Corporate Participants

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Moderator: Ladies and gentlemen, good day, and welcome to the Sun Pharmaceutical Industries Limited Q3 FY'21 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nimish Desai. Thank you. And over to you, sir.

Nimish Desai: Thank you. Good evening and a warm welcome to our third quarter FY21 earnings call. I am Nimish from the Sun Pharma Investor Relations team. We hope you have received the Q3 financials and the press release that was sent out earlier in the day. These are also available on our website.

We have with us Mr. Dilip Shanghvi – Managing Director, Mr. C. S. Muralidharan (CFO), Mr. Abhay Gandhi – (CEO – North America), and Mr. Kirti Ganorkar (CEO – India Business). Today the team will discuss performance highlights, update on strategies and respond to any questions that you may have. As is usual, for ease of discussion we will look at the consolidated financials. Just as a reminder, this call is being recorded and a replay will be available for the next few days. The call transcript will also be put on our website shortly.

The discussion today might include certain forward-looking statements and these must be viewed in conjunction with the risks that our business faces. You are requested to ask two questions in the initial round. If you have more questions you are requested to rejoin the queue. I also request all of you to kindly send in your questions that may remain unanswered today.

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

Dilip Shanghvi: Welcome and thank you for joining us for this earnings call after the announcement of financial results for the third quarter of FY21. I hope you and your family are safe and healthy.

Let me discuss some of the key highlights:

Consolidated sales for the quarter were at Rs. 8,782 crores recording a growth of about 9% YoY and 4% QoQ. Our Q3 performance reflects continued profitable business growth in a market that is gradually recovering from the impact of the global pandemic. Most of our businesses have done well over Q3 last year. Our India and US businesses have also grown sequentially. We continue to focus on topline growth, operational efficiencies and business continuity.

Let me now update you on our global specialty business. For Q3, our global specialty revenue was approximately US$ 148 million across all markets. Global Ilumya sales for nine months ended Dec'20 have already crossed last full year's sales. Specialty R&D accounted for approximately 27% of our total R&D spend for the quarter.

We have recently initiated the Phase-2 clinical trial for SCD-044 in patients with moderate to severe plaque psoriasis. The Phase-3 clinical trials for Ilumya for psoriatic arthritis indication are also ongoing.

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

I will now hand over the call to Murali for discussion of the Q3 financial performance.

C.S. Muralidharan: Thank you Mr. Shanghvi. Good evening everyone and welcome to all of you. Our Q3 financials are already with you. As usual, we will look at key consolidated financials.

Q3 sales are at Rs. 8,782 crores, up by 9% over Q3 last year. This is the highest ever quarterly sales that the company has recorded. Material cost as a percentage of sales was 26.6% lower than Q3 last year due to product mix and other efficiencies. Other expenditure was at 27.9% of sales, lower than Q3 last year mainly due to lower marketing and travelling spend in US, India and other markets. As indicated in our past earnings call, these expenses will see an increasing trend in future once the market situation reaches full normalization.

As a result of above, EBITDA for Q3 was at Rs. 2,351 crores, up by 36% YoY with resulting EBITDA margin at 26.8%.

Reported net profit for the quarter was at Rs. 1,852 crores, up 103% over net profit of Q3 last year. The reported EPS for the quarter was Rs. 7.72.

Let me now discuss the key movements versus Q2FY21:

Our consolidated sales are up by 4% Q-o-Q driven mainly by strong sequential growth in the US and India businesses.

Material costs at 26.6% of sales are higher than Q2 due to product and geography mix and certain one-time charges at Taro. Other expenses at 27.9% of sales are marginally lower than Q2 mainly due to lower R&D spend. We had a forex gain of about Rs. 72 crs for Q3 as against forex loss of about Rs.116 crs in Q2.

As a result of above, EBITDA for Q3 at Rs. 2,351 crores, was higher by 12% compared to Q2.

Net profit for Q3 at Rs. 1,852 crores, was higher than the adjusted net profit of Q2 by about 16% and was 2% higher compared to the reported net profit of Q2FY21.

Now we will discuss the nine-month performance.

For nine-month period, net sales were at Rs. 24,708 crores, a growth of 2% over nine-month last year. As indicated in the past, the nine-month period of last year included contribution from a non-recurring special business in the US and hence the YoY sales numbers are not strictly comparable.

Material cost, as a percentage of the sales was 26.1% which was lower than nine-month period last year mainly due to product mix and efficiency initiatives. Staff costs at 21% of sales were higher than last year mainly due to addition of field force in India and US as well as the annual merit increase. Other expenses were at 28.1% of sales, lower than nine-month last year, driven mainly by reduced marketing, selling & distribution and travelling expenses across markets.

As a result of the above, the EBITDA for the nine-month was at Rs. 6,176 crores, a growth of 18% over the nine-month last year, with resulting EBITDA margin of 25%.

Excluding the exceptional items, adjusted net profit for nine-month FY21 was at Rs. 4,589 crores, up 36% YoY, with resulting net profit margin at 18.6%. Reported net profit for nine-month FY21 was at Rs. 2,010 crores.

The Company has repaid debt of about US$ 490 million in nine-month period of the current fiscal.

Let me now briefly discuss Taro's performance.

Taro posted Q3FY21 sales of US$ 140 million and net profit of US$ 33 million which was down by 2% and 27% respectively over Q2FY21. On a YoY basis, sales for Q3FY21 were lower by 5% while the net profit was lower by 51%. For the nine-month, sales were at US$ 401 million, down 14.7% & adjusted net profit was at US$ 107 million, down 43.6% over nine-month last year.

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

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

For Q3, sales of branded formulations in India were Rs. 2,753 crores, a growth of 9% over Q3 last year. We have also recorded a 9% growth on QoQ basis. India business accounted for about 31% of consolidated sales for Q3.

Our growth for Q3 was led mainly by our chronic portfolio. For most of our therapeutic segments, we have either outperformed or grown in-line with the segment growth. As reported by AIOCD-AWACS, our overall market share in the domestic market has also recovered to 8.04% in Q3 compared to 7.78% in Q2.

The growth in the semi-chronic and acute portfolio has started recovering. The acute segment is still facing some challenges due to lower incidence of infections and less patient flow to the doctor clinics.

Our medical representatives are fully operational on the field and are visiting doctors for promoting our products. About 90-95% of specialist doctors have re-started their practices but the patient foot fall is not yet fully normalized and is at about 70-75%. The doctor call rates are improving and are near to normal.

For Q3, we launched 27 new products in the Indian market.

Sun Pharma is the largest pharmaceutical company in India and holds approximately 8.2% market share in the over Rs. 145,000 crore pharmaceutical market as per December 2020 AIOCD-AWACS MAT report.

We also continue to remain the partner of choice for in-licensing of products, given our strong no. 1 position in many therapy areas.

I will now hand over the call to Abhay.

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

For Q3, our overall sales in the US grew by 7% over Q3 last year to US$ 374 million, mainly driven by ramp-up in sales of specialty products and the ex-Taro generics business. US accounted for about 31% of consolidated sales for the quarter.

Our specialty revenues in US have increased significantly over Q2 and have crossed pre-Covid levels driven by Ilumya, Cequa and Absorica LD. Sales of Levulan have recovered compared to H1 but yet to be fully normalized. Ilumya sales in US for the nine months ended Dec'20 have already crossed last full year's sales.

We continue to improve our specialty revenues in the US driven by a gradual increase in market share for key products. The generic for Absorica is yet to enter the market and as of now we do not have any visibility on the generic entry.

Doctor clinics have been open during the quarter although patient-flow and access to industry is yet to fully normalize.

Let me now update you on our US generics business.

As you all have seen, the US generic business continues to be competitive. The Sun ex-Taro generics business has recorded YoY growth driven by a combination of market share gains, better supply chain management and incremental upsides from shortages of competing products. As of Dec'20, generic prescriptions for Sun portfolio have reached close to pre-COVID levels.

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

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

Our sales in Emerging Markets were at US$ 204 million for Q3, up by about 5% year-on-year. The underlying growth in constant currency terms was higher at about 11%. Emerging Markets accounted for about 17% of total sales for Q3.

Formulation sales in Rest of World markets excluding, US and Emerging Markets, were US$ 173 million in Q3, up by about 12% over Q3 last year. This was mainly driven by all-round growth in multiple markets like Japan, Europe coupled with growth in Taro's RoW business. RoW markets accounted for approximately 15% of consolidated Q3 revenues.

API sales for Q3 were at Rs. 450 crores, down about 10% over Q3 last year.

We continue to invest in R&D for enhancing our specialty and differentiated generic pipeline. Consolidated R&D investments for Q3 was at Rs. 560 crores, accounting for 6.4% of sales. Our current generic pipeline for the US market includes 90 ANDAs and 8 NDAs awaiting approval with the US FDA.

The board of directors today declared an interim dividend of 550% or Rs. 5.50 per share.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of S. Mukherjee from Nomura. Please go ahead.

S. Mukherjee: Bunching up of launches or any new thought process that you have on product launches in India, are the number of launches going to be a lot higher going forward? Can you just throw some light here?

Kirti Ganorkar: I could not hear the earlier part of your question, but you are asking about new product launches in India. If I see last three quarters, consistently, we are launching somewhere between 20 to 25 products in India which include the line extensions and new products. And I think this will continue going forward also.

S. Mukherjee: The next question on specialty. Is there any material contribution from launch in Japan of ILUMYA, or is it largely driven by the US ramp up?

Dilip Shanghvi: We have recently launched ILUMYA in Japan. And in the COVID restrictions, I understand that the product has been very well received. And as we are able to reach the hospitals, which allow medical representatives to visit, we are seeing good acceptance of the product. And we remain very optimistic about the potential of the product and expect it to become an important medicine for treating psoriasis patients in Japan.

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

Prakash Agarwal: First question on the cost side. So both on R&D, last time we mentioned and this time also that the additional indications for ILUMYA. So the thought was that incrementally R&D would inch up, but actually it's down. So what's the thought there going forward? And also on the SG&A, I think Kirti said that India, we are seeing both marketing and promotions coming back, field force coming back. So we thought that the cost would also increase QoQ ex-R&D. So any thoughts there?

Dilip Shanghvi: Some of the R&D expenses for clinical studies are also relatively low because the patient enrollment is slow because of the COVID in many geographies. However, I think when things start becoming normal, we will see that increase. Kirti, maybe you can respond about the cost of operations.

Kirti Ganorkar: Sure. As you know, in Q1 and Q2, as an example like the travel expenses both for field and head office were very less. But as the economy is opening up and things are normalizing and with almost 90% to 95% of the doctors practicing, we are reaching almost our call average to pre-COVID levels. So our traveling costs have gone up and it will continue to go up in next quarter also. There will be still some of the savings on promotional materials, but that also will catch up as we go forward. These expenses will keep on increasing because now we are coming to almost to pre-COVID level in terms of activities with the doctors. Still, some of the physical conferences and other activities have not started in big way, but conferences of like 10-15 doctors have started happening in December and January.

Prakash Agarwal: I understand that. But we are still down 4% QoQ on the SG&A, ex-R&D. So I was just trying to understand that. If Murali sir can help?

C.S. Muralidharan: As reiterated in the past earnings call, the selling and promotion, marketing and traveling spend will continue to see an increasing trend in the future as we are achieving the market normalization, which Kirti just mentioned. And this is going to be across geographies, that's what we are reinforcing. Not only in India, but in other markets also, the expenses will increase as the market position normalizes.

Prakash Agarwal: No, I understand that, but my question is it's coming down by 4% QoQ despite that statement. So what is leading to, is it expenses related to specialty in the US which is still down or what are the other elements to the lower cost?

C.S. Muralidharan: There are many moving parts. So I would not like to get into specific of any particular segment.

Dilip Shanghvi: Abhay, maybe you can respond if there are specific things in the US that you can say.

Abhay Gandhi: Specifically, I think travel in the US is still not back to normal. Everybody on this call knows where US is reporting high number of COVID cases. I think the last seven day average is close to 160,000 new cases a day. So travel is restricted. To that extent I think our travel and related costs are continuing to be lower than what we had factored for.

Prakash Agarwal: And just last part on the R&D side. What's the outlook here for next year sir?

Dilip Shanghvi: For next year, we will give our guidance about the R&D spend along with our fourth quarter call. But I see that the R&D spend for specialty products, looking at the number of studies that we've initiated is likely to grow over the current base.

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

Anubhav Aggarwal: Actually continuing with the previous question, if I look at an absolute basis the other expense that we report, on a quarterly basis the run rate is roughly about Rs.200 crores lower when we compare to pre-COVID level. My question is that, how much of this do you think can be permanently saved here I'm assuming like-to-like, I'm not talking about launching more products there for this as a growing company increase roughly Rs.50 crores a quarter can we say it here roughly, or you are saying everything will come back in a quarter?

Dilip Shanghvi: I hope that we can save, but my interaction with all the country leadership teams have essentially meant that once things come back to normal, they don't expect any significant long-term reduction in the marketing expenses, excepting some of the expenses which they currently feel do not produce any significant value, but they may divert those resources on some other more productive investments. But steady state, we will see a better growth and also possibly increased costs.

Anubhav Aggarwal: Second question is for Abhay. This question is on ABSORICA LD. I just wanted to check with Abhay that IQVIA still reports low conversion, but your sales does not suggest that. So is it that the IQVIA is under-reporting your conversion of ABSORICA LD, the numbers from last quarter 20% would have significantly gone up now?

Abhay Gandhi: What I was saying is, our conversion still is at around 20%. So I don't think that number has gone up significantly. But yes, every week that we get extra of being in the market, we are trying to see that the conversion rate improves.

Anubhav Aggarwal: What's the hurdle here, Abhay? My doubt is that product is good here. I saw the formulary coverage for between ABSORICA and ABSORICA LD is a little bit better only for ABSORICA LD, that's not the question here. I don't know what is the activity level. Is activity level of doctor is less than 50% in the US? So why is this product not picking up despite all being positive of the new formulas?

Abhay Gandhi: So two major reasons. We launched it literally a month before COVID hit us. And the footfall at the dermatology clinics even today is nowhere back to normal. So that has been a big contributing factor towards the slow ramp up. The second reason is you also understand that in the US, whenever you launch a new product there are many payers and PBMs who take nearly six months to start covering your product. You have a new-to-market block. So when you combine these two factors that you have a COVID environment and a new-to-market block for six, 12 months, then it always slows down the uptick. The second, we knew we would face. The first nobody anticipated. So I think both factors put together, it's the reason why we are probably slower than what we would expect.

Anubhav Aggarwal: When in India the field force activity is 90%- 95%, what's the activity level in the US right now for the branded business?

Abhay Gandhi: It's a little different across therapy. But if we have to still generalize, I think face-to-face interactions are at 40% to 50% of where we would like it to be in a normal circumstance. The rest we are trying to make it up by making virtual calls. And both put together we would be like 80% of where we would like to be. So it's much different from what Kirti spoke about India. I can only envy those India kind of call numbers, but we are not there as yet.

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

Neha Manpuria: Abhay, on CEQUA now that Kala is launching their acute dry eye product, do you expect a slowdown in momentum in the product?

Abhay Gandhi: I don't think so, because the Kala product is essentially for acute treatment like you rightly said. And to my understanding, doctors will be able to find the usage for both the products. So we are actually quite bullish on CEQUA and how we think we should be doing with the product.

Neha Manpuria: So you don't see the traction in the Kala product impacting our ability to scale up CEQUA?

Abhay Gandhi: I don't think so. I think we will continue to try and grow our product.

Neha Manpuria: And my second question is on ILUMYA. Given the long-term data that you've seen and now I'm assuming you would have shared that data with the doctors, are we seeing improved traction from doctors based on the long-term data, I mean, are you seeing a repeat prescription from these doctors based on the data that we've got the long-term data?

Abhay Gandhi: Q3 performance, as we said is much better than Q2 and difficult to isolate only one reason for it. But yes, we have been using the five-year long-term data with doctors and that would have contributed. But, the whole marketing and promotional exercise is not just one thing. There are multiple things that we do and to be able to isolate just one reason and say that's the reason for the sales for the quarter is always difficult. But yes, we are excited about this data and customers we have spoken to, are already enthused about this data. So there would be a contribution, that's for sure.

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

Damayanti Kerai: So my first question is regarding the Phase-III study for psoriatic arthritis indication. So how many patients you are aiming to recruit for this study? And what will be the cost allocated here? And on same line, what are your plans for study for the gastro indication?

Dilip Shanghvi: This study is adequately powered so that we can highlight the strength of the product for psoriatic arthritis and we are conducting two studies. We do not share study-specific costs. It's included in our specialty R&D cost. And it would be amongst the larger component of these costs. As to gastro indication, I think we have to seriously evaluate, because clearly we will be last to the market, because all other products are way ahead of us in terms of clinical studies. And in terms of enrollment of patients when we are talking to specialists, we see that even the existing studies are suffering in terms of getting adequate number of patients. So we have not taken a decision finally whether we will be developing ILUMYA for gastroenterological indication or not. But we are seriously evaluating. Once we decide, then we will share that with you.

Damayanti Kerai: And my second question is on the (DTM) direct to market spend for ILUMYA and CEQUA. So compared to initial phase of launch, how are these costs looking right now? And what are your plans ahead, like, it will see better ramp up, or these kind of spend level are sufficient to continue the momentum which we have seen recently?

Abhay Gandhi: For ILUMYA we have more or less optimized in the last maybe two quarters to where we need to be and looking at what we need to do. So I'm pretty comfortable with our strategy for ILUMYA. For CEQUA actually we are now starting the DTC campaign, not using television of course, but, like we're using various other media. And the campaign has been rolled out in the last couple of weeks. But, of course, the spend will not be as high as what we had for the

ILUMYA. But I think it's a campaign which has hit the market and the initial response is very good, we are getting good coverage with that. And I think we'll also be seeing that somewhere or the other in the public domain now. It's also on the website.

Damayanti Kerai: So we should not be expecting these promotional spend to spike up significantly from here. Like you mentioned DTM, we are broadly optimized now and CEQUA spend will be much lesser than what we had spent for ILUMYA?

Abhay Gandhi: For Q4, I have clear visibility. But, of course, for next year we are in the process of our budgeting cycle. So we have to see what it looks like, but we will be prudent, at the same time, cognizant of what the market needs for the product to be successful.

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

Sameer: Sir, is there any update on Halol remediation?

Dilip Shanghvi: No, there's no update that we can share beyond what we've shared in the last quarter, is that we've addressed all the deficiencies, updated the agency and we continue to be in the dialogue with the FDA for getting the site reinspected.

Sameer: Sir, any idea based on what FDA is doing that, could it be first half calendar '21, second half for FDA to come down for inspection?

Dilip Shanghvi: I don't think I have any clarity on that. And I don't think they have shared this with us either as a company or even in the association on what is their plan about restarting international audits.

Sameer: And on ILUMYA, so good performance, sir. What's helping you over here in ILUMYA ramp up? And more specifically, have found your niche in the market and you're doubling down on that? Is that the way to think about it or you are on the main street and fighting out as hard as you can?

Abhay Gandhi: In a competitive market fighting out is the only way out. At the same time, we are now clear of what we need to do, whether you call it a niche or specific customers we need to focus on and specific strategies that we need to do. So I think it's developing comfort with the market now and being clear of what we need to do to make it successful. And I think I must give also credit to the team for the execution that they have done of this strategy. So it's a combination of all these.

Sameer: So does that mean that you have identified what needs to be done and therefore there is a growth visibility of this product over next one to three years as you forward?

Abhay Gandhi: Let me take it year-on-year, but we are confident we will continue to do well and that's the ask and that's the task.

Sameer: Sir, RESTASIS, as you know is the onset of action is 24 weeks and the proposition by CEQUA is 12 weeks and Xiidra is two weeks actually, and Xiidra has been in the market for last four years. And even after that with such uniqueness of two weeks, it's just got 25% market share. So therefore putting this in context, has this benefit of early onset of action been well received by doctors, I mean, it doesn't look like and therefore, how much you can go further with CEQUA may be very limited?

Abhay Gandhi: I can only speak for CEQUA, I'm not going to be speaking about Xiidra on this call. The early onset of action is just one of the things that we had been focusing on. I think it is again looking at patients who have not done well on the competing products and they have used CEQUA and have gotten good results. I think that is the other thing that we have focused on. And that has also helped us. And doctors who have used the product have seen that the product works and works very well. That I think has helped us. So we haven't really focused only on one aspect. But we have tried to promote it as a package of benefits to doctors which they can use on their patients and see results for themselves.

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

Kunal D: This question relates to the molecule SCD-044 which we in-license in SPARC. So what is the thought process in terms of selecting moderate-to-severe plaque psoriasis as an indication? I know, there would be clinical consideration and then there will be a commercial consideration. So given you already have a one product in this category and also this entire moderate-to-severe plaque psoriasis is kind of moving more towards biologics, so why not go for a mild-to-moderate psoriasis, which is still dominated by a 30-year-old molecules such as methotrexate or Cyclosporine?

Dilip Shanghvi: I think it's a good question. The challenge is, that for mild-to-moderate subset of patients, I am not very sure as to what would be the openness of the various formularies to accept a high price differentiated product when large number of generics are available. At the same point of time, I believe that while there is an increasing acceptance of biologics for treatment of moderate-to-severe psoriasis, there is a clearly differentiated and a different market for oral agents. See, if you have a relatively safe oral agent which does well and produces good overall outcome, I see a continued opportunity for that. If I see, that was the view shared by Amgen when they bought the product, which they bought from Celgene, also BMS when they prioritized their inhibitor product for psoriasis over other indications. So I think this market will continue to increase.

Kunal D: But as far as kind of I understood that Amgen bought this product and now they are currently planning to go for mild-to-moderate psoriasis as well for the same product. So…?

Dilip Shanghvi: I agree with you, and even if you don't have mild-to-moderate psoriasis in your label, there is nothing preventing a doctor from using it for mild patients. So I think the question is how do you prove your product for difficult patients so that you can develop the confidence of the doctor about the overall efficacy of your product. So if something works for moderate to severe, it's also going to work for mild patients. You don't want to be classified as a drug, which can be used only for mild patients in the beginning.

Kunal D: So, first, basically you would go for moderate-to-severe, and relatively once we have established we can …?

Dilip Shanghvi: Yes, then it is okay to talk about mild-to-moderate.

Kunal D: The second question is I believe our spend in US specialties especially towards Ilumya, as we have optimized on many fronts including DTM campaign, or maybe targeting the doctors that we want, so do you think that some of the savings which we have kind of as maybe side effect of COVID we have realized that these things are not important from the growth perspective, we are growing and we didn't made that investment but still we are good. So will the spend for let's say Ilumya or specialty continue at this level in the US market or how do you think about it? Let's say travel expenses could come back but let's say DTM expenses will not come back or some of the other activities…?

Dilip Shanghvi: I think Murali in his readout indicated, that many of the expenses, as life comes back to normal will continue to rise for all markets. There are many other expenses including multiple conferences by doctors, our participation in various global meets. So all of these we are not able to currently invest on which we will once the life becomes normal. Abhay maybe you can add.

Abhay Gandhi: So nothing to add to what I said earlier and what you've explained now. So, we have to see how the situation evolves. And like you said when life gets back to normal a lot of the expenses, which we were doing would probably return back to then we used to do.

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

Krish Mehta: I have two questions. The first one was about EBITDA margins. Like many people have asked already about costs being sustainable or going up, would you then agree that the EBITDA margins in this quarter is a one-off, or do you think it's sustainable going forward as promotions, marketing costs, R&D go up?

Dilip Shanghvi: I think generally we don't guide for EBITDA numbers or profitability numbers. At the same point of time, I have even in the previous calls said that our focus would be to find a way to increase our return on investment and return on capital. So I think if you see as a result of our focus on cash flow generation, we're now down to around $250 million of net debt. And in the same way as we will focus on improving all of this, I think I am expecting an improvement. However, as you rightly analyzed, I think there are expenses which are going to go up. Hopefully, our sales growth will make up for that. But our focus on improving profitability will continue.

Krish Mehta: And the other question I had was about ex-Taro consolidated debt. So could you just give the figure for what it is as of today for ex-Taro?

C.S. Muralidharan: Yes, Ex-Taro consolidated net debt is around Rs.250 million. That's what Shanghvi just said ex-Taro.

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

Vishal Manchanda: On traveling and promotion spend, where are we today in terms of percentage? So like compared to last year, are we at 25% or we are at 50%?

C.S. Muralidharan: See, the overall other expenses constitute many moving parts, so, which would be very difficult for us to pinpoint percentage of any particular nature of expenses to disclose at that level.

Vishal Manchanda: Second one on ABSORICA. So once generic center in ABSORICA, would you still continue promoting that product? Why I am asking so is will the kind of quantum of sales around that product allow you to spend on sales force?

Abhay Gandhi: ABSORICA LD, we clearly continue to promote, because it's a different product. So we will continue to promote the LD. And of course, we will be making changes to see that the spend is such that we are able to continue to work with field force that we have and we're able to grow the brand.

Vishal Manchanda: Just last one on CEQUA. Are majority of the patients who are on CEQUA would be kind of fair to say are non-responders to RESTASIS? And any sense you would have on for those non--responders do respond to CEQUA, so non-responders to RESTASIS responding to CEQUA?

Abhay Gandhi: So really speaking that kind of granular data, I do not have and would not be able to very clearly answer your question. Yes, in the initial phase for the first few months, we actually got the patients which were non-responders. As more and more doctors have used the product and seeing that the product is good on its own merit, we are getting fresh starts also. But exact proportion and how much of it is fresh and how much is non-responder, I would not really have the break up.

Moderator: Thank you. The next question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

Shyam Srinivasan: The first one is on the non-Taro US revenues. They are up quite a lot sequentially, 22%. I know you don't disaggregate into specialty revenues and generic revenues there. But just wanted to get a sense of how the generic piece is performing in terms of at least the direction? And I think in the opening remarks you also talked about shortages. So, is it related to generics again?

Abhay Gandhi: So I think in a market which is very competitive, I said in my readout as well that, the generic business has actually shown good growth when you look at quarter-on-quarter and we look at nine month-over-nine months. So I think they've done well. It's a combination of gaining market share for products that we felt we had scope to grow it. And a lot of credit goes also to the team back in India in operations and quality and supply chain, in a difficult environment has enabled to keep the supply chain very, very functional. And that has helped us to make most of some of the market opportunities which came during the last nine months. So I think it's a good execution by the team on multiple fronts which has helped the business to grow.

Shyam Srinivasan: So Abhay, in terms of pricing environment, are you seeing what we saw in 2020 kind of remain relatively benign, or do you think as things are opening up again, you're starting to see price erosion also come back?

Abhay Gandhi: I wish I could give you better news, but I would not say it's relatively benign. It's always product-specific. So there are certain products where it is literally benign, while certain products nothing much has changed. It's a combination of it. But overall, directionally we still continue to see pressure.

Shyam Srinivasan: My last question is on the India business, grew 9%. And I think the opening remarks talked about chronic growth. So assuming it’s growing faster given where acute demand is. So just want to understand how the price and the volume dynamics are? Recollect the last few years we've had a challenge growing volume growth, I'm talking about industry here, but just want to get a sense of how your domestic chronic business is panning out?

Kirti Ganorkar: So as I said earlier, in amongst the three businesses of chronic, sub-chronic and acute portfolio, chronic has done relatively well and it has not been impacted much by the pandemic. So we are continuously growing both in terms of units as well as in terms of value and that is also helping us to gain a market share. So the issue is with the two other businesses, where sub-chronic has now started showing a rebound, and in Q3, it has already shown a good rebound and in Q4 also it will improve. And acute business will take some more time to come back to like a normal situation or pre-COVID levels. So overall, to answer your question, we are growing both by volume as well as value in chronic segment.

Shyam Srinivasan: But is there a disproportionate or a higher than usual contributions on price you think, Kirti, or how should we think about it?

Kirti Ganorkar: No. All this is in public domain. If we look at AWACS and IMS data, there is no disproportionate growth from a value. So, what we are growing is almost in line with market in terms of both volume and value. But our entire focus of India business for last 1.5-2 years we are focusing only on unit growth. So all our efforts, all our communications, everything towards field is more focusing on, how do we grow on unit and how do we generate new prescriptions from the doctors. So there's a lot of emphasis on unit growth. So if you want to gain a market share, then we have to grow faster in units. That's what we are tracking.

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

Nitin Agarwal: Just a question on the generic business that you discussed. So are we still spending a fair bit of R&D spends on generics, recaptured lion's share of our R&D spend and the business essentially has not grown much in the past because of various competitive pressure in the market. Overall qualitatively how are we viewing this business, is it still a focus business for us? Is there some change in the way we're looking at incrementally going forward? What kind of opportunities do we see here in the business?

Dilip Shanghvi: So first important information you need to keep in perspective is that when we say generic, it's not only US, it's US, Europe, rest of the world and India. All of these R&D expenses are captured in the generic heading. And what you're looking for is only growth out of our US business. So, when I see return on investment for R&D, then our overall growth and investment is justified in terms of continued investment. So, I think while we will continue to invest in the R&D for generic and find a way to grow faster than the market in each of the geography, we will also ramp up gradually, the spend on innovative R&D, and hopefully, as we continue to ramp up our innovative product sales, it will justify that investment.

Nitin Agarwal: And sir, generics as a business, still remain in the US generic, does it still remain an attractive business for us?

Dilip Shanghvi: It is an attractive business.

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

Nithya: So, I just had one question on brand in the US So, there is of course the cost of building out a sales force that you're just setting up a brand. But in terms of marketing spend including DTC spends, how should we think about it? Is it something that's likely to persist through the license brand or is it something that will come down after two, three years because you've achieved a minimum level of awareness, how does it typically work for a brand?

Abhay Gandhi: Typically, when you launch a product, you have disproportionate expenses to try and get quick access. And I'm answering this question very broadly because your question also is a broad one. But once you have a certain foothold in the market and a certain decent share of the market, then that pulse that you see in the initial phase always stabilizes to a certain extent. And expenditure will start coming down as a percentage of sales…

Nithya: No, Abhay, sorry, if I may just clarify. I think as the revenue ramps up, I'm sure you're driving operating leverage. But at an absolute level, do the spends actually come down; let's say you've done your television, achieved some basic level of awareness that you wanted, would you actually stop spending on television, and would the spend normally come down, or on an absolute level, it's expected to continue to grow a little bit?

Abhay Gandhi: As I said we're still working out on the budgets for next year. So, at an absolute level, directionally, I don't think it will come down significantly, it may not go up significantly.

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

Anubhav Aggarwal: One clarity actually two global specialties. The $40 million increase that you've seen sequentially, is there any restocking benefit there because some of our areas are ophthalmic, dermatologic, etc., so, is there any restocking benefit there, or this is a new normal, will only grow over the stage from now?

Abhay Gandhi: So, December month does see a little bit of a buying, but it is not an extraordinary level. Remember, in the context of the market, we are much smaller as a total business. So, the buying will not be as high as for some of the major brands. So, December always see some buying, not just for the specialty business, but to a certain extent even for the generic part of the business. But that's not something which is so high that I will start fearing the next quarter. I hope that answers your question.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Nimish Desai for closing comments.

Nimish Desai: Yes, thank you everybody for taking time out for this call. We know it's been a busy day with multiple pharma companies announcing results. So, thanks for joining this call. If any of your questions have remain unanswered, please do send them across and we will have them answered. Thank you and have a good day.

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