Corporate Participants

Dilip Shanghvi  
Managing Director, Sun Pharmaceutical Industries Ltd.

Sudhir Valia  
Whole Time Director, Sun Pharmaceutical Industries Ltd.

Kal Sundaram  
CEO (India, Emerging Markets & CHC Business), Sun Pharmaceutical Industries Ltd.

Abhay Gandhi  
CEO (North America Business), Sun Pharmaceutical Industries Ltd.
Moderator: Good day, ladies and gentlemen, and a very warm welcome to the Sun Pharmaceutical Industries Limited Q3 FY19 Earnings Conference Call. As a reminder, all participants’ lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal the operator by pressing ‘*’ 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 third quarter FY19 earnings call. I am Nimish from the Sun Pharma investor relations team. We hope you have received the Q3 financials and the press release that was sent out earlier in the day. These are also available on our website.

We have with us Mr. Dilip Shanghvi – Managing Director, Mr. Sudhir Valia – Whole Time Director, Mr. Kal Sundaram – Whole Time Director & CEO (India, Emerging Markets & Consumer Healthcare) and Mr. Abhay Gandhi – CEO (North America). 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 a replay will be available for the next few days. The call transcript will also be put on our website shortly.

The discussion today might include certain forward-looking statements and these must be viewed in conjunction with the risks that our business faces. You are requested to ask two questions in the initial round. If you have 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 for this earnings call after the announcement of financial results for the third quarter of FY19.

Let me discuss some of the key highlights:

Our Q3 performance was in-line with our expectation of second half being better than the first half of the year. Consolidated sales for the quarter were at Rs. 7,657 crores, a growth of 16% over Q3 last
year and a growth of 12% over September quarter. All our businesses have grown during the quarter.

We are beginning to see the results of focus on strengthening our core operations and managing our overall cost structure which is necessary to ensure competitiveness in the market. We have also progressed further in our specialty initiatives. Abhay will discuss more details on our specialty initiatives later.

Post the clearance of the Halol facility by the US FDA in June, we have received approvals for 4 ANDA and 4 NDA from Halol till date.

Let me now update you on the whistle blower complaint.

While we do not have access to the whistle blower complaint, we have received information request from SEBI related to our 2004 FCCB issuance and also for our transactions with Aditya Medisales. We have responded to these queries. Beyond this we do not have any update to share.

I would also like to take this opportunity to clarify on certain queries that have been raised by some investors. The queries pertain to whether Aditya Medisales (AML) has benefitted in the past at the cost of Sun Pharma minority shareholders. AML’s financials are available in public domain and it can be seen that it earns EBITDA margins of only about 1.4% from Sun Pharma, for distributing its products in India, and its net margins are less than 0.4% which includes significant dividend income that it receives for its equity holding in Sun Pharma. So, the actual net margin is lower than 0.4%. Given these low margins and the size of Sun Pharma’s domestic formulations business, AML was operating on extremely tight working capital, necessitating Sun Pharma funding AML from time to time for which interest was always recovered at arm’s length.

I would like to reassure investors that at no point of time Sun Pharma shareholders have been disadvantaged in the transactions with AML.

Also, as recently announced, we are in the process of transitioning the distribution of the India formulations business to a 100% Sun subsidiary by Q1 FY20.
We have also received queries from investors regarding the Atlas transaction and whether we had funded Atlas. So, I would like to clarify. We had entered into this transaction to conserve cash, so as to retain the flexibility of undertaking M&A in the specialty space.

Let me clarify that Sun Pharma had given loans to Atlas on two occasions. The first time a temporary loan was given in FY15 to enable Atlas to consummate the transaction that it had entered with Sun, as Atlas needed some time to raise the US$ 400mn from the debt market. This temporary loan was duly repaid subsequently in FY16 after Atlas’ fund raising from global banks.

The second time that Sun funded Atlas with a loan of US$ 300mn was during FY18. This was as per the supply contract terms and conditions since we were unable to fulfil the supply obligation towards Atlas due to the cGMP issues at Halol.

Recently, we announced the unwinding of the Atlas transaction. This unwinding will result in the assignment of this supply contract to one of our wholly owned subsidiaries and Atlas moving out of the transaction. Hence, in our consolidated financials for FY19, the US$ 300mn loan will get squared off against our unfulfilled supply obligation.

I hope that with these clarifications, these two issues which have been bothering investors are behind us and we can focus on performance of the company and growth of the business.

I will now hand over the call to Mr. Valia for discussion of the Q3 performance.

**Sudhir Valia**: Thank you Mr. Shanghvi. Good evening everyone and welcome to all of you. Our Q3 financials are already with you. As usual, we will look at key consolidated financials.

Overall Q3 sales are at Rs. 7,657 crores, up by 16% over Q3 last year. Material cost as a percentage of sales was 28.3%, staff cost was at 19.5% of sales, and other expenditure was at 25.2% of sales, all lower than Q3 last year. This improvement was driven by better topline growth, product mix and cost control measures.

Gross margins have improved year on year from 68.2% to 71.7% due to better product mix. The EBITDA for Q3 was at Rs. 2,069 crores up 48%, with EBITDA margin at 27%.
The improvement in EBITDA margin is partly driven by forex gains including that reported by Taro. Excluding the impact of forex gains from other expenditure, the EBITDA margin for the quarter was 24%.

Net profit for Q3 was at Rs. 1,242 crores, up 49% year on year, after adjusting the Q3 net profit of last year for the one-time impact of changes in US tax laws. EPS for the quarter was Rs. 5.18.

Let me now discuss the movements versus Q2 of this year. Material cost at 28.3% of sales was higher than the September quarter partly due to lower COGS for Taro and write back of certain provisions which were booked in Q2 of this year. Other expenses were lower than September quarter mainly due forex gains in Q3.

Now we will discuss the nine-month performance. For nine-month period, net sales were at Rs. 21,642 crores, a growth of 12% over nine-month last year. Material cost, as a percentage of the net sales was 27.9% which was slightly lower than same period last year mainly due to product mix. The staff cost for the nine month was at 20.3%, which was slightly lower than same period last year, while other expenses were at 28.6%, lower than nine-month last year partly due to forex gains and lower R&D spend.

As a result of the above the EBITDA for the nine month was at Rs. 5,031 crores a growth of 34% over the nine-month last year with resulting EBITDA margin of 23%.

Adjusted Net profit for the 9 months was at Rs. 3,244 crores, up 46% after adjusting it for the exceptional items and the one-time tax charge related to changes in US tax laws.

Let me now briefly discuss Taro’s performance.

Taro posted Q3FY19 sales of US$ 176 million, up by 13% over Q3 last year. For the nine month, sales were US$ 490 million, marginally up over nine-month last year. Taro’s net profit for Q3 was US$ 93 million while for the nine-month period, it reported a net profit of US$ 223 million.

I will now hand over to Kal Sundaram, who will share the performance of our India & Emerging Markets business.
Kal Sundaram: Thank you Mr. Valia. First let me take you through the performance of our India business.

For Q3, sales of branded formulations in India were Rs. 2,235 crores, a growth of 7% over Q3 last year and accounting for approximately 29% of total sales. As compared to the sequential quarter, our India sales are up 20% partly due to the low base of Q2. Year to date, the secondary sales to stockists is tracking as per plan and growing at low double-digits year on year.

Sun Pharma is the largest pharmaceutical company in India and holds approximately 8.2% market share in the over Rs. 129,000 crore pharmaceutical market as per December 2018 AIOCD-AWACS report.

Let me now discuss our performance in emerging markets.

Our sales in emerging markets were at US$ 203 million for Q3, up about 8% year-on-year and accounting for 19% of total sales. While we continue to grow the business in local currency terms, many emerging market currencies have depreciated, thus impacting our reported growth. Key markets which contributed to the growth were Russia, Brazil, South Africa, Emerging Asia and Bangladesh.

I will now hand over the call to Abhay.

Abhay Gandhi: Thank you Kal. I will briefly discuss the performance highlights of our US businesses.

For Q3, our overall sales in the US were up by 10% at US$ 362 million, accounting for approximately 34% of overall sales. For the US generics business, we have not seen any broad-based improvement in pricing, but at the same time prices have stopped going down which has imparted some stability to the market.

Let me now update you on developments in our specialty business.

In October, we commercialized Ilumya in US which was well received by doctors. Close to 800 doctors have prescribed the product as on date. We have also recently launched Xelpros in US. With these launches, we have already commercialized three specialty products in the US in this year.
We expect to launch Cequa in US in Q1 next year. We also received USFDA approval for Elepsia some months back. Although it is a good product, we have decided not to launch this product in the US since the high cost of setting up a CNS sales force will not be justified by just one product in the portfolio.

We continue to invest in branding and promotion of these specialty products. Although, we have built the front-end infrastructure for the specialty business in US, there would be specific marketing and other costs for these products. They will entail high upfront investments.

I will now hand over the call to Mr. Shanghi.

**Dilip Shanghi:** Thank you Abhay. I will briefly discuss the performance highlights of our other business as well as give you an update on our R&D initiatives.

Formulation sales in Rest of World (ROW) excluding US and Emerging Markets were US$ 125 million in Q3, a growth of 4% over last year. ROW markets accounted for approximately 12% of Q3 revenues.

We continue to focus on developing and utilizing APIs for captive consumption for benefits of vertical integration. For Q3, the external sales for our API business were at Rs. 426 crores, up by 15% over Q3 last year.

We continue to invest in R&D for enhancing our pipeline. Consolidated R&D investments for Q3 is Rs. 465 crores, accounting for 6.1% of sales. Our current generic pipeline for the US market includes 123 ANDAs and 6 NDAs awaiting approval with the US FDA. During the quarter, we have withdrawn some unviable ANDAs.

This R&D spending enables development of future product pipeline including specialty and differentiated products. We also continue to critically evaluate generic R&D spend given the competitive nature of the US generics market.

Our overall R&D spend for the first nine months was Rs. 1,417 crores at 6.5% of revenues. At the start of this year, we had guided for R&D spending at 8-9% of sales. Given the spending in the first nine months, we expect to end the year at approximately 7-7.5% of sales. We expect higher R&D
spending next year for the clinical trial expenses related to the new indications for Ilumya and other products.

With this I would like to leave the floor open for questions. Thank you.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

**Prakash Agarwal:** My question relates to the US business. We have seen 10% growth but if I exclude assuming Taro to be 90% US, we are at say 8% YoY and 2% QoQ. So you mentioned about Ilumya launch. Just trying to understand how the takeoff would be since you mentioned that 800 doctors have also started to prescribe. Some color would help?

**Abhay Gandhi:** The US Formulations business has grown YoY by 8% and in that if you see the Ilumya impact, it was effectively launched in November, you just have about one month say which is hardly anything. So the impact of the launch of Ilumya will be seen in the quarters that are ahead of us. For Q3 it is hardly material.

**Prakash Agarwal:** Any sense on the YONSA launch we did a couple of quarters back?

**Abhay Gandhi:** We had a good uptick in the quarter when we launched. We said in fact, in the last call also. Subsequently of course with generics being available in the market, we do not expect to have the kind of sales we had in the Q1. Relative to the first quarter, sales are muted; however, whatever was business case when we acquired the license for the product, we are achieving our estimates.

**Prakash Agarwal:** One more on the US side. Since lot of other companies are pulling out products and we are also done the same for few of the ANDAs filed, but on the products we are in the market, are we seeing increased business in the base since Halol is out of any FDA issue?

**Abhay Gandhi:** That is the normal part of any operations that, always for every product that we are in market. Our attempt is always to try and increase our share of the market and that is not related to anybody exiting the market necessarily. Even if it is competitive market, for whatever products we
have on market, we will be trying to grow our share, so that is the normal part of running the business.

Prakash Agarwal: I understand that. What I am trying to ask is did we saw the market share gains during the quarter?

Abhay Gandhi: Specifically, for the quarter I have not looked at but from the beginning of the year to let us say the end of nine months, there are quite a few products where we have tried to increase our share of market and that has happened also.

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

Anubhav Agarwal: One question is for Kal. This question on the India business. I just want to understand for Sun Pharma what is covered market growing at?

Kal Sundaram: The covered or the represented market is growing in the region of 11%.

Anubhav Agarwal: You mentioned that our secondary numbers for nine months is growing at about similar to market. When do our reported numbers catch up to represented secondary numbers of 11% that you are seeing right now?

Kal Sundaram: I do not think the reported numbers will catch up this year given the fact that we have taken steps to gradually reduce inventory at AML.

Anubhav Agarwal: So, is the inventory still very high at AML?

Kal Sundaram: Not very high.

Dilip Shanghvi: But it is now a business requirement.

Anubhav Agarwal: So this quarter was also impacted because the inventory...?

Kal Sundaram: No. This quarter I consider as a normal quarter.
Anubhav Agarwal: Kal, I was asking that simply because we have shown a growth rate of 7% which is like one of the weaker numbers among the peers that we understand the base impact for 7%, the covered market is growing at 11, 12%...?

Kal Sundaram: In as much as this year, secondary and primary sort of correlate well. This we are comparing with sales to AML last year.

Anubhav Agarwal: No, but if AML inventory was not issue this quarter, I am just trying to understand that this quarter growth rate...?

Kal Sundaram: The reduction that we want to take last quarter we have taken. And I sort of say this quarter is give or take which represents secondary demand in the market. The 7% represents growth over what we sold into AML last year. But to a degree, you are not comparing like-for-like.

Anubhav Agarwal: I have one question is on the Atlas deal. I just want to understand the deal a little bit. So Sun Pharma under the deal were supplying products to Atlas and over last four years Sun’s liability to Atlas got reduced by more than $100 million. So that is the fact. The question I want to simply understand is that when Sun Pharma supplies products to Atlas, does the sales fully show up in consolidated financials of Sun or part gets knocked out when Sun Pharma reports consol financials?

Dilip Shanghvi: I think the way in which the transaction gets covered is that Atlas supplies to our subsidiaries and when they sell that gets captured into our books.

Anubhav Agarwal: So basically we sell to Atlas, Atlas supplies to another sub of Sun, that is the structure?

Dilip Shanghvi: Yes, that is the structure.

Moderator: Thank you. The next question is from the line of Chirag Dagli from HDFC Asset Management. Please go ahead.

Chirag Dagli: For our specialty products, does IMS reflect whatever is happening underlying in the market adequately or is there some nuance that you want to call out while we evaluate the IMS data because that comes in a monthly basis?
Chirag Dagli: This is for the US specialty business, right, whatever Ilumya sales or Odomzo sales, IMS picking up, is this a reflective of what the underlying trend is or what you are seeing at the primary level as well or is there some nuance that you want to call out that was the question?

Abhay Gandhi: To be honest when it comes to branded business with all kinds of rebates and discounts and charges that we have, I really do not look at IMS sales at all. Even if I want to understand the competitor, probably I look at the annual reports more than IMS.

Chirag Dagli: So that is not an indicator?

Dilip Shanghvi: Also, I think you can explain possibly about Ilumya.

Abhay Gandhi: For us if you are looking at Ilumya, it is a medically administered product in a doctor’s chamber. So IMS reflection will be even lower than had it been a pharmacy benefit product.

Chirag Dagli: Second question I had was in your opening comments did you mention that excluding foreign exchange gain, EBITDA margins for the quarter were 24%?

Dilip Shanghvi: That is correct.

Chirag Dagli: This is foreign exchange gain which is reported across line items. So there will be some FOREX in other expenses also, there will be something in other income as well. All of it put together the net impact is this?

CS Muralidharan: This is only the forex movement which is in the other expense line. There is no other impact.

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

Neha Manpuria: On the margin question, if I were to adjust the FX impact, it seems like there has not been any spend on promotion of marketing despite us launching Ilumya and XELPROS in the quarter, whereas I think you indicated even in this call, we should expect marketing and launch expenses. Is there some postponement of expense or how does it work, do we see these expenses before the launch quarter?
**Abhay Gandhi:** Bulk of the expenses are on the field force and that has been now, at least I think, two or three quarters it has already got reflected. So now what we are spending is the variable expense on direct promotion to the doctors which is smaller than the cost of the infrastructure. As we go ahead and as we are launching the product, I think because of different strategies that we will adopt going ahead, I expect the expenses to move up again.

**Neha Manpuria:** That would be more related to the product strategy rather than new launches?

**Abhay Gandhi:** I am referring specifically to Ilumya because that was part of the question that you asked.

**Dilip Shanghvi:** But you will have new cost once you launch Cequa.

**Abhay Gandhi:** Yes, for a different product like Cequa, yes, there will be incremental cost which will come.

**Neha Manpuria:** But even in case of Cequa, our field force is already built out, right, so again that would be more variable cost associated with the launch?

**Abhay Gandhi:** Latter half of Q3 is when the entire field force was onboard. Cost of the field force was on board, full cost of the field force of team will be felt in the next quarter.

**Neha Manpuria:** My second question is on emerging market. That has seen quite a strong improvement. Any specific reason -- is there any one-off tender, etc., I know you have called out a couple of markets. But is this revenue momentum that we have seen in the quarter sustainable?

**Kal Sundaram:** There is no one-offs in the numbers. Like I mentioned, few of the markets where our performance has been good is supported by ongoing underlying demand for the products.

**Neha Manpuria:** Is fair to assume this as the new base for our emerging markets business?

**Kal Sundaram:** I would say so.

**Moderator:** Thank you. The next question is from the line of Nilesh Mehta from Research Delta Advisors. Please go ahead.
Nimesh Mehta: Just on the other expense, you mentioned that if we deduct foreign exchange income, our EBITDA margin is actually about 24%. If I were to recalculate other expense, I see the other expenses higher in Q3 versus Q2. Whereas in Q2, I understand there is a lot of bumpiness because of launches that were to happen of specialty products. So how do you explain this increased other expense over Q2?

CS Muralidharan: With regard to the other expenses for the sequential quarter, if I spilt off the overall FX adjustment in both the quarters, the increase is attributable to the brand related expense in US and also certain S&P expenses in India. That is the reason for the major increase materially.

Nimesh Mehta: The other thing I just wanted to know was when can we expect high value launches from Halol, a broad guideline would be helpful?

Dilip Shanghvi: Our guidance includes all launches, high and low value. So we are close to the end of the year and with the next year guidance, we will include the potential new launches. So, I have no ability to specifically respond to this because we generally do not talk about future products.

Nilesh Mehta: Understood, but in earlier calls in Halol registration with GMP issue, there are a few high value launches that might come after Halol...

Dilip Shanghvi: I think in that call I also said that ultimately all the products that we will launch are covered in our guidance.

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

Sameer Baisiwala: Just wanted to understand for Ilumya which are the new indications that you are looking for and what might be the R&D outlay per indication?

Dilip Shanghvi: The two indications for which Phase-2 studies are ongoing are related to Ankylosing Spondylitis and Psoriatic Arthritis. Once the read out on the Phase-2 studies are there, then we will decide looking, at the potential competitive scenario, what kind of investment we want to make and that I think as I explained, in the next year some of these clinical trial not only for
these, but also potentially for Odomzo and others will come into the clinical trial. What we have not decided is what we want to do for Ilumya for gastroenterology indications.

**Sameer Baisiwala:** And that is something you will decide by next year, is it?

**Dilip Shanghvi:** That is something that we will decide shortly, correct.

**Sameer Baisiwala:** Just curious because in case you chose to do more than one indications, then are we talking of 50 to 100 million per indication sort of an outlay spread over the...?

**Dilip Shanghvi:** If we do gastroenterology then the total outlay will be in excess of US$250 million...one of the gastro indications, not even both, cumulative, total including Phase-2, Phase-3 altogether, and possibly some additional safety studies because gastro indication will require much higher dosing.

**Sameer Baisiwala:** Is this choice of doing or not doing dependent on how the product is doing currently in the market, feedback from doctors, or is it something else?

**Abhay Gandhi:** It is more of a decision on whether we feel that the IL-23 mechanism will work and what are the chances...

**Dilip Shanghvi:** And also competitive scenarios... it is a very highly competitive area.

**Sameer Baisiwala:** Abhay, you mentioned that presently you are targeting 800, I presume all dermatologists. What is the target you want to take it up to?

**Abhay Gandhi:** What I said was around 800 doctors have started prescribing Ilumya. So we are not targeting 800, that is a very small number, but my sense is around 20% of doctors who are important from a biologic perspective have used Ilumya at least in one patient as a trial.

**Sameer Baisiwala:** The other question is who are the people behind Atlas in the sense that who owns that company? And historically what we have learnt is that this company was trading on Basmati rice or something. So anything that you can...?
**Dilip Shanghvi:** The important issue is we looked at Atlas essentially as a trading company who use financing and trading as a part of the business because their business even in our case was to buy from us and bill to our subsidiary. And it was a third-party and transaction was at arm’s length.

**Moderator:** Thank you. The next question is from the line of Alok Dalal from CLSA. Please go ahead.

**Alok Dalal:** One question on Cequa. Why is it that Cequa has got pushed out to the first quarter? I would you have thought that Cequa would have received priority over Xelpros. Can you clarify this?

**Abhay Gandhi:** Clearly, we will have priority over Xelpros, but unfortunately when we took up the batch for production we had some technical issues. We have more or less identified and have a rectification plan in place. That is the reason why the launch is delayed.

**Alok Dalal:** We have not seen any major deal announced in 2018 on the Specialty side. So what could be the reason – are you are looking for initial monetization of these two large products and then take a call or deals are not available that suit your requirement?

**Dilip Shanghvi:** I think partly both. One is that clearly many people ask and we also believe that we have committed close to a billion dollar in Specialty business. It needs to start producing return which will justify that investment. So that is one issue. Second issue is that in the context of the uncertainty related to reimbursement and pricing, especially in the US, I do not think the valuation truly reflects the underlying value of the product in the market. So, we expect the market pricing to adjust to new reality over time. In the meantime, I think in the last two calls, I have been consistently saying that we will focus on investing and getting best out of the products that we have launched. Actually, if you see this year, we have launched three products already, with Cequa it will make it four. So I think it is a big launch is a big cost for any company, forget the small company like Sun Pharma in Specialty business.

**Moderator:** Thank you. The next question is from Aditya Khemka from DSP Mutual Fund. Please go ahead.

**Aditya Khemka:** I have two questions; firstly, I missed your initial comment, the US Formulations business, QoQ 10%-odd growth, was it driven by new launches in specialty or improvement in the base business portfolio?
Abhay Gandhi: The only key product launch in Q3 was Ilumya. The impact of Ilumya in that Q3 is very insignificant so far. So this business is driven by existing products and product launched prior to this.

Aditya Khemka: Actually, there were no key generic products launched in the third quarter and therefore it is all base business which is driving the improvement?

Abhay Gandhi: That is correct.

Aditya Khemka: And sir secondly just a request for maybe improved disclosure in the specialty and generic verticals of our business, globally companies which are conglomerate have the two divisions tend to report separately, even Dr. Reddy’s in India does that. Any thoughts on providing such data in annual report or maybe on quarterly basis?

Dilip Shanghvi: I think we are evaluating various changes in our disclosure policy and our plan is that from fiscal Q1 next quarter onwards, whatever changes that we wish to make, we will make it effective after that so that there is year-on-year clarity that people will get.

Aditya Khemka: On the generic landscape, we have seen fair amount of inorganic consolidation happening in the generic space and regulated markets especially US, partially maybe driven by very cheap valuation of assets which are available and partially maybe because based on some products we have seen the reversal in the pricing trend. Your thoughts on that?

Dilip Shanghvi: I think if your question is that in the current overall economics, generic is not a very attractive business. That is the fact. It is not attractive. And it is a business where longer-term your cost and ability to manage supply chain effectively will determine your success. However, we find that it is an interesting business for us to continue to invest in, but factoring the new reality.

Aditya Khemka: Actually, my question was that you used to maintain cash balance because you are scouting for assets on the generic side and wanted to be opportunistic, now in the near term with apparently no specialty asset or fewer opportunities in the specialty side, to spend that cash, what would be the optimal utilization of that cash balance – would it be to pay dividend, do buybacks or buy assets on the specialty side, I just want to understand the thought process there?
Dilip Shanghvi: We still remain optimistic about our ability to get a fairly valued asset. And till that time our current thinking is to remain liquid. Our sense is that in a difficult market, our ability to close deals with predictable certainty will give us some significant competitive advantage.

Aditya Khemka: For Sun, buyback is not something that you are considering given the recent turmoil in the market?

Dilip Shanghvi: In Sun, we do not have net cash. We have major cash in Taro. Most of the cash that Sun has is outside India in our subsidiaries.

Moderator: Thank you. The next question is from the line of Shashank Kumar from JM Financial. Please go ahead.

Anmol Ganjoo: Hi, this is Anmol Ganjoo. A couple of questions from my side. Just to understand Ilumya and the Specialty philosophy better, having spent a billion dollar in Specialty, I know it is early days yet, just a couple of quarters and because we keep get conflicting data points from 3% formulary coverage to 800 doctors prescribing it, do you feel more confident having allocated a billion dollar worth of capital to your overall specialty initiatives in the US given whatever you see at this point of time?

Abhay Gandhi: There is a learning involved, there is a confidence that the team can learn and deliver as we learned a new market and new specialty way of doing business which is completely different from what we at the Sun have done. If we did not have that underlying confidence in ourselves and the products that we are in, then we would not have invested that kind of money in creating the business. And now that we are there, we have no option but to find ways to succeed in that market. So we will learn, we will make some mistakes… hopefully not big ones, and we will try and get our fair share of a competitive market.

Dilip Shanghvi: I think Abhay is being very modest. My view is that in a very competitive marketplace, if we could get prescription from 800 doctors for Ilumya in a short period of time, in a market in which we compete with Novartis, with Johnson & Johnson, with Eli Lily, they are investing significant resources and also advertising money. I think it is a good performance and it allows us to be confident that if we continue to push and pursue, we can do well. Whether this is the best performance, clearly no. Instead of us, if some large global innovator company would have launched...
the product, maybe they would have done much better than us because their relationship and their existing brand name and also ability to get better reimbursement from payers will help. But at some point we will have to reach there. So there is always a starting point. I think this is a good product to start with. I hope this answers your question.

**Anmol Ganjoo:** Yes, it does, thanks for that. My second question is regarding your opening remarks where you said this Atlas transaction will be reversed. Could you just explain better in terms of the reversal mechanism – is it monies which are going to come back to Sun and then the liability we sold, some more deliberation or color on that would be helpful?

**CS Muralidharan:** What we have explained in the past is that there will be assignment of the rights and obligations by which the supply obligation which is standing in our liability side, and the loans and advances what we extended, both will get squared off by end of the 31st March ‘19, we are already working on it.

**Anmol Ganjoo:** If I heard you correct; you also spoke about signing some part of the liability to another subsidiary?

**CS Muralidharan:** Yes, the assignment will happen to the subsidiary, so instead of Atlas, our subsidiary will come into picture, so at a consolidated level, there will be no impact.

**Anmol Ganjoo:** Given the volatile times for the business last quarter you helped us directionally by telling us second half is going to be better than first half. As we look at 9-months, how do you feel about the business for the next 9 months directionally?

**Dilip Shanghvi:** Our focus is to improve the basics everywhere on cost, on efficiency, on speed to market. So I think as we focus on all of these issues, should help us continue to succeed. But next year’s guidance we will give at the end of the current quarter’s investor call.

**Moderator:** Thank you. The next question is from the line of Prashant Nair from Citi Group. Please go ahead.
Prashant Nair: My first question is on the Specialty business. You had earlier guided that you expect to break even on this business by fiscal ’20. Given that now you have seen nine months of this year, is that something you can still maintain?

Dilip Shanghvi: I have also indicated that we might decide to do something significant in terms of advertising for Ilumya because we think that is a benefit for longer term or we might decide to do a large clinical study which is not factored, then that can change the economics and it will potentially defer the breakeven, but it will be create a longer term value. So our focus is to ensure that we are able to fully leverage what we have so that we are able to use them for maximum benefit for creating value.

Prashant Nair: My second question is on the FOREX impact. Can you also tell us how much it would have adjusted margin for the 9-months?

Dilip Shanghvi: We will do actual working before responding but on the cursory working it is not appearing to be material.

Moderator: Thank you. The next question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

Shyam Srinivasan: First question is on R&D. In the opening remarks you said it is now three quarters now it is coming lower than 7% to 8% we had actually at the start of the year. Can you just tell us what is the key reason coming lower is it like timing differences in projects, is it like restructuring?

Dilip Shanghvi: Initiating clinical trials little bit later, timing difference in clinical study.

Shyam Srinivasan: So that is the key difference that you would say? And your guidance is that for the next year it is going up. Are you quantifying what the number could be in the next year?

Dilip Shanghvi: We will quantify when we give the guidance.

Shyam Srinivasan: Last question on this R&D, what is the kind of split in terms of number of three, four, five sequential number of filings for ANDAs, how much is coming from simple generics and
commodity generics versus how much is coming from the more specialty stuff, if you can help us understand how that pie is for the R&D?

Dilip Shanghvi: Generally, we do not give specific product level information. I think as a potential idea what we are seriously evaluating is from next year onwards we will start giving some break up of specialty R&D versus generic R&D. But as on today I am not able to respond to your question.

Shyam Srinivasan: My last question is on the tax rate. It is about 18%. Are we now in the realm where we have talked about in the past that the tax rates will rise gradually, are we there yet or with the kind of distribution changes that will probably be rolled out by FY19 you think this tax rate can go up further?

Dilip Shanghvi: Yes, we have generally guided for gradually increase.

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

Anubhav Agarwal: Just one data point. This is for Murali. Taro declared a dividend of $500 million. Just wanted to understand how much net cash we receive from that?

Dilip Shanghvi: I do not have the exact number but I think it is around US$375 or 380 million.

Anubhav Agarwal: So there were no taxes because we have 75% stake, 75% of 500 is 375, so we did not have to pay any tax at all?

Dilip Shanghvi: Tax has to be adjusted. Around $20 million will be the tax.

Anubhav Agarwal: Withholding tax only $20 million which is only 4%?

Management: There are some participating exemption. The territory where the dividend will be received.

Anubhav Agarwal: That is not for all shareholders, basically Sun Pharma because of some exemption gets 4% but the other shareholders will have a higher value?

Dilip Shanghvi: That is correct.
Hansal Thakker: I was saying that in your opening comments you decided not to launch Elepsia as of now on account of high cost. I am wondering if you are in a position to share any timeline on this at all?

Abhay Gandhi: What I said was that Sun will not be launching Elepsia because it will become a single product business unit and the kind of infrastructure that we will have to create it will always be a cash drain. So, we will be returning the license back to SPARC and it is a good product, I am sure they will be able to find somebody else who can do a good job with marketing of the product.

Hansal Thakker: Sir my second question would be just to get some idea. Would Sun ideally be keen to in-license like PICN from SPARC since oncology is the focus area of Sun?

Abhay Gandhi: Actually we are right now working on the business case to see whether it will be a good product for us. SPARC will also be asking other companies to make their own offers and bids and whatever is in the best interest of SPARC will then be the chosen path they will take.

Moderator: Thank you. The next question is from the line of Anuj Jain from Globe Capitals. Please go ahead.

Anuj Jain: My question is more related with P&L. Regarding the depreciation that has moved from 339-odd crores to 471 crores and the finance cost that has also risen. Just wanted to have some color on those things?

CS Muralidharan: As far as the depreciation is concerned, it is linked to the launch of the specialty products for which the amortization has kicked in, so that is the major reason for increase in depreciation. As far as finance cost is concerned, incremental borrowings have happened. That is why you see a bump up in the finance cost.

Anuj Jain: Sir, I just want to have one more thing. This is the tax expense. In this quarter we are having some 15%-odd tax provisioning expense. So what would be the effective tax rate for the whole year, what we are working on?
CS Muralidharan: If you see in a normalized basis currently trending at about 18%. So we only guided gradually the tax rate will increase.

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

Saion Mukherjee: Just one question on Ilumya. You mentioned 800 doctors have prescribed. Can you share what is the number of patients who have taken it so far and any indication whether these are new patients or patients who have used other biologics and it does not work, majority of patients are those, can you give some color on the nature of population which is getting treated at this point?

Abhay Gandhi: I think that will be very competitive information that you are asking. Anecdotally, as I said, data will still take a few more months to come. We are getting very good anecdotal feedback from the doctors in all kinds of patients which is a good part. We are seeing even very large body surfaced patients who have 300 counts and in one dose was cleared. But these are anecdotal. So, I do not want you to look at that. But we are been getting very good responses. Doctors who have used seem very happy. Repeats are also good, but of course it is short time. So again, one doctor who has written one patient, I think the second one, does not mean much. I do not want to jump to any conclusions in some two, three months’ period of time but we are enthused by the initial response and we feel we can do far better.

Saion Mukherjee: On Cequa, what do you think would be the impact of potential Restasis generic or how should we think about the landscape there?

Abhay Gandhi: I have said this is in previous calls as well. As of now there has been no generic in market. But as soon as you will have generic from a payer perspective there will be step edits. So to that extent access will be a challenge and the scope of a product with no generic in market and with generics in market will always be different.

Moderator: Thank you. The next question is from the line of Saket Bansal from Stock Axis. Please go ahead.
**Saket Bansal:** My question is on Ilumya. Since it is into a very competitive market, can you throw some light whether price of the product also play an important role into it to get prescriptions for the patients?

**Abhay Gandhi:** We have not kept a price differential with competitors...we have but a very minor nominal one. We have not used price as our way to entry because when you have a good product we did not want to...

**Saket Bansal:** Let us say there were competitors’ products like Johnson has and Novartis has, are we getting the patients from those products who have already subscribed to those?

**Abhay Gandhi:** I have very little data which tells me where are we getting the patients from, how much of it is bio-naïve, how much from some other competitors, very limited information that I have to give you any color.

**Saket Bansal:** So do we have any forward statement like you want to see this penetration level at least this much in FY20 or '21?

**Abhay Gandhi:** I am in the midst of a war. If you are asking me, forward-looking statement, first of all, I want to get out of it alive.

**Saket Bansal:** Can you throw some light on YONSA?

**Dilip Shanghvi:** We answered that question to an earlier question. I think Nimish can give that to you.

**Moderator:** Thank you. The next question is from the line of Sajan Didwania from Frontline Capital Services. Please go ahead.

**Sajan Didwania:** I just want to ask something different. I want to know is the company going for any more litigation cases like Modafinil and Protonix and can any contingent liability arise due to that?

**Dilip Shanghvi:** I think we have one or two ongoing litigations but we are unable to comment as to risk and the probability of any contingent liability.
Sajan Didwania: Sir, this Modafinil is over or something more can arise on that?

Dilip Shanghvi: From our point of view I think it is over.

Sajan Didwania: And nothing also in the Protonix patent case?

Dilip Shanghvi: Yes, Protonix is over.

Sajan Didwania: And new contingent liabilities you can say anything on that?

Dilip Shanghvi: Nothing that we are providing for.

Moderator: Thank you. The next question is from the line of Alok Dalal from CLSA. Please go ahead.

Alok Dalal: You would have witnessed many FDA audits in 2018. Any plant that has outstanding issues that you may want to call for?

Dilip Shanghvi: Nothing that comes to my mind. My recollection is that all our audits last year and this year have not led to any serious observations.

Alok Dalal: How do you plan to use that Taro dividend?

Dilip Shanghvi: Part of it we will use for repaying some of our existing debt and part we want to keep for acquisition transaction.

Moderator: Thank you. We will take the last question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: By back of the envelope calculations for your competing products for Ilumya which is Stelara, Taltz, Cosentyx, etc., from gross to net, I get a figure of 25 to 35%, is that something you think is correct benchmark for this category of products and also for Ilumya?

Dilip Shanghvi: I think your 25 to 30 number is reasonably good number looking at the current average industry gross to net even for the most innovative products. But I do not think from public data it is possible actually to see gross to net, because not only it is difficult, but almost impossible because you have multiple plans, and different gross to net with different plans, and many of these
companies would have also overall company discounts. So, I think it is very difficult to estimate. If we can learn that from you then it will also help to understand how to do competitive gross to net, because then we can bid properly.

**Sameer Baisiwala:** I have only public data to work with. IMS captures this number and I am sure it is approximate on the basis of gross pricing and company’s report on a net pricing, so I just took the difference between the two?

**Dilip Shanghvi:** It does not capture some of the sales, first of all, in the IMS because IMS does not get data from many of the distributors.

**Abhay Gandhi:** Especially in the products which uses lot of specialty pharmacy, your IMS numbers will be way off the mark.

**Dilip Shanghvi:** Inaccurate at the most.

**Sameer Baisiwala:** Just to conclude on Ilumya, it is not 5% to 10%, it could be closer to the industry average?

**Dilip Shanghvi:** Yes, I think that you should go with because current industry average would be around 25%-30%.

**Moderator:** Thank you. That was the last question. I now hand the conference over to Mr. Nimish Desai for the closing comments.

**Nimish Desai:** Thank you, everybody for being on the call. If any of your questions remain unanswered, kindly send them across and we will have them answered. Have a good day.

**Moderator:** Ladies and gentlemen, on behalf of Sun Pharmaceutical Industries Limited, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.