# “Cipla Limited

# Q1 FY '25 Earnings Conference Call”

## July 26, 2024

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**Moderator:** Ladies and gentlemen, good day and welcome to Cipla Limited Q1 FY '25 Earnings 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 presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Diksha Maheshwari from Cipla Limited. Thank you, and over to you, ma'am.

**Diksha Maheshwari:** Thank you, Yusuf. Good afternoon, and a very warm welcome to Cipla's Q1 FY '25 Earnings Call. I'm Diksha Maheshwari from the Investor Relations team at Cipla. Let me draw your attention to the fact that on this call, our discussion will include certain forward-looking statements, which are predictions, projections or other estimates about future events. These estimates reflect management's current expectations of the future performance of the company.

Please note that these estimates involve several risks and uncertainties 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 statements, whether as a result of new conformation, future events or otherwise. I hope you have received the investor presentation that we have posted on our website. I would like to request Ashish to take over.

**Ashish Adukia:** Thank you, Diksha, and good afternoon to all. Just -- Umang should be joining shortly. So in the meantime, I'll just start off. Let me just touch upon some of the highlights of the quarter before I get into the details. Our branded prescription business grew by 10% year-on-year, over a high base of last year with chronic share, further improving by 106 basis points year-on-year to about 61.5% as per IQVIA MAT June '24. The transition of the India trade generic business into a new distribution model is fully complete, and it got completed towards the end of quarter 1. The business is already back on its trajectory growth in quarter 2.

North America reached all-time high quarterly revenue of $250 million. We also launched the generic version of Lanreotide injection during this quarter. South Africa prescription business continued to outpace market growth, thus consolidating its number one position as per IQVIA MAT May 24. From our recent inspections at Patalganga and Kurkumbh facilities, the U.S. FDA has classified them as VAI. This further builds on our past inspections at our overseas facilities of InvaGen and China.

I'd like to cover the performance in a little bit more detail now, starting with updates on our performance in key markets. India branded prescription business grew at 10%, like I said, Adjusting for our GX model change, if you had assumed a normalized growth rate of trade generic, the quarter 1 growth of One-India would be close to about 9% versus a reported figure of about 5% Y-o-Y. We continue to outpace market growth in key chronic therapies. Respiratory grew by 9%. Growth for cardiac was at 11%, while urology recorded a growth of 15%.

Supported by improvement in chronic mix, we have been able to breach the revenue threshold of INR12,000 crores in the IPM IQVIA MAT June '24. Performance of our big brands was one of the highlights for the quarter again. In branded prescription, we have added 2 new brands in

the category of revenue over INR100 crores. We now have a total of 24 brands in this category. As for IQVIA MAT June '24 forecast continues to lead IPM followed by our 20 brands in the IPM Top 300.

Through the transition of distribution model in the trade generic business, we have increased the direct touch points with the distributors. This helps us in deepening our channel connect with the help of retail task force, which connects more than 1.5 lakh chemists. Furthermore, the business is expected to generate operational efficiencies due to delayering of distributors. We have completed this transition at the end of Q1 FY '25 ahead of our internal estimates. I would like to thank the business leadership as well as our partners for smooth completion of this process.

While business has been slow in this quarter, we are already back on track to accelerate the journey through continuous expansion in offering and reach to further consolidate its leadership position in the market in upcoming quarters.

Our Consumer Health franchise posted a growth of 3% Y-o-Y due to high base and an exceptionally strong summer in the last year. Anchor brands of Nicotex, Omnigel, Cisplatin grew to leadership position in their respective segments. The business continues to look for opportunities to invest in products and channels to bolster its distribution network. The operating profitability remains consistent in the range of 15% to 16%, and we expect higher growth quarters in the rest of the year.

In North America, we yet again achieved an all-time high quarterly revenue of $250 million by growing 13% over last year, supported by positive traction in our differentiated portfolio. In albuterol, we have captured or rather recaptured our gaining -- our market share by gaining it by 4% in this quarter. Our market share now stands at 17% as per IQVIA week ended 21st June 2024. In our 505(b)(2) asset of Lanreotide, we maintained our market share of 20% during the quarter. To enhance our Lanreotide franchise, we also launched a generic version, which is the biggest peptide launches for FY '25. The product continues to witness strong demand signals in the market.

In South Africa, we recorded strong double-digit growth of 19% Y-o-Y in local currency terms, led by private market. In private market, our secondary growth was at a healthy 7.8% versus the market growth of 1.7%. While our prescription business maintained its number one ranking asked by IQVIA MAT May '24. This growth was propelled by uptick in key therapies, new launches as well as significant growth in OTC portfolio.

A part -- a key part of our global wellness agenda, our South Africa OTC business demonstrated a growth of 19% during the quarter. Our big brands have been a key success to our success in this region with 8 brands with revenues over ZAR100 million. In addition to this, we have the highest number of brands in top 10, top 50 and top 100 with the generics segment as per IQVIA MAT May’24. Our EMEU business delivered a healthy growth of 7% in USD terms with accelerated growth in DTM segment, along with sustained overall margin.

The business has also added China as one of its key markets during the quarter. Resolution of regulatory issues remains our top priority. Our Goa facility recently underwent reinspections by U.S. FDA. The facility was issued six 483 observations. Official classification is awaited. And while at Indore, our focus remains on remediation and implementation of CAPA.

Coming to some of the key numbers. We reported a quarterly revenue of INR6,694 crores, with a growth of 7%, driven by our core businesses of India, North America and South Africa. Our EBITDA margins, excluding other income, stood at impressive 25.6% for the quarter, increasing by 154 basis points. Our EBITDA improved by 30% Q-o-Q and 14% Y-o-Y. And all these numbers, let me clarify, is ex QCIL, both revenue growth that I talked about as well as EBITDA.

Calibrated pricing actions in core portfolio across branded and generic market, lower operating costs and favorable forex led to improve operating profitability. Reported gross margin after material costs stood at 67.2% for the quarter, which is 226 basis points above last year's figures, driven by overall mix change. Total expenses for the quarter include employee costs and other expenses, which stood at INR2,785 crores, which is in line with the revenue growth. Our R&D expenses for the quarter are at INR353 crores at 5.3% of revenue, driven by product filing costs and development efforts, higher in the quarter by 1% versus last year.

The profit after tax for the quarter is at INR1,178 crores or 17.6% of sales with effective tax rate at 27%. Our free cash flow generation and operating efficiency continues to drive healthy net cash position. As at 30th June 2024, debt on our balance sheet is INR547 crores constituting lease liability as well as working capital. Cash equivalent balance is touching close to about INR9,000 crores.

Key focus areas and growth levers in the subsequent quarters will include priority for One-India would be to continue to grow ahead of market. In branded prescription, swift recovery from momentary softness due to moderate change in trade generics while working on strengthening our growth levers for wellness portfolio, including ramping up the recent acquisition of Astaberry. In North America, our focus would be on commercial execution, expediting the launches from our U.S. facilities and maximizing value from our launches in peptide portfolio. Derisking key launches for FY '25 continues to remain our key priority.

In South Africa, our focus state that margin expansion in EMU, our top priority is to maximize top line with focus and deepening penetration in core markets with sustaining the strong margin trajectory. As guided, our EBITDA for the year is trending in the range of 24.5% to 25.5% and ROIC is well over 30%.

I'd like to thank you and hand it over to the moderator for Q&A.

**Moderator:** Thank you very much. First question is from the line of Tushar Manudhane from Motilal Oswal Financial Service. Please go ahead.

**Tushar Manudhane:** Sir, just on the gross margin front, is it to do with relatively lower RM cost or largely to do with the product. If you could explain that?

**Ashish Adukia:** Sure, sure. On gross margin, it's mainly the product mix. Quarter 1 of last year, we had some tender products in there from CGA and other markets, which were at a lower margin. So for a higher sales here, we have a better mix due to which the material cost is lower. It's mainly the factor of product mix.

**Tushar Manudhane:** Just a clarification here. So let's Revlimid share as a percentage on absolute basis, that was largely stable quarter-over-quarter or whether it has increased?

**Ashish Adukia:** So Revlimid has increased quarter-on-quarter by some small margin, yes.

**Tushar Manudhane:** Okay. And any thoughts on Abraxane post U.S. restriction on Goa site?

**Umang Vohra:** We don't -- the inspection we have answered the queries, and I think we hope to put remedial action, and we hope to hear so.

**Tushar Manudhane:** So the timeline as we have guided that didn't change as we stand?

**Ashish Adukia:** No, as of now, it's the same what we had talked about last time. So it's dependent on Goa. So when we hear back, we have responded to all the queries. So when we hear back, we'll have better clarity on the timeline.

**Moderator:** The next question is from the line of Kunal Dhamesha from Macquarie Capital.

**Kunal Dhamesha:** First one, on the R&D expense. The R&D expense in this quarter seems to be quite subdued as compared to the last quarter. So do we expect the activity to pick up in the rest of the year and it is expected to be higher?

**Umang Vohra:** Yes. I think R&D activity will be higher. We will see a ramp-up in projects. I think because some projects that finished end of last year and early this year, that's the reason you are not seeing the uptick, but also remember that most of our clinical trials that happened last year are now over. And the current ones that are ongoing are not as extensive as the ones that we did earlier. So we will see an uptick in the coming quarters.

**Kunal Dhamesha:** Sure. Can you suggest any range for this full year for the R&D expense?

**Umang Vohra:** We have always given a guidance of up to close -- max level for us would be about 6%, 6.5% of sales quarter-on-quarter, but you could take 5% to 6% as a good range for

**Kunal Dhamesha:** Sure. Perfect. And on Goa plant, have said that we'll share at the appropriate time. But what is the internal assessment? Are you confident that we'll get clearance without any inspection? Or do you think that there's the inspection requirement once we complete our remediation measure? And are we currently employing any consultants -- third-party consultants for the plant?

**Umang Vohra:** Sorry. Sorry, I was speaking as we were on mute. My apologies. Yes. So on Goa, we have given various corrective and preventive actions. We have external consultants who are working with us who are experts in their field. In Goa, we've been working with those experts for 2 years, and an Indore for over a year. And they continue to be assisting us in our response and remedial

measures. I think the FDA will come to its conclusion by end of September. That's the time that we hope to hear from them further.

**Kunal Dhamesha:** Sure, sure. And then just on the U.S. product pipeline in terms of the 2 peptides that we have. What is the update there? Have we got the approval? Or are we waiting for the approval and the launch will be imminent post approval? And secondly, on generic Advair, what is the update in terms of filing from the Invagen plant?

**Umang Vohra:** So the Invagen filing, I think the batches are in progress. We should be shortly filing from our Invagen site. And the update on the peptide products, yes, the moment we receive approval, we should be launching these peptides. But I believe that the real launches will start only starting quarter 3, quarter 4 of this year, not before that.

**Ashish Adukia:** Yes. And to be more specific on Advair, we had -- we maintained quarter 4 kind of a launch and maybe at best half 1, we should be able to -- half 1 of calendar next year could be the potential launch period.

**Moderator:** Next question is from the line of Damayanti Kerai from HSBC.

**Damayanti Kerai:** As one clarification, this Advair time line which you have given, that's for launch or for filing from the InvaGen site, 1H next calendar year?

**Ashish Adukia:** No, Advair filing will -- so we will take batches now. The filing with the 6-month stability will happen probably closer to December or January.

**Damayanti Kerai:** Okay. So filing by end of this year or Jan and then like you will wait for the approval to come

**Ashish Adukia:** Yes. I would just say, before end of this year, we will be filing Advair.

**Damayanti Kerai:** Okay. That's helpful. My question -- first question is on U.S. business. So this 25 million delta, which you have seen quarter-on-quarter, was it more driven by the existing product pickup or Lanreotide generic played a big role there?

**Umang Vohra:** Two big products made the difference. Lanreotide the ANDA launch, the generic ANDA launch as well as the gain in albuterol market share. Those were the two big contributors here, and then there was, as Ashish mentioned, a marginal increase in Lenalidomide.

**Umang Vohra:** U.S. business quarterly run rate to be somewhere close to the $235 million to $240 million mark going forward. So we might have seen a little bit of the Lanreotide end up billing in this quarter. But on a sustainable basis, I think the sustainable run rate in the U.S. is $235 million to $240 million.

**Damayanti Kerai:** That's helpful. And my second question is on very strong gross margins, which you have explained earlier. So is this a sustainable rate? And on back of very strong performance in first quarter, do you have any plan to revise your EBITDA margin guidance for the full fiscal?

**Umang Vohra:** I don't think we are doing anything on the EBITDA margin guidance, but I'll let Ashish clarify on the gross margin.

**Ashish Adukia:** No, on the gross margin, see, I think it's also dependent on the product mix. So as the sales from some of the markets, tender markets kick in, you'll see some margin dilution out there. So it depends on the product mix. And then, of course, when the respiratory quarter picks up at that time, margin will likely be similar levels.

**Damayanti Kerai:** So broadly, you expect to see similar margins in coming quarters. That should we understand?

**Ashish Adukia:** No, it can -- what I'm trying to say is that tender business will pick up in the next 3 quarters. So there will be dilution to overall gross margin in that sense. In Q3, when there's respiratory, at that time, they can be similar margin to Q1, but that's broadly what the trend would be.

**Moderator:** Next question is from the line of Surya Narayan Patra from PhillipCapital.

**Surya Narayan Patra:** Congratulations for the great set of numbers. Sir, my first question is on the generic Lanreotide what we have launched. So if you can just qualitatively can give some sense that how big this opportunity could be, the quarter end, what impact the branded Lanreotide would have seen because of this product? Because my understanding -- if you can just clarify that, understanding that the pricing of these two products would be meaningfully different. So is the generic version you see kind of a rapid progress in that inflation that I'm getting. So then what the impact to the branded version of the in how would one think progress progressively for this equation in the subsequent quarter?

**Umang Vohra:** Yes. I think -- so look, the -- and the ANDA product was launched see -- overall, if you look at it, we are about 20%, 22% share before the ANDA launch of the total market. The B2 has stabilized at this share. And now with the ANDA launch, I think the ANDA launch should hopefully add to this overall share. I think the ANDA also less like any other product, has the time to ramp up. It can't ramp up immediately.

We certainly have been able to -- it is less difficult to sell the ANDA comparatively compared to B2 product because the B2 product has to take share, it's fundamentally a product which is not substitutable to the brand. So we will ramp up. And obviously, these type of products also are dependent on supply. So like we had suggested a phased ramp-up on Lanreotide B2, we will also suggest -- we are also stating that there will be a gradual ramp-up for Lanreotide, ANDA as well.

**Surya Narayan Patra:** Okay. Sir, have you seen any change in the prescription writing put in by the doctors because 2 products and the different pricing, of course, for the prescriber, the pricing will not matter, but -- any change in the prescription pattern?

**Umang Vohra:** See, there cannot be a prescription pattern change because the prescription pattern will still be around the Lanreotide prescriptions itself. So we're not seeing any pattern shift because even before the ANDA entered, there were 2 products in the market. And the ANDA is substitutable to one of them. So I think there's not going to be any pattern shift in prescription. Okay.

**Surya Narayan Patra:** And just on the domestic combination business, with the transition process. So what was the actual implication and impact that we would have seen in this quarter? Whether any further

continued impact that could be seen in the subsequent quarter? Or it is just a quarter of the transition -- transitioning quarter and hence, whatever impact that we are facing at the time?

**Umang Vohra:** I'll request Mr. Adukia to answer this, please.

**Ashish Adukia:** Thanks, See, the impact, whatever needed to be taken is there sitting in your quarter 1. So now towards the end of quarter 1 itself, by June, we've had some pickup in the sales and normalization of sales. So I think we are back in our growth trajectory out there. I think this was a matter of also communicating and discussing with the channel partners on the change, et cetera. So there's always that this is a little bit of a disruption that takes place. So that happened only in the first couple of months in April and May.

**Damayanti Kerai:** Okay. So is it the nature in the nature of inventory adjustment and post the transition we'll have a better predictability about the inventory in the channel and the profitability. How should we think progressively?

**Ashish Adukia:** Yes. Absolutely, it gets us closer to our customer. So we'll definitely have a better inventory visibility and demand trend, we'll also start collecting more direct data rather than through the partner that we had. So all this will help us in better predictability and better penetration. And on the other hand, right at the end, at the chemist level, we've also, like we've talked about in the past, instituted a retail task force, which will also give us on-ground market information and we'll be able to promote the products also directly at the chemist level. So this will give us better control over the channel and the data, yes.

**Moderator:** Next question is from the line of Neha Manpuria from Bank of America.

**Neha Manpuria:** Umang, just a follow-up on Lanreotide. The economics for supply is the same for the generic as well as the 505(b)(2) product, right? So -- and given the prescription pattern does not change, is there a risk that the generic cannibalizes on the 20%, 22% market share that we have with the 505(b)(2). Is that something we should be worried about? Or am I thinking this incorrectly?

**Umang Vohra:** In a market where Neha, supply is abundant, that could happen. But in a market where supply ramp-up is very slow, it's unlikely that, that will happen.

**Neha Manpuria:** And is this a strategy because we foresee generic competition in Lanreotide? So to some extent, shields us from other competitor launching a generic Lanreotide, would that be correct me to think about this from a more slightly longer-term perspective?

**Ashish Adukia:** No, actually, the issue is the ability to get adequate amounts of both the B2 and the ANDA product in the market. That is the first thing which is driving whether -- how much we can sell of the ANDA on how much we can sell of the B2. The ANDA and the B2 both come from the same partner. So the capacity is shared and post-approval, you have to file certain supplements, et cetera, to get the capacity up.

So right now, it is dependent on that. But if we go back to the B2, the B2 was launched almost 2 years back, I'd like to believe. So it preceded the ANDA, and that was a product that got an approval earlier than the ANDA. So no, there is no conscious strategy of trying to keep the

market -- to create a B2 then launch an ANDA, and it's all dependent on what product was approved then.

**Neha Manpuria:** Understood. And my second question, sitting on close to $1 billion of cash. How should we think about capital allocation for, let's say, slightly more medium-term growth? Again, what would be your focus areas if you have to allocate this capital in your balance sheet?

**Ashish Adukia:** Sure. So we are all continuously looking at strategic opportunities both India as well as outside, and mainly India. So I think that scanning continues, and in branded generic space in India, we are very keen to grow our therapies where we don't have leadership. So we'll continue to look at both small as well as large opportunities.

**Neha Manpuria:** And outside of India, what areas would this be the usual OTC that you've done or some other -- are you open to even generic opportunities in the U.S.?

**Ashish Adukia:** Not generic opportunities in the U.S. But in U.S., we would possibly look at -- it can be sterile injectable facilities, which we don't have, and it could be on the specialty side 505(b)(2) and in-licensing opportunities, those kind of things is what we would look at in the U.S.

**Umang Vohra:** So the U.S. will be more capability linked, which means that you come with the facility. The India piece will be more therapy and branded. We will also dedicate a little bit of our capital to innovation.

**Neha Manpuria:** Okay. And do we want to quantify this? And what areas we could probably look at? Do you have anything in your pipeline?

**Umang Vohra:** No. So for example, on innovation, we did the investment in Ethris. We would be happy to evaluate opportunities in other types of areas similar to cell and gene therapy, et cetera. But capability buys, it could be facility buys with some business. And then brand buys is, of course, we -- our track record, unfortunately, is not as stellar as we had wanted it to be. But we are part of every process that runs in India in terms of the branded markets, et cetera. And wherever we find that there is going to be value out of the synergies we can bring, we will be bidding for those assets.

**Ashish Adukia:** And just to add to Mr. Vohra's comment, on the size, innovation, et cetera, it would always be a smaller sum because we played more in partnership or option value. But -- and when it comes to acquisition in India, in branded generic, that can be sizable. So just to give you a relative size comparison because you asked that.

**Moderator:** Next question is from the line of Aman Goel from Axis Securities.

**Ankush Mahajan:** This is Ankush Mahajan. Sir, last quarter, we have seen, there is some data, that also the price erosion has increase drastically. So would you throw some light on the price erosion, how the things are in the market now for the January, especially in terms of price erosion?

**Ashish Adukia:** See, again, price erosion like we've been maintaining is dependent on -- so there can be a very wide range of price erosion, if you look at product by product. So on an average -- on a Y-o-Y

basis, we could be about roughly around 10% or so. On a Q-over-Q basis, it will be more mid about 5%, 6%, somewhere around that kind of a range. But then again, it depends a lot on product by product.

So some of our products in one of our categories that we've seen, few orals and very old products, you've seen some larger erosions, which are more, again, contract-based, where new contract kicks in. But in most of the other, it's -- so at a portfolio level, it's about the number that I mentioned. Going forward, I don't -- we don't think that it will be touching double digit.

**Ankush Mahajan:** Sir, in terms of Advair and Abraxane, I mean, we had at we are launching, what of the target date, launching date, launching time?

**Ashish Adukia:** It's conditional as we seek on Goa and of course, getting it right in the third-party facility. So therefore, it is difficult to give a timeline to it, but if Goa clear, then it can be fairly quickly.

**Bharat Sheth:** I see. And we more have four more peptides in the pipe -- in the launch line pipe. So any view -- on light on it sir?

**Umang Vohra:** Sorry, could you repeat?

**Ashish Adukia:** So it's 3 peptides that we're talking about this year. So there will be more likely to be in Q3, Q4 kind of a timeline. Unless Umang, do you want to add anything on this?

**Tarang Agrawal:** No, I think the 2 -- we are expecting to launch 2 by the end of the year and the other 2 will follow in the -- 1 will follow the year after that, and there will be another 1 which will hopefully come in either '25 or '26. So I think that is the guidance for the overall 4 peptides, of which 2 belong possibly to related family of ours. So I think that is the guidance on the peptides products.

**Saion Mukherjee:** So 1 peptide that we already launched. So any light on it, sir?

**Ashish Adukia:** The one peptide that we launched is Lanreotide ANDA.

**Moderator:** Next question is from the line of Bino Pathiparampil from Elara Capital.

**Bino Pathiparampil:** Most questions answered. Just a couple of clarifications. Umang, in the next few months, we probably will see one or even two more players entering the albuterol inhalation market. What do you -- what are your thoughts around that? Do you think there could be another round of little price erosion market share loss, et cetera?

**Management:** So it will depend on the category they enter in. So for example, if they enter in -- right now, I'd like to believe that category that we are selling in is one of the lowest price categories on albuterol. And the category is after that, which is -- the ProAir as well as the Ventolin, they will be slightly more higher price than our category of So it depends on what categories they enter in. And my guess is that it will depend on which specific categories they enter and what type of price decrease will happen there.

But quite honestly, this is a market we've only seen increase. When we launched into this market about 3 years back or 4 years back, the market size is about 58 million inhalers. We're now

seeing this market at almost close to 68 million to 70 million inhalers. So the market is expanding significantly as well as -- and has continued to grow. So just those 2 or 3 things to keep in mind.

**Bino Pathiparampil:** Understood. Second question on domestic market. You had done a deal with Sanofi for the CMS products. Is the full benefit of that reflected in Q1 revenues?

**Ashish Adukia:** Yes. I think Q1 has the benefit of the Sanofi transaction, or whether the full amount as what we had expected has come may not have been the full amount, but yes, it is in the numbers of Q1.

**Moderator:** Next question is from the line of Aman Vij from Investment Management.

**Aman Vij:** Sir, my first question is on the site portfolio, okay? So you mentioned one, we have launched two more in H2. So one and then one you delayed. Is my understanding correct, out of the four?

**Umang Vohra:** No, no, it's not delayed. It's planned for launch later. Not all of them will launch at the same time. We have planned for launch later.

**Aman Vij:** Sure, sure. And this includes the osteoporosis product also?

**Umang Vohra:** Sorry, which one?

**Aman Vij:** Osteoporosis product.

**Umang Vohra:** So I see, I can't -- I'm not sure that we are public with our peptide categories and therapies. So I can't comment on that specifically.

**Aman Vij:** Sure, sir. And just out of this, any of the GLP-1 products we are launching this year?

**Umang Vohra:** I don't believe that there will be a market where these products can be launched in this year. That's just my opinion as of now. But I think you may see some launches next year, but I'm not sure the market will form for this in the current year. And I'm assuming you're talking about the domestic market.

**Aman Vij:** No, both, sir. So I was not talking about the leader side. So because that approval is coming sooner. So we don't have any products for that for the

**Ashish Adukia:** Sorry, is your question specific to U.S.? Or is it specific to India?

**Aman Vij:** No, no. For outside India, sir?

**Umang Vohra:** Yes, yes. So yes. So when I meant GLP-1, I meant basically the new therapies of semi and Tirzepetide. That was my answer was linked to that with the formation of our market in India. And my belief currently is that I don't believe that market will form this year in India. But on the other peptides, yes, I mean, as we have guided to and 2 leading to 4 over a period will happen. Again, I will not confirm whether it is an osteoporosis drug or a diabetes drug or a GLP-1.

**Aman Vij:** Second question is on the Lanreotide again. So -- on the generic side, sir, so we had -- we have like 2 markets market share on the So can this also achieve similar market share? Or do you think this will remain a much smaller product for us?

**Umang Vohra:** So I think it will depend completely on our supply ramp-up. As we said, there are two types of -- the capacities are similar for both. And so as much as we can ramp up, we'll be able to do it. But we see a gradual ramp up, I think the ANDA would be -- our general sense is the ANDA is -- because it's a substitutable product, it is something that can -- that possibly can take more share. But it is completely dependent on the supply plan and the

**Aman Vij:** Sure. And any word on the competition, I believe there are 3 more ANDA filers. So when are you expecting the competition to come in for the generic version?

**Umang Vohra:** We are not -- we don't have much uptick on that as yet.

**Moderator:** Next question is from the line of Nitin Agarwal from DAM Capital.

**Nitin Agarwal:** On the U.S. business, the 2 peptides that you talked about for this year and the 1 that you talked to subsequent ones. From a size and scale perspective, are they kind of similar to what the Lanreotide opportunity for us?

**Umang Vohra:** No, I think Lanreotide is a more significant opportunity dependent, of course, on the supply. But in terms of quantum of size, of course, and Lanreotide is far higher.

**Nitin Agarwal:** Okay. Secondly, and on Lenalidomide is it fair to assume that this year and next year, we'll have volume -- higher volume shares versus what you've sold in '24?

**Tarang Agrawal:** I think may be very marginally higher. That's what -- I don't know about next year, but I can only tell you about this year is marginally high.

**Nitin Agarwal:** And if I just take a look forward, we've got a high base of Lanreotide this year with both our version being there maybe as well as Lena is there. On this base, does that base start to become a challenge for us to grow at some point in time? I mean, how do you see that, say, a couple of years out? How do we grow on this -- on the base of where a significant proportion is being contributed by these B2 products?

**Umang Vohra:** I think that's a good question and observation. What typically will happen is base, whether it is linked with 1 product or 2 products or if overall, is a very difficult number in the U.S. market because what happens is that the price erosion begins to impact your growth. So I think your question is more on the high base. I think that is a correct observation, but I'd also say at the same time that we have nanopaclitaxel, we have Advair, we have a couple of other respiratory products that we also hope to launch, which could be meaningful opportunities as well as soon as we can launch them. So it really depends on how that progression happens in -- for us vis-a-vis what is going to go off.

**Moderator:** Next question is from the line of Kunal Dhamesha from Macquarie Capital.

**Kunal Dhamesha:** On Lanreotide, my understanding was that the economics will be slightly better than ANDA versus products? Is it a good assumption? Or would it be very similar to what we have in

**Umang Vohra:** Actually, see, we are not -- the economics should roughly be the same. I mean there would be -- because the time window in which the products are launched is different, right? And pricing gets reset quarterly or 6 monthly or whatever, depending on the type of product you have. So I don't think the economics are that vague, that's hugely different. But I'll request Ashish if he can give a comment on this.

**Ashish Adukia:** See, they are both from same partner and partnered products. So the contracts are slightly different in terms of share, et cetera, that you have of -- with the partner, the share that we have. So on that basis, it is different, the economics. But then that's on the cost side. But like Umang ji said, on the pricing side, also there can be some difference.

**Kunal Dhamesha:** Sure, sure. And on the generic side, there is a slight difference in terms of indication versus the innovative product, right? So will it have any impact in terms of what we call a skinny label generic wherein you have to be kind of very sure that it doesn't end up with that indication, which is not covered in our label?

**Umang Vohra:** Is your question on Lanreotide?

**Kunal Dhamesha:** Lanreotide, yes.

**Umang Vohra:** Yes. So there is -- see, the label itself will classify whatever the current product can be used for, and what it can't deals. So I think that is already taken into account by people who are using the product.

**Moderator:** Next question is from the line of Saha from Quantum Mutual Fund.

**Krishnendu Saha:** Most of the questions have been answered. Just when you say supply for Lanreotide. So am I to assume that there is a supply constraint, there's manufacturing capacity with your partners for Lanreotide? Is it correct to say?

**Umang Vohra:** Yes, I think you could make that assumption. I think the supplies will ramp up slowly. And they are not -- and this is approximately 14,000 vials per month market now. So supplies will ramp up slowly.

**Krishnendu Saha:** So right now we are manufacturing constraint, which slowly will ramp up. That's the way -- and we're creating a couple of more in the basket. Just for my understanding, if we have a couple of more peptides, does it help in the peptide basket, does it help in any way to marketing or desire. I don't track in details. But just thinking, does it really help because are different? Does it help?

**Umang Vohra:** No. See, you mean help -- you mean the help from a market penetration perspective, right?

**Krishnendu Saha:** Yes, obviously at profitability. And does it make sense, does it give you leverage we have 4, 5, 6 peptides in the basket to they're using different therapies and on and so forth. Does it help?

**Umang Vohra:** So it would help provided your selling into the same channel in the market. So for example, Lanreotide is to clinics and hospitals, some of the other peptides may be retail products. as well, maybe more doctor clinics. Maybe -- and therefore, if we were to sell more, let's say, more oncology 505(b)2s that go to clinics and hospitals or we sell more ANDA products that go to more clinics and hospitals, definitely, a basket would help in that area. But if it is a dispersed collection of therapies, then may not.

**Krishnendu Saha:** Yes. It's just a way of doing business. Just on the Indian front, we are acquired, I suppose -- has the acquisition gone through? And do we in the business? What is the run rate? Any thoughts on -- any number you are trying?

**Umang Vohra:** Sorry, on what product?

**Krishnendu Saha:** The you acquired a cosmetic and personal care business, business, I suppose.

**Ashish Adukia:** No, that's basically CHL's acquisition on the -- so this is more cosmetic kind of business, beauty business, sunscreens, skin care the et cetera. It's a small business focused on regionally focused right now. I think the whole idea is to leverage the brand, leverage their grocers network to find synergies and to actually grow that business and take it to other regions as well. So right now, it's just very, very early. So it's -- over a period of time, you'll see scale and synergy there.

**Krishnendu Saha:** It is very small. And the last question on the raw material cost price, do you see just -- I know the product mix is better off, that's why the gross margins are better. But you see the material cost being lower compared to last year? Is it the same?

**Ashish Adukia:** So material cost has been lower last year as well. It's more a factor of, like I said, product mix. So there is -- we have not seen any elevation or major reduction in raw material or packing materials. Freight has slightly increased. That's about it.

**Moderator:** Next question is from the line of Sumit Gupta from Centrum.

**Sumit Gupta:** I have two questions. First is on the domestic side. So what is the current MR base? And how do you -- so do you plan to expand the MR base?

**Ashish Adukia:** Yes. So we are at about -- roughly about 8,500 now. We increased in quarter 1 '25 -- we are close to about 10,000 after the -- the increase will be close to 10,000 people. And look, our strategy is to gradually increase this wherever we see pockets of growth.

**Sumit Gupta:** 1 Okay. And sir, on the U.S. side, so on the overall capex side, so how much cap do you plan to invest over the next 2 to 3 years?

**Umang Vohra:** I'll request Mr. Adukia to please answer the question.

**Ashish Adukia:** Thanks, Mr Vohra. See, our run rate has been about INR1,000 crores to INR1,200 crores. So I think that would be -- that will go up slightly because we're looking at -- see, we've had some capex in InvaGen in the U.S. now for the derisking. Then we're looking at some more strategic capex in India, mainly on the respiratory side. So all this will actually take it to possibly about 1,500- 1,800, somewhere around that kind of a range.

**Sumit Gupta:** Okay. And Major, how much would be growth capex?

**Ashish Adukia:** Most of it would be growth. So almost 70% would be about growth capex and 30% is more compliance-related, environment-related.

**Sumit Gupta:** Okay. So this incremental 5 billion to 7 billion, which is going towards the capex, so this majority will be in U.S. or it would be 50-50, U.S. India?

**Ashish Adukia:** No, no, no. Mostly, it will be in India. Capex is mostly in India. U.S. capex is not very large. Because that is just adding a few lines, right?

**Moderator:** Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Ms. Maheshwari for the closing comments.

**Diksha Maheshwari:** Thank you, everyone, for joining us. If you have any further questions, please write it to investor.relations@cipla.com. Happy weekend.

**Moderator:** Thank you. On behalf of Cipla Limited, that concludes this conference. Thank you all for joining us, and you may now disconnect your lines.