

Lupin set to leave behind scars of FY22, says CFO



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MUMBAI – Lupin Ltd has had a difficult year with the company's earnings bearing the brunt of price erosion in the US generics portfolio, higher costs and some one-off charges. However, the stage is set for a turnaround as India business has gathered momentum and US operations will join the party later in the current financial year, believes Ramesh Swaminathan, the executive director and global chief financial officer.

In a freewheeling chat with Informist, Swaminathan explains that planned high-value launches in the US, robust growth in other key markets, and better prudence in capital spending, along with superior execution, will help Lupin's performance in the current financial year to be better than the last year.

Growth Would Be Fueled By The Resolution Of Regulatory Issues At Some Of Its Indian Facilities That Is Expected To Augment The Pipeline Of Complex Drugs And Biosimilars In The US

For 2021-22 (Apr-Mar), the company posted net loss of 15.28 bn rupees, as against a net profit of 12.17 bn rupees a year ago.

Growth would be fueled by the resolution of regulatory issues at some of its Indian facilities that is expected to augment the pipeline of complex drugs and biosimilars in the US, the company's most profitable market.

Complementing this will be potential market share gains in India by scaling-up of the company's existing portfolio and expanding its offerings to oncology, dermatology and central nervous system-related therapies.

On the downside, Swaminathan expects an increase in every kind of expenditure that is seen putting pressure on near-term operating margins.

Following are edited excerpts from the interview with Swaminathan:

Q. What kind of growth would you be looking at for 2022-23 (Apr-Mar)? Is it going to be better than last year in terms of earnings?

A. Yes, it would be better than 2021-22. We would be looking at a double-digit growth in India and high growth in other markets for sure. The US business growth may be tepid, more or less in the same vicinity as last financial year.

Q. Are you going to re-evaluate your capital investments, at a time when the business environment is challenging? Do you expect research and development costs to come down?

A. Capital allocation is indeed going to be an important strategy. The focus is going to be on complex generics. We might see some roll back of plans when it comes to simpler drugs. As a percentage of sales, R&D expenses would continue the downward trend over time. It's currently at 8% of sales or thereabouts. We are conscious of the fact that investments in oral solid drugs are a diminishing returns kind of equation, so we must not allocate that much capital. While biosimilars and complex drugs also require a lot of investments, the number of products in these segments are limited.

Q. Where is the focus going to be when it comes to Indian business? Which areas would you want to scale-up or foray into?

A. The Indian market is actually under-penetrated, so there is a lot of growth potential. Availability, awareness of medicine, and accessibility are still a challenge. We are focussed on three-four areas such as cardiovascular, diabetes, respiratory and potentially gastrointestinal.

But there are a host of areas where we are not that big, such as oncology, dermatology and central nervous system-related drugs. We would want to look at these.

Q. Do you see any sort of competition from the private label generics that are being launched by companies like Tata 1mg, Netmeds, etc?

A. Yes, it is always a threat. It's still miniscule right now, but they can't be ignored. They could be a disrupter in the days to come. Better quality push in branding with doctors, improving branding with consumers and other stakeholders may be needed to combat the competition when the time comes.

Q. Lupin has mentioned in the latest investor presentation that 2022-23 is going to be challenging in terms of margins. Are we looking at extremely high raw material and other operating costs?

A. There's going to be a cost increase given the inflation. One is the cost of staff. People will have to be given increments, in line with what's happening in the entire market. Potentially, there will be an increase in every kind of expenditure, from freight to material to travel. So, we would be impacted as these headwinds are there. We are trying to mitigate it in whatever way we can through our strategies. There are also some supply chain disruptions given the geopolitical issues, which means we have to be more careful in managing our operations.

Q. Are you able to pass on all the cost increases?

A. No, we are rarely able to do this. There is an intense competition. So to that extent, if we believe that the going is getting too difficult for certain products, we will potentially come out of those.

Q. How do you think you will be able to reassure investors and give them confidence about growth in the coming years?

A. We need to demonstrate performance in the coming quarters. When we actually achieve what we are speaking about, investors will obviously have confidence in us. Execution is key to it. And then there's no

point in talking about it without delivering. Execution needs to be done on a holistic basis, from the supply chain, procurement, production, services for supply chain delivery, distribution to customers and maintaining quality, that too at a cost that is affordable. So the execution focus will not be in one pocket, rather the entire business value chain.

Q. Could you give an overview of the current business outlook?

A. The US business in a general sense is going through a tough time because the oral solid dosage business is actually facing intense competition. There is a different kind of price erosion out there. We are in a position to come out of it with the help of biosimilars and complex generics launches, for which we have the platform.

We are hoping to launch Spiriva and Suprep towards the end of this fiscal year which are going to have a big impact in terms of improving margins as they are first-to-file products. We hope to have two dry powder inhaler and four metered dose inhaler products in the inhalation portfolio at some point and a range of products in the complex injectables segment.

Other geographies, including India, The Philippines, Mexico, Brazil and Australia, are doing extremely well. But India moves the needle for us quite a bit because it's pretty large.

Q. Some of your facilities are under the US Food and Drug Administration's official action indicated status. Are these facilities ready with remedial measures? What kind of response do you expect from the agency?

A. So it's just a matter of time before our Indian facilities come out of the official action indicated status as remedial measures have been taken. If we look at the Somerset unit, obviously some observations have been classified as "repeat observations" by the agency. We'll take a little time to kind of undo all of those things.

Q. In the past few quarters, we've seen that the company has had to take some one-off charges on its books. Do you see any more such charges?

A. We've already taken the hit for a recent recall of hypertension drug Losartan. So we don't see any more one-time charges, as of now.

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