



Corporate Participants

Dilip Shanghvi

Managing Director, Sun Pharmaceutical Industries Ltd.

Sudhir Valia

Whole Time Director, Sun Pharmaceutical Industries Ltd.

Abhay Gandhi

CEO India Business, Sun Pharmaceutical Industries Ltd.



Moderator: Ladies and gentlemen, good day and welcome to the Sun Pharmaceutical Industries Limited Q4FY15 earnings conference call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nimish Desai. Thank you and over to you sir.

Nimish Desai: Thank you. Good evening and a warm welcome to our fourth quarter FY15 earnings call. I am Nimish from the Sun Pharma investor relations team. We hope you have received the Q4 financials and the press release that was sent out earlier in the day. These are also available on our website. Please note that the financials for Q4FY15 and full year FY15 include the impact of the merger of Ranbaxy into Sun Pharma, and hence are not strictly comparable with the same period last year.

Let me introduce the team to you. We have with us Mr. Dilip Shanghvi – Managing Director, Mr. Sudhir Valia – Whole Time Director and Mr. Abhay Gandhi – CEO of our India business. Today the team will discuss performance highlights, update on strategies and respond to any questions that you may have. As is usual, for ease of discussion we will look at the consolidated financials.

Just as a reminder, this call is being recorded and the replay will be available for the next few days. The call transcript will also be put up on our website shortly. The discussion today might include certain forward looking statements and this must be viewed in conjunction with the risk that our business faces. You are requested to ask two questions in the initial round. If you have any more questions, you are requested to rejoin the queue. I also request all of you to kindly send in your questions that may remain unanswered today. I will now hand over the call to Mr. Shanghvi.

Dilip Shanghvi: Welcome and thank you for joining us this evening earnings call after the announcement of financial results for the fourth quarter of FY15. Let me briefly update you on significant events.

First, an update on the Ranbaxy integration. As all of you are aware, the merger achieved closure towards the end of March 2015. Shareholders of Ranbaxy have been allotted shares of



Sun Pharma based on the merger ratio. We have commenced the integration of the two companies with a view to ensure business momentum and drive value creation. Specific milestones identified include:

1. Cultural integration
2. Ensuring cGMP compliance for all facilities
3. Targeting more product filings globally through expanded R&D teams
4. Productivity Improvement
5. Targeting revenue synergies
6. Ensuring more efficient procurement and supply chain

We continue to target synergy benefits of US\$ 250 million in the third year post closure.

The other important update is related to our Halol facility. As indicated in the Q3 call, we continue to implement corrective steps and upgrade our facilities to address the observations indicated by the US FDA during their inspection in Sep-2014.

Some of these remedial steps had temporarily impacted our supplies for Q4. Supplies have not fully normalized and will take some more time to reach optimum levels. We remain committed to achieving 100% compliance.

Both for Q4 and for full year ended March-2015, we accounted for significant charges, mainly related to the Ranbaxy merger, which has impacted our performance. The details of these charges are available in our press release.

I will now hand over to Mr. Valia for discussions on the Q4 performance.

Sudhir Valia: Thank you Mr. Shanghvi. Good evening everyone and welcome to all of you. Our Q4 financials are already with you. As usual, we will look at key consolidated financials. Please note that the financials for Q4 and full year FY15 include the impact of the merger of Ranbaxy into Sun Pharma, and hence are not strictly comparable with the same period last year.

Q4 net sales are at Rs.6,145 crores. Material cost as a percentage of the net sales was 26%, staff cost at 18% and other expenditure at 41%, impacted mainly due to the merger charges mentioned earlier. The consolidation of Ranbaxy's financials and lower revenue growth has also adversely impacted these ratios. These expenses also include costs related to the funding of clinical development of MK-3222.

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As a result of the above, the EBITDA for Q4 was at Rs.880 crores. EBITDA margins were at 14.3%. Net profit for the quarter was at Rs. 888 crores.

EBITDA as well as Net Profit were adversely impacted by a few items, relating to professional charges and implementation of Sun policies and practices on Ranbaxy for the full year. The quarterly impact of these items appearing above EBITDA was approximately 10% of net sales and on items appearing below EBITDA was approximately 7% of net sales. EPS for the quarter was Rs.3.70.

Now, we will discuss the full year performance. For year ended Mar-2015, net sales were at Rs. 27,286 crores. Material cost as a percentage of the net sales was 25%, staff cost at 16% and other expenditure at 30% all impacted for reasons stated above.

As a result, the EBITDA for the year was at Rs. 7,917 with EBITDA margins at 29%. Net profit for full year FY15 was at Rs. 4,541 crores.

As mentioned before, the EBITDA as well as Net Profit for FY15 were also adversely impacted for the full year. The annual impact of these items appearing above EBITDA was approximately 2% of net sales and on items appearing below EBITDA was approximately 3% of net sales.

Taro recently posted Q4 FY15 sales of US\$ 244 million, up 30.5% from the corresponding quarter last year. For the full year, sales were US\$ 863 million, up by 14% over 12 months last year. Taro's net profit for Q4 was US\$ 152 million, up by 70% over Q4 last year. Net profit for full year FY15 was at US\$ 484 million, up by 39% over 12 months last year.

I will now hand over to Abhay Gandhi, who will share the performance of our India business.

Abhay Gandhi: Thank you Mr. Valia. I will take you through the performance of our India formulation business.

For Q4, sales of branded prescription formulations in India was Rs. 1,569 crores while for the full year, sales were at Rs 6,717 crores.

Sun Pharma is ranked No. 1 and holds approximately 9% market share in the Rs. 86,000 crore pharmaceutical markets as per March-2015 AIOCD-AWACS report. As per latest SMSRC report,

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Sun Pharma is ranked no. 1 based on share of prescriptions with 12 classes of doctors: psychiatrists, neurologists, cardiologists, ophthalmologists, orthopedicians, nephrologists, gastroenterologists, diabetologists, urologists, dermatologists, chest physicians and consultant physicians.

In the long-term, healthcare expenditure is expected to increase in India, which implies a favourable impact on pharmaceutical consumption in the country. Being the leading Company in Indian market and having a broad product basket and a strong brand equity, Sun is very well placed to capitalize on this opportunity. Competition and government mandated price controls are the other key factors which will determine the long term growth trajectory of the market. Given this backdrop, it is imperative to look for innovative ways to differentiate our product portfolio, build customer trust and add prescription share. With this, I will hand over to Mr. Shanghvi.

Dilip Shanghvi: Thank you Abhay. I will briefly touch upon the performance of our businesses across other segments as well as our overall performance in the US.

For Q4, our overall sales in the US were at US\$ 488 million. US accounted for almost 50% of our overall sales. Post the Ranbaxy acquisition we now have a meaningful presence in emerging markets. For Q4, sales in emerging markets were at US\$ 123 million, accounting for 12% of total sales. For Q4, formulation sales in the rest of the world, excluding US and emerging markets, were at US\$ 84 million.

Our API business has strategic importance for our formulations business. During the quarter, we increased the API supply for captive consumption significantly for key products which enabled us to enjoy the benefits of vertical integration. As a result, external sales of API were at Rs. 286 crores.

R&D expenditure as percentage of sales was over 9% for Q4 and about 7% for the full year. In absolute terms, R&D spending for Q4 was Rs.579 crores including expenses for clinical development of MK-3222. For the full year, R&D expenses were Rs. 1,955 crores. This includes a significant development cost related to MK-3222, the psoriasis molecule in-licensed from Merck.



This R&D spending enables development of future product pipeline including specialty and differentiated products.

We now have a comprehensive product offering in the US market with approved ANDAs for 438 products while filings for 159 products await US FDA approval, including 12 tentative approvals. During the year, ANDAs for 19 products were filed and 14 approvals were received. The total number of patent applications submitted now stands at 1,598 with 951 patents granted so far.

We remain focused on strengthening our existing businesses and developing a differentiated and specialty product basket as well as planning for the Ranbaxy integration. We also continue to review opportunities to expand and strengthen our global footprint.

And lastly, a comment on the guidance. For reasons which I have already highlighted, we have been unable to make up for the shortfall in revenues which we had experienced up to Q3 and as a consequence, we have not met our guidance for FY15.

The Ranbaxy merger closure has taken more time than originally envisaged. We have recently commenced the implementation of the integration process. Given the complexities involved in merging two large companies, and various moving parts, I will prefer not to give a firm guidance for FY16. With this, I would like to leave the floor open for questions, thank you.

Moderator: Thank you very much sir. Participants, we will now begin with the question and answer session. We have the first question from the line of Aditya Khemka from Ambit Capital. Please go ahead.

Aditya Khemka: Sir firstly on Halol, so what has changed over the last quarter, have we had some dialogue with the FDA as to what they exactly want us to do and what is the visibility that you can offer on that front?

Dilip Shanghvi: As per our current process, we continue to update FDA on the progress that we are making on the compliance and that is a process which is continuing.

Aditya Khemka: But has the FDA sort of come back to you with a list of things that you need to do or the targets that you need to achieve for the 483s to be resolved or is it just an ongoing



process where you submit updates and they just give you feedback on what you are submitting. So what sort of process are we going through right now?

Dilip Shanghvi: I think FDA concerns are expressed in the form-483 and based on our understanding of the concerns, we continue to update FDA on the progress that we are making. Other than that at this point of time, I am unable to share specific information.

Aditya Khemka: Alright, fair enough sir. My second question is on your specialty sort of strategy that you mentioned. So moving ahead, our balance sheet is still strong, we did not pay cash for Ranbaxy and we are certainly acquisitive. So can we expect like a large ticket sort of specialty acquisition in the near term or are we still looking to further consolidate in the generic space first and then may be target on specialty companies if at all?

Dilip Shanghvi: We continue to remain opportunistic for acquisitions. As on today, since Ranbaxy continues to take significant time for senior management, we are not looking at buying businesses where we will have to spend a lot of time in managing. So we continue to look for opportunities which are well managed and which can either operate as a standalone business or businesses which will not require significant amount of management involvement.

Aditya Khemka: Just to pick your brains on that, say if there was a specialty company available, is there a ticket size that we have in mind in terms of billion dollars or million dollars, is there something that we have sort of a roof or a bottom that we are looking in terms of the ticket size?

Dilip Shanghvi: I think we are a conservative company. So if we understand the business, we would potentially look at larger acquisition. If we do not fully understand the business, then it has to be a reasonably sized acquisition, we would not make a very large acquisition in a business which we do not fully understand.

Moderator: Thank you. Next question is from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.

Anubhav Agarwal: One question on the one-offs that are included above EBITDA in this quarter, just quantum when you mentioned 10% it is roughly about 600 crores plus. Just wanted



to understand how much of this was non cash because you mentioned in the comment that some of this is related to harmonization of policy, I understand that should be mostly non-cash policy changes.

Sudhir Valia: Correct, harmonization is non-cash.

Anubhav Agarwal: So how much of the 600 crores in this quarter is cash versus non cash?

Sudhir Valia: Whatever related to harmonization is non-cash, but there may be some other items also.

Anubhav Agarwal: Agreed, but of the 600 crores can you give a rough idea as 50% non-cash...

Sudhir Valia: No, that classification we have not made.

Anubhav Agarwal: But because this will help us understand because it is a very large number.

Sudhir Valia: No, we appreciate your need for information. But we will not be able to give details.

Anubhav Agarwal: I am asking that the base that you have reported in the March quarter Sun plus Ranbaxy India number. Is this the base we should expect, this is the base we should grow on or the sales reported include some one-off?

Dilip Shanghvi: You are ultimately asking indirectly asking what is the guidance for next year?

Anubhav Agarwal: No, I am not asking the number here at all. I am just asking is this sales a true number or does it include some one-off because I can understand US sales for company can decline sequentially because Halol and some other issues but India sales declining sequentially for combined entity something I cannot understand.

Dilip Shanghvi: I think we have also shared with you in the past that we have an indirect distribution policy, so Rs. 50-80 crores plus/minus you should not look at quarterly number for India business, you should look at annual numbers.



Anubhav Agarwal: But India sales have declined by Rs.180 crores sequentially.

Sudhir Valia: If you see the ORG or other IMS data, you will not find any such decline in the business, so it is more of a distribution policy.

Dilip Shanghvi: We have consciously reduced our inventory at the end of year with distribution system.

Anubhav Agarwal: So just to understand this, my apprehension was when you integrated Ranbaxy, it is not that like you mentioned about policy changes, it is not that Ranbaxy sales have if it was X, it has come at less than X when the two entities have been integrated, it is not like that.

Dilip Shanghvi: You should not multiply last quarter into 4 to reflect our new base. You should look at the annual number as the base.

Moderator: Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: I am just wondering that, if I look at the steady rate of sales for Sun and Ranbaxy, so Sun roughly about 4,500 crores. I am going back 2-3 quarters whatever number you are want to take and excluding any one-offs and 2,400 crores for Ranbaxy. So roughly 7,000 crores was the quarterly run rate and this has also reflected in your December quarter number that you have published today. But this quarter, in Q4, it has fallen to 6,100 crores. Talking about delta of 900, almost 1000 crores. Why is this happening and I guess previously you said about 180 crores on account of India, my guess is large 600 crores plus is on account of US.

Dilip Shanghvi: We have given you regional numbers.

Sameer Baisiwala: Yes sir and US is what is causing the major \$110 million plus impact, so why is that? This is not any one-offs, this is the base businesses we are talking about. Why is it such a big erosion in the base businesses versus a steady rate?

Dilip Shanghvi: In the US business, there has been both supply disruption as well as pricing impact of many of the products. So, hypothetically and I am not saying that this is what may



have happened, but hypothetically we would have sold less of liposomal doxorubicin because it can happen on a quarter-on-quarter basis. So my sense is that some of the impact that you have seen in this quarter is exaggerated, but there has been an impact in the US business because of price erosion of large number of products that we were selling. So if you look at doxycycline, if you look at Duloxetine, many of these products historically if we look at, there has been a significant price erosion. And there have been supply disruptions.

Sameer Baisiwala: My second question is on operating margins, EBITDA margins and again if I look at your steady rate of Sun and Ranbaxy, I think Sun has been doing roughly 2,000 crores and they have been telling that it is about 8% is what the base business margins was, roughly 200 crores, so 2,200 crores. Versus that if I add back in EBITDA that you reported roughly 880-900 and there is a 10% that we need to add, so 600 crores more, so 1,500 crores is what you have so to say reported as a clean number adjusting for all the things that has happened in the quarter. So 2,200 crores is your usual run rate versus 1,500 crores. There is a major 700 crores shortfall in the operating profits in the quarter.

Uday Baldota: A large part of that is explained by the sales reduction.

Moderator: Thank you. Next question is from the line of Abhishek Sharma from India Info line. Please go ahead.

Abhishek Sharma: Just one question from my side in order to understand the territorial division because it used to be reported in a different way earlier. What does the ROW include now versus emerging markets?

Uday Baldota: So ROW now includes Western Europe, Australia, New Zealand, Canada, Israel and a few other markets.

Abhishek Sharma: And I just had the question about Sri Lanka and Canada because of the way Ranbaxy used to report, so that is going to continue?

Sudhir Valia: Sri Lanka is part of the emerging markets. Canada is part of the ROW.



Moderator: Thank you. Next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: So if you could share the cash position in dollar terms as well as the debt sitting in our books?

Uday Baldota: Cash position is slightly more than 15,500 crores and the debt is close to about 7,000 crores.

Prakash Agarwal: And it would be fair to assume that large part of the cash is sitting in dollar terms?

Uday Baldota: That is true.

Moderator: Thank you. Next question is from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.

Nimish Mehta: Once again on the Halol facility, somewhere during the quarter we did receive one approval for the SPARC product. How do we see this, on one hand we have this approval and the other hand we are still under the remediation process. So how do we see this in terms of the improvement or whatever changes we have done over last quarter?

Dilip Shanghvi: So we continue to address the concerns of US FDA in terms of all the programs that we would have submitted to FDA and we gave them periodic update on the progress.

Nimish Mehta: No, what I am trying to understand is that so this has been that it has not stopped any of your approvals while the remediation process is on or there is a linkage between these two?

Sudhir Valia: There is no linkage. Plant operates as such.

Dilip Shanghvi: Honestly, I am unable to respond specifically to your question. Last time, I responded saying that my understanding was that we should continue to get a few approvals because we got one approval but I am not able to respond to this because we do not fully understand this.



Nimish Mehta: Is it like from the timeline perspective, is it likely to take much longer than what we earlier expected. I know you are not disclosing the timeline, but based on your expectations, how does it move between the two quarters?

Dilip Shanghvi: All I can say is that we have submitted timeline to the FDA for various remediation activation. We continue to ensure that we achieve those timelines.

Moderator: Thank you. Next question is from the line of Surya Patra from Phillip Capital. Please go ahead.

Surya Patra: Sir now since you are saying the integration process you have just started and all, so the synergetic benefit what you have talked about \$250 odd million in the third year after completion of the integration, so you mean it is FY2018 or FY2019 and also if you can say something on what is the kind of revenue synergy that you are anticipating and what is the kind of cost synergy that you are looking at that would be helpful.

Uday Baldota: When we say 3 years, it will be FY2018 and we are not giving a breakup of the synergies. We are saying total synergies of US\$250 million and that is it.

Surya Patra: And did we do any kind of product rationalization or field force rationalization for the Ranbaxy business and if you can say something on the performance of Ranbaxy US business in last one year period considering the kind of channel consideration what we have seen and people getting impacted because of that since there is no major new product launches by Ranbaxy. So what is the kind of impact that you are seeing for that, Ranbaxy's US based business.

Dilip Shanghvi: I think it is better for us not to continue to split up the ex-Sun business and ex-Ranbaxy business because then we will never get out of this and it will continue to confuse. It is better for us to look at the total US business, of that let us say you have some approximate idea about how much is the Taro business. Overall reduction that you see has happened both in Sun as well as Ranbaxy business together.



Surya Patra: And on the rationalization either on the product rationalization or the field force rationalization expect or any country that we focusing, any emerging market or anything on that front for the Ranbaxy business that you can talk?

Abhay Gandhi: From an India perspective, I am sure it is also true for emerging markets, product rationalization is something that we would do in our business as a matter of normal business practice and if there are smaller products or very not interesting products or not very competitive products, we take those decisions in the course of doing business. That internal discipline we will follow now for the combined entity. The field force rationalization and all, I think is something that we have not really thought about. In our focus, we have been consistently seeing is on improving the productivity and try and make the existing team members far more productive than what they are currently. With the kind of product basket that the combined entity has and the potential for the two R&D teams to give us new products in due course of time, I think we will be able to achieve those objectives.

Surya Patra: So that means there is no major kind of product rationalization or field force rationalization across the world for the Ranbaxy operation?

Abhay Gandhi: No, actually no because it has been, not even 3 months but 2 months since the integration has really happened. So in a very logical way, I think we are spending a lot of time in first to understand the business rather than jump in with a preset notion in action plan. So I think therefore yes, you are right, there is nothing dramatically which has changed.

Moderator: Thank you. Next question is from the line of Saion Mukherjee from Nomura Securities. Please go ahead.

Saion Mukherjee: Sir my question is in your opening remarks you mentioned that the original guidance which you I think gave was 13% growth for this fiscal has not been met. So can you tell us like how much has been the shortfall or what has been the growth?

Dilip Shanghvi: It is difficult for us to give specific number and also because now we have started looking at combined business, but we were expecting a significant makeup in the last quarter which has not happened.



Saion Mukherjee: Sir you mentioned about R&D productivity increasing and you mentioned 19 ANDA filings, I understand this is both Sun and Ranbaxy put together for this fiscal, the number of filings?

Dilip Shanghvi: Yes, but it is mainly Sun filings.

Saion Mukherjee: Sir how do you see that going forward?

Dilip Shanghvi: Let us say that philosophically if we are able to file 20 products with the number of people that we have with Sun and the scientists also not only file new products, but also continue to scale up and introduce new products. So we have more or less same size of R&D team at Ranbaxy. So the focus will be to find a way to achieve similar level of productivity, but as you see in case of Taro also, it takes time to build up the momentum and file more products. Like last year, Taro filed almost 11 products but originally they used to file not more than 2 or 3 products. So without any significant increase in headcount, we filed 11 products and possibly much better quality products in terms of complexity and potential financial value. So that would be the focus also in case of Ranbaxy.

Saion Mukherjee: Sir final one quick question, can you guide us for tax rate going forward sir in the integrated entity?

Sudhir Valia: Because of the Ranbaxy's carry-forward losses, there would be definitely some reduction in tax, but we will not be able to estimate in a proper manner as there are so many ifs and buts.

Moderator: Thank you. Next question is from the line of Sonal Gandhi from Capital Matrix. Please go ahead.

Sonal Gandhi: Sir just wanted to check in last year Q4, we had a third party contract of 400 million. So is that completed or do we still have to supply a certain portion of it?

Uday Baldota: It continues.

Sonal Gandhi: Sir second question on India sales, like you said there is a sequential decline of about 10% and you said that the reason behind this is basically you were trying to reduce the



inventory, but there is certain mismatch that is happening, I see that the inventory days are up as well as the debtor days are up. So could you just clarify to that?

Uday Baldota: On the inventory days and debtor days, we are looking at consolidated level. We are not looking at India alone.

Sonal Gandhi: So it is only because of that. Going forward, we can see the normal run rate?

Uday Baldota: That question I think we already answered earlier.

Sonal Gandhi: Sir what are the foreign currency losses on quarter 4?

Sudhir Valia: We generally do not break that up separately. It is all part of the P&L that we have disclosed.

Moderator: Thank you. Next question is from the line of Neha Manpuria from JP Morgan. Please go ahead.

Neha Manpuria: My question is on Halol, now in this third quarter obviously we saw the impact of the remedial measures being implemented while you said that the issues are not fully resolved and it will take some time to normalize, is it fair to assume that quarter-on-quarter we did see some amount of improvement in the supplies for Halol?

Dilip Shanghvi: You are trying to estimate the impact of shortage on account of Halol on the overall business, is that you are asking for?

Neha Manpuria: No sir, I am not asking for a number. I just wanted to know if the...

Dilip Shanghvi: There is an improvement.

Neha Manpuria: But there is more to go.

Dilip Shanghvi: There is more to go, yes.

Neha Manpuria: Fair enough and sir my second question in terms of at the start of the call, you mentioned certain synergy areas that you are looking at while we understand that obviously the



compliance to FDA is your number 1 priority but what would be your top 2 or 3 areas that you would focus on in FY2016 to then drive growth and therefore synergies into the second half of the 3-year period?

Dilip Shanghvi: In my initial readout, I was fairly explicit. We will focus on improving the productivity of R&D, productivity of manufacturing, productivity of field force, potential synergies, evaluate cross-selling opportunities, opportunities based on selling in markets where Sun is present where Ranbaxy was not or the other way round. So I think there will be multiple opportunities for us to find a way to leverage relationships of both the companies separately so that combined company can benefit. So hypothetically in the US, they have relationship which are better with one set of customers, then we can use that relationship to sell more of Sun products in that channel.

Moderator: Thank you. Next question is from the line of Girish Bakhru from HSBC Securities. Please go ahead.

Girish Bakhru: If you can comment on even if it is early, your assessment of how deep is the situation with say Mohali, Toansa, or Dewas where if you can comment to what may come out of the FDA rules?

Dilip Shanghvi: Clearly we will focus our energy on one plant with a view to bring it back into compliance rather than focusing on all the plants in which case the whole process will get significantly delayed, but given that I think the important issue for us is to convince or emphasize with the FDA that the trust which was broken between Ranbaxy and FDA, we have to find a way to re-establish that level of trust.

Girish Bakhru: Right and in terms of manufacturing integration particularly utilizing the Ohm asset and your API captive consumption, are you able to see some immediate synergies in fiscal 2016 where Sun can feed into the Ranbaxy business in US market?

Dilip Shanghvi: One year is too shorted time because of change of source and all of that, it will take very long time. It does not happen within a year.



Girish Bakhru: Right and just lastly if you can give what is the field force number currently in India, combined?

Abhay Gandhi: 7,700 at the medical rep level.

Moderator: Thank you. We have the next follow-up question from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.

Anubhav Agarwal: Elepsia, the SPARC product have you launched in the US market and if yes, which entity sales was you using within Sun to market it?

Dilip Shanghvi: No, we have not launched the product.

Anubhav Agarwal: What is the plan over here? You have approval since March and the sales force issue, what is up?

Dilip Shanghvi: I think both the introduction of the product and finalizing the terms for.... I expect this is a SPARC question and it is what you call finalizing the licensing with the appropriate marketing company.

Anubhav Agarwal: So I was assuming that since you wrote in the press release that Sun will manufacturing, perhaps it was assumed that Sun will be selling as well.

Dilip Shanghvi: There is no direct linkage between Sun manufacturing and Sun marketing.

Anubhav Agarwal: Sure, second question, one question on the goodwill for Ranbaxy. You accounted that as about \$300 million, just was doubt here that how will you account for goodwill like initially when you sign the Ranbaxy deal, the share price was less than 600. When actually happened, it was much higher. So the accounts currently suggest that you roughly are accounting goodwill as \$4 billion acquisition, this is the way it will continue?

Abhay Gandhi: Correct, that is right.

Moderator: Thank you. We have the next question from the line of Sameer Baisiwala from Morgan Stanley, it is a follow-up one. Please go ahead.



Sameer Baisiwala: As far as the US supply constraint is concerned, it is already more than 6 months and you generally would not have a very large inventory out there. So is there a risk of losing the market share which is that customers switching over to some other supplier than you?

Dilip Shanghvi: Yes, I think if you have oversupply, then you always carry the risk of losing customers. Also, the consolidation of customers also is leading to pricing pressure especially for products which have multiple suppliers.

Sameer Baisiwala: Sure sir, I understand in the pricing part but I am more worried on we even losing the volumes. So have you started seeing some of this market share go away?

Dilip Shanghvi: So I think if your question is that if you make the product whether we are confident of selling the product or not, then our view is that what we will be able to consistently make and we are confident of this consistency, we should be able to sell the product in a way whereby we have respectable market share.

Sameer Baisiwala: No sir that is not question. I just very quickly 2 quarters back your non-Taro Sun Pharma sales was about \$250 million, my guess is fall into roughly \$150 million. So it is \$100 million delta, is it something that you are losing it, so to say perpetually or do you think just the moment you resume supplies, you can just win back the sales.

Dilip Shanghvi: So some of this which we have lost on account of pricing I think is lost. Some of this which we have lost on account of non-availability of the product, I think we should be able to regain once the supply improves.

Moderator: Yes, the next question is a follow-up one from the line of Abhishek Sharma from India Infoline. Please go ahead.

Abhishek Sharma: Sir could you just update us on the status of MK-3222? What is your target filing date and what kind of go-to-market strategy are you thinking about?

Dilip Shanghvi: We are working to file the product as early as we can and our focus would be that as soon as the topline data is available, we should try and present to one of the large international dermatology meet. And then focus on completing all the aspects so that we can file



at the earliest, but as we have explained, at the time of the licensing, that up to the filing, the filing will be done by Merck from the US. So it is also linked with Merck resources and availability. Now what else was your question?

Abhishek Sharma: Go-to-market. So would you have Merck as your partner or would you look at someone else?

Dilip Shanghvi: As on today, we are seriously evaluating whether we want to launch the product ourselves

Abhishek Sharma: Got it and sir can we anticipate or are you working towards the filing date within the next 10-12 months?

Dilip Shanghvi: The filing which was linked with Merck's completing large number of issues which are beyond clinical trials. So it is difficult for me to specifically give any date.

Abhishek Sharma: Right, sir just some color on what kind of issues are there apart from the clinical trials?

Dilip Shanghvi: You have to complete CMC, you have to complete all the compilation of all the clinical trial data, adverse events data. A lot of work needs to be done.

Abhishek Sharma: So Merck remains the manufacturer of the product?

Dilip Shanghvi: Yes.

Moderator: Thank you. We have the next question from the line of Kartik Mehta from ICICI Securities. Please go ahead.

Kartik Mehta: On key products filed from Halol, is there a plan be to have any products which would be filed on alternate in the US FDA rights also, something like Gleevec?

Dilip Shanghvi: Your question for Gleevec, not for the concern that you have, but more important I think is that there is also a significant amount of the government business. So for that



purpose, we are evaluating filing out of a country where we will be eligible for supply to the US government.

Kartik Mehta: So if I have to just ask from this, it will be in time launch for early CY16 or?

Dilip Shanghvi: Yes, that is the focus.

Kartik Mehta: Second question is if you have to compare Taro and Ranbaxy, we have integrated Taro really well. So which one would you think is would be more difficult like that, now that it is almost being a year after we have got merged?

Dilip Shanghvi: We ever integrated Taro fully with Sun, whereas with Ranbaxy, we will integrate because it is one company. We supported Taro in all areas and the management of Taro delivered the performance whereas for Ranbaxy integration, there will be a common management which has to deliver the outcome. If I look at complexity, then I think clearly complexity of integrating Ranbaxy will be much higher, a very large company with large number of manufacturing facilities, presence in multiple markets. So it is a far more complex integration.

Moderator: Thank you. Next question is from the line of Ranveer Singh from Sharekhan Limited. Please go ahead.

Ranveer Singh: Just wanted to understand the charges we have taken in this quarter. So any element of it likely to persist in subsequent quarters also or this is completely one-off and second quarter will not have any element on it?

Sudhir Valia: There may be some ongoing integration charges as lot of activity is to be done but not to this magnitude.

Ranveer Singh: So it will be across above EBITDA and below EBITDA?

Dilip Shanghvi: It will be a one-time charge if it is integration related. So it really does not matter whether it is above or below EBITDA.

Moderator: Thank you. Next question is from the line of Bhagwan Chowdhary from Sunidhi Securities. Please go ahead.



Bhagwan Chowdhary: Sir just one question. This is mainly in contraindication to your statements for what I can conclude that you said that on behalf of the Halol facility, there was some improvement into the supply to the US market, but on quarter-on-quarter, there was decline of approximately \$60 million in US market. So is it fair to assume that mainly this delta came because of the price erosion in those markets?

Uday Baldota: The US\$60 million that you are talking of is for the combined entity and Halol supply is only to the Sun business in the US. So from that standpoint, I think the correlation probably is a bit inaccurate. It is a mix of price erosion and supply issues. So I think it is a mix of several factors.

Bhagwan Chowdhary: So you are trying to say that there was some variation in the Ranbaxy's quarter-over-quarter sales?

Dilip Shanghvi: Yes that is what I said that there is a reduction in the overall business of both the Sun as well as Ranbaxy in the last quarter.

Bhagwan Chowdhary: But this reduction was mainly because of the price erosion only not because of the supply issue. That is what I am trying to know.

Sudhir Valia: We said it is both together.

Bhagwan Chowdhary: But at the same time, you said that Halol facility supply, there was improvement on quarter-over-quarter.

Uday Baldota: Let us understand Halol is not the only facility supplying and also Mr. Shanghvi said clearly that supplies from Halol were not in line with the expectation that we had. So I think let us put all of this together and then understand that the overall decline in the US is the result of several factors for the combined entity.

Bhagwan Chowdhary: Understand and sir there was decline in the emerging market sales also and that was also because of this supply issue?



Dilip Shanghvi: I think my understanding is that it is more out of kind of business that historically Ranbaxy used to do, more tender driven businesses. So I think it is not fair to presume quarter-on-quarter consistency of Ranbaxy business.

Moderator: Thank you. We have the next follow-up from the line of Kartik Mehta from ICICI Securities. Please go ahead.

Kartik Mehta: Just wanted to understand your focus after we have acquired those asset from Glaxo, control substances. So after Able, Valeant, and Chattem, now this asset, can you share some outlook on this and it is reasonably large market. So how are we placed and on a longer term basis, will we be sending only in the emerging markets or in some other markets also?

Dilip Shanghvi: You are talking of the Glaxo opiates business, it is mainly for the US.

Kartik Mehta: Yes, so how are we placed now that we have the entire chain after we have acquired Able Labs, Valeant, Chattem, and then actually now this Australian business. So how should we look at this business?

Dilip Shanghvi: So I think you should look at this business both as an API as well as a business which will strengthen Sun's ability to compete in the US market as a dosage form manufacturer. But a large part of this specimens will continue to be an API business.

Kartik Mehta: When do you expect some large US sales coming out of it, maybe now that we have the API also with us in FY2017 or 2018?

Dilip Shanghvi: So what is the question?

Kartik Mehta: So now that we have the entire.

Dilip Shanghvi: Value chain, you are saying.

Kartik Mehta: Yes, so when do you see?

Dilip Shanghvi: It is going to be a gradual process because earlier also I have explained that controlled substance volume do not shift because of issues related to quota.



Kartik Mehta: On the R&D cost, is there a broad range you would want to be, will it be 7% of our total sales from here on or will it be higher than that?

Dilip Shanghvi: Yes, it would be similar kind of range, 6%-8% of sales. Last quarter was a significant increase so maybe closer to 8% than 7%.

Moderator: Thank you. We have the next follow-up question from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: Actually I could not complete last question. Two products, one is Nexium and the other is Abilify, are we in queue for both of them, any thoughts would be very helpful?

Dilip Shanghvi: Abilify yes, but for Nexium approval for Ranbaxy filing, we will have to make a lot of changes for that formulation to be approved.

Sameer Baisiwala: Sir quickly on Tildrakizumab I think you made some comments when would be the disclosure of the outcome of Phase-III clinical trials?

Dilip Shanghvi: So hopefully during this year, maybe later part of the year, we should have topline data for the MK-3222. Also, you must have tracked the IL-17, especially the Amgen product had significant clinical superiority over Stellara, but it has seen significant side effects because of which Amgen has decided not to continue to develop the product. So people are looking at whether this is a class effect of IL-17 or it was specific to the Amgen product and we believe that this may significantly enhance the value of MK-3222 and we have aggressive clinical development plan for the product. So the R&D numbers that I am talking about is without factoring the significant increased clinical development for other indications if we decide to do that, but I see that we will likely to achieve much more than what we have originally anticipated when we licensed the product.

Sameer Baisiwala: Excellent and sir on this MK-3222, did you mention that you are considering doing the marketing yourself?

Dilip Shanghvi: Yes. I think the original idea even when we licensed the product was to find a way to strengthen our presence in Dermatology. Now with this IL-17 potential risk or a likely



constraint in terms of its ability to get significant market, we are also looking at how rapidly and which other indication we can develop this product for?

Moderator: Thank you. Participants that was the last question. I now hand the floor back to Mr. Nimish Desai for any closing comments. Thank you and over to you sir.

Nimish Desai: Thank you all of you for joining the call today evening. If any of your questions have remained unanswered, I request them to please send them over, thank you.

Moderator: Thank you. Ladies and gentlemen with that, we conclude this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.