Corporate Participants

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Abhay Gandhi
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C. S. Muralidharan
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Kirti Ganorkar
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Moderator: Ladies and gentlemen, good day, and welcome to the Q2 FY '25 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 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 Dr. Abhishek Sharma – Vice President & Head (Investor Relations and Strategic Projects). Thank you, and over to you, sir.

Abhishek Sharma: Thank you. Good evening, and a warm welcome to our 2nd Quarter FY '25 Earnings Call. I am Abhishek from the Sun Pharma Investor Relations team. We hope you have received our Q2 "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, Chairman and Managing Director; Mr. C. S. Muralidharan, CFO; Mr. Abhay Gandhi, CEO, North America and Mr. Kirti Ganorkar, CEO India business.

Today, the team will provide an update on financial performance and business highlights for the quarter, pipeline update and respond to any questions that you may have. We will refer to the consolidated financials for management comments. The call recording and 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. 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 our CFO, Mr. C. S. Muralidharan.

C. Muralidharan: Welcome, and thank you for joining us for this Earnings Call after the Announcement Of Financial Results for the 2nd Quarter FY '25.

Our Q2 Financials are already with you.

As usual, we will look at "Key Consolidated Financials":

Q2 FY '25 sales were Rs. 132,642 million, an increase of 10.5% versus Q2 FY '24, and an increase of 5.9% versus Q1 FY '25. Besides the underlying business growth, we also had higher sales of lenalidomide in U.S. in

Q2 versus Q1. Material cost stands at 20.3% of sales, lower than the same period last year on account of the better product mix. Staff cost stands at 18.7% of sales. Other expenses were 32.5% of sales, higher year-on-year and Q-on-Q on account of higher selling and distribution expenses.

FOREX gain for the quarter was Rs. 1,281 million, compared to a loss of Rs. 341 million same period last year. EBITDA, including other operating revenues, was Rs. 39,390 million for Q2, an increase of 23.9% over Q2 last year, with EBITDA margins for the quarter at 29.6% against 26.1% for Q2 FY '24 and 28.5% for Q1 FY '25. Net profit after tax for Q2 FY '25 was Rs. 30,402 million, up 28% over the reported net profit of Q2 last year. EPS for the quarter was Rs. 12.7 per share. As of 30th September 2024, net cash was $2.6 billion at the consolidated level.

Now we will discuss the "Half-Year Performance":

For the first half, gross sales were at Rs. 257,887 million, a growth of 8.4% over first half last year. Material cost for H1 was at 20.8% of sales, lower than H1 last year, mainly due to product mix, including higher specialty sales. Staff cost stands at 19.1% of sales. Other expenses were at 31.7% of sales, higher than H1 last year on account of higher selling and distribution expenses. FOREX gain for H1 was Rs.776 million compared to a loss of Rs. 321 million for the same period last year. EBITDA for the first half was at Rs. 75,466 million, a growth of 15.9% over the first half last year, with resulting EBITDA margin of 29.1%. Net profit for H1 was at Rs. 58,758 million, up 24.5% over adjusted net profit of H1 last year, excluding the exceptional items of H1 FY '24.

Now over to Kirti, who will share the performance of our India business.

Kirti Ganorkar: Thank you, Murali.

I shall take you through the performance of our India business:

For Q2, the sales of formulation in India were at Rs. 42,652 million, recording a growth of 11% over Q2 last year. India formulation sales accounted for 32% of total consolidated sales for the quarter. Sun Pharma is ranked #1 and holds 8.1% market share in the over Rs. 2,170 billion Indian pharmaceutical market as per AIOCD AWACS MAT Sept-2024. The corresponding market share for the previous period was 7.7%.

A small note on the new AWACS market share series:

From September '24, AIOCD AWACS has rebased its data leading to lower market share reflections. Prior period data has also been rebased. Sun continues to show similar market share gains and volume-led growth in the new

series. We are amongst the leading contributor to the volume-led growth of IPM. In the top 300 brands of the IPM, Sun Pharma has 28 brands, which is the highest number of brands by any company.

For the quarter ending September '24, we grew higher than IPM, and we have done well across all represented therapy areas. Majority of the sales growth continues to be led by volumes and new products, launches versus IPM growth, which is predominantly price led. As per SMSRC March-June 2024 report, we continue to be #1 ranked company based on prescription volume. Sun Pharma is also ranked #1 by prescription with 13 different doctor categories. For Q2 FY '25, the company launched 14 new products in India.

I will now hand over the call to Abhay.

Abhay Gandhi: Thank you, Kirti.

I will update on the Performance Highlights of our U.S. businesses, which includes the U.S. portion of Taro as well.

For Q2, our overall sales in the U.S. business was up by about 20.3% over Q2 last year, to $517 million. The U.S. accounted for over 33% of consolidated sales for the quarter. The U.S. Specialty business has continued to do well and has grown over Q2 FY '24. The underlying business and the prescription trends for the specialty business remain strong. For Q2, we launched 2 generic products in the U.S.

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

Dilip Shanghvi: Thank you, Abhay.

I will now provide an Update on Performance Highlights of our other businesses as well as give you an update on our R&D initiatives.

Our revenue in the emerging markets was at $293 million, up by 3.2% over Q2 last year. The underlying growth in constant currency terms was 5% year-on-year for Q2. All our large markets, barring a few, have done well in local currency terms. Emerging markets accounted for 18% of total consolidated revenue for Q2.

Formulation revenues in Rest of the World were $199 million, lower by 3.5% over Q2 FY '24. Japan price cuts, as mentioned in the previous quarter, are an important reason for revenue decline in ROW. We expect this pressure to flow through the next few quarters' performance. ROW markets accounted for approximately 12.5% of consolidated Q2 revenues. We continue to invest in building an R&D pipeline for both the global generics and

the specialty businesses. Consolidated investments towards R&D for Q2 FY '25 stand at Rs. 7,929 million, overall, 6% of sales. Specialty R&D accounted for 38% of our total R&D spend for the quarter. Due to delay in the start of some of our clinical studies, our R&D spend is trending below our guidance for the full year. We expect our FY '25 R&D spend to be in the range of 7% to 8% of our sales.

Moving to updates on Global Specialty in Q2 FY '25:

Our Global Specialty sales were up by 19.2% to reach $286 million. Sun recently entered into a global licensing agreement for commercializing Fibromun, a specialty product from Philogen. Fibromun is an innovative anticancer immunotherapy, which is being investigated in registration trials for the treatments of soft tissue sarcoma and subsequently for glioblastoma.

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 Damayanti Kerai from HSBC. Please go head.

Damayanti Kerai: My first question is on R&D spend. So, you mentioned delay in some clinical trials has led to lower R&D spend in first half. And then you mentioned the 7% to 8% range for the full year. So, do you think there will be a significant uptick in the second half R&D spend? And are you seeing pickup in clinical trials, which are currently underway?

Dilip Shanghvi: Yes, I think the new guidance is based on our reassessment of the money that we will need to spend during the second half of the year. And we understand that for the first half, the spend is 6%. For us to reach 7% or 8%, it needs to go up by a corresponding number so that the annual number is reaching the guidance.

Damayanti Kerai: Sir, but any further delay or slow pickup in trials could keep your R&D lower compared to like your anticipated level?

Dilip Shanghvi: That is true.

Damayanti Kerai: My second question is on the litigation which you mentioned in your press release for Leqselvi. So, any time line to look at the next update on the IP litigation front? And then you can also please provide some update on your expectation for the launch time line for that product.

Abhay Gandhi: So, we are awaiting the court judgment. And I really can't put time to it, so we do not know, hopefully soon. And as far as readiness for launch is concerned, post the judgment and depending on what the judgment is, we would be ready to launch the product in the market.

Damayanti Kerai: But have you done sufficient preparation to launch immediately once the court ruling comes favorably? Or will it take some time?

Abhay Gandhi: It will be a couple of weeks, not definitely a couple of months. So, to that extent, we will be ready.

Moderator: The next question is from Anubhav Agarwal from UBS. Please go ahead.

Anubhav Agarwal: Just first question is on Leqselvi litigation itself. I am just trying to understand the scope of this litigation. So, based on my reading, the litigation is mainly on 335 patent, where the expiry of this patent is December '26, which is like 2 years from now. So, two subparts to this question. One is, is the scope of litigation only for 2 years or the scope of litigation is beyond the 2 years as well? That's one part of my question. And the second part of the question is that in terms of worst-case outcome, what is the worst outcome here that does Sun have to pay a higher royalty here? Or you may not be able to launch the drug itself for 2 years?

Dilip Shanghvi: So, as we understand the litigation, I think is the scope of the litigation is correct. I think the patent which they are using to litigate has an expiry date. And up to that is the worst-case situation is that in case if we get an unfavorable judgment and then even on appeal if we lose, then that is the time to which our potential launch gets delayed.

Anubhav Agarwal: And Dilip bhai, on the second part of the question, so is this more the worst case on the extent of royalty that we need to pay with 10%, 20%? Or is it like do not launch at all for 2 years?

Dilip Shanghvi: No. I think generally, royalty in such a situation would be subject to a settlement. It cannot be arbitrarily defined as to what would be the royalty and whether with a royalty, we can launch or not. It's a binary outcome.

Anubhav Agarwal: And the second question was on the ILUMYA. Today, when you are in the Medicare Part B market, the medical benefit product, what percentage of prescriptions are you missing already because you do not have approval of psoriatic arthritis. So, I am just trying to understand, let's say, a year down the line, if the Phase-

III results are good, you have the approval, let's say, what percent of prescription we are missing today and what we can get, roughly?

Abhay Gandhi: So, typically, I mean, if I look at the other competitors in the market and their data, and also from conversations with doctors, the split between psoriasis and psoriatic arthritis is somewhere, and you can use this as a ballpark figure, so don't hold me to it, it's like a 70-30. So, the 30% is the market you are roughly kept around with. And this is data that you can also validate in the public domain of the others.

Anubhav Agarwal: Abhay, that's correct. But my question was that, if ILUMYA already being prescribed on off-label basis for those patients as well, so is the incremental gain not 30%? Or is it lower? Or your sense is that benchmark or a heuristic benchmark of 30% is still valid for Sun as well?

Abhay Gandhi: I mean, Anubhav, how do you expect me to comment on any off-label use.

Dilip Shanghvi: I think if you say, we have no prescription from rheumatologists. And if a dermatologist is prescribing for psoriatic arthritis, we wouldn't know. But most likely in the U.S. context, they wouldn't prescribe.

Abhay Gandhi: And Anubhav, you need to also appreciate that if there are other products available whose label mentions the psoriatic arthritis, then the motivation of the doctor to use another product off-label is also very low.

Anubhav Agarwal: My confusion was only on the Medicare Part B, where none of the other ILs are approved. That's where my question was.

Abhay Gandhi: I mean, I think I have answered your question to the best of my knowledge, Anubhav.

Moderator: The next question is from Neha Manpuria from Bank of America. Please go ahead.

Neha Manpuria: My first question is on Winlevi. Abhay sir, given the change that we had in strategy, you talked about it a few quarters back. If I look at the IQVIA data, obviously, the trend seems to be not reflecting that change. Are we seeing an improvement in Winlevi sales quarter-on-quarter? Is it in line with our expectation? And what should we expect in terms of when should we start seeing that prescription traction picking up given that we've changed the strategy only a couple of quarters back?

Abhay Gandhi: So, we did expect the fall in prescription post our changes in strategy, which is what I think Dilip sir explained on the previous call as well. The focus was on generating a more profitable prescription. I think

we've been able to achieve that. That's why the numbers are good. Now on that lower base of prescription that we have, I think our task becomes to grow on that quarter-on-quarter.

Neha Manpuria: And are we seeing that quarter-on-quarter, month-on-month improvement in terms of prescriptions?

Abhay Gandhi: Yes, I do see that, yes.

Neha Manpuria: And when do you think we get to, let's say, a sustainable level of prescription that you would be happy about? Would it take us a couple of quarters, a couple of years? When do you think we get there?

Abhay Gandhi: Honestly, I am already happy with the traction that we are seeing. And if I am able to grow the revenues with a more profitable prescription, then I am already happy. But having said that, I mean, the idea is to continue to grow prescriptions in whichever product we market, not only in the U.S. but in any other geography. I don't have a set goal in mind that at this point, I'll be happy.

Neha Manpuria: And my second question is on the emerging market business. If you could give us some color on what the focus markets are for us in the emerging market and how we are thinking about growth in that business because it does tend to be fairly volatile. I understand, sir, currency is a big factor there. But otherwise, which are the key focus markets and how we should think about growth in the EM.

Dilip Shanghvi: No, I think we've already shared the key markets like Brazil, Romania, South Africa, Russia and Mexico. Yes, I think those are there with you. And the focus would be to find a way to grow in this market. But at the same point of time, we have sales in many other geographies and many other markets. And all of them together make the emerging market business.

Neha Manpuria: And sir, the focus in these markets would be growth over profitability. I mean, because each of them are separate markets, how should we think about the growth versus profitability in these markets because there's a fairly large mix of markets?

Dilip Shanghvi: The way our budgeting process works is that every country is expected to grow both top line as well as bottom line, irrespective of the size of the market. The focus from the business point of view would be that the corporate office, the business development team as well as the priority for R&D resources would be allocated to these geographies before they are available to the other geographies. So, that's the essential difference.

Moderator: Next question is from Bino Pathiparampil from Elara Capital. Please go ahead.

Bino Pathiparampil: If I heard rightly, in the opening remarks, it was said that the lenalidomide sales in Q2 were higher than Q1. Is that correct? And could you also give some color Y-o-Y?

C. Muralidharan: It was also higher year-over-year.

Bino Pathiparampil: On the specialty side, this Fibromun which we have in-licensed recently, I believe it's in registration trials. Any time line regarding completion of those trials?

Dilip Shanghvi: No. I think we've also indicated that the trial is managed by the principle from whom we have licensed the product, and they are a public company. So, until they, what you call, disclose what is their time line for filing. However, we have seen before we licensed the clinical outcome data and we feel that it's an exciting opportunity for patients who are currently significantly undertreated for this disease.

Bino Pathiparampil: And sir, for Utreglutide, you were planning to start the Phase-II in the second half of this year. Is that on track? Have you started it?

Dilip Shanghvi: No, I think if you see our disclosure, what we've said is that it will move to the first half of next year.

Moderator: Next question is from Surya Narayan Patra from PhillipCapital. Please go ahead.

Surya Patra: Sir, first question is on the R&D spend. While we have become a bit aggressive about adding more and more specialty pipelines, we had indicated about 8% to 10% kind of R&D spend, and now we are cutting down to 7%, 8% kind of for the current year. So, how should one think whether it is because of the savings that is coming from the in-house capability, clinical capability, what you have indicated that you are building it up. So, it's a benefit of that? Or it is just deferral of certain things that we have seen in the first half, that as a result of that is the number is reducing?

Dilip Shanghvi: So, what your question is whether it's an intentional delay or whether it's the reason why -- because of any other reason, the --

Surya Patra: Yes. I mean, whether it is the saving that is coming from the in-house clinical capabilities, what you're building it up. So, that has brought in this kind of saving, or it is something else?

Dilip Shanghvi: No. I think there is also a delay in commissioning some of the studies. So, it's not only in-house saving from managing the studies. It's still a long time before we get to know whether there is any significant saving because of the change in the, what you call, organizational capability.

Surya Patra: And second question is on the U.S. sales growth. See, interestingly, sir, after the many, many quarters, what we are seeing that, overall, the U.S. sales growth is higher than the Global Specialty sales growth. So, generally, the reverse used to be the trend.

Dilip Shanghvi: We have not shared the U.S. specialties sales.

Surya Patra: No. I mean, since U.S. is the majority of the Global Specialty. So, if I reframe that, U.S. sales growth is higher than the Global Specialty growth. The reverse trend used to be the kind of a trend. So, what is driving this U.S. business? Because the base business of plain-vanilla generic is obviously facing its own challenges. So, what is driving? Whether it is something coming from the Taro side? Or what is driving the forces, if you can just indicate and your outlook for the base business also?

Abhay Gandhi: I think the reason is pretty obvious. Our major products, whether it is ILUMYA, Winlevi, ODOMZO or CEQUA, have done well. And the team continues to perform and deliver. That's the reason.

Dilip Shanghvi: See, my understanding, they're trying to reconstruct specialty and generic separately. In the past, they were doing because Taro numbers were public. So, they were able to reconstruct. So, no, I think we need to internally debate and understand whether we want to share more information than what we are already sharing.

Surya Patra: Just one last update, sir. This Chinese Ilumetri launch, whether we have seen any meaningful progress there? Any influence that we can see to our ROW sales?

Dilip Shanghvi: I think we are very happy with the kind of traction Ilumetri has received in a relatively short period of time after launching the product in China. And we expect it to become a more meaningful product as time progresses.

Moderator: The next question is from Shashank Krishnakumar from Emkay Global. Please go ahead.

Shashank Krishnakumar: My first question was on the domestic piece. So, when we are alluding to volume-led growth, would there be a meaningful difference in terms of volume growth across town classes that you're seeing in our portfolio? Would volume growth be meaningfully higher in metros and Tier 1 towns for us as opposed to, say, class 2 to 4 towns and rural markets?

Kirti Ganorkar: So, broadly, it will be difficult to share whether it's higher in Tier 1, Tier 2 cities compared to some metros. But what I can tell you, our volume growth is quite strong, and the volume growth for the industry is on MAT September '24 basis is 0.7% and we are 5.2%. So, strong, and I see that is across the businesses. Maybe geography wise, I don't have the data to share with you, but it is across the businesses.

Shashank Krishnakumar: My second question was on SCD-044. So, I understand that Amgen has received an approval for Otezla for pediatric use. And while this is an age group where there is no other approved option right now. So, is that a patient population group that we could also potentially target?

Dilip Shanghvi: Yes. I think we are waiting for the Phase-II data to come and then we'll decide because many times, the agency also requires that on approval that you have to do a pediatric study to get the product approved for pediatric patients and psoriasis as well as atopic dermatitis are both conditions for which there is a sizable number of pediatric patients. So, in this case, there is a business case, but we have to take a decision looking at the Phase-II data. But in any case, most of the people that develop the product first for the adult population and then go back to the pediatric.

Moderator: Next question is from Anubhav Agarwal from UBS. Please go ahead.

Anubhav Agarwal: I have two questions. One is on other expenses. So, in this quarter, other expenses are pretty high. Just trying to understand, is there any one-off here? For example, when you in-licensed Fibromun, have you paid some one-off milestone, which is included in other expenses or any other one-off there in other expense?

C. Muralidharan: There is no one-off in the other expense in the current quarter.

Anubhav Agarwal: So, what explains this is almost Rs. 450 crores increase in quarter?

C. Muralidharan: It is mainly driven by the higher selling and distribution expenses in U.S. and EM and certain other geographies.

Dilip Shanghvi: So, there would also be a ramp-up cost for launching Leqselvi, which are coming to the expenses for the first time.

Anubhav Agarwal: But would you say, Dilip bhai, that this is the new base of other expense for us?

Dilip Shanghvi: I mean, generally, we don't guide for expenses, but I think our focus would be to run the business most efficiently.

Anubhav Agarwal: Second question is on Leqselvi, actually not just on Leqselvi drug, but on the alopecia areata market. So, just trying to understand that there are 2 existing drugs in the market and the ramp-up has been slow in last 2 years of the market formation. So, out of the 2 factors, which I can think of, just trying to understand which is the bigger factor, which is leading to a slower ramp up of the market? One is insurance access or insurance coverage as factor one. And second is doctor's lack of willingness to prescribe this category because of the black box warning on the JAK inhibitor class. So, out of these 2 factors or maybe third or fourth factor, which you guys can help think about that. Because when I see the 2 drugs on IQVIA, I only see less than 15,000 patients being treated in total on this category. And that's what I meant by a slow ramp-up here.

Abhay Gandhi: See, in the U.S., access always builds up gradually. It is not that the day you launch, you will get unrestricted full access across all the payer groups. Some of them have a new-to-market block. So, I think you should also look at access as a continuum rather than event upon launch.

Anubhav Agarwal: But Abhay, is access the only reason why the --

Abhay Gandhi: See, one of the products also has multiple indications. It also depends on where a company may or may not focus. I cannot speak for anybody else. But our focus will be on growing both awareness as well as usage of our product in that indication. So, waiting to get to market and then we will see whether we can grow the market as well.

Anubhav Agarwal: One just clarity on the other expense question which I asked. Let's say, when you include the milestone payment that you paid for Fibromun, where would you capture it? Would it be captured in the R&D expense? Or would it be captured in the other expenses?

C. Muralidharan: No, it's not part of other expenses. It is part of a balance sheet item.

Anubhav Agarwal: Part of the balance sheet item. But have you paid anything for it so far?

C. Muralidharan: We've provided for it based on the contract.

Moderator: Next question is from Vivek Agarwal from Citigroup. Please go ahead.

Vivek Agrawal: So, my question is related to your obesity molecule, GL0034, right? You presented Phase-I data in June 2023. And now you post the Phase-II trials in 2025, right? So, it's more than 2 years and the gap seems to be substantial, right? So, just trying to understand why there is a big gap of 2 years, either you lack confidence in

the asset? Or are you looking to out-license the product to any big pharma to take it forward? So, how to look at this asset?

Dilip Shanghvi: No, I think we are very excited. I don't know whether you kept track. But otherwise, we've been consistently presenting the clinical outcome data, both in healthy subjects as well as in patients. And I think, we believe that we have a very, what I would call, best-in-class product. There is a certain amount of delay in terms of starting the large Phase-II study. But we hope that we will be able to make up during the conduct of the study.

Vivek Agrawal: And sir, is it also fair to understand that your R&D spend are expected to move up substantially once you start the Phase-II trial of this particular molecule? Or irrespective of this particular molecule, should we expect R&D spend to go up substantially and to go up in the 8%, 9% kind of range?

Dilip Shanghvi: Yes, we will cover it in our guidance.

Moderator: Next question is from Saion Mukherjee.

Saion Mukherjee: Sir, my first question is the intangible assets under development that we see has risen quite a lot in 6 months. So, can you explain what is driving this?

C. Muralidharan: So, this increase in the intangible asset development, as I just said now, is for the Fibromun product which we have contracted licensed from Philogen.

Saion Mukherjee: And my second question is on the psoriatic arthritis indication for ILUMYA. Would this require approaching rheumatologists separately? I mean, do you need to make any additional investments for that indication?

Abhay Gandhi: So, we will definitely have to cover the rheumatologists. We are still trying to figure out how. So, I don't have a complete fix on what will we need to do. We still have time. But it's work-in-progress. But yes, we will have to cover the rheum segment definitely.

Saion Mukherjee: But is it possible, sir, to sort of license out or work with some existing player in that segment?

Abhay Gandhi: I don't think it will be necessary. I think on our own, we'll be able to do a good job.

Moderator: Next question is from Rahul Jeewani from IIFL Securities. Please go head.

Rahul Jeewani: Sir, the sequential growth, which we saw in the U.S. business, so apart from specialty and Revlimid quarter-on-quarter growth, was there any other driver which led to the growth in the U.S. business on a sequential basis?

Abhay Gandhi: I think in more ways than one, I have answered the question. But the last way I can attempt is year-on-year, the generic business without Revlimid has shown growth. But quarter-on-quarter, it's a small decline.

Rahul Jeewani: So, I was just trying to check that whether there were any one-off NBO opportunities sitting for us in the U.S. generic business this quarter. So, that wasn't the case, I believe.

Abhay Gandhi: I don't think so.

Rahul Jeewani: And the second question which I had was on the domestic business. So, can you talk about your rep expansion plans for the domestic market given that, let's say, a year back, we had added almost 1000 new reps to the domestic business. So, what are your rep expansion plans going forward?

Kirti Ganorkar: I think I shared in the past is like we have expanded our field force. And today, we have 14,000 people on the ground who are promoting product to the doctors. So, about future plans, we can't comment it. But whatever expansion we have done in the past, I am thinking that it is helping us to grow faster than the market, yes.

Rahul Jeewani: Sure, sir. So, sir, just a follow-up on that. So, do you think that the existing field force, which we have, that can continue this volume-led outperformance for us in the domestic market? Or let's say, when do you anticipate the next round of expansion happening on the rep side, even if you are not willing to call out the exact number as such?

Kirti Ganorkar: No, that's what I said. We can't disclose our strategic plan when we want to expand in the business. These are the calls we take during our budgets every year.

Moderator: The next question is from Madhav from Fidelity. Please go ahead.

Madhav Marda: Yes. Just two questions. The first one was on the PSA indication. In case we get the favorable Phase-III data in H2 CY '25, what could be the earliest launch for the PSA indication for ILUMYA?

Abhay Gandhi: So, the attempt always is that whether it's a launch of a new product or a new indication, you can only maximize your return if you're able to launch immediately after receiving it. So, we will always attempt to do it as soon as we get the approval.

Madhav Marda: Sir, my question was that in case the Phase-III data is favorable, what's the time gap between the Phase-III data readout and the approval? Is it like 6 months or 12 months before that happens?

Abhay Gandhi: When the FDA will approve.

Madhav Marda: In case the Phase-III is favorable?

Abhay Gandhi: We will launch as soon as we get approval in the new indication. And like I said, for another product which was asked, it will be a matter of a few weeks and not a few months.

Madhav Marda: And the second question was on the staff cost. In the first half, if I have it right, it grew by 3%, 4% only year-over-year. So, do we expect that sort of trend to continue for the rest of the year? Or do we expect some acceleration in the staff cost spending?

C. Muralidharan: As such, we do not expect any material movement in the staff costs.

Moderator: The next question is from Naresh Suthar from SBI Life Insurance Company. Please go ahead.

Naresh Suthar: Sir, when Taro used to announce results, the R&D cost was around $60 million, $65 million at that time. And we have seen so many quarters, they have not done good in terms of the U.S. sales, which is predominantly derma portfolio. So, is there any thought process wherein we want to reduce the R&D significantly for Taro?

Dilip Shanghvi: So, is your question, is the R&D to be reduced for Taro?

Naresh Suthar: Right, correct.

Dilip Shanghvi: Now we have to look at the overall R&D investment. We can't look at separately. We can't run 2 separate businesses. It's now part of Sun. So, we have to look at the holistic R&D capability and R&D spend.

Naresh Suthar: So, my question was also related to whether the reduction in the R&D guidance includes some part of this rationalization in Taro R&D because the portfolio itself was not growing good, and it was seeing competition every quarter before the takeover.

Dilip Shanghvi: I don't think your assessment and our understanding is correct. Our understanding is that the new product that Taro used to file, and launch justified the money that was spent. But there was a steep price cut across other products, which was made up by this, but the overall rate of decline was significantly faster compared to the other products that we had in our portfolio.

Moderator: Next question is from Neha Manpuria from Bank of America. Please go ahead.

Neha Manpuria: My first question is on M&A. Given that that's been a core part of our strategy in building out the specialty pipeline so far, I just wanted to get your sense on the environment today for specialty assets in the U.S. We've heard about the biotech funding crunch, big pharma sort of looking at assets given they sort of constrain the R&D. Is it more difficult to get specialty assets for acquisition? And is that the reason for us becoming more aggressive in terms of building our own clinical capabilities? I just wanted to understand the long-term pipeline strategy for the specialty business.

Dilip Shanghvi: So, I think the buildup of the clinical capability is more a function of at which stage we are able to or actually decide to license a product. If we decide to license a product which is, let's say, completed Phase-III, then we don't need a big asset, I mean, organization. We license a product in Phase-II or earlier, then we will need an organization which can bring the product to market from Phase-II. And our sense is that it's better for us to also look at a mix of products which are close to market or also products that we can develop on our own.

Neha Manpuria: And sir, is it becoming more difficult for us to get, let's say, near commercial products for acquisition in the existing focus areas that we have, in ophtha and derma and oncology. Is that the sense that you get when you look at the market, M&A market?

Dilip Shanghvi: I mean, actually, I have no historical context. So, I can't compare that 10 years back it was easier and now it is difficult. But I don't see a situation where if we are interested in an asset. And since our area of focus is relatively narrow, not many competing potential bidders.

Neha Manpuria: And my second question is on ILUMYA. Because ILUMYA prescription traction continues to be very good. Obviously, we had skepticism about biosimilars impacting that. We have another biosimilar launch

coming next year. What's essentially driving the growth in ILUMYA prescription? And do you think despite this biosimilar launch, we could continue to maintain the growth momentum in ILUMYA prescription?

Abhay Gandhi: I mean, many factors go into it. But at the end of the day, it's about execution on the strategy. And it's a multifactorial product sell. It's not an easy sell. And I think we are able to execute on multiple fronts to keep that engine moving.

Neha Manpuria: And you don't think another biosimilar in one of the other large products sort of impacts ILUMYA prescription growth?

Abhay Gandhi: So, to be perfectly honest, I mean, we are, in the overall market, a relatively small player as compared to the big ones. So, I think any biosimilar will go after the big fish, and not necessarily the space that we are playing. So, I guess to that extent, I mean, we are relatively insulated as compared to the bigger products.

Dilip Shanghvi: One more issue, you need to keep in mind is that the overall penetration of biologics in the market is also relatively low. So, with biosimilars and we also expect penetration to go up.

Moderator: Thank you. Next question is from Gagan Thareja from ASK investment managers. Please go ahead.

Gagan Thareja: So, the first question is Taro comparable quarter last year would have been consolidated at 80% and this year it's fully consolidated. Would that roughly add $25 million to $30 million of sales even if Taro sales wouldn't have grown year-on-year simply because of the additional consolidation?

C. S. Muralidharan: So, as part of the transaction, Taro has become part of our overall U.S. sales. Earlier also what they were getting separately Taro.

Dilip Shanghvi: They were giving separate number.

C. S. Muralidharan: Not since it is no more public company part of the Sun, we are just showing the overall net sales of the US business, which includes Taro.

Gagan Thareja: No, I get that but in in-principal, I am simply talking about the arithmetic, 20% extra consolidation would have added to sales, assuming that there is no precipitous drop in Taro sales at all.

Dilip Shanghvi: No, there is no impact on the top line post-consolidation because as a subsidiary, were capturing the top line, at the end were providing for minority interest in the profit.

Gagan Thareja: Second question is on Nidlegy™ and Illumetri, ILUMYA in China, is it possible to give some insight into how these have evolved and developed?

Dilip Shanghvi: No, we do not give country specific sales detail. Broadly, overall looking at the offtake as well as the projections we are getting from our partner in China, we think that the product is doing quite well.

Gagan Tareja: Sir, final one, on the post-grant review which went in favor of Incyte on patent 335, on the legal document pertaining to that, they seem to indicate that they would be looking for a higher loyalty post if there is an approval for your product view, do you see a circumstance where royalty payments will be higher than what you have previously anticipated and therefore the overall profitability on the product could be different from an initial base case?

Dilip Shanghvi: You have access to information which I don't have. So, because I have not seen any disclosure from Incyte which says that they are expecting a higher royalty.

Gagan Tareja: No, sir, this is just the transcript of the District Court New Jersey hearing on this matter in July?

Dilip Shanghvi: Now, since the matter is sub-judice at this point of time, we are not responding to specific questions.

Moderator: Thank you. Next question is from Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: Sir, I remember some time back, you had mentioned about the regulatory approval on some of your complex products on the generic side in the US, there were uncertainties in terms of the regulatory guidelines which were delaying things. In the recent past, we have seen some complex generics getting approved. Has the landscape improved and to that extent, how do you think about the pipeline for Sun Pharma?

Abhay Gandhi: I personally don't recall any such comment or disclosure in any of our calls.

Dilip Shanghvi: We have indicated that there are products for which there is lack of clarity from a regulatory point of view. I think for a specific product there would be guidances which will help. And we see an effort by the agency to work towards clarifying and sharing specific guidances so that industry has a greater visibility on the process to follow for approval of those products.

Saion Mukherjee: Sir, would you like to comment how does impact Sun, should be therefore mean that the chances of you sort of crossing the hurdle on the regulatory front is much more now?

Dilip Shanghvi: No, I think it is very difficult to give a non-specific response, but our view is that anything which has greater clarity for industry is always helpful for bringing a generic product to the market early.

Saion Mukherjee: And sir, my second question, if you can respond like on the GLP-1 opportunity both from the regulated and from an emerging market perspective, how should we think about that and Sun's preparedness to address that opportunity?

Dilip Shanghvi: No, I think we are very excited. The only issue is how fast we can bring the product to market and what kind of clinical outcome benefit we are able to show while the product is in registration. That is what will ultimately help us in terms of working towards getting a fair share of the product globally.

Saion Mukherjee: And the emerging market opportunity because your presence have a footprint in most of the markets, the key markets, so you expect that to unfold over the next say 2-3 years for you, much ahead of the regulated market?

Dilip Shanghvi: Currently, the trial is being done in such a way that we will get approval in regulated and emerging market in a phased manner, but starting with the regulated market. If there is a change in the strategy, we will share that with you, but as on today that is the approach. And also another thing which I am sure you are aware is that some of the current GLP-1's will start losing patent protection in emerging market much earlier than the regulated.

Moderator: Thank you. Next question is from Ankush Mahajan from Axis Securities. Please go ahead.

Ankush Mahajan: Sir, I am just looking at a very good set of number for the specialty, the 7.5% growth on Q-on-Q also, so if I said take two reasons like one is the US market and other is other market, so can we say that the other market is going faster for the specialty and still there is a scope that we are looking for the new geographies to enter for the specialty?

Abhay Gandhi: You are setting my goals for next year.

Dilip Shanghvi: So, I think he is trying to understand the split between US and non-US.

Abhay Gandhi: I can only speak on the US business and I think there, as I said earlier, most of our key products we have grown Levulan on as you know, this quarter is always a softer quarter. So, I believe that Q3, even that product will come up to where it should be because that is traditionally a big quarter for that product. So, I think I am personally confident that we can continue to grow our specialty business in the US.

Moderator: Thank you. Next question is from Anubhav Agarwal from UBS. Please go ahead.

Anubhav Agarwal: Just last question from me, just on the ramp up of the specialty portfolio. So, we have derma products, then we added derma-oncology products, so just trying to understand how you are thinking about the other oncology products which are not derma-onco and what about ophthalmics? So, that is one set of questions? The second set of question is, thereby you mentioned in the press release that you want to leverage your strong cash position to standard pipeline portfolio. So, largest deal you have done is close to $600 million when we acquired LEQSELVI. Are you okay acquiring a platform with a broader thing or you still want to go drug wise in these three areas or you want to expand the scope? Can you give some broad comments here?

Dilip Shanghvi: No, I think our approach to acquisition is that we need to find a way to manage that business much better than the current owner and it needs to help us strategically, help us grow our topline and bottomline in a strategic kind of way. So, that will continue to remain our priority and focus. I don't want to take a view about the size of the product or the size of the market, because I think it is better for us to play in a market in which we compete for products which are not aggressively competed by big pharma. So, we have a relatively small subset because we are a small company, and we need to recognize and reflect that in our action and plan. And your question as to whether we will get into the pure oncology business, I think as on today that is not the intention because the moment we get into, let us say, first line breast cancer or head and neck cancer or anything, we then end up competing with all large companies in the world, and that is where we will not be able to compete.

Anubhav Agarwal: And how about Ophthalmology? So, we have dry eye drug, but what about the other areas in the Ophthalmology?

Dilip Shanghvi: No, I think we continue to look at opportunities which can enhance our basket in Ophthalmology, and we are very disciplined about our acquisition approaches that we don't get emotionally committed to any product. So, unless and until it makes business sense, we don't approve this. We have not, unfortunately, been able to identify something which is both exciting and something that we think will help us create long-term value.

Anubhav Agarwal: So, just very naive question, but in Dermatology you think, let us say, with the current pipeline that you have it and the molecules that you are thinking about it, can this be ultimately not putting a timeline so that if you stay in derma and oncology or derma-oncology segment, can you be like 3X-4X of the size what you are today, just staying in this derma and oncology therapy?

Dilip Shanghvi: You are talking of my desire or what we wish to disclose because I think as a company we don't make long-term projections, but I think if we are playing in this field, it is with a view to become successful and

success means different things in different businesses and for us to be successful, we will have to gain scale in Specialiy that there is no confusion. But it is difficult for us to commit timelines as well as this because otherwise it will end up creating unnecessary pressure for us to do transactions.

Anubhav Agarwal: Dilip bhai, the question was not on timeline actually, I put it wrongly, sorry. The question was simply that does the derma and derma-oncology in terms of molecules that you want to target that you do not want to, let us say, compete directly with big pharma, does the space has so much potential that you can keep launching and becoming 3x-4x eventually that was your sense of the question?

Dilip Shanghvi: I think if you look at our current pipeline, we have an oral product which we are developing for Phase-II for psoriasis, same product we are also developing for atopic dermatitis. So, these are all fairly large market with potential to do much better than what and augment our relationship with the doctors in the market.

Moderator: Thank you. Next question is from Sudarshan Padmanabhan from JM Financial. Please go ahead.

Sudarshan Padmanabhan: Sir, my question is a little bit more on the housekeeping side. The first half we have seen our gross margin significantly higher than expectation. I just wanted to know, would we be looking at say for the full year, given that the specialty is doing well, the gross margins will trend more towards 79%-80% as compared to what we initially thought?

C. S. Muralidharan: So, we are not giving any specific guidance on gross margins.

Dilip Shanghvi: I think even in the past, people have said whether when your EBITDA will reach 30%. I think our focus is to find a way to do our business in a way whereby our EBITDA and profitability improves, but that is not the intention, the intention is to grow both topline and bottom-line and run business more efficiently.

Sudarshan Padmanabhan: And with the R&D spend probably coming back in the second-half, should we be looking at more or less margins at around 28%, which is what you initially guided for, or do we see that the R&D spend can be still a little slower giving some kind of fillip to the margins in second half?

C. S. Muralidharan: So, I think we are not guided for any margins as such. So, we will refrain to comment anything based on the margins for the H2.

Moderator: Thank you very much. That was the last question in queue. I would now like to hand the conference back to Dr. Abhishek Sharma for closing comments.

Abhishek Sharma: Thank you everyone for joining us at this late hour. If any of your questions have remained unanswered, you can reach out to me or Investor Relations team. Thank you and good evening. Thank you.

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