Sun Pharmaceutical Industries Ltd.
Business Update Call Transcript
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Corporate Participants

Dilip Shanghvi
Managing Director, Sun Pharmaceutical Industries Ltd.

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Sun Pharmaceutical Industries Limited 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 '*' and then '0' on your touchtone phone**.** I now hand the conference over to Mr. Nimish Desai from Sun Pharma. Thank you and over to you sir.

Nimish Desai: Thank you. Good evening and a warm welcome to all of you. I am Nimish from the Sun Pharma investor relations team. We hope you have received the press release on the business update that was sent out earlier in the day. These are also available on our website. This call is being organized to discuss this business update and to address any queries that you may have. Please note that since we are yet to announce our Q1FY16 results, we will not be able to discuss any specifics about the quarter.

Let me introduce the team to you. We have with us Mr. Dilip Shanghvi – Managing Director. Today we will share the key highlights of this business update and respond to any questions that you may have. 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 conference call. At our last conference call, we could not give you guidance for FY16 due to inadequate time post the closure of the Ranbaxy merger. We now have had a few months of time post the closure and we have also initiated the integration process. Hence, we are now in a position to share with you, some of the broader long-term initiatives and give you a directional guidance for FY16.

Let me first highlight the long-term initiatives that we have undertaken:

We continue to strengthen and build leadership position in key markets and business segments. As a part of our focus towards enhancing share of specialty and branded business, we have recently strengthened our ophthalmology and OTC teams in the US as well as formed a dedicated team for MK-3222, our IL-23 anti-body which is currently undergoing Phase-III clinical trials. We simultaneously continue to explore opportunities to expand our global footprint.

Overall productivity improvement remains a key focus area for us. Revenue and procurement synergies, manufacturing rationalization and various additional cost-management measures will be the key contributors towards productivity improvement. Our target for the synergy benefits from the Ranbaxy acquisition has increased by 15-20% as compared to our original target of US$ 250 million by FY18.

We continue to allocate significant resources to R&D in order to strengthen the specialty pipeline including patented products and complex generics. This will mandate increased R&D investments including that for the development of MK-3222.

A key priority for us is to ensure continued 24x7 cGMP compliance by continuously enhancing systems, processes and human capabilities to meet global regulatory standards at all our manufacturing facilities. As a part of this process and in order to address the cGMP deviations at the Halol facility, various remedial measures have been undertaken. These remedial measures have resulted in supply constraints for some of the products. We expect this situation to continue for some more time till all the remedial steps at Halol are completed. The remedial steps at the Mohali, Dewas, Poanta Sahib and Toansa facilities are on track. We are working towards the fulfilment of the requirements of the US consent decree and will try to expedite the resolution for at least one of these facilities.

As a part of the Ranbaxy integration process, we expect to incur certain integration charges in order to generate long-term synergies from this merger. Also, we may decide to discontinue certain non-strategic businesses.

Our press release gives you a broad direction for FY16, wherein we expect our consolidated revenues and profits to be adversely impacted due to the factors that I just now highlighted. We are working towards addressing these challenges and building a more robust organization. Post

this consolidation phase, we believe that the Company will be better placed to pursue higher than industry growth. The initiatives that I have highlighted will help the company revert to a more sustainable growth trajectory post FY16.

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

Moderator: Thank you very much. We will now begin the Question-and-Answer Session**.** Our first question is from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.

Anubhav Agarwal: One question is on Halol. Can you give some direction on Halol at least when you say that remedial steps are still being on and it is not one step activity, right, it is a combination of several parallel activities. So is it like almost more than 50% done, or is it like less than 50% done, some direction here will be useful?

Dilip Shanghvi: Halol is a multiproduct facility and there will be different stages of completion of the remediation for different manufacturing suites within the facility. So it is difficult to give a quantifiable number. We have given certain timelines as a part of our original response and we continue to stay focused on ensuring that we are able to meet the guidance that we have given to US FDA. Beyond this, I do not know how much I can specifically share. There are products that we continue to sell out of the facility and they do not have any shortages, there are a few products which have supply constraints and there are a few areas that we are upgrading. So there will be constraint for those products.

Anubhav Agarwal: I was actually just trying to get some more clarity when you say some more time, I was not able to understand at all whether you are talking in months or quarters, or year?

Dilip Shanghvi: Ultimately, it is the regulatory agency which needs to form a judgment and also that judgment will be most likely formed post a second audit. We have no control on that process.

Anubhav Agarwal: Just one question on Ranbaxy. Integration charges that you talk about incrementally in today's press release. Are these recurring or one-off and would these charges lead to more revenue growth or productivity increase?

Dilip Shanghvi: Most of the charges will be one-off charges. These are charges this year but that should help us control operating cost consistently going forward. There are broadly two types of potential synergy savings — one is a saving which is a one-time saving. So if I give an example, let us say, some tax shelter as a part of previous unabsorbed losses. That is one-time benefit when we can avoid potential tax liability. Now, if we are able to source a product at a much lower cost than what they used to, then it is not only saving this year but it is a saving for consistent period of time. So this $250 million synergy that we have indicated is a recurrent synergy, either in terms of cost reduction or in terms of operating profit through increased sales synergy.

Moderator: Thank you. Our next question is from the line of Chirag Talati from Kotak Securities. Please go ahead.

Chirag Talati: Just two questions; firstly, the flat to declining revenue growth for FY16 includes Gleevec, is that a correct assumption?

Dilip Shanghvi: This is factoring in the visible product pipeline as well as existing business. You also have to keep in mind that last year there was one-time revenue related to generic Diovan in the Ranbaxy business.

Chirag Talati: Secondly, we will be adding this $250 million synergies on the FY15 EBITDA number, which was reported or the adjusted because you had mentioned that there is 2% one-off costs as a percentage of sales in FY15? So, should we be looking at an adjusted EBITDA number to add the synergies three years forward or should we be looking at the reported EBITDA number?

Dilip Shanghvi: The challenge is that synergies is a very complex calculation that we are able to do because we have access to all the internal information, because let us say if you are able to reduce your costs, but then there is a 5% inflation. So, if you are able to reduce the cost by let us say 7%, then the effective reduction for you will be less than 7%, because you are able to avoid the 5% inflation increase. So, it is difficult for me to guide you on what you should take as a base, but on the consolidated number, on a consistent basis, we should be able to take that much of cost out of operations.

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

Aditya Khemka: In the press release, again, you mentioned that there are certain lesser strategic businesses, which you would like to divest. Can you throw some light on what sort of the businesses are these — are these from the Ranbaxy's table I assume, so are you talking about the Consumer business in India or any other businesses that you would like to highlight?

Dilip Shanghvi: This would be all generally very low margin business that will not have long-term strategic value to the business because we are not a top line driven company. So we have identified two-three businesses that we are evaluating as to which of these businesses we would like to divest. The Consumer Products business is a high margin, high growth business, and we want to use this as a base store creating a global OTC business. So we are actually giving lot of internal focus and importance on growing that part of the business.

Aditya Khemka: Just a clarification on this question. So then are we alluding to certain geographies where Ranbaxy is present and has businesses which you believe do not churn enough profits and have no bright future, is that the correct way to read this into?

Dilip Shanghvi: That or some products or some APIs. We want to stay focused on businesses which will help us grow our business consistently in a profitable way going forward.

Aditya Khemka: My second question is on the statement that you made that Sun Pharma will try to expedite the resolution of at least one of these facilities. So, I understand that one of Ranbaxy's facilities was fairly new and had some minor issues compared to the other older facilities. So say tomorrow we are able to resolve this facility's import alert or the consent decree pertaining to this facility, what are the next three things that Sun Pharma will look to do once the FDA gives the green signal on one of the Ranbaxy facilities, which we are looking to expedite resolution for?

Dilip Shanghvi: After the green signal, we have to use that facility both for filing future products as well as finding a way to sell approved products out of that facility.

Aditya Khemka: So, basically, therefore, you will have to site transfer some of Ranbaxy's products or your own products if you want to the facility which gets resolved so that will take additional…?

Dilip Shanghvi: There are many products which have been filed out of that facility or all the facilities. So then those product approvals can also come as a result of the facility resolution out of consent decree.

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

Sameer Baisiwala: Just on the revenue guidance when you say that it will remain flat or show decline in fiscal '16, I am just curious while you said one end probably you need to adjust for Ranbaxy one-off which was I think Diovan you are alluding to, which was about $120 million or whatever it was, but, on the other hand, you have several of your businesses which are not dependent or linked to Halol, they have traditionally grown very strongly, for example, Indian business and including Ranbaxy's India business for that matter, and these businesses are north of say Rs.8,000 crores in revenues and whatever number we put on it growth rate, the overall business should still be growing. So I am very surprised that you are guiding towards a decline in revenues despite many of your business not getting impacted by Halol.

Dilip Shanghvi: I agree with you that many of our business excepting products that we make at Halol have potential issues, and the other businesses will continue to do as well as they used to, I do not see a challenge there. The potential what you call areas that have ability to impact our growth out of Halol would be on account of pricing of some of the products, on account of our losing market share for some of the products on account of let us say are not being able to meet or maintain our contractual obligations and some of the products which continue to be under supply disruption. Hence, we believe that it is better for us to be realistic and share the potential for adverse news ahead of time rather than justify numbers at the end of the year.

Sameer Baisiwala: The second question is regarding Ranbaxy acquisition. This $250 million, etc., what ways to think of it? It can all be fairly confusing. I think one very simple way to assess whether it has been a good acquisition or not could probably whether it is EPS accretive or not

over whatever time frame you want to take. So for example, if your EPS, your own internal or whatever consensus was in fiscal '17, '18 whatever 42 or 47, whatever number those were. Now with Ranbaxy thrown in and going out 2 or 3 whatever number of years that you want to be, will those EPS be higher or lower? Very simple test without going into too…

Dilip Shanghvi: I have a different way of looking at it, and I do not know whether that is how investors look at. My view is that when we paid 15% of Sun equity for buying Ranbaxy business and within a period of time, if it generates profitability, which is in excess of 15% of our future profit. That is a business that has added value to our company.

Sameer Baisiwala: This is exactly we are talking of a same thing. So if it delivers more than 15% then it should be EPS-accretive, exactly the same thing sir.

Dilip Shanghvi: I think we have to mess up big time not to achieve.

Sameer Baisiwala: The EPS estimate and you can look at various ways that you want to look at was about Rs.42 for fiscal '17 and then I put some growth here, so it is Rs.48 for fiscal '18. So I take your word right now that you are going to accrete on this on those out years?

Dilip Shanghvi: If we can at some point of time give a separate profitability out of businesses, then hopefully this number will be better than 15%.

Moderator: Thank you. Our next question is from the line of Nishant Chandra from Temasek. Please go ahead.

Nishant Chandra: I have two questions; On the revenue guidance that has been given, how do you thought to be that — is this revenue guidance assuming that Gleevec comes through for the two months that it is scheduled for or is there a disruption assumed? That is point #1. Point #2 is with respect to Halol remediation. There were two broad heads that I was looking at — one is the Injectable facility and the other one is the Tablets facility. Now, which of the two has been resolved or would be resolved within this current period and how are you thinking about the other? Is that the way that you have kept Halol disruption at all?

Dilip Shanghvi: To your first question whether Gleevec is factored in our guidance, then it is. The second question is related to Injectable facility. In Halol, we have four different Injectable facilities, and it is difficult to give specific response, but some of the products that we are currently not able to sell are from Injectable facilities.

Nishant Chandra: The other Oral Capsules related piece where there was largely the question around SOP or Access Control Systems, would it be right to say that that has been resolved fully?

Dilip Shanghvi: We have to continue to appraise US FDA about what progress we are making with remediation. Once they come and audit again is the point at which we will know whether our assumption that what we have done is accepted by them or not.

Nishant Chandra: But would it be fair to say that on the non-injectable space, we have resumed supplies? Is that a fair statement to make?

Dilip Shanghvi: It will not be fair for all products, I do not have the exact details.

Moderator: Thank you. Our next question is from the line of Manish Jain from Sageone Advisors, please go ahead.

Manish Jain: I have two questions; **f**irst is, if you can give little more insight on the initiatives which you have taken in Ophthalmology and OTC in the US? Second question is if you can give some insights on what is the kind of team that you have created on MK-3222?

Dilip Shanghvi: We have created sales and marketing group focused on ophthalmic business. The idea is to launch Xelpros product that we have licensed and then subsequently other products which are in the pipeline, and we are looking at licensing a few other products. So that is the broad objective for the Ophthalmology business. For MK-3222, before you launch a large biologic product, you require a comprehensive and large organization to ensure that, by the time the product is close to launch, you also address all the relevant issues which will allow you to make the product successful in the market because then we will be competing with other companies who are large multinational companies. So, we are hiring people with biologics background having managed reimbursement pricing, regulatory, medical affairs. So we are

bringing in all of these skill sets which are specific to MK-3222. We will also then look at which are the other indications that we can develop this product for, and wherever necessary may be consider initiating additional studies so that we do not lose time on other indications going forward. And for OTC, it is a result of acquisition of Ranbaxy. We are looking at possibility of launching Branded products in emerging markets. We are also looking at developing products for regulated markets with a view to not only develop a private label business but also to use our products for branding in these markets. So, all of these are with a view to create a future potential upside. However, it will potentially impact our ability to grow profitably till the business becomes self-sustaining and profitable.

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

Manoj Garg: As you indicated that probably the growth will revert back post FY16, so is it fair to assume that probably by that time we do expect Halol to be fully in compliance?

Dilip Shanghvi: That would be the effort.

Manoj Garg: The second thing like as you indicated that you have been putting up the team for MK-3222 both from regulatory perspective as well as from sales and marketing perspective, typically, what could be the time lag between putting this team upfront and then launching the actual product in the market?

Dilip Shanghvi: Typically, you create a team anywhere between 20 to 24-months before the launch, and you require may be 40 to 50 people in this team so that you are able to manage the launch of the product efficiently because you do not want to then work for pricing approval and formulary acceptance and all of that after launch, you need to start working on all of that ahead of time.

Manoj Garg: Last question related to MK-3222 only like if we have to go for an incremental indication or additional indication for this product, what could be the likely spending which probably we may have to incur in terms of R&D for that?

Dilip Shanghvi: It will depend on the indications, it is difficult for me to respond, but whenever we decide to initiate these studies for any new indication, we will share that information with you.

Moderator: Thank you. The next question is from the line of Kartik Mehta from ICICI Securities, please go ahead.

Kartik Mehta: Our R&D cost on account of the initiatives that we have, will it be higher than 8% or will it be 6% to 8% of our top line as we had earlier guided?

Dilip Shanghvi: It may be a little bit higher than 8%.

Kartik Mehta: Second question is on key products like Gleevec. Do you have a view on actually moving them to other facilities in case they have been filed originally from Halol or would you assume that those products will be launched in time when they have to be in the market? What is the back-up strategy in this case certain products actually do get delayed?

Dilip Shanghvi: There is sale of Gleevec factored in the guidance that we have shared with you.

Kartik Mehta: I meant products like Gleevec which may be high value, high margin, typically those products which are filed from the SEZ entity, are all or any of these products also being filed or moved to alternate sites in case there can be delay on their approvals?

Dilip Shanghvi: When we are strengthening the capacity as well as focusing on meeting customer requirement and improving service level, the intention is to create a certain amount of risk mitigation strategy for critical products, existing as well as future products, and that is something that will take certain amount of time but that is the plan. All our important products including important filings we will have a backup facility.

Moderator: Thank you. Our next question is from the line of Abhishek Sharma from India Infoline. Please go ahead.

Abhishek Sharma: I just wanted to understand the timelines on MK-3222. When are you planning to file for psoriasis because if I do my calculations, I think the Phase-III trial which is ongoing should be completing any time now. So what could be your timelines to file the product?

Dilip Shanghvi: Since it is a product that we have licensed from Merck, both the companies decided as a part of our original agreement that we will not share information specific to the product beyond the information contained in the press release. So, about the timing as well as the potential approval timelines, we took a conscious decision not to share specific information. So I am not able to share that with you.

Abhishek Sharma: Just the other one is a qualitative question around the Ranbaxy business, what has your experience been — is it in a better shape or worse shape as compared to what you anticipated?

Dilip Shanghvi: There are aspects of businesses which are better and there are aspects that are in line with what we were expecting. I think we have not had any major negative surprise till now.

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

Manoj Garg: I had a few questions as well on Halol particularly on quantification. One is can you remind us what percentage of business was originating there prior to the compliance issues? And then two, you are obviously indicating some level of supply constraint on some of your products. Can you help quantify this either in dollar terms or maybe what percentage capacity the plant is currently running at?

Uday: Hi! This is Uday here. My suggestion is, the specific quantitative data I think we can take offline, you can be in touch with Nimish and we would be able to fill you in with some of the specifics that we are sharing.

Manoj Garg: And then maybe you can update us on what is your latest interaction with the FDA regarding the plant?

Dilip Shanghvi: The FDA does not appreciate our sharing information on behalf of FDA. We keep them updated at regular frequency with the progress as well as the compliance status with our original remediation plan. So that continues and we believe that we are on time in terms of meeting all the assurances that we have given to FDA.

Manoj Garg: I guess the concern from an investor standpoint is that you expect the remediation to be completed in about 12-months per your guidance. So, is there anything that you can share on providing investors' confidence on how you get there because the other plants that you are mentioning in your release obviously the compliance and manufacturing issues have stretched well beyond management's initial assumptions? So I guess how can we get confidence that Halol will be in good shape in 12-months?

Uday Baldota: I am not sure, where are you picking up this 12-months from, because we have not given any specific indication of any timeline or resolution of the issues that we are facing at Halol.

Manoj Garg: I believe you mentioned earlier in the call that you are expecting growth to resume post fiscal year '16, which would be about 12-months, I am imagining that would assume that some of the supply restrictions on Halol would be eased by that time point?

Dilip Shanghvi: We think that hopefully by that time the issues with the FDA for the Halol facility will be over and I also indicated that for critical products we are looking at risk mitigation in terms of creating alternate sites. So I do not think we have specifically said that it will be resolved within 12-months because it is not in our control, it is with FDA.

Moderator: Thank you. Our next question is from the line of Fatima Pacha from ICICI Prudential, please go ahead.

Fatima Pacha: In a much more numerical form that you had Rs.27,000 crores sales, of which Halol could potentially be at max around Rs.4,000 crores and Q4 we have seen the impact of Halol so until and unless you believe that will worsen and you even believe that your emerging market portfolio will do really bad, there should not be a reason why your FY16 sales number should be flattish to FY15, right?

Dilip Shanghvi: There are many things that you will not have visibility for, there will be international business in the combined company including Ranbaxy which is tender-driven. I also shared with investors saying that we are strategically relooking at businesses with a view to divest, because it may not meet with our …

Fatima Pacha: Is it fair to say that if that is included, divestitures are also removed from the sales, is that how you are looking at FY16 guidance?

Dilip Shanghvi: Yes, that is correct.

Fatima Pacha: Secondly, you reported a consolidated profit or whatever equivalent of Rs.4,500 crores around and you even had a big charge in Q4 and I have been getting hoards of messages where people have even implied that your FY16 profit the way you are guiding is that it is going to be lesser than FY15. Is that a fair guidance because that is what a lot of people are talking about? So, I just wanted to confirm are you saying revenues and profits both could be lower than FY15 reported numbers?

Dilip Shanghvi: We are only guiding for the top line. Generally, we have never guided for the profitability. I have shared the investments that we need to make in R&D for growing the business, I have also talked of recurrent costs, but since we do not have any specific handle on this cost, and against that we have potential benefit of synergies. So how much of the synergy we are able to capture this year and how much is then flowing into our P&L is difficult for us to predict at this point of time. So that is the reason why we are unable to share the overall profitability. But I would like to encourage you to focus on is that almost all synergy-related integration cost will be a one-time cost, they will not be recurring costs.

Fatima Pacha: Would you give it specifically because in Q4, you did not…?

Uday Baldota: We indicated the range in the press release.

Fatima Pacha: Just confirming one more thing. Emerging markets business of Ranbaxy you do not think is looking for a major shock, is it? Do you feel that emerging markets business of Ranbaxy could have let down for you or you think it is pretty much in good shape and you can grow on that base?

Dilip Shanghvi: We have not seen anything dramatically different from what we had visualized. So there are parts of businesses of emerging markets that are not as attractive as the businesses that we have in Sun, but that is something that we were aware of even before we agreed for the transaction.

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

Nitin Agarwal: Just continuing from the point that you made earlier, is there a way to get an assessment of when you are talking about divesting businesses this year, what would be the proportion or the magnitude of the divestment that can potentially happen in this year compared to the revenue that we did last year?

Uday Baldota: We just wanted to clarify, there is some confusion that is getting created on the divestiture. What we have said is that we may decide to discontinue certain non-strategic businesses, and these two are very different.

Nitin Agarwal: If there is certain discontinuation which you have built into the numbers, so just want to get a sense of if there is a certain magnitude that we can indicate in terms of certain proportion of revenues will be discontinued, which is reflecting into the revenue guidance that we are putting out?

Uday Baldota: We did not give any specific number, but he mentioned that it is something which is low margin and does not have great strategic fit into the long-term future of the business. I think those are what we would look at discontinuing.

Nitin Agarwal: So it is not possible to get any handle on the quantum of these discontinuations?

Dilip Shanghvi: No, since we have not taken any decision, it is better for us not to share specific numbers.

Nitin Agarwal: On the India business across yourself and the Ranbaxy platform, are there any challenges on that business right now? We had some distribution related issue that you

mentioned if I remember on the Q4 call. So is that also factored into this revenue guidance for this year some distribution-related adjustments?

Dilip Shanghvi: No, I think that business is integrating quite well.

Moderator: Thank you. Our next question is from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

Chirag Dagli: When you say that you will expedite at least one facility resolution from the Ranbaxy stable of the four that are under consent decree, is not the consent decree like a very detail document which will sort of articulate all the steps that need to be taken? So now when you are three years into the consent decree, what is it that you can do to expedite one facility, how will this work?

Dilip Shanghvi: We are not saying that we will take the facility out of consent decree, we are saying we will bring the facility back into compliance. The consent decree provides for even a compliant facility to continue to be part of the consent decree and it is FDA's discretion as to at what point of time they will decide to have the consent decree on the facility or the overall consent decree removed. But, once you have a compliant facility, then from that facility you can export and you can manufacture for the US.

Chirag Dagli: What we are effectively saying is that we will focus on one rather than focus in trying to get all the four out?

Dilip Shanghvi: Yes, we will continue to work in others, but a greater focus will be to bring one facility back in compliance.

Chirag Dagli: Sir, when you say that we will grow ahead of the industry post-FY16, what is the base here — Is this like in-market growth so in India we will grow higher than the India market, in US we will grow higher than the US market growth, is that what we mean or…?

Dilip Shanghvi: That is exactly what we mean.

Chirag Dagli: One clarification if I can squeeze in. In your assessment, will Halol need to be re-inspected or can resolution happen without a re-inspection by the FDA? And of course it is a professional assessment, but just ...

Dilip Shanghvi: It is difficult for me to answer on behalf of FDA. It is their judgment and their decision.

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

Prakash Agarwal: Last call in terms of product visibility, you had talked about Abilify we are on track to launch with a little delay, but Nexium could see delays. So, where are we — are we on track and is it part of our critical product safety that we just spoke about?

Dilip Shanghvi: I do not have the list of critical products here with me, but for Nexium, we think that the FDA needs to decide on what is the status of the Ranbaxy product. So that is something that we are evaluating and discussing as to what is our next best option. For Abilify, I do not know on what specific reason, whether it is for approval of API or CMC deficiency, the approval is delayed. But hopefully, we should get approval, but very difficult to give dates now.

Prakash Agarwal: Second question is on one clarification which just Chirag asked the expedition of one of these facilities. So my understanding is the consent decree for Jan 2017, so just a clarification here, would expedition help faster resumption of sales from one of these facilities, is that what you mean?

Dilip Shanghvi: It only means that once we bring the facility back in compliance, we can export out of that facility to the US.

Prakash Agarwal: Which is after Jan '17?

Dilip Shanghvi: After whenever we get the approval.

Moderator: Thank you. The next question is from the line of Balaji Prasad from Barclays. Please go ahead.

Balaji Prasad: Now that you have full visibility of your manufacturing capacity at your facilities, how much of excess capacity do you think you have to consider manufacturing rationalization?

Dilip Shanghvi: We have to look at product category, we have to look at geography, etc. So it is difficult to give an answer at this point. We would have certain redundancy.

Balaji Prasad: I understand it is difficult to answer, but would it be in the nature of 10% to 15% of your current production capacity could be made redundant or is it more, a range at least would be helpful?

Dilip Shanghvi: Giving a number which is then speculative is not appropriate. But at some point when we take a decision, we will share with you.

Balaji Prasad: My second question, could you help us understand how your discussions with your channel partners in the US are as they have all post the integration, are you seeing a great inclination from the channels to deal with you in expanding the basket to procure or are you by any chance seeing any hesitation by virtue of your association with Ranbaxy?

Dilip Shanghvi: Because of supply disruption our service level has fallen. That is an important criteria for customers to rate suppliers. So from that point of view we have to work towards regaining confidence.

Moderator: Thank you. Our next question is from the line of Bharat Shah from ASK Investment. Please go ahead.

Bharat Shah: On the Ranbaxy total investment that we have made, at what stage can we hope to see a return on capital employed in excess of let us say a reasonable benchmark number of say 25% on a sustainable basis? Our gains from that acquisition could be in form of lower cost, it could be improving the productivity of Ranbaxy business, plus it could also mean that the two businesses combined together can overall improve the effectiveness of the business overall. So when we count all those three gains put together against the outlay we have made to buy Ranbaxy, at what stage in your opinion a sustainable reasonable return on capital employed of say upwards of 25% we can envisage?

Dilip Shanghvi: It is a difficult question to answer in context of return on capital employed because what value do we consider for calculation. Do we calculate the value when we announced the transaction, or we calculate the value of shares today, and both these values are different. It is important for us to stay focused on our ability to grow the business faster post the Ranbaxy transaction once all the integration and appropriate business processes have been put in place. So, we believe that we should be able to become a stronger company in the next two or three years post the Ranbaxy integration and we should then be able to do much better on a combined business.

Bharat Shah: No, I quite fully understand, I fully appreciate that. My question in the context of the value spend was in the context of value we had in mind when we concluded the transaction, which was like we spent about $3.2 billion in equity overtake plus about we paid $800 million to takeover to-date. So if our considered value in our mind was say $4 billion, the potential gains against that would be in form of whatever we make savings which are very direct benefits, then second benefit could be the improvement of the productivity of the Ranbaxy business as it stands which could both be in terms of capacity potential, quality, and the profits emanating from that; and third could be the two businesses combined together become stronger ones, and to that extent it allows the combined business to generate better turnover and better profits. So if the spend was whatever that value at that point of time, which could be moving numbers in terms of the price now, but say $4 billion was the notional value in our mind what we paid and these are the potential benefits, at what stage I am just saying a reasonable sustained return on capital employed because that is an outlay we made in order to acquire that business?

Dilip Shanghvi: I think giving the kind of specific futuristic number will be very inconsistent with what we have followed as a principle. It is difficult for me to guide long-term into future where we have relatively limited control on many of the variables. In our own assessment, the business will be an important part of our combined business and we should then be able to grow this business in a much more accelerated basis in future. But if you want me to give you some guidance about what will happen in next 3-4 years, it is something that we have never done even for Sun Pharma. So, it is difficult for me to give that as an answer.

Bharat Shah: How could you in your mind at some stage once the key tasks of integration are over where all the obvious and less obvious things are done with the acquisition and once things

are on a more normal basis, how would you be deciding to judge the success or the extent of success of this acquisition? What will be in your top of the mind criteria that you will apply to see how far that acquisition has moved ahead for you?

Dilip Shanghvi: Our ability to increase the productivity of the R&D, our ability to bring facilities back in compliance, our ability to have a better cost of goods than what they have right now, having higher per man productivity in India. So these are all various parameters that we look at internally with a view to justify how we are able to add value.

Bharat Shah: I am sure at some stage all of those very positive and proactive actions would result in kind of a satisfactory return on that investment. I understand the challenge of estimating in what timeframe and all that, but that was the view point I was coming from.

Dilip Shanghvi: So on whatever basis on which we made the acquisition, we feel reasonably comfortable that it has been appropriately thought-through decision.

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

Nimish Mehta: Sir, just wanted to know in the Sun Pharma Advanced Research (SPARC) Conference Call, we had mentioned about commercialization of the new drug Elepsia which was actually approved from Halol facility in the second half of FY16. Now, when I look at your comments on Halol, does this mean that we will be kind of having complete resumption of manufacturing at least for the non-sterile products?

Dilip Shanghvi: You are asking us to respond on behalf of what FDA's thinking is. So I think it is not appropriate. We have received the Elepsia approval, but that I do not want to conclude saying that there are no issues with the tablets as a facility. So I do not want to take that as a position.

Nimish Mehta: But we do stand by that guidance that in the second half the commercialization will happen?

Dilip Shanghvi: Yes, that is true.

Nimish Mehta: The second thing I wanted to understand on the consent decree that you mention for the Ranbaxy facility, is it something that at least one of the facilities we expect in this year or in the next 12-months, what does it mean that we will be expecting something now or targeting something now?

Dilip Shanghvi: What we are saying is that there are certain steps which we have to fulfil as a part of the responsibility of the consent decree, which is what we will focus on fulfilling at the earliest. After that whether it is brought back in compliance, is ultimately dependent on when FDA comes for an audit, whether the audit is successful or not. It is difficult for us to give assurance on things which we do not control.

Nimish Mehta: So this $250 million of synergy and whatever additional guidance you are giving on that does not include any resolution-related improvements, is that how we look at it?

Dilip Shanghvi: Yes, this does not include resolution-related improvements.

Nimish Mehta: The resolution will be over and above this. Okay, fair enough.

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

Surya Patra: Can you say something on the Ranbaxy facilities? Because they should be supplying something to other emerging markets if not to the advanced market, what is the kind of utilization that Ranbaxy's facilities are at the current moment?

Dilip Shanghvi: There is opportunity for us to improve the utilization.

Surya Patra: So, are you sharing sort of average kind of utilization for the facility?

Dilip Shanghvi: No, we do not.

Surya Patra: In light of the continuing remediation charges, enhanced R&D expenses, and also the incremental cost due to the team that we are building for the Ophthalmic and OTC in US, before FY18 when we are talking about a synergy benefit of $280 million to $300 million, till that time we are seeing any sort of profitable progress or not for the integrated business?

Dilip Shanghvi: The integration benefit will take up to 3-years. Part of that integration benefit will start flowing from this year onwards. Profitability is not only a function of integration benefit but also a function of how well the base business will perform.

Surya Patra: If you can say something on whether the supply of Doxil also impacted because of the Halol issues?

Dilip Shanghvi: No.

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

Alok Dalal: In the press release you said that the synergy benefits you have visibility of 15%, 20% more over $250 million. Which are the areas that are showing greater visibility versus the earlier guidance that you gave?

Dilip Shanghvi: I think procurement costs, fixed overheads, interest cost, network optimization, bringing products back in our manufacturing, productivity improvements. So, these are all areas where we hope to improve the synergy.

Alok Dalal: But is it fair to assume that revenue synergies will be significantly higher than the cost synergies that could come through?

Dilip Shanghvi: Ranbaxy business historically used to grow at a very different rate than the way in which Sun business used to grow. So our focus will be to improve the quality of business in such a way that it can grow at a faster rate than what it used to grow in the past. And that is what will create the future revenue synergy.

Alok Dalal: Are you providing any guidance for tax rate or CAPEX for FY16?

Dilip Shanghvi: No, not at this point of time.

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

Sameer Baisiwala: My understanding on Halol is God forbid but we do not have any warning letter or import alert etc., it is just 483s which have been issued. So therefore, as and when you have taken the measures, you can just resume the supplies back. FDA comes and re-inspects that may be a parallel process, but you are at the moment not constrained to supply more if you think that you have fixed the issues. Would this understanding be correct?

Dilip Shanghvi: Your understanding is correct, but let us say that if FDA had observations related to the facility, and if we want to make changes, then that will disrupt supply for a period of time.

Sameer Baisiwala: And that is the process that you are going through right now?

Dilip Shanghvi: That is the process that we are going through right now.

Sameer Baisiwala: Which should come to an end at some point in time and then you can resume back without waiting for FDA to come back and give you a green signal?

Dilip Shanghvi: Yes, that is our understanding.

Sameer Baisiwala: You alluded to many times during the call about integration charges. Is it possible to share what is the nature of these charges, what is it that you are spending money on?

Uday Baldota: There are quite a few, I can just probably give you some categories there. Last time we had mentioned about some alignment of policies that we are doing across the two organizations. Earlier also, we have said that we are using help to plan and execute on the integration, when we talk of synergies of 250 million with now 15-20% over that, there will be some spend required also to ensure that we meet this synergy number. Any rationalization that we talk of manufacturing network, we talk of procurement synergy, some of these do need some amount of spend for us to gain those. So, I think there are whole hosts of one-time cost that we may have to incur to ensure that we are able to get both the synergy benefits in terms of the quantum as well as productivity.

Sameer Baisiwala: But, say, for example, procurements you end the contract now and therefore you have to pay some charges, manufacturing again need to discontinue something because I am unable to understand what are the charges that we need to pay?

Dilip Shanghvi: Let us look at their policies for depreciation; they are very different from our policy for depreciation, they depreciate over 20-years, we depreciate over 10-years. When we integrated both the businesses, we had to apply Sun policy for depreciation. So, there is a large component of depreciation which is a function of all the depreciation difference over the life of the asset that Ranbaxy had not charged to their assets. So that came in last quarter. In this case, depreciation is not a financial impact, but it has an impact on the profitability. So those are the kind of things we are talking about. But, what we are trying to say is that it will be a one-time charge and it will generate potential benefits which are recurring benefits.

Moderator: Thank you. The next question is from the line of Nishant Chandra from Temasek. Please go ahead.

Nishant Chandra: What is the broad magnitude of this non-recurring charge attributable to this integration that we are planning to take during this year-ending March '16?

Uday Baldota: For the last year if you have seen the press release we had given some indication. For the current year while we are saying that some of these will occur, we have not yet given out a specific number and the idea would be that when we actually announce the results we should have some indication of how much is that.

Moderator: Thank you. I now hand the floor back to Mr. Nimish Desai for closing comments. Over to you, sir.

Nimish Desai: Thank you, everybody for being there on the call at such a late evening. If any of your questions have remained answered, I would request that please send them over, we will try to get them answered.

Moderator: Thank you very much. Ladies and Gentlemen, that concludes the Conference Call for Sun Pharmaceutical Industries Limited. You may now disconnect your lines.