Sun Pharmaceutical Industries Ltd.
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Text of the speech delivered by Mr. Israel Makov, Chairman & Mr. Dilip Shanghvi, Managing Director at the 24th AGM of Sun Pharmaceutical Industries Ltd., held on September 17, 2016 at Vadodara

Mr. Israel Makov

Dear Fellow Shareholders,

On behalf of the Board of Directors, I welcome all of you to the 24th AGM of your company. Let me begin with some key highlights starting with the Ranbaxy acquisition:

- We commenced the integration of Ranbaxy with effect from end of March-2015 and now we are in the second year of integration. I am happy to share with you that the integration is progressing as planned and we are on-track to achieve the targeted synergies. All of you will recall that, last year, we had increased our target of synergies to US$ 300 million compared to the US$ 250 million given at the time of announcing the acquisition.
- This merger has strengthened Sun Pharma's position as the world's fifth largest specialty generic pharmaceutical company and the top ranking Indian pharmaceutical company with significant lead in market share.

I'll now list some of the key trends in the global pharmaceutical industry:

- As per IMS, the global pharmaceutical market is estimated to reach US$ 1.4 trillion by 2020, growing at a CAGR of approximately 4-7%. The global demand for pharmaceuticals will be driven by: demographic trends, increased incidence of chronic diseases, ageing and growing population, improving access to healthcare and increasing per capita income. The developed markets are expected to grow at 3-6% CAGR while the emerging and other markets are expected to record 5-7% CAGR in the same period.

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- A rising proportion of pharmaceutical spending is on specialty medicines which will account for approximately 28% of global spending by 2020. Most of this spending on specialty medicines will be driven by developed markets.
- Generics are the one of the key drivers of growth globally. Most global healthcare budgets are under pressure, making generics a preferred choice. Overall, we expect this trend to continue to favor generic use which increases the potential of our business. As per Deloitte's Global Lifescience Report, the global generics market is expected to reach US$ 283 billion by 2018 registering a CAGR of about 11% between 2013-2018.

Let me briefly talk about some of the key markets:

- As per IMS, the US was the largest pharmaceutical market globally, and it is estimated to grow at a CAGR of 5-8% to reach US$ 560-590 billion by 2020. Sun Pharma is the largest Indian supplier of pharmaceutical products to this large market. Generics and specialty patented products will be the key drivers of this growth.
- The Indian pharmaceutical market is estimated to reach US$ 19 billion by 2020 recording a CAGR of approximately 8%. Key demand drivers for increased medicine consumption in India include: rising healthcare awareness leading to an increase in spending on medicines, changing life-styles leading to growing incidence of chronic ailments, improving health insurance coverage and increased access to modern medicines driven by rapid urbanization. Key challenges include government-mandated price controls on certain drugs and competitive intensity.
- As per AIOCD-AWACS Report, Sun Pharma along with Ranbaxy is the market leader in India with about 8.8% market share enjoying a significant lead over competition. The company is strongly positioned to capitalize on the market opportunities in India.
- IMS expects the overall pharmaceutical spending in pharmerging markets, including India, to grow at 7-10% CAGR to US$ 345-375 billion between 2015 and 2020.

I now request Mr. Dilip Shanghvi our Managing Director to discuss and review our business and share a summary of our key challenges, opportunities, and steps ahead.

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Mr. Dilip Shanghvi – Thank you Mr. Israel.

Let me begin with the overall performance highlights of FY16:

- During the year, we progressed further in integrating Ranbaxy into Sun Pharma, as mentioned by Mr. Makov and also made significant efforts towards enhancing our specialty pipeline.
- Post the close of the year; we have requested the US FDA for a re-inspection of the Halol factory.
- We continued to invest in R&D, both in our differentiated generics and the specialty business. These R&D efforts include a pragmatic mix of initiatives directed towards generating short-, medium- and long-term cash flows.
- I will discuss these in detail but first let me give you some key financial highlights for the year.
- After many years of sustainable growth, our business for FY16 witnessed muted growth and was in line with our annual guidance. We faced anticipated supply constraints and delays in product approvals at the Halol facility driven by the cGMP compliance remediation efforts. This impacted our US revenues for the year.
- Net sales for FY16 were Rs. 27,744 crore up by 2% year-on-year while EBITDA was almost flat at Rs. 7,798 crore.
- Net profit after minority interest grew by 4% to Rs. 4,716 crore. This is after exceptional charges of Rs.685 crore for the year versus Rs.238 crore for the previous year. However, it was partly boosted by exclusivity sales of generic Gleevec in the US. This 180-day exclusivity has ended in July-2016.
- Our business continues to generate healthy cash flows. For FY16, net cash-flow from operations grew by 20% to Rs. 6,769 crore.
- US was the largest contributor to our revenues, accounting for 48% of consolidated sales. US revenues declined by 2% to Rs. 13,517 crore for reasons already discussed.
- Our subsidiary Taro, reported good performance with topline growth of 10% to US$ 951 million, while its net profit grew by 12% to US$ 541 million. Most of the increase

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was driven by the full year impact of prior year price adjustments and increased market share of select products.

- Our India formulations revenues recorded 9% growth to Rs. 7,254 crore and accounted for about 26% of consolidated sales.
- Our revenues in emerging markets declined by 4% to Rs. 3,584 crore mainly impacted by currency volatility in a few markets. Overall, emerging markets accounted for about 13% of our consolidated revenues.
- Our Rest of World sales declined by 7% for the year to Rs. 2,162 crore and accounted for about 8% of consolidated revenues.
- API revenues grew by 42% to Rs. 1,403 crore and accounted for about 5% of sales. The GSK Opiates business contributed to these revenues for part of the year from September 2016 onwards.
- We spent over Rs. 2,300 crore on R&D accounting for 8.3% of sales. As of 31-March-2016, we had a comprehensive portfolio of 413 approved ANDAs and 159 ANDAs pending approval with the US FDA. During the year, we filed 22 ANDAs and received 14 approvals from the US FDA.
- Towards the end of the year, we entered the Japanese pharmaceutical market through the acquisition of 14 long-listed prescription brands from Novartis. We will be promoting and distributing these brands through Mitsubishi Tanabe Pharma, a leading Japanese company. The acquisition of these brands is an entry point for us in the Japanese market. Once a firm platform gets established, we can utilize it for launching other products in future.

Let me talk briefly about the Ranbaxy integration:

- Post the Ranbaxy acquisition in FY15, our organization size had nearly doubled, mandating a significant integration effort to implement common values, systems and processes across the merged entity. Given the significant manufacturing footprint of the merged entity, we have initiated efforts towards manufacturing rationalization.

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- A significant time and work has been put in towards integrating the two large teams resulting in harmonization of grades and designations across the merged entity.
- The consumer healthcare is a new business which we have got access to via the Ranbaxy acquisition. This business is of strategic importance to us and we continue to make efforts to grow this business profitably.
- The merger has given us an opportunity to adopt the best of both organizations in terms of IT systems. This will result in a substantial strengthening of our IT systems and will mandate some incremental investments as well.
- The integration of Ranbaxy into Sun Pharma is on track.
- The synergy benefits from this integration have started reflecting in our financials in FY16; and we expect to build further on these synergy benefits in FY17.
- We are confident of achieving US$ 300 million in synergy benefits from this acquisition by FY18 and are on track to achieve this significant milestone.

Let me also briefly talk about our efforts towards enhancing our presence in complex generics and specialty segment:

- We continue to allocate significant resources towards building the specialty business in the US. The main objective behind this is our intent of building a business, which can generate sustainable value for all our stakeholders.
- These are long-gestation projects and there are many milestones yet to be crossed to achieve this objective.
- In-licensing early-to-late stage clinical candidates, as well as getting access to on-market patented products are some of our initiatives in this journey.
- During the year, we invested heavily in the development of Tildrakizumab, the IL-23 anti-body which we had in-licensed from Merck in 2014.
- Post the close of the year, in May 2016; we announced positive results from the Phase-3 trials of Tildrakizumab to treat chronic plaque psoriasis. We expect to announce the detailed results of these Phase-3 trials at an upcoming medical

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conference. Post the completion of these Phase-3 trials; we have commenced steps towards filing the Biologics License Application for this product with the US FDA.

- We have started investing in building the specialty teams in the US and towards establishing the requisite front-end infrastructure.
- The in-licensing of Xelpros® for the US market, from Sun Pharma Advanced Research Company and the acquisition of InSite Vision in US were other important steps towards enhancing our specialty pipeline. One of products from the InSite Vision pipeline – BromSite – has already received US FDA approval and we expect to commercialize the product in the near future.

Let me now update you on our efforts towards global cGMP compliance:

- As indicated earlier, we have undertaken a detailed remediation at the Halol facility post the September 2014 inspection. In December 2015, the US FDA issued a warning letter related to this inspection. We have recently requested the US FDA for a re-inspection of the facility. We are awaiting this re-inspection. This remediation process has temporarily impacted our supplies and product approvals from this facility, which we expect to improve, once the facility gets recertified.
- The remediation process at the erstwhile Ranbaxy facilities, which were found to be non-compliant in the past, also continues as per plan. While significant efforts to make these facilities compliant are on, this will be a time-consuming process. We are planning to offer one of these facilities for US FDA re-inspection in the current financial year.
- We remain committed to 24x7 cGMP compliance and are working with reputed global experts to ensure that all our facilities remain compliant. Over the past 2 years, we have also significantly strengthened our capabilities by recruiting global talent with strong expertise in quality and compliance.

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Let me now give you an overall outlook for the Company:

- We are targeting a transformation into a Better, Stronger and Faster company over the next few years.
- This should help us drive a stable and consistent growth in cash flows, which is a key objective of our corporate philosophy.
- For FY17, we have guided for 8-10% growth in consolidated revenues and R&D investments at about 9% of sales.
- We are targeting to increase the share of complex generics and specialty products to our overall business in the coming years.
- This objective will be driven by a combination of our own efforts coupled with relevant inorganic initiatives as well as external partnerships. Our specialty strategy coupled with the benefits from the Ranbaxy merger and the targeted productivity improvements, should favourably impact our profitability in the long-term.
- This evolution will entail taking multiple initiatives, both organic and inorganic as well as taking higher risks.
- Our experienced Board of Directors brings in significant integrity and accountability and acts as a key guiding force as well as an important factor for checks and balances. We also have a pool of highly skilled and motivated employees which helps us in achieving our objectives year after year. I would like to thank both, our Board and our employees for this.
- I am also grateful to our other stakeholders including our customers, the local community, various regulators and our shareholders for their constant support.

All this would not have been possible without your long-standing support. We are grateful to all of you for this trust and faith. Thank you.

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