Corporate Participants

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Sun Pharmaceutical Industries Limited Q3FY20 Earnings 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 for an operator by pressing '*' followed by '0' on your touchtone phone. 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 FY20 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. Abhay Gandhi – CEO (North America), Mr. C. S. Muralidharan (CFO) and Mr. Kirti Ganorkar (Head – 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 now hand over the call to Mr. Shanghvi.

Dilip Shanghvi: Nimish, thank you. Welcome and thank you for joining us for this earnings call after the announcement of financial results for the third quarter of FY20.

Let me discuss some of the key highlights:

Consolidated sales for the quarter were at Rs. 8,039 crores, a growth of 5% over Q3 last year while the nine month sales were at Rs. 24,247 crores, recording a growth of 12%.

Key growth drivers include India, our global specialty business, coupled with growth in our rest of the world business and API business. While we are doing well in most of the geographies, the US generic market continues to be competitive and challenging.

We are focused on controlling our costs and improving efficiencies in all parts of our business while simultaneously increasing our investments in our specialty business.

During the quarter, we continued our efforts to enhance our specialty portfolio in new markets by entering into a licensing agreement with AstraZeneca in China for some of our novel oncology products.

We are witnessing a gradual traction in our global specialty revenues. In Q3, our global specialty revenues were approximately US$ 118 million across all markets while specialty R&D accounted for about 24% of total R&D spend for the quarter. Abhay will discuss more details on our specialty business later.

On Halol, we have filed our response to the USFDA detailing our steps to resolve the 8 observations issued by the USFDA in the Dec-2019 inspection. We are committed to addressing these observations promptly. As of now, there is no further update that we can share.

I will now hand over the call to Mr. Murali for discussion of the financial performance.

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

Overall Q3 sales are at Rs. 8,039 crores, up by 5% over Q3 last year. On the expenses side, the YoY increase in staff cost is mainly driven by annual inflation and addition of the Pola Pharma business in Japan.

Other expenses are up 23% over Q3 last year mainly due to higher marketing spend for the specialty business in US, consolidation of Pola Pharma as well as increase in R&D spend.

Gross margins have improved YoY from 71.4% to 72.1% due to better product mix. EBITDA for Q3 was at Rs. 1,725 crores with EBITDA margin at 21.5%.

Net profit for Q3 was at Rs. 914 crores, down 26% year on year, mainly due to higher other expenses, a significant YoY reduction in forex gains and higher taxes, having a combined negative impact of Rs.700 crore. EPS for the quarter was Rs. 3.81.

Let me now discuss the key movements versus Q2 of this year.

EBITDA has improved by 7% sequentially despite increase in other expenses as compared to September quarter on account of higher marketing spend and R&D expenses. This was achieved due to sustained focus on overall cost control. The net profit is down by 14% mainly due to higher depreciation & amortization, lower other operating and other income coupled with higher taxes.

Our focus on operational efficiencies have helped us repay approximately US$ 500 million of debt year to date till December 2019; thereby net debt (ex-Taro) now stands at US$ 410 million.

Now we will discuss the nine-month performance. Net sales were at Rs. 24,247 crores, a growth of 12% over nine-month last year. Material cost, as a percentage of the net sales was 28.6% which was higher than same period last year mainly due to higher COGS for Taro and overall product mix. The staff cost for the nine month was up by 7% due to annual inflation and addition of Pola Pharma staff cost. Other expenses were up by nearly 23% over nine-month last year mainly due to the significant marketing spend for the specialty business and consolidation of Pola Pharma and increase in R&D spend.

As a result of the above, EBITDA for the nine month was at Rs. 5,221 crores a growth of 4% over the nine-month period last year, with resulting EBITDA margin of 21.5%.

Net profit for the 9-months was at Rs. 3,365 crores, up 4% after adjusting for the exceptional items incurred in the 9-month period last year.

At today's board meeting, the Board of Directors have declared an interim dividend of Rs. 3.0 per share.

Let me now briefly discuss Taro's performance.

Taro posted Q3FY20 sales of US$ 148 million, down by 16% over Q3 last year. For the nine-month, sales were US$ 470 million, down 4% over nine-month last year. Taro's net profit for Q3 was US$ 68 million while for the nine-month period, it reported a net profit of US$ 190 million.

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

Kirti Ganorkar: Thank you Murali. Let me take you through the performance of our India business.

For Q3, sales of branded formulations in India were Rs. 2,517 crores, a growth of 13% over Q3 last year and accounting for approximately 31% of total sales.

We continue to focus on maintaining our strong brand equity with doctors and patients. The Indian formulation market offers good long term potential given the favourable macroeconomic drivers of pharmaceutical consumption.

As a part of our growth strategy, we have initiated an expansion of our field force by about 10%. The main objectives behind this expansion include:

- Further widening of our strong customer reach

- Deeper penetration of our products

- Ensure greater focus on all relevant brands

This additional field force will be on-boarded fully by Q1 of FY20-21 with their contribution expected in subsequent quarters.

We continue to remain the partner-of-choice for in-licensing given our strong no. 1 positioning in many therapy areas. Some of the in-licensed products are performing well and have delivered better growth than our original expectations. One of the examples is Oxra, a brand of Dapagliflozin, which features in top-300 brands in IPM. This brand was launched in August 2016, and in August 2019, it is featuring amongst the top 300-brands of IPM.

I will now hand over call to Abhay.

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

For Q3, our overall sales in the US were at US$ 350 million, accounting for approximately 31% of overall sales. The US generics business continues to be competitive and we continue to launch new products in every quarter to increase our product offering in the market.

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

Our specialty revenues in US have grown over September quarter with the growth mainly driven by higher seasonal sales for Levulan and Absorica, improving sales of Ilumya and Odomzo coupled with contribution from Cequa launch. As you all know, we commercialized Cequa in Q3 and I am happy to inform you that the launch has been well received.

For Ilumya, we continue to add patients and increase the doctor coverage and are positive on Ilumya's prospects for the next year.

We have also recently announced the launch of Absorica LD which gives the benefit of higher absorption despite, about 20% reduction in the dosage strength.

Although we continue to invest in branding and promotion of these specialty products, we believe that our ability to absorb these costs will improve in the coming year as our specialty revenues ramp up.

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

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

Our sales in emerging markets were at US$ 195 million for Q3, down by about 4% year-on-year and accounting for 17% of total sales. The decline is driven by the reduction in tender revenues in our South Africa business. Excluding the impact of this tender sales, we have recorded a double-digit growth of about 15% for our overall emerging market portfolio.

Key markets which contributed to the growth were Russia, Brazil, Romania, Bangladesh & Thailand.

Formulation sales in Rest of World markets excluding US and Emerging Markets were US$ 155 million in Q3, a growth of 24% over last year. This growth was mainly driven by the consolidation of the Pola Pharma acquisition in Japan. RoW markets accounted for approximately 14% of Q3 revenues.

Our API sales for Q3 were at Rs. 503 crores, up by 18% over Q3 last year.

We continue to invest in R&D for enhancing our pipeline. Consolidated R&D investments for Q3 is Rs.527 crores, accounting for 6.6% of sales. Our current generic pipeline for the US market includes 94 ANDAs and 4 NDAs awaiting approval with the US FDA. During the quarter, we have withdrawn some unviable ANDAs.

Our overall R&D spend for the first nine months was Rs. 1,437 crores at 6% of revenues. This R&D spending enables development of future product pipeline including specialty and differentiated products.

At the start of this year we had guided for R&D spending at 8-9% of sales. Given the spending in the first nine months, we expect to end the year at a lower number. However, we expect higher R&D spending next year for the clinical trial expenses related to the new indications for Ilumya.

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 the question-and-answer session. The first question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Sir, on the global specialty sales, you gave a number. Can we have the number, please or I do not know if I missed that?

Nimish Desai: US$118 million.

Prakash Agarwal: And this QoQ increase is largely a function of the new launch Cequa or we have seen improvement in as you mentioned that Absorica largely and Cequa largely or we have seen improvement in Ilumya also?

Abhay Gandhi Like I said in my readout, it is a combination of the seasonal impact on Levulan and Absorica, the improvement in sales in Ilumya and Odomzo also and the small sales that we got in Cequa because we got only partial quarter for the Cequa launch. It is a combination of all the products.

Prakash Agarwal: But QoQ Ilumya would have improved is what I am trying to understand.

Abhay Gandhi: There is an improvement, yes.

Prakash Agarwal: Again US, so if we remove the Specialty piece and the Taro piece, how generics would have grown and what is the outlook there?

Abhay Gandhi: There is a nominal de-growth in the generic business if I look at it holistically. But then we have been able to offset a lot of that by introduction of three new products in the quarter. Febuxostat was one of the major launches we had. And also making use of some of the one-time opportunities that were there in the market. So overall, I think we have been consistently maintaining on our earnings calls that the generic environment remains competitive and the competition is highly product-specific and the pressures are highly product-specific.

Prakash Agarwal: And this increase in the branded and India would have been really the contributors for gross margin expansion. Would that understanding be correct?

C.S. Muralidharan: Yes, the expansion in gross margin is on account of the robust India business and other business and the overall business growth.

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

Neha Manpuria: My first question is on Cequa. We have heard commentary from one of our peers in the dry eye market about change in their promotion strategy. What is our view and how we approach the product given the peer mentioned that it is more like a consumer product?

Abhay Gandhi: I have not heard that commentary that you are referring to. So I really do not know what you are saying. So to the question whether it is to be treated like a consumer product, I do not think so because there are OTC alternatives available and sometimes patients self-medicate, and

when that does not work, when they go to an ophthalmologist, then they use a branded product. And I think that is done with a lot of education to the patient on how long does it take for the drug to show effect. So I do not think we are taking a kind of a sense that it is a sort of a consumer product. And that is the kind of a treatment we should give in promotion. I think our promotion is more scientific to the doctors with all the elements that are involved in HCP promotion.

Dilip Shanghvi: Abhay, I think what she is possibly referring is that both the dry eye product today have direct promotion to consumers through DTC. So to that extent, it is a publicly promoted product.

Neha Manpuria: That is right, sir. Is that a similar strategy?

Abhay Gandhi: That is there for many other categories, and not all categories which are on say for example DTC promotion have sort of OTC substitutes. So, as I said, in the absence of clearly understanding what is the commentary that you are referring to, my answer may be incomplete.

Neha Manpuria: But do we plan DTC campaign for Cequa at this point or we have not decided on that?

Abhay Gandhi: We are evaluating. You have like six months window post launch of the product before you can even initiate DTC promotions. So, we still have that window and we are evaluating. We will have to do some sort of DTC promotion clearly because you will have to reach out to patients who are using other alternatives. In what shape, form and what kind of an investment will depend on what we assume and what we project will be the size of the product and the investment required for us to reach our fair share of the market.

Dilip Shanghvi: Abhay, I think what she is trying to understand is that, do they have to factor a significant additional marketing spend in...?

Abhay Gandhi: Clearly, not a very significant marketing spend will need to be factored on Cequa.

Neha Manpuria: Second, I know it is a very short timeframe, but the likelihood of patients that you see coming on Cequa, would these be patients which are there on existing treatment or do you see

probably new patient coming in or there is a large patient pool which does not take any prescription product for dry eye, would that be the target?

Abhay Gandhi: There is no data which can help me accurately segregate that. So whatever I say is based on observation and experience from speaking to doctors both personally as well as by my team members. Our initial prescriptions had a lot of warehouse patients and these are essentially patients who had failed existing therapy. We also got some new patients. But exactly to say what proportion would be? As I said, will be speculation. But, clearly, a lot of warehouse patients were quickly put onto the drug who had failed existing therapies.

Neha Manpuria: On the R&D trajectory, given we are tracking much below the 8-9%, next year's guidance you said higher than FY20, is it fair to assume closer to 8-9%? And would all of the incremental be for Ilumya or are there any other products that would be included in this incremental amount?

Dilip Shanghvi: I think we will share with you at the end of this year, where we will give both top line and overall investment in R&D. But I am not expecting it to exceed 9% next year.

Neha Manpuria: And would all of the incremental spend be for new indications on Ilumya? I think we mentioned one more product going to trial next year.

Dilip Shanghvi: We will have many other products also on which we will be spending money.

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

Chirag Dagli: Sir, what percentage of our Ilumya prescriptions are in the early access program right now, ballpark number would do?

Abhay Gandhi: Clearly, I will not share that, but there are everyday patients who will go into the early access program and everyday there will be patients going out of the early access program. And it is part of strategy that we want that patients to get on to the early access program when there is a delay in getting commercial insurance coverage. And then we work with the payer to try and see that they move out of the EAP program and become a paid patient. So it is a part of strategy. And every

single day, you will have patients coming in and patients moving out. Conversion has been almost industry standard conversion. So, we are comfortable with that.

Chirag Dagli: Is this proportion coming down sir of the new prescriptions that you are adding, more are coming into the non-EAP?

Abhay Gandhi: As I said, making sure that we do not lose the patient and if there is not immediate coverage possible to put the patient on EAP is a strategy. So I do not think we are doing anything to try and reduce the number or increase the number. If you get commercial coverage immediately, that is how the patient then gets on to the drug. If they do not, we try and put the patient on EAP and then work for coverage.

Dilip Shanghvi: The right metrics I think for people to measure is what percentage of the early access program get ultimately converted into paid patient. To track whether new patients are getting into early access program or not, I do not think we will give you any metrics which can assess the quality and the health of business.

Chirag Dagli: Sir, would you be willing to share that number with us?

Dilip Shanghvi: But that is a dynamic number because it keeps on changing. I think you should understand Abhay's answer. What he said is that our number is in line with the industry's experience. Correct not, Abhay? That is what you said.

Abhay Gandhi: That is what I said. Our conversion rate is as per the industry norms and standards, and we would be as good as the best-in-class there which I think gives us comfort that as a strategy this is something we wish to continue to do and help the patients get on to Ilumya faster.

Chirag Dagli: Do we have clarity on which additional indications we are going to do for Ilumya?

Dilip Shanghvi: What we actually shared is our Phase-II top line data for psoriatic arthritis. And that is what we are going ahead with for Phase-III.

Chirag Dagli: And it is unlikely, Mr. Shanghvi, that you do two indications at one shot, right, simultaneously?

Dilip Shanghvi: Not at this point, no. We are not currently looking at two Phase-IIIs at the same time. We may do one earlier phase program for a new indication. For all other indications, we have to do first a Phase-II or even a dose-finding study before we can do a Phase-III. So we are not ruling out any other indication development. We might develop other indication, but that will not be a Phase-III.

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

Sameer Baisiwala: Murali sir, couple of clarifications. You mentioned some Rs.700 crores figure below EBITDA line, if I heard you correct. Can you just clarify on that?

C.S. Muralidharan: It is not below EBITDA. What I said is combined impact of about Rs.700 crores.

Sameer Baisiwala: Maybe I got it wrong. So Rs.700 crores is impact because of what?

C.S. Muralidharan: Higher marketing spend and R&D, put together.

Dilip Shanghvi: There is a statement which you read out. Why do not you read the full statement?

C.S. Muralidharan: Net profit for Q3 was at Rs. 914 crores, down 26% year on year, mainly due to higher other expenses, a significant YoY reduction in forex gains and higher taxes, having a combined negative impact of Rs.700 crore. So the forex number anyway you have with you.

Sameer Baisiwala: Okay, that is fine. I will take it offline I guess. Murali, the other question I want you clarify. You also mentioned about $500 million net debt reduction ex-Taro. This is you are talking about nine months period or?

C.S. Muralidharan: Year-to-date December, I said for the nine months.

Sameer Baisiwala: Where does this number, the balance $410 million go over next few quarters?

Dilip Shanghvi: Objective would be to go to zero. If we do not do acquisition, that will go to zero. If we do acquisition, then that will change. Actually we want to go back to a situation where we were cash surplus.

Sameer Baisiwala: SEBI forensic audit work that was going on?

C.S. Muralidharan: Compared to our last update there is no further development at this point of time which we have to share. We do not have any update from the regulator. All the queries have been responded to.

Dilip Shanghvi: We have responded to all the questions. And our assessment is that there is nothing that we have shared that is a concern for us.

Moderator: Thank you. The next question is from the line of Surya Patra from PhillipCapital. Please go ahead.

Surya Patra: Two things; one is that on the field force expansion and what you have mentioned for the domestic formulations business. So, is it that we are thinking that okay, with the flattish kind of US performance, are we trying to focus more on the market where the growth could be relatively better, hence the efforts for the domestic business is that we are expanding

Kirti Ganorkar: I do not think there is any linkage between the two.

Dilip Shanghvi: We look at all markets separately. We want each business to find a way to grow. And if you see that is why we share all the different numbers with you. Our objective would be to see that each business is growing.

Surya Patra: So the part question relating to the earlier one is the ROW and emerging markets, which is now put together 30% of the total revenue mix. So any thought process, how should one really look at their going ahead, any direction that would be useful?

Dilip Shanghvi: I gave some details about the underlying growth in the emerging markets which is at around 15%. Because of reduced tender sales in South Africa because philosophically we are not looking at focusing on growing by becoming a bigger tender company. And the other markets I think we have ability to add growth to that business, may not be in double-digit, but in single-digit.

Surya Patra: Second question is on the amortization. This quarter any specific number that is one-off nature? And if you also can share some idea about your CAPEX plan for the current year and next?

C.S. Muralidharan: As far as the amortization is concerned, the company has got total overall asset base of about Rs.15,000 crores. And to recognize that depreciation & amortization is driven by a number of factors which includes the timing of the capitalization, utilization of assets, wear and tear, obsolete other factor. So there is nothing specific we can follow in line of the current Q3.

Surya Patra: CAPEX indication sir, what would be for the YTD and what is the likelihood that you will be doing for the 12-months period?

Dilip Shanghvi: Normally, I give guidance about CAPEX, I do not remember whether we have given guidance this year, but it is in line with whatever guidance we would have shared at the beginning of the year.

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

Anubhav Agarwal: One clarity on this global specialty sales. Abhay mentioned that it is sequential increases across products. Without giving numbers, just like to qualitatively mention, which product was the largest contributor in this delta sales in the quarter?

Abhay Gandhi: I think because of the seasonal impact, incremental increase in Levulan and Absorica would be the highest.

Anubhav Agarwal: Abhay, one question on the ILUMYA. The intensity of investment for us, now what I mean by intensity of investment is our rep team there and DTC campaign. If you look let us say especially over last two quarters, would you say our intensity of investment is same, has gone up, gone down?

Abhay Gandhi: No, I think the investment that we had planned for the year is spread across the four quarters in a certain way that we thought would be helpful for business, for example, the DTC campaign peaks up in two quarters, which are the months where patients are most likely to reach out to the doctors, for example. So, we have not changed our investment plan for the year at all. We have stayed true to the course that we had set for ourselves. And for the current financial year we will invest as per plan.

Anubhav Agarwal: I just had one more question on India business on the field force expansion. Basically by expanding sales force by 10% roughly, would the doctor reach increase by a similar number? And largely we are targeting these doctors in tier-1 areas or going beyond tier-1 areas?

Kirti Ganorkar: We are targeting doctors in tier-1 areas and this will help us on a couple of things, as I told you is decluttering our portfolio, and this will also create a space for launching new products and increasing call frequency with some of the important customers here.

Anubhav Agarwal: So, will it lead to higher productivity with this incremental sales let us say FY23 just as an example, would this field force be closer to productivity of our average field force today?

Kirti Ganorkar: Usually, our experience is that whenever we have expanded in the past the earlier productivity comes back at the end of third year or beginning of fourth year.

Dilip Shanghvi: What I think you are saying, Kirti, is that the new territories which are created, they reach your national average in third year. But because of this expansion, you will possibly in any case at the end of this year also, overall productivity will still be higher than this year's productivity. Overall, will be higher, but PMPM of the territory which are being created. They will be at a lower level than the national average.

Moderator: Thank you. The next question is from the line of Amish Sanghvi from Anvil Share and Stock Broking. Please go ahead.

Satish Bhatt: I am Satish Bhatt here. Sir, this question is to Mr. Abhay. Abhay, we have been in the market for last one year. And I just wanted to know what type of investments we may have to require to get 3x or 4x or 5x of prescription what we are generating on a quarterly basis because that will be the key success for our product, if you can throw some light, how has been the first year of launch, and what differentiating strategy we are going to adopt to get prescriptions which are at least far superior than what you are getting as of now?

Abhay Gandhi: Very disconcertingly Mr. Shanghvi asked me the same question yesterday morning. So, I do not know how to answer that because you are asking me what is going to be my strategy. And on a call which is heard by everybody, how do you expect me to elucidate on strategy for next year?

Dilip Shanghvi: I think, Abhay, one logical explanation, which I think is easier for you to share is that most of the psoriasis patients are chronic patients. So you keep on adding to the base of your patients. And since if you look at the durability of our response, then our durability of response has been very-very good, and we have published those.

Abhay Gandhi: What you are saying is what we have also been saying consistently on all our calls. The question is very specific, "How do we increase prescriptions by 5x or 4x?" That is something which is difficult. We have given the broad contours of our strategy not only on today's call but earlier calls also.

Moderator: Thank you. The next question is from the line of Naveen Baid from Aditya Birla Money. Please go ahead.

Naveen Baid: Sir, my question pertains more to the current outbreak that we have seen in China with regards to corona virus. What portion of a raw material is sourced from China and what kind of disruption can it cause if this were to last beyond say three to four weeks?

Dilip Shanghvi: So, if I look at our different businesses, then our dependence on China for intermediates in our API business is possibly the highest because we buy a large number of intermediates from China. In our Formulations business, our dependence on China would be relatively lower. But to some extent, many of the raw materials which we may be buying in India, may have dependence on the Chinese intermediates. So, we think we are buying from India, but there is a China link. So difficult to give you a correct response. But our sense is that the geography in which majority of the pharma manufacturing units are located is physically different from centers from which corona virus has a bigger challenge. So hopefully, we will not have any significant impact. But, we know very little today. We are not getting any reliable and dependable information. So, I do not want to respond. But we carry some significant inventory for most of the raw material as well as intermediates that we consume.

Moderator: Thank you. The next question is from the line of Hari Belawat from Techfin Consultants. Please go ahead.

Hari Belawat: This is regarding the USFDA observation on the Halol facility. Total exports to US is around 31% by the company. How much is from Halol? And these observations, are they affecting export to US from this unit?

Dilip Shanghvi: So first of all everything that we sell in US is not exported from India, it is exported from many other geographies including being produced in the US itself. For the US, we have three factories which are approved, and which are supplying significant value and volume to US. So we have not shared the size of the dependence on the Halol facility. But, I think in the past we had, when we had a warning letter. So I think after that it would have only gone down and not gone up.

Hari Belawat: One more just connected question. This corona virus is affecting API. But of late it is reported that it is affecting even the finished goods prices in India also like some prices are given today have gone up. Is it the outcome of this activity?

Dilip Shanghvi: Kirti, maybe you can tell about India business.

Kirti Ganorkar: Where you have observed this? Can you give example?

Hari Belawat: This is given in even Economic Times today itself that paracetamol price have gone up and some more...

Kirti Ganorkar: Formulations prices are not affected as I know. You are talking of maybe more of API products.

Hari Belawat: Azithromycin, it is mentioned that almost double the price from the earlier due to this China effect.

Dilip Shanghvi: So, there are many raw materials, which are dependent on China almost 100%. Azithromycin would have maybe 80%, 90% dependence on China. So like that Penicillins, Cephalosporins, all of them will have significant dependence on China. But it is difficult for me to respond because I do not think that this 80% price increase is justified. It is only speculative buying, which would have raised prices.

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

Alok Dalal: One question on US generic approvals. So Sun Pharma has not been receiving generic approvals, meaningful ones. What do you think is holding this back?

Dilip Shanghvi: So I think it is product-specific response, but the regulatory expectations, especially for complex products are far more and constantly evolving compared to simple products and currently what we are focusing on are mainly complex products. So that is possibly holding up the approvals.

Alok Dalal: But sir it has been some time now that no meaningful approval even in the injectable space as well, certain high entry barrier products which company had spoken about earlier have come through, as in the let us say the category of products. So, that is what I was talking about.

Dilip Shanghvi: I explained that higher entry barrier or complex products also have complex regulatory expectations. And that is possibly and also now because of the GDUFA and PDUFA I think the response time and all that are determined by the type of query and all of that. So, we also continue to constantly internally review as to how do we respond so that we can add to the products that we can offer to the customers.

Alok Dalal: So, do you see this trend changing in the medium-term?

Dilip Shanghvi: We would like it to.

Alok Dalal: Let us say, your communication with FDA, does it suggest that you are closer than before with these launches or approval?

Dilip Shanghvi: I am sure that we are moving and making progress on individual product, but difficult for me to respond in a way in which we can give you a commitment. And also, if you see our approach always will be that all the variabilities we will factor in while we give projection for our annual growth for next year.

Moderator: Thank you. The next question is from the line of Krish Mehta from Enam Holdings. Please go ahead.

Krish Mehta: I just had a quick question on the footnote in the consolidated statements, on footnote #4 where we talk about the settlement agreement with Apotex and Modafinil. Is it possible

to disclose the number or a ballpark of how much the settlement agreement was with the last plaintiff which has been grouped in other expenses?

C.S. Muralidharan: This is not a material amount. That is the reason why it has been grouped in other expenses.

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

Sameer Baisiwala: What do you need to do to convert ABSORICA prescriptions to ABSORICA LD, the new form and who would be the key decision makers here?

Abhay Gandhi: I think the advantages of the product, we have already started discussing with the doctors, pre-launch and looking at how they would respond to it. And I think the fact that we are able to give a bioequivalent product to 40 mg with a lower dose clearly has traction with the doctors. Decision-maker will not only be, in this case, the doctor, but the fact that our product is not a substitutable product will also be important because then the substitution at the retail level will reduce significantly, hopefully. And that is the message that we are also communicating at the retail level that the product is not substitutable and therefore the doctors prescription should be honored.

Sameer Baisiwala: In terms of formulary coverage, do you get it right at the word go or will it take next few months to get this fully covered?

Abhay Gandhi: We can only have conversations pre-launch, and we have had these conversations, but the actual formulary coverage starts after you actually launch the product. But with the positive contribution of ABSORICA to a lot of these formularies, I think we will be able to get a good coverage is what I think as a going in assumption.

Sameer Baisiwala: No, the reason why I ask is it may be a race against time because if the generic is going to come by December...

Abhay Gandhi: Which is true, I think I agree with you, we have a short window in which to try and make sure that the LD launch is successful. And therefore that sense of urgency on all fronts within the organization is clearly there.

Sameer Baisiwala: You mentioned for ILUMYA that the conversion from EAP to pay or reimbursement is what is critical. But I thought that the volume of new patients or volume of patients into EAP is equally important because what will convert into...?

Dilip Shanghvi: Of course, I agree totally with you. Getting new prescription is the most important issue.

Abhay Gandhi: Obviously, EAP. The question was I think more on the line is the proportion of EAP reducing paid prescription at the right at the first instance.

Dilip Shanghvi: That was not a material issue.

Abhay Gandhi: But totally agree with you, Sameer, the way you are asking the question now that getting new prescriptions I think is priority one, going through the system and see whether it is a paid prescription or an EAP is then the next step, and then for those who are on EAP to try and quickly get them off EAP and become a paid patient becomes a third step. And at each step there are interventions that are required by the organization to make sure that the numbers are as we projected, and they are in tune with what the industry best practices are. I think with the sequence that I have now explained, you have clarity on what is it that we are focused on as a company.

Sameer Baisiwala: Yes, absolutely, this is very helpful. And one final question, Kirti, to you maybe, what are your thoughts on ePharmacies, what kind of impact can this have on our domestic business? And are we going to be suppliers to these or are these like more like a competition?

Kirti Ganorkar: Clearly, we are the supplier to ePharmacies.

Dilip Shanghvi: Not directly, but they buy from us.

Kirti Ganorkar: They buy from the stockists. Today, it is a small business, but day-by-day it is increasingly becoming bigger.

Sameer Baisiwala: They cannot substitute Sun Pharma product on a prescription to something else?

Dilip Shanghvi: Not legally.

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

Surya Patra: Sir, just on the spending front on the specialty portfolio on the US. So, what was the kind of a spike that we have already witnessed compared to, of course, last year it is higher, but whether this is somewhere near to the kind of a peak so far as spending is concerned or there could be a kind of sequential improvement also on the absolute number front?

Dilip Shanghvi: I think you are slightly ahead of our internal budget discussion. So this is what I think Abhay was referring to when he referred to about how do we increase the number of prescriptions. I think these are all issues that we are discussing. Difficult to respond. We will do whatever is in the long-term best interest of the company.

Surya Patra: And just last one clarification on the taxation front. This quarter obviously it is elevated. Any specific reason? And we have in anyway indicating that we should be moving ahead in terms of a percentage rate. So, any clarity there?

C.S. Muralidharan: We have mentioned also in earlier calls that the ETR has to be seen on a yearly basis to give a better picture overall. Being a global company, there are fluctuations on tax rates across the entities. So overall, current year-to-date ETR is about 16% which is a 2% increase over last year. But we have been guiding that the ETR will gradually slowly inch up.

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

Chirag Dagli: Sir, your European partner for ILUMYA has indicated 900 patients cumulatively and that too in a restricted few countries kind of a launch. Just conceptually and longer-term, do you see US is a much larger volume market for us or do you think given that the partner is a leader in dermatology, he will do more volumes than us?

Dilip Shanghvi: Actually, I think two issues we have to keep in mind; one is that the reimbursement mechanism in Europe is very different from reimbursement mechanism in the US. And what the success of the product in both Australia as well as in Europe reflects is the intrinsic strength of the product that we have and its ability to deliver the benefits to the patient. And that is what is reflected

even while competing with all the other products which are in the market. I think the US part, maybe Abhay can respond.

Abhay Gandhi: First and foremost, I think the asset that we have at hand, ILUMYA, to be successful globally across all geographies is very important from both a patient perspective as well as from a company perspective. Having said that, each market has different peculiarities which makes it interesting and also the strength of the company. You are right, the partner that we have in Europe is a far stronger company in derm than Sun would be in the US, I mean, we are like just starting up in the last few years. But the idea is to find ways to grow in each geography. So, like Mr. Shanghvi said in context to an earlier question, not on ILUMYA, we have to try and find ways to succeed in each and every geography that we operate in, looking at the operating scenario not as a handicap, but a challenge to find ways to do better and keep improving.

Chirag Dagli: Sir, this long-term data that we published, it does not seem to be helping the prescription numbers. Is it too soon to expect improvement, what is the messaging that is going to the community now that we have this long-term durability data?

Abhay Gandhi: The long-term durability data is being talked about with the doctors, not by every segment of the field force which touches a doctor, but by the MSLs, by the medical team and of course we get a lot of podium time and poster presentations on the subject at different conferences. Now in a competitive environment of nine products, we are not the only people publishing data on our product. You get data coming in on other products as well in different subsets of patients. So, even in terms of dissemination of data, it is a competitive environment. We are not in a standalone situation that we have data and we have everybody's eyes and ears only on us. The share of voice even when it comes to sharing of data I think is an important factor to keep in mind. So, in that competitive environment, how do we maximize I think is a fair question. And that is something we will keep on thinking of ways to do better.

Chirag Dagli: So this materially does not change much is what is the message that you want to try and give?

Abhay Gandhi: I did not say that at all, I mean, it is not the only panacea where you can get a 5x from where you are. It is an important factor and we have to try and see that we maximize the return out of this data that we have.

Dilip Shanghvi: I think Abhay, you also need to clarify that as long as it does not go into label, it is not something which a medical rep will be able to talk to the doctor.

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

Nimish Desai: Thank you, everybody, for being on the call. If any of your questions have remain unanswered, do send them across and we will try to get 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, that concludes this conference. Thank you for joining us and you may now disconnect your lines.