August 18, 2023

Listing Department **Code: *532321***
BSE LIMITED
P J Towers, Dalal Street,
Mumbai–400 001

Listing Department **Code: *ZYDUSLIFE***
NATIONAL STOCK EXCHANGE OF INDIA LIMITED
Exchange Plaza, C/1, Block G,
Bandra Kurla Complex,
Bandra (E),
Mumbai–400 051

Sub: **Transcript of the Post Results Earnings Call held on August 11, 2023**

Dear Sir / Madam,

Pursuant to Regulations 30 and 46(2)(oa) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached the Transcript of the Company's Q1 FY24 post results earnings call held on August 11, 2023.

Please find the same in order.

Thanking you,

Yours faithfully,
For, **ZYDUS LIFESCIENCES LIMITED**

DHAVAL NARENDRA SONI
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Date: 2023.08.18 09:19:05 +05'30'

DHAVAL N. SONI
COMPANY SECRETARY

Encl.: As above

“Zydus Lifesciences Limited Q1 FY24 Post Results Earnings Call”

August 11, 2023

MANAGEMENT: **DR. SHARVIL PATEL - MANAGING DIRECTOR, ZYDUS LIFESCIENCES LIMITED**
MR. GANESH NAYAK - EXECUTIVE DIRECTOR, ZYDUS LIFESCIENCES LIMITED
MR. NITIN PAREKH - CHIEF FINANCIAL OFFICER, ZYDUS LIFESCIENCES LIMITED
MR. ARVIND BOTHRA - SENIOR VICE PRESIDENT, INVESTOR RELATIONS, ZYDUS LIFESCIENCES LIMITED
MR. ALOK GARG - SENIOR VICE PRESIDENT, MD OFFICE, ZYDUS LIFESCIENCES LIMITED

Moderator: Welcome to Zydus Lifesciences Limited Q1 FY24 Earnings Conference Call. Please note that all participants' lines will be in listen-only mode and there will be an opportunity for you to ask questions after the opening remarks. Please note that this conference is being recorded. I now hand the conference over to Mr. Ganesh Nayak, Executive Director of Zydus Lifesciences. Thank you and over to you, Sir.

Ganesh Nayak: Good afternoon, ladies and gentlemen. Welcome to our post results teleconference for the quarter ended 30th June, 2023. On this call, we have with us Dr. Sharvil Patel, Managing Director; Mr. Nitin Parekh, Chief Financial Officer; Mr. Arvind Bothra, Senior Vice President, Investor Relations; and Mr. Alok Garg, Senior Vice President from the Managing Director's office.

Let me now give you a broad overview of the developments during the quarter.

We had a strong start to the financial year as we capitalized on the momentum built over the last several quarters and delivered robust growth across businesses. This, coupled with sustained improvement in profitability, helped us achieve the highest ever operating profit and margins during this quarter. Our formulations business in India performed well as the branded business registered double digit growth on a year-on-year basis for yet another quarter. In the consumer wellness space, we continue to hold leadership position in five out of six brands in their respective categories. Nycil, Sugar Free, and Everyuth brands gained market share during the quarter. Our US formulations business registered growth on a sequential basis driven by new launches and volume expansion in the base portfolio. We achieved important milestones in our innovation journey in a quest to offer innovative solutions to the patients across the globe to meet their diverse healthcare needs.

With that, let me take you through the financial numbers for the year gone by. I am happy to inform you that our quarterly revenues surpassed the ₹50 billion mark for the second consecutive quarter driven by robust performance across segments. During the quarter, we recorded consolidated revenues of ₹51.4 billion, a growth of 30% on a year-on-year basis. Reported EBITDA for the quarter was ₹15.1 billion, up 81% year-on-year and 20% quarter-on-quarter. EBITDA margin for the quarter was 29.3%, which is an improvement of 830 basis points on a year-on-year and 420 basis points on a quarter-on-quarter basis. Net profit for the quarter stood at ₹10.9 billion, up 110%

year-on-year. Our balance sheet further strengthened with the net cash position of ₹8.8 billion as at 30th June, 2023 as against the net cash of ₹5.5 billion as at 31st March, 2023.

Now, let me take you through the operating highlights for the first quarter of FY24 for our key business segments. Our India geography, which comprises of formulations and the consumer wellness businesses, accounted for 38% of the total revenues during the quarter and grew 6% year-on-year. Our branded formulations business in India delivered double digit growth as it grew by 10% year-on-year during the quarter. Excluding the impact of NLEM led price reduction, the branded business grew 12% year-on-year. Our innovation brands viz. Lipaglyn, Bilypsa, Ujvira and Oxemia witnessed strong volume traction during the quarter. We continued to work towards strengthening our presence in our focused therapy areas. On the super specialty front, we retained the leadership position in the Nephrology segment, while in the Oncology space, we were the fastest growing company. Our first new chemical entity, Lipaglyn was ranked as the 47th largest brand in the Indian Pharmaceutical Market during the quarter, which is an improvement of 19 positions over the previous year. Our Bilypsa brand too, continues to strengthen its volume share through various patient support programs and activities. The Ujvira brand, which is the first biosimilar of an antibody drug conjugate, continued to expand the volume since its launch on the back of patient centric approach adopted by us to make it affordable to patients. Our consumer wellness business recorded revenues of ₹6.9 billion with a flat year-on-year growth. Unseasonal rains across key states during the first half of the quarter impacted the offtake of our key summer-oriented brand Glucon-D. However, the remaining portfolio posted near double-digit growth during the quarter. Commodity prices moderated during the quarter on a sequential basis, which eased the pressure on gross margins.

Now, let me take you through the performance of our US formulations business. The business accounted for 48% of the consolidated revenues during the quarter with revenues of ₹24.5 billion. The business continued to display strong traction with the robust 57% growth on a year-on-year basis driven by new launches and improvement in the base business. On a sequential basis, the business grew by 9% on a high base of the previous quarter. We launched 4 new products during the quarter. During the quarter we filed 4 additional ANDAs and received 20 new product approvals.

Our emerging markets and europe formulations businesses continued to deliver healthy growth with all major markets contributing to the growth during the quarter. The business posted revenues of ₹4.9 billion, up 30% year-on-year.

On the operations front, The USFDA inspected our three manufacturing facilities during the quarter. Oral solid dosage facility II located in the Ahmedabad SEZ completed the USFDA pre-approval inspection without any observations. Our biologics fill finish facility located at the Zydus Biotech Park in Changodar and our animal health formulations manufacturing facility located in the Ahmedabad SEZ also completed the USFDA inspections without any observations. This reinforces our commitment to upholding high quality standards and continual improvement in the same.

We continue to improve our business processes with a focus on improving productivity, which helps us stay competitive. Adoption of digitalization across the organization continues to gather pace as various analytical tools are deployed to unlock the efficiencies in our operations and aid data backed decision-making process.

This concludes the business review. I would now request Dr. Sharvil Patel to take you through the key drivers across businesses and initiatives in our innovation program. Thank you.

Sharvil Patel: Thank you, Dr. Nayak. Good evening, ladies and gentlemen. It is a pleasure to have you all today on the call. We are pleased with our performance during the quarter. The performance was driven by our comprehensive product portfolio, our depth of innovation pipeline, and our focus on execution. On the India formulations front, consistent execution across focused therapies helped us achieve double digit growth in the branded segment. We expect this trend to continue going forward. Portfolio of our innovation brands registered strong volume traction during the quarter and in turn, aided the patients to satisfy their unmet healthcare needs. Our comprehensive product portfolio, strong customer relationships, and an agility in operations helped us to deliver consistent growth in our US business. We expect our US business to grow on a formidable base of FY23 going forward on the back of a robust pipeline of complex generics developed in-house as well as the strategic BD&L efforts. A diversified manufacturing network catering to the US market backed by the responsive supply chain augurs well for us to capitalize on one time buy opportunities that keep on emerging in the US generics market.

Our initiatives in R&D have continued to progress favorably in order to meet patients' demands across geographies. The investments made by us over the years across different areas have started delivering results and we expect this to scale up further going ahead. This is evident from the expansion of patient coverage of different molecules since their launch. We shall continue to roll out various patient support programs and work towards creating the awareness about our brands in an effort to make a difference to patients' lives. Our R&D teams keep working towards offering solutions to patients across therapies to meet their unmet needs.

On the regulatory front, we extend our robust compliance record, as we completed three USFDA inspections during the quarter. We also remain committed to maintaining the highest quality standards across all our manufacturing facilities to offer safe and effective healthcare solutions to patients globally. We strengthened our backward integration capabilities post the recent completion of acquisition of Teva's USFDA accredited API manufacturing facility located at Ambarnath in Maharashtra.

With this, let me talk to you about some material developments on the innovation front.

On the NCE front, our lead molecule, Saroglitazar magnesium is currently undergoing phase II(b)/III clinical trials for PBC indication and phase II(b) clinical trials for NASH indication for the US market. So far, we have recruited over 80% of the patients required for the PBC trial. For the NASH indication, we have been progressing in line with our plans on the patient recruitment front. The molecule is also undergoing trials in the US for two indications of PCOS and NAFLD. During the quarter, in order to generate real-world evidence, we initiated a large phase IV clinical trial of Saroglitazar magnesium in India in NAFLD patients with comorbidities. The trial will enrol approximately 1,500 patients and the primary endpoint is to measure the change in liver stiffness from the baseline to 52 weeks. The study duration is approximately 56 weeks.

In the biotech R&D space, clinical trials for two of our monoclonal antibodies are ongoing at present and we have completed recruitment of patients for one of these molecules during the quarter.

Coming to our vaccine pipeline, we have commissioned a newly constructed measles rubella drug substance manufacturing facility

and we have initiated a phase II clinical trial of our hepatitis E vaccine during the quarter.

We thank you and now we start the Q&A session. Over to the coordinator for Q&A.

Moderator: Thank you, Sir. Thank you very much. We will now begin the question and answer session. Anyone who wishes to ask questions may raise your hand from the participant tab on your screen. Participants are requested to use headphones or earphone while asking a question. The first question is from Neha Manpuria.

Neha Manpuria: Yeah, thanks for taking my question. Sir, one on the US business, while you mentioned in your opening remarks that there was volume growth in the base portfolio, how much would you say the quarter-on-quarter traction was because of incremental Revlimid and how much of it was the core underlying business, the pricing improvement. Then some colour if you could give on the US generic pricing?

Sharvil Patel: So, in the first quarter, the growth was driven by the higher volume offtake in our key products which also included Revlimid and also the pricing has been stable during this quarter and also some new introductions which were launched during the last quarter four also scaled up, so all of that led to the expansion, but obviously driven also by Revlimid.

Neha Manpuria: Understood and given what we have done in the quarter and the launch pipeline that we have had including some products that we have not yet launched, doesn't the high single digit growth for US seem fairly conservative, are we still sticking to it, or are there any risks that we are not aware of that is keeping that guidance at that level?

Sharvil Patel: No, so as you said is right, despite an elevated base and factoring also competition from Asacol probably in the later part of the year, we still expect the US business now to grow on back of volume expansion in double digits.

Neha Manpuria: Okay. Got it and how should we think about margins in that case because I think margins also, we were fairly conservative. If I look at our R&D, we are much below what we had guided for the full year. So, one how should we look at the R&D trajectory and therefore given the double-digit US growth, the margins?

Sharvil Patel: So, we do expect now the EBITDA margins to increase by 150 to 200 basis points on an annualized basis in this year compared to our earlier guidance of 50 to 100 basis points. So, we are seeing an uptick to our guidance that we had earlier stated. This is also factoring in an increase in R&D, so despite that, we will see margin improvement and also building in for some competition on one of our lead compounds also.

Neha Manpuria: And R&D is still maintained at 8% of sales?

Sharvil Patel: Yes.

Neha Manpuria: Okay. Thank you so much, Sir.

Moderator: Thank you. The next question is from Bino.

Bino: Hi, good afternoon. Sharvil bhai, couple of questions on US products. Linagliptin, is that a product you expect in next couple of years or is it very far out?

Sharvil Patel: Not in the next one to two years.

Bino: Okay and how about tofacitinib, Xeljanz?

Sharvil Patel: So, I think product-wise, we are not talking because again a lot of things are driven by IP and legal and settlement, but I think we can definitely say that looking at our pipeline that we have, we do see good launches or important launches every year partly driven by our own developments and partly through our licensing efforts. So, we do see a limited competition kind of launches every year at least over the next three years.

Bino: And any update on the timelines of potential Saroglitazar filing in PBC, do we still look forward to a late FY25 filing?

Sharvil Patel: Yeah, we do still expect a calendar year end 25 filing.

Bino: And one last one, you know, earlier you had guided to 2-3 interesting product launches this year. We have seen possibly one or two, but I don't know if we were originally intending them, so, do we still have one or two interesting product launches this year coming?

Sharvil Patel: Yes. We did launch topiramate, two brands on that molecule. We recently launched the indomethacin suppository with exclusivity and we do see some more differentiated launches during the year.

Bino: Okay and then Trokendi XR, have you already seen competition entry?

Sharvil Patel: Yes, yes, we have already seen last quarter.

Bino: Great. Thank you very much. I'll join back.

Moderator: Thank you. The next question is from Surya.

Surya: Yeah. Thanks for the opportunity. Sir, congratulations for the great set of numbers. Sir, on the margin front, first, it looks like even if we hypothetically adjust the Revlimid revenue and see the base business margin, it looks like both on the gross margin front as well as EBITDA margin front, excluding Revlimid, it looks like a very strong performance. So more than kind of 300 basis point kind of positive surprise. So, what is driving this? Is it purely coming from let's say the improved performance in the domestic side, improved product mix in the

domestic side, or it is contributed by the pricing scenario improving in the US market, US base business?

Sharvil Patel: So, I would say many of the factors, I don't think there's a single factor. Because both India with the better product mix that we have done, scaling up of the emerging markets which are improving in their profitability and also US with the kind of opportunities to do one off business, grow the base as well as obviously launches. I think all of them have aided to the margin expansion.

Surya: So, then is it sustainable one, Sir? Let's say Sir, is it a quarter specific performance or let's say it is likely to even continue in the subsequent quarter?

Sharvil Patel: I did say that when you talk about sustainability, we have to look at the full year and we do expect an improvement from our last guidance on EBITDA. So, you know, we had earlier guided for 50 to 100 basis points improvement. Now we are talking about 150 to 200 basis points improvement assuming that we still have 8% of our spend on R&D. So, we are talking about an improved profitability for this financial year.

Surya: Okay. Sir, my second question is on the Lenalidomide. So, the prescription trends if I look at it then, I think, we have already surpassed 5% or 5.5%, near about 6% kind of a volume share that we have already achieved. So, whether we have garnered that kind of revenue in line with the kind of prescription ramp up or the potential revenue booking will be seen subsequently and generally if we consider or see generally it is also known that every 12 months, the volume share can increase, so how should we really see it?

Sharvil Patel: Revlimid is a mid-to-long term opportunity. So, it has, so I think, with the improvement in market shares every year, we would see those numbers trickled through so, but again, all of these are still accessing us to a very limited size of the market, but you would see that every year I would say in those months.

Surya: Sir, then just an extension to this Revlimid question. So, in the initial part of the year or last year, when you had launched the product, you had mentioned that the Revlimid is likely to be a kind of evenly distributed kind of a product for you. So, do you think that is what you are likely to see?

Sharvil Patel: For the year, yes.

Surya: Okay.

Sharvil Patel: Quarter-on-quarter, they will change, but when I give the full year's guideline, every year Revlimid will be well distributed.

Surya: Okay and Sir, in terms of the domestic formulation business, there is a positive surprise obviously in terms of growth compared to the market trend and all that. So, what is driving here it is, are you really seeing that

the brands in the specialty products, so those are really delivering better than your expectation or your guidance is covering those?

Sharvil Patel: I think over the last two to three quarters, we have shown now at least market led growth or equal to market growth, in some quarters better. This quarter also, we have done much better. I think the good thing to see for this quarter is also the volume expansion of 6% growth because the volume is I think very good in the industry or the market that we are in today and I said it's driven by multiple factors, the focus that was put in the rationalization that happened and also the portfolio of innovative products that we have launched, which are scaling up. I think all of that is leading to that. I think a lot of work is still left to be done, but we are hoping that we will continue to build on these important launches and scaling up our differentiated products, which will aid to this kind of better than market growth.

Surya: Okay. Just last one question on the balance sheet side, Sir. So, the cash flow position anyway is looking really robust now thanks to Revlimid also and the balance is anyways strong given the cash flow that we had already generated last year. So, if we see that kind of a similar momentum also in Revlimid and the kind of momentum in other than Revlimid also that we are talking about, then the cash flow generation is likely to remain really robust and strong for next couple of years. So, given that, what would be your capital allocation strategy and if you can share something on that and on the capex front, this quarter that you have done 220 odd crores. So, what should be your capex plan for the current year and in which lines?

Sharvil Patel: So, you are right to say as we would see strong cash flows in the coming years. I think one important part is the capex cycle. So, we are talking about the 1000 crore capex in this year. The rest of it, I think, we continue to obviously expand our research capabilities. So, you know, some increase in the R&D will be there and we are looking to expand our opportunities in getting into newer areas in the specialty space in the US. So, we do believe that we would find opportunities to invest behind that. Currently, we don't have any major plans beyond this.

Surya: Hello?

Sharvil Patel: Yeah. Could you hear me?

Surya: Sorry Sir, I missed last couple of sentences.

Sharvil Patel: We don't have any other significantly large other plans other than the few I talked about which is looking into the specialty space in the US, our capex cycle of 1000 crores that we will spend and some investments in research and some market expansion.

Surya: Okay and for the domestic market?

Nitin Parekh: You have also seen the way, dividend pay-outs are also increased depending on the availability of cash flow, even the buyback that we did

last year and the enhanced dividend rate that we have proposed this year.

Surya: Sure Sir. So, just an extension Sir. On the domestic side, what kind of investment that you are thinking about, is it about adding new product portfolio or it is just creating and building our own portfolio in the specialty area, let's say biosimilar or something like that or what kind of investment that you are looking at for the domestic market?

Sharvil Patel: So, in domestic, from our internal point of view, yes, it is investing in biosimilars, vaccines and the differentiated launches that we want to do, including launching our discovery led products like Saro, Desi and now we hope, in the next few years, a few more. Beyond that is looking to see if we can find the right fitment in terms of acquiring brands, which we would look at and now as part of our overall life sciences strategy, we do believe in end-to-end outcomes for diseases. So, companion diagnostics and those areas will also become an integral part of how do we treat for many diseases, chronic diseases.

Surya: Sure, Sir. Thank you, Sir. Wish you all the best.

Moderator: Thank you. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The next question is from Neha Manpuria.

Neha Manpuria: Thanks for taking my question. Just one question. We received approval for generic Vascepa last quarter, but we haven't yet launched the product. Any timelines on when we can probably enter that market and any reason for the delay?

Sharvil Patel: So, I think, it's a very complicated API. So, we are making sure that we risk mitigate our supply chain on API so that we have enough, so that we don't have problems in the future. So, looking at that timelines and the approval that we got and the manufacturing of this complex formulation, we are looking at a quarter 3 launch.

Neha Manpuria: Understood, understood, and Sir in terms of our injectable portfolio, we have seen a fair bit of approvals on the injectable portfolio as well. What sort of a run rate have we reached? Do we want to give any colour, any target in terms of what we are targeting on injectables? should we see the momentum build and when do we start seeing the more complex injectable approvals come through?

Sharvil Patel: So, I think the injectable business is still in the scale up phase. So, I think it has not reached that size and scale where we talk about as a separate segment. So, it is part of our overall strategy on the portfolio. But as and when it becomes large, I think we will segment it in the right way. So, I think the complex portfolio, we still believe we will see some approvals in this financial year and also in the coming two financial years. So, as I had said slowly you will see launches of complex injectables in the next two to three years.

Neha Manpuria: Understood Sir. Thank you so much.

Moderator: Thank you. The next question is from Vishal Manchanda.

Vishal Manchanda: Thanks for the opportunity. Hope, I'm audible.

Sharvil Patel: Yes.

Vishal Manchanda: So, there have been a few approvals you have received in the last few quarters like chantix, ivermectin cream and the transdermal patches too. So, have these been launched or they are yet to be launched?

Sharvil Patel: Yeah, they have been. Not the transdermals, but the other products have been launched.

Vishal Manchanda: Okay and then, you have been talking about launching 2 REMS product during the year. Again, have these been launched or they are yet to be?

Sharvil Patel: Yet to be launched.

Vishal Manchanda: Any colour. which quarter of the year?

Sharvil Patel: In the third and fourth quarter.

Vishal Manchanda: So, these would be limited competition and represent, what market size do these represent?

Sharvil Patel: We don't do product wise market size, but they are important launches.

Vishal Manchanda: Okay and finally on the India business, can you share the contribution of biosimilar business to the overall sales?

Sharvil Patel: So, again, I said you know biosimilars is part of the therapy expansion in RA and Oncology and others. So, we don't club biosimilars like that because it's a branded formulations business. But I would definitely say that they are scaling up significantly and will continue to scale up in the next two to three years with the pipeline that we hope to launch. So, I think overall, it is doing very well and scaling up. But it is part of our overall therapy focus, so it's not a technology focus from that point.

Vishal Manchanda: Okay and do you have capacities to execute growth or you would need to invest in more capacities around biosimilars?

Sharvil Patel: We are expanding our capacity on biosimilars as we speak.

Vishal Manchanda: Right and what's the investment that you intend over the next two years in the biosimilar space?

Nitin Parekh: That is part of overall capex budget of 800 to 1000 crore that we have given guidance for.

Vishal Manchanda: Okay. Thank you.

Moderator: Thank you.

Sharvil Patel: I think if there are maybe no more questions then, oh I think we have one more.

Moderator: Yes. The next question is from Harith.

Harith: I hope I'm audible?

Moderator: Yes.

Harith: On transdermals, you mentioned that you haven't done any launches while the approvals we received a few quarters back. So, what are the steps from approval to launch that we are undertaking now and then any color on when we'll be launching?

Sharvil Patel: Yeah, so I think the most important thing in launches of transdermals is that when we come to launches, we need to significantly scale up from our earlier exhibit batches and it's a long processing cycle and every material is imported, most of it, 95% of everything what we use is imported with long lead time. So, getting that supply chain in order to make sure that we are scaling up with the batches and launching. For the first time since we are doing it. It has been longer than our experience on other products. So, having said so, we expect in this financial year to have at least two launches.

Harith: Okay. On Asacol HD, you mentioned that you're factoring competition in the product by the second half of FY24 and then that's part of your guidance for 10% growth. So, any reasons for this expectation? Anything that you're hearing from customers or from competition?

Sharvil Patel: That's part of our build up in terms of planning for it. So, not, we haven't heard anything immediate which we can see. But it's better to be err on the side of caution and at least plan for a competition in second half of the year.

Harith: Okay. That's all from my side. Thanks.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to management for closing remarks.

Mr. Ganesh Nayak: Thank you very much and look forward to interacting with you again in the month of November, when we declare our quarter 2 results. Thank you and have a nice evening.

Moderator: Thank you so much on behalf of Zydus Lifesciences Limited. That concludes this conference. Thank you for joining us and you may now disconnect your lines and exit the webinar.

END OF TRANSCRIPT