



Corporate Participants

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Moderator: Ladies and gentlemen, good day and welcome to the Sun Pharmaceutical Industries Limited Q2 FY20 Earnings Conference Call. 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 an operator by pressing * then 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 second quarter FY20 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. Kal Sundaram – Director (Corporate Development), 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: Welcome and thank you for joining us for this earnings call after the announcement of financial results for the second quarter of FY20.

Let me discuss some of the key highlights:

Our overall sales for the quarter were at Rs. 7,949 crores, a growth of 16% over same quarter last year and is in-line with our full year guidance.



We continue to focus on cost savings and efficiency improvement to align our generic business with the changing industry dynamics. Simultaneously, we continue to progress on building our global specialty business. In the US, we recently launched Cequa while Ilumya continues to gain traction. We have also initiated steps to commercialize both Ilumya and Cequa in other markets either through partnerships or on our own.

For Q2, our global specialty revenues were approximately US\$ 91 million across all markets while specialty R&D accounted for about 24% of total R&D spend for the quarter.

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

Q2 sales are at Rs. 7,949 crores, up by 16% over Q2 last year. Material cost as a percentage of sales was 28.5% higher than Q2 last year mainly due to higher COGS for Taro and overall product and geographical mix. Staff cost was at 20.4% of sales, lower than Q2 last year but up 10% in absolute terms mainly due to annual increments, specialty staff cost increase and addition of Pola Pharma in Japan. Other expenditure was at 30.9% of sales higher than Q2 last year mainly due to the branding and promotional spending for the specialty business and consolidation of the Pola Pharma and Sun Pharma Distributors Pvt Ltd.

As a result of the above, the EBITDA for Q2 was at Rs. 1,616 crores, up 12% over Q2 last year with EBITDA margins at 20.3%.

Net profit for the quarter was at Rs. 1,064 crores, up 12.6% over adjusted net profit of Q2 last year. The EPS for the quarter was Rs. 4.43.

In terms of the variance versus Q1FY20, Q2 sales are at Rs. 7,949 crores, down by 4% over Q1FY20 as the sequential quarter included the contribution from the one-time generic supplies to a customer in the US. Finance cost has come down due to debt repayment. During H1FY20, as compared to March'19, Sun excluding Taro has paid off debt of Rs. 2,500 crs; however, considering cash, the net debt reduction is approximately Rs. 1,300 crs.



We have seen some improvement in overall working capital in the first half of this year and we will continue to focus on further improving it.

Now we will discuss the half year performance. For first half, net sales were at Rs. 16,208 crores, a growth of 16% over first half last year. Material cost, as a percentage of the net sales was 29.2% which was higher than H1 last year mainly due to product mix. The staff cost for the first half was up approximately 9% over first half last year mainly due to annual increments, incentives and addition of Pola Pharma. Other expenses were at 30.2% of sales, higher than H1 last year driven by branding and promotion for the specialty business and consolidation of Pola Pharma and Sun Pharma Distributors Pvt Ltd.

As a result of the above the EBITDA for the first half was at Rs. 3,496 crores a growth of 18% over the first half last year with resulting EBITDA margin of 21.6%.

Net profit for H1FY20 was at Rs. 2,452 crores, with resulting Net profit margin of 15.1%. The reported net profit for H1 last year was after providing an amount of Rs. 1,214 crores for the estimated settlement amount payable for the Modafinil antitrust litigation in the US. Excluding this, the net profit for H1 this year has grown by 22.5% YoY.

Let me now briefly discuss Taro's performance.

Taro posted Q2FY20 sales of US\$ 161 million, up by 1% over Q2 last year. For the first half, sales were US\$ 322 million, up 2.7% over first half last year. Taro's net profit for Q2 was US\$ 56 million, down by 10% over Q2 last year. Net profit for H1FY20 was US\$ 122 million, down by 6% over first half last year.

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

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

For Q2, sales of branded formulations in India were Rs. 2,515 crores, a growth of 35% over Q2 last year and accounting for approximately 32% of total sales. You would recall that we had undertaken a voluntary inventory correction in Q2 last year which has resulted in a lower base. Hence, adjusted for



the inventory correction of Q2 last year and on comparable basis, our underlying sales growth for the quarter is trending at 12% over Q2 last year.

Sun Pharma is the largest pharmaceutical company in India and holds approximately 8.2% market share in the over Rs. 136,000 crore pharmaceutical market as per September 2019 AIOCD-AWACS report.

As per latest SMSRC report, Sun Pharma is ranked no. 1 based on share of prescriptions with 11 classes of doctors. For Q2, 12 new products were launched in the Indian market.

Key focus areas for us are: Retaining high brand equity with doctors, Using in-licensing as a route to launch latest generation patented products, undertaking more evidence-based scientific promotion of our products, Strengthening and broad-basing the prescription base and Retaining our leading prescription rankings in the chronic segment.

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 were flat over Q2 last year at US\$ 339 million, accounting for approximately 30% of overall sales. For the overall generics business, we have not seen any broad-based improvement and we expect the market to remain competitive.

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

As indicated by Mr. Shanghvi, the global specialty sales are flat compared to June'19 quarter. While, Ilumya sales for the quarter have increased as compared to the June'19 quarter, seasonality in Levulan and Absorica has led to the flat growth. We continue to add patients and increase the doctor coverage for Ilumya. Prescriptions for Ilumya continue to gain gradual traction.

The long-term follow-up data for Ilumya, which was recently presented at EADV Congress, demonstrates sustained response for patients over four-year period with very good safety profile.



We also continue to invest in promoting Ilumya including the direct-to-consumer promotion campaign and we remain optimistic on the prospects of Ilumya.

We have recently commercialized Cequa for dry eye disease in the US. This is an important launch for us and adds one more product to our on-market specialty portfolio.

Odomzo continues to gradually gain market share as we put in more efforts towards increasing prescriptions.

Overall, we expect traction in our US specialty revenues going forward. I will now hand over the call to Mr. Shanghvi.

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

Let me now discuss our performance in emerging markets.

Our sales in emerging markets were at US\$ 201 million for Q2, accounting for 18% of total sales. Key markets which have done well were Brazil, Emerging Asia, India sub-continent and & Sub-Saharan Africa.

Formulation sales in Rest of World markets excluding US and Emerging Markets were US\$ 161 million in Q2, a growth of 49% over last year. ROW markets accounted for approximately 14% of Q2 revenues. This growth was driven by both organic initiatives as well as the consolidation of the Pola Pharma acquisition in Japan.

We continue to focus on developing and utilizing APIs for captive consumption for benefits of vertical integration. For Q2, the external sales for our API business were at Rs. 468 crores, up by 10% over Q2 last year.

Consolidated R&D investments for Q2 was Rs. 488 crores, accounting for 6.1% of sales. Our current generic pipeline for the US market includes 103 ANDAs and 5 NDAs awaiting approval with the US FDA. We expect higher R&D spending in the coming quarters for the specialty business. This R&D spending enables development of future product pipeline including specialty and differentiated



products. We also continue to critically evaluate generic R&D spend given the competitive nature of the US generics market.

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 Anubhav Agarwal from Credit Suisse. Please go ahead.

Anubhav Agarwal: Can you just give some idea about Ilumya in terms of, let us say, couple of quarters back you mentioned that the prescriber base was about 1200 doctors, how is that number doing right now, some idea will be useful here.

Abhay Gandhi: Last quarter onwards, we are giving you the global sales numbers and we are not giving doctor wise numbers. But clearly, significantly more than 1200 doctors that you remember from one of the earlier calls. We feel we are doing quite reasonably okay with Ilumya and we will continue to gain traction as the months go along.

Anubhav Agarwal: Sure, but my understanding was Ilumya is just less than 5% of your global specialty sales, roughly of that order. So how justified it is giving 100% number and not talking anything about 5% numbers?

Dilip Shanghvi: It is significantly different than what you estimate without specifically responding to the number, but if you presume that it is only 5%, then that is not correct.

Anubhav Agarwal: Sure. One more question on Ilumya. How important is to have an auto injectable form for Ilumya and are we working towards it?

Abhay Gandhi: From a US context that is something we would not like to do because as we have said in multiple calls, we are in the medical benefit side of the business and having that, I think is one of the reasons why our access, it does not put us at any disadvantage. The moment you have an auto-injector, we will be changing the rules of the game completely and that may actually put us at a disadvantage.



Anubhav Agarwal: Can you just a little elaborate on this, sorry I did not understand this point very well. So how does it become disadvantage once you have an auto-injector?

Abhay Gandhi: Because the moment you have an auto-injector, you are basically saying that the patient can self-inject in their home environment, so then it does not become a medical benefit product where essentially the doctor has to inject the product into the patient in a clinic or outpatient kind of an environment.

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

Surya Patra: Just wanted to have a sense on your China strategy like the kind of tie-ups that you have done and the kind of product development activities that you are talking about, is it to like leveraging the product development activities that you are anyway doing for a larger market or it is new R&D effort will be done for building the pipeline for China and in 3-year timeframe, how big this China portfolio could be for us?

Dilip Shanghvi: Our focus is on developing a relationship with a few important players in the market, registering our specialty products as well as some of the generic products for which we don't expect too much competition. As this business builds and as we continue to get approvals for these products, we expect China, even Japan to become an increasingly important part of our future business. Most of the products that we are currently developing for China as well as for Japan are mostly products that we are developing for the other markets, but at a later point of time, looking at the size and the importance of both the markets for us, we don't rule out developing something specific for these markets.

Surya Patra: On the second point, sir. You in the initial remarks you have mentioned about the higher R&D spend for the specialty segment going ahead. So can you just elaborate something on that, what is the kind of thought process here? And are you talking even the China-Japan related developments also under it?

Dilip Shanghvi: Yeah, it may be Japan related or China related clinical studies. But also new indications for Ilumya, additional studies for establishing benefits of Cequa over currently marketed



products. So I think the idea is to help doctors see how our products can benefit the patients more effectively.

Surya Patra: And this R&D budget will be something different than the trend currently, sir? Or anything on that front, you can clarify?

Dilip Shanghvi: So, our current guidance I think is around 8%-9%, for the first half, it is much lower. I am expecting some pickup in the second half. Whether we will be able to touch the guidance or maybe a little bit lower, essentially because some of the studies that we were planning to be able to start have got delayed and that is the reason why you see a lower number.

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

Surajit Pal: I have one question, regarding your India formulation. The statement which was given in Q2 FY19 is that you have adjustment of roughly around 330 crores roughly around, if I am not mistaken. Yeah, 315 to 330 crores of adjustment was done in inventory level and that is the amount which was lower in India formulations. So if I add back that, then your actual growth which is coming is that roughly around 15% to 16% and if I can recall the guidance, overall macro when it was given, is that 7% to 9% could be the good growth for Sun's domestic formulation business. So from that perspective, do you think this super normal growth could impact your H2 sales?

Nimish Desai: Surajit, I think two clarifications. First and foremost, we have not given any guidance for our India business and secondly, the 300 odd crores number that you are referring to also is not a number that we had disclosed. In quarter 2 last year, we had just said that there was inventory destocking which impacted growth. So these were not numbers which were disclosed by us and there is no guidance separately that we have given on the India business.

Surajit Pal: No, my point is that, it is not guidance per se, strict guidance, but it was told that 7% to 9% could be a good growth for India business and beyond that, it will be very good growth kind of scenario. But if I assume that 315, the destocking amount of 330 crores or 315 crores, do you think the first half growth would be, whatever has been reported is much higher and could impact your H2 sales?



C. Muralidharan: So just to reiterate that as Nimish pointed out that there was no guidance given for the India business and we maintain our overall guidance which is given at a group level of the topline.

Kal Sundaram: This is Kal here. More sort of going back to what he said, some of the statements we would have made in the past about India. If you look back, we always have maintained that our growth is sort of in the lower double digits, sort of low teens etc. Through the best of my recollection, we have never given any guidance of 7% to 9% being our expected growth. So I think, talking for Kirti, the 12% that Kirti mentioned for second quarter is maintaining the momentum that we had historically.

Moderator: Thank you. The next question is from the line of Prashant Nair from Citi. Please go ahead.

Prashant Nair: My first question relates to your US generic sales. So, the quarter-on-quarter decline, how much of that would be or rather is a large part of that related to the one-time business you had or has your, the rest of the core business also declined sequentially?

Abhay Gandhi: The one-time large business that you are talking about, actually came in Q4 of last year. So if that is what you are referring to, then in the first two quarters of this year there is no real impact of that business. But we always said that the market is competitive and...

Dilip Shanghvi: There was significant sale in first quarter of this year also

Abhay Gandhi: Okay. You are looking at Q4 and Q1 put together.

Prashant Nair: Yes, that is right.

Abhay Gandhi: That being said yes, then if you are looking at on a quarter-to-quarter basis that will have a significant impact because that Q1 element of this share was significant.

Prashant Nair: So my question was, is the decline primarily related to that or have you seen any further erosion in the regular business as well, Taro we can see?



Abhay Gandhi: No. There is no further erosion really speaking, but we always said that the market is competitive and it is a tough environment for all players in the generic business.

Prashant Nair: Fair enough. And one more question, this is more on the other operating income side. There seems to have been a reasonable spike quarter-on-quarter. So I mean, is there anything in the second quarter number which is non-recurring or is it just a regular skew that we see.

C Muralidharan: So this is related to out-licensed income for the current quarter of about Rs. 50 crores plus for the product Ximino, which was out-licensed.

Moderator: Thank you. The next question is from the line of Ranvir Singh from IDBI Capital. Please go ahead.

Ranvir Singh: Just, in your commentary you mentioned generic business R&D, you are likely to review, so just wanted to understand whether you are going to increase there or curtail their R&D?

Dilip Shanghvi: I think I said rationalize. So we have been relooking at how best to compete in market place by controlling the cost, both for reducing cost as well as for improving productivity.

Ranvir Singh: So anything on the number of filings we are likely to do in this year or next year, on generic side?

Dilip Shanghvi: There is no impact.

Ranvir Singh: Okay. And secondly on Japanese business, just wanted to understand the pricing environment there. So since we have started doing through Pola, so have you seen anything on pricing side that we have to be concerned about?

Kirti Ganorkar: For long listed brands, there would be decline in pricing. So the Pola portfolio is a mix of branded products and long listed products. But the majority products are branded products.

Ranvir Singh: Yeah, so this is in range of double digit or single digit, how is this?

Kirti Ganorkar: Any long-listed product, the average impact for the industry is 8%-9% here.

Ranvir Singh: Okay. And how is the mix for old products or long listed products, another product?



Kirti Ganorkar: As I said for Pola business, majority products are branded products.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: On Absorica, the product goes off patent, or rather goes generic by some time second half next year, so how should we visualize, I mean, we have talked about in the past certain product management strategies on the product, so how should we see the product lifecycle beyond the second half of next year in that context?

Abhay Gandhi: Hopefully in the quarter 4 of this financial year, we should be able to launch a life cycle extension product in the market which will make it difficult for retailers and wholesalers to substitute our product. So that is something which is on the anvil and hopefully in Q4, we will be able to launch that.

Nitin Agarwal: And with this launch, we foresee very minimal impact of the generic introduction or how should we look at it?

Abhay Gandhi: Difficult to estimate. I mean, we are hopeful that with the differential that we will have, doctors will prescribe the product more than what they are doing today and also the parallel substitution which is happening today in the market will reduce. We have our own modeling and assumptions, but eventually how it pans out in the market is something that we wait and watch.

Nitin Agarwal: And if I can push last one on that, is Absorica a meaningful specialty business right now?

Abhay Gandhi: In the context where Ilumya is gradually ramping up and Cequa is literally a two-week launch. So in the overall context of the branded business as it stands today, it becomes a meaningful contributor.

Nitin Agarwal: Thanks. And if one more last thing, on the India business, two things, one is in the current quarter, was there an impact of the strong anti-infective season which was there? Did that provide some tailwind to the business and secondly from a H1 to H2 perspective is there any seasonality in our business, given with the acute mix which is there in the business now?



Kirti Ganorkar: As you know we have chronic and acute business, so acute business is more seasonal. So that impact you can see in quarter 2 and quarter 3. But as all of you realize our major business is a chronic business and acute is a small part of the business.

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

Sameer Baisiwala: You have signed at least 3 or 4 China deals in last 3-4 months. So anything that you can share as to what is changing between now and say one or two years back, if something that is facilitating more imports over there and second for both generic as specialty products, what is a sort of bridging studies that you need to do and the regulatory timelines which are involved and sorry one more. Is there a need for you to do a local manufacturing, or the manufacturing can be done outside of China?

Dilip Shanghvi: Kal, would you be able to respond?

Kal Sundaram: China as a market is changing. The government wants what they call as consistency tested products, which means bioequivalence, bioavailability data, and preferably products registered in the US for registration in China. So that by itself has opened up some opportunities. But more than that, what you say, we have so many branded products with IP protection and China is a large market. So some of that we have licensed out to our partners. At this stage, there is no either requirement or plan for local manufacturing and the whole thing is dynamic, so it will be difficult for us to give a forecast on how big our sales is likely to be in China in next few years.

Dilip Shanghvi: Also I think for many essential drugs, China has reduced or said that there is need for doing China study which historically was a requirement that you needed to do study in Chinese patients in China, that is now no more requirement if your product is listed in the medically necessary product list. So the current, say Ilumya is not in that list, but other IL-23 which were approved when that list was being published are in that list. So this is just to give you a reference. Our Odomzo also is in that list.

Kirti Ganorkar: There is no racial difference, and then the clinical requirements are not much in China today compared to what it used to be earlier.



Sameer Baisiwala: So sir, if you need to launch Odomzo, can you start doing it tomorrow or is there still some time lag between now and then?

Dilip Shanghvi: We need an approval in China. We need to submit the entire dossier and the data. Then they determine what additional studies are required. If it is deemed medically necessary and if there is no racial difference in the efficacy, then they may approve the product without any clinical study.

Kirti Ganorkar: What I am saying it is a process, so we have to go through that process, it is not automatic approval and it is not approval like I submit application today and they approve it tomorrow. So like a normal process and we need to get waivers for clinical studies.

Sameer Baisiwala: And sir, the second question is regarding the easy to swallow launches in the US, I think you have done 3 so far and one Kapsargo if I am not wrong has been more than a year. So can you just talk about this, is this going to be whole basket that you are trying to do, maybe half a dozen, dozen and what kind of opportunity is there for these products?

Abhay Gandhi: So clearly it meets an unmet need, because roughly in the US about 30% of patients in the long term care centers do suffer from dysphagia. So the pick-up that we are seeing of these products is significant in the LTC set up. We also see that doctors who are in the LTC setup, who have used these products, clearly see the benefit and when they go back to their practice outside the LTC environment, they continue to use. So we are looking at different strategies by which we can then expand the core of the business and find ways to grow faster. You are right, none of these products will become so large that you can create a business with one product or two products, so we are working on using the platform to create a range of products and I think may be in 12 months from now, in market, we could have something like at least half a dozen products.

Moderator: Thank you. The next question is from the line of Dipan Mehta from Elixir Equities. Please go ahead.

Dipan Mehta: Has something changed at the US FDA level the way of inspecting the plants or any changes have taken place that why suddenly so many Indian pharma companies are hit by US FDA action, especially plants that are inspected and they are again getting into a tender with US FDA, so



what is happening on the US FDA regulatory front, if you can update us what are the changes taking place and this has become a major risk for the industry, how you are dealing with it?

Dilip Shanghvi: Actually there is an article which is published or circulated by Lachman Consultants which talks about a presentation sharing with the audience the data and information related to the warning letters and as per that, they say that last year largest number of warning letters issued were to the US based facilities and that is 54 number. The total number of warning letters issued to Indian company is 17. So I think we have to look at this issue in the context of the increased regulatory vigilance by FDA, not necessarily, only for India and Indian companies. What you are talking about multiple audits by FDA to same site, I think Indian companies buy large number of products and as a part of their assurance to the congress, FDA has said that they will also try and conduct as many pre-approval inspections wherever necessary. So same facility, if you have additional filing which require pre-approval inspection they may visit to those facilities. I think if you continue to be the largest filer of new ANDAs in the world, you will have large number of inspections. There is no solution to that as an issue.

Dipan Mehta: But nothing has pretty changed in the stringency or criteria or whereby we have acquired by which we are getting more and more warning letter or the risk factor has increased around that?

Dilip Shanghvi: As regulators see any kind of a risk in one inspection whether in India, US or in Europe and if they feel that similar risks exist in other facilities, then they add that as a part of the inspection plan in whichever new inspection they are doing. So like that there will be continuously changing focus of the FDA inspections.

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

Prakash Agarwal: First question on the India business, the 12% growth is a good number, if you could just break it into volume, new product and price and we have been seeing some volume growth for most of the industry coming down, your thoughts on the Jan Aushadhi, trade generics and others, is it impacting the volume growth?



Kirti Ganorkar: I would not like to give a breakup of how much growth is coming from new products, but we have got a decent volume growth and that volume growth also you can see from IMS and AWACS data, so it is in line with market.

Prakash Agarwal: And your thoughts on the increasing presence of Jan Aushadhi and the trade generics?

Kirti Ganorkar: It is not having any meaningful impact on us. That is what I can say.

Dilip Shanghvi: Actually, in the past we have also indicated that Jan Aushadhi has a very useful and important role to play in improving access and I believe to that extent industry and Sun Pharma and IPA and all of us are encouraging government to focus on improving access using Jan Aushadhi. And there will be possibly some amount of impact of some of the patients preferring to buy products out of Jan Aushadhi but as Kirti said it is not a meaningful impact. But I think rather than looking at every issue in terms of business impact, we also need to look at patient benefit and access to medicines.

Prakash Agarwal: And secondly sir on the new launches that we are seeing, are you happy with the current run rate of launches and especially post Halol resolution?

Abhay Gandhi: We have said this, as somebody running the business, I would always like to have more launches than what we get but it is a process and we follow the process and overall performance as a team, all parts of the functions put together, I think we are launching good number of products in each quarter in the generic side, so the pace is reasonably good.

Prakash Agarwal: The reason why I ask is, if you see Y-o-Y excluding the one-off generic business, the orders that you got, clearly I mean it is flattish and we saw some launches also, so what is really not that the base business is not able to grow, is it they are still some chunky products which is seeing erosion or is it the new launches not getting the fair share which you used to get in the past?

Abhay Gandhi: When you have a decent sized base in the generic portfolio even if you have and I am making up the number, 5% kind of decline in pricing, then that leaves the big hole for you to fill and not necessary that the pace of launch of new products will fill up that hole very quickly and that is sometimes the reason in this case, also the reason why you have flattish kind of a growth.



Prakash Agarwal: Just on that rationalization of some of the SKUs and some of the products that we spoke about I think couple of quarters back, is that process done and have we launched Lialda? That is the two questions I had?

Abhay Gandhi: You are talking about the US generic business still?

Prakash Agarwal: Yes.

Abhay Gandhi: It is an ongoing process; it is never going to be like done. Every quarter to 6 months, we will continuously look at our portfolio and look at opportunities to may be launch a dormant ANDA, may be look at products where we don't make money and whether we should rationalize, it is an ongoing process, so I would never be able to say it is done.

Dilip Shanghvi: Abhay, he is asking about Lialda.

Abhay Gandhi: No, we haven't launched it so far, we should in the near term.

Prakash Agarwal: And large part of the rationalization done or you still saying that it is an ongoing process and every...

Abhay Gandhi: It is an ongoing. That is what I have said, means it is an ongoing thing. I would never be able to say it is done.

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

Sameer Baisiwala: Abhay, just on Ilumya, my guess here is the number that I have is roughly about in terms of the size, the addressable size of the market is about 35,000 to 40,000 new patients on ILs every year, does this number look broadly oaky and is this going up or going down?

Abhay Gandhi: You are saying 35,000 to 40,000 new patients a year?

Sameer Baisiwala: Yes, for IL treatment

Abhay Gandhi: I really don't know how you are able to segregate between existing and new patients because really speaking, every time you go for a new dose for any given product, you



require a new prescription so to say, so it is very difficult to segregate between old and new patients. To say that NRx is new patient, it is a very difficult thing to say, but yes, if you look at the growth of the market, it is a growing market. My sense is at least there is a 10% kind of a growth in the overall therapy.

Sameer Baisiwala: That includes TNF and others or this is only for IL?

Abhay Gandhi: I am looking at total psoriasis market and within that, of course the IL-23s have the largest part of the growth.

Dilip Shanghvi: I think what is happening is that because of safer biologics, the overall percentage of patients treated with biologics is going up and within the biologics, the relative percentage of patient treated with IL-23 is going up faster. If you see last quarter, then in terms of prescription growth, only Skyrizi and Ilumya have added new patients, so overall, I think we are expecting that IL-23 will continue to be a preferred treatment option for doctors for treating psoriasis because of duration as well as for safety and overall efficacy.

Abhay Gandhi: What Mr. Shanghvi says is significant because the last 3 months, the quarter 2 is actually the summer months here, so we actually see a decline in the number of patients going out to the doctors for treatment. Every product barring Ilumya and Skyrizi has declined in the quarter, so that is an indication of acceptance of both the class as well as our products.

Sameer Baisiwala: So that answered, and would you not add Tremfya to this?

Abhay Gandhi: In the last quarter, they have been flat.

Sameer Baisiwala: To your point Abhay, on auto-injector versus the product that you have sub cut injectable, two points here because the patient has to go to a clinic, there is additional payment for doctors, I don't know whatever it is, or doctor staff \$200, \$300 per visit, so is that a sort of an inducement for doctors to opt for non-auto-injector product? Is that a meaningful sort of consideration?

Abhay Gandhi: Absolutely no. I think even on a call Sameer, we should never even say inducement of any kind but it is absolutely no. I have met and worked in the field with my team and



met doctors so as Mr. Shanghvi for example, doctors actually welcome the opportunity to be able to give the doses in clinic, a) when they start and b) even for subsequent follow-up visits when the patient comes back to them and they see the response and then give the second dose. They are actually able to visually see the visible effect on the clearance on the skin, so doctors love the fact that they are able to actually sort of touch and feel the product. I think that is the motivation for doctors to inject in clinic.

Dilip Shanghvi: Also Abhay, what it also does this is improved compliance because once a patient self-administer, there is no guarantee that he will administer it himself on time, so.

Abhay Gandhi: Correct, so compliance and also the doctor seeing the impact the product has on the patient, I think these are the huge motivators.

Sameer Baisiwala: Just one more question, broadly on the business model when you talk about improving efficiencies across the whole generic network, across geographies and cost optimization which are some of the big areas and do you think you have got enough and more room to improve on this over next several quarters?

Dilip Shanghvi: Yes, we have because I think we have large number of new facilities which are currently not fully utilized. So as we ramp up the volume and continue to supply to markets, I think our unabsorbed manufacturing overheads will continue to fall, so I think there is opportunity for us to continuously improve.

Moderator: Thank you. The next question is from the line of C Srihari from PCS Securities. Please go ahead.

C Srihari: Firstly, if I understood correctly the R&D spend on your specialty portfolio is around 20%, so going forward, let us say, 2-3 years down the line when the business gains traction, what is the kind of number we can look at there and secondly, are you reading out the Pola integration cost for the first two quarters?

Dilip Shanghvi: The R&D spend for specialty product was 24% but as I explained I think in my read-out that it is because some of the studies which should have started were not started in time, which should happen sometimes in this quarter.



C Srihari: I think 24% of the overall R&D spend, so as a percentage of sales or the specialty portfolio, it is around 20% I guess, so I was talking about that figure?

Dilip Shanghvi: Both of that will go up. The overall percentage spend for specialty in the total R&D spend, also in the percentage of the spend for the specialty business, both of that would go up.

C Srihari: So will it be substantial, or will it be around the 20% mark?

Dilip Shanghvi: I am not able to specifically respond about the mark but it all depends on what kind of studies we are planning and what is the speed with which we are able to enroll patients.

C Srihari: And the second one was pertaining to the distributor's integration for Pola, any cost figure that you would like to mention?

Dilip Shanghvi: Where do you get this information about integration cost?

C Srihari: No, talking about other expenditure you had mentioned that there is some cost pertaining to the integration of distributors.

C Muralidharan: What we said in other expenses is that it also includes Pola in the current quarter vis-à-vis the previous year Pola was not part of the growth.

Dilip Shanghvi: Pola was not there. As a Sun Pharma distributor, we were giving a discount to Aditya Medisales, so that was not included in our expenses. Whatever we were giving to Aditya Medisales, they were spending in terms of distribution cost, so now that is directly coming into our books.

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

Hari Belawat: The finance cost really achieved very nicely 45 crores reduction on margin Y-o-Y basis, but sir this noncurrent liabilities, these borrowings have increased from 1522 crores to 2135 crores. Similarly, noncurrent total liabilities also have increased. Then how come there is reduction in total financing cost?



C Muralidharan: There are 3-4 places in the balance sheet where the borrowing lies. One is long term; the other is short term, then current maturity. It also lies in the short term. What we told you are considering all the borrowing buckets together, so that is the number which we have stated. And that is the way we see it also.

Hari Belawat: Yeah. Total year including current liabilities and noncurrent liabilities, it is reduced. You mean that?

C Muralidharan: Yes.

Hari Belawat: Okay. Sir, another question is, this income tax asset in the asset part, noncurrent asset you have shown income tax assets of around 3000 crores. Similarly, deferred tax also is 3000 crores around. Are we getting any return on this and what type of these assets are there for income tax?

C Muralidharan: So these are mainly the deferred tax assets.

Hari Belawat: Even, income tax assets or what is it, 3000...?

C Muralidharan: Yeah. So balances buying also with the government on the payments made, apart from the DTA assets.

Hari Belawat: Okay. Any return on that is coming or just it is deposit with them only?

C Muralidharan: But it is a timing difference. DTA asset is a timing difference.

Moderator: Thank you. The next question is from the line of Charulata G from Dalal and Broacha. Please go ahead.

Charulata G: I wanted to understand where do you see the EBITDA margin going from here?

Dilip Shanghvi: Generally, we don't guide for the EBITDA. I think our guidance is restricted to topline guidance. The focus is for us to continuously improve our performance in such a way that we continue to improve our EBITDA margin. Historically, we used to have significantly higher margins than what we have. So the focus would be to try and get as close to those margins as possible.



Charulata G: Okay. And secondly, I wanted to get the timelines for China, by when do you see China revenue accruing into your books?

Kal Sundaram: For China, we have to go through regulatory process for a number of products. So in the short term, we don't anticipate to accrue any significant revenue in China. So, depending upon the speed with which we are able to get approvals and launch, we will pick up momentum. At this stage, it will be difficult for us to say when we will start seeing significant meaningful revenues coming out of China.

Moderator: Thank you. The next question is from the line of Vishal Manchanda from Nirmal Bang. Please go ahead.

Vishal Manchanda: Sir, can you share what percentage of your pending ANDA filings could be non-oral solids?

Dilip Shanghvi: I don't have that detail with me.

Nimish Desai: And Vishal, we don't share these statistics also.

Vishal Manchanda: Right. And could you provide a guideline on what timeframe would it take for you to monetize the pending ANDA pipeline sale, next 3 years the pending ANDA pipeline can be monetized, about 80% of the pipeline can be monetized?

Dilip Shanghvi: Many of the products I think we may be Para-III to a long expiring patent. So we may not, even though we get tentative approval, we may still be far away from market. So idea is to find a way to grow the business with new approvals and improving both pricing and the share of existing products.

Vishal Manchanda: And just final one on Ilumya. So I was just wondering like most of the competitors on Ilumya have approvals in multiple indications. So that basically allows them much larger volumes and having larger volumes also allows them to offer better rebates to insurers. So is this our position, disadvantageous position for Ilumya to be?

Abhay Gandhi: The product that we licensed from Merck, there were certain studies we should have done primarily in this indication. So that is where we start of, and that is the market that we are



in. Large market, so we still feel we can make a reasonable dent in that market. We are also investing part of our R&D budget in other studies to expand the indications. So having more indications, either adjacent or in completely new areas is useful clearly, it does give you leverage not sure whether it is only rebating but clearly from expanding the potential of the product, it does help us and that is what we will. Relatively it is a little late start for us, but that doesn't stop us from looking at where is it that we can make a good enough dent and continue to invest and work on those indications.

Moderator: Thank you. The next question is from the line of Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: My questions around Cequa, you mentioned about some head-to-head study that you would like to do, any timeline that you can share, when we plan to start and how long will that take? And secondly, the initial response that you got on Cequa, given it is an established molecule, are you expecting a faster ramp up of sales for this particular product?

Abhay Gandhi: Again, a little bit of breaks in the question. If I repeat what I understood, I think one question you asked was head-to-head study on Cequa, correct?

Saion Mukherjee: Yeah. What is the timeline? Like when you are planning to start and how long will that take?

Dilip Shanghvi: We are evaluating various studies. We haven't taken a decision. But I think we believe that we have a product which can be potentially superior to the products which are in the market. So that is what we will try and establish in the head-to-head study. But you can respond about the second part.

Abhay Gandhi: I couldn't hear the second part. Can you repeat?

Saion Mukherjee: Sir I just wanted to get a feedback from you on the ramp up rate of Cequa, given it is an established molecule and the kind of response that you are seeing initially. Is it going to be a bit different from let us say Ilumya which is a more gradual ramp up? And is it more like the existing patients from Restasis moving to Cequa. I am seeing response in the market there.



Abhay Gandhi: All very valid questions and these are questions I would ask the team literally every day. The thing is, it is just literally two weeks into the launch. So what we have is literally 10 working days kind of an experience in field. My assumption based on say feedback from the team and a few doctors is we are getting warehoused patients. There are patients who are not completely satisfied with current therapy, be it existing products in the branded space or even in the OTC space. And doctors have quickly put those patients on to Cequa, that is my initial sense. And instead I think more to look forward to maybe in the next quarter; we will be able to share you a better quality data with you.

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

Kunal Dhamesha: So the first question is related to DTC campaign for Ilumya. So I believe we have previously suggested that DTC campaign for Ilumya will run throughout the FY20. But do we see any decrease in intensity in terms of DTC campaign let us say in FY21 or FY22 or it will run at a same run rate that we are running in FY20.

Abhay Gandhi: I think my answer remains the same. This is our first experience as a company and the first year that we have gone into DTC. So very periodically we look at different metrics and see the impact that DTC has on the product and during the budgeting cycle of next year looking at different scenarios, we will take a call. That is how the process will be.

Kunal Dhamesha: Okay. But let us say on a competitor basis, do they continue at a similar level, if you have done analysis on that?

Abhay Gandhi: Historic data suggest that they would be doing it continuously, but I am not privy to that information obviously.

Kunal Dhamesha: And secondly on Cequa, we are just two weeks into launch, but any kind of discussions we are having with payers and how this can proceed, the formulary discussion?

Abhay Gandhi: So while we were waiting for the launch of the product, we were already speaking to payers and we started off with the reasonable access. Now that we actually have a product in



market and we will wait for it to gather pace and we will try and improve the access from where we are to better kind of an access for the patients.

Kunal Dhamesha: Okay. And will it be with more of commercial insurers or would it be Medicaid or Medicare, any channel color that you can give?

Abhay Gandhi: Commercial payers will definitely be first priority, in the sense that they will be the first to quickly take a yes or a no decision at certain points. Medicare is the process and that process I expect will take anywhere from a year to a year and a half.

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 joining this call today. If any of your questions have remained unanswered, please do send them across, we will try to get a response to them. Thank you and have a good day.

Moderator: Thank you very much sir. Ladies and gentlemen, on behalf of Sun Pharmaceuticals Industries Limited that concludes this conference. Thank you for joining us. And you may now disconnect your lines.