



24th May 2023

The Secretary
BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai - 400 001
Scrip Code: 500674

The Secretary
The National Stock Exchange of India Limited
Exchange Plaza, 5th Floor
Plot No. C/1, G Block
Bandra-Kurla Complex, Bandra East
Mumbai - 400 050
Symbol: SANOFI

Sub: Transcript of Investors / Analysts Call scheduled on 11th May 2023

Dear Sirs,

Further to our letter dated 11th May 2023, and pursuant to Regulation 30 read with Part A of Schedule III of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith transcript of the Investors / Analysts Call scheduled on 11th May 2023. The same is also being uploaded on the website of the Company at [Announcements & Stock Exchange Disclosures - Sanofi in India \(sanofiindia.com\)](https://www.sanofiindia.com/announcements-and-stock-exchange-disclosures).

Please note that the presentation and the recording of the aforesaid Call is already available on the website of the Company at the above web link.

Kindly take the above information on record.

Yours faithfully

For **Sanofi India Limited**

Radhika Shah
Company Secretary & Compliance Officer
Membership No: A19308



sanofi

“Sanofi India Limited”

May 11, 2023

Management: Mr. Rodolfo Hrosz – Managing Director
Mr. Vaibhav Karandikar – Whole Time Director & Chief Financial Officer
Ms. Radhika Shah – Company Secretary

Moderator: Over to Sanofi management team.

Radhika Shah: Good morning everyone and a very warm welcome to the Investor Call of Sanofi India Limited. My name is Radhika Shah and I'm the Company Secretary of Sanofi India Limited. I have with me Mr. Rodolfo Hrosz, Managing Director and Mr. Vaibhav Karandikar, Whole-Time Director and CFO.

Rodolfo Hrosz: Good morning, everyone, and welcome.

Vaibhav Karandikar: Good morning, everyone.

Radhika Shah: Okay, before we begin this investor call, there are two important announcements. Firstly, please note that the proceedings of this meeting are getting recorded. Secondly, please also note our standard disclaimer. There are certain statements which may be forward-looking in the presentation, as well as the comments that the management makes. The actual results may be affected by many factors that may be different from what is envisaged in terms of future performance and outlook that is being discussed today.

Moving on to the agenda of this call, in today's investor call, we will be talking about the performance of the company for Q1, 2023 and also the proposed demerger which we have -- which the Board of Directors have approved yesterday and it was announced yesterday. All of you would have seen the press release and the news articles.

The management will make a presentation covering the performance as well as the proposed demerger-related aspects and thereafter, we will proceed to Q&A. We expect the Q&A to end by 12 p.m. sharp. All investors are requested to keep their questions brief and kindly avoid repetition.

I now hand over to Rodolfo to take us through the presentation.

Rodolfo Hrosz: Thank you, Radhika, and once again, thank you for joining. Very exciting news to share today, so I'm very, very happy to be here. So, the agenda today entails four points. We're going to start with a Sanofi India Limited overview and we're going to go through our case for change. We'll share a little bit on our transaction overview, and then there is an appendix that will go to you when the presentation is uploaded.

Starting with Sanofi India Limited, a brief overview for those that aren't totally familiar with the business. We have a long history in the country, 67 years of presence in India, a top four multinational company, pharmaceutical industry. Our revenues of INR26.2 billion in 2022, top five – ours are in the top 300 of total pharmaceutical market in India. We export to 28 plus countries around the world, developing and developed countries.

We have one strong GMP compliant manufacturing site in Goa, 5 billion tablets produced from that facility, 12 Indian CMOs, Contract Manufacturing Organizations that work with us for the Indian market and for the exports as well. We cater to 3,000 distributors and 100,000 pharmacies, very strong activity in CSR and ESG.

In CSR, we have various longstanding health programs for underserved communities and where we have reached 2.4 crore total beneficiaries so far. Environment, as you may have seen in our new annual report, we have disclosed some interesting new information. We plan to be totally 100% renewable energy by 2030, net zero by 2045 and we continue to seek a circular approach to limit our environment impact in our activity. We have very robust governance still on that point, but fully compliant with multiple layers of internal and external audits to our operations. So that gives you a brief overview of the company.

In the next slide, we'll show you a little bit of our leading brands. We're well positioned in the biggest segment of the pharmaceutical industry in India with very strong established leading brands from Insulins, with Lantus Toujeo and Apidra with a portfolio in oral diabetes with Amaryl amongst other brands. Clexane for cardio, Frisium in the neuro segment, Allegra in the allergy segment, DePURA in the physical wellness, Combiflam in pain management, and Avil also in allergy. Strong portfolio with very robust brands, very well established.

Next slide. We'll show you a little bit of our returns in the last few years. I ask Vaibhav to take us through that slide.

Vaibhav Karandikar:

Thank you, Rodolfo. As you can see on the slide, we have created a long-term shareholder value. If you look at the chart from 2010 to 2023 today, market cap plus dividend put together, we have delivered 5X in terms of total returns for our shareholders, which translates into a compounded growth rate of 12.2% over this 10-year period.

I think one point also that we want to stress and which we have mentioned during the last call as well is the dividend payout ratios and we talked about India for India strategy in Q3, '22 and we also shared that with you during the last investor call. Largely, the strategy focus on global and local innovation and partnerships, which is essentially meaning an organic path to growth for Sanofi, which we are pursuing. And therefore, we said that we would be able to maintain our payout ratios, which as you can see are gradually increasing and the last payout ratio was at 85%. This translates into a dividend yield of almost 3%, 3.5% for our shareholders. And that's something which is a key factor under India for India, which we wanted to share with you. And this is something that one needs to keep in mind as we move along in terms of our payout ratios going forward.

Next slide, please. Yes, and the important thing is now on - you know, while we have delivered long-term shareholder value, I wanted to talk about a little bit on what we have done under, India for India. To refresh the memories, we launched India for India in Q3 of 22. India for India essentially focuses on five growth pillars, diabetes, CHC, innovation, new ways in terms of go-to-market and partnerships. And while we are working on these five pillars, it's important to note that there are strong early signs of success in the last two quarters.

If you look at Q4 of 2022, and we shared these numbers with you, we showed a growth of 22% on our profit before tax. The operating efficiencies which were brought in by India for India, they kicked in, Q4, 2022. Q1, 2023, the results which were published yesterday, I think it's an important point to note that this was one of the best quarters for Sanofi India in terms of profitability. If you look at the last 17, 18, 20 quarters, I think this was the highest profits that

Sanofi India made during the quarter. Again, it was -- look, we kind of are moving on the India for India direction very strongly, as you can see. The comparable sales growth versus the previous year was at 9% and importantly, the operating profit growth is at 21% during Q1, 2023.

One more point which one needs to note is, if you look at the immediately preceding quarter, the operating profit growth between Q1, '23 and Q4, '22, the operating profit growth is at 40%. While India for India strategy is clearly showing early success, we need to accelerate more. There is strong acceleration needed on all the five growth pillars because we want to reach more and more patients in India and that's an important milestone for us as we deliver on our India for India growth platform. Rodolfo?

Rodolfo Hrosz:

Thank you, Vaibhav. And in fact, I think good results, we can see here for a minute. Good results, even if you consider that, these were the quarters in which we implemented a new structure that is catering to the new India for India plan, right? So significant shift in the organization that has been absorbed within these two quarters, then nevertheless the quarters are good. So, it's even more interesting from that perspective.

It does signal that focus on key categories and fewer initiatives, pay off. And because if you look at the essence of what has changed in the last two quarters, it is really more focused, right? We came from eight business units down to three business units in the business with more focus of more resources in fewer bets or we believe we're well-positioned to succeed and have the right to win in these bets that we're focusing on. So, focus has been the essence.

Innovation, we start to work on, but innovation really impacts the business down the road. Innovation process is a relatively longer. So, it takes more time for innovation to hit the market from the moment you start to work on it in the pharmaceutical industry. So, it will impact us positively in years to come but hasn't been the case in Q4 and Q1 so far. So it was really focus.

And focus is something that we can elevate even more, right, in the next slide, we can, as we go through the exercise of focusing on these two businesses and driving the performance of these two businesses, we realize more and more clear that what we offer, what enables growth, the market dynamics, the keys to innovation and the external environment challenges are different for general medicines, for the pharma business. We sell products with therapeutic benefits. It's about scientific interactions HCP, HCP meaning healthcare professionals. It's a prescription driven business. It is about communicating on disease and therapy awareness. R&D and clinical trials are critical. And there is a need for a strong regulatory path for innovation.

If you go to the consumer healthcare side of the segment of the business, we offer brands to fulfill consumer needs. It is critical that we have strong consumer marketing. Modern trade visibility is a very important factor of success. We talk about self-care and influence. Speed to market is critical in innovation end-consumers are the ones who pay. And in terms of external challenge, the external challenges is regulation for the whole category of OTC. So very distinct need that require distinct and different approaches. So we think that in the next slide, we can maximize the Sanofi India's potential and our current India for India plans potential by giving each of these segments specific capabilities, removing unnecessary and intertwined processes that today exist and fully aligning these businesses with the respective global structures.

And this has led us to what you saw in the next slide, what you saw already yesterday in the press release, when we announced that the Board of Sanofi India Limited approved the decision to demerge the consumer healthcare business from the pharma business. So yes, this is subject to multiple approvals, including shareholders approvals, but that has been approved yesterday by the Board and now you've seen that communication.

Now, when we talk about that, what is the context in which this decision is being made? If you look at this market, even from a global perspective, a very broad perspective, right? So, you see that pharma companies have taken a similar path in dedicating organizations for their consumer healthcare portfolio. It is the case with Haleon, which time ago announced a spinout. It is the case of Johnson with Kenvue, an IPO for the consumer healthcare portfolio. And it's also the case with some local companies in the recent past.

Now, aside from that, from pharma companies dedicating structures for their consumer healthcare portfolio, we also see fast moving consumer goods tapping into the consumer healthcare portfolio. Reckitt, Procter & Gamble, Unilever and Nestle have all taken steps to get into that segment and then changing therefore, the dynamics of the segment. It is natural. It is a very attractive market. Today, estimated at \$158 billion, projected to be over \$200 billion by 2027 globally, with multiple factors that make us believe that this growth is really very sustainable for a very long time.

We have a heightened and increased consumer focus on health and wellness, increased budget pressure on healthcare systems around the world, driving the adoption of self-care policies which relieve payers from some of the burden of the healthcare system.

Ageing population is another important factor. We -- as people grow older and have more of a need to cater for their health and do that with a proactive and preventive self-care approach. It is estimated by the WHO that the 60-plus population will double by 2050 in the world. So, this is a really big impact that is going to shape the landscape. There is an expanding middle-class with high growth emerging markets, such as our market in India. And there is a very fast-growing digital ecosystem that provides consumers and patients new opportunities to interact, to learn and make decisions on self-care. So, all these factors together paint for this very positive perspective on consumer healthcare, which has led companies to take significant action in adjustment in their strategies to cater to this opportunity.

In the next slide, we see that not only competitors have done that, as I shared with you in the previous slide, but also Sanofi has been going down this road also. Since January, 2020, Sanofi globally deployed Project Chloe, whereby the company decided to give autonomy and independency for its consumer healthcare business within the Sanofi Group. So a standalone consumer healthcare business, global business unit has been in the making since January, 2020.

At this point, most of the countries around the world are already operating with independency and autonomy within the Sanofi Group. In fact, since the beginning of that project implementation, the velocity of growth and the speed in which that business grew globally quadrupled, as you can see in the chart.

When we talk about India, it is a great opportunity for the Sanofi's consumer healthcare business in India to tag along onto that successful proven trajectory that the Group has deployed already in multiple markets -- in most markets to this date. India is a very important key market for consumer healthcare in general. It is number six. It ranks number six for consumer healthcare globally. For Sanofi, it ranks already number 10. Even if you see already a gap there, even 10 is already very relevant. It will be a key market for the GBU, for the Global Business Unit of Consumer Health Care of Sanofi, in its journey to continue to accelerate and achieve growth that is twice as big as the category globally, which is the intention and ambition of this business globally and India is going to play a major significant role in that context.

In the next slide, I show you that at the end, what we're creating here, we're creating a situation where we give the Sanofi India consumer healthcare business, the best of two worlds, right? On the one hand, access to the expertise of the Global Business Unit, in marketing, innovation, market shaping, and at the same time, giving this business the independence and agility and autonomy that it needs to pursue its own growth drivers in the Indian market, with resources that are fit for purpose, that addresses those drivers that I mentioned earlier in a previous slide.

At the same time, GenMed is able then to focus, the general medicines part, the pharma market business, is able to focus on its growth drivers, which have been outlined very clearly already in India for India. So that is the benefit for the two sides of the organization. So next, give you a transaction overview, I'll ask Vaibhav to come back and give us a transaction overview.

Vaibhav Karandikar:

You would have seen yesterday in the Stock Exchange announcement and also the press release that we talked about the transaction, but to kind of summarize it, what would it be? We have the current structure today where Sanofi holds 60.4% in the listed entities, Sanofi India Limited, and public shareholding is 39.6%. In the proposed structure, we will have two entities, two listed entities. The first entity, Sanofi India Limited, which will essentially house the general medicines business. And the second entity, Sanofi Consumer Healthcare India Limited, which will house the CHC business of the company.

Shareholders of Sanofi India Limited will get one share for -- every one share of what they hold in Sanofi India Limited. So they'll get one share of Sanofi Consumer Healthcare for every one share of Sanofi India Limited. So Consumer Healthcare is the demerged entity, which is Sanofi Consumer Healthcare, is proposed to be listed on both the BSE and the NSE. The expected closure of the transaction is mid-2024. Of course, it is subject to shareholder and regulatory approvals. And Sanofi will continue to hold 60.4% in both the entities. So this is the way the transaction will move between the current and the proposed structure.

Thank you. You can go to the next slide, please. This is an important chart in terms of understanding the two businesses a little bit. Key factor to note is that both the businesses are strong, stable businesses with resilient and durable cash flows. And that's because both the businesses are having top quality brands, well-entrenched in their respective categories and therapies. If you look at general medicines, for example, you have brands like Lantus, Toujeo, Amaryl, Clexane. But beyond these brands, we have other products. We have products like Cetapin, we have products like Targocid, we have products like Cardace, which are not listed

here. But essentially a strong portfolio of brands in general medicines, which will enable us to continue with the stable and the resilient cash flows, which is one of the most important factors for Sanofi in India today.

If you look at Sanofi consumer healthcare also, super brands like Allegra, Combiflam, well-known names, we have DePURA, Avil, again, strong brands and extremely well-entrenched in their respective categories. Couple of other points to note in terms of financials, consumer business of Sanofi India is almost 28% of the total business of Sanofi India. Turnover annually would be in the range of INR700 crores. Important points just to highlight, the manufacturing unit, which is the Goa manufacturing unit, will be remaining with the general medicines business because it is predominantly catering to the pharma side of the business. And CHC, just like today, will focus more on their local manufacturing through toll manufacturing and CMO organization. Back to you, Rodolfo.

Rodolfo Hrosz:

Thank you, Vaibhav. Yes, and CHC does supply some from Goa and will continue to do so. Goa eventually becomes a CMO for CHC too. Now, if you then ask me, what is it then that GenMed is going to focus on and CHC is going to focus on? So GenMed, general medicines portion of the business, the pharma business, continues to focus on the growth drivers that we identified in India for India, which are strengthening the strategic therapeutic area. So we want to further focus resources on the therapeutic areas of choice where we can attain leadership, elevate disease awareness and efforts on these core categories, further improve scientific support and HCP engagement in these categories with scientific content developed of relevance for the Indian market.

Accelerate innovation is our second pillar. And in there, we plan to bring up the opportunities of innovation from both the global portfolio and local opportunities that exist to enhance our portfolio. We want to further localize manufacturing for gross margin expansion, improve supply reliability and speed to market and strengthen the regulatory pathway and other capabilities to support our innovation plan.

The third pillar for general medicines in India is to continue to evolve its growth, its go-to-market strategy, where we intend to improve patient and customer centricity, continue to accelerate and accelerate even more our digital transformation and evaluate strategic partnerships that allow us to expand the reach in competitive and resource-intensive therapeutic areas. As Vaibhav said, and as I mentioned before, we are committed to a healthier India and we want to take our portfolio to more Indians, to many more millions of Indians and we need to find ways to do that. So that is what the general medicines business is focused on.

For the CHC side, for the CHC segment, we're positioning the business to actually create a fast-moving consumer healthcare company. And there the drivers are different. So first there is an enhancement of the portfolio innovation through line extensions and potentially in the future, addition of other global brands that are not in the portfolio today. Increase market penetration, shape the modern OTC regulation. India's OTC regulation is not modern yet. It needs to be modernized and as it does, it allows tremendous expansion for these categories.

Build a consumer centric mindset is the second pillar. There we want to deepen our affinity with consumers with a lot more research, a lot more consumer understanding, enabling that we build a strong marketing, that we deploy a strong marketing effort to build awareness and accelerate the building of love brands in India. We have some love brands already. Some of our brands are already loved. We want to continue to build them and build them even bigger. We want to enhance our presence in modern trade as it is already important for this business and is going to become growing more important going forward.

Third pillar for the CHC business is to become a best in class digital organization with strong e-commerce capabilities. There's three elements there. One is specifically to immediately step up e-commerce. Second, to build a world class digital marketing capability for those brands and essentially to fully leverage the global CHC business unit, data and digital edge. So the global structure of Sanofi for consumer healthcare is fairly well advanced and best-in-class in terms of its digital capability. So it's a straight benefit to this portfolio as we go forward.

In our internal plans, we are still evaluating other opportunities that are not in our base plans, but are going to be evaluated. The potential for inorganic growth exists and is going to be looked at. We continuously look for those opportunities and it will be the case in the consumer healthcare segment as well. And direct to consumer opportunities, another one that can be explored down the road. So those are the different priorities for GenMed and for consumer healthcare.

If we go to the next slide, I try to summarize what are the key benefits from this, the demerger. So, first and foremost, the plan takes us through a proven path to unlock significant value creation for shareholders. And we're not the first doing this. We're not the first company and inside Sanofi, we're not first in the market. So this is relatively a proven path to unlock growth. And growth comes from two sources here. The operation in itself, as we've been talking about during this presentation all along, and even from a valuation perspective, as we believe that our CHC business is valued today at multiples that are more applicable to pharma. And once you separate the businesses, more clarity will be given for this business to be properly evaluated and multiples can be properly adjusted, which we believe will also unlock value for shareholders.

GenMed will, as a consequence of this separation, GenMed will be able to restlessly focus on its key, growth drivers focusing on its key categories, global and local innovation, go-to-market and reach expansion, which are big tasks that need to be undertaken by this organization. Consumer healthcare takes off as a fast-moving consumer healthcare organization with the proper capabilities. Analysts, back to my point from earlier, who have analysts and investors who have more ability to evaluate these businesses with more clarity, with deeper understanding of the two highly focused and separate businesses. And most important for Sanofi altogether, it gives us a better chance to be able to improve the lives of millions of patients in India, which is ultimately where it all begins. India for India began with this thought in mind. It continues to be what do we want to do? And to do that, we need to grow. To grow, we need to find the right strategy. And we're convinced that this is the right strategy to accelerate our growth.

So I pause here and then over to you, Radhika.

Radhika Shah: Thank you. Thank you, Rodolfo. So now we move on to the Q&A session. In this session, I'd just like to remind you once again, that we will be answering questions within the boundaries of our internal policies, as well as SEBI regulations. As required by law and our policies, we will restrict our responses to clarify on matters which are already available in public domain and through our annual reports and financial results, which we have made public. There are granular aspects of certain aspects of the business-like product-wise sales, therapy area-wise sales and margins and profitability, which we consider confidential. Hence, we will not be able to comment on these topics. We also do not provide any earnings guidance and hence we will not be able to respond to queries on future businesses and margins and profitability and capex, etcetera. You may please raise your queries accordingly.

Further, we had mentioned on our registration link that we will be taking questions from you in sequence of your registration. In case of multiple registrations from the same participants, we will take questions from the first registered participant and give others the opportunity at the end of the session. In the interest of time and for giving equal opportunity to all the participants, please keep the number of questions limited to one or two. Thank you and over to the Veza team for the Q&A session.

Moderator: Thank you very much, ma'am. Ladies and gentlemen, we will now begin the question-and-answer session. We take the first question from Himanshu Upadhyay from O3 Capital. Please go ahead with your question. There seems to be no response from Mr. Himanshu's connection.

We will move to our next question. That's from the line of Abdulkader Puranwala from ICICI Securities. Request you to please unmute your audio and go ahead with your question.

Abdulkader Puranwala: Yes, hi. Thank you for the opportunity. So first question with respect to your Q1 results. So first of all, congratulations on the good set of numbers. So if we have to break up this 4% growth within the two portfolio of general medicines and the consumer business, if you could provide some color as to which is the one which has driven growth and historically, is that the case been in CY '22 as well?

Rodolfo Hrosz: So I think that we don't disclose by the results by brand. Yes, but we can tell that we currently operate with three business units in India. So we came down from eight to three. The three have performed very well in Q1, delivering growth and delivering within the expectations for each one of them. So it was a fairly strong quarter across the board for the portfolio with no major distinction. So if you're asking, is it more on the CHC or on the pharma side? It's pretty well distributed across the portfolio.

Abdulkader Puranwala: Got it. And so my second question is with regards to the kind of transactions, what we would see between the general medicine business and the consumer arm post this getting demerged. So would you also have a separate field force or manufacturing something, what you called out? But then apart from that, what would be the kind of transactions that would be still linked between both these entities?

Rodolfo Hrosz: Vaibhav, do you want to take this one?

Vaibhav Karandikar: Sure. So the two entities would be largely separate. There would be no -- I think your question is, will there be common services or common transactions between Sanofi India Limited and Sanofi Consumer Healthcare Limited? No, the answer is that the sales force, marketing teams, etcetera, including the support functions would be largely separate and catering to consumer healthcare separately.

There may be a transition period arrangements, but on a long-term basis, it would be two separate businesses. What would continue, like Rodolfo pointed out, was the, is that Goa will continue to manufacture certain products for the consumer healthcare business under the contract manufacturing arrangement. That would be a more long-term kind of, which would be a more sustainable arrangement between the two entities. But other than these two, there'll be no entanglements.

Abdulkader Puranwala: Sure, sir. And just final, if I may. So on the margins front, I mean, as highlighted, the Q1 margins were a record of 31% on the EBITDA front. So, if you could like to call out what were the drivers for those margins and, going ahead, what is the kind of trajectory we should see into the EBITDA margins?

Rodolfo Hrosz: Going forward, I don't think we'll be able to answer you, but on the Q1, I will start and maybe complement. Sure. So we have two major components. One is the growth of the business. And another one is India for India brings efficiencies into the operation. So we rationalize significantly our operation already at the beginning of the year. And that contributes also on top of sales performance. Vaibhav, you may want to complement on that.

Vaibhav Karandikar: Yes, so just to add to what Rodolfo said, so the growth in both the domestic and the export segments is quite healthy in this quarter. And when I look at the domestic segments, I'm talking about the retail business because there is still some element of the divested portfolio that is there, but essentially the growth is quite healthy in both the segments and that contributes to this. And the operating expenses, like Rodolfo was mentioning, is the India for India strategy implementation, which started in 2022. I think, we continue on that journey and that helps us to also have better efficiencies in our operating structure.

Abdulkader Puranwala: Got it. Thank you. I'll join back in the queue.

Radhika Shah: Thank you.

Moderator: Thank you. We'll take our next question from Saurabh Savla from Multi-Act. Request you to please go ahead with your question. If you could unmute your mic from your device and go ahead.

Saurabh Savla: Yes. Thank you for the opportunity. I had a question related to the consumer healthcare business. If you could give us what has been the growth rate in that particular division for the last five years, like from 2019, which is a pre-COVID period till last calendar year?

Rodolfo Hrosz: I think, we'll be able to give that after we...

- Vaibhav Karandikar:** So between 2018 onwards, roughly it's in the range of 8%, 8.5%.
- Saurabh Savla:** Okay. And what could be the broad split between the volume and pricing growth of this 8%, 8.5%?
- Vaibhav Karandikar:** I don't have precise information on price volume for the entire five-year period, but since consumer healthcare is largely out of price control, there would be a reasonably good portion of price growth embedded into that.
- Saurabh Savla:** Okay. And the last question would be, if you could just ballpark or guidance, not the guidance, but how would be the margin profile different from the consolidated entity?
- Vaibhav Karandikar:** Yes. I think if you look at our operating profit margins today on the consolidated basis, we are in the range of 25%, 26%. Consumer healthcare has a better margin profile. So compared to the blended margins, the consumer healthcare margins would be at least 8% to 10% higher.
- Saurabh Savla:** Okay. Yes. Thank you.
- Rodolfo Hrosz:** Thank you, Saurabh, for the question. Imagine when we have it listed and we can then have all the visibility on all the questions that you asked. Thank you for the question.
- Moderator:** Thank you. Our next question is from Himanshu Upadhyay from O3 Capital. Request you to please unmute your mic and go ahead with your question.
- Himanshu Upadhyay:** Thank you for having me. I just have a few questions. So diabetes care is a main focus area for us and there is a huge unmet demand and diagnosis of it in the country. What are the incremental things that we are doing to grow the opportunity and better service the market? And what resources are we investing in?
- Rodolfo Hrosz:** All right. Very good point. Yes, it is really a very big opportunity. Although diabetes is our biggest business in India, and although despite the fact that we're one of the leading companies in diabetes, the opportunity in diabetes is very large, as you said. We estimate that 140 million people are diabetic or pre-diabetic or at risk of being diabetic in India. One in seven diabetic patients in the world hail from India. So it's a very significant prevalence.
- And despite the high prevalence, the percentage of diagnosis is relatively low. From the people that are diagnosed, the percentage of treatment, people that are under treatment is also not sufficiently good yet. And even for those that are under treatment, there is a step down in towards treated and controlled. So there is a huge funnel of opportunities for diabetes in India, so I fully agree with you. And that's why it is one of our focal points in our strategy to continue to grow and develop in that category.
- Now, what are we doing? I think your question was on that point, right? So in India for India, as we elected that as one of our core priorities, core pillars, we have dramatically increased the sales force for that portfolio. So we now have close to double the resources that were on the field to cater to these HCP healthcare professionals that treat and deal with the population that is diabetic or even the pre-diabetic population. So that was one thing that we did.

Second thing that we did in order to advance more with the diabetics opportunity was to relook into our positioning of our brands and dedicate specific brands to specific needs with more clarity, thus facilitating the use of that portfolio by HCPs in their important mission to help the patient group of diabetes. More, we have deployed initiatives to bring new products to the market. So of course, we can't speak as Radhika mentioned in the beginning of the Q&A exactly about details of our pipeline, but there is one piece of two pieces of public news that you can connect to this conversation.

One is you see in the news that Soliqua, one of our diabetes products globally has been just recently approved by the authorities for launch in India. So you can see the pipeline there in a way that will allow us to be even more present in important segments of the therapies for diabetes where we are not super strong today with a very breakthrough formulation and proposition to HCPs and patients with very positive impact for patients ultimately. And even if you look globally, you've seen also the news that Sanofi just recently acquired a company called Provention Bio who has developed a product called Tzield, that is a complete breakthrough innovation that delays the onset of diabetes type 1 by a number of years, which is a tremendous impact, tremendous positive impact for patients of diabetes type 1. And so all these are in the pipeline.

And of course, we continue to explore more opportunities to enhance the portfolio of diabetes. And with that cater to those opportunities that you rightly mentioned in your question.

Himanshu Upadhyay: Thank you so much for the detailed answer. My other question is that in our annual report statement, we have spoken about product innovation both globally and locally developed. Can that be elaborated and how are we doing that? How are we going about it?

Rodolfo Hrosz: Yes, we have global brands that aren't present in the portfolio in India yet. One case I've just mentioned to you that Soliqua has just been approved by the authorities for launch in India. Like that, there are more brands that are in the portfolio of Sanofi that haven't been introduced in India yet. So we plan to explore that generally speaking.

And then secondly, India is the pharmacy of the world. So in essence, everything is produced in India. There is a very good quality of the medicines produced in India and very wide availability of CMOs and manufacturing companies that can develop and produce for the needs that Sanofi has in India too. So that's how we intend to tackle global and local initiatives. So global, there's more brands that can come to our portfolio in India from the global Sanofi portfolio. And locally, there is an opportunity to bring line extensions and adjacent innovation to our existing portfolio by working with local manufacturers in India, even with our own site in Goa, which is an extremely capable site, by the way.

Himanshu Upadhyay: Thank you. I have one last question. Another thing that is mentioned in the annual report is that our company is now structured to be more customer-centric and has a hybrid model. What does that mean exactly?

Rodolfo Hrosz: Yes, well, that's a good question. Again, thank you. I think what we said is that we need to continue to our effort to become more customer-centric and patient-centric as an organization.

So that is to reflect the fact that we come from an organization that was organized around the product and from the product reach the market. So we want to shift that angle and organize ourselves more from a patient perspective and a healthcare professional perspective, and then connect our portfolio to it.

Some steps have been taken already. More can be taken down the road. In the beginning of India for India, when we deployed India for India, we already took an important step. When we created categories in business units that cater more fully to healthcare professionals that deal with a certain disease. Take diabetes, for instance. In the past, we had two business units with different products catering to healthcare professionals that deal with diabetes. Today, it's part of one larger portfolio with one central line of thinking, bringing all these resources and all these possibilities and alternatives to that particular healthcare professional.

That's what we mean by becoming more healthcare professional but more customer-centric in one way. Another aspect is we have developed and launched a trade organization in India where we now have a team of people that take our products and engage with our trade partners with an overall view of the whole portfolio. In the past, again, we were engaging with our customers on a brand-by-brand basis. Now we are now able, we're building the capability of engaging with our trade customers on a portfolio basis, on a full portfolio basis, which unlocks a lot of opportunities for our trade partners and for ourselves, makes us more customer-centric in that sense as well. And then, so that's an evolution, but we have taken these initial steps.

Hybrid, to your point on hybrid, with COVID, we developed the capability of engaging with customers and healthcare professionals remotely. Post-COVID, there is a decline in the adherence of healthcare professionals to that mode of contact, but we've learned a lot in that process and we believe we can build a route to reach HCPs around India and customers in a digital way that is going to be attractive to them and going to be competitive. This is still in the making. It's something that we need to develop more based on what we learned and developed during the COVID pandemic.

Himanshu Upadhyay:

Thank you, thank you so much. I don't have any further questions.

Moderator:

Thank you. We request Mr. Gagan Thareja from ASK Investment to please unmute your audio and go ahead with your question.

Gagan Thareja:

Am I audible?

Rodolfo Hrosz:

Yes, thank you. We're very glad to hear you because now we know it's not a systems issue.

Gagan Thareja:

Thank you. Sir, my first question is whether the impact of the revised pricing on Lantus, Cardace and Frisium has fully been seen in the first quarter or is it yet to be seen in the second quarter?

Rodolfo Hrosz:

No, it hasn't been seen in the quarter. I mean, mostly it is going to be seen from quarter two onwards. The impact is mostly, the biggest impact is on Lantus and that is from April onwards. So the entire result of Q1 does not take into account the NLEM price impact.

- Gagan Thareja:** Right and going back to your previous conference call and your comments that you'll be able to protect gross margins vis-a-vis the transfer pricing. I understand gross margins will be protected but because the pricing will flow down to the EBITDA level, you would have some fixed costs also. There ideally should be some impact at the operating level because of the substantial correction in Lantus prices from Q2 onwards. Is that a correct surmise?
- Vaibhav Karandikar:** No, but then I think in the last investor call also we made the statement that the operating profit percentage to sales will remain constant. So it's not just gross margins, the operating profit percentage will remain constant. So we will adjust the purchase prices accordingly. There might be a transitional impact considering inventory levels, etcetera. But again, to reinforce the operating profit percentage will remain constant.
- Gagan Thareja:** Which brings me to my next question, which is that when you bifurcated the margins between your CHC and general medicines, you took last year's 25%, 26% as the base, whereas the Q1 margins are already 31%. Should we then take 31% as a base and then understand the margin profile of both the companies?
- Vaibhav Karandikar:** So you're kind of going forward looking there. The reason I gave you as an example, 8% to 10% was to give you a sense of the blended margins. I would not like to go and say that X percentage quarterly margins are always going to be sustainable because that would be a forward looking statement. But it's more to give you an indication that the CHC margins will always be 8% to 10% higher than the blended margins.
- Gagan Thareja:** But you've indicated that there's a certain element of business restructuring, which is what in cost efficiency. So can you enumerate the cost efficiencies from the business restructuring? So that it's possible for us to understand what's sustainable in terms of margins?
- Vaibhav Karandikar:** So maybe I'll answer that and then if required, Rodolfo can compliment. I think there is an element of restructuring that Rodolfo talked about and which led to operational efficiencies. And while there is this restructuring that happened, there's also a transition period for the teams to settle down and therefore to start all the activities around promotion, patient support programs, etcetera.
- So while there is a portion which is permanent and which is going to be continuing in nature, there's also a portion in that quarter one performance where the activities were on the lower side while the teams were getting restructured. Aside from that, of course, there were restructuring costs which are also part of those results. But as I said, in an overall basis, you would see a certain portion of that operating profit situation more sustainable. As I said, a certain portion of that because we continue to invest to grow our brands as well.
- Gagan Thareja:** Yes, agreed. A final one from my side, which is what's the working capital profile of your consumer business? Is it very different from the other peers? And related one to that, is Enterogermina going to be a brand within CHC or is it housed completely outside the current SIL and therefore will not be part of this one?

- Vaibhav Karandikar:** Yes, so working capital profile of CHC, I think both for GenMed as well as CHC, our working capital profile is generally good, but CHC would be slightly better because as I said, most of the manufacturing for CHC is localized. There is a smaller imported component. So the inventory holding for CHC is slightly better, but both businesses are cash and carry. So working capital cycle wise, both are good. CHC is slightly better. Enterogermina is not a Sanofi India product. So it will not be a part of Sanofi Consumer Healthcare, which is the listed entity we talked about.
- Gagan Thareja:** Yes, thanks. Thanks for taking my questions. I'll get back in the queue. Thank you.
- Moderator:** Thank you. We take our next question from the line of Ajay Sharma from Maybank. Please unmute your microphone, Mr. Sharma, and go ahead. Ladies and gentlemen, as there is no response, we now close the question-and-answer session. I now hand over the floor back to the management for closing comments.
- Radhika Shah:** Thank you. All of you, we would like to reiterate, have received our integrated annual report for FY22. We today, at 3 p.m., have our 67th annual general meeting through audio-visual means, where shareholders will get another opportunity to interact with the company, including the board of directors and Chairman, Mr. Aditya Narayan. Shareholders are requested to join this meeting as per the details provided in the AGM notice. Thank you all participants for attending the investor call. Thank you again.
- Rodolfo Hrosz:** Thank you very much for joining the call. Thank you for the great interactive session, despite some of the difficulties with the mic. We have made our efforts to give you clear answers to your questions. Hope that you can stay safe. Take care. Thank you very much. Thank you for joining.
- Vaibhav Karandikar:** Thank you very much.
- Radhika Shah:** Thank you.
- Moderator:** Thank you, members of the management. Ladies and gentlemen, with that, we conclude today's session. Thank you for joining us and you may now leave the meeting. Thank you.