



Corporate Participants

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Moderator: Ladies and gentlemen, good day and welcome to the Sun Pharmaceutical Industries Limited Q2FY18 Earnings Conference Call. As a reminder, all participant 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 the conference call, please signal for 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 second quarter FY18 earnings call. I am Nimish from the Sun Pharma investor relations team. We hope you have received the Q2 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 and Mr. Kal Sundaram – CEO (India, Emerging Markets & Consumer Healthcare). 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 second quarter of FY18.

Let me discuss some of the key highlights:



Our overall performance for Q2 is not in line with our past performance. A challenging US generic pricing environment and continued investments in building our global specialty business has impacted our Q2 performance. Also, if you compare with Q2 last year, the expiry of Imatinib exclusivity in US has impacted year-on-year comparisons. We expect our performance to gradually improve in the second half of this year.

I will now hand over the call to Mr. Valia for discussion of the Q2 performance.

Sudhir Valia: Thank you Mr. Shanghvi. Good evening everyone and welcome to all of you. Our Q2 financials are already with you. As usual, we will look at key consolidated financials.

Q2 sales are at Rs. 6,590 crores, down by 15% over Q2 last year. Material cost as a percentage of sales was 28.5%, higher than Q2 last year mainly due to the year-on-year decline in Imatinib sales in US as well as higher COGS to sales for Taro. Staff cost was at 20% of sales, higher than Q2 last year. This increase is due to the year-on-year sales decline in Imatinib and is partly due to the expansion of the specialty teams in the US and consolidation of employee cost of the Biosintez acquisition in Russia. Other expenditure was at 31.5% of sales which was higher than Q2 last year resulting from lower topline year-on-year coupled with continued investments in building the specialty business and partly due to forex losses.

As a result of the above, the EBITDA for Q2 was at Rs. 1,315 crores, with EBITDA margins at 20%.

Net profit for the quarter at Rs. 912 crores, down 59% over Q2 last year, resulting net profit margin of 14%. Net profit for Q2 last year included the benefit of the 180-day exclusivity for Imatinib in US which expired in July-2016.

EPS for the quarter was Rs. 3.80.

Now we will discuss the half year performance. For first half, net sales were at Rs. 12,757 crores, a de-growth of 19% over first half last year. Material cost, as a percentage of the net sales was 28% which was higher than H1 last year. The staff cost for the first half was at 20.8% of net sales while other expenses were at 32.8%, both higher than H1 last year.



As a result of the above the EBITDA for the first half was at Rs. 2,369 crores a de-growth of 56% over the first half last year. EBITDA margins were at 18.6% for H1.

Adjusted net profit for the first half was at Rs. 1,438 crores with net profit margin at 11.3% compared to Net profit of Rs. 4,269 crores for H1 last year. Net profit for first half last year included the benefit of the 180-day exclusivity for Imatinib in US which expired in July-2016.

Let me now briefly discuss Taro's performance.

Taro posted Q2 FY18 sales of US\$ 170 million, down 26% over Q2 last year. For the first half, sales were US\$ 331 million, down 28% over first half last year. Taro's net profit for Q2 was US\$ 52 million, down by 58% over Q2 last year. Net profit for H1 was US\$ 107 million, down by 54% over first half last year.

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 Q2, sales of branded formulations in India were Rs. 2,221 crores, a growth of 11% over Q2 last year and accounting for approximately 34% of total sales. Please note that, due to the reduction in price realization arising from the GST implementation, sales in the current quarter are not comparable to periods prior to GST implementation. During the quarter, we witnessed a re-stocking of inventories by the trade channel post the implementation of GST.

Sun Pharma is the largest pharmaceutical company in India and holds approximately 8.5% market share in the over Rs. 114,000 crores pharmaceutical market as per September 2017 AIOCD-AWACS report.

As per latest SMSRC report, Sun Pharma is ranked no. 1 based on share of prescriptions with 11 classes of doctors. For Q2, 14 new products were launched in the Indian market.

As indicated earlier, our immediate near-term focus will be on normalizing and to continue to grow our business in the post-GST regime. For the long-term, we will strive to enhance our leadership



position in the market and at the same time on increasing the productivity of our sales force. We continue to focus on profitable sales growth and on building strong brands.

Let me now discuss our performance in emerging markets.

Our sales in emerging markets reached a new peak of US\$ 196 million for Q2, a growth of 16% partly driven by the acquisition of Biosintez in Russia. Emerging markets accounted for 19% of total sales. The growth is broad-based amongst emerging markets. There was a minor positive impact of currency movement on our growth in emerging markets for the quarter.

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

Dilip Shanghvi: Thank you Kal. I will briefly discuss the performance highlights of our US and ROW businesses. Let me start with US.

For Q2, our overall sales in the US were down 44% at US\$ 309 million, accounting for approximately 30% of our overall sales. The main reasons for the year-on-year decline in our US revenues include lower Imatinib sales, pricing pressure due to customer consolidation and delay in approval of important products from the Halol facility.

Formulation sales in Rest of World markets excluding US and Emerging Markets were US\$ 111 million in Q2, a growth of 40% over last year, partly driven by consolidation of the Japanese acquisition. ROW markets accounted for approximately 11% of revenues for Q2.

We continue to focus on developing and utilizing APIs for captive consumption for benefits of vertical integration. For Q2, the external sales for our API business were at Rs. 388 crores up by 6% over Q2 last year.

We continue to invest in R&D for enhancing our pipeline. Consolidated R&D investments for Q2 was Rs.511 crores, accounting for 7.7% of sales. This R&D spending enables development of future product pipeline including specialty and differentiated products and we continue to expect increased R&D investments in future.

We have a strong pipeline for the US market with 136 ANDAs and 4 NDAs awaiting approval with the US FDA. For the quarter, 4 ANDAs were filed and 3 approvals were received.



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

We started marketing Odomzo, our specialty oncology product, in the US some months back. We are in the process of ramping up this product and are leveraging our dermatology sales force in the US for co-promoting this product to dermatologists. We have recently announced approval of a new label for Odomzo by the US FDA reflecting sustained duration of response for 26 months. This will help in strengthening the positioning of this product in the US market.

For Tildrakizumab, we continue to expect the BLA approval in US in FY19. We have just heard from our partner, Almirall, that the European approval is likely to be moved from mid-2018 to end of 2018 or early 2019 due to the extension of the scope of the clinical sites under review by the European Medicines Agency. Since we do not have all the details, we will not be able to respond to questions on this development.

On Halol, we have no new update. As indicated in our Q1 call, we are awaiting a re-inspection by the US FDA. Till we have a successful outcome from the re-inspection, we are unlikely to get any new approvals from this facility. The process of shifting some of the products filed from Halol to alternate sites, as a risk-mitigation measure, is currently on-going.

And finally on the FY18 guidance.

While we retain our guidance, we would like to highlight that the current environment in the US generic market continues to be very challenging for reasons which are well known. Our guidance has to be viewed in this context and we will endeavor to achieve our guidance in a rapidly changing industry dynamics.

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

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Neha Manpuria from JPMorgan. Please go ahead.

Neha Manpuria: If I look at the U.S. business on a quarter-on-quarter basis, we have seen a sharp deterioration, this is despite Taro more or less having a slightly better year. Was there any delay in



supplies or anything that led to this sharp erosion? What's your view on the erosion that our portfolio is seeing in the U.S. business erosion?

Dilip Shanghvi: This is partly because there is significant reduction in Imatinib and the product mix. Also there is some impact for specific sales that would possibly get captured in the next quarter. So, you should not look at this quarter independently as a guide for rest of the year. At the same point of time, the impact is already factored into our overall guidance.

Neha Manpuria: Just to understand correctly, there are some specific sales that could get captured in the next quarter?

Dilip Shanghvi: Or which is not captured in this quarter.

Neha Manpuria: Yes, okay. So, this is not exactly a reflection of the base business?

Dilip Shanghvi: Correct.

Neha Manpuria: Okay. Sir, and on the specialty portfolio we have seen a few delays and setbacks with the recent Restasis losing the litigation indicating a possible generic entry before Seciera launch and now with the delay in Tildra. On a 3-year perspective, is our investment for specialty still intact in terms of the outlook that we had expected, let's say in the beginning of the year versus now or are we changing this given the recent developments?

Dilip Shanghvi: I'm not very clear as to the impact of potential Restasis generic and my view is that there is still other part of the litigation which still needs to be kind of decided by the court. So, there is no clarity as to whether a generic can come along with the current status. But with Seciera, a generic entry earlier than what was planned for, will create a potential challenges in getting sensible reimbursement. Also, one positive is that we can see if there is genericization of Restasis, is that we would have had to compete aggressively with Allergan for share of prescription whereas with generic entry, Allergan would kind of withdraw the promotional support to the product. So, we then have an advantage in terms of selling the product in a market in which there is no competition. So, I don't have a specific view as to early generic entry will be very bad or may not be as bad as what you think. On Tildra, it's not our view that what has happened in Europe is likely to potentially delay



approval of Tildra in the U.S. So till we have that clarity, I don't want to operate from a position that there will be delay in US.

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

Anubhav Aggarwal: One question on the U.S. sales trend. One question is, is Doxil loss for us largely reflected in this quarter or there is more to go with Dr. Reddy's ramping up?

Dilip Shanghvi: Any potential competition in generic market has basically two impact, one is erosion of price and erosion on market share. So to that extent, any competition to a product in which today we don't have competition will have a negative impact.

Anubhav Aggarwal: Yes, that is true. But I was just trying to understand that is that impact largely played out in this quarter, large part of it or we are going to see more of it in next quarter or next 2 quarters?

Dilip Shanghvi: I don't think I would like to respond to a specific product market share question, but all I can say is, that it is broadly factored in our overall guidance.

Anubhav Aggarwal: And sub-question on that is last quarter you mentioned that Absorica's full potential was not reflected in the June quarter, the higher market share will start reflecting from this quarter. Was this reflected in this quarter or will it take time to reflect?

Dilip Shanghvi: I think it would still take some more time in reflection.

Anubhav Aggarwal: Can you just help what's the reason? If you gain market share, why is it not reflecting in the numbers?

Dilip Shanghvi: It's a reimbursement issue. So, our overall reimbursement has gone down reflecting our overall value capture.

Anubhav Aggarwal: Okay. My second question is on Tildra. As you mentioned, U.S. approval now instead of end fiscal '18 will be fiscal '19. Are you talking about early fiscal '19 or have you received any communication from FDA? Any queries of what's the reason here?



Dilip Shanghvi: There is a process by which FDA responds to the product in terms of certain frequency based on the PDUFA guidelines and as on today, that is how it is progressing. We haven't seen any delay. So, our overall guidance I think is that we will be launching it next year. We haven't given any specific timelines in terms of whether it will be first quarter or last quarter.

Moderator: Thank you. Next question is from the line of Manoj Garg from Healthco. Please go ahead.

Manoj Garg: I just wanted to elaborate on some of your commentary around U.S. pricing. So, one is are you able to provide what the Q2 growth rate would have been ex-generic Gleevec?

Dilip Shanghvi: Generally, we don't give product specific pricing, market share and value share because this...

Manoj Garg: I'm just trying to understand if we take out Gleevec from both quarters, what the base would have done?

Dilip Shanghvi: I haven't done that calculation, so I'm not able to immediately respond and I don't want to give inaccurate information.

Manoj Garg: Okay. That's fair. And then secondly, either qualitatively or quantitatively, are you able to provide just some sort of update as to how the current contracting discussions are going with the big 3 US purchasers? Meaning are they still pushing actively for price reductions or are we seeing some stabilization there or any color that you can provide?

Dilip Shanghvi: My general sense is that there will be many products which will be stable for which there are no changes and then there is no impact of new pressure on those products. There will be products with limited competition, so when competitive dynamics change, it will lead to potential rebidding by customers. And that used to happen in the past and it continues to happen now also.

Manoj Garg: Right. So, it obviously happened in the past. So in the present environment, are you just seeing that the scale of the price deceleration is more steep or what are you seeing that's changed?



Dilip Shanghvi: I think the expectation of customers in terms of pricing has changed. So, they expect much faster erosion in the price of the generic and sometimes because of size as well as more or less similar expectations from key customers, what they expect actually happens.

Manoj Garg: All right. And then lastly, this seems to be well beyond a temporary situation. It just seems to be fundamental change in the generics business in terms of the pace of erosion that we're seeing.

Dilip Shanghvi: Even in the past things like this have happened. Significant reduction in the price making business unattractive and unprofitable ultimately leads to many people leaving markets and changing competitive dynamics and enabling price changes. So like if our own experience in the past is any guidance, that happened in products that were marketed by Taro before we acquired the business. Today clearly we are in a situation where regulatory approvals for products are coming much faster than they used to and there are many more players in the market than historically there used to be. So I don't know whether what happened in the past may happen in future, but generally all multi-source products have this cyclicity of pricing and competition.

Moderator: Thank you. The next question is from Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Sir, just trying to understand the U.S. pricing erosion that you spoke about. What would have been just rough color on a YoY and a Q-On-Q front?

Dilip Shanghvi: I have, in the past also, said that it is very difficult to give answer to a question like this because there may be some products in which actually there may have been some price increase, there will be a group of products where nothing happened and some products where there would have been price erosion. So, it all depends on competitive intensity and competitive dynamics.

Prakash Agarwal: I was just trying to understand the Q-On-Q decline that you mentioned so some part of it is obviously large products like Doxil going over, the other is you said some sales have been pushed out for the next quarter and there would have been some base business price erosion. So, I'm talking about the third part sir.

Dilip Shanghvi: So, actually it is not a very significant price erosion that I'm seeing.



Prakash Agarwal: Okay. That helps. Secondly on the gross margin front, I mean we have seen sales coming back for the India business quite significantly on a Q-On-Q front. Now that I understand is a good gross margin business. However, we have seen the gross margin actually dipping about 120 bps. What is driving this?

Dilip Shanghvi: So Kal, would you like to say about India business? There is no impact on gross margin.

Kal Sundaram: India business like you're saying sales on a higher sales base, we are maintaining the quality of our gross profit.

Dilip Shanghvi: Only issue is that maybe because of the relatively low sales of some of the high margin products would have impacted the overall cost of goods. If you see even in the case of Taro, whatever they are losing on topline is also losing out on their bottom-line increasing their cost of goods.

Prakash Agarwal: Understood. And lastly, with expected inspection and hopefully Halol clearance in the short term, there are 136 ANDAs awaiting clearance. So, we have in the past...

Dilip Shanghvi: All of them are not from Halol.

Prakash Agarwal: So, we have talked that inspection is due any time now so hopefully it gets cleared in the short term. I'm trying to understand when the approval comes through for the facility, is it fair to see clubbing up of approvals coming through from that facility and your view whether these approvals would have any meaningful opportunity as the genericization in the last 2, 3 years have quite happened?

Dilip Shanghvi: So there would be some products, which are more or less clear, except for the facility and they are likely to be approved once we receive the approval. And your point is correct, some of the products may not be as attractive today as they were if we would have received approval on those products ahead of time. But there will be quite a few products, which will still be attractive.



Moderator: Thank you. Next question is from Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: How much is your dependence on Halol for pending ANDAs versus non-Halol sites? Would you not have filed few high value from non-Halol sites?

Dilip Shanghvi: We would have.

Sameer Baisiwala: Okay. But those approvals have not been coming I would say for last 4 to 6 quarters. So, any outlook on that?

Dilip Shanghvi: Many of those have also been filed relatively recently. So if you recall, for last few quarters I have been saying that since the number of filings have been going down, part of the reason also is that we are focusing now on difficult products. Hopefully, some of those from other sites also will start getting approval while we get approval from Halol.

Sameer Baisiwala: Okay. This is very helpful. And sir, generally speaking for specialty products, companies including yourselves, SPARC, give a peak revenue potential. So just curious that for Odomzo, which is already in the market, is there some peak sales number that you can share with us over next 2, 3 years out?

Dilip Shanghvi: I think it's a good suggestion. We will discuss this internally and if we feel it's appropriate, then we will share some indicative numbers if not in terms of value, at least in terms of increasing market share.

Sameer Baisiwala: Okay. That will be helpful and preferably for the full pipeline.

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

Saion Mukherjee: My first question is regarding Levulan. How should we think about this product from a next 3, 5 year perspective? You have a patent expiry in June 2019, is there any risk to this phase that you see as you go through the expiry?



Dilip Shanghvi: In a US environment with the type of competition that you see, there is always the potential risk of generic competition. So, we should presume competition and that's how we are operating. We don't know of any competitor, but that doesn't mean that there is no competitor.

Saion Mukherjee: Okay. On Tildra, the dynamics have been changing particularly in the light of increasing share by IL-17s and the recent positive trial data for Risankizumab. How should we think, I mean does that in a way impact and create some headwind for us to get market share there?

Dilip Shanghvi: Any competition will ultimately do two things. One is increase the overall penetration of the product in the market because of increasing visibility with customers and that's a positive for the product because if you see overall the role of biologics in the moderate to severe psoriasis patient, it's a relatively small subset of patients who continue to get this treatment. So, this can continue to improve and increased competition will lead to increased market share of this therapy compared to the other competing therapy. The data for Risankizumab, that you're talking about, clearly I think there is lot of positive in the short-term data, but we still don't have complete clarity on data both in terms of long-term performance as well as side effect profile. Hopefully once they present all this data at any of the conferences or publish the outcome, we will have greater clarity on both of this.

Saion Mukherjee: Okay. So what you're saying there is that I mean your expectation from Tildra has largely remained unchanged with the developments over the last 6, 7 months in the space.

Dilip Shanghvi: I think what you have to realize is that we are also continuously learning both, more about our product and more about the market dynamics and that also is continuously evolving. Pricing, pricing pressure and all of that will have a potential impact on gross to net ratio in terms of how to price our product, how to market the product. But I think more important is that competition is also giving us desire to look at our product in much greater detail in different slices of data where we have specific strength, where we have some kind of disadvantage. And we feel reasonably comfortable with our product today.

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



Nimish Mehta: First of all, we have announced the approval of Carvedilol CR because it was under settlement and litigation act. Can you just confirm whether it is launched or if not, when are we likely to launch?

Dilip Shanghvi: Yes, it is launched.

Nimish Mehta: Okay. And do we have 180-day exclusivity on that or we don't have?

Dilip Shanghvi: No. Since the product was not approved within 30 months of filing, FDA has not specifically given the 180-day exclusivity to us, but till now we don't see any competition.

Nimish Mehta: Okay. Other thing is about the other injectable facility that we I think have developed, which is probably in Baska. So, just wanted to know the regulatory status of that facility as in are we awaiting FDA approval for the facility or it has already happened? Any such color would be helpful.

Dilip Shanghvi: So, 1 or 2 products from the facility have been approved. We haven't launched them, but products have been approved.

Nimish Mehta: But we have yet not launched?

Dilip Shanghvi: Yes, we have not.

Nimish Mehta: I mean is it more to do with the pricing or the market related situation or anything to do with a manufacturing issue not launching the products?

Dilip Shanghvi: Yes, I think mainly because we don't have a complete basket yet. So, we are awaiting some more approvals.

Nimish Mehta: Understood, okay. And last, if I may, on tildrakizumab. If you can just share the volume contribution of biologic products and more specifically IL inhibitors in the entire moderate psoriasis market, that could be very helpful because what I understand from you is that the increase in share of biologics, specially IL Inhibitors would drive the market. So, that data will be very helpful whatever latest you have.



Dilip Shanghvi: I don't have the data right now. But these are public information, or some of the information at least is public.

Moderator: Thank you. The next question is from the line of Surajit Pal from Prabhudas Lilladher. Please go ahead.

Surajit Pal: I would like your thoughts on that consolidation consistently going on as something like Econdisc WBAD here and that will also trigger another round further? When do you think that the flow of price erosion could come to an end or if not, it will come down drastically from where it is at?

Dilip Shanghvi: I think it's an important question which I think all senior people in the industry are kind of working hard to find an answer, but I don't know of anybody who has a very sharp clarity. Because my view is that in all multi-source products, whenever any player finds a way to manage to get a larger share of the overall profitability pie, the market dynamics will change so that the imperfection is corrected. So, what is happening is that in the system all of these corrections are happening and till the time we get into a situation where there is reasonableness in profitability of different players, it will continue to evolve and change.

Surajit Pal: Another point is that your Baska plant, is that a part of your resolution of your Halol in terms of injectable or would we see some of the key products to transfer from current injectable plant to Baska?

Dilip Shanghvi: This facility so it's not very far from Halol. Some of the products may move, but I think the technology and the product range out of Baska are different from what we produce at Halol.

Surajit Pal: I will just squeeze one more. If you can give us an idea the important launches in H2?

Dilip Shanghvi: Generally, we don't give future product pipeline and potential launches.

Moderator: Thank you. Next question is from Shyam Srinivasan from Goldman Sachs. Please go ahead.



Shyam Srinivasan: Just looking at your press releases last quarter and this quarter, I thought we had about 151 ANDAs pending last quarter and we now have 136 or so. So, have we launched that many products during the quarter or has there been some kind of a rationalization of the portfolio?

Dilip Shanghvi: We have withdrawn some products.

Shyam Srinivasan: Okay. And this is probably related to how the market conditions on some of these products are?

Dilip Shanghvi: Yes, I think business dynamics would not justify continuing to work on those products because we may not have any attractive opportunity to launch the product.

Shyam Srinivasan: Just on the R&D and just the outlook. You've done about 7.7% of sales, how do you see this for the remainder of the year and if you can just tell us where the key events could be from an R&D perspective in terms of spending?

Dilip Shanghvi: Our overall guidance on R&D is not changing. But as I have shared in the past, I think part of the investment will be for generic R&D, part of this will be for specialty products and part of this will be life cycle management and clinical studies of some of the important products like Tildra and Seciera.

Shyam Srinivasan: Okay. And last question, we are on track for the Seciera filing this quarter, right?

Dilip Shanghvi: Yes.

Moderator: Thank you. Next question is from Anubhav Aggarwal from Credit Suisse. Please go ahead.

Anubhav Aggarwal: I have a question on Glumetza. Just some update on this will be useful. Is that product with our site now, is it with FDA? What's the status because we have got approval a year back? We guided initially we launch in few weeks; it's been more than a year. Can you give some update now?



Dilip Shanghvi: It's a valid question. I was hoping that I would be able to answer this. The product is with us, it's not with the FDA. But I think as a company, we have decided that unless and until a product meets a certain sigma level, we don't want to launch because launching and potentially recalling product we want to minimize and that is the focus. So, we haven't been able to achieve a sigma level that will meet the threshold for us to be able to launch the product.

Anubhav Aggarwal: Okay. That's helpful. And just one more question today there is a proposal of some demerger part of Sun Pharma Global FZE, which is almost a revenue of \$300 million sales merging that as a standalone entity. I just wanted to understand the portion that we are carving out from Sun Pharma Global FZE and merging, is it profitable or loss-making business?

Sudhir Valia: No. It's the ANDAs which we had earlier transferred.

Dilip Shanghvi: Yes, it's profitable business. We are doing to improve the overall efficiency of the supply chain.

Anubhav Aggarwal: Okay, that's helpful. I have one more question on odomzo. On odomzo, I can clearly say our market share is ramping up. Right now if I see the laBCC market, we're about high single-digit market share right now. In the 2 player market right now, Erivedge and Odomzo, where do you see Odomzo roughly? I mean some guidance will be helpful; 30%, 40% share, 20% share; that will be helpful. In the sense as you mentioned in the past, it cannot be at par with Roche, but can it be like 30%, 40% share at some point of time of the total market? It's a growing market, that's why I'm asking.

Dilip Shanghvi: I am also asking the same question to our marketing people. Once we decide to share the overall peak market share that we want to achieve, we will share it with investors if that's what we decide to. But these are valid questions and your point is correct, it's responding to the inputs possibly not the speed at which we expected it to, but we're at it.

Moderator: Thank you. Next question is a follow-up from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: First question on other income. I saw Rs. 250 crores for the quarter, probably one of the highest in last many quarters. So, can you give us a breakdown?



Sudhir Valia: Primarily, we got the refund from the income tax along with the interest. So, that's included in that. That is major chunk has come from there.

Sameer Baisiwala: How much is that roughly about?

Sudhir Valia: May not be very accurate, but primarily this is the major contributor to the other income.

Sameer Baisiwala: Okay, got it. Second question, and I'm not trying to put you in the fix. But I think it's a little important because there is a court case which has been initiated in District of Columbia for price fixing and I don't know how much you can talk about it, but the investigators have put 59 in fractions between Sun and Heritage officials. So, just your thought on this and is it matter of routine that sales people talk to each other or this is something out of ordinary?

Dilip Shanghvi: This information is based on the discovery that they would have asked for, then that information is available to us and our lawyers and we would have looked at it ourselves. But your point is also correct that this is sub judice so beyond responding in a generic way, I don't have an option. I can't give more specific information.

Sameer Baisiwala: Okay. This is helpful. And just one final question. I'm not quite so sure, so you have asked FDA to come and reinspect Halol, what's holding them back? And a little stupid question that Baska is just a few kilometers away so they have gone there, but they've not gone to Halol or will they go after Baska? I don't know if this is the right way to think about it.

Dilip Shanghvi: I don't claim to understand how FDA decides and I don't think we can determine the priority for FDA.

Sameer Baisiwala: Do you think it's going to happen pre-Christmas or it's going to be after that, next year sometime?

Dilip Shanghvi: So, we hope they do. So Kal tells me that to the best of our knowledge, nothing wrong has been committed on the pricing for the litigation in the US.

Moderator: Thank you. The next question is a follow-up from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.



Nimish Mehta: A lot of them are already answered, just one more. If I look at the other operating income, in the last two quarters it has come down sharply that is in Q1 and Q2 since what we have been seeing in the previous 4 quarters. So, any specific reason and is that the normal? Because in the entire FY17 I'm almost looking at an average of roughly 320 crore versus 42 crores and 60 crores in Q1 and Q2?

Dilip Shanghvi: There was certain income that we would have booked on account of licensing of Tildra for Europe and also as a result of our transaction for buying brands in Japan. Till the product licenses were transferred to us, we would have received share of profit directly. So both of these would have come into those category, which you don't see now.

Nimish Mehta: So, just more or less normal is the fair understanding, right?

Dilip Shanghvi: Yes.

Moderator: Thank you. The next question is from the line of Kartik Mehta from Deutsche Bank. Please go ahead.

Kartik Mehta: In terms of India business, how would you put the overall restocking at? Would you believe that 80% is done in this quarter or is it higher than that? And in that context, how do you see FY19 in terms of the market share that we already have on a broader basis?

Kal Sundaram: You would have seen this AIOCD report. The average stock holding at the wholesaler level was about 40 days. While I think it came down to 27 days or so at the time of GST going towards the end of June, it has come back but it has not gone back to 40 days. As much as we are expecting a little bit more re-stocking, but I also tend to see the wholesalers may not go back to that 40 days so quickly. Much of our focus at this stage is to continue to drive the underlying demand making sure that our products are available in the market. Going to 2019, as I read it out, our efforts will be to continue to increase our share and lead in the market.

Kartik Mehta: So in terms of the re-stocking which is not done, is it more due to some channel participants still not being compliant with GST or overall inventory reduction has happened if you add up the wholesaler and the retailer?



Kal Sundaram: It's not so clear, rather opaque. You got wholesalers, you got semi-wholesalers, you have got dispensing doctors. In the GST environment, who is de-stocking or who has not gone back to full stocking certainly is not known to us. I can tell you on a broader front, gradually speaking let's say probably say east took a little bit particularly West Bengal took a little bit more time than other states. But let's say at the end of September, I would say that we are able to supply pretty much to the entire country in terms of supply. This means all our customers, and I'm talking about the wholesalers here, have become GST compliant. So, the issue may not be necessarily wholesalers not being GST compliant but the semi-wholesalers, those who don't want to enter into GST as to what they're doing, that is not visible to us.

Kartik Mehta: That is helpful. Another one was on the tax rate, it is a bit low in this quarter. Is there anything in this quarter which would have brought it down or is it that tax rate would be lower now for this year as exclusivity's contribution would be lower?

C Muralidharan: In terms of tax rate, what we want to share is that we see the tax rate in the quarter as a moving part. So, it's appropriate to see tax as an annual event.

Kartik Mehta: So, what would you guided for the year. Would it be?

C Muralidharan: We said that last time also it will gradually increase. So, we maintain the same guidance on the tax.

Moderator: Thank you. Ladies and gentlemen, that was the last question due to time constraints. I now hand the conference over to Mr. Nimish Desai for closing comments. Over to you, sir.

Nimish Desai: Thank you all of you for joining us on this call. If any of your questions have remained unanswered, please do send them across, we will have them answered. Thank you and have a good day.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of Sun Pharmaceutical Industries Limited, this concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.