Corporate Participants

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Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY22 Earnings Conference Call of Sun Pharmaceutical Industries Limited. 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 call, please signal an operator by pressing * then 0 on your touchtone phone.

I now hand the conference over to Mr. Nimish Desai - Head of Investor Relations. Thank you and over to you, Mr. Desai.

Nimish Desai: Thank you. Good evening and a warm welcome to our first quarter FY22 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, 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: Thank you Nimish. Welcome and thank you for joining us for this earnings call after the announcement of financial results for the first quarter of FY22. I hope you and your family are safe and healthy.

Let me discuss some of the key highlights:

We recorded the highest ever quarterly revenues in Q1. Consolidated sales for the quarter were at Rs. 96,694 million recording a growth of about 29% YoY and a growth of 14% QoQ. All our businesses, except APIs, witnessed strong growth, driven by a combination of robust core business growth, low base of last year and sales of Covid & associated products. However, we are enthused by the all-round growth across all our businesses compared to Q4.

Let me now update you on our global specialty business. For Q1, our global specialty revenue was approximately US$ 148 million across all markets. The global specialty sales do not include Ilumetri end-market sales.

Specialty sales have increased over March-2021 quarter despite the entry of Absorica generics and the subsequent reduction in Absorica sales. Ilumya sales have increased both, on YoY and QoQ basis. We are encouraged by the sequential growth recorded by Ilumya and we expect it to record strong double-digit growth during the year. Ilumetri sales are also ramping-up as it gets launched in more European countries.

Specialty R&D accounted for approximately 26% of our total R&D spend for the quarter.

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

I will now hand over the call to Murali for discussion of the Q1 financial performance.

C. S. Muralidharan: 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.

Q1 sales are at Rs. 96,694 million, up by 29% over Q1 last year. Material cost as a percentage of sales was 27.4%; which is higher than Q1 last year due to product mix and geography mix. Staff cost stands at 18.2% of sales. Other expenditure stands at 26.6% of sales; increase in absolute value is attributed towards higher Selling & Promotion expenses and R&D while in Q1 of last year, these expenses were lower on account of total lockdown across markets. As indicated in our past earnings call, the expenses are seeing an increasing trend across all the markets as we reach full normalization; though they are currently restrained. Forex gain for the quarter was Rs. 799 million compared to a gain of Rs. 792 million for Q1 last year.

As a result of above, EBITDA for Q1 was at Rs. 27,717 million, up by 59% YoY with resulting EBITDA margin at 28.7% compared to 23.3% for Q1 last year.

Let me now briefly discuss the exceptional items for Q1.

Taro has made a US$60 million additional provision related to its ongoing multi-jurisdiction civil antitrust matters. The exceptional items also include charges of Rs. 1,503 Million towards impairment of Dexasite, an acquired intangible asset under development and Rs. 382 Million on account of write down of a manufacturing facility which has been classified as "asset held for sale" as per requirements of IND AS 105.

Excluding the impact of exceptional items, the adjusted net profit for the quarter was at Rs. 19,792 million, up 73% over adjusted net profit of Q1 last year. Reported net profit for Q1 was at Rs. 14,442 million, while reported EPS for the quarter was Rs. 6.02.

Let me now discuss the key movements versus Q4FY21:

Our consolidated sales were higher by 14% Q-o-Q at Rs. 96,694 million.

Material cost stands at 27.4% of sales; which is higher QoQ on account of product mix and geography mix. Staff costs stands at 18.2% of sales; however, in absolute terms the Staff Costs have increased on account of annual merit increases. We had a forex gain of about Rs. 799 million for Q1 as against forex loss of about Rs. 108 million in Q4.

As a result of above, EBITDA for Q1 at Rs. 27,718 million, was higher by 39% compared to Q4. EBITDA Margin for Q1 was at 28.7% compared to 23.5% for Q4.

Adjusted Net profit for Q1 at Rs. 19,792 million, was higher than the adjusted net profit of Q4 by about 47%.

The Company has repaid debt of about US$ 185 million in Q1FY22. Over the last 5 quarters, we have repaid debt of about US$ 765 million.

As of 30-June-2021, we are net cash positive even at the ex-Taro level.

Let me now briefly discuss Taro's performance.

Taro posted Q1FY22 sales of US$ 147 million and adjusted net profit of US$ 41 million. On a YoY basis, sales for Q1FY22 were higher by 25% while the adjusted net profit was higher by 42%.

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 Q1, sales of branded formulations in India were Rs. 33,084 million, recording a growth of 39% over Q1 last year. India business accounted for about 34% of consolidated sales for Q1.

The growth was driven by a combination of core business growth, sale of Covid related products and low base of last year. Sale of products used in treating Covid symptoms and other associated products accounted for about 8-10% of India sales for Q1. However, I am happy to announce that we have recorded strong growth in the underlying base business even if we exclude Covid products.

In terms of the core business growth, we continued to witness good growth in the chronic segment while the sub-chronic segment was a significant growth contributor for the quarter.

The second wave of Covid infections in India, particularly in April and May months impacted our field activities. Many states in the Country had imposed lockdown/restrictions which has resulted in savings in selling and travel costs.

For Q1, we launched 13 new products in the Indian market.

Sun Pharma is the largest pharmaceutical company in India and has over 8.0% market share in the domestic market as per June 2021 AIOCD-AWACS MAT report. As per SMSRC report, we are No.1 ranked, by prescriptions, with 10 different doctor categories

We also continue to remain the partner of choice for in-licensing of products, given our strong no. 1 position in many therapy areas, including therapies for treatment of Covid infection, coupled with our large distribution network.

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 Q1, our overall sales in the US grew by 35% over Q1 last year to US$ 380 million. While all our businesses in US have grown, the main driver of growth was the specialty business. US accounted for about 29% of consolidated sales for the quarter.

Our specialty revenues in US have grown over Q1 last year, mainly driven by Ilumya, Cequa, Levulan and Absorica LD. Specialty sales have also grown compared to March-2021 quarter despite the drop in Absorica sales.

While doctor clinics have been open in the US during the quarter, the situation is yet to fully normalize. Patient flow to doctor clinics as well as frequency of doctor calls by our medical representatives, are both still below pre-Covid levels.

All of you would have seen our recent announcement of in-licensing of Winlevi in US, an anti-acne specialty product, subject to HSR clearance. Winlevi is a new class of topical medication in dermatology and will complement our existing oral acne portfolio. The addition of Winlevi further strengthens our position in the acne segment. It is already approved by the USFDA and we expect to commercialize it in the US in the Oct-Dec 2021 quarter.

Let me now update you on our US generics business.

While the US generic business continues to be competitive, the Sun ex-Taro generics business has recorded growth both on YoY and QoQ basis. This growth is driven by a combination of new launches and better supply chain management.

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 businesses as well as give you an update on our R&D initiatives:

Our sales in Emerging Markets were at US$ 218 million for Q1, up by about 25% year-on-year. The underlying growth in constant currency terms was about 19%. Emerging Markets accounted for about 17% of total sales for Q1.

Formulation sales in Rest of World markets excluding, US and Emerging Markets, were US$ 185 million in Q1, up by about 35% over Q1 last year. RoW markets accounted for approximately 14% of consolidated Q1 revenues.

API sales for Q1 were at Rs. 5,149 million, down by about 7% over Q1 last year.

We continue to invest in building a R&D pipeline for both the global generics and the specialty businesses. R&D efforts are ongoing for the US, Emerging Markets, RoW Markets and for India. Consolidated R&D investment for Q1 was at Rs. 5,926 million compared to Rs. 4,206 million for Q1 last year. Our current generic pipeline for the US market includes 86 ANDAs and 13 NDAs awaiting approval with the US FDA.

Let me now update you on our specialty R&D pipeline. We have multiple clinical trials ongoing for enhancing our specialty portfolio. The key molecules include:

Ilumya is undergoing Phase-3 trials for psoriatic arthritis indication. SCD-044 is undergoing Phase-2 trials for atopic dermatitis and moderate to severe plaque psoriasis. MM-II is also undergoing Phase-2 trials for treatment for knee pain in patients with symptomatic knee osteoarthritis. Our GLP-1R agonist is in Phase-1 trials for diabetes.

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 Neha Manpuria from JP Morgan. Please go ahead.

Neha Manpuria: Abhay, on the recent WINLEVI in-licensing, just wondering, when we launched this product, given we have the ABSORICA sales force and the derma sales force already, how should we look at the incremental cost associated with launching WINLEVI in the latter half of this year? And second, could you explain the differentiation of this product versus, this is a new mechanism of action, you mentioned that in the press release, but how confident are we of the tough market share the partner has mentioned in the communication previously?

Abhay Gandhi: Maybe I will start with your last question first. Clearly acne, as you know it is a multifactorial condition and at least there are four different causes and problems which can cause acne. In the last quite a few decades no new mechanism of action has come and today is the first one and at least addresses two distinct pathways out of the four and therefore in hormonal acne, whether it is in males or females, this would be a very good addition to the armamentarium for the doctors. On the other hand, if you see ABSORICA, the indication is very specific. It is only in severe nodular acne that cannot be cleared by any other treatment including antibiotics. So, it has a niche in the treatment of acne. Our expectation is that WINLEVI could have far more broad-based appeal, so for us to be able to handle two acne products in the same thing like you thought it was, should be definitely possible. So the ABSORICA team which already has the relationship with the customer will be the one that will be marketing this product and I think they are best positioned to make it into good successful product for the company.

Neha Manpuria: And sir, in terms of launch activity, would this require higher spend given this is more broad based in ABSORICA was and we would have scaled down the ABSORICA spend has been over the years?

Abhay Gandhi: In the HSR period, we are not allowed to plan ahead of what we will do, but conceptually as it is a new product, there will be certain investment which should have to be made to familiarize doctors with the drug, so directionally yes, we will have to do some investment on the product. To be honest, how much amount, we haven't even figured it out as of now.

Neha Manpuria: And my second question is on CEQUA, we launched the DTC earlier this year, in last call you also indicated more sort of stepping up on the promotion efforts that have been impacted because of COVID, where are we in the entire process and by when do we expect to see momentum in respect to our market share? I know you mentioned the way that there has been quarter-on-quarter growth, but in terms of market share, when do you think there could be improvement in CEQUA market share?

Abhay Gandhi: So, I think we are gaining market share. That is my understanding. Yes, sure, all of us would like to see on faster growth than what we are seeing, but I think we are gaining market share. So, I think for a new product, it will take time to ramp up and we started DTC as I told you 2 quarters ago. It will be the second full quarter of DTC. So, I think we will see improvement and that is what the team is focused on anyway.

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

Damayanti Kerai: Sir, my question is on ILUMYA, can you specify the sales number, the way you have done in previous quarters and I just also wanted to know the progress of launches in other market such as Japan, Australia, if you can share some update in quantity terms, say market share gain or say how we are progressing in ex-US market wherever we have launched. So, that is my first question?

Abhay Gandhi: Murali, can you help me with the global number that we have given now?

Dilip Shanghvi: Abhay, I think we have shared the annual number.

Abhay Gandhi: Total specialty businesses what we had given.

Abhay Shanghvi: We have not given product specific numbers.

Abhay Gandhi: That I know, but a total specialty business, I think I don't recall, that is what we have this and sort of specific numbers we haven't given. So, this is total specialty business that we have given.

C. S. Muralidharan: For Q1 last year, our total global specialty revenue was $81 million.

Damayanti Kerai: So, you are not specifying product specific number for the quarter, just to clarify?

C. S. Muralidharan: We are not specifying product specific; we have been sharing global specialty revenues from the branded products.

Damayanti Kerai: And sir, progress in other geographies, the key geographies where this product has been launched, say Japan or some other big markets?

Dilip Shanghvi: So, Japan, I think we are in the process of getting entry into hospitals because unlike many other countries, Japan still has restrictions on COVID and medical representatives being able to visit hospitals, so the offtake is a little bit likely to be a little bit slower, but our Japan team is very confident about becoming successful with their product. Australia also, I think we continue to grow the product quarter after quarter and in terms of getting new patient, I think it is competing quite well within the IL-23 class.

Damayanti Kerai: Sir, my second question is on US generic business, so you mentioned business remained competitive, but like what are your observation on US pricing environment recently, some of your peers have faced some challenges, so on your portfolio what kind of changes you are observing on the pricing part and how do you see US generic business moving up from current level in terms of growth over next few quarters?

Abhay Gandhi: We have consistently maintained that the pricing environment remains challenging and it is of course product specific thing and depending on the product you could say slightly more or slightly less pressure. That has been our consistent stand and nothing else changed which makes me think any differently. Having said that in that environment, we have to continuously try and find ways to grow the business. New product launches are one avenue and of course trying to increase the share of existing portfolio of products. So, both in market activities as well as better management of supply chain, I think are the critical components of our strategy.

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

Krish Mehta: Sir, I wanted to ask on the plaque psoriasis our second indication for ILUMYA, which I think you said was psoriatic arthritis, so the Phase-3 trials when are we expecting the results?

Dilip Shanghvi: I think there is some confusion. I said that ILUMYA is undergoing a Phase-3 study for psoriatic arthritis. It is already approved for plaque psoriasis and SCD-044, the product that we licensed from SPARC is undergoing Phase-2 trial for atopic dermatitis as well as for plaque psoriasis.

It is an overall ADG-1 antagonist and we fell that the product is likely to be very effective orally working agent.

Krish Mehta: And what is the market size for psoriatic arthritis if the product gets approved?

Dilip Shanghvi: Abhay, you want to respond about ILUMYA?

Abhay Gandhi: I don't have details of the number which I can speak to, as you know it is a large market, but to be able to breakdown by indication of different products is difficult also. I don't have that granular detail where I can give you a number, it is a market of this size.

Krish Mehta: And just to follow up on the first one, just to clarify, the?

Abhay Gandhi: It's a large indication and the large size of market, I don't want to miss both by giving you a number in mind.

Krish Mehta: And just to clarify on psoriatic arthritis, it is undergoing Phase-3 trials, so when do we expect these results?

Dilip Shanghvi: We haven't disclosed that timeline, but I think the trial is currently recruiting patients across centers.

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

Anubhav Aggarwal: Sir you report ABSORICA AG sales, in this $148 million, is the ABSORICA AG sales included or that include in the US generic revenue?

C. S. Muralidharan: ABSORICA and ABSORICA LD both are included.

Anubhav Aggarwal: No, I was talking about the authorized generic that you launched?

Abhay Gandhi: He is asking AG, authorized generic, I think it will be in the generic sales.

C. S. Muralidharan: It is in the generic sales.

Anubhav Aggarwal: I was saying that for the specialty, now we are the higher scale and lower cost, have you achieved EBITDA positive in this segment now?

Dilip Shanghvi: No, we shared a period that hopefully by next year or in subsequent year, it will become positive. So, that is not changing.

Anubhav Aggarwal: So, you mean to say, by FY23, you expected it to be EBITDA positive?

Dilip Shanghvi: I mean if we are able to gain market share and grow, then hopefully we should be able to and I think that I am happy with the progress that we are making.

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

Sameer Baisiwala: Sir, the first question is on WINLEVI, I am just wondering it is versus a mature market in the sense that you have got other options for topical treatment of acne, so how important is the new mechanism of action, if the old mechanism is working perfecting fine and just on the reimbursement environment over here, so I would imagine that there would be lot of generic lower cost options available, so who would you be competing against? So, already these generics that you need to convert back to significantly higher price for WINLEVI, just your thoughts on this?

Abhay Gandhi: So, when you speak to doctor, I think the level of dissatisfaction with current available options for the treatment of acne are very real in the doctor's mind and because really speaking, what will work and what will not work and the level at which the doctors will see the skin clearance for acne patient is a challenge that they all face. And that is the reason why in acne polypharmacy is very commonly used by doctors and the rate of change over from one drug to the other is also pretty high, so the need of doctors to get something more, and especially a new mechanism of action is very real. So, I don’t think it is a saturated market the way you say. Sure some molecules like the one that you probably are alluding to are genericized but there is always a place for new mechanism of action. Similarly, when you talk about access on a new mechanism of action is always helpful to gain access and I think we haven't even started the work till the HSR clearances are through, but at some point in time, once that is done, we have to start thinking through the value crop from a payer perspective, but too soon for all that.

Sameer Baisiwala: The second question I have is about the generic business in the US, so couple of points, one is, it has been very long, I would say 10, 15, even 20 years since the pricing has been eroding, not only for new products, even for the base business, I mean is there some sort of time when you say we are the bottom of the price, how can it go on eroding the base business, the older molecules, that is one? And second, sir, where do you see the opportunity for complex generics over next 5-year period and how is one positioning to benefit from this?

Abhay Gandhi: Yours is the million dollar question which I don't think anybody in the industry has an answer to of where is the bottom, so really don't know the answer to that. We all hope it is today, not even tomorrow, but I don't see that happening in the near future at least. How the industry will pan out and reorganize it still going ahead kind of question on everybody's mind, but no real solution.

Dilip Shanghvi: I think, Abhay is asking more about the complex generics and how are we positioned for that, but before you respond to that, my own view is that this business will continue to see price erosion because there were always be some products which have excess margin. I think you reach a saturation of pricing on some products. When they reach there, then I think competition clears out and may be the product may see also price increase in future, but that is how the business is structured. Abhay, I think you can respond.

Abhay Gandhi: And surprisingly if you see that even in the last 4-5 years, with the price pressure being there, you can see that the large number of new companies are still coming into the market and existing product may be a single product may be one or two products, but competition is intensifying, FDA is giving permissions or approvals to products, so the competitive environment is actually gaining strength rather than reducing.

Sameer Baisiwala: The second part, the complex generics?

Abhay Gandhi: So, complex generics is something that we are focusing on and some of the products that we have launched, we are able to do reasonably well. It is also a learning process for us, because sometimes for a complex generic, the way in which you sell normal retail generic versus complex generic is different. We have to go through the specialty network and so on, so it is a good learning process and I think we are learning rapidly and whichever products we are launching, I think I am reasonably happy with the share that we are starting to see.

Sameer Baisiwala: No sir, the question is about next 5 years, where do you see the opportunities, just a broad segment, is it old modified release or sort of a long-acting injectables or some of those categories, I just wanted to ask here, is it a fertile ground or it is a ground growing up and they aren't too many opportunities?

Abhay Gandhi: I cannot pinpoint to a technology and say that if you have a portfolio of say injectable or this or that, that is where the opportunity is, I think we are trying to look at opportunity more from a product portfolio point of view and the channel in which we can have substantial offerings which we can then become meaningful to the buyer. So, that is how we came to look at it rather than focus on technology platform in the complex generics. For sure, a lot of them happen to be in the injectable space, some of them happened to be injectable space, some of them happened to be inhalation space, so that does happen, but our focus is more to try and look at it from the customer and secondly from a product perspective rather than technology focused.

Moderator: Thank you. The next question is from the line of Anmol Ganjoo from JM Financial. Please go ahead.

Anmol Ganjoo: My first question is on domestic formulation, I know there has been commentary to the effect that it does contain a fair amount of COVID contribution, but if I look at our portfolio and a sequential bump up of close to 600 crores in domestic sales, significant part of it has to be driven by some of the other factors like pent-up demand and some normalcy in this quarter as well, besides that we also seeing things like consolidation of market share, I would just want management commentary to the effect that how much of incremental 600 crore sequential sale is attributable to COVID and I won't get a number for that answer, but any help directionally would help?

Kirti Ganorkar: I think I already shared at least directionally the COVID numbers are about 8 to 10% of our sale for the quarter, so I think the way we should look at is, we have grown on a base business also. So I will put this into three buckets, one is the chronic business, then semi-chronic and acute. So, what we saw over chronic business has good growth, then semi-chronic has done exceptionally well and the acute business is also in line with the expectation. So in Q1, all three businesses have performed well and in addition to that we got some upside from the COVID sales, but this is Sun Pharma performance, but if you look at both in IMS as well as in AWACS, overall, the Indian pharmaceutical market has also grown substantially during this first three months. So, we are in line with market, we are not very different from the market, but I am happy that in spite of COVID and challenging times in the month of April and May, there were lockdowns, our team could perform well and our base business has grown in double digit.

Anmol Ganjoo: My second question is to Dilipbhai, This is with reference to some of your earlier remarks, where you said that at some point obviously, there are a large amount of products in the US where competition will withdraw owing to the challenge pricing scenario, just trying to understand in your assessment, how far are we from that because you have been contrary to a lot of industry commentary for last 6 quarters, emphasizing that US pricing has not turned the corner and a lot of things have validated that view, also trying to understand from a 3 to 5-year standpoint given now that the cash machine is charging a long $185 million repaid in the quarter, are we ready to make incremental investments in this specialty portfolio to take it to the next level or we will await execution milestones on the existing portfolio?

Dilip Shanghvi: So, I think we believe that in addition to our existing business with our cash flows and our ability to find appropriate place for this cash flow, opportunity to investing, creating a global scale as well as global specialty business is an important opportunity for us and we are focusing on strengthening our ability to succeed in that. I am happy with the progress that we have made and this progress allows us to confidently look at potential future opportunities that will come our way, because if we are able to successfully execute, that will give us the confidence to do more transactions, so we will continue to focus on growing our existing business and also look at additional opportunities for us to grow. Because if you have seen Sun Pharma, I think it is a history of organic growth and bolt-on acquisitions or sometimes more strategic acquisitions, so that we can continue to grow at a significant pace even on our very large base business.

Anmol Ganjoo: And the earlier part that will we also position for the fact that at some point, generic pricing will bottom out, what in your assessment, what is the distance we are away from it if at all?

Dilip Shanghvi: I think for you; generic price is an amorphous statement. For us, in the industry, we look at product wise pricing. So at any point of time, there are products which are, let us say, likely to see a price increase, at the same point of time, there are products which are likely to see a price reduction and some products may remain stable. So, the impact of this on different companies is different because which is the larger percentage of their product portfolio. And this is something which we have to keep in our perspective, so that we can anticipate and say if Taro has significant price erosion, quarter after quarter over last mainly 3-4 years. Similar level of price erosion, Sun hasn't seen because we had larger percentage of product in what you call already highly competitive market place. So, I think price erosion is an impact which is different for different companies and that is not going to change. So, if tomorrow let us say we have, out of our existing business, a large percentage of business coming from high priced very profitable product, then with newer competition coming, we will also see price erosion. The trick is to keep on rejuvenating our product portfolio, so that you can continue to grow the business in spite of eroding part of your sales.

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

Nithya Balasubramanian: I have one question on WINLEVI, so is the in-licensing agreement restricted only to the approved brand or will this also extent to any future optimizations that Cassiopea might do on the Clascoterone formulation?

Abhay Gandhi: Right now, it is on the approved brand only and for both US as well as Canada and to the best of my knowledge, I don't think they have any product lifecycle management research going on the specific product in question.

Nithya Balasubramanian: The other one was actually on India SG&A expenses, if I look at your other expenses line, I found it broadly flat quarter-on-quarter, just wanted to get a sense, so would you say that sales in marketing expenses in India have largely normalized, was Q1, in August quarter, or there was of course wave 2, should we expect to see these numbers in chart when things are hopping back to normal?

C. S. Muralidharan: So, in our readout also, I have said that the current quarter expenses have restrained. Yes, the second wave was more so in India and not same across all geographies put together. There are expenses which have increased, however, there are lot of moving parts like we have some savings in traveling, may be in India, but at the same time, the in other expenses, we have the R&D which has increased good component of that. So, we do expect expenses to increase as full normalization happens, but we saw definitely in this quarter, the expenses are currently restrained. That is what we shared in our readout.

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

Surya Patra: On the branded business, almost like 70% of our business is branded business, if I just put together all, domestic, emerging and ROW kind of, so then all these markets have really delivered a strong double digit Y-o-Y growth and sequential improvement is also in the range of 15 to 20%, so is it driven by some kind of channel filling because we are coming out from a lull period to a kind of normalized period, is it that and hence accordingly we have seen a kind of bump up in the overall profitability or margins, can you just add something to this, whether this is a kind of a quarter specific trend or kind of a possibility of continued momentum that we can see?

Dilip Shanghvi: So, I think we need to factor multiple issues before we respond. Because current COVID status across different markets is very different and we have no understanding of how that is likely to impact the business and I am talking specifically about international business. Let us say, even in India, we are looking at a potential third wave and we have no understanding of how severe that wave will be, so in such a situation to give out a long-term or even a significant guidance number that we will continue the growth or not continue the growth, I think would be responding without having adequate operating control. I think what we are happy about is that in a challenging environment, all our businesses have found ways to deliver significant growth, more than what they were giving in the past. I think that part I am reasonably confident that our sales will continue but there are things that are not in our control.

Surya Patra: But this is not the channel filling kind of development and which led to the strong growth in the branded market, is that correct, sir?

Dilip Shanghvi: Yes, I mean that is something which we are very closely monitoring all the time. We track secondary inventory in the market place with customers on an ongoing basis.

Surya Patra: My second question is on the specialty sense, so now since we are getting ready for a kind of additional product introduction and we are also seeing a kind of healthy progress in the overall specialty portfolio and hence possibly, no incremental spend that we should be possibly seeing, so given these two facts, is it fair to believe that SG&A spend on the specialty side is likely to either remain flat or kind of correcting kind of trend that we can see going ahead?

Abhay Gandhi: I got the question in very jerky tone, so if I have to state what I have understood, your question is that will the specialty spend with the addition of WINLEVI remain flat or it will increase? Is that the question?

Surya Patra: Yes, considering new product introduction and also potential reduction in the current spend rate in the portfolio and what is the trend that one should think of?

Abhay Gandhi: First of all, how much you are going to spend on WINLEVI, we haven't even reached there, till we complete the HSR phase. But having said conceptually a new product will require some investment going in, but you also have to factor in your thinking that the kind of expenses we use to make on ABSORICA will come down, there will be an expense on ABSORICA LD for sure, but still there will be some reduction in the expense which we have otherwise done the whole ABSORICA franchise on a higher turnover. So, that to some extent and that is my hope and I have said we haven't done the work yet will normalize to some extent. Other businesses where required, which we have to invest freely keeping a long-term view in mind and where we think the spending has been optimized and on the same expense base now the real task is to grow share of market, we will go on those direction, so again it will be dependent on a particular product, what kind of lifecycle it is in, what kind of investment it requires and we will look at it definitely very prudently.

Surya Patra: Just a small clarification, Levulan has become normalized in this quarter, that is one, and secondly if you can share the share of ILUMYA in the IL-23 category in US, these two things can you just clarify?

Abhay Gandhi: So, Levulan share has normalized, but remember that Q1 is also a low quarter for Levulan because of the seasonal factor. Also, if you see the overall market, I don't think it has come back to normal. Number of cases that a doctor is able to see with social distancing norms and all, it is lesser than what it used to be may be a year, year and a half ago. So, when we say normalized, I mean it is up from the COVID times, but I don't think it is back to where it should be in a pre-COVID environment. So, two ways of looking at the whole thing and your second question was share of ILUMYA, the IL-23 market, I think don't recall the exact number, but in the ballpark, I think it should be in the range of around 8% or so.

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

Nimish Mehta: Just one small question, earlier we used to feel that doctors would prefer IL-23 or IL-17, if that still remain like that with an increase in sales, are you more confident about that or what is the new understanding on the same?

Dilip Shanghvi: He is saying that IL-23 over IL17, if the doctors prefer it, then I mean that is what I understood Nimish, what is your question?

Nimish Mehta: Correct, yes, it is the same. Sir, earlier we had this assumption of feeling and I just want to know whether we still hold on to it or is there any change in the view even if it is consolidated that would be helpful for me to understand?

Dilip Shanghvi: What he is saying is that, you said in one of your calls saying that doctors like IL-23 over IL-17, whether that is still your view?

Abhay Gandhi: Yes, that is still my view clearly and if you see the…

Dilip Shanghvi: I see no reason to kind of look at this any differently because even through IL-17 is growing, IL-23 is growing much faster.

Abhay Gandhi: Exactly, if you see the top 3 products, in terms of growth in the overall therapy, the IL-23s are the ones which are driving the market. Skyrizi is number one and ILUMYA is number two in terms of growth. So, the driver for growth of the overall category is driven by IL-23 and therefore I think I am comfortable standing in my view that doctors are happy with the performance of the class of drugs.

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

Shyam Srinivasan: Just the first one, margins have clearly surprised on the EBITDA side this quarter, we had moved out of that range of whatever 20 to 24%, so just wanted to understand, I know you don't give like point guidance, but how should we look at this as we go forward, I am just trying to tie some of the comments around SG&A going up, but is there something that we need to keep in mind and also notice that this is one of the few times, the gross margins have come down, but EBITDA margins have gone up, so I know there are lot of moving parts, but just anything that can help us directionally on EBITDA margin?

C. S. Muralidharan: So, as we said that the expenses in the current quarter relatively moved up comparatively, however, different geographies have different impact of the second wave, in India, so in April-May they were impacted, so overall what we are saying is that the expenses will inch up as normalization increases, however, the company continues focus heavily on cost optimization and improving efficiencies. That is one of the reasons, if you see last 8 quarters, there is consistent improvement we are trying to make on overall EBITDA margins and effort will still continue pushed by the strong growth in topline and operational efficiencies.

Shyam Srinivasan: Last question is on R&D, I think we have called out quite a lot of clinical trial activity, we are at about 6% or so, is there anything that we are budgeting higher, 6 to 7% or 7 to 8% like we seeing in one of your press releases, so just want to understand how should we look at R&D, is there going to be bunching up or you think the way it is in terms of the different trials for the different candidate, how should we look at that number?

Dilip Shanghvi: I think you should range it between 7 to 8%.

Moderator: Thank you. The next question is from the line of Sayantan Maji from Credit Suisse., Please go ahead.

Sayantan Maji: My first question was on ILUMYA, just wanted to get a very broad clarity, if you consider two commercial segments and the Medicare segment, of the total sales today which will be larger segment out of these two?

Abhay Gandhi: The commercial segment will clearly be the bigger segment.

Sayantan Maji: Commercial segment will be larger of the two, right?

Abhay Gandhi: Correct.

Sayantan Maji: And the second question was the WINLEVI, when we evaluated the molecule, so Cassiopea talks about them having the pre-discussions with the doctors talking about efficacy level similar to Epiduo and Aczone but both the molecules will go generic soon, so in your evaluation, what is the impact, so those molecules the kind of 1 million plus prescriptions they have done, what could be the impact of them going generic before or around the time when you would be launching this molecule?

Abhay Gandhi: So, my answer is what I said earlier, I think for a new mode of action, there is enthusiasm at the doctors' level because of the dissatisfaction with current therapies and the outcomes. And also the use of polytherapy, so I think both these give me the optimism that despite the fact that two products will be going generic around the same time that we launch our product, there will be interest in the doctor community for initiating use of our product and that is one of the things that we factored in, you are right, in our entire evaluation of the product.

Sayantan Maji: I am just trying to ask even outside R&D, are we still EBITDA negative?

Dilip Shanghvi: We don't break out such detailed responses, but I think my long-term view is always that at some point of time, this business will become far more profitable and will justify with return on investment in line with our other profitable businesses. So, we will continue to invest on this business and also, I think like what Abhay said, is that even though all our businesses in the US have grown, our specialty business has grown much faster and we are expecting that because we have a relatively low share of the overall business, we have significant opportunity to become bigger.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference over to Mr. Nimish Desai for closing comments.

Nimish Desai: Thank you everybody for taking the time out and attending our call. If any of your questions have remained unanswered, do send them across and we will have them answered. Thank you and have a good day.

Moderator: Thank you very much. On behalf of Sun Pharmaceutical Industries Limited, that concludes this conference. Thank you joining us, ladies and gentlemen, you may now disconnect your lines.