Corporate Participants

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Moderator: Ladies and gentlemen, good day and welcome to the Sun Pharmaceutical Industries Limited Q3 FY18 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 an 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 FY18 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 FY18.

Let me discuss some of the key highlights:

Sales for the quarter were at Rs. 6,598 crores, a de-growth of 14% over same quarter last year. The decline is primarily driven by the US business. All our other businesses have grown for the quarter. In line with our EBITDA margin guidance, our overall performance for Q3 reflects a gradual improvement in EBITDA margins over the first half of the year. This is despite a challenging US generic pricing environment and continued investments in building our global specialty 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.

Q3 sales are at Rs. 6,598 crores, down by 14% over Q3 last year. Material cost as a percentage of sales was 31.8%, higher than Q3 last year mainly due to the year-on-year decline in Imatinib sales in US as well as higher COGS for Taro. Staff cost was at 20.8% of sales, higher than Q3 last year. This increase 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 26.2% of sales similar to Q3 last year.

As a result of the above, the EBITDA for Q3 was at Rs. 1,398 crores, with EBITDA margins at 21.2%.

Adjusted net profit for the quarter was at Rs. 878 crores, down 40% over Q3 last year. Reported net profit for the quarter was at Rs. 365 crores, down 75% over Q3 last year. Reported net profit was adversely impacted by one-time deferred tax adjustment of Rs. 513 crores related to changes in US tax rates.

Reported EPS for the quarter was Rs. 1.50 while adjusted EPS was Rs. 3.70.

Now we will discuss the nine-month performance. For the first nine months of this year, net sales were at Rs. 19,355 crores, a decline of 17% over nine months last year. Material cost, as a percentage of the net sales was 29% which was higher than nine months last year. The staff cost for the first nine months was at 20.8% of net sales while other expenses were at 30.5%, both higher than nine-month last year. All these increases were driven by loss of Imatinib exclusivity in US, lower profitability for Taro and a challenging US generic pricing environment.

As a result of the above the EBITDA for the nine months was at Rs. 3,767 crores a de-growth of 50% over the nine months last year. EBITDA margins were at 19.5%.

Net profit for the nine months was at Rs. 853 crores. There are two large one-time items which has impacted the net profit number. One is the Rs. 513 crore of one-time deferred tax adjustment related to changes in US tax rates, reported in Q3 and the second is the Rs. 951 crores settlement impact related to the Modafinil anti-trust litigation announced in Q1 this year. Excluding both these one-time impact, the adjusted net profit for the nine month period was Rs. 2,316 crores with net profit margin at 12% compared to net profit of Rs. 5,741 crores for nine months last year. Net profit for nine months 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 Q3 FY18 sales of US$ 156 million, down 30% over Q3 last year. For the nine month, sales were US$ 487 million, down 29% over nine months last year. Taro's net profit for Q3 was US$ 18 million, down by 87% over Q3 last year which included US$ 38 million deferred tax adjustment related to the changes in the US tax rates. Net profit for nine month period was US$ 125 million, down by 67% year-on-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 Q3, sales of branded formulations in India were Rs. 2,085 crores, a growth of approximately 6% over Q3 last year and accounting for approximately 32% of total sales. As indicated in our previous call, sales in the current quarter are not comparable to periods prior to GST implementation. The current financial year is a transition year for the Indian Pharmaceutical Market due to the implementation of GST and hence industry growth for the full year is likely to be muted. However, the underlying demand remains strong.

Sun Pharma is the largest pharmaceutical company in India and holds approximately 8.5% market share in the over Rs. 116,000 crore pharmaceutical market as per December 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 Q3, 16 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 medium to long-term, we will strive to achieve profitable sales growth with focus on productivity improvement and on building strong brands.

Let me now focus on our performance in emerging markets.

Our sales in emerging markets were at US$ 189 million for Q3, a growth of 10% 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 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 down 35% at US$ 328 million, accounting for approximately 32% of our overall sales. The main reasons for the year-on-year decline in our US revenues include pricing pressure due to customer consolidation, lower generic Imatinib sales and authorized generic sales and delay in approval of new products from the Halol facility.

We expect changes to continue in the network dynamics for reaching the products from the manufacturer to the patient.

During the quarter, we commercialized generic Coreg-CR in the US market. As of now, we are the only generic approved for this product.

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

During the quarter we announced the US FDA acceptance of our NDA for our dry-eye candidate, OTX-101. This marks a step forward for our specialty ophthalmic portfolio.

We started marketing Odomzo, our specialty oncology product, in the US some quarters back. Some months back, we had announced the approval of a new label for Odomzo by the US FDA reflecting sustained duration of response for 26 months. 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.

For Tildrakizumab, we continue to expect the BLA approval in US in FY19. In the near future, we will be participating in the AAD Conference in US and will be presenting 12 different oral and poster abstracts for Tildrakizumab.

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

Dilip Shanghvi: Thanks you Abhay. I will briefly discuss the performance highlights of our other business as well as give you an update on our R&D and specialty initiatives.

Formulation sales in Rest of World markets excluding US and Emerging Markets were US$ 120 million in Q3, a growth of 6.4% 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. 370 crores, flat over Q3 last year.

We continue to invest in R&D for enhancing our pipeline. Consolidated R&D investments for Q3 was Rs.473 crores, accounting for 7.2% of sales. This R&D spending enables development of future product pipeline including specialty and differentiated products.

We have a strong pipeline for the US market with 126 ANDAs and 4 NDAs awaiting approval with the US FDA. For the quarter, 4 ANDAs were filed and 5 approvals were received. The number of ANDAs pending approval has reduced slightly as compared to Q2 since we have dropped certain non-viable projects.

I am also pleased to inform you that we have recently commercialized Odomzo in Germany – the first European country in which we have launched this branded oncology product.

And finally on the FY18 guidance.

We continue to expect EBITDA margins in the 20-22% range for the second half of this year. R&D investments are likely to be slightly lower than our original guidance of 9-10% of sales. Our nine month revenues have recorded a decline of 17% year-on-year. We expect our Q4 revenues to be similar to Q3.

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. We will take the first question from the line of Manoj Garg from HealthCo. Please go ahead.

Manoj Garg: I have a few quick questions. One is from our channel checks, can you confirm that is the FDA is reinspecting Halol this week. Two, on the US business, can you give us the degrowth numbers, exiting out Imatinib, so for Q3 of last year and Q3 of this year and lastly just wanted to understand that Mckesson is back in the market doing another round of RFPs and may be if you can elaborate on what impact that might have to the business? Thank you.

Dilip Shanghvi: About Halol, as a policy we don't respond to the regulatory inspections. So I am not able to respond to the questions specifically. Abhay, would you respond to the specific US questions?

Abhay Gandhi: If you take out the impact of both the Imatinib and authorized generic, then our sales are much better and our degrowth is significantly lesser than what you see now.

Manoj Garg: Can you quantify that?

Abhay Gandhi: I think you can work it out. But it is a completely different picture if you remove these two products. Mckesson of course is very specific question. So I don't want to respond to a particular company, but in general you are right, the pricing pressure continues for us across all the buying groups, not just one.

Manoj Garg: Okay, so the ongoing pricing pressure that you are seeing across the US buying groups, is that somewhat quantifiable?

Abhay Gandhi: It is product specific. So it is difficult for me to give you a number on a consolidated basis, but I think our overall performance reflects the pricing pressure that the business has taken.

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

Prakash Agarwal: Just trying to understand these other expenses, SG&A line better, so we have seen both Y-o-Y 14% decline and Q-on-Q 17% decline, what is leading to this? Is there a forex element or is it the new base?

C Muralidharan: On the other expenses for the current quarter, there is a combination of certain cost improvement initiatives and also some element of forex impact.

Prakash Agarwal: Could we know the forex impact sir?

C Muralidharan: Normally, we do not get into specifics on the FX impact.

Prakash Agarwal: But if you could just help us, so there would be some increase in the other expenses line and this is not the base, is that right understanding?

C Muralidharan: So overall based on what I said earlier on the cost initiatives, it's a bit trending down and there are many moving parts in that. So specifically, we do not want to comment on it, but overall I think it is a moving downwards.

Prakash Agarwal: Understood. And second question on the US business. So if you look at Q-on-Q, ex-Taro, assuming 90% to be US sales, we have seen some improvement. This could be due to the deferment of sales you mentioned last quarter or is it the base business and I mean as you said Coreg has come in, so it is largely due to that or there has been element of deferred sales as well.

Abhay Gandhi: In the environment as any business should, we look at individual products and see whether there is an opportunity for us to improve our share of the business. And at an aggregate

level therefore you see the kind of numbers that you do. So it is not a one-off its, it is a team trying to compete in market and win as many accounts and products as possible.

Prakash Agarwal: But we have recouped some of the deferred sales which we missed last quarter?

Abhay Gandhi: Most of it, yes.

Moderator: Thank you. We will take the next question from the line of Neha Manpuria from JP Morgan. Please go ahead.

Neha Manpuria: Sir, if I were to look at your US sales movement quarter-on-quarter and then look at your gross margins, the gross margin seem to have declined very sharply, Taro seems to be a very small part of this. Could you please help us get some color on what led to this decline in gross margins on a sequential basis?

C Muralidharan: It is a combination of what you saw at Taro, material cost increase and also product mix. So that is what I would say accounts for the cumulative the impact what you are seeing in gross margins of the quarter under review.

Neha Manpuria: So then it is fair to assume that this is the new base for our gross margins?

Sudhir Valia: In Taro we cannot say beyond this, whatever is the public information.

Neha Manpuria: Okay. Then if I were to ask this question, ex Taro, is this the new base for Sun Pharma?

C Muralidharan: So what I would say is that, we are not saying the way we are setting the margin, what we said is that you know the Taro margins and there is a material cost increase and some impact from the product mix.

Dilip Shanghvi: You have to recognize that to respond to new material cost pricing, depends on the specific products that you would have sold. Our focus always is to find a way to improve the EBITDA.

Neha Manpuria: Okay. And second on the R&D question, on the R&D line, that seems to have come off for the last two quarters. Is this from the deferment in projects, why have we slowed down

R&D in the last two quarters? Are we relooking at R&D. Has something changed for the cadence to change so much?

Dilip Shanghvi: We are relooking at part of the generic R&D and once we have clarity, maybe we will share that with you. But what you see also here is the result of reduction in the cost of the Tildrakizumab clinical development cost, because the product has been filed and safety studies are kind of getting closer to be getting over. And the new studies that we have started, they have not yet fully ramped up. So as I see there is a certain amount of lag between before it again starts going up.

Moderator: Thank you. We will take the next question from the line of Saion Mukherjee from Nomura Securities. Please go ahead.

Saion Mukherjee: Sir, is it possible to indicate currently what percentage of your R&D is on specialty business?

Dilip Shanghvi: We are not splitting the R&D between generic and specialty at this point of time and we do not plan to do that at least immediately in next few quarters. At some point when our specialty business achieves critical mass, then we will start giving more specific information.

Saion Mukherjee: Sir on the specialty investments that we are doing which is you mentioned it reflected in employee cost on other expenses, as you get closer to Tildra approval, how should we think about these expenses for next year. You think it can go up substantially or you see a marginal increase, how should we model this?

Dilip Shanghvi: We will possibly come out with a much more clearer expected cost on these items at the time when we share the annual guidance because there is a certain amount of build up cost which will be factored into the guidance that we will share with you. But also you should know that a large part of the Tildra organization excepting a few people, is in place.

Saion Mukherjee: And just one final question if I can. I was looking at the IMS data, it shows a very significant drop in Absorica prescriptions. Do you agree with that and if you can throw some light as what is happening and whether it will have an impact going forward?

Abhay Gandhi: We have made a significant correction in our corporate program. So although you see a loss of prescription which is correct, but it will go down to what you would have seen almost a year ago or slightly better and clearly that will mean a more profitable sale of Absorica.

Saion Mukherjee: So that number, the change that we have implemented and the impact you are saying is not meaningful from a net realization perspective is what you are mentioning?

Abhay Gandhi: It will mean more profitable business clearly.

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

Anubhav Aggarwal: Just one clarity on that other expense. I know you are not quantifying, but you can just help because Rs. 300 crores drop in other expense in a quarter on a base of 1400 crore EBITDA is a very significant number. Can you just help at least FX element you are talking about, is that sub 50 crores, sub 100 crores, some idea will be helpful, otherwise it is impossible to forecast in future.

Dilip Shanghvi: It is a meaningful number is what I can tell you. But it is not the only number.

Anubhav Aggarwal: But if you can help sub 100 crore number, should I take more than 100 crore number I take?

Dilip Shanghvi: Let us say that if we decide to share this number, we will share it with everybody. As on today, neither we have it here nor we have made a decision. I recognize the challenge that you and all the other analysts will have because you have to also predict the future profit and cash flow of the company. So you need to understand the new normal.

Anubhav Aggarwal: Just second question on Odomzo. I just wanted to understand that versus your target formulary coverage, where are we right now. Have we achieved formulary coverage for most of the insurance companies right now?

Dilip Shanghvi: For Odomzo, as I see that, because of the nature and the size of the product, the formulary coverage is not a major challenge. It is likely to be a major challenge both for OTX 101 as well as for Tildrakizumab. For Odomzo, that is not a major challenge. And also what we recognize is

that the IMS sales is not a clear predictor of the success in market place. So but Abhay, maybe would you like to share anything more?

Abhay Gandhi: I think you have covered it. And in any case, what you are referring to as formulary coverage is a moving target and you never feel, so you keep moving up and keep trying to improve it. But broadly, I think I will echo what Mr. Shanghvi mentioned as an answer to your question.

Anubhav Aggarwal: Just wanted to get some clarity on this. Can you just elaborate on then what is the challenge, is pricing the challenge or number of reps supporting is the challenge. Let me simplify my question. Is it only function of time before Odomzo ramps up or do we need to change our strategy or put more resources than Odomzo right now?

Abhay Gandhi: The large part of the sale that you are seeing today comes from the oncologist and like we have also mentioned that we are trying to leverage our derm field force to improve our coverage and therefor the output as the prescriptions we get from the derm. So that is the next stage that we are working on and going ahead, we hope that will help us to improve sales of Odomzo more than what you see today.

Anubhav Aggarwal: So sir have you already started pushing it to dermatologists?

Abhay Gandhi: In the current quarter, yes we have started.

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

Sameer Baisiwala: Just on the previous one. Abhay, do you think which would be the bigger indications for Odomzo, would it be Onco or Derma and is Onco reasonably saturated or do you think even that part can go up a fair bit?

Abhay Gandhi: The indication is same. Whether it is for the Oncologists or for the Dermatologists, but I think logically the dermatologist prescription should be higher at some point in time than the oncologist prescription because long term the patient is more likely to reach out and stay with the Dermatologist rather than with the Oncologist.

Dilip Shanghvi: Sameer, I think you also have to keep in mind, is that the average number of patient per dermatologist will always be much lower than the average number of patients per oncologist. So limited number of doctors giving you large amount of prescription, is likely to happen with oncologist.

Sameer Baisiwala: Okay. And sir on Tildra, when is the PDUFA date for that?

Abhay Gandhi: It is end of March.

Sameer Baisiwala: Okay. And the fair expectation to get it approved in the first cycle review?

Dilip Shanghvi: We have consistently announced; this is something which Merck has filed. So, we are aware but entire interaction with the agency is being handled by Merck. So difficult for us to respond.

Sameer Baisiwala: Okay. One final one from my side. Given the size and importance of Absorica in our overall US business, what is the competitive outlook for this, when do you think we should expect the generic, one settlement of more than that also coming?

Dilip Shanghvi: If you see in most of the settlement cases with the first-to-file generic, subsequent settlements will be only after that.

Sameer Baisiwala: And there is none that you have done, so?

Dilip Shanghvi: What we have done, we have announced.

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

Surjeet Pal: See basically what I am saying is that given that the more news flow is coming among the lead players or among the channel partners, thinking of consolidating further. So given the state of the price erosion, do you think we are coming to the end of this price erosion cycle or it could continue to go on at a current rate or it may intensify, what could be your call for say next year-year and a half.?

Abhay Gandhi: It is question I ask myself everyday and I am sure everybody in the generic business does the same, but I have no clear answer. From a day-to-day perspective, I am not seeing the pressure reducing.

Surjeet Pal: See, if you compare say 6 months before and now, do you think it has come down because some of your competitors from India are talking that they are observing that intensity has come down in terms of price erosion.

Abhay Gandhi: Generalized is difficult.

Dilip Shanghvi: But Abhay, you also indicated that is all product specific.

Abhay Gandhi: Exactly. So there are products where I think the pressure has come down and there are products that I think it has not come down. So it is very product specific. I don't want to give you an aggregate answer on this.

Dilip Shanghvi: We are also seeing products where we are seeing people coming out of the market because products are not viable anymore.

Surjeet Pal: Sure, the other question is that in your SG&A cost, given the kind of ramping up plan for specialty portfolio as well as some of the India product also in line of next 2 to 3 years' time, do you think that current base of 20%, 19% to 20% of SG&A cost to your sales or 20% to 22% will be enough or do you think this cost may increase initially as a buildup cost?

Dilip Shanghvi: That is what I said that when we give next year's guidance, we will give some clarity.

Moderator: Thank you. The next question is from the line of Abhishek Sharma from India Infoline. Please go ahead.

Abhishek Sharma: Sir in the last quarter, you had mentioned that your Tildra filing in EU, the European Agency was expanding scope of clinical sites under review. Do we have any updates on that regarding its resolution or any further delays or what kind of work is going on there?

Dilip Shanghvi: That review is continuing.

Abhishek Sharma: And does that change your timelines to file in the EU? Not file, sorry, to get an approval.

Dilip Shanghvi: So that we had announced that it will delay the approval.

Abhishek Sharma: Right. And any further delays to what you had earlier indicated?

Dilip Shanghvi: Nothing beyond what we announced last time.

Abhishek Sharma: Just from an understanding perspective, is it something which has expanded ever since you announced this last quarter or is it still what you had expected when it began?

Dilip Shanghvi: When there was something which was likely to impact approval, we announced it. So if there is, any further change, then we will announce.

Abhishek Sharma: The other one is on Absorica. Question to Abhay, given the fact that we are now reducing copay support if I understood this correctly. Does that risk patients switching to isotretinoin generic given the fact that similar generic alternatives are available in the market.

Abhay Gandhi: Before we took that decision, we had done a modeling of what we think we will expect to see and I think we are trending along the lines that we expected. So sure that a little bit of a risk is always there, but I think the idea is not just to have a large prescription base, but to also have a profitable prescription base.

Abhishek Sharma: And does that also risk alienating some of your channel partners like pharmacy chains etc. who would prefer a better copy system?

Abhay Gandhi: I do not think they expect a better copay system.

Abhishek Sharma: So it just related to the patients in that something that you modeled in?

Abhay Gandhi: Yes.

Moderator: Thank you. The next question is from the line of Manish Jain from Sage One Advisors. Please go ahead.

Manish Jain: I just wanted to know on Tildra, till what stage do we need to keep taking support from Merck, is it just restricted to getting the approval and ongoing clinical trials for additional indications or will they play any role on the marketing side as well?

Dilip Shanghvi: What we have announced is that the filing for the US will be done by Merck and since the BLA is filed by them, up to the approval, they will be actively involved. The initial supplies for market also will come from the Merck till we let us say relocate manufacturing to another supplier. For the purpose of the marketing as well as promotion of the product, it is a Sun product post approval. So there is no active involvement from Merck for approving the promotional material or supporting marketing activity as a part of the contractual agreement. We have good relationship with Merck so that if we wish to consult them or if we wish to take their view on whatever that we want to work on, I think that at least we have been able to express that input from them.

Manish Jain: And typically when one is looking at a product like Tildra, what can we look at as the launch period cost where should we assume 6 months, 12 months, 18 months broadly?

Dilip Shanghvi: So my view is that if you call launch or I would call an investment phase where typically you will spend more than what you will sell. I would say anywhere between 2.5 years to 3 years is what you will achieve depending again on the product. Some products will start responding much faster, so that launch phase maybe 1.5 to 2 years.

Moderator: Thank you. We will take the next question from the line of Ashish Khandelwal from Bear Consultancy. Please go ahead.

Ashish Khandelwal: Just wanted to know what is the total debt has been added in this quarter or has it been reduced in this quarter?

Dilip Shanghvi: There is no significant change.

Sudhir Valia: We still must have paid something back because we had more money with the funds, mutual funds or liquid.

C Muralidharan: We have reduced our borrowings, but we can share the details.

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

Alok Dalal: My question was with respect to emerging markets, so 3-year post the Ranbaxy acquisition, where you are in these markets today and how are you seeing the next 3 years?

Dilip Shanghvi: We are happy with the progress that we have made in our performance in the emerging market. We have been able to rationalize the operations, take away the low margin products, improve the overall profitability margin on the products, streamline the structure. Also, streamline the internal processes for filing new products in emerging markets. So hopefully, that business will continue to grow over next 3 years.

Alok Dalal: With the initial phase now behind, is it fair to assume that you will grow faster in EMs on a constant currency basis than what you would have done in the last 3 years?

Dilip Shanghvi: We do not give 3-year guidance, so I think you are asking for a longer period. But I think philosophically our view is that emerging market is an important and good opportunity for developing a profitable growth business.

Alok Dalal: And is it possible to share the sales split in EMs, Ranbaxy used to do that in the past. Can Sun also give those numbers?

Dilip Shanghvi: Country by country, you are saying?

Alok Dalal: Yes, the key markets.

Dilip Shanghvi: Currently, we have no such plan.

Alok Dalal: And any comments on the profitability in these markets, 3 years have passed. So how is the profitability in these markets?

Dilip Shanghvi: In many markets which were say marginally profitable or loss making have become profitable. So I do not think at a budgeted level or even at operating level after providing for corporate overheads, there is any market in which we actually lose money.

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

Nimish Mehta: First on the US business, you mentioned that we have recouped some of the sales of second quarter in the third quarter. So does this mean that the actual sales for the third quarter is lower than what was reported. And if yes, then how should we look at it. What is the baseline sales that we should look at it?

Abhay Gandhi: So I think you are probably better off looking at it as what we have done in Q4 as Q3 rather, a number that we can achieve in Q4 as well.

Nimish Mehta: But that intuitively means that Q2 sales have not been recouped I am just trying to understand may be it is a question of Q2 now but like…

Abhay Gandhi: Your question also assumes that in existing products or other products, we would not improve in the next quarter.

Nimish Mehta: The second actually is on the sales guidance. From a high single digit decline and now we are heading towards almost high double-digit decline, so I am trying to understand is it because only of Taro or is it also because of something else. So qualitatively can tell us what are the reasons why you are not meeting the guidance, what I am trying to understand?

Dilip Shanghvi: I think if you do mathematics, then it is not high double digit decline. At the most, we may miss the guidance marginally.

Nimish Mehta: Sir, the 9-month decline is about 17%. So you are talking about high single digit decline…

Dilip Shanghvi: I think there is no sense in discussing this on phone. Maybe you are looking at different numbers, I am looking at different numbers. Resolve this with Nimish subsequently.

Nimish Mehta: So we are likely to meet the guidance, that is a fair understanding?

Dilip Shanghvi: No, I said that we might miss the guidance marginally.

Moderator: Thank you. Next question is from the line of Charulatha Gaidhani from Dalal & Broacha. Please go ahead.

Charulatha Gaidhani: My question pertains to you made a mention that you have dropped certain non-viable projects. I wanted to know if you could quantify them and how have you taken it as an impairment or as a part of lower R&D?

Dilip Shanghvi: Typically, R&D is fully charged to P&L. So there is no need to take any impairment. The second issue is that this is after evaluating whether the product if approved is something that is attractive enough for us to launch or not in whether it still recover the subsequent investment required for getting the approval of the product. So that is the reason why some of the products we would have dropped.

Charulatha Gaidhani: How big would it be in terms of whatever has been spent so far?

Dilip Shanghvi: I am not able to respond, it is not a big number. And also it is not a material issue as a percentage of R&D cost.

Charulatha Gaidhani: Okay. And my second question pertains to, there have been certain withdrawals from the US market by Sandoz and Teva. Do you see the situation improving because of this?

Dilip Shanghvi: The market will continue to dynamically readjust to pricing pressure as well as relative attractiveness of different products. And that is the likelihood in the new normal. And I said that there are products where we are seeing upward price changes because of the market dynamics. But I am not able to respond to specific products.

Moderator: Thank you. The next question is from the line of Rahul Sharma from Karvy Stock Broking. Please go ahead.

Rahul Sharma: One thing, have we withdrawn certain other pending ANDAs like what we have done in the preceding quarter because of the changing competitive landscape?

Nimish Desai: Yes, Rahul. That is what it is.

Rahul Sharma: Okay. So how many would be pending as of date now?

Nimish Desai: We have given the details, right, 126 pending ANDA approvals.

Rahul Sharma: Okay. So probably another 10-15 have been withdrawn?

Dilip Shanghvi: But if you do the calculation, look at last quarter and also look at new filing which we have also shared with you, then it is easy to do that calculation.

Rahul Sharma: And can you please rerun on the guidance which we had given, I had probably missed out on certain aspects?

Nimish Desai: Rahul, Nimish here, in the interest of time, probably you can call me after this call gets over and I will explain it to you.

Moderator: Thank you. The next question is from the line of Saad Ahmed from ULJK Financial. Please go ahead.

Saad Ahmed: My question is that, we are hearing that next big thing in pharma is venturing out into the complex generics and biosimilars, so I wanted to know what will be the impact of this generic consolidation in US market on these new products which we are venturing out into?

Dilip Shanghvi: So I think you are asking us to predict future in an uncertain environment.

Saad Ahmed: The only reason is, every pharma company is bleeding is the channel consolidation and other effects, but if we are moving into something which is new. So we must know like how does that impact the complex generics and all because biosimilar is the most difficult part. So if we rule out the biosimilars and look at complex generics and specialty molecules, so how does that throw out for the future?

Dilip Shanghvi: One thing you have to keep in mind is the attractiveness of the product is a function of how many people are competing for market share, however, complex it will be. But beyond that, I don't think we can respond in the sense that if the complex generic that we are working on, on day one if there are four players, then it will not be attractive anymore.

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

Dheeresh Pathak: Sir, I heard that, you said that formulary coverage is not an issue for Odomzo but might be for Tildra and OTX-101. So can you just compare and contrast like what characteristic does Odomzo have and the other two don't have, so that formulary coverage will be an issue for one and not for other?

Dilip Shanghvi: So, this Odomzo is a small product in a disease which affects relatively small number of patients. So that is never under significant scrutiny.

Abhay Gandhi: Essentially it is not a very tightly managed formulary in the space that competes in, but psoriasis or dry eye will be a tightly managed formulary. So one will have to work towards winning your place in each of the formularies one by one. So, okay, it will happen over a period of time and it is not necessarily going to be very fast. That is what we are trying to communicate.

Dheeresh Pathak: Okay. And can you indicatively mention the field force that we have for Odomzo?

Abhay Gandhi: You are talking about number of people?

Dheeresh Pathak: Yes, who are marketing in the product in US, in both Derma and Onco?

Dilip Shanghvi: Generally for competitive reasons we are not sharing specific field force numbers.

Dheeresh Pathak: Okay. And sir lastly if I understood correctly, we have the marketing infrastructure in place for Tildra but the field force for Tildra that is still not in place, correct? Is that correct understanding?

Abhay Gandhi: Recruitments are on. It is not in place, but the recruitments are on and in some places we have recruited and some we are in the process of recruiting.

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

Anubhav Aggarwal: There was a recent doxorubicin recalls for us last month. I just wanted to understand in your analysis, was that limited to a batch because the reason of recall mentioned was lack of assurance of sterility.

Dilip Shanghvi: I think it was a failure of certain systems because of which we had to recall.

Anubhav Aggarwal: But this was very much limited to the recall quantity?

Dilip Shanghvi: A specific batch.

Anubhav Aggarwal: And the other question was on Tildra. For the questions which are asked by EU regulators of extended review, was something of that sort picked up by US regulators. Did they come back with some questions related to that.

Dilip Shanghvi: Nothing that we are aware of.

Anubhav Aggarwal: And lastly you have indicated earlier that specialty business you expect as EBITDA breakeven assuming you do not let us say take up any other molecule by FY20. Do you think you still get to around that reason reaching FY20 now?

Dilip Shanghvi It all depends on actually how much we decide to invest because both the products, Tildrakizumab as well as OTX-101 are marketing intensive products. So depends on how much we decide to invest on marketing. If we spend less, then it will breakeven. If we feel excited about the product enough to invest, then maybe for few more quarters we might lose money.

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

Sameer Baisiwala: Just what are your thoughts on M&A, are you still on the lookout and what is it that would excite you?

Dilip Shanghvi: We have shared this with all of you in the past, that we want to develop an attractive product pipeline for developing a global ophthalmology and dermatology business. So those are the kind of products and companies that we are looking at. But I think also parallely, we are focusing much more on execution including strengthening execution on filing or approval or launch and on maintaining consistency of supply chain.

Sameer Baisiwala: And sir second question is when your R&D team is working on generics pipeline for the US, when you look at the lay of the land over next 3, 5, 7 years based on the work being

done internally, do you think that this is attractive market, you see there is fair bit of opportunities you look forward?

Dilip Shanghvi: Rather than taking a view on the market, there are always attractive products. The percentage of the relatively short period patent expiry is lower now than what it used to be in the past. So to that extent, I think the cash flow will get deferred and it will need to be justified in terms of net present value to recover the investment.

Moderator: Thank you. Due to time constraints, that was the last question. I now hand the conference over to Mr. Nimish Desai for closing comments.

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

Moderator: Thank you very much. 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.