Corporate Participants

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Moderator: Ladies and gentlemen, good day and welcome to the Q2FY23 Earnings Conference Call of Sun Pharmaceutical Industries Limited.

As a reminder, 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 and 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 second quarter FY23 earnings call. I am Nimish from the Sun Pharma Investor Relations team. We hope you have received the Q2 financials and the press release that was sent out earlier in the day. These are also available on our website.

We have with us Mr. Dilip Shanghvi – Managing Director, Mr. C. S. Muralidharan (CFO), Mr. Abhay Gandhi – (CEO – North America), and Mr. Kirti Ganorkar (CEO – 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: Welcome and thank you for joining us for this earnings call after the announcement of financial results for the second quarter FY23.

Let me discuss some of the key highlights:

Consolidated sales for the quarter were at Rs.108,092 million, up 13.1% YoY. Most of our businesses witnessed good growth led by the global specialty business, India and Emerging Markets.

For Q2, our global specialty revenue was up 27.5% YoY to about US$ 201 million.

Ilumya, Cequa and Winlevi were the growth drivers for the quarter.

Abhay will give you more details on the specialty business later.

I will now hand over the call to Murali for discussion of the Q2 financial performance.

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

Gross sales for Q2 are at Rs. 108,092 million, up by 13.1% YoY. Material cost as a percentage of sales was 25.1%, lower than Q2 last year due to higher specialty sales. Staff cost stands at 18.5% of sales. While staff costs in percentage terms are lower over Q2 last year, the increase in absolute value is attributed towards merit increase, consolidation of the Alchemee business and expansion of the sales force in India. Other expenditure stands at 28.1% of sales, higher than Q2 last year. The increase in other expenditure is attributed towards higher Selling & Distribution expenses and consolidation of the Alchemee business.

As indicated in our past earnings calls, the expenses are seeing an increasing trend across all the markets as we reach full normalization.

Forex loss for the quarter was Rs. 2,415 million compared to a loss of Rs. 764 million for Q2 last year. This was driven by adverse movement across various currency pairs during the quarter.

EBITDA for Q2 was at Rs. 29,565 million including other operating revenues, up by 12.4% over Q2 last year with EBITDA margins at 27%. We have reported strong margins despite rising expenses.

Reported net profit for Q2 was at Rs. 22,622 million up 10.5% YoY compared to Q2 last year.

Reported EPS for the quarter was at Rs. 9.40 per share.

Let me now discuss the key movements versus Q1FY23.

Our consolidated gross sales were higher by about 1.6% QoQ at Rs. 108,092 million.

Material costs at 25.1% of sales were lower than Q1 mainly due to product mix. Staff costs at 18.5% of sales and other expenses at 28.1% of sales were also lower compared to Q1FY23.

EBITDA for Q2 at Rs. 29,565 million, was higher by 2.5% compared to Q1, mainly impacted by forex losses of Rs. 2,415 million in Q2 compared to a forex gain of Rs. 1,457 million in Q1.

EBITDA Margin for Q2 was at 27% compared to 26.8% for Q1.

Reported net profit for Q2 at Rs. 22,622 million, was higher than the net profit of Q1 by about 10%.

Now we will discuss the half year performance.

For first half, gross sales were at Rs. 214,532 million, a growth of 11.6% over first half last year. Material cost for H1 was at 26.1% of sales, lower than H1 last year, mainly due to higher specialty sales. Staff cost stands at 19% of sales, higher than H1 last year; on account of annual merit increase, consolidation of the Alchemee business and expansion of the sales force in India. Other expenses were at 28.4% of sales higher than H1 last year; on account of higher Selling & Distribution expenses and consolidation of the Alchemee business.

Forex loss for H1 was Rs. 958 million compared to a gain of Rs. 35 million for the previous period.

EBITDA for the first half was at Rs. 58,409 million, a growth of 7.2% over the first half last year, with resulting EBITDA margin of 26.9%.

Net profit for H1 was at Rs. 43,231 million, up 7.4% over adjusted net profit of H1 last year.

As of 30-Sept-2022, net cash was US$ 1.6 billion at consolidated level and about US$ 398 million at the ex-Taro level. Debt has increased compared to 31-March-2022 as we had a temporary borrowing to fund the settlement of the Ranbaxy anti-trust litigation in the US which was announced in March-2022.

Let me now briefly discuss Taro's performance.

Taro posted Q2FY23 sales of US$ 130 million, marginally lower over Q2 last year and net loss of US$ 2.8 million. For the first half, sales were US$ 287 million, up by 2.9% over H1 last year. Net profit for H1FY23 was US$ 11.3 million compared to US$ 4.6 million in H1FY22.

Taro's financials include the consolidation of the Alchemee business.

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 Q2, sales of formulations in India were at Rs. 34,600 million, up 10.9% on like-to-like basis, excluding Covid products sales of Q2 last year. On reported basis, the growth is 8.5% over Q2 last year. For the first half, sales were at Rs. 68,471 million, up 11.9% on like-to-like basis, excluding Covid products sales of H1 last year.

India formulation sales accounted for about 32% of total consolidated sales. There were no Covid product sales in Q2FY23.

In terms of the core business growth, we continued to witness good growth across multiple therapy areas in the chronic and the sub-chronic segments for the quarter.

For Q2, the therapies which did well for us include, CNS, Gastro, Gynecology, Urology, Respiratory and Ophthalmology.

We continue to outperform the average industry growth, which has led to increase in our overall market share. As per AIOCD AWACS Sept-2022 MAT data, we are ranked No.1 in India and our market share has improved by about 0.5% over the last one year, to approximately 8.6%.

As per SMSRC MAT August-2022 report, we are No.1 ranked by prescription share. Though, SUN being a specialty company with limited coverage with GPs, we have become No. 1 in terms of prescription share. In addition, SUN has a leadership position across 12 doctor specialties.

For Q2, we launched 34 new products in the Indian market.

We continue to increase our reach and access and we are also focusing on continuously increasing our share across key therapies and improving overall productivity.

I will now hand over the call to Abhay.

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

For Q2, our overall sales in the US grew by about 14.1% over Q2 last year to US$ 412 million. The main driver of growth was the specialty business, driven by Ilumya, Cequa, and Winlevi. US accounted for over 30% of consolidated sales for the quarter.

Specialty sales have also grown compared to June-2022 quarter. With new indications expected in future, the current growth trajectory of Ilumya would be sustained. With improving access coupled with geographical expansion into other markets, we expect Winlevi to continue to grow.

Our rep activities and doctor visits in the US have reached pre-Covid levels.

Globally in all new geographies where we have launched specialty products, we have received good response and have done well.

Let me now update you on our US generics business. While the US generic business continues to be competitive as ever, the Sun ex-Taro generics business has recorded growth on YoY basis. This growth is driven by a combination of new launches, market share gains for existing products and better supply chain management. For Q2, we launched 3 new generic products in the US market.

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 businesses as well as give you an update on our R&D initiatives.

Our formulation sales in Emerging Markets were at US$ 259 million for Q2, up by about 6.7% year-on-year. There has been significant volatility in various emerging market currencies which has impacted our reported growth. The underlying growth in constant currency terms was about 13%. Emerging Markets accounted for about 19% of total sales for Q2.

Formulation sales in Rest of World markets excluding, US and Emerging Markets, were US$ 181 million in Q2, lower by about 3.8% over Q2 last year. Growth was impacted by adverse currency movements. RoW markets accounted for about 13% of consolidated Q2 revenues.

API sales for Q2 were at Rs. 4,730 million, up by about 8.5% over Q2 last year.

We continue to invest in building a R&D pipeline for both the global generics and the specialty businesses. R&D efforts are ongoing for the US, Emerging Markets, RoW Markets and for India. Consolidated investment towards R&D for Q1FY23 was Rs. 4,608 million (4.3% to sales); while for Q2FY23 it stands at Rs. 5,710 million (5.3% to sales) and this compares to Rs. 5,364 million (5.6% to sales) for Q2FY22. We expect it will gain momentum in coming quarters. Specialty R&D accounted for approximately 22% of our total R&D spend for the quarter.

Our current generic pipeline for the US market includes 92 ANDAs and 13 NDAs awaiting approval with the US FDA. Our specialty R&D pipeline includes 4 molecules undergoing clinical trials.

Our R&D investments have increased compared to Q1 and we expect a continued ramp up of the same. R&D investments are likely to increase both for our specialty and the generics businesses.

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. The first question is from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

Tushar Manudhane: So, just on the U.S. generics business first, the pace of ANDA approval as well as filing has kind of reduced over the past couple of quarters. And despite that and even excluding specialty portfolio, as well as Taro sales the U.S. generic sales tracking well in USD terms. So, how sustainable is this growth momentum given that the price erosion is very much ongoing, and our pace of approvals/filing is kind of slowing down?

Abhay Gandhi: I would not say the pace of approvals is going down. I think, in the last two, three years, we have made a very conscious effort to look at the R&D portfolio, and focus on only certain large opportunities or products where we feel that we can hold on to a certain sensible level of

pricing, over the medium term, if not the long term. So, I think it is a strategic decision to focus on what products we wish to launch rather than focus on just sheer number of products. So, it's a conscious call that we took.

Tushar Manudhane: Just on REVLIMID settlement is in place, any queries pending at our end?

Abhay Gandhi: I think we are on track to meet our obligations and launch.

Tushar Manudhane: And just lastly, on the India business, the pace of launches has been quite aggressive over past few quarters, 30 launches in 2Q, 20 about in 1Q. So, is there any rethinking in terms of shift our focus from top brands to more broad based approach.

Kirti Ganorkar: Launching new products is one of our growth levers. So, what we are focusing is that how do we increase the contribution of new products for overall India business. And as you have rightly pointed in Q1, Q2, you are seeing the large number of new product introductions, because we have launched many anti-diabetic products and their combinations. So, that is also helping us to grow the CVD business.

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

Prakash Agarwal: I am asking as per clinical trials data, your primary endpoints for psoriatic arthritis clinical trial that has been done that is expected to end by March '23. So, question was that given the run rate of R&D has been lower than expected versus guidance also. Are we on track to achieve that primary endpoint, if there is an update to that?

Dilip Shanghvi: I am confused about your use of the terminology, primary endpoint. Basically, what you are asking is, whether we will meet timelines or not, is what you are saying?

Prakash Agarwal: That's right.

Dilip Shanghvi: Because in context of clinical trial, primary endpoint means whether I will achieve the therapeutic efficacy based on which we will achieve the approval or not. I think we have in the past also indicated that there have been some challenges for us in the recruitments, especially in

some of the geographies which are disturbed because of political uncertainty. So, we haven't worked out, we are in the process of working out the new schedule and timeline this year.

Prakash Agarwal: And what is the size of the trial, recruitment, etc.

Dilip Shanghvi: I think that trial size and everything, I don't have the detail, but that wherever you got the details about the clinical trial that would have the number of subjects and the broad clinical trial design.

Prakash Agarwal: It does, so it says 472 patients enrolled. So, I was just trying to understand what is the target that you have? I mean, is it like 3X higher which is yet to achieve, or it is nearing the target or?

Dilip Shanghvi: No, I explained to you that we are in the process of working out the new timelines. So, I don't want to respond to a question with incomplete information and create unnecessary expectation.

Prakash Agarwal: And second is again related. So, as you again mentioned that R&D is expected to scale up, while in the last few quarters, we have seen that R&D, because of obviously external reasons you mentioned. How do we see margins playing out once the R&D starts coming up? Is there any color to that given, especially the scale up in specialty has been pretty solid, so would the scale up would be able to offset the R&D increase in cost or, so just some color on margins would help on that context?

Dilip Shanghvi: Generally, we don't guide for EBITDA and margins, but broad guidance is that our focus would be to find a way to improve our overall profitability. And you would have seen over the last few quarters, is that we are consistently improving our overall profitability and EBITDA and that effort will continue. We see opportunities to be able to do that.

Prakash Agarwal: And lastly, just to squeeze in, seasonally Q3, Q4 are stronger for the specialty business, is that understanding correct?

Abhay Gandhi: It depends on the product. So, if you look at some of the Derm indications, your understanding is correct. But we also have products which are non-dermatological -- so there it does not.

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

Neha Manpuria: Abhay my first question is on ILUMYA. I think in the opening comments, you mentioned that the current growth trajectory for ILUMYA can be maintained with addition of new indication, but given the delay in psoriatic arthritis trial, how confident are we of growth in ILUMYA just for psoriasis till the time this additional indication, we get approval for that and launch it?

Abhay Gandhi: I see a significant opportunity and headroom to continue to grow even in the existing indication.

Neha Manpuria: So, even without psoriatic arthritis, we should be able to maintain the growth.

Abhay Gandhi: That's correct.

Neha Manpuria: My second question is on WINLEVI, if I were to look at the prescription data, it does show moderation in the prescription trends in the last few weeks in WINLEVI. Just tying it up with the comment that you mentioned on increasing coverage, how are you reading that? Are you seeing, does the promotion roll off? Traction picking up with doctors, any color, there would be helpful?

Abhay Gandhi: Wait for one more quarter. And you will see that this is just a blip that is not to be expected to go into the future.

Neha Manpuria: So, I shouldn't read too much in the slowdown that we are seeing.

Abhay Gandhi: I am personally not reading too much into it.

Neha Manpurai: And last on gross margins, there seemed to be a fair bit of expansion quarter-on-quarter. And what drove this, I mean, product mix means was it any specific region with where we saw improvement in gross margins? What's contributing to this?

C. S. Muralidharan: We already said that it is driven by the higher specialty revenues, and also product mix to some extent.

Neha Manpuria: On a quarter-on-quarter basis also?

C. S. Muralidharan: Yes.

Neha Manpuria: So, then is it fair to assume that this level of gross margin is sustainable as specialty continues to grow?

C. S. Muralidharan: We work to continue to maintain efficiency in the business to maintain the margins. That's what we said and we have been consistently maintaining our EBITDA margins over the last few quarters.

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

Sameer Baisiwala: Any update on Halol, especially given that FDA gave OAI status in August?

Dilip Shanghvi: My understanding broadly, is that if you get an OAI, then depending on the FDAs expectation, we will continue to address all the observations and remediation effort. But most of the time, they will revisit the facility before it becomes a VAI.

Sameer Baisiwala: So, that means, potentially it can take a bit more longer than what we had thought?

Dilip Shanghvi: That's correct. I think with OAI, it would take longer than what we had thought, yes.

Sameer Baisiwala: Second question is on REVLIMID, Abhay I got your comment. But is it, the launch is expected in the current fiscal year, if you can clarify on that?

Abhay Gandhi: There are many ways to skin the cat, you are trying one more.

Sameer Baisiwala: It's just that Abhay that there has already been market formation in a second wave. And we have not seen Sun there and hence the question.

Abhay Gandhi: All I will say is what I said earlier, we are on track as for whatever we have agreed to with the innovator, and fingers crossed.

Sameer Baisiwala: Final question is on WINLEVI, Abhay, how is the progress with the reimbursement coverage, and for such products, I know it takes time, but if you were to see one, two year ahead, what's the kind of a peak coverage that you can achieve?

Abhay Gandhi: Frankly, I don't even know how to define peak coverage. What constitutes peak coverage I don't know? But definitely, you are right, I mean, it takes a little bit of time for the payers to start covering the product, we will see improvement, we are seeing improvement, and it's always work in progress. So, I am pretty confident that more payers will see the value that the prescriptions written by doctors are generating for them, and help us to get the product on their formularies.

Sameer Baisiwala: Okay, maybe I can resay, it's not peak but same a more mature I mean, do such products hit 80-90? Or do they --?

Abhay Gandhi: Oh no, I think 80-90, you really should not even be expecting, it is not realistic.

Sameer Baisiwala: Okay, much lower than that, got it.

Moderator: Thank you. The next question is from the line of Shriram from BNP Paribas. Please go ahead.

Shriram: So, firstly on R&D spend that we are guiding for around 8% kind of R&D sales to happen in the future. Currently, we are at more close to 5%. So, do we have visibility on the R&D activities that in absolute amount, it can go up by almost 50% from year on? Just wanted a clarity because we have been guiding for this numbers, but it continues to be around 5% for several quarters now.

Dilip Shanghvi: Yes, I think you are right, even though on absolute terms, it is going up, in percentage terms, it's not as per the guidance. I think we have guided that we expect the R&D spending in the next two quarters to go up.

Shriram: And secondly, on specialty like a $200 million sales, is it possible to share with us we are EBTIDA positive or negative now, given the --?

Dilip Shanghvi: We don't break down profitability by business.

Shriram: Okay, because R&D spend is like less than 10% of specialty sales. So, I mean, any indication will be helpful, like whether we are making positive EBITDA or not.

Dilip Shanghvi: I wish to help you, I think that's why we are trying to give you as much information so that you can reconstruct. I think Murali said that the reason why cost of goods has gone down is because of the increase in the specialty business. So, I think we are trying to help you understand without giving specific guidance.

Moderator: Thank you. The next question is from the line of Tarang Agarwal from Old Bridge Capital. Please go ahead.

Tarang Agarwal: Three questions from me. One, if you could split the H1 FY'23 India growth in volume, price and new introductions, that's one.

The rest two questions are related to a specialty business. In specialty, just wanted to understand what is the kind of frontend infrastructure that the business has created? Maybe in terms of number of reps, in terms of divisions, some sense on that. And even in terms of the target addressable prescribers, where are we have we probably reached 40%, 50%, some shade on that would be helpful for us to understand the business better.

Dilip Shanghvi: On a lighter side, I think Kirti will respond, but maybe it will help me if you can do his review from next quarter. Kirti will respond.

Dilip Shanghvi: I think you are asking for a level of detailing information that we generally won't share, because this information is not only for investors, also potentially for competitors.

Tarang Agarwal: In both the questions, is it?

Kirti Ganorkar: I am talking specifically for the India business.

Abhay Gandhi: I think the same really applies to the specialty business, we haven't really given any time, the number of field force and all that, support organization, so we really can't answer that question.

Moderator: Thank you. The next question is from the line of Vivek Agarwal from Citi Group. Please go ahead.

Vivek Agarwal: I have a question on the U.S. psoriasis biologics market, and there are two parts of the question. The first is, what percentage of the population that is on the biologic, required to get the drugs administered in the medical setting, or the self administration is not a viable option for this patient population any qualitative color would be helpful here.

And the second part is, when there are a lot of self-administered drugs in the market like majority of the IL-23, IL-17 inhibitors, then what are the factors or the reasons that are driving the patient to go for the drug administered in clinical or the medical setting?

Abhay Gandhi: For the first part of the question, if you are asking about the epidemiology, then I really don't know what percentage of the population is on medically administered biologic, I don't have that data. The second part is easier for me to answer because there are specific doctors who prefer to inject in the clinic so that the second dose or the third dose of the patient also happens in front of their eyes and they are able to see whether the drug has any impact or not. So, there are many self-administered drugs no doubt, but there is a certain value prop that you know, a drug like ILUMYA brings in, which doctors appreciate, like and therefore they use it.

Vivek Agarwal: So, even the self-administered drugs are being injected or administered by the doctor in the medical setting, is it right understanding --?

Abhay Gandhi: Actually no, because most of the self-administered drugs will have in-house or at-home usage. It is possible that during the first visit, maybe a nurse administrator or somebody in the doctor's chamber may teach the patient how to self-inject but subsequently it will be at-home use.

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

Krish Mehta: The first question I had was just if you could provide a broad directional view on Taro and the U.S. generics business, in terms of if you have seen this business kind of bottoming out, or how we can view this going forward say in the next one to three years. So, how do you think about this business trajectory going forward?

Abhay Gandhi: That will be on what Taro declares, I mean, on the Sun calls, we really don't take any Taro questions.

Krish Mehta: So, would it be possible to provide I guess a broader commentary on the U.S. generics market in that sense, in terms of if you see pricing bottoming out or going forward?

Abhay Gandhi: I mean overall generic market; I think it's been a few years since I am hoping to see the bottom. I have not. And I keep hoping, but now it's becoming like a faint hope.

Krish Mehta: And my second question is on the specialty R&D. Given that it's come down say in the last nine quarters from 26% to around 22% of the total R&D. What would be a reasonable kind of level to assume on a steady state on your specialty R&D as a percent of total R&D?

Dilip Shanghvi: We will share with investors every quarter about how much is the spend. In the past, I think we have indicated that one of the reason why the spend has been lower is that clinical trial costs which were planned, we are unable to execute on those plans. So, I think the idea is to find a way to increase and that's also possibly the reason for the delta between our guidance and our actual spend.

Moderator: Thank you. The next question is from the line of Damayanti Kerai from HSBC. Please go ahead.

Damayanti Kerai: My question is on other specialty brands, ODOMZO, LEVULAN, CEQUA etc. So, can you update us, like how these products are performing in terms of having better market access or prescription pick up etc.?

Abhay Gandhi: Product wise, we haven't given much of details in the past, but CEQUA clearly, I think I must mention that despite the launch of Restasis generics, I am pretty happy that we have been able to hold our own and actually grow the product in the current fiscal. So, I think after ILUMYA that would be our biggest product. And therefore I think that commentary I am sure would be useful to everybody on this call.

Damayanti Kerai: So, I would just like asking from these products performance versus pre-COVID level like are these products broadly back to what we had before the pandemic. Just make some qualitative colors would be helpful.

Abhay Gandhi: So, all three products have grown year-on-year, whichever period if you look at year-on-year or half year-to-half year, or quarter-on-quarter. All three products that you have mentioned have grown.

Damayanti Kerai: My second question is on operating costs. So, except R&D, which you mentioned would likely catch up with progress in clinical trials of some products, how should we look at other features for the operating expenses, because now you mentioned we have actually costs included there then most of FM costs are back to pre-pandemic levels. So, should they assume 2Q numbers are broadly now the new cost baser?

C. S. Muralidharan: So, the other expenses as you see in Q2 is somewhat the level at which we are today. However, as we said that we are not giving any specific guidance on other expenses or margins. Since it also depends upon the overall ramp up we are having in various markets as the markets are normalizing.

Damayanti Kerai: And my last question is, are you done with sales team expansion for India business or still going on?

Kirti Ganorkar: Yes, we have done the expansion.

Damayanti Kerai: So, whatever target you had set in, it's now in place and now focus is on ramping up the productivity.

Kirti Ganorkar: Correct.

Moderator: Thank you. The next question is from the line of Nitya Balasubramanian from Bernstein. Please go ahead.

Nitya Balasubramanian: I have two questions on specialty, the first one on ILUMYA. How much of a threat do you believe Humira and Stelara Biosimilars, which are expected to hit the market in 2023 and 2025 have potentially.

Second one is on WINLEVI, I think in your past comments like -- gross to net is quite high. So, do you see that improving next year, how should we think about that?

Abhay Gandhi: I don't think on any call we have spoken about the gross to net. So, I don't know how you got that number from.

Nitya Balasubramanian: Your partner Cassiopea's comments from the last earnings call is actually helpful in doing some basic calculation and that makes it believe that gross to net is low. So, do you see that improving and some color on that will be helpful?

Abhay Gandhi: I mean what they have said really, I am not aware, so I think I would defer it to them. As far as I am concerned, I mean, we had a certain business case, which we are trying to meet and beat. And I think we are on track to do that.

As far as the first part of your question on threat from the Biosimilars, I think it's too soon for me to comment. I mean, we have done our own modeling, looked at various scenarios of what can and cannot impact. But things in the U.S. unlike in Europe are pretty fluid as when it comes to the uptake of Biosimilars. And it has clearly not been as quick as what you saw in Europe and as a rampant. So, how these things will pan out, I mean, there is certain lack of clarity even on my part, and part of the overall branded industry as such. So, we have to always keep watching and keep recalibrating our own strategies to meet those challenges, if and when they arise.

Moderator: Thank you. The next question is from the line of Kunal Dhamesha from Macquarie Group. Please go ahead.

Kunal Dhamesha: A couple of housekeeping questions, is there any PLI related benefit in the quarter for us?

C. S. Muralidharan: Yes, it has been considered in the quarter.

Kunal Dhamesha: Can you quantify?

C. S. Muralidharan: We normally don't quantify such items.

Kunal Dhamesha: But would it be material or?

C. S. Muralidharan: From overall scheme of revenue, I don't think that revenue from operations, that's a material amount.

Kunal Dhamesha: And secondly, if I see the cash flow statement that is on the provision side, we have some big out go. Is it related to the Valsartan, Valganciclovir settlement that we did in Quarter 4?

C. S. Muralidharan: You are right, that's the settlement amount that have been settled that's why you see a downward revision.

Kunal Dhamesha: And our trade receivable has also gone higher vis-à-vis March, any particular reason for that, in any particular geography from where it is coming?

C. S. Muralidharan: So, as our top-line and overall business has grown, which you have seen in the results, from a value perspective, I do agree that there is an increase in receivables overall. And Sun's number of days have increased at the group level which we are looking at to further optimize.

Kunal Dhamesha: The second question is on ILUMYA. So, we have been saying that it's currently in the growth phase. But is it primarily because of the way the economics of certain channels in the U.S. market work out, where we are benefiting?

Abhay Gandhi: I think doing well with a product in any geography is never dependent on one particular factor. I mean it's a combination of all things, launching a product in the right manner, sales and marketing, market access, medical. So, I think it's not just one reason which makes a product successful or unsuccessful. So, I would give credit to every department and function working together within the organization to really make the product grow.

Kunal Dhamesha: And can you just help us understand our data exclusivity only ILUMYA till what year it runs through?

Abhay Gandhi: Talking about the IP?

Kunal Dhamesha: Yes, the IP.

Dilip Shanghvi: We don't have exact number because there are many patents which we would have filed also, which are not publicly visible. So, we don't wish to give any specific guidance on up to which period we expect exclusivity. However, if the question is with a view to understand potential what you call competitive possession or things like that then we still have a long time

Moderator: Thank you. The next question is from the line of Kunal Randeria from Nuvama. Please go ahead.

Kunal Randeria: Abhay, the first question again, on the ILUMYA. There are several clinical papers that say that the prevalence of psoriatic arthritis in patients with psoriasis is much higher than what you know previously, what people had accepted. Assuming you do get approval in psoriatic arthritis setting, does it also, you expect the volumes to improve for psoriasis setting also?

Abhay Gandhi: It will have some halo effect, I won't deny that that. There will be an increase, because we will have new data to speak about, that itself helps with doctors. So, to that extent, I think the halo effect will help us both in the existing indication as well as in the new indication. So, I will agree with you.

Kunal Randeria: And secondly, while you would say that the U.S. generic market remains challenging, but on the other hand, on the specialty side you have been doing fairly well and now we have a good infrastructure in place. So, from a R&D perspective, the fact that you are spending around 20% to 25% of your R&D on specialty in the next three to four years, should we expect the specialty contribution in R&D to increase meaningfully?

Dilip Shanghvi: Yes, I think we have indicated that the specialty R&D even today, if we were able to execute on some of the studies would have been much higher than what it is today. So, it will continue to be an important component of our future investment.

Kunal Randeria: So, my question is, since you said that specialty R&D will increase going forward. So, are you also assuming that maybe three, four years down the line, you will have a lot more products, acquiring them?

Dilip Shanghvi: No, I think whatever that I speak about is for business that we have. What we don't have I can't plan for.

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

Sayantan Maji: My first question is on WINLEVI. So, what caused a temporary blip in the prescriptions in 2Q? And what would basically reverse that can aid in the growth going ahead. And basically the second question is that, what proportion of sales are we now getting from repeat customers in WINLEVI?

Abhay Gandhi: So, I mean, as I said, it is a continuous process. And I think if one quarter there is not a significant growth in the number of TRx, I mean, I watch it as carefully as you do, I mean more than you do, actually, because that's the only thing I do. And I am sure it's only a temporary blip. I think next quarter onwards, we will see increase as we used to that's my personal sense.

To the second part of your question, I think we have typically around a third of our customers who are regular users.

Sayantan Maji: And my last question is on R&D. So, we had given a guidance of 7% to 8% of sales. So, after completion of half of the year, do we want to revise it down? Or do we still expect that based on the pickup in R&D in the second half, we will be closer to the guidance that we had given earlier?

Dilip Shanghvi: So, I think our guidance is 6% to 8%. And I think we are not changing the guidance at this point.

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

Surya: A couple of quick questions, first is that when we are talking about the psoriatic arthritis indications for ILUMYA. So, the target market for this indication would be similar to that of psoriasis or it is higher, if you could give some sense would be useful.

Abhay Gandhi: When you say target market, you are referring to doctors?

Surya: No, in fact the potential of this indication in the U.S. market if I say, compared to the psoriasis indication?

Abhay Gandhi: So, psoriasis is definitely the larger indication. Now depending on what data you look at, in psoriatic arthritis in the U.S., I do not know about other markets, it can be something like, depending on what data you are looking at anywhere from 20% to 30% of the psoriasis market.

Surya: And the second question is on the overall margin and although you have commented something on this, but here, I am trying to understand that this quarter sequentially whatever the improvement that we have witnessed, is obviously led by the sturdy specialty performance, despite of the Taro's underperformance what we have seen. And believing that this specialty performance is likely to remain steady and improving only, and we would also obviously, will be having some improvement in Taro going ahead. And on the top of that the REVLIMID opportunity, if we factor then I think the margin visibility, it looks really robust, much beyond 30% kind of margin profile. So, any commentary on that, do you see, this understanding is right.

Dilip Shanghvi: So, as we said earlier, no, we are not giving any guidance on this, but based on what you said we should all go on long holiday so that business will take care of itself.

Surya: So, then, in the other expenses front to some extent, if I try to understand then QoQ there is a decline, despite that there is a normalcy in the overall operation post-COVID, there is a Alchemee addition and also the expanded operation generally is that we have seen. So, despite that we have seen a sequential reduction in the other expenses. So, how should we read this?

C. S. Muralidharan: If you see the sequential other expenditure, I don't think its very material change. So, I will not read much into it.

Surya: And just a quick one, so since last few quarters that we have been seeing a kind of steady reduction in the debt level, when this quarter there is a kind of a rise, to the tune of around 350. Any specific reason you think for that?

C. S. Muralidharan: So, we have said, we have taken a temporary borrowing for the settlement of the litigation.

Moderator: Thank you. The next question is from the line of Harith Ahmad from Spark Capital. Please go ahead.

Harith Ahmad: My first question is on Alchemee, because since we acquired after Taro. So, when we made the acquisition, we had disclosed and released revenue of around $165 million for the business in calendar '21. So, I am trying to understand if we are still tracking at those levels on a annualized basis. I am asking because there were a couple of years of decline prior to our acquisition. So, trying to understand if the business has stabilized?

Dilip Shanghvi: So, I think unfortunately, we can't share anything beyond what Taro has shared. And also, I don't think Taro has specifically shared the revenue numbers that were there in Alchemee before they acquired. But, we will not be able to respond to specific questions which is beyond what Taro has shared in their press release.

Harith Ahmad: Next one is the other operating income for the quarter, which is around 140 crores we have seen a step up in the run rate there. Is it related to the PMI scheme approvals, the big deal booking this step up, in other operating income versus FY'22 run rate?

C. S. Muralidharan: So, the other operating revenue step up is mainly the PLI, we have recognized the PLI accrual.

Harith Ahmad: And last one, when I think about further product additions for specialty business, can you comment a bit on the availability of potential licensing candidates in our chosen specialty which is derma and opthal primarily? And are we pursuing some of those licensing opportunities if they are available? Or should we expect the next leg of product addition to come through our own organic R&D efforts in the specialty business?

Dilip Shanghvi: I think as everybody would inform you, that there is potential opportunity to license or acquire product or companies. But there is a fair bit of competition to acquire these assets. So, and we need to feel comfortable with the potential value that we might have to give to acquire those assets. But we will continue to look at those investment opportunities with the view to strengthen our portfolio.

Moderator: Thank you. The next question is from the line of Rithvik Sheth from One-Up Financial. Please go ahead.

Ritwik Sheth: My question is on the tax rate; first half tax rates is about 7%. So, what should be going forward the tax rate for second half and FY'24 onwards?

C. S. Muralidharan: We have always said that look at the tax on a full year basis. And as per our internal working also, it is also expected to go up as we move forward.

Ritwik Sheth: So, it should be in the range of last year, full year rate right.

C. S. Muralidharan: We are saying that it will inch up compared to the last fiscal full year.

Moderator: Thank you. Ladies and gentlemen due to time constraint, we will take that as a last question. I now hand the conference over to Mr. Nimish Desai for closing comments.

Nimish Desai: A small update from our side, before we end the call. Abhishek has joined us as Head of Investor Relations and will be taking over the IR responsibilities from the next quarter onwards. For the next few months, both of us will work together for a smooth transition. It has been an absolute pleasure interacting with all of you. I am extremely grateful to all of you for the support that you all have given to me for the past 10 years. Thank you and have a good day.

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