



“Lupin Limited Q1 FY2023 Earnings Conference Call”

August 04, 2022

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Moderator: Hello, and welcome to Lupin Limited Q1 FY23 Earnings Conference Call. Please note that all participants' line will be in the 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 the conference over to the management. Thank you, and over to you, sir.

Kamal Sharma: Hello, good evening. My name is Kamal Sharma. Welcome you all to this earnings call for Lupin Limited. You already have seen the results, but as a comment on the outset, I'd like to say that, measures to improve overall operational efficiency and improve on our business structure have been in full swing. I'm aware that the numbers don't reflect them as yet, but team is absolutely confident that from next quarter onwards, we would definitely see positive reflection of the efforts that are being put in by the team.

With those few opening remarks, I would now hand over to our CFO, Mr. Swaminathan, who will walk you through the details of the financial results. Thank you, and over to you, Ramesh.

Ramesh Swaminathan: Thank you, Dr Sharma. Friends, in our previous investor call, after the Q4 results, we did guide for a fact that the results for the first two or three quarters could be a little muted, so in line with that, the actual results for the quarter were in line with expectations in that sense.

Sales for Q1 FY23 are at INR 3,604 crores as compared to INR 3,864 crores in Q4 FY22. It's a 6.7% quarter-on-quarter decline and year-on-year basis, also declined by 14.9% as compared to Q1 FY22. Our sales excluding the US revenues were higher by 5.9% sequentially and 2.5% year-on-year. When it comes to the US business, during the quarter, the US sales took a significant dip of 33% from \$181 million in Q4 FY22 to \$121 million in Q1 FY23 as the company took certain strategic decisions to pave the way for building sustainable and profitable business in the US.

Firstly, the last few years we have been experiencing huge stock returns on account of higher inventory levels in the trade. During the quarter, we ensured that the inventory levels across our key products are brought down at normalized levels, creating a significant impact in the quarterly sales. The pricing erosion in FY22 has brought down the margins of certain products to single digit to negative territory. The company decided to discontinue some of these products with low and negative margins, which impacted our sales. However, it equally gave us an opportunity to optimize workforce in manufacturing plant in India, the benefits of which will start to flow in the next quarter.

We continue to witness double-digit price erosion in this quarter as well coupled with shelf stock adjustment on the higher trade inventory creating a



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dent to the quarter numbers. While surprising erosion can be off set through new launches which we expect to come through in H2 FY23, the first two initiatives have impacted the quarter, but will help us to build focus on building a strong and profitable portfolio in the long run. We continue to build albuterol market share, which improved to 23.2% in Q1 vis-a-vis 22.8% in the previous quarter.

Turning to the India business, India branded formulations business posted a growth of 9.9% in Q1 FY23 versus Q4 FY22 though declined on year-on-year basis by 2.9%, given FY22 Q1 had a positive impact on COVID wave 2 in India.

API, recovery in API sales in Q1 quarter-on-quarter sales growth at 15.8%. On year-on-year basis, business posted a growth of 3.7%. EMEA year-on-year growth of 27.6% with strong performance by NaMuscula, Luforbec, etanercept sales to Mylan. NaMuscula growth is about 91% versus the previous year, quarter one that is. Sales for Q1 FY23 sales was INR 24.5 crores. In South Africa, Efferflu C holds 48% market share, up from 31% held pre-COVID.

When you talk about the growth markets, Philippines year-on-year basis growth 20% with TB kits sales impacting about 9% approximately, better performance in Furic and Lupimet. In Australia, sales grew by 22.4% quarter-on-quarter and year-on-year by 49%, mainly due to the acquisition by Southern Cross. In Mexico, sales grew by 15.9% quarter-on-quarter and year-on-year growth was 30% as ophthal business continues to grow at 26%. In Brazil, quarter-on-quarter declined by 9.5%, year-on-year declined by 8.5%. Azithromycin and Dipimed grew well.

When you come to the gross margins, Q1 FY23 is 55.3% as compared to the previous quarter, which is 57.8%. This is mainly due to a price erosion in America to create inventory normalization that I just spoke about and of course the shelf stock adjustment. There is of course impact of cost inflation also, which is actually there in the gross margin line.

When you talk about employee benefits, Q1 FY23 is INR 778 crores vis-a-vis INR 703 crores in the previous quarter, and this is essentially because the previous quarter also had an adjustment in terms of taking some part of the expenditure in other expenses. There is of course the impact of increments which were rolled out in FY23 which came in the quarter one. There is of course workforce planning at the plant level which impacted about 14% of the workforce and there would be savings from there, which should start flowing from Q2.

On an ongoing basis, we expect employee cost to be in the range of 18% to 18.5%. On the EBITDA front, operating EBITDA excluding FX and other income is 4.5% in Q1, a decline in EBITDA by 140 basis points, led by drop in sales due



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to trade inventory normalization, shelf stock adjustment in the US, price erosion, and on account of discontinuing products during the quarter.

R&D expenditure is about INR 348 crores vis-a-vis 342 crores in the previous quarter. The ETR is expected to be around 35% as few subsidiaries are still making losses. In terms of the working capital, it's increased to 147 days from 140. However, we are working on this and we would like to bring it down in the quarters to come.

With the short commentary, may I open the floor for discussions.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from Neha.

Neha Manpuria: Thank you for taking my question. Ramesh, could you just help us understand the quantum of the one-off impacts that you mentioned in your opening remarks, out of the ~ US\$60 million quarter-on-quarter decline that we have seen? Just wanted to understand what actually our base business in the US was from second quarter onwards?

Ramesh Swaminathan: So the way we would like to portray it is that things should normalize from the second quarter onwards and we expect it to be upward of \$150 million, somewhere in the range of \$150 million to \$160 million. So, if that were to be the normal, you could expect this to be considered to be a level. Essentially, that's a difference that we have taken this quarter.

Neha Manpuria: Understood. So that would mean quarter-on-quarter we've still seen a fair bit of erosion in the business or does this also include some amount of discontinued products? And what would be the quantum of that discontinued products, please?

Ramesh Swaminathan: Insofar as the price erosion is concerned, it's in double digits. It's close to about 10% and there is of course an element of discontinuing products which have been discontinued as well which flowed into the results.

Neha Manpuria: Okay, understood. And from a margin perspective, if I were to adjust the number that you've seen, going forward from second quarter onwards, should we start seeing margin improvement or that would entirely depend on our launches coming through in the second half?

Ramesh Swaminathan: The drop in sales kind of mask the efforts that we have taken. So you would expect things to kind of normalize from a sales perspective. That obviously would add to the overall margins. But there is of course a host of initiatives that we have been working on. All of those will actually start bearing fruit. For example, we spoke about the workforce planning at the factory level and in other areas as well. So benefits of programs like that will certainly flow on from the second quarter onwards. So margins will certainly would go up, it



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could substantially from this particular quarter and towards the end of the year would reach a fairly decent level.

Neha Manpuria: Thank you so much.

Moderator: Thank you. Next question is from Aditya Khemka.

Aditya Khemka: Yes, hi. Thanks for the opportunity. Ramesh, you mentioned that the India business grew YoY because in the base quarter you had some COVID-related sales. Could you elaborate on that a bit? I thought we did not have any COVID-related sales, at least your commentary on the previous quarter did not indicate any COVID-related sales in the base quarter.

Ramesh Swaminathan: Nilesh, would you like to take this?

Nilesh Gupta: I can take it. So it's not the core COVID product itself, but it's products like enoxaparin and the like which had very large sales in Q1 last year. So if you adjust for those products, which went up, so a lot of them were respiratory products. Then the growth would have been 5.6%.

Aditya Khemka: Understood, Nilesh. Nilesh, AIOCD data indicates that excluding COVID related sales, the market itself in the quarter of June grew about 13% whereas our growth is in the neighborhood of 6. So are we losing market share? If yes, what are we doing about it and why are we losing it?

Nilesh Gupta: It's quite the opposite actually. As per our data, our market share has actually gone up 10 basis points. So, we are actually gaining share. So, I think what has happened is, our core chronic therapy areas, so inhalation, cardiac, diabetes have degrown, and while they degrew minus 3.1%, we actually degrew minus 2.6%. So we actually did better than the market on that count. But because of the degrowth that's the reason why it looks like degrowth. We believe that this will bounce back. And obviously from Q2 onwards, we hope to get back to that double-digit kind of growth.

Aditya Khemka: Understood. Just two more questions, if I may. The decline QoQ also to my understanding happens every time from fourth quarter to first quarter due to seasonality of certain cephalosporin products. So do you have guess estimate as to how much of this sequential decline is due to the seasonality of our business in the US and how much of it is actually your product rationalization and price erosion?

Vinita Gupta: The majority of it is product rationalization and getting the trade inventories at the right level. There was some impact also on the cephalosporins, though, Aditya. They were down for sure, Q4 to Q1.

Aditya Khemka: Got it, Vinita. Thanks for that. Ramesh, last question for you. The debt seems to have gone up. What is confusing is that your working capital has gone up while your rationalized products in the US, my understanding was US is the



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highest working capital geography we have. So ideally with the US sales coming down, the working capital on the US side should have come down and your debt has gone up this quarter, sub-standard debt.

Ramesh Swaminathan: The debt has gone up principally because we had an acquisition at the beginning of this quarter, essentially Anglo French drugs that we bought. So that was the reason for that. There is of course an increase in the operating days in terms of working capital. It has gone up from 141 days to 147 days, principally on account of inventories whilst there is a reduction on the accounts receivable front.

Aditya Khemka: How much inventory of the raw material are we keeping, the API raw material because there is cost inflationary environment? So I'm sure we are keeping some stock to ensure continuous production. So what would be the inventory levels?

Ramesh Swaminathan: That's exactly the point. So, we have got some strategic inventory build-up in order to off-set any potential price increase. So we've been pretty strategic about it.

Aditya Khemka: Yes. But could you quantify as to how much inventory it is, 60, 90, 120 days?

Ramesh Swaminathan: It really depends on individual materials, but overall there has been an increase on the inventories front.

Aditya Khemka: Okay, thanks a lot and all the best.

Moderator: Thank you. Next question is from Anubhav Agarwal.

Anubhav Agarwal: Hi, first question is on the US market. Just trying to understand the decline. So, three elements you guys talked about. One, shelf stock adjustment. Second is some inventory write-down would have come and not at the sales level, I hope. So sales level first, would it be fair to assume shelf stock adjustment would be a single digit number, I mean something like less than \$10 million? That would be a fair statement to understand?

Ramesh Swaminathan: Yeah. In a general sense, we don't disclose the individual components of this, but suffice to state that it has actually had an impact of reducing the overall sales for the first quarter and I would like to repeat the fact that there would be a bounce back from the second quarter onwards.

Anubhav Agarwal: But just trying to understand, the numbers are so large, first of all to build it. One is, we can believe you guys, but just trying to understand what has happened in the quarter. Shelf stock adjustment typically will be on one or two products and that's why I was saying that, should we just work with an assumption that the way I'm trying to understand this is that, is there a component that we were stocking very high inventory at the customer level and therefore the primary sales in this quarter? So, one is the discontinued



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products that we didn't want to sell more. So that's one component. Is there some component that this quarter we had primarily lower sales of certain products, which will come back in the next quarter?

Ramesh Swaminathan: As I said, the overall, the erosion in prices is close to about 10%. So it obviously insofar as stocks with the trade itself is concerned, we would have given them a shelf stock adjustment. And besides that, of course, we wanted to make sure the total inventories buildup at that level is going to be reduced. And for that reason we sold lower to the trade. It's a combination of both that has impacted the quarter.

Anubhav Agarwal: And when you talk about, Ramesh, 150 plus next quarter, this will include Suprep as well. So effectively we're talking about roughly 135, 140 the level that we were doing earlier. Would that be a right understanding?

Ramesh Swaminathan: Sorry.

Nilesh Gupta: So even without Suprep, I think the bounce back is expected even without Suprep. Suprep only comes in late in the second quarter.

Ramesh Swaminathan: Third quarter.

Nilesh Gupta: In the end of the quarter.

Anubhav Agarwal: But it comes end of the quarter, but you will have at least a good amount of month or two months of sales at least of Suprep right?

Vinita Gupta: So, authorized generic is already launched on Suprep. So we will see how much of inventory trade has if we get the opportunity to supply we will definitely get some upside in September for sure.

Anubhav Agarwal: I think fair to say that we expect the bounce back even without Suprep.

Vinita Gupta: Yes, without Suprep. And we basically haven't sold to pare down the levels of inventory. We haven't sold a couple of weeks' worth products to the trade.

Anubhav Agarwal: Okay. And Vinita, on Spiriva, can you just give us a clarity, where is this product stuck. Last time you mentioned that your Germany supplier had inspection. I don't know whether you had a reinspection on your facility again or is the FDA still having the query on the product?

Vinita Gupta: No. So, we don't believe the product is stuck, Anubhav, and in fact, since the last quarter meeting, our device manufacturer was inspected by the agency and we believe the inspection went pretty well. Privy to all of the observations and the responses as well and we have been going back and forth with the agency on document review and have answered all their questions so far in the last few weeks. They have already inspected Pithampur Unit 3 in the past for Tiotropium. So, of course, I mean, if the agency decides to reinspect, that's



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their prerogative and we'll be ready to host their inspection. But at this point in time, we believe that we have responded to agency's questions fully and are hoping that we'll get the approval soon, so that we can launch in Q4. We have launch preparations going in full swing at present.

Anubhav Agarwal: Thanks. Just one clarity, Ramesh. You talked about personnel cost reducing as a percentage next quarter, but can you talk about an absolute quantum how much saving we are talking about?

Ramesh Swaminathan: Yes, so as I said, about 14% of the workforce at the factory level has been brought down. So you could expect about on a quarterly basis about 20 crores reduction.

Anubhav Agarwal: Okay, Thank you.

Moderator: Thank you. Next question is from Palak Shah.

Palak Shah: Hi. Thank you taking my question. Firstly, on the Spiriva, you had earlier mentioned a TAD date of August '22, does not change, especially after the inspection at the device facility?

Vinita Gupta: No, our goal date is still Aug 17th.

Palak Shah: Got it. Secondly, in the US business, you mentioned that there is shelf stock adjustment as well as price erosion and rationalization, part of this, as you mentioned, you have sold lesser by two weeks this quarter and that should be made up in ensuing quarters, is the understanding right?

Vinita Gupta: Yes.

Palak Shah: But then, it will again lead to the same point. Your inventory will again inch up in the ensuing quarters then.

Vinita Gupta: No, it shouldn't, right? If we try to pare down the inventories because we saw excess inventory in the trade. So it's a one-time correction from a trade perspective to get the inventories to a normalized level.

Palak Shah: Got it. Lastly, on the working capital side, we are looking to actually pare it down again from 147 to 130 - 140 days. Is that understanding right?

Ramesh Swaminathan: Yes. And then go back to the way we evolved over time, it used to be 100 days, so it's not as though we can get to that levels immediately. It's going to be over time. But we are addressing certainly the inventory situation. Some of it is strategic buying at this stage, but with the situation improving, we'll certainly bring it down.

Palak Shah: Got it. And just lastly on the Somerset facility, given that you have been stuck with this facility on warning letter for quite some time, are we inclined



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towards actually exiting this facility and just stopping this functions altogether there?

Vinita Gupta: Well, actually we have positive momentum at the facility now, with the clearance of the warning letter. Last month, we cleared the warning letter, which was a record for us. Within three months, we went from 13 observations to clearance of the warning letter. So, actually it gives rise to new opportunities for us. We had couple of products stuck that we were tech transferring into other sites and we expect these products to get approved in the near term.

So apart from Suprep, we think that couple of the other niche products like we have diazepam gel, that is small but nice niche product that we likely can get approval for in the next six months. Likewise, we have a nasal spray where we are first to file Nascobal. It doesn't help us this fiscal year, but it's June next fiscal year. And we have exclusive first to file on that one, so we will likely get approval for that one as well. So, we have positive momentum there on new product launches that we can really do with to help grow our business. While we have Tiotropium, we also want additional products that can help us grow the business.

Palak Shah: But if I look at the cost of operating the facility versus the revenue trajectory from these two products, can they actually, the facility be breakeven or cash breakeven itself?

Vinita Gupta: Yes, it will. I mean we have optimized the site quite a bit and we'll continue to optimize and really manufacture products only that makes sense at the site.

Palak Shah: Got it. Thanks, Vinita. Thanks, Ramesh and Nilesh.

Moderator: Thank you. Next question is from Surya Patra.

Surya Patra: Thanks for the opportunity. First of all, you have clarified obviously about the kind of margin profile and all that, but, see, we have been in the cost rationalization mode since I think over a year or now. We have this quarter also seen kind of a multiple adjustment at the inventory level and all that. So, still the gross margin level, it is not that erosion YoY if they see, but the major dent at the EBITDA level what we are seeing it is because of the other expenses and the staff cost, R&D and all that. So, sequentially what would really change here and how should we go back to whatever guidance that we're giving, the exit rate of 17%, 18% for the full year?

Ramesh Swaminathan: Let me tackle that question. So, you would appreciate that the drop this time around is essentially because of the one-time what we spoke about on the sales front in America. But as we transition to out of the legacy OSD business, which we think is actually on a weaker footing at this stage in America on to more complex generics, you would expect the margin profile, the realizations to be much better, the margin profile to increase. We are also stepping out of



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our OAI status across the plants, so to the extent our ability to come out of the products is certainly going to be much better. We have invested ahead of the curve when it comes to a lot of factories and the like and we are doing what it takes to kind of rationalize on the workforce front, on the footprint front and the like.

There is, of course, over the last couple of years, last few years, I would say, we've been building up a culture of cost consciousness, including digital roadmap. All of this will actually come to bear fruit. And there is of course progress across various other geographies. We have Luforbec, better products in UK, Europe. We have NaMuscula. Things are looking much better in other geographies as well. So I think it's a combined impact of all of this which will actually improve the profile for us. India is continuing to do strongly whilst of course in America, we just enumerated the various products that we could bring to the market and so on. So our confidence levels actually flow from this.

Surya Patra: Okay. Sir, but sequentially whether even the albuterol has witnessed a significant kind of a price erosion? And that is one of the key reason also for the sequential decline in the US business. And also, is it possible to quantify what is the kind of inventory adjustment that you have built in this quarter?

Ramesh Swaminathan: When it comes to price erosion, it has been across various products, so there has been some drop of course on Brovana itself and a slight decline comes to albuterol. Overall, we spoke about 10% for the portfolio overall. The levels of inventories that we see, I think we are comfortable with it and it's commensurate with the kind of in drop in sales that we forced assets to take for that reason.

Surya Patra: Okay. Just a related question further. I think, see, this more than 10% kind of price erosion what we have been talking about so that's been there even in the previous quarter. So, there is no sequentially enhanced kind of erosion that we have witnessed in that and we have exited out of the few of the product basket. If you tell the number that is also useful. And simultaneously, so what is the model that we are trying to build for the US business. So are we thinking that, okay, going ahead, whatever that is going to happen, it is relatively more complex and may not be specialty or specialty kind of and we will move out of all the kind of old and commodity nature product completely? So what is the model that ultimately that we are trying to achieve there in the US? Because whatever the product basket that we have created, it is not fetching us the right result.

Vinita Gupta: Yes. So we are transitioning the portfolio from the simple genetics, the oral solids to complex and that has started with albuterol, Brovana, will be further strengthened with Spiriva and we have a nasal spray product I mentioned Nascobal, the injectable products, the biosimilars, that pegfilgrastim that we have the opportunity to get into the market. I mean we will not vacate the space of oral solids. I mean, oral solids still the bread and butter, but the kind



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of price erosion one has witnessed on the oral solid side, we decided that it made sense to rationalize the portfolio that does not make sense. Whether it's negative margin or low margin, it makes sense to really take the overhead out of our P&L to improve profitability. We are taking those steps.

So we'll continue to optimize on the oral solids. And at the end of the day, we want to also manufacture oral solids very profitably. So continues effort in reducing cost of goods on the oral solid front from the optimization on the API front or external vendor development or the like, but wherever we see no real value to our network and P&L, we are getting out of those. It doesn't make sense to really carry loss leaders in the portfolio. So our effort is really to transform the portfolio, transition it to complex generics. It started with inhalation products at 25% of our revenues last year and we hope in the next year or two, with the pipeline that we have coming, we get closer to 35%, 40% in the years to come. And at the end of the day, we feel like there is more sustainable higher margin opportunity in the complex products.

Surya Patra: Okay, just last quick question, ma'am on the overall R&D spend, which was expected to be reduced through the hiring of the core basic research activities. What is the update there and also if you can just give an update about the progress of etanercept in the Europe?

Vinita Gupta: So we are in active discussions with companies right now to monetize our oncology pipeline and hope in the next couple of quarters, we'll have some positive results there, but we are in active dialog right now on the oncology pipeline. On etanercept, the product is progressing with Mylan, Viatrix and we continue to get approvals in new countries and look at launching it in new countries as well.

Surya Patra: So is it like more than \$10 million kind of a level it has restarted or it is yet to achieve that ma'am?

Vinita Gupta: Yeah, it is above \$10 million already.

Surya Patra: Sure. Okay, thank you.

Moderator: Thank you. Next question is from Sameer Baisiwala. Sameer, please unmute yourself.

Sameer Baisiwala: Yes, good evening, everyone. So the question is, in next couple of quarters, say, by December, what's the margin potential of the core business without any large US approval, etcetera, because we are running a very profitable India and other markets? So, you can just discuss that.

Ramesh Swaminathan: Yeah. So as you correctly put it, it's basically the American business which is actually undergoing, they are shifting sands out there. We are trying to move out of, in fact, the more commoditizing oral solid business into more complex



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ones, but the core portfolio is of course from a price erosion perspective it is suffering a bit, quite a bit and that's common across the industry as you have recognized. So whilst we are transitioning, we are also trying to build that. So it takes us on regulatory pathway for bringing those approvals in and introducing it in the market. So it has its own evolution time, so to speak.

Sameer Baisiwala: Ramesh, specifically on the margin, right, what's the core margin without the upside from new products and the like?

Ramesh Swaminathan: It is really a function of the kind of write-offs that we have taken on inventories and all of that.

Nilesh Gupta: Just specifically, we will get to the double-digit even for the core business from before we layer on anything out of new products or the like.

Sameer Baisiwala: Yeah, Nilesh, that's very helpful. That's what we were looking for. I mean, see, business like yours should have 15%, 20% operating margin as things stand. So is that something that you think is possible or is there some structural cost heads that you have, which is different from others?

Nilesh Gupta: So maybe I can go and then Ramesh can add. The oral solid, I think we were over-indexed on the oral solids compared to anybody else on the generic side.

Vinita Gupta: Sorry, Sameer, you are asking about the company, right?

Nilesh Gupta: Yes.

Vinita Gupta: Overall?

Nilesh Gupta: I'm getting there.

Sameer Baisiwala: Which is your core business.

Nilesh Gupta: So the oral solid, we are paring down part of that. The idea is to rationalize the foot print associated with that label, so the oral solid gets to a sustainable profitable level, which is not at this point of time, especially in the US. Some layered on that would come the complex products and the like over time. India business obviously is highly profitable. So I don't think there is anything structurally different compared to other companies, but I think as the over-indexing, firstly, on the US primarily on oral solids, the lack of new product introductions in the recent years, I think all of these have been compounding factors which have led to just that regular pipeline of products not coming to market.

We're starting to see that come now. So, we see the inhalation production, we see some of the complex products coming as well. We do want to optimize



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the oral solid part, so that it makes money standalone. It is only then that sustainability for the earnings. I think that's it only comes in at that point of time. And I think we will get there. I think we're close. We have done the optimization measures for the most part and I think you'll start seeing from Q2 that bounce back happening.

Sameer Baisiwala: Okay. Great, thanks. And just one final question is on the 14% workforce in the plant. I'm just wondering, when your volumes go back up again, then what happens? I mean, were there redundancies, so if you can just talk about that?

Nilesh Gupta: I think we were very cognizant on that. We hate doing stuff like this. I think the idea was to just optimize it to the right kind of level. So, part of that has been, I would say, like delayering and the like, just optimizing spans of control. In some plants, where volumes have gone down and we're seeing that new products would also not come, reducing number of people out of that as well. So I think we'll be able to handle volumes as they go up. We certainly have, at this point, more capacity than we need. And the future pipeline even on the oral solids is not extremely high volume from a new introduction perspective.

Ramesh Swaminathan: Just to add to what Nilesh was saying, so I've said this in the past to you also, Sameer. There have been a number of inefficiencies that have crept into the system of over a period of time and we are in the process of kind of ironing it out. Specifically, for example, we have this investing ahead of the curve and we are just addressing it through workforce planning. We are also looking at a footprint at some point of time, a reduction there. There are inefficiencies when it comes to, for example, on the failure to supply penalties that we spoke about in the past. So, we've addressed that significantly during the course of the CR and going forward there is certainly going to be impact on that.

They always will be focusing on in fact a host of initiatives when it comes to the gross margins in terms of routes, synthesis or operational excellence and the like. Apart from that, there have been inefficiencies because of OAI status itself when it comes to employing or deploying air freighting for moving our products out, there has been a considerable increase in that over time and that we are again reducing. Apart from that, there has been of course unfortunately recalls of different kind. And we think that whilst we can't of course crystal gaze into the future and say how much it is going to be, we have been working on in fact overall reduction in terms of strategies around FTS in India, in terms of batch sizes and the like in other parts looking at other ways of actually controlling it. So, all of these measures I think total up to up a fairly decent amount which you think when we work on and actually get the full outcomes of all of this, but helping bring up the EBITDA margins and of course shoring up the overall core business of the past.

Sameer Baisiwala: Okay, great. Thank you so much.



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- Moderator:** Thank you. Next question is from Madhav.
- Madhav:** Yeah. My question is, the products that we're rationalizing in the oral solid. Hello.
- Nilesh Gupta:** Go ahead.
- Vinita Gupta:** We can hear you.
- Madhav:** Yeah. My question is, the products that we are rationalizing in the oral solid portfolio, the existing players who continue to supply these products in the US market, are they at a better cost structure than us that they continue to supply or they are okay making negative profits or maybe zero profits in that portfolio? Like, people who continue to drive down prices, how are they able to sustain or do you think prices eventually must bounce back here for supply to continue in the US market for some of these products?
- Vinita Gupta:** So, I think it's a combination and some products we are not vertically integrated or we don't have a good cost position. Obviously, someone else has advantage over us and if we can't gain that advantage in a reasonable period of time, it obviously does not make sense for us to beat a dead horse. On the other hand, in other cases it's surprising to see folks really undercut pricing against a vertically integrated player, where we have strong cost position. So, it all depends upon dynamics around the product. So, the product-by-product analysis to determine is it a short-term price event or a long-term dynamic that we're dealing with and to decide what to get out of and what not to get out of. I mean, we don't easily get out of anything. We like to really be the last person standing in the marketplace, but when the pricing comes down to a level and costs are going up, you have to be rational about it from a margin perspective.
- Madhav:** How much probability would you assign to a situation where prices for some of these products at least stabilize if not recover. So that supplies are more stable or do you think that there are still some players who know that rationale and prices are going to remain low for a long time?
- Vinita Gupta:** So, when you look at the number of approvals that companies have had in the last couple of years, the oral solids have had the maximum number of approvals. So, new competitors getting in has exacerbated the situation as well. So, it's hard to really predict, I mean, is there going to be a price increase. I think one would want to really be in a position where if there is a price increase on strategic products, we are able to take advantage of that. We are able to take additional volume in the marketplace when others have issues. But those will be around strategic products, not around small products.
- Nilesh Gupta:** So, the drop should be the marginal products where we don't necessarily have fantastic cost position, we don't have great volumes and which really don't



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move the needle beyond a point. So, I think those are the kind of products that have been the part of the cut at this point of time. And I don't think we can count on serendipity to make up for these kind of products. If something structurally changes, obviously, we can go back to some of these products.

Madhav: Understood. Thank you so much.

Moderator: Thank you. Next question is from Nikhil Mathur.

Nikhil Mathur: Hi, good evening. Am I audible?

Moderator: Yes.

Nikhil Mathur: Yes, sure. So my first question is on the other expense. If I look at on a quarter-on-quarter basis, there other expense is down almost INR 160 crores. In this, R&D is stable. Can you help me if there is any benefit from restructuring initiatives been sitting in this Q on Q number, because I believe there would be some lower direct costs as well attached to sales not realized in the US? So any restructuring benefits sitting in this number in this quarter?

Ramesh Swaminathan: Yes. So, the last time around, there were some one-time expenditures. We had Solosec litigation expenses and the like. There was of course this FTS element which are also being considered out there. So, those you would recognize really one times that we took in. So, that obviously is significantly low. It's not there in this quarter and hence the reduction.

Nikhil Mathur: So, in the coming quarters, how should we look at other expenses on an absolute basis? Is it likely to be stable and only the sales growth in '24, '25 would lead to some bit of operating leverage or on the other expense side also, there are some traders that will potentially be visible in Q2 onwards?

Ramesh Swaminathan: So, as we said, so there are number of things that we are actually looking at for cost reduction in a general sense. So, the one-time items are really one-time. So we don't expect that to kind of crop up again. So, as a percentage of sales, I think these will be lower as the sales go up and as absolute numbers go, they would be more or less in the same vicinity.

Nikhil Mathur: Okay. So, if I look at FY22, the other expense was INR 4,500 crores. I think 220 odd crores was related to supply; I could see in the annual report. Sorry, INR 4,500 crores is after taking out the impact of failure to supply, so what is the like-for-like number are we working with in FY23 versus FY22 on the other expense side?

Ramesh Swaminathan: In absolute numbers, we could take this offline for sure. So, this is really to be taken on a full year basis, because what you're comparing is against that. So, I would rather take it offline. But for sure there are several measures that we



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have been working on. So, if you were to knock off the one-times which will not appear again, you'd see the numbers coming down over time.

Nikhil Mathur: Okay, got it. And, Nilesh, one question for you. I heard you in the media in the morning, kind of indicating that India should be back to double-digit growth from Q2 onwards. Now, is it something visible or is it a hope that because the market should grow, Lupin should be at par with the market? Because the way I am seeing the India business is, there are certain headwinds to Lupin's India business in certain in-license products. You don't have a product, which has been sold out to someone else. So, I'm not able to figure out how double-digit growth for the company be back from Q2 onwards?

Nilesh Gupta: Like we said, we will adjust it for COVID. The growth was 5.6% in Q1. So that's kind of the base that we're working from in any case. And you're absolutely right. There are some effects on the cardiac space, obviously we lost a brand, in the diabetes space, there is competition from generic products coming to some of the other in-license products. Otherwise respiratory has been slow to grow. We're still seeing slightly lighter doctor footfall than what we would have expected. That's what we would expect to normalize and we are still holding on. Again, all of this was expected. So, Q1 was expected the way that it is. And future quarters are expected to go back to the double-digit. Will we be at 8% or 9% in Q2 before we get to double-digit in Q3? Maybe. But in general, we're going to be in double-digits for the balance nine months.

Nikhil Mathur: Okay. And one final question on gross margins. Now, couple of years back, when there was this expectation of albuterol coming in, even then it was widely expected that Lupin gross margins will improve and also they were talking about procurement efficiencies being realized. Even then the gross margins have only deepened, they haven't improved. Can you help us how the gross margin will improve over the next two years? I mean, Spiriva will come, but you have the base business which will erode as well. So some more sense on how the gross margin can improve, I think that would be very helpful.

Ramesh Swaminathan: In some parts if you're comparing the recent past, it's also because of the fact that we are the salience of partnered products had gone up. But as we bring in products from our own stable, we would expect that salience weightage to come down. And of course the various initiatives that we have been following or even adopting in terms of procurement excellence and also synthesis and all of this will come to bear fruit. So you would expect better products coming, the gross margins will simply go up.

Nikhil Mathur: Sure. Thanks a lot and all the best.

Moderator: Thank you. Next question is from Chirag Dagli.

Nilesh Gupta: Chirag, you might be go ahead.



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Chirag Dagli: Yes, Hi. So, three questions. First is, how should we think about the QoQ dip of \$50 million in the US, the impact of that on EBITDA? Any thoughts there?

Ramesh Swaminathan: It's actually flown through, right. So essentially the EBITDA, it's impact on the overall EBITDA margins, the absolute number goes down and the fixed out base being what it is, it brings down the margin. So once the turnover goes up, which is what we say what happened between second and fourth quarter, we would expect things to be much better.

Chirag Dagli: Ramesh, you're saying had this not been the case, EBITDA would have been higher by \$50 million?

Nilesh Gupta: The gross margin, for sure.

Ramesh Swaminathan: The gross margin portion of that.

Chirag Dagli: Gross margin. Understood. Okay. Fair point. Secondly, we've talked about INR 500 crores annualized kind of cost savings from the second quarter onwards is what you indicated last quarter, does that still stand? Has there been a change there? Has it increased, reduced?

Ramesh Swaminathan: There are a number of initiatives. So to be very exact, we have got about seven or eight initiatives going. There is an initiative and we just spoke about the fact that we carried down this workforce planning at the factory and other places as well. There has been a 15% reduction on the manpower front. There are initiatives to kind of address the footprint itself because we recognize that it kind of eviscerated the curve, I spoke about in fact the airfreighting, I spoke about in fact reducing FDS. I spoke about actually dropping negative margin products and the like. All of these are work in progress. Some parts of it is completed, the other parts which will actually play off during the course of this year and that's during the early part of next year as well. So it's basically an approach and it's a philosophy that we will continue. And for sure it will bring in more than the INR 500 crores that you're talking about.

Chirag Dagli: Ramesh, can you be a little more specific, because clearly numbers are substantially lower. Can you just give us a sense of the glide path of how the bounce back or improvement will probably progress over the next few quarters? And this is more near-term. I understand it's not right to put you guys through this, but just given the kind of disappointment we've seen, a glide path would really help in terms of how to think about this near-term.

Ramesh Swaminathan: It will be very unfair to kind of spell out what will be the outcomes from individual initiatives. That will be very unfair on your part to expect the company to spell it out, but cumulatively in aggregate the total quantum could be in excess of the INR 500 crores. It's actually between INR 500 crores



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to INR 750 crores. And this is exactly what we are setting out to kind of achieve and this will happen during the course of the next four to five quarters.

Chirag Dagli: Understood. And you indicated on television that you will exit Q4 with 18% margin, did we understand this right?

Ramesh Swaminathan: Yeah. So it is aided by the fact that a lot of these initiatives would pay dividends, the fact that we would also have products being introduced in the market and of course rupee depreciation, which also helps in terms of the overall realizations itself. But you should also not forget the fact that there has been a secular inflation which is impacting this industry as it is impacting other industries. And there we have a fair sense about where it is going. But having said that, there could always be moving parts that we cannot kind of anticipate.

Chirag Dagli: Understood. Okay, sir. Thank you so much. Best of luck.

Moderator: Thank you. As we have limited time, we request to keep two questions at a time. Next question is from Sonal Gupta. Sonal, please unmute yourself.

Sonal Gupta: Yes, hello.

Moderator: Yes, please go ahead.

Sonal Gupta: Yes. Thank you. Sorry about that. So just a couple of small questions. One is, can you share the size of the partnered product portfolio for the US? I mean, like what percentage of your US sales comes from that?

Ramesh Swaminathan: Going forward it will certainly be much lower. I could talk about the individual products per se, for example, last time we had Brovana, 15% to 16% is what we kind of have got in that bucket.

Sonal Gupta: Got it. And just, I mean, like the correction in the whole US sales, what sort of reduction or correction are you looking in the US sales and SG&A infrastructure, could you shed some light on that, just trying to understand? Is it being right sized? Sorry.

Vinita Gupta: So we have been optimizing the P&L end to end. So right from SG&A at the commercial end in the US to manufacturing cost. Like Ramesh, highlighted with workforce reduction in our plants to reduce cost of goods, as well as optimization of the R&D spent. We brought R&D spend down 25% from Q4 to Q1 and intend to optimize further while not missing out on material opportunities, in particular, in the complex generic front and exclusive oral solids. So it's really end-to-end P&L that we have optimized and we continue to optimize.



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- Sonal Gupta:** Got it. I mean, just trying to get a sense, like the US SG&A would be running at like 15%,20% of US sales, is that where it would be right now?
- Ramesh Swaminathan:** Yeah. Actually still ahead of that, yeah, about 20%, 24% is what we have as total SG&A spends relating to the US.
- Vinita Gupta:** End to end.
- Ramesh Swaminathan:** End to end, including the cost which is allocated to the US.
- Vinita Gupta:** Yes.
- Sonal Gupta:** Got it. Okay, so that includes R&D as well, or, no, that is separate, right?
- Vinita Gupta:** No, just the SG&A.
- Sonal Gupta:** So that needs to substantially come down right, if the US has to be profitable?
- Ramesh Swaminathan:** If we are going to actually go down the path of products being introduced, which will actually take up the turnover, it will be fair to kind of say that it should obviously optimized wherever we can, and cutting down to what we think is absolutely necessary, but what we think to the extent that we think is necessary, we would keep it there.
- Sonal Gupta:** Got it. Great. Thank you so much.
- Moderator:** Thank you. Next question is from a Anubhav Agarwal.
- Anubhav Agarwal:** Yes, hi. Couple of questions. One is, on the gross margin this quarter, we had two impacts. One is from shelf stock adjustment, second benefit from discontinuation of low-margin products. If you were to normalize this 55.3%, what would have been a normalized gross margin this quarter?
- Nilesh Gupta:** So couple of percent more, right?
- Ramesh Swaminathan:** Yes. Couple of percentage points more.
- Nilesh Gupta:** Which is what was Q4, right, so there was no material change from that, but some price erosion.
- Anubhav Agarwal:** Okay, thank you. That's helpful. Second among the different cost saving areas, Ramesh, you highlighted seven, eight areas. If you want to pick one, and which is low-hanging fruit, which can be implemented this year with some good benefit coming, I'm not talking about how much benefit, which will be that one area that you will pinpoint?



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Ramesh Swaminathan: So these are different buckets and all of them have their own nuances really. So we have gone down the path of manpower reduction at the factory level. There are of course still capacities that we had invested in that we think we should address in some ways. There is of course the FTS element which we have also addressed this year.

Nilesh Gupta: I think the FTS is what we've fixed, right, in the sense we did a catch-up that we needed to clean up in the past. And now we've got it at a pretty clean thought. The inventory is pretty optimized. Our OTIF levels are way up as well. So, obviously I think the FTS is something that we would expect to keep in control now.

Anubhav Agarwal: So that's already done, Nilesh.

Nilesh Gupta: But you asked for low-hanging fruit, right?

Anubhav Agarwal: Yes, that you can do incrementally from here.

Nilesh Gupta: So, I think stuff like freight we will bank on. Obviously, freight is coming down. Again as we've been able to normalize inventories, we are back to ocean rather than sending stuff by air as well. I think it's going to be a multitude of stuff thereafter.

Anubhav Agarwal: What's your mix, Nilesh, right now, sea versus air?

Nilesh Gupta: I think we'll have to get that to you. I don't have it offline.

Ramesh Swaminathan: It is close to about 34%.

Nilesh Gupta: 34% by air.

Ramesh Swaminathan: By air.

Anubhav Agarwal: And normal will be what, 20%?

Ramesh Swaminathan: It will go back to 20%, 15%. It was zero. So I don't think we'll get down to that level, but we obviously have target to bring it down.

Anubhav Agarwal: Okay. And just one more, sorry, Vinita, this is to you that when I say Lupin versus your peers, I see very over-dependence or very skewed profile of very high US as well as the high India. And I see EM being a very small portion of our overall revenues. Of course, the company now has problem where the profits are not very high. But at some point of time, how to think about the past we haven't, we had Japan, which we exited. But EM as a portion how you're thinking about it as an area that you want to develop? Second, would you agree that right now is not the time because you want to contain and



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bring back the margin, but when things are okay, how are you thinking about EM as a category?

Nilesh Gupta: Yeah. Sorry, can you repeat that question? We actually lost power for a split second.

Anubhav Agarwal: Yeah. I was just talking about emerging markets as a category. Lupin versus peers seems to have a profile where US and India are very significant portion of the revenues and profits. Lupin doesn't seem as diversified as some of the other large cap peers are. So right now may not be the best time because we are looking to contain margins, but at some point of time, how are you thinking about diversifying into emerging markets as an area?

Vinita Gupta: So if you look at our emerging market business right now, if you add Latin America, South Africa, Philippines, it's a nice sizable business. I mean, last year it was \$200 million in revenues at 18% EBITDA. And it grows double-digit year-on-year. I mean, the only place where we are still trying to really get it to the right level of profitability is Brazil, but the other countries are all pretty high margin countries. And while they are growing organically and have a very rich pipeline, we are looking at small bolt-ons into the emerging markets to be able to grow it beyond the 15%, 20% level in the next four to five years to get to between \$400 million to \$500 million in revenues.

And there is tremendous potential in Latin America itself beyond Mexico, Brazil. And also in Africa, I mean, we have started the efforts of getting from South Africa to Sub-Saharan Africa. We have started registering the products to be able to grow into the region. So, certainly have plans to really grow our emerging market business. Likewise, we are truly under indexed in Europe. I mean, if you look at most of our peers and you look at also the global generic companies, they typically have a much larger presence in Europe. We're probably one of the smallest. And we have significant potential there as well. In particular, now with the complex generics with inhalation products, with the injectables coming, we have tremendous potential there to grow the business. So continue to look at small bolt-ons to be able to effectively commercialize our products in Europe as well.

Anubhav Agarwal: Thank you.

Nilesh Gupta: I know we are over time, but we'll take 10 minutes more since there is a bunch of questions still pending.

Moderator: Thank you. Next question is from Mr. Sandeep.

Sandeep: Hello. Am I audible?

Moderator: Yes.



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Sandeep:

Yes, hi. This question is to Nilesh and Vinita. It seems the problems over the last couple of quarters or couple of years have been both internal and external which is pricing-led, etcetera, but seem more internal to the organization. So, what are the strategic changes which are required, especially at organizational level, leadership level to really get the organization back to winning this, because an aspiration of 17%, 18% margins is good, but that's still average. So, do you think there are lot more strategic choices needed or a product pipeline coming through will get us back to where Lupin should be?

Vinita Gupta:

Yes. So from my perspective and then agreed that there have been both challenges external as well as internal. External, certainly from a market perspective, internal from the standpoint of delivery, certainly with the GMP challenges that we had that hampered the ability to really get the right number of products into the market that really help offset a lot of the external challenges. We have done a number of things to try to address these challenges, as Nilesh spoke. I mean, we have clear focus on the GMP front, have really taken it to a different level to ensure that all of our sites are meet and exceed FTS expectations out of the five sites that were in trouble, we have cleared two and are confident of clearing the other three as well while keeping the rest of the sites compliant and that's crucial. That's the backbone of the business to help us deliver every product that we file from a R&D perspective.

So, really getting the new product launch engine fixed is a big part of our focus. It's a combination of people as well as processes that we have booked upon and we are fairly confident with the changes that we have made, aided by the GMP status changing. Now, we should be able to really kick start the new product engine effectively from this year onward. So, I mean, for a generic drug company, I mean, it's crucial to get new products. Good number of meaningful new products to launch. So, that's just one of them.

I mean, there are many areas where we talked about issues with FTS, back orders that plagued quarters in the last fiscal year. We have done a number of things to streamline our supply chain. We have implemented integrated business planning in the company last year. That has changed the visibility that our team has end to end, the alignment our team has to ensure that we maximize on the products that we have in the market. We minimize, mitigate any failure to supply penalties and back orders. And we are in a much, much different place today than we were 12 months ago. I mean, the numbers don't show that as of yet, but we are confident that you will see it in the quarters to come.

Sandeep:

If I may just sort of follow on this, Vinita, if you look back at the performance and think about these internal sort of issues, when you fix responsibility, is it more new talent required in the organization? That really is the question, because backfill of order, air freighting etcetera. Nothing to do with the GMP



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or markets. There are lots of issues, so does the organization require new talent, because organization is made of people who have to execute?

Vinita Gupta: I think it's a combination of both talent as well as process fix. And we found that the process fix went the long way to give everybody visibility end to end in terms of what is needed. But I mean, there are talent lapse as well, I would say, and we're in the process of filling them.

Nilesh Gupta: We made several changes as well, changes in the procurement function, changes in the supply chain function, changes in some of the technical operations roles as well, including in quality even.

Vinita Gupta: Right.

Nilesh Gupta: I think we just need to execute versus the plan that we have. I think we have a plan that we are going to right size the footprint for the oral solids. We will execute on the complex generics. Vinita talked about some of the other markets. From my perspective, we would double down on India, which is something that we only started in the last few years. And in India it's not just pure pharmaceuticals. It's the broader healthcare space, with some of the stuff that we're doing. We just have to stay at this now.

Sandeep: Got it. Thank you.

Moderator: Thank you.

Nilesh Gupta: Maybe last two questions.

Moderator: Yes. We'll take last two questions. Next question is from Prakash Agarwal.

Prakash Agarwal: Yes. Hi, good evening. Am I audible?

Moderator: Yes.

Prakash Agarwal: Yes, hi, thanks for the opportunity. Good evening. Question again on the US side. I heard you saying that the sales and the margins are going to bounce back, but the clarity here would help. Pare down inventory, shelf stock adjustment impact and price erosion, so when you talk about these three pieces, out of these three, the first two are one-time. So are you saying that from Q3, you will be back to 170, 180 or you said something lower? And if these are one-time why aren't we coming back to 170, 180 and why are we calling it 150 odd?

Nilesh Gupta: So, I think with the erosion, it comes to the 150, 160 kind of number at this point of time, and that has to be supplemented only by more sales in the in-line products. If we do that or otherwise, we've got to be conscious.



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- Prakash Agarwal:** No. But, this base was already 200 and we've been seeing price erosion every quarter. What I'm trying to understand, did we see another round of 10% price erosion on the base portfolio?
- Nilesh Gupta:** That seems to happen at this point of time it already.
- Vinita Gupta:** That's right. I mean, and our average was 180 in terms of the base last year. We saw a 10% erosion, especially on products where we had significant additional competitors like Brovana, for example, which is the reason why the base comes down.
- Prakash Agarwal:** Okay. And with the approvals and the launches that you're seeing from the facility cleared recently, Goa had few launches. How do you see Somerset shaping up? Do you have some chunky launches, approvals, which can in the near to medium term, say, one, two, three quarters out can they start? Do we see double-digit launch for the year or how do we see that?
- Vinita Gupta:** Yeah. So, we are expecting 10 launches, 10 plus launches in the year. But so far we have launched one product Restasis, which was authorized generic from AbbVie in the first quarter. And we expect Suprep coming through in September and in full launch prep there. Now that Somerset is cleared, we are expecting couple more products out of Somerset, six or so. But the meaningful ones are diazepam gel that I mentioned which could really help in the fiscal year and next fiscal year or early next fiscal year, we have Nascobal where we have first to file. We expect that approval out of Somerset in the next six, eight months. So, those are the ones out of Somerset in the near term, Prakash.
- Prakash Agarwal:** Perfect. Then just a follow-up on this. So, the US\$150m base, what is a more downside to that? I mean, obviously I mean it's difficult to predict 10% quarter-on-quarter price huge, but is there a more downside to that?
- Vinita Gupta:** I don't think so. I mean, Brovana in particular we had really strong market share. We still have a good market share, but the pricing has come down with the number of the additional competitors. So, it's hard to predict pricing in the US market, but we do believe that this should be the base on which we're adding new products.
- Prakash Agarwal:** Perfect. And second one is on the respiratory pipeline. If you could throw some color there, given that you obviously have talked about couple of coming this year, but how does it look for '24 and '25?
- Vinita Gupta:** So, Spiriva obviously will be the biggest one for us in the near term. And then Nascobal out of Somerset. We expect a ramp up of Spiriva also in other countries, UK, Europe, Australia, Canada. We have a little bit of work to do on Dulera, but we have good correspondence with the FDA on that one. That product is also relevant for us for Canada, so that's in the works. And then we



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have a product like the Fostair product we just got notified about the high-strength approval. We plan to launch that later this year in UK and Europe early in the next calendar year. And have a full pipeline beyond that. Ultibro and the Ellipta franchise, the Respimat franchise, we're making progress on the pipeline on all the material products.

Prakash Agarwal: Okay. And your margin guidance of 17%, 18% include all these kind of product launch probabilities?

Vinita Gupta: Well, I mean, it's really this year, 17%, 18% I said with Spiriva coming in and as we get full impact of Spiriva next year, as we get other products, we should be at that 20% plus.

Ramesh Swaminathan: True. Absolutely.

Prakash Agarwal: Okay, perfect. Makes sense. And all the best to you.

Vinita Gupta: Thank you.

Moderator: Thank you. We'll just take the last question from Sameer Baisiwala.

Sameer Baisiwala: Hi, thank you so much. A couple of questions. One, Vinita, are you expecting an authorized generic on Spiriva?

Vinita Gupta: It's hard to predict, Sameer. We are planning both ways. I mean, from a financial perspective, we have plan for an authorized generic to be in. But from a supply planning standpoint, we're ready to take on the market 100%.

Sameer Baisiwala: Okay, great. And the second question is, just curious, what's the sort of backward integration that you have for the US business? Just some broad range and how does it stack up versus the industry?

Vinita Gupta: I think we're fairly backward integrated when it comes to the oral solids. In the complex generics, it's not as important to be backward integrated, it's more technology. But on the oral solids we're fairly backward integrated. I would say like maybe 70% of our portfolio.

Sameer Baisiwala: Okay, because I was coming from one of the previous participant that how important it is to be backward integrated to really survive and do well in US or it is the inflection point in the industry structure that even the low cost producers from India need to exit because there are such thin margins.

Vinita Gupta: Please go ahead. Complete your question.

Sameer Baisiwala: So, I guess, there is still more time before the industry inflex, is that the way we should read about it?



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- Vinita Gupta:** I think there is for the oral solids backward integration and getting the right cost for backward integration is key to survive.
- Nilesh Gupta:** In fact, it's not just backward integration. It's backward integration and operational skill.
- Vinita Gupta:** Yes, both.
- Nilesh Gupta:** You could be backward integrated. If you don't have skill in cost of goods. So that won't work either.
- Vinita Gupta:** Yeah. But I think there will be a shakeout in the oral solids as we see it and the products where we are backward integrated on and the products that are strategic to us, we will be anchored in there to gain additional share if the opportunity arises. At the same time products where we don't have a great cost position, we're not going to hold on to it, to no end.
- Sameer Baisiwala:** Okay. Vinita, with that logic, if you don't mind, then for the 70% that you are backward integrated and you have scale, I mean, over time you should be gaining market share and there should be shake out in those products as well.
- Vinita Gupta:** Well, hopefully if others are willing to give up space.
- Sameer Baisiwala:** Okay. And one final question, how many filings have you done for the large value inhalers and complex injectables, where are you in the pipeline?
- Vinita Gupta:** I'd say that three or four so far.
- Nilesh Gupta:** But several others in advanced stages of development.
- Vinita Gupta:** Yes.
- Sameer Baisiwala:** Okay, fine. Thank you so much.
- Vinita Gupta:** Thank you.
- Moderator:** Thank you. I now hand the conference over to the management for the closing comments.
- Kamal Sharma:** Thank you very much for your participation and hope you had answers to most of your questions. Look over to seeing you next quarter and in the meantime take care of yourselves and look after yourselves. Thank you very much. Bye for now.
- Moderator:** Thank you. 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.