to maintain this kind of granted INR 600 - 700 crores organic CapEx.

Ramesh Swaminathan: The organic CapEx would be around the vicinity, between INR 600 crores to INR 700 crores. So potentially, M&A is really going to be based on the proposition that presence itself.

Chirag Dagli: Understood. And this M&A, we keep doing these small, small bolt-on deals. My question is, really, how do you is there an internal hurdle, IRR, payback period, return on capital, how are you thinking about?

Nilesh Gupta: Of course, we do have that. It really varies. For example, if you take the Medisol thing, it is actually very strategic. So, of course, the payback period is very reasonable from our perspective. So it really is dependent on the proposition and what does it do to our overall portfolio. And on the respiratory space, for example, we found an opportunity with Brovana and Xopenex, and also essentially Paloma, for example, helps in actually stabilizing the overall portfolio in Brazil. So it is actually a bit of strategy, and of course the kind of returns associated with it.

Vinita Gupta: But all of them, our focus has been on quick payback and high IRR, EBIDTA multiples.

Ramesh Swaminathan: And being EBITDA accretive as well as much as possible in the very first year.

Chirag Dagli: So we've spent about INR 1,000 crores on these acquisitions, right? INR 1,700 crores of overall CapEx, like you're saying.

Ramesh Swaminathan: Yes, that is correct. Everything put together.

Chirag Dagli: So, my question is, this INR 1,000 crores, if you can just give us a sense of how are you thinking about payback periods, IRRs or whichever way you're slicing? This seems like a fairly large amount. I would have been surprised if you would have told me 12 months back that you would spend about a INR 1,000 crores with a single-digit ROIC, you would spend about a INR 1,000 crores on M&A. I'd be surprised. And that's the question that how have you evaluated?

Ramesh Swaminathan: Our threshold limits are, as I said, it is pretty high. I would say anything north of 19% - 20% on an IRR basis, which includes, in fact, a terminal value of that. So even without that, it would be well above 15%. So from our perspective, it actually adds value – economic value to us. Our cost of funds is about 11.3% and thereabouts. So, to that extent, all of these propositions as well as they are well above those limits, it makes sense to us.

Chirag Dagli: Understood. And just the last question is on the tax rate. At what point do we become a normalized tax rate company?

Ramesh Swaminathan: So in the recent past, we have been inhibited by losses in various subsidies, and that included Brazil and America. And of course, we still have our entity, R&D entity at Netherlands. That would potentially be because it's more R&D spends, but we do expect the other business subsidiaries to start making money for us, as was the case in America until very recently. So effective tax rates would actually normalize around the 28% to 30% mark from next year onwards.

Though if you recognize India itself, it's much lower than that.

Chirag Dagli: So FY '25, you're saying, 28% to 30%?

Ramesh Swaminathan: FY '24. The current year, we are bringing it down to about 28%, 30%.

Chirag Dagli: Understood. But a normalized rate should be 25%, Ramesh?

Ramesh Swaminathan: It could be, so you could expect that out of India because it is possible, if I would move to regime two, in last net regime. But of course, we still have tax breaks in India. So that's why we're still sticking on to that. But if we talk about other parts of the globe, incremental tax rates are in the vicinity of 30% in most parts really. It is really a function of those. In America, for example, apart from federal taxes, you have state taxes as well to reckon with. So there is an NOL as well, you won't be actually making any payments out of the tax payments out there, but there's still some federal tax out there.

Chirag Dagli: Okay, sir. Thank you so much.

Nilesh Gupta: I know we're at the hour, but maybe last two questions.

Moderator: Thank you so much, sir. Next is Ms. Cyndrella Carvalho, please. Next question

Cyndrella Carvalho: Thanks for the opportunity. If I can understand, if we are looking at the coming quarter in US, it will be seasonally weak quarter, right? if I follow our general trend, do you see our quarterly run rate of $175 million sustaining, or should we assume it more towards seasonality that we always consider? Plus, with the US base, can you help us understand how Suprep is expected to pan out for the coming entire fiscal FY '24, along with albuterol?

Do you think these both products will continue at the same level for us today? Or you see that they will see some competition, though you highlighted earlier that you do not see meaningful entry in Suprep yet? But any further thoughts will be helpful. That's first question.

Vinita Gupta: Yes. So we definitely will see seasonality impact in the first quarter for the US business. All the anti-infectives, Cephalosporins, azithromycin, oseltamivir, all of that portfolio will be down. So, there will be an impact on revenues. But we have some upsides also. We have the darunavir launch and we'll see when we can launch Spiriva, June or July, based on FDA approval. We have some launches as well to off-set it.

But for us, once we launched Spiriva, that's where revenues pick up in a major way in the US. But otherwise, the seasonality will have an impact in the first quarter.

Cyndrella Carvalho: And on Suprep and albuterol?

Vinita Gupta: Yes. So, albuterol is already a multi-competitor market, and we believe that it's stable from the standpoint of competitive and from a share perspective for the competitors. We don't see any near-term entrant in albuterol in the next 12 months. On Suprep, it's hard to tell. We don't believe that there is any imminent approval right now based on what we understand of the supply chain, but it's hard to tell how long it will remain exclusive. We think the next three to six months it should. It could be beyond that as well.

Cyndrella Carvalho: Okay. And if I have to understand the overall scenario ex these new launches, like if we keep Suprep aside, do you see the price erosion at the mid-to-high-single-digit run rate only or do you think it is higher than that?

Vinita Gupta: We think that it's gotten to that high-single-digit run rate, but for the new products, like Suprep.

Cyndrella Carvalho: Excluding new products, right?

Vinita Gupta: Yeah.

Cyndrella Carvalho: Right. And if I may understand, Ramesh, how should we look at the hedging rates for us? Can you give us some idea around the coming quarters? Where are we?

Ramesh Swaminathan: There's this philosophy that we should not hedge fully. The current, at least, trends kind of indicate we're going to stagnate around the 82 marks. But given the volatility around the economic front, it's good to be actually open for a huge chunk of our portfolio. And that's what we have actually done. We have booked some things for the future. And those are well into very acceptable rates at this juncture. But a fairly large chunk of our overall exposure is still unhedged.

Cyndrella Carvalho: Okay. And if I may ask one more question on the API side, what is keeping this kind of growth in the API? Do you think there is some seasonality to this? Or you think this is sustainable? And what were the key drivers for the API segment to outperform? Can you please highlight and help us understand, a little more granularity will be helpful.

Nilesh Gupta: As far as the API business is concerned, we were basically doing very low in the first three quarters. And there's really been a successive build over the quarters on the API business. Every quarter, the business grew. And in Q4, obviously, we've seen a lot more normalization in products like 7-ACCA and cefaclor. That's really what's driving it. We expect it to continue. We don't expect this growth to continue, but we would expect it to kind of continue more or less at this kind of levels.

Cyndrella Carvalho: Thank you so much.

Moderator: So, can I request Kunal Randeria?

Kunal Randeria: Thanks for allowing me to squeeze my question in. Vinita, just couple around Spiriva. Now, is my understanding correct that Spiriva volumes have been shrinking? And even within that, Respimat share has been rising, so which means Handihaler has been maybe going down in double-digits in the last five years?

Vinita Gupta: That's right.

Kunal Randeria: So what is your expectation once the Handihaler generic comes in the market? Do you expect some shift back from Respimat to Handihaler?

Vinita Gupta: We haven't assumed that, but hopefully that happens. From a pricing perspective, the retailers have the incentive to shift some.

Kunal Randeria: Right. And what would be the market size today at the manufacturer level?

Vinita Gupta: It's, I think, gross level still 1 billion plus at the gross sales level

Kunal Randeria: Okay. The net level maybe 500 odd. Would that be a correct understanding?

Vinita Gupta: I would think so. But from a pricing perspective, it's really the gross level that is important.

Kunal Randeria: Sure. Okay. Perfect. Thank you, and all the best.

Vinita Gupta: Okay. So, thank you.

Moderator: Yes. I think that pretty much concludes our Q&A session. Now hand the conference over to the management for closing comments, please.

Vinita Gupta: Great. Well, thank you, everyone. Hopefully, we've been able to respond to all of your questions. If not, I'm sure you'll be following up with Ramesh. But as we mentioned at the outset, we are very pleased with the progress we've made through the year. So fiscal year '23, closing the year on a positive note in terms of EBITDA margin improvement. And we continue to be very focused on driving profitability as well as growing our business into fiscal year '24, with our new product launches as well as the base business, India business as well as other parts of our business.

So look forward to a successful fiscal year '24, and we'll look forward to speaking with you again in the next quarter. Thank you.

Moderator: Thank you so much to the management team and the panelists. On behalf of Lupin Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines and exit the webinar. Thank you so much.