Corporate Participants

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Moderator: Ladies and gentlemen good day and welcome to the Sun Pharmaceutical Industries Limited Q1FY16 Earning Conference Call. As a remainder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' 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 first quarter FY16 earnings call. I am Nimish from the Sun Pharma investor relations team. We hope you have received the Q1 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. Abhay Gandhi – CEO of our India business. Today the team will discuss performance highlights, update on strategies and respond to any questions that you may have. As is usual, for ease of discussion we will look at the consolidated financials. Just as a reminder this call is being recorded and 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 not handover the call to Mr. Shanghvi.

Dilip Shanghvi: Welcome and thank you for joining us for this earnings call after the announcement of the financial results for the first quarter of FY16. Let me briefly update you on significant events. First an update on Ranbaxy Integration. The integration has commenced from late March 2015 and is on track. As indicated in our business updates some weeks back, we have raised our synergy guidance to USD 300 million. The specific integration milestones which we are focusing on include, ensuring GMP compliance for all our facilities, ensuring more efficient procurement in supply chain, targeting revenue synergies, productivity improvement, targeting more product filings globally through extended R&D teams and reaching an optimum level of manufacturing infrastructure based on current and future needs of the company.

The numbers we will share with you today are not in line with historical Sun Pharma numbers. But we have acquired a sizeable business which was run very differently from the way in which Sun Pharma business was run. We are focusing on improving the quality of that business. I am happy with the progress of the integration. We are going through some short term pain but I am confident that in the long term, the quality of our business will improve and we will get back to the historical growth that Sun Pharma used to have. Our performance for the quarter has been impacted due to certain one-time and exceptional charges which will synergies and overall profitability improvement in the long term. The details of these charges are available in our press release. While some of these charges may continue in the near future we expect the magnitude of such charges to reduce significantly as compared to Q1FY16. I will now handover to Mr. Valia for discussion of Q1 performance.

Sudhir Valia: Thank you Mr. Shanghvi. Good evening everyone and welcome to all of you. Our Q1 financials are already with you. As usual, we will look at key consolidated financials. Q1 net sales are at Rs.6,522 crores, a growth of 3% over Q1 last year. Material cost as a percentage of the net sales was 26% same as Q1 last year. Staff cost was at 19% of net sales which was higher than Q1 last year. Other expenditure was at 30% of net sales which was significantly higher than Q1 last year. These expenses have been impacted mainly due to the one-time charges related to restructuring and other write-offs.

As a result of the above, the EBITDA for Q1 was at Rs.1,614 crores. Reported EBITDA margins were at 24.7%. Excluding the impact of the one-time charges, adjusted EBITDA margins were at 28%.

Net profit for the quarter was at Rs. 479 crores which was impacted by the one-time charges which I just mentioned as well as the exceptional items of Rs. 685 crores. These exceptional items relate to impairment of fixed assets and goodwill and other related costs and have arisen on account of integration and optimization measures. The EPS for the quarter was Rs.2.0 on the expanded equity capital post the Ranbaxy merger.

Taro recently posted Q1 FY16 sales of US$ 215 million, up 65% from the corresponding quarter last year. Taro's net profit for Q1 was US$ 104 million, up by 125% over Q1 last year.

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

Abhay Gandhi: Thank you Mr. Valia. I will take you through the performance of our India formulation business. For Q1, sales of branded prescription formulations in India were Rs. 1,784 crores, a growth of 11% over Q1 last year. This business accounted for approximately 27% of total sales.

Sun Pharma is ranked No. 1 and holds approximately 8.9% market share in the Rs. 90,000 crore pharmaceutical markets as per June-2015 AIOCD-AWACS report. As per latest SMSRC report, Sun Pharma is ranked no. 1 based on share of prescriptions with 13 classes of doctors: psychiatrists, neurologists, cardiologists, ophthalmologists, orthopedicians, nephrologists, gastroenterologists, diabetologists, urologists, dermatologists, oncologists, chest physicians and consultant physicians.

The integration between the India businesses of both Sun and Ranbaxy is on-track and we expect to emerge as a much stronger business post this integration. Being the leading Company in the Indian market and having a broad product basket and strong brand equity, Sun Pharma is very well placed to capitalize on the expected increase in healthcare spending in the long-term. Competition and government mandated price controls are the other key factors which will determine the long term growth trajectory. Given this backdrop, it is imperative to look for innovative ways to differentiate our product portfolio, build customer trust and add prescription share.

With this, I will hand over to Mr. Shanghvi.

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

For Q1, our overall sales in the US were at US$ 488 million down 4% over Q1 last year. US accounted for approximately 47% of our overall sales. Sales for the quarter were impacted primarily due to competitive pressure on some products. Regaining the trust of the regulator and customer confidence will be the key focus for us going forward.

Our sales in emerging markets were at US$ 133 million for Q1, down 15% from the corresponding quarter last year. The decline is the result of volatile currency movements in certain emerging markets and a strategic decision of not participating in low margin businesses. Emerging markets accounted for 13% of total sales.

Formulation sales in Rest of World (ROW) markets excluding US and Emerging Markets were US$ 91 million in Q1FY16, down 7% from the corresponding quarter last year. We have made a conscious effort at reducing the participation in non-remunerative businesses which has contributed to the de-growth in the business. ROW markets accounted for approximately 9% of revenues for Q1 FY16.

The API business is of strategic importance to us due to benefits from vertical integration. We increased the API supply for captive consumption significantly for key products. External sales of API for Q1 were at Rs. 271 crores, up 32% from the corresponding quarter last year.

We continue to invest aggressively in R&D. Consolidated R&D expense for Q1 was Rs. 511 crores, an increase of 37% over Q1 last year. This includes significant investments on account of funding the clinical development of MK-3222. This R&D spending enables development of future product pipeline including specialty and differentiated products and we expect increased R&D investments in future.

We have a strong pipeline for the US market with 159 ANDAs awaiting approval with the US FDA. Our comprehensive product offering in the US market consists of approved ANDAs for 442 products. During the quarter, ANDAs for 6 products were filed and 4 approvals were received.

We continue to invest significantly in R&D and in building critical talent for enhancing our specialty and complex generics pipeline. As a part of this initiative, we have strengthened our ophthalmology and OTC teams in the US as well as formed a dedicated team for MK-3222, our IL-23 anti-body which is currently undergoing Phase-III clinical trials.

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

Moderator: Thank you very much. We will now begin the question and answer session. Our first question is from the line of Saion Mukherjee from Nomura Securities. Please go ahead.

Saion Mukherjee: Just one question on the US business, you mentioned about competitive pressure, I just was wondering what is the situation around Halol, on a Q-o-Q basis has the supply situations improved and how that is looking going forward? Thanks.

Dilip Shanghvi: I referred to was competitive pressure on some of the products like Duloxetine or Doxycycline or Liposomal Doxorubicin, where competitive intensity has increased. The supply from Halol also has improved and we expect that to continue to improve going forward.

Saion Mukherjee: From the peak we have fallen substantially from Halol. So the level of improvement, you would not say we are half way through or if you can give some color around that?

Dilip Shanghvi: Your assessment is correct, that from the peak our US business is significantly lower in this quarter and because of supply disruption, if you lose some existing customer, it takes time for you to regain the market share. So it is a process which is linked to a time and it is difficult to give any specific kind of timeline for that.

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

Girish Bakhru: Just first question was on India business, 11% growth is quite healthy. I would assume Sun Pharma business would be probably much higher than Ranbaxy's. If you could throw some color on how Ranbaxy business per se would have performed and if Revital is selling in the market?

Abhay Gandhi: We are quite happy with the business integration and I think the whole objective is that each SBU continues to grow faster than the market. So while traditionally the Sun portfolio has been growing faster than the overall market and there is a little lesser number on the Ranbaxy portfolio, if I look at participated market and within that how each business unit is growing and I am pretty comfortable on how we are placed. On the Revital part of your question, I will probably request Mr. Shanghvi to take that, because I am not looking at the global consumer health business, so maybe he will reflect on that.

Dilip Shanghvi: We are continuing to sell Revital, so the value of Revital sales is reflected in our overall India sales.

Girish Bakhru: Just following on that Mr. Shanghvi, if I look at the data, earlier if I remember, Revital was probably top 10 brand in the Indian pharma market. Today, it is not even visible in top 100, so if sales are in the quarter I fail to understand where actually Revital contribution is today. Is that a material brand today or what are the plans for future in regards to Revital?

Dilip Shanghvi: The consumer health business is a very important component for our future growth, not only in India but in other markets where we have presence, where our idea is to grow the business, look at new products, look at potential inorganic opportunities. When a product is out of market for a certain period of time, which Revital was for quite a few months last year, it takes time for the brand to regain momentum. But we believe that if the franchise is strong with customers then we should be able to regain the market share in future.

Girish Bakhru: Just second one was on the Halol again. It is a question bit linking to SPARC as well. I was not sure why the Xelpros was denied solely on the basis that Halol was not ready, while Elepsia was approved. If I were to understand the situation it would have been the same, Halol was not completely ready even that time. So why did the response letter specifically highlight the Halol issues in reference to SPARC product. Has something materially changed during that time?

Dilip Shanghvi: It is difficult for me to answer on behalf of USFDA. I think the focus is to try and find a way to get Xelpros faster into the market and that is the priority.

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

Sameer Baisiwala: I am just alluding to your opening remarks, where you said that in times to come, the company's long-term quality of business will improve and you will return back to Sun's level of growth. Are you referring to the topline growth that Sun was generally targeting 18% to 20% that you can do with the…

Dilip Shanghvi: Our philosophy is to grow faster than the participated market. It is that we have guided for a flat to a potential reduction in sales this year and the idea is to use this time to consolidate the base, create the strong infrastructure in place, so that we can regain our historical momentum.

Sameer Baisiwala: And you are not referring to your 18%-20% growth that you used to do?

Dilip Shanghvi: We will guide for each year what kind of growth we have, but our approach will always remain that we target to grow faster than the market. If you look at India business, if the market is growing, than our objective is to grow faster and that will mean we will have to grow at double digits.

Sameer Baisiwala: Second question is related to the US business. It looks like sequentially from 4Q to Q1, excluding Taro, Sun's sales have grown by $30 million to $273 million and is this correct and is this what is driving this? Is it basically Halol debottlenecking and…?

Dilip Shanghvi: Sun includes businesses of not only what we export from Halol, but it also includes Dadra facility it includes URL, it includes what we make at Cranbury and also at Pharmalucence and DUSA. So all of that is consolidated, also Ranbaxy is now included. But your mathematical calculation is correct.

Sameer Baisiwala: But the question was, is that it is driven by Halol or is it all the other constituents that you just mentioned?

Dilip Shanghvi: There will be contributions that will be coming from Halol, as well as from others facilities.

Moderator: Thank you. The next question is from the line of Aditya Khemka from Ambit Capital. Please go ahead.

Aditya Khemka: Sir, firstly on the product approval that Taro got yesterday on the NDA, the orphan drug NDA, so there was not much color on the Taro press release regarding peak sales estimate or any marketing exclusivity they have gotten for the orphan drug. So would you like to throw some light on that product, please?

Dilip Shanghvi: My understanding is that Taro will come out with much more detailed release, both for patients as well as for investors related to this product. As on today, I cannot share anything more than what Taro has shared with investors.

Aditya Khemka: Just one clarification on that. Because this is a sort of a reformulation of an existing molecule, will Taro get the seven-year marketing exclusivity that the orphan drug designation basically delegates?

Dilip Shanghvi: That is my understanding.

Aditya Khemka: My second question is on the write-offs that we have taken on fixed asset, the 685 crores number and I think as a corollary, the way our depreciation cost has almost halved Q-on-Q, can

you just throw some light on what this write-off of 685 crores is about and in conjunction to that why the depreciation number has halved Q-on-Q from 4Q to 1Q?

Uday Baldota: There is no such a strong correlation between the write-off and the depreciation. Actually, the depreciation number that you see in Q4, as we had explained last time was largely on account of the harmonization of the policies across the two companies.

Aditya Khemka: So, now this 240-odd-crores number, is this the number that we should take going forward as the…?

Uday Baldota: Ballpark in that range, that is correct.

Sudhir Valia: If you see the June 2014 number also, it is Rs. 235 crores.

Dilip Shanghvi: Sun depreciation policy is more conservative so we took the charge for historical lack of provisioning that Ranbaxy had done for the facility.

Aditya Khemka: What is the fixed asset write-off 685 crores? Is this regarding from Ranbaxy plant or what does this charge really relate to, some more color on this?

Dilip Shanghvi: As I explained in my initial introductions is that based on the optimum level of manufacturing infrastructure, for current and future business requirement, we will look at rationalizing manufacturing footprint and this is the expected potential write-off that we might have to provide for going forward, if we pursue the plan for plant rationalization and that is the provisioning, which is done.

Aditya Khemka: This is a basically provision created in case you start some facilities, but would those facilities that you have in mind for which you have provisioned is, would those be Ranbaxy USFDA approved facilities or…?

Dilip Shanghvi: It will include both Ranbaxy, as well as existing Sun facilities. So it is not that Ranbaxy facilities are planned for shut down.

Moderator: Thank you. Our next question is from the line of Manoj Garg from Health Co. Please go ahead.

Manoj Garg: The EPS guidance that you gave on the previous call, fiscal 2016 relative to fiscal 2015, does that include or exclude the 685 crores number that you are using as a one-time exceptional charge here?

Uday Baldota: I do not think we have given any EPS guidance on any call.

Manoj Garg: On your previous business update call, you guys said that you expected fiscal 2016 EPS to be flat to marginally down versus 2015?

Uday Baldota: We had said that our sales for the year 2015-2016 will either remain flat or decline when compared to sales of 2014-2015 and as a result of that, plus result of some one-time non-recurring charges that we will take, it will have an impact on our net profit. I think that is what we said. So I think that is what we have said and to the extent we had indicated that there would be some non-recurring charges that would be included in the P&L. So from that perspective, I think these are some of the non-recurring charges that you are seeing today.

Manoj Garg: Secondly, a little bit more of a qualitative question. Can you let us better understand the process to transfer some of these files out of both, obviously the Ranbaxy facilities that are affected, as well as potentially Halol, just in terms of how lengthy of a process is that and then what is your general capacity at facility that are not affected by compliance issues?

Dilip Shanghvi: It is all linked with the dosage form. If you look at Liposomal Doxorubicin we have no backup facility right now. Like that there are a few other injectable products that we are in the process of creating infrastructure at Pharmalucence, so that they can become a backup site. So the idea for us is to find a way to create a backup facility for all our critical products. But for some of the products like oral solids, we have enough manufacturing footprint within the system for us to be able to move the products.

Manoj Garg: Last question from me, the $300 million synergy number that you updated on the previous call, how much of that is coming from revenue synergies versus actual cost synergies?

Dilip Shanghvi: Our focus has been to find a way to achieve these synergies as early as possible and we are only talking about recurring synergies in this number. A large part of this synergy will come from

procurement, then revenue synergy, productivity improvement and in the longer term from productivity increase in our R&D, so that we can file more complex and more products globally.

Manoj Garg: So, my basic question was, of that $300 million, how much is coming from the revenue synergies?

Dilip Shanghvi: We will not be able to share specific break-up. But it is a work in progress, as I said that large part of the synergy will come from revenue synergy, procurement synergy and productivity improvement.

Moderator: Thank you. Our next question is from the line of Chunky Shah from Credit Suisse. Please go ahead.

Chunky Shah: My question is basically, one is whether did we take any price protection reserve for the price increases that we took in the Ranbaxy portfolio?

Dilip Shanghvi: We are not sharing specific information related to price changes and whether these sales include any kind of protection or no protection.

Chunky Shah: Also, the same question, of the increase in the ex-Taro US sales, is it largely contributed by one or two products or is it more broad based?

Dilip Shanghvi: My understanding is that you are asking where the sales are coming? I already replied to that question.

Chunky Shah: My second question is relating to the India business. So, out of the 11% growth for the total business, what would be the growth for the chronic portfolio and also what is the total sales force in India currently?

Abhay Gandhi: Well, for both chronic and acute, we have grown faster than the market. So I hope it is also broad based. I said the objective is that each business unit has to find a way to grow faster than its participated market. So obviously the chronic therapy is, the market itself is growing at a faster clip and that is how it goes. The second part of your question, field force size, you can take 7,500 as the current size of field force.

Moderator: Thank you. Our next question is from the line of Manish Jain from SageOne Investment Advisors. Please go ahead.

Manish Jain: I wanted to focus on novel products, since you mentioned Dichlorphenamide that you will share the details a little later. Would appreciate if you can give insight on MK-3222 as to when will the next round of data be available?

Dilip Shanghvi: We expect the top line data to be available latest by end of the year or beginning of next year.

Manish Jain: You are talking calendar year?

Dilip Shanghvi: Yes.

Manish Jain: Second one was on PICN, when do you see the India launch?

Abhay Gandhi: I think we should be able to launch, towards the end of this quarter.

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

Neha Manpuria: My first question is on emerging markets and RoW, you mentioned that we are reducing participation in certain low-margin businesses. So, has all of that impact come in the quarter or should we see some more withdrawal from such businesses and therefore further decline in the revenue run rate in these two markets?

Dilip Shanghvi: If you look at our overall guidance, we guided for flat topline growth. So part of this is with a view to, streamline our business globally and each of the businesses that we are participating. So, our emerging market business is significantly impacted this quarter because of large currency fluctuation in some of the geographies, which is impacting this business much more severely this quarter, which we do not expect will continue at the same pace going forward.

Neha Manpuria: My second question is, in your opening statement you made a remark saying that magnitude of charges should reduce significantly versus the first quarter. Is it fair to assume you mean

the charges which impacted our EBITDA, or do you mean including the 600 odd crores which was the impairment, the exceptional charge?

Uday Baldota: The reference was to the combined number, that going forward the non-recurring, the one-time should reduce.

Moderator: Thank you. The next question is from the line of Kartik Mehta from ICICI Mutual Fund. Please go ahead.

Kartik Mehta: Is there any update for the filing of Gleevec in terms of it being shifted outside India, you had actually mentioned in the Q3, as well as Q4 call?

Dilip Shanghvi: There is no fresh update and I think we are looking forward to come to market.

Kartik Mehta: In terms of employee cost, would that include any amount which would have been non-recurring or would that be the amount we should assume as a base and so normal rate of inflation of this amount per quarter?

Uday Baldota: You are talking about the number that we have reported in the current quarter**?**

Kartik Mehta: That is right**.**

Uday Baldota: Whether that represents going forward base or there is something additional, is that the question?

Kartik Mehta: Yes.

Uday Baldota: I think the numbers that you see in the current quarter includes the normal increase that has already been built in.

Kartik Mehta: Is there any non-recurring item, which may be on account of, let us say, severance etc?

Sudhir Valia: Yes. That obviously will be there.

Uday Baldota: There will be some components of that included.

Moderator: Thank you. The next question is from the line of Manoj Garg from DSP Merrill Lynch. Please go ahead.

Manoj Garg: One question was there like when we spoke about the additional EBITDA of 28%, that means that there are around 2 billion plus kind of one-off expenditure which we have shown above the EBITDA line item. So can you just highlight that in which line item we have shown that 2 billion plus kind of number?

Uday Baldota: It is across different line items. So, all that you see is spread across the different line items.

Manoj Garg: So in that case like whatever the current base which you have reported in this quarter for the employee cost, can this be considered as the base number?

Uday Baldota: Which is what I explained in the earlier question which was very specific, whether there is any one-time cost in the employee cost number? There is some amount of one-time there.

Manoj Garg: The second question is for Abhay, like would it be possible for you to share what would be the growth for the Ranbaxy business in the domestic market for the quarter?

Abhay Gandhi: I will repeat what I have been saying a couple of times before. If I look at the participated market of the erstwhile Ranbaxy, their growth would be higher than the participated market.

Manoj Garg: But we are not bifurcating the growth between Sun and Ranbaxy portfolio?

Abhay Gandhi: As far as I am concerned, it is all business units that work with me. So I am not able to differentiate Sun and Ranbaxy any longer.

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

Prakash Agarwal: First question is on Doxil. We talked about, we have seen some competitive pressure. So would it be fair to assume that J&J supplies are now on and the batch by batch approval is now over and they are with full supplies. Is that correct understanding?

Dilip Shanghvi: What I said is that, there is J&J product in the market. I have no clarity about their regulatory status. But there is their product in the market. J&J product is available in the market. I have no update whether it is based on the batch by batch release or it is based on a site which is approved. I have not seen any release from J&J that they have received a new site approval till now.

Prakash Agarwal: Secondly is on India business, just a carry forward of what earlier participant asked. Sir, I was just trying to understand the inventory and the accounting compliance with Sun's accounting policy, which has earlier impacted the growth for Ranbaxy. Is that now totally over? Is there any impact there or it is behind us?

Abhay Gandhi: I see stability on that front. And I do not see that as an issue going ahead.

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

Surya Patra: Just a clarification on your opening remarks, what you said that, you assume that all of your facilities including Ranbaxy's which are currently under USFDA scanner, all that would be cleared to and that will lead to a kind of $300 million kind of synergy number in FY18, is that correct, sir?

Dilip Shanghvi: I do not think we are linking up the re-certification on these facilities with the synergy.

Surya Patra: So that anyway we are not assuming in that synergy number?

Dilip Shanghvi: I am saying that I am not linking up. What I am assuming is with me, but I am not linking up for you.

Surya Patra: Sequentially, if you see, there is a kind of almost 10% kind of a growth, both in the emerging market formulation revenues, as well as RoW formation revenues. So does that mean there is no supply issue from Halol at least to these markets anymore?

Dilip Shanghvi: Your assessment is correct. There is operating constraint at Halol and we have shared this with you in the past that there are some products which are impacted with this constraint. So if they were available, then we would have done much more in those markets.

Surya Patra: Is it possible to say something on the nature of the ANDA filings, the pipeline that we have created and the kind of pipeline that we are building up, because we are continuously indicating about higher R&D spend and which has been visible also in the numbers?

Dilip Shanghvi: The idea is to create a stable revenue stream and relatively high margin business because of potentially lower competition. So you succeed with some product, you do not succeed with some. But the increase in the R&D spend is both a function of complexity of product, also it is a function of some additional clinical studies and costs that historically our ANDAs were not involving, so that is the reason why some of these costs are going up.

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

Nimish Mehta: I just wanted to know, for this year, how many approvals in the US we are expecting at an aggregate base and specifically on aripiprazole any clarity?

Dilip Shanghvi: We have never responded to products that we are likely to get approval in future. So we cannot comment. We can comment on what our filing plan. And I think our focus is to find a way to improve productivity of R&D at Gurgaon in erstwhile Ranbaxy, so that we can file more products, both from that centre as well as from our existing centre at Baroda.

Nimish Mehta: No, I understand that. I am just trying to understand that for the guidance that you have given for FY16 there must be some related to…

Dilip Shanghvi: We have never ever gone back and say that we did not receive this approval and that is why we cannot meet our guidance. Everything is factored. But we will have alternatives. I think it helps you understand the competitive dynamics in the marketplace, but I cannot help there.

Nimish Mehta: Second, I just wanted to know, broadly is generic Lipitor where I do not know, I assume that Ranbaxy's market share it is not any healthy. Is that an opportunity for Sun Pharma in terms of your revamping their businesses? So any color on that would be helpful?

Dilip Shanghvi: We have to look at how we can bring back the products, which are currently not in market. My understanding is that generic Lipitor is not in the US market right now. So we are looking at

product by product of each of the erstwhile Ranbaxy products and what is the best way to bring them back to market and we have to prioritize here.

Nimish Mehta: Ranbaxy does not sell anything in generic Lipitor as of now, right?

Dilip Shanghvi: In the US.

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

Sameer Baisiwala: In view of the appeal court decision on Angiomax in validating the patents, what is the updated thought or you do you think is there anything constraining your launch, other than the FDA approval?

Dilip Shanghvi: My understanding is that either we have to go to the court and have that judgment applied in our case or we have to settle with the innovator before we can launch without risk. So all of those processes, including getting final approval, having adequate inventory or product in, so that we can launch comfortably are things that we are focusing on right now.

Sameer Baisiwala: Your settlement to launch in 2019 does not stop you from going to the court and having that judgment apply to you?

Dilip Shanghvi: My understanding is that, because of antitrust reasons, all of these settlements have options for early entry, should there be a generic in the market.

Sameer Baisiwala: Second question is on Halol, does FDA see this as one facility, one site, or does it see this as different blocks given that you have got very distinct dosages, forms within that site, any..?

Dilip Shanghvi: Since we have one establishment number, FDA will look at it as a single site.

Sameer Baisiwala: One final, if I may. I know you are not talking too much about it, but for the Taro's Keveyis approval this week, any just ballpark number, what could be the treatment cost per annum just to arrive at some sort of ballpark on this?

Dilip Shanghvi: We cannot share this information if Taro has not shared it with their shareholders.

Moderator: Thank you. The next question is from the line of Aditya Khemka from Ambit Capital. Please go ahead.

Aditya Khemka: So this 3% of sales is one-off as per your numbers above the EBITDA and we have obviously in our previous call suggested that FY17 is more likely to be a cleaner year without any sort of one-offs hopefully. So going forward for the remaining three quarters of this year, would this 3% of sales would that be the sort of integration costs that we should be building into our models for the rest of the year or would you take this number down significantly?

Uday Baldota: In response to an earlier question, what we said is that the total non-recurring that are in the P&L right now, some are above EBITDA and some below EBITDA. What we think is going forward that number will go down dramatically. So, I think large part is taken today. For us to indicate specifically whether the above EBITDA number, how much will that go down or the below EBITDA number, how much will that go down will be, I would say we do not want to get into that discussion right now.

Aditya Khemka: The reason ask this question is that your 635 crores provisioning for a fixed asset write-off is definitely a one-off, right? You are not going to make such provisions every year. So that is sort of obvious and if you are guiding to sort of a decrease, then the guidance is only meaningful if it is above EBITDA. It is not meaningful if you are including this 635 crores in the guidance. I mean you are not going to charge against excesses at every quarter or even for 2-3 quarters?

Uday Baldota: It depends on the decision that is taken for a specific business. I think to the extent that we have taken a decision, I think what is reflected in the P&L. So I think we can only indicate the combined non-recurring, but probably not give specific indication for above or below EBITDA.

Aditya Khemka: My second question is regarding the two segments, RoW and emerging markets, where in both cases either low margin or non-remunerative businesses, we are basically rationalizing the two. So the way I look at it during this call, today's call we have mentioned three things that are impacting these businesses, there is currency volatility, there is rationalization of low margin and non-remunerative businesses and then some products from Halol, which we are not being able to sell into these markets as well. So, regarding that, could you, I do not know if you will, but could you break up as to how much at least is the currency that you are facing and how much is from the non-remunerative

part, how much of the decline is because of that and secondly, what is the benchmark for deciding that the business is non-remunerative or low margin?

Dilip Shanghvi: I think giving greater detail than what we have shared with you already will be difficult. Generally our approach is to create a business which is stable, consistent and not linked to one-off businesses. It is easier to build on top of that business. So that philosophy will continue to be applied. So low margin, inconsistent businesses are things that we look at rationalizing.

Aditya Khemka: Okay. So, something like a Ranbaxy's tender business in Africa would be something that you…?

Dilip Shanghvi: Some of those products. But some of the tender businesses can be stable and consistent. So do not apply a general thumb rule.

Aditya Khemka: Could you just bifurcate the decline in sales this quarter for these two businesses, between how much is owing to currency and how much is owing to the rationalization please?

Dilip Shanghvi: We will not be able to share any further information on this.

Moderator: Thank you. Our next question is from the line of Ranjit Kapadia from Centrum Broking. Please go ahead.

Ranjit Kapadia: My question refers to consolidation of retail chains in the US and how is the situation now and to what extent we have been affected in the past?

Dilip Shanghvi: No new progress or development happened in the last quarter. Whatever was to have happened, it has happened in the past. But I think there is a significant consolidation of the distribution channel, not only pharmacy chain, but wholesalers, distributors. To an extent where I think four customers represent in excess of maybe 80% of the market. So it does create a situation where you have limited number of potential customers that you have to sell to.

Ranjit Kapadia: Can you say to what extent we have been affected because of this?

Dilip Shanghvi: I think the market does not change. The total quantum of drugs which are consumed continues to be the same.

Ranjit Kapadia: Yes. But their sales could get impacted, so I just wanted to have some ballpark number, to what extent our revenues were impacted, because of this?

Sudhir Valia: Every product is unique by itself. You must have seen that Taro in spite of all these situations is able to increase the price. So it is not necessarily that consolidations will lead to a reduction in the sales price.

Moderator: Thank you. Our next question is from the line of Manoj Garg from Health Co. Please go ahead.

Manoj Garg: Just a follow on to your comments just now. So just wanted to get, Dilip, a holistic answer from you. So obviously in the US, you were seeing pretty significant consolidation of manufacturers over in India, even given your acquisition of Ranbaxy, the market still very fragmented by the IMS estimates. Even on a combined basis, it is around 10% market share that Sun and legacy Ranbaxy would have together. Just wanted to get your thoughts whether we are likely to see, in your view, additional consolidation in the Indian market or do you think there is additional dynamics at play, just given the ownership structures of the companies that would continue to lead to a fragmented marketplace there?

Dilip Shanghvi: We have never looked at our business in terms of market share. We have looked at our business in terms of share of prescription in key therapy areas that we are interested. So in many therapy areas I believe that we have optimum kind of share of description, beyond which I think the effort to output ratio will not be very positive. So we have no additional advantage of consolidating in those therapy areas and there are therapy areas in which we still do not have adequate prescription share and if there is an opportunity in that area, we will look at potentially acquiring that business.

Manoj Garg: So it sounds like it is more of a function of specific therapeutic areas versus looking at it on a macro scale?

Dilip Shanghvi: Your assessment is correct. That is how we will look at business.

Moderator: Thank you. Our next question from the line of Gaurav Misra from ASK Investment. Please go ahead.

Gaurav Misra: Seeking clarifications on any of these if they could be shared. The first is, this growth you have had in other operating income it mentions that there has been some brand divestments, could you share some color on the magnitude, the number of brands? The second was on this huge increase you have seen in the other expenses. So we understand the labor-related one-time costs possibly captured in the employee cost. Therefore what is the nature of the cost captured in the other expenses, which we have seen a big jump in and lastly, the exceptional item, if a breakup could be shared on between the impairment of the fixed assets and the goodwill?

Dilip Shanghvi: The brands that we have divested are divested on account of either the Competition Commission or FTC in the US asking us to divest those products. So that is the basis of the divestment and the details are there in the part of the other operating income. Beyond, I think giving additional detail on the other information that you are seeking will not be possible.

Moderator: Thank you. Our next question is from the line of Kartik Mehta from ICICI Mutual Fund. Please go ahead.

Kartik Mehta: Can you please share the net cash position or the overall gross debt now and if it is predominantly in actually USD? Thank you.

Uday Baldota: Yes, the debt position is close to $1 billion and the cash and equivalents is about $2 billion.

Kartik Mehta: On the tax rate, is there a number that we should run with or would you want to guide on the tax rate for the year, now that, if not all, let us say most of the harmonization related expenses are over?

Sudhir Valia: You can take the tax rate for the quarter.

Moderator: Thank you. Our next question is from the line of Manoj Garg from DSP Merrill Lynch. Please go ahead.

Manoj Garg: Just like to understand now, since you made a comment that J&J Doxil is now back in the market, have you seen any efforts towards them in terms of impeding the promotional activities for the same or overall market expansion of Doxil in the US?

Dilip Shanghvi: Their product is available in the market. I have no additional information that I can share with.

Manoj Garg: In the past we used to comment about filing Doxil for the outside the US market and particularly European market in terms of RoW markets. Any progress on that in terms of likely timeline or when do we expect the launch of that product?

Dilip Shanghvi: Generally we have not shared the information related to our future filings or findings. But I think in one of the call I have indicated that we are looking at filing Liposomal Doxorubicin in other geographies, including Europe. But I have no specific guidance as to the status of filing or the approval of those products in these markets.

Manoj Garg: Last question from my side, that while we are talking about scaling down some of the non-remunerative businesses, Ranbaxy used to have a large part of the generic-generic business in the India market. Could you provide some color on that, whether that will remain still as a part of existing business or if we may decide to not think about this business separately?

Abhay Gandhi: It is something that we are also trying to think through, but clearly the attempt is to find a way to run the business and run it more profitably than it has been run historically.

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

Dheeresh Pathak: I just wanted to confirm that the ARV tender business in South Africa, which Ranbaxy had one sizable portion that you have identified as non-remunerative?

Dilip Shanghvi: I do not think I said anything like that. I said that we have to be clear that the business is episodic. If we are comfortable that this business will remain with this product and the future product in our cost position, we believe that it can be a profitable product and we will look at continuing with that business.

Dheeresh Pathak: Can you share whether you have decided to continue or not continue?

Dilip Shanghvi: We have an existing business right now. I do not think we can walk away. We have won a tender which is a three-year tender and we have given a certain amount of commitment that we will supply. So clearly, we will have to meet that supply requirement for next three years.

Dheeresh Pathak: But post that three years, do you think that is a business that you can continue?

Dilip Shanghvi: I prefer not to guide beyond, but I think to your question, we continue to develop future HIV products. We continue to focus on having an enriched and updated product list, so that we can participate in businesses that we are interested in.

Dheeresh Pathak: Can I request you to have an earnings call for Taro as well?

Dilip Shanghvi: I think they are doing. Last quarter they had earnings call. Next quarter, I think they will possibly do a call.

Uday Baldota: Taro is having an earnings call once in six months.

Dheeresh Pathak: Can we have once every quarter instead of once in six months?

Uday Baldota: Taro, if I am not mistaken, decided to have it once in six months. That is the pattern right now.

Moderator: Thank you. Ladies and gentlemen due to time constraints that was the last question. 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 and if any of your questions have remained unanswered I would request please send them over and we will have them answered.

Moderator: Thank you very much members of the management. On behalf of Sun Pharmaceutical Industries Limited that concludes this conference call. Thank you for joining us and you may now