Corporate Participants

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Sun Pharmaceutical Industries Limited Q1FY17 Earnings Conference Call. As a remainder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing '*' followed by '0' on your touchtone phone. I now hand the conference over to Mr. Nimish Desai. Thank you and over to you.

Nimish Desai: Thank you. Good evening and a warm welcome to our first quarter FY17 earnings call. I am Nimish from the Sun Pharma investor relations team. We hope you have received the Q1 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 and Mr. Sudhir Valia – Whole Time Director and Mr. Abhay Gandhi – CEO of our 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 first quarter of FY17.

Let me discuss some of the key highlights:

Our overall sales have grown by about 23% versus our annual guidance of 8-10% growth. As indicated earlier, these numbers include the upside from the 180-day exclusivity on Imatinib in the US. Sales of Imatinib for the quarter were almost similar to that booked in the March-2016 quarter and were in line with our original expectations. The Imatinib exclusivity in the US has ended and two other generic companies have launched their versions of the product. In Q1, we also had the benefit of non-recurring

sale of approximately US$ 35 million, which is unlikely to repeat in the remaining quarters of this financial year.

Let me update you on the Ranbaxy integration – The implementation of the integration is on track with targeted synergies of US$ 300 million by FY18. While we will be able to accrue higher synergy benefits compared to the previous year, we also need to invest significant resources in the specialty business in the US.

Now, let me update you on Halol.

As indicated in the previous call, we have requested the US FDA to re-inspect the Halol facility and we are awaiting this re-inspection.

Let me now briefly talk about our specialty initiatives.

During the quarter, we progressed further in our specialty initiatives by announcing positive results from the Phase-3 trials of Tildrakizumab as well as approval of BromSite in the US. The requisite team to commercialize BromSite is now in place.

At the same time, we continue to evaluate opportunities to expand our global specialty footprint. As a part of this process, we have recently entered into a licensing agreement with Almirall, a leading European dermatology company, for the development and commercialization of Tildrakizumab for psoriasis in Europe.

I will now hand over the call to Mr. Valia for discussion of the Q1 performance.

Sudhir V Valia: Thank you Mr. Shanghvi. Good evening everyone and welcome to all of you. Our Q1 financials are already with you. As usual, we will look at key consolidated financials.

Before we discuss the financials, let me highlight that the US dollar for the quarter was at a higher rate as compared to last year. The resulting benefit to revenues may not be sustainable.

The Company has adopted Indian Accounting Standards (Ind AS) from 01-April-2016 and hence the financials have been prepared according to Ind AS. To facilitate a like-to-like comparison, the financials

for the previous quarter ended June 2015 have been restated as per Ind AS. As per the requirements of Ind AS, sales are now reported on gross basis and hence margins are also calculated on gross sales.

Q1 sales are at Rs. 8,007 crores, up by 23% over Q1 last year. Material cost as a percentage of the sales was 23.1%, staff cost was at 15.5% and other expenditure was at 27.9% of sales, all lower than Q1 last year.

As a result of the above, the EBITDA for Q1 was at Rs.2,685 crores with EBITDA margins at 33.5%. Net profit for the quarter was at Rs. 2,034 crores with Net profit margin at 25.4% compared to Net profit of Rs. 556 crores for Q1 last year. Net profit for 1Q last year was adversely impacted by one-time items as well as exceptional charges of Rs. 685 crores. EPS for the quarter was Rs. 8.40.

Let me now briefly discuss Taro's performance.

Taro posted Q1 sales of US$ 234 million, up 9% over Q1 last year. Taro's net profit for Q1 was US$ 110 million up by 6% over Q1 last year.

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

Abhay Gandhi: Thank you Mr. Valia. Let me take you through the performance of our India business.

For Q1, sales of branded formulations in India were Rs. 1,854 crores, a growth of 8% over Q1 last year and accounting for approximately 23% of total sales. Our business has grown despite the combined effect of multiple regulatory changes which adversely impacted overall industry growth during the quarter.

Sun Pharma is ranked No. 1 and holds approximately 8.7% market share in the Rs. 100,000 crore pharmaceutical market as per June-2016 AIOCD-AWACS report.

As per latest SMSRC report, Sun Pharma is ranked no. 1 based on share of prescriptions with 12 classes of doctors. For Q1, 15 new products were launched in the Indian market.

The demographics of Indian pharmaceutical market continue to favour increase in pharmaceutical consumption. However, competition, changing regulations and government mandated price controls are the other key factors which will determine the long term growth trajectory of the industry.

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

Dilip Shanghvi: Thank you Abhay. I will briefly discuss the performance highlights of international business. Let me first start with the US business.

For Q1, our overall sales in the US were at US$ 609 million accounting for approximately 51% of our overall sales. These numbers include sales from the 180-day exclusivity on Imatinib. Sales for the quarter were stable despite competitive pressure on some products and supply constraints arising from remediation efforts at the Halol facility.

Our sales in emerging markets were at US$ 154 million for Q1, accounting for 13% of total sales. Our emerging market performance has improved 16% year-on-year. The growth is broad-based amongst emerging markets.

Formulation sales in Rest of World (ROW) markets excluding US and Emerging Markets were US$ 84 million in Q1, a de-growth of 7.3% from the corresponding quarter last year. ROW markets accounted for approximately 7% of revenues for Q1FY17.

The API business external sales for Q1 were at Rs. 470 crores, up 73% from the corresponding quarter last year. This strong growth was partly driven by the consolidation of the opiates business in Australia.

We continue to invest in R&D. Consolidated R&D expense for Q1 was Rs. 531 crores, accounting for 6.6% of sales. This R&D spending enables development of future product pipeline including specialty and differentiated products and we continue to expect increased R&D investments for rest of the year.

We have a strong pipeline for the US market with 150 ANDAs awaiting approval with the US FDA. Our comprehensive product offering in the US market consists of approved ANDAs for 417 products.

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 with the Question-and-Answer Session. The first question is from the line of Anubhav Agarwal from Credit Sussie. Please go ahead.

Anubhav Agarwal: One clarity on this one-off sales you mentioned about $35 million. This will be typically inventory stocking, right? My question is that does this represent lower sales of that product in the past and now restocking or is it higher stocking now, and it will imply lower sales for that product in the future?

Dilip Shanghvi: It will be higher inventory stocking which will take some time during the year to get used up.

Anubhav Agarwal: One question on the Specialty strategy of Sun Pharma. I am little confused here, because we are focusing on four areas -- Derma, Ophthal, OTC and CNS. I find it little stretched that we are starting and we are focusing on all four of them together. Is that focus more on commercialization of molecules like in-license more of them and focus on marketing first, or do you think that we focus 50-50, that we would soon see you starting on many of the projects, own R&D as well?

Dilip Shanghvi: If I look at the way the business will evolve is that we have our own products and we will also do business development transactions. So the idea for us is to have enough depth in the product pipeline so that we can sustain the cost that we will create. So it is a question of I think the decision of when to start this activity. Incidentally, I think all of this is happening at the same time and partly it is also because of potential delay in approval on account of Halol, otherwise this would have been a little more phased out.

Anubhav Agarwal: Just a follow-up on that, let us say, for example, we recently added CNS, my question was also from a perspective that, yes, I appreciate own pipeline, in-license, both combination, but do you think that we could have done… because in my understanding of Sun Pharma so far always have been this organization more focused on derma. I was very surprised with CNS entry which as a new therapy in our portfolio.

Dilip Shanghvi: I think, it is a trade-off between the ability to sustain costs and grow fast at a medium term level rather than staggering the investment and maybe potentially take a longer time to grow. So I think we took that decision that we have cash flow and current profitability which will allow us to risk a little bit more. The same way like we decided to invest in Tildrakizumab. So I think we continue to take decisions involving both our balance sheet and our P&L with a view to develop a robust pipeline and

growth engines in medium and long-term. We are not looking at our short-term profitability with a view to protect short-term margin.

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

Neha Manpuria: Sir, in the US business, if I were to strip out the $35 million non-recurring sales and your commentary that Gleevec sales was flat from the March quarter, it still seems an improvement quarter-on-quarter given that Taro's performance deteriorated, have we seen an improvement in our base business given there is commentary about price erosion in the US?

Dilip Shanghvi: Not significant. We have maintained the top line in spite of erosion in pricing as well as the more competitive pressure.

Neha Manpuria: So, we have not really gained market share in certain products, etc., which is…?

Dilip Shanghvi: We would have, I think, market share and top line are not related, because in a product in which let us say, if you lose pricing, even for you to maintain the existing business in value terms here we have gained market share.

Neha Manpuria: Sir, what was the generic price erosion -- was it the 5% to 10% that we have highlighted or was it probably higher?

Dilip Shanghvi: We do not see a price trend change which is different from what we have discussed in the past.

Neha Manpuria: Second on the India business, the regulatory changes that you mentioned along with… this being the last quarter where probably the hygiene factors that we were implementing comes to an end, what was the impact of the NLEM and the changes that we are bringing about in the business. Is it fair to assume improvement in the growth run rate from the next quarter onwards?

Abhay Gandhi: The impact of all the regulatory changes will be in the range of little under Rs.150 crores for the full year.

Neha Manpuria: The changes that we were making deliberately in terms of promotions, etc., are fully complete as of this quarter, so we should see the growth run rate improve from the next quarter, is that fair?

Abhay Gandhi: We hope so.

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

Prakash Agarwal: Sir, just trying to understand, as Neha also said that Q-o-Q, if we strip out the $35 million and say the Gleevec sale about $100 million, I am not seeing the Q-o-Q improvement, so just trying to understand whether Halol have seen improved supplies or not really?

Sudhir V Valia: The routine business in Halol is anyway growing.

Dilip Shanghvi: I think we have been sharing with you that other than the new approvals, we continue to gain market share for products that Halol is able to supply.

Prakash Agarwal: Would you say on Gleevec that the price erosion already started in Q1 as well because of the anticipation of competition which is present now?

Dilip Shanghvi: My understanding is that the way the market works is that it is linked with the introduction of competition which we were pricing. But, I think people started adjusting for in anticipation of competition maybe a few weeks ahead of time.

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

Sameer Baisiwala: I was little surprised when you said that, the Gleevec contribution in absolute dollar terms I presume is same in the previous quarter Q4 versus Q1, one was two months, the other is three months?

Dilip Shanghvi: What happens is that typically in the first month people stock up because this is the first generic, so people will require to build the inventory in the first two months. At the end of the cycle, when you have let us say, the sixth month, people start destocking, because they also do not want to

be left with high inventory. We also do not want to be left with very high inventory with the chain, because then we will have to do price adjustments. So I hope this explains the reason.

Sameer Baisiwala: But I remember in last call you mentioned that you had not sold more than two months of quantity. So I presume that there was no excess inventory filling?

Dilip Shanghvi: I do not know in what context I would have answered your question. But there will be in the first order that you received from every wholesaler. Because typically a wholesaler will be very unhappy if they introduce a line and then cannot continue to supply. So unless and until they have a certain critical amount of inventory, they do not start supplying to their pharmacies.

Sameer Baisiwala: Just on this point, when the two new players have entered, is the pricing still rational or has this come off meaningfully? Just a tie-up with this, you continue to have Savings Card Program. So is that indication that the pricing remains elevated and you have that latitude to give this additional benefit to the patients?

Dilip Shanghvi: I am not actively involved with this strategy, I think the pricing card is basically to equalize with the Gleevec, because they also have a similar card. My understanding is that the other two generics that have come after us also have similar programs. So I think it is possibly a requirement of the nature of product.

Sameer Baisiwala: But side stripping that how is the pricing doing before they entered and after they have entered, is it…?

Dilip Shanghvi: It is behaving more or less the same way like from when the market transitions from a single competitor to three competitors, the behavior is more or less the same.

Moderator: Thank you. The next question is from the line of Abhishek Sharma from IIFL. Please go ahead.

Abhishek Sharma: Sir, first question is around Absorica. I heard your Cipher's partner call saying that you have basically shifted a lot of sales through Specialty Pharmacy. Has that led to some sort of a margin improvement?

Dilip Shanghvi: I have no idea as to how much information about our business processes and strategy they would have disclosed. I think we are responding to market dynamics and the idea is to kind of remain competitive with other players in the same field. Now how effective that strategy will be longer term and what will be the cost, I do not think we have formed any judgment.

Abhishek Sharma: But your strategy would also be driven by the fact that on the Generic side, you would be seeing increasing competition, I presume and being a brand, you would be able to shift your product through a specialty channel, right?

Dilip Shanghvi: No, I think first of all let us understand that Absorica is a different product than a generic, it is promoted as a different product, and it is reimbursed as a branded product. So, that is the first important issue. I do not know whether this answers your question.

Abhishek Sharma: Fair enough, which is where I was sort of trying to seek some color. The reimbursement levels would be different in different channels, right?

Dilip Shanghvi: Reimbursement levels will be different in different plans, correct.

Abhishek Sharma: Second question was around Halol re-inspection. Have you been communicated a date by USFDA for the inspection?

Dilip Shanghvi: As a company, we do not give details about when and which of our facility is going to be inspected. So I do not think we want to start. We have indicated to investors in the past that we will inform USFDA before June for re-inspection, which is what we have done. But also consistently we have maintained that when USFDA will visit is not something that we can influence.

Abhishek Sharma: My last question was around the R&D expense. In 4QFY16, we had an elevated number of Rs.671 crores. Did it include any kind of one-time payout to your partner Merck for having completed the Phase-III trial, it is your payout to Merck for having rendered services or something like that, and I am not sure….

Uday Baldota: So I think that keeps happening every quarter. So there would be some amount that would have happened this quarter as well.

Dilip Shanghvi: We continue to spend money on the trial for product for sure.

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

Surya Patra: Sir, just wanted to have a sense, the way that we have sequentially grown in the emerging markets, which is a kind of a trend, other than the trend that we have opted for with some other company, we have grown positively sequentially despite currency issues and all that. What is really helping here?

Dilip Shanghvi: I think last year we explained that, we are in the process of looking at which business is attractive and streamlining the business processes across the international business and I think what processes that we have streamlined seem to be helping.

Surya Patra: Regards growth guidance, whether we are sticking to the what initial that we had given or we are revising downward or upward considering the pricing issues or whatever that we are seeing either in the domestic market or the US market?

Dilip Shanghvi: We are keeping our guidance constant, I think it is too early for us to take a view and change. Should we feel that at some point we need to, we will change our guidance.

Surya Patra: Are we even thinking about kind of an inorganic kind of activities domestically or in the emerging markets in the near future?

Dilip Shanghvi: I cannot see a logic of buying a business in India, because both from a strategic as well as business presence point of view, any acquisition…Abhay, what is your view… can we do any major acquisitions?

Abhay Gandhi: Major acquisition seems difficult to me. But there could be individual opportunities where specific products or therapies and that we will keep looking at.

Dilip Shanghvi: In emerging markets also we will continue to look at opportunistically for markets that we are interested in, but they will not be large acquisitions.

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

Chirag Talati: A couple of questions. Firstly, on Dusa, we have not had an update on that for quite a bit of time. If you can just help us give us the directional update in terms of the placements and if you have seen a major pickup in the throughput rate?

Dilip Shanghvi: I think we just generally would prefer not to break down business into product and components. But I think our hypothesis and original investment strategy for investing in Dusa continues to be valid and we continue to be happy with the outcome.

Chirag Talati: Secondly, on the Almirall milestone, I presume they will be booked as a one-time lumpy recognition in Q2 or is that likely to be spread out?

Uday Baldota: What you are saying is correct.

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

Alok Dalal: One question on Halol. What will be the Plan-B if say the Halol inspection does not go as per expectation?

Dilip Shanghvi: I think, then we have to relook at critical products and we also need to understand where there is continued deficiency. So as on today, I do not think that we have a Plan B on not passing the re-inspection, because I think we have worked hard to address all the compliance related anxieties or issues which were raised.

Moderator: Thank you. The next question is from the line of Anubhav Agarwal from Credit Sussie.

Anubhav Agarwal: One question on the ANDA filing break-down. Now ex-Taro we have certainly not been doing well almost for more than two years. I just had one question here that, is the number of projects under development for us which are not yet filed really ballooning, because R&D spend for us still continues or is it just the Halol impact that we are not able to file in from Halol that that is the reason, number of filings for us significantly dropped?

Dilip Shanghvi: I think there are two issues: One is the challenges related to Halol and meeting all the remediation-related activities. So that is one important limitation and challenge. The second I think is the focus on increasingly more complex products that we have. So both of that I think is leading to a

delay. I recognize that we continue to increase our R&D spend and at this kind of spend, we need to be filing many-many more products than what we are filing today.

Anubhav Agarwal: So our R&D spend as a percent of sales was low, but our guidance is 9%. So we should see higher R&D spend in rest of the year?

Dilip Shanghvi: That is correct.

Anubhav Agarwal: Uday, a couple of clarifications. Under Ind AS, what you have shown the numbers for previous year quarter June-15 1Q 2016, the EBITDA is lower by 5% from what you reported earlier and all the difference is coming from other expense. Most of the companies most of the changes have been EBITDA is neutral, but for us why is EBITDA going down to 5%?

Uday Baldota: Actually, I do not think I have looked at the number the way you look at.

Anubhav Agarwal: Maybe I can take it offline. Just one clarity also on the other expense now just understanding on the Specialty side, the expense on the Specialty side, most of that will be on the R&D and the personnel cost, right? Just trying to understand that, some will come, but is that a substantial part of that will come under other expenses?

Uday Baldota: To the extent that there are activities being done to prepare for a potential launch, I think to that extent it will come in other expenses as well.

Anubhav Agarwal: Which will say, promotion expenses like just before launching BromSite, etc., those kind of activities?

Uday Baldota: Yes, meaning, market development and stuff like that. So that will come in other expenses.

Anubhav Agarwal: But bulk will be in R&D and the personnel cost?

Uday Baldota: That is right, the bulk of R&D expenses also is in other expenses.

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

Nimish Mehta: First one on Halol, now that the remediation process is done. Have we resumed full production in that plant?

Dilip Shanghvi: No, I think we have repeatedly explained that Halol continues to produce. Remediation is a function of our commitment. So we continue to remediate based on the observations and majority of the products I think are in markets.

Nimish Mehta: No, but there had been some disruptions, right, for a long time, because of the remediation?

Dilip Shanghvi: That was there. Then we started clarifying, we started re-introducing products.

Nimish Mehta: So is it fair to assume that this quarter number reflects full amount of Halol production at current whatever number of products we got an approval on?

Dilip Shanghvi: No, I think the way the generic business works is that, if you lose customer, then it takes time for you to re-build the lost market share. So I do not think that I can respond saying that we have reached full potential.

Nimish Mehta: No, okay, let me rephrase it, I am just saying that, are all the products that are approved from Halol in-market as of now reflected in this quarter result?

Dilip Shanghvi: Some of them maybe in the process of getting into market.

Nimish Mehta: That may not be substantial? I am just trying to…

Dilip Shanghvi: That is exactly what I am trying to explain to you, substantial is a function of our ability to get market share, and that is something which I cannot predict.

Nimish Mehta: The second is on synergy on Ranbaxy integration that you mentioned that we are on track and I guess this quarter also would reflect some synergy benefits. So just wanted to know how do you see the synergy broken up between sales synergy and cost synergy or expense synergy? Some color on that will be helpful even though you may not quantify exactly.

Dilip Shanghvi: Since we have not given this at the beginning, it is difficult for me to now give you how we are doing but we had explained that this is both potential upside in terms of profit, also in terms of cost, and both of that is happening. You may not be able to see the full impact because we are simultaneously also creating new costs. So, you cannot do comparison and say that your costs have not come down. Even if they may have come down, we would have created new cost for doing new business.

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

Chirag Talati: Now, if I look at the number of approvals that you have been getting, there has been a plenty of approvals that have come through calendar year 2016. But when we look at the run rate, it is like refusing to budge up, and you are also talking about Halol continuing to produce, my understanding, your contracts would have moved around. But can you just help us throw some light, are the new products not getting reintroduced at a rapid pace or is there more pricing pressure because it is based on something which is amiss, if you can help us understand?

Dilip Shanghvi: I think what I request you to appreciate is that we have an overall guidance, and what we have factored in our overall guidance is all of these questions that you are amiss. So ultimately I have to do my job and is to address and solve some of the questions that you are raising and that is reflected in my guidance. So my ability to deliver on numbers that will factor new products, reintroduction of product, all of that is factored in the guidance.

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

Saion Mukherjee: Generally what we have seen is companies and they have warning letter, regulatory issues, there is a very active effort thing to transfer products to alternate sites. We have seen for Gleevec and for other extended-release product you mentioned earlier that there are certain other activities that you need to do and you are hopeful of Halol solution. I am just wondering, we have seen the impact of in-market products volumes moving down. But in terms of new product approval, how much impact has Halol created? Have you missed on some large approvals because of Halol?

Dilip Shanghvi: I am sure we would have.

Saion Mukherjee: How are those opportunities now when Halol gets resolved over a period of time, those still remain attractive opportunities you think?

Dilip Shanghvi: Some of them will, some may not. If your question is Halol challenge that we have faced, has it affected our ability to grow the business and continue to maintain that momentum? Then answer is 'yes'. So we have to learn from this and see that we address this in such a way that it does not happen again.

Saion Mukherjee: But, it is right to assume there has not been many product transfers, only very select like Gleevec only we have transferred?

Dilip Shanghvi: Yes, that is correct.

Saion Mukherjee: Secondly, on Glumetza, that was a date-certain launch, right, but there is some delay in launching that product. Is there any particular reason and how soon you expect to be in the market?

Dilip Shanghvi: We stay with our original guidance that we should be in the market in a few weeks.

Saion Mukherjee: In Taro, there has been a fall in revenues Q-o-Q which was a bit surprising given all the new launches that we had. Can you help us what exactly happened at Taro?

Dilip Shanghvi: I am sure you understand that I cannot disclose anything on Taro.

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

Sameer Baisiwala: Just from where the previous question left, is this one-off or is this a new base, I am referring to Taro, is $30 million drop, it is a fairly significant one, we are almost back to three price hikes in calendar 2016. So just some broad thought, is this just one-off or is this now the new base?

Dilip Shanghvi: So, hopefully I think they will have a call next quarter. So maybe you can ask this question there, in the sense that you recognize my challenge, it is a public company, and it is listed in the US, it is not proper for me to give information to Sun shareholders before it is available to Taro shareholders.

Sameer Baisiwala: Sir, second is on Gleevec. How do you see the competitive scenario unfolding now over next 6 to 12-months, do you think we are done for now or do you think it is going to get a lot worse?

Dilip Shanghvi: My understanding is that there are many people who have filed this product. It is clear that the number of introductions that we see today is just the beginning. I think it will continue to see new players as time progresses. There are reasons why other people have not launched because they have different settlement dates with Novartis and you are aware of most of it, so there will be other players.

Sameer Baisiwala: Strategically speaking, how do you now see Biosimilar opportunities broad-brush? I know you have not been too excited about it, but the way this has unfolded over last 2-3-years, do you see this as a significant growth opportunity, would you want to do something here or the answer still remains no?

Dilip Shanghvi: We want to do something here in such a way that it can become a profitable investment. We do not want to get in there at any cost and whether we make money or not. Because if we are very late with biosimilars, then I do not know what kind of market share we will get and what kind of revenue we will get. I think it is still evolving because each biosimilar is an investment of maybe $100 million plus. So I think it is better for us to be careful and we see clearly better opportunity of getting return on that investment with differentiated products or branded products rather than investing that money in biosimilars.

Moderator: Thank you. The next question is from the line of Kisalaya Singh from Anya Investments. Please go ahead.

Kisalaya Singh: We are holders of both Sun and Taro. So my questions are related to Taro. I am trying to understand how you think Taro fits into growing your US business, because Taro has chosen to do a few non-derma products, Kal in few other calls mentioned that they look to do it opportunistically. I am trying to understand as you broaden out Sun Pharma into the other spheres, is it reasonable to assume that Taro has a role to play there or is that going to be siloed purely in the Derma business?

Dilip Shanghvi: I think Taro will continue to have an important role in our growth in the US business. At the same point of time, its manufacturing infrastructure is in relatively high cost geographies. So they

will address businesses in which it can continuously remain competitive. But we will continue to look at opportunities of inorganic growth, we will continue to look at licensing and buying products. So hopefully, yes, we have not done any major acquisition in Taro, because of the unrealistic valuation of assets that we have looked at. But I am sure that with some rationality coming back to market, opportunities will start coming.

Kisalaya Singh: Right. If I could follow up just a bit. As we understand it, there is no formal agreement between Sun Pharma and Taro as to which growth areas one company or the other is going to be limited to. Is there any plan to formalize such an agreement or for my understanding, could you shed some light on how you decide which part of those …

Dilip Shanghvi: I think what I have shared with you is what Taro shared in the past. So it is difficult for me to share something which they may not have shared in the past.

Kisalaya Singh: Actually they asked us to ask you. But okay, I hear you on it.

Moderator: Thank you. The next question is from the line of Harsh Tiwari from TCL. Please go ahead.

Harsh Tiwari: The question is related to something about the Halol plants. As you mentioned that you have asked to revisit the plants again. So when are we supposed to get like a result for the plant specifically -- do you have any update or any kind of timelines or anything for that?

Dilip Shanghvi: No, I think the process is that we have to wait for US FDA to inspect the facility and that is something which once they decide, then we also do not know when they will come, for how many days they will come. So we have to wait for this whole process to work out. Difficult for me to give you specifics.

Harsh Tiwari: But we had asked them like in a couple of months back already, right, so?

Dilip Shanghvi: Yes, I understand, but I think they have thousands of plants for which they have to organize inspection. So they have to prioritize within their own priority.

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

Surjeet Pal: I have two questions. One thing is bit of a broad area in Derma space in US, not necessarily to be targeted to Taro. But what we have observed in US is that Dermatology segment largely is relatively untouched the way the other Generic business has been impacted through price through competition which definitely helps Taro to a larger extent, and given the kind of Perrigo's guidance happened two times as well as if I see the Taro's number, after two to three years, though their June quarter number already has been impacted because of price protection issues, this time without price protection issues and if I adjust the price protection number of last year of Q1, I find this as flat sales, and also found out that without any price protection issues you were giving the same sales. My point is that, in Dermatology space, are you going to see the kind of competition both price and market share as it happened with other Generic space?

Dilip Shanghvi: It is generic business. So I think nature of product does not influence behavior, it is in a number of competitors which influences the behavior.

Surjeet Pal: So the typical nature of that price rise happening in Derma space cease to exist going forward in, say, near to medium-term?

Sudhir V Valia: Yes, will go down when the competition increase.

Dilip Shanghvi: I think if you see last three years, we have been telling this consistently that ultimately this is a generic business and as sensitive to competition as all other businesses are.

Surjeet Pal: The second question is that the way you inform us about Halol. Could you take us through your resolution process in a large plant like Mohali or Paonta Sahib, what is the current regulatory status and when do think that there could be a possibility and when you are going to request FDA to visit?

Dilip Shanghvi: So we have shared with you in the past that we plan to have one of the ex-Ranbaxy facility to be recertified. We have not given any specific date or timeline for that. So that continues to be our plan.

Surjeet Pal: Did we request them to visit any of the plant where you feel that… ?

Dilip Shanghvi: That is exactly what I am saying. So the name and the time, we have not announced and we are not announcing anything on this call. Otherwise it would have been part of my readout.

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

Deep Master: A question on the emerging markets sale. As you have mentioned previously you have been sharpening your focus on a few core markets and you have grown well this quarter. So could you just comment qualitatively on whether that is sustainable going forward?

Dilip Shanghvi: I think we have given an overall guidance that looks at our ability to grow in all markets and emerging market is now important enough, it is almost 13% to 15% of our total business.

Deep Master: Could you share anything qualitatively on your base business in the US ex of Gleevec how that performed either year-on-year or quarter-on-quarter because I see your gross margins came down…?

Dilip Shanghvi: If I see my read out, then we said that we were stable despite competitive pressure on some products.

Deep Master: On the whole, net of erosion, have you managed to grow is what I wanted to understand?

Dilip Shanghvi: Difficult for me to give product-by-product response, but the base business is stable.

Moderator: Thank you. The next question is from the line of Jiten Doshi from Enam Asset Management. Please go ahead.

Jiten Doshi: I just wanted an update on your buyback, one. Two, what is the philosophy on Rs.200,000 crores market cap to issue a buyback of Rs.750-odd crores, one. Two, is it a substitute of the dividend and will the promoters be participating in that, and basically, is it going to be a regular feature?

Dilip Shanghvi: We are awaiting approval from SEBI for the buyback. I cannot presume on behalf of the board about what it will do next year and it is not a substitute for dividend.

Jiten Doshi: Basically, what was the underlying philosophy for announcing this buyback?

Dilip Shanghvi: I think it is a way to return money to shareholders.

Jiten Doshi: So you basically believed that the stock price is cheap. So it would be a good way to enhance shareholder value?

Dilip Shanghvi: In the sense that's how most of the time the buybacks work.

Jiten Doshi: My next question would be, do you believe that Sun Pharma after resolution of Halol and complete integration of Ranbaxy, can it actually regain its past glory of very high growth rates or do you believe this current base effect will mean that going forward if everything is settled and is okay, the base effect will restrict growth for us in lower growth rates compared to the past? I am just talking about next five years, if you were to visualize for Sun Pharma, are they looking as promising as the last five years given that your Halol resolution will be done and that integration will happen smoothly of Ranbaxy, where would you visualize…would you say the next five years holds the same promise or optimism as the past 5-6-years?

Dilip Shanghvi: As shareholders and promoters, we continue to be very excited about the future of the company.

Jiten Doshi: So you do not believe that the base effect or something is going to hurt our growth in the future?

Dilip Shanghvi: All I can say is that, we believe that we will continue to do well in a competitive market.

Moderator: Thank you. The next question is from the line of Ashish Thavkar from Motilal Oswal Asset Management. Please go ahead.

Ashish Thavkar: Just two questions: First would be on Tildra. Just wanted to know what were the possible timelines by when you would be able to file with the FDA for approval?

Dilip Shanghvi: We have not given any specific date. If you see our announcement, then Merck is responsible for filing to the USFDA and Merck has not given a specific date. So, it is difficult for us to

give you a timeline at this point of time, but however the way I see, it continues to track well with the objective.

Nimish Desai: What we have said is that the filing is planned for next calendar year, but we have not given a date.

Ashish Thavkar: Secondly, on this Ranbaxy synergy, last call, we had said that larger part of the $300 million synergy from Ranbaxy would be in FY17. So would that be from Q2 or some part of it is already in Q1?

Dilip Shanghvi: I explained that while a synergy may have been captured, but we are also creating new costs for taking care of future growth of the business. So you cannot do comparison and understand whether we have captured the synergy or not. But the way we are measuring and calculating our synergy, I think our assessment is that we are doing well and we should be able to capture increasingly larger percentage of synergy this year and remaining next year.

Ashish Thavkar: I would like to have guidance on the CAPEX and the tax rates.

Dilip Shanghvi: We have not given any number, but we expect it to be more or less same as what it was in the earlier year. Tax rate also I think in one of the questions we would have answered.

Uday Baldota: For the tax rate we continue to say that you will see an increasing tax rate as we keep moving forward.

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

Nimish Desai: Thank you everybody for joining us on this call this evening. If any of your questions have remained unanswered, do send them across and we will have them answered. Thank you and have a good evening.

Moderator: Thank you very much. Ladies and Gentlemen, on behalf of Sun Pharmaceutical Industries Limited, that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.