Corporate Participants

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Moderator: Good day, ladies and gentlemen, and a very warm welcome to the Sun Pharma Q1FY20 Financial Results Conference Call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nimish Desai. Thank you and over to you, sir.

Nimish Desai: Thank you. Good evening and a warm welcome to our first quarter FY20 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. Kal Sundaram – Whole Time Director & CEO (India, Emerging Markets & Consumer Healthcare), Mr. Abhay Gandhi – CEO (North America) and Mr. C. S. Muralidharan (CFO). Today the team will discuss performance highlights, update on strategies and respond to any questions that you may have. As is usual, for ease of discussion we will look at the consolidated financials. Just as a reminder, this call is being recorded and a replay will be available for the next few days. The call transcript will also be put on our website shortly.

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

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

Dilip Shanghvi: Welcome and thank you for joining us for this earnings call after the announcement of financial results for the first quarter FY20.

Let me discuss some of the key highlights:

Our overall sales for the quarter were at Rs. 8,259 crores, a growth of 16% over same quarter last year. We have recorded growth in most of the businesses that we operate in.

We continue to focus on building our global specialty business. The recent out-licensing of Ilumya and Cequa for Greater China market and the regulatory filing of Ilumya in Japan are steps in this direction. Abhay will discuss our US specialty business in more detail shortly.

We had indicated in the past that we will start giving out more disclosures on our specialty business. Hence, from this quarter onwards we are starting the practice of disclosing our global specialty revenues and the R&D spend on specialty products.

Kindly note that our specialty product portfolio includes all our specialty products including NCE, NBE and 505(b)(2) products.

For Q1, our global specialty revenues were approximately US$ 94 million across all markets while specialty R&D accounted for about 15% of total R&D spend for the quarter. The R&D number seems a bit low due to the timing differences and we expect this number to move up in coming quarters.

Given the competitive intensity in the US generics market, we are consistently focusing on improving our efficiencies and cost structure to ensure reasonable returns for our generics business.

I will now hand over the call to Mr. Murali for discussion of the Q1 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. 8,259 crores, up by 16% over Q1 last year. Material cost as a percentage of sales was 29.8% similar to Q1 last year. Staff cost was at 18.7% of sales, lower than Q1 last year but up 7% in absolute terms mainly due to specialty staff cost increase. Other expenditure was at 29.6% of sales higher than Q1 last year mainly due to the branding and promotional spending for the specialty business and consolidation of the Pola Pharma acquisition in Japan. This is also partly due to lower R&D costs. We expect to incur higher R&D costs in the coming quarters.

As a result of the above, the EBITDA for Q1 was at Rs. 1,881 crores, with EBITDA margins at 22.8%.

Net profit for the quarter was at Rs. 1,387 crores, up 31% over Q1 last year while EPS for the quarter was Rs. 5.80.

In terms of the variance versus Q4FY19, since there was the transition of the India distribution business in Q4, the reported numbers cannot be compared to the Q1FY20 numbers.

Let me now briefly discuss Taro's performance.

Taro posted Q1FY20 sales of US$ 161 million, up 4% over Q1 last year. Taro's net profit for Q1 was US$ 66 million, marginally down over Q1FY19.

I will now hand over to Kal Sundaram, who will share the performance of our India & Emerging Markets business.

Kal Sundaram: Thank you Mr. Murali. First let me take you through the performance of our India business.

For Q1, sales of branded formulations in India were Rs. 2,314 crores, a growth of approximately 8% over Q1 last year. This growth number does not reflect the growth of the underlying business as for Q1 last year we had the distribution arrangement with Aditya Medisales which has now been transitioned to our wholly owned subsidiary. The actual underlying growth for the quarter was approximately 12%. The India formulations business accounted for approximately 28% of total sales. We recorded normal volume growth for the quarter.

The transition of the distribution of India formulation business to Sun Pharma's 100% subsidiary has been completed in Q1 and hence, from Q2 onwards, the entire distribution will be through this subsidiary.

For Q1, we launched 10 new products in the Indian market.

Sun Pharma is the largest pharmaceutical company in India and holds approximately 8.2% market share in the over Rs. 132,000 crores pharmaceutical market as per June 2019 AIOCD-AWACS report.

In an intensely competitive market, we are focusing on retaining our strong brand equity with doctors while simultaneously putting in efforts to improve the overall productivity of the business.

Over the past 10-15 years, the incidence of chronic ailments in India has been on the rise. Chronic care therapies have become increasingly important and a key growth driver for the industry. We

expect this to continue in the coming years as well. Sun Pharma enjoys leadership in various chronic segments and is well positioned to benefit from this trend.

We also continue to evaluate in-licensing opportunities for bringing in the latest generation patented products to the Indian market. We already have 8 such products in our portfolio currently. Sun Pharma's strong brand equity with doctors and its distribution reach make it a partner of choice for any company desirous of having a local marketing partner.

Let me now focus on our performance in emerging markets.

Our sales in emerging markets were at US$ 194 million, flat over Q1FY19. Emerging markets accounted for 16% of total sales. While the business recorded year-on-year growth in constant currency terms, unfavorable currency movements have impacted our reported growth.

I will now hand over the call to Abhay.

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

For Q1, our overall sales in the US were up by 12% at US$ 424 million, accounting for approximately 36% of overall sales. This growth was mainly driven by a significant business of generic supply to a customer. For the overall generics business, we have not seen any broad-based improvement and we expect the market to remain competitive.

Let me now update you on developments in our specialty business.

Ilumya is gradually ramping up and is performing in line with our expectations. Patient numbers and doctors prescribing Ilumya are steadily increasing. We continue to invest in promoting Ilumya including the direct-to-consumer promotion campaign.

For Cequa, we are in the final stages of firming up supplies and we expect to commercialize it in US in Q3 of this year. The sales force required for Cequa's promotion is on-board and its cost is fully reflected in our quarterly financials.

Our efforts of increasing prescriptions for Odomzo has started showing some initial results with a small improvement in our market share. We hope that the improvement will continue in the coming quarters.

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

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

Formulation sales in Rest of World markets excluding US and Emerging Markets were US$ 167 million in Q1, a growth of 56% over last year. This growth was driven by both, organic efforts and the consolidation of Pola Pharma in Japan. ROW markets accounted for approximately 14% of Q1 revenues.

We continue to focus on developing and utilizing APIs for captive consumption for benefits of vertical integration. For Q1, the external sales for our API business were at Rs. 461 crores, up by 17% over Q1 last year.

We continue to invest in R&D for enhancing our pipeline. Consolidated R&D investments for Q1 was Rs.422 crores, accounting for 5% of sales. Our current generic pipeline for the US market includes 108 ANDAs and 6 NDAs awaiting approval with the US FDA. As you all know, our R&D costs are not evenly spread out across all the four quarters of the year. We expect to incur higher R&D costs in the coming quarters. This R&D spending enables development of future product pipeline including specialty and differentiated products.

And finally, I wish to announce some changes in the senior management responsibilities. Mr. Kal Sundaram who, till now was heading our India and Emerging Markets businesses will now handle our strategic initiatives as well as our Japan and China businesses. Mr. Kirti Ganorkar who was heading the Global Business Development function will now head the India formulations business while the generic business development function will be handled by Mr. Aalok Shanghvi. We will look for a fresh recruitment for the global specialty business development function.

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

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

Chirag Dagli: Sir, on the DTC spend, how does the phase out happen over say Q4 of last year, Q1 this year, let us say if it is 100 for the full year, how would it have been spread over these two quarters?

Abhay Gandhi: It is a bit seasonal in the sense that during the summer months and during the holiday season in December it generally comes down. So, although it is difficult for me to give QoQ, for example, March-April-May would be a little on the lower side then it will ramp up and again towards November-December-Jan, it will come down a bit and ramp up. So, little pulse where two quarters will be on the higher side and two quarters on the slightly lower side, but it will not match exactly to the financial quarters.

Chirag Dagli: Does it continue over the next year as well or during launch is it significantly higher than on a continuing basis?

Abhay Gandhi: We have not yet decided and that will be part of our budgeting process when we look at next year. All said and done we have been doing DTC only for a few months now. So, to assess the impact, see whether it makes sense to continue or to scale back is something we have not decided as of now.

Chirag Dagli: When you look at the secondary data whether it is IMS or Symphony, do you want to call out any specific… are the trends similar to what you see based on your internal data or are there any dramatic differences that you want to call out because we look at the IMS data and it shows very-very slow ramp up versus peers. So, would you agree that your internal data also is similar or is there something as well?

Abhay Gandhi: Our product being a medical benefit product from a payer perspective, we do use a lot of specialty pharmacy. A lot of them will be covered by Symphony especially but some will not be. So, external data will never be very accurate, but it gives you a reasonable trend, but I would not call it very accurate though.

Chirag Dagli: But the trend is broadly it is not way off?

Abhay Gandhi: No. I would not call it way off. I see an improving trend when I look at the internal numbers. I do not know what is that you are trying to call out when you look at IMS or Symphony, but I see an improving trend when I look at our internal numbers.

Chirag Dagli: Mr. Shanghvi, in your opening comments you mentioned that you are looking at trying to make reasonable returns from the US generic business. Does it mean that at the moment the capital productivity on that business is sub-optimal?

Dilip Shanghvi: If we load the full cost including the new investments that we have made on getting new manufacturing infrastructure, then it is possibly not in line with the overall profitability we have in other businesses.

Chirag Dagli: Just a last clarification if I may sir. The quantum of this large supply to generic one customer, is it materially different Q4 versus Q1?

Abhay Gandhi: It is a similar number.

Moderator: Thank you. The next question is from the line of Nisarg Vakharia from Lucky Investment Managers. Please go ahead.

Nisarg Vakharia: Sir, my question was that you had said that this large generic supply for a finite period of time. Is this the last quarter for that supply or we still have visibility going ahead?

Abhay Gandhi: This is the last quarter.

Nisarg Vakharia: So, I think we were at a run rate of $380 million in the US before this large generic supply. Is that the run rate that we should see going ahead?

Dilip Shanghvi: I think we have guidance overall that factors all of this. If you start asking us detailed question related to individual business it will be difficult for us to respond.

Nisarg Vakharia: By when should we expect a slightly better growth in the Domestic Formulations business? I think 8% is much lower as per your standard of excellence.

Kal Sundaram: Like I mentioned, the underlying growth is 12%. Within that even the Chronic Care business growth is higher. Last year, our primary sales reflected our sales into Aditya Medisales and this time the sales are ex-AML/SPDL. So, if you compare the sales ex-AML/SPDL last year and this year the growth is higher than the 8%.

Nisarg Vakharia: But is this a new normal for large companies in the domestic formulations where 12-13% is the growth to expect or can we expect higher growth in the near future?

Kal Sundaram: If you look at the overall market dynamics, if you take one year, take three years, it has been sort of running even below 12%-13%. So, for us to expect further acceleration at this point, I do not anticipate that. Mr. Shanghvi has got significantly longer and deeper experience, but this is my view.

Dilip Shanghvi: We cannot be disconnected with the overall economy.

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

Neha Manpuria: Sir, in your press release, you mentioned one drug going into clinical this year. Is this related to additional indications for ILUMYA or is this a new opportunity?

Dilip Shanghvi: It is a new product and it is not this year, but it will enter Phase-I study next year.

Neha Manpuria: This is a new opportunity?

Dilip Shanghvi: Yes, it could be a new drug.

Neha Manpuria: And my second question is on R&D. We mentioned that R&D was 15%. If I look at my generic spend, is it fair to assume that generic spend is likely to remain similar YoY or even from this quarter and large part of increase would be led by Specialty?

Dilip Shanghvi: I think we have an overall guidance on R&D spend. And hopefully as we see we will be coming within that kind of overall guidance. The overall guidance is significantly more than this quarter's R&D spend.

Neha Manpuria: On CEQUA, sir, any reason for why the drug has been delayed again? I think last quarter we had guided to a second quarter launch especially given the risk of generics Restasis?

Abhay Gandhi: Neha, I had probably mentioned in my last call as well. We had certain challenges related to manufacturing and supply chain.

Neha Manpuria: So, this is the same reason?

Abhay Gandhi: Yes, and I think we are now putting all these elements in place for our Q3 launch.

Dilip Shanghvi: Also, I think the other point which you raised about the potential generic approval of Restasis equivalent product. We believe that in spite of generic cyclosporine equivalent to Restasis there is a significant opportunity for CEQUA in the US as well as in the other international markets.

Neha Manpuria: But sir do you not think it could potentially impact our pricing strategy for CEQUA or you think CEQUA would have a separate opportunity in the US irrespective of the number of players in Restasis?

Dilip Shanghvi: I will let Abhay respond.

Abhay Gandhi: I do not think it will have a pricing impact on the way we will price our product. But like we have said it in earlier calls as well, that there may be some step-throughs by some of the plans when it comes to access. So, that would be there; however, there are a lot of doctors who tell us that they feel the need for a new product considering the fact that existing therapies do not give the desired results and wherever we have seen so far, our product does very well in patients of dry eye. So, we feel there is an opportunity and that is the reason why we are launching it as soon as we can. Q3 is definitely I think on.

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

Anubhav Agarwal: One clarity. On the number that you mentioned global specialty sales is $94 million. Does this only include on-patent products or let us say for example specifically we have done two acquisitions now in Japan – Novartis portfolio and Pola Pharma -- would those numbers go here or not?

Dilip Shanghvi: No, it will not go.

Anubhav Agarwal: So, it is only on-patent products.

Dilip Shanghvi: Yes. Pola Pharma products are all off patent products. It is not covered here.

Anubhav Agarwal: And not even Novartis one?

Dilip Shanghvi: Yes, not even Novartis.

Anubhav Agarwal: Second question was in the notes-to-accounts mentioned that the other expenses include some amount of settlement expenses related to Modafinil. Do you want to call out how big is that number because you always mentioned in the past how much you paid for that?

Dilip Shanghvi: Since it is not a material number, we have not disclosed.

Anubhav Agarwal: Just a related question to this. Why is Sun Pharma not ring fenced from these litigations related to Modafinil and your annual report discloses many more products also, several of those litigations were prior to when we acquired Ranbaxy?

Dilip Shanghvi: Our agreement does not provide for ring fencing because Daiichi wanted a clear break. Also, from our point of view when we evaluated the litigation, we felt reasonably comfortable with the position of our defense. Cost of litigation is factored in our acquisition cost.

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

Sameer Baisiwala: Can you talk about the outlook for Levulan and the competitive activity over there especially after your court case win?

Dilip Shanghvi: Maybe Abhay can respond.

Abhay Gandhi: So, I think we are winning back large chunks of the market and when I see the current quarter and my personal outlook …but I am an operating person, mind you, I feel very confident in the way the product is doing this year.

Sameer Baisiwala: Second question is on the two PAI inspections that were done at Halol I think a few months back. Is that an early sign of substantive or niche or a complex product approval that we should expect for the US?

Dilip Shanghvi: It is in our guidance.

Sameer Baisiwala: This is for you, Abhay. Can you share some insights into psoriasis prescribing dynamics in the US as in ILs are relatively recent in last five years or so, so do patients need to have go through a systematic TNF to ILs or are the prescribing habits changing so that means the funnel for ILs are pretty more direct and bigger? And second is, ever since the Skyrizi launch, how is the formulary positioning impacted?

Abhay Gandhi: It is a very broad question that you have asked me really speaking. To be honest, lot of doctors prescribing behavior will be dependent on where a particular patient is in terms of his or her formulary coverage. So, to be able to aggregate and give you one liner becomes very difficult for me. When you speak to doctors, let us assume it was an even playing field and there was nothing called a formulary coverage or just to make it very simple if everything was out of pocket like we have in India, then the propensity of the doctor to use an IL-23 today would be the highest. But in the US life is not simple because of coverage and step-throughs and what you need to fail on in some cases and it is highly patient-dependent. So, although the doctor does want to use more of IL-23, formulary and coverage restrictions may not always make it possible. Conceptually and in terms of what the doctors would like to do, there is clearly win in favor of the IL-23s.

Dilip Shanghvi: Also, I think other point which Sameer you asked about Skyrizi. Not only Skyrizi but also Tremfya. For both the products, the current company is actively looking to substitute their older product, say J&J is actively encouraging substitution of Stelara patient to Tremfya, same way AbbVie is actively switching patients from Humira to Skyrizi. So, that is a very different market dynamic because J&J knows all the patients who had break-through psoriasis with Stelara. So, they are actively working to substitute. So, I think ILUMYA does not have that kind of business and actual compulsion to substitute. And I have said this in the past also is that if doctors had known us earlier then we would have done better than what we are current doing. But hopefully we should be able to do much better than what even our business plan for this year indicates.

Abhay Gandhi: Just to add on to, I think what I understood of the last part of your question. If I understood it correctly, has the launch of a new competitor changed our formulary position, then the answer is no. It has not adversely impacted our formulary position. I hope that answers the last part of your question.

Sameer Baisiwala: Absolutely, because for any given plans with the larger plan, no plan would have three IL-23s, would there and earlier you may have been two, so therefore the moment Skyrizi came, can they exclude you out through bundle rebating, etc.?

Abhay Gandhi: I really cannot even talk about bundle rebating. We have not seen any impact. Also, you need to remember that we are not a pharmacy benefit product, we are a medical benefit product. So, in that playing space we have the only IL-23.

Moderator: Thank you. The next question is from the line of Rajesh Kothari from Alfaccurate Advisors. Please go ahead.

Rajesh Kothari: My question is with reference to the operating cash flows. If I look at annual report of last year, in FY19 there is a significant deterioration in the working capital. So, if you can give me some color that how do you see the working capital as a percentage of sales or number of days going forward?

C.S. Muralidharan: The overall working capital position what you stated is right. That was predominantly driven by across markets but also by US driven by the special business and Pola Pharma acquisition; however, in the current year we are working on active plan to contain the enhancement in working capital that happened in the last fiscal.

Rajesh Kothari: So, if I am not wrong, your cash conversion cycle which was around 213-days which has increased to 286-days… in fact FY17 was 196-days which has gone up to 213-days and has gone up further to 286-days, how should one look at FY20 -- do you think that you will come back to around 200-days that is the target and if answer is yes, how we are going to achieve the same?

C.S. Muralidharan: So, we are working on intensive active plan to contain both inventory and receivable side. So, instead of getting into particular working capital cycle number, what we can say

is that we would like to get back to our original position which was one year before this fiscal, so we are working towards that.

Rajesh Kothari: Just one important thing since you mentioned inventory and receivables, but actually it is your payable days which has not increased. So, if I look at your payable days three years back it was 207-days, then it increased to 234-days in FY19, and reduced to 192-days. So, do you not think it is more related by payables rather than just inventory and debtors?

C.S. Muralidharan: All the three parameters we are looking at -- receivables, inventories and payables -- combination of these we are looking at improving overall working capital chain.

Dilip Shanghvi: Also, our intention is not to increase the payable days, but it is to further reduce the payable days and see how we can capture the cash discount. So, I think the idea is to become more efficient in everything that we are doing and that is the objective.

Rajesh Kothari: Would you like to give some outlook on this number in terms of the number of days of working capital your target or something like that over next one year?

Dilip Shanghvi: No.

Rajesh Kothari: Because you have free cash flow is very important. I was just thinking from...

Dilip Shanghvi: I understand. I think the idea is for us to work towards significant debt reduction this year and hopefully we should be able to achieve that.

Rajesh Kothari: If I may just add one question in related to your accounts, your SG&A has gone up significantly in FY19. Would you like to give guidance on SG&A as a percentage of sales?

C.S. Muralidharan: Normally, we do not give any specific guidance related to any particular expense.

Abhay Gandhi: In this quarter, the DTC of ILUMYA and the full factoring of the CEQUA field force are two big contributors to increase in SG&A.

Rajesh Kothari: So, probably this year it will become more normalized?

Abhay Gandhi: Field force becomes a norm rather than normalization.

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

Prakash Agarwal: A question on gross margins. So, if you see the QoQ movement which is down about 370 basis points and in fact the India business which relatively is a higher gross margin business is also up. So, could you explain the reason please?

C.S. Muralidharan: It is driven mainly by the product mix and also related to the India distribution transition which happened in Q4. So, this is the two major factors which is driving this.

Prakash Agarwal: That is what I said, India is higher margin business?

C.S. Muralidharan: And I also product mix, we said product mix across the...

Prakash Agarwal: Across the geography you are saying? Okay. Secondly, on the staff cost and tax rate. So, staff cost typically this quarter is the annual increment which is a double-digit number. So, is this pushed out or the increments are done with the reduced workforce, how should we think about that? And the tax rate guidance for the year because it is particularly low this quarter?

C.S. Muralidharan: As far as staff cost is concerned, you are right, the annual merit increase in the current quarter is included. So, it is not pushed out, it is fully baked in this current quarter. Tax rate we have said also progressively to increase. That has been our guidance earlier also.

Prakash Agarwal: But any number for the year sir you are looking at?

C.S. Muralidharan: Very difficult to give any particular number for the year, but we did maintain that it will progressively increase as we move each quarter and finally of course we will see an increasing trend on the tax rate.

Prakash Agarwal: The last one in terms of life of the generic supply opportunity that we spoke about. So, are we stating that how long is this supply for, I mean, in the past, we said a couple of quarters, so do we see a couple of more quarters for this?

Abhay Gandhi: On the call earlier I did mention this is the last supply.

Moderator: Thank you. The next question is from the line of Saurabh Bothra from Edelweiss. Please go ahead.

Saurabh Bothra: You have entered into the China agreement market. So, what is your view on the China market?

Dilip Shanghvi: Maybe Kirti can respond.

Kirti Ganorkar: For China, we have entered into two agreements with a partner called CMS, one is for Tildrakizumab and one is CEQUA. As we see China is a big opportunity, it is the #2 market in the world after US and we see lot of growth opportunities for both Innovative portfolio as well as Generic portfolio.

Saurabh Bothra: Your overall gross margin is facing pressure. Can you throw light on the margin?

C.S. Muralidharan: So, we did explain in the response to the previous question is that the gross margin for the current quarter is due to the product mix across the business segments and also due to the India distribution transition that happened in the last quarter. So, these are the two major drivers what you see in the gross profit in the current quarter.

Moderator: Thank you. The next question is from the line of Manish Jain from GormalOne. Please go ahead.

Manish Jain: I just wanted to understand on the early stage innovation pipeline that we are building. What are the focus areas for us in this initiative?

Dilip Shanghvi: So, we will disclose more details along with the Phase-1 data. As on today we are not sharing. Only thing is that, since a certain amount of R&D spend is going to be around this, it was important for us to share at this time. What we can share is that the early preclinical data indicates extremely powerful results when we compare it with the products in the market.

Manish Jain: All right. We will wait for the next quarter then.

Dilip Shanghvi: I do not know next quarter, in the subsequent quarter.

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

Shyam Srinivasan: Just first one is just a data point on this out-licensing in China. Is that booked in 1Q, looks like 10-million plus kind of number?

Dilip Shanghvi: Actually, it is an upfront payment. Murali can explain.

C.S. Muralidharan: So, this upfront payment as per the Indian accounting standards, is deferred revenues in the balance sheet.

Shyam Srinivasan: So, there is nothing on the P&L just to clarify?

Dilip Shanghvi: Yes.

Shyam Srinivasan: My second question is on Skyrizi again. Just taking off from some of the previous participants. I think one of the comments that AbbVie had made on their call that 20% of their switches have come from Humira, but 80% have come from other biologics, so maybe Stelara, Cosentyx. So, are you seeing the same kind of trend in your numbers for ILUMYA?

Abhay Gandhi: Clearly, no. If you see the trending of market share of all the biologics in the market, you will be able to see that some of the older ones are declining in share whereas IL-23s have not declined after the entry of Skyrizi. But having said that, Skyrizi is only a couple of months in the market now and we clearly respect them as a strong competitor who will do well.

Shyam Srinivasan: Link to this their guidance of $250 million next year. Is that like positive overall for the entire like IL-23 franchise you think because those numbers are very impressive; $48 million first quarter sales?

Abhay Gandhi: If you have a large competitor with experience of the psoriasis market in the fray, you would expect them to also invest into growing the market, so not just taking share from existing players. So, I would really hope that some of the large players also use their resources to grow the

market because clearly IL-23 as a class is a better treatment option in my view for patients of psoriasis. So, I hope and we think that the market will grow.

Shyam Srinivasan: Last question is on Odomzo. I think in the initial remarks; market share gain is something that was indicated. I remember last quarter you said 10.5% market share. So, what are the efforts that you have done and where are we now on the market share?

Abhay Gandhi: The market share is 12.2% or something is the last number I saw. And I think the effort is to have more number of doctors use the product both in the oncology space as well as we have redefined the targets for dermatologists and how we cover them. It is a rare disease. Being at the right place at the right time is always going to be a challenge and within that we try and navigate and see how do we target the dermatology customers in such a way that we are maybe as close to the point of prescription as we possibly can be, but it is a business challenge that we have.

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

Surya Patra: It is not a specific number guidance that I wanted, but I just wanted to have a sense that okay, whether the DTC and EAP expenses we have already seen the peak of that, we may not see any further escalation there, and what kind of cost containing measures that you are talking about for the US generic if you can share something more on that?

Abhay Gandhi: We have an annual budget in our minds what we want to spend on DTC. Earlier on the call I did explain that it is a little bit of a pulse in terms of how we spend it depending on seasonality and availability of patients during certain seasons which may not match exactly to the financial quarters but you will have three-month of a high and a little bit lower side on the next three months and again going up the third and coming down in the fourth. Does not exactly match to our quarters, I repeat that. Talking about SG&A of generics that is not a large number. Manufacturing and projects we take on in R&D that was being referred to, not SG&A.

Surya Patra: Just a small clarification about the NDA pipeline what you have mentioned in your press release that the pipeline includes 52 approved NDAs. So, may I know how many NDAs out of the 52 are really marketed or this entire 52 still to be marketed?

Dilip Shanghvi: We do not have the details here with us.

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

Nitin Agarwal: Sir on ILUMYA, is there any decision on initiation of the additional indication trials?

Dilip Shanghvi: I think we have indicated that we will be looking at initiating the psoriatic arthritis study. We are finalizing the protocol for the Phase-III study.

Nitin Agarwal: And sir, what could be the duration for the study?

Dilip Shanghvi: I mean whatever I think is the regulatory requirement, we will try and do it as fast as we can.

Nitin Agarwal: While it is early days, typically in the IL-23 class, what has your experience been -- Is psoriasis the primary indication and these are add-on indications or they are eventually going to develop as equally important indications or additional indications?

Abhay Gandhi: It has both effects; a), the fact that your product works in more than one condition increases the confidence level of the doctors to prescribe more, and also psoriatic arthritis is a very prominent and important indication. I am not able to quantify whether that is more or psoriasis is more but it will become strong indication anyways.

Dilip Shanghvi: Psoriasis is clearly bigger, but….

Abhay Gandhi: Some of the patients migrate to having arthritic conditions.

Dilip Shanghvi: But I think if you see Allergan, they are developing this product for gastric indications. I think you see as well as for Crohn's. So, those are also equally large markets.

Nitin Agarwal: On the ROW market there has been pretty strong growth in the quarter. You mentioned combination of inorganic as well as organic. So, is inorganic a very large component of this YoY growth number?

Dilip Shanghvi: Both of them have contributed.

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

Nimish Mehta: Sir, you said that the revenue from Specialty has been about $94 million and I would assume that in Q1 FY19 we would hardly have any revenue from Specialty if I adjusted for this in the total USA generic sales looks to be a bit maybe lower that is despite the fact that you have won large order which is unlikely to repeat. So, am I missing something or what is the reason for this steep decline?

C.S. Muralidharan: So, the specialty revenue that has been disclosed is the global specialty revenues. So, not specific to US, so you cannot typically apply it in deriving the US revenues.

Nimish Mehta: I understand, but I would still assume that a large part of it will be from US only or is that also a wrong assumption?

Abhay Gandhi: As of now, the generic business is a bigger component of our business in the US, that is clear.

Dilip Shanghvi: What we are saying is once you take out the special business, then your generic business is much smaller than what you thought it should be. So, I think once you start, there are so many dimensions because I think what we work towards is to try and give you a consolidated growth number for the whole business. And I understand that you need to kind of develop a better understanding than what we are sharing, but we will not be giving more detailed business-by-business information.

Nimish Mehta: I am actually not asking for any number, but okay. So, if you can just tell me whether my observation of the steep decline is right or wrong?

Dilip Shanghvi: It is wrong.

Nimish Mehta: Second thing I just wanted to know that in the generic business again I saw that we have many products where you received approval but have not launched, some of these are from Taro as well. So, any reason and some of them at least I feel low competition products? There

are many products where we do not have enough competition, two or three players that kind of competition even that has not been launched?

Dilip Shanghvi: Difficult to respond. Generally, if we have an approval and if it is a profitable product, we will launch it.

Nimish Mehta: As of now there is no product which is to be launched, I mean after approval...?

Dilip Shanghvi: There are one or two products which we are in the process of scaling up because the original batch sizes we would have filed would be very small and we are scaling to a much bigger batch size so that we can make what is commercially required. But other than that I do not see any product.

Nimish Mehta: Just wanted the number of doctors prescribing ILUMYA now. You mentioned last time it was 1,200 doctors. So, any number that will be helpful?

Abhay Gandhi: Now we are giving you the specialty business numbers. So, I do not think it is very relevant.

Moderator: Thank you. The next question is from the line of Harith Ahamed from Spark Capital. Please go ahead.

Harith Ahamed: You mentioned in your press release that the strong growth that you have seen in the ROW business of 56% was partly driven by the acquisition of Pola Pharma in Japan and based on your annual report, this business had revenues of around Rs.770 crores for the previous 12-months. In this context, the purchase price consideration of Rs.23 crores seem a bit low. So, can you help understand the low valuation multiples for which you are able to acquire this business, whether it is on price-to-sales or price-to-earnings?

Dilip Shanghvi: I think every transaction has its own idiosyncrasy and reasons. For business reasons we may not be able to share all the issues beyond what we have shared.

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

Sameer Baisiwala: Abhay, what is more difficult is it to get the patient first on your early access program for ILUMYA or to then subsequently convert from early access to commercial plans? Second is what does it take to convert from EAP to commercial plan in terms of hurdles or the burden that the peers have kept there?

Abhay Gandhi: Both are different challenges. The first one obviously is to convince a doctor about the efficacy and merits of your drug and initiate a trial or usage and the second is dealing with a completely different customer group and trying to convince the payer that it is worthwhile for the payer to pay for the drug in the long-term interest and benefit of the patient, so both are very different customer groups. I do not know how to compare and give you any kind of comparator here or what is easier.

Dilip Shanghvi: I think for Sameer's understanding it is easier for him to understand even though converting it may be difficult to a paying patient. Are you actively encouraging as many new prescriptions as possible?

Abhay Gandhi: We are, clearly because that clearly gives doctors the experience with our product, and our experience is that doctors who use the product and have used it repeatedly are very happy with the performance of the product, and therefore, we actively encourage let us say "Early Access Program" and then of course the job of the access teams is to try and convert the access patients into a paying patient.

Sameer Baisiwala: How difficult is this, Abhay? It may be early days. What could be the conversion percentage if there is some ballpark over there?

Abhay Gandhi: I cannot give you an exact percentage obviously for competitive reasons but as far as my understanding is concerned, we seem to be fairing within the industry norms.

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

Anubhav Agarwal: Two, three clarifications. The interest cost declined very sharply in this quarter. Can you help with that? So, we were doing run rate of Rs.145, 150 crores in the last two quarters, now we are down to Rs.105 crores.

C.S. Muralidharan: So, the interest cost in the current quarter has dropped because we have reduced our rupee borrowings significantly in this quarter. So, our overall cost of capital and overall our debt has dropped in this current quarter which has resulted in a combination of the resultant savings in the finance cost.

Anubhav Agarwal: Can you give what is gross debt or net debt that you have right now?

Dilip Shanghvi: So, it is lower than what you see in the annual report; however, you will get the gross and net debt end of next quarter.

Anubhav Agarwal: So, is it more of a refinancing rupee borrowing with dollar debt that has reduced or a large part of the saving has come because the debt has gone down?

Dilip Shanghvi: Mostly it is because he debt has gone down.

Anubhav Agarwal: This is like very sharp reduction in one quarter. That is the only question I was asking.

Dilip Shanghvi: If you reduce Rs.300 crores of Indian debt then that will give you significant reduction and the debt reduction may be higher than that. So, it is not that the interest is deferred, it is the actual interest cost.

Anubhav Agarwal: This IND AS 116 changes, total impact on PBT is low. But what is like is the impact to EBITDA was very low?

C.S. Muralidharan: The impact to EBITDA also is very low.

Anubhav Agarwal: This US one-off sales that you were doing, this does not get reflected in IMS just that because it does not get routed through the distributors, we just directly sell to one third-party, we do not sell to channel participant here, is that the reason?

Dilip Shanghvi: Yes, that is correct.

Moderator: Thank you. That was the last question. I now hand the conference over to Mr. Nimish Desai for closing comments.

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

Moderator: Thank you. Ladies and gentlemen on behalf of Sun Pharma that concludes this conference call for today. Thank you for joining us and you may now disconne