Corporate Participants

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Moderator: Good day, ladies and gentlemen, and a very warm welcome to the Sun Pharmaceutical Industries Limited Q4 FY17 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. 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 * followed by '0' on your touchtone phone. 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 fourth quarter and full-year fiscal '17 earnings call. I'm Nimish from the Sun Pharma Investor Relations Team. We hope you've received the Q4 financials and the press release that was sent out earlier in the day. These are also available on our website.

Let me introduce the team. We have with us Mr. Dilip Shanghvi - Managing Director, Mr. Sudhir Valia - Whole Time Director and Mr. Kal Sundaram - CEO of India, Emerging Markets & Consumer Healthcare. Today, the team will discuss performance highlight, update on strategies and respond to any questions that you may have. As is usual, for ease of discussion, we will look at 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 up on our website shortly. The discussion today might include certain forward-looking statements and this 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 fourth quarter of FY17. Let me discuss some of the key highlights.

Our overall sales for the quarter have declined by about 8% while the full year FY17 sales are up by about 9%. The sales decline in the quarter is a reflection of the pricing pressure that the generic industry is facing in the US. Also, our revenues in the previous comparable quarter were boosted due to the Imatinib exclusivity in US which has ended in July 2016.

We will continue to invest in building specialty business in the dermatology, Ophthalmology, Oncology and CNS segments.

Let me update you on Halol. As you all are aware, the US FDA re-inspected the Halol facility in Q3 and has issued nine observations. The remedial steps to address these observations are on-going and we are periodically updating the US FDA on the progress. As of now, we are not aware of the US FDA's stance on the facility. However, the facility may require a re-inspection and till it happens, we are unlikely to get any new approvals from this facility. Basically, till we get any fresh communication from the US FDA, we will have to assume that the status of the facility has not changed.

I will now hand over the call to Mr. Valia for discussion of the Q4 performance.

Sudhir Valia: Thank you, Mr. Shanghvi. Good evening, everyone, and welcome to all of you. Our Q4 financials are already with you. As usual, we will look at the key consolidated financials. The Company has adopted Indian Accounting Standards (Ind AS) from 01-April-2016. To facilitate a like-to-like comparison, the financials for the previous quarter and full year ended March 2016 have been restated as per Ind AS. As per the requirements of Ind AS, sales are now reported on gross basis and hence margins are also calculated on gross sales.

Q4 sales are at Rs. 6,825 crores, down by 8% over Q4 last year. Material cost as a percentage of sales was 32.2%, higher than Q4 last year mainly due to the year-on-year decline in Imatinib sales in US as well as higher COGS for Taro. Staff cost was at 18.3% of sales, higher than Q4 last year. This increase is partly due to the expansion of the specialty teams in the US. Other expenditure was at 31.4% of sales which was lower than Q4 last year partly aided by forex gains.

As a result of the above, the EBITDA for Q4 was at Rs. 1,236 crores, with EBITDA margins at 18%. These EBITDA margins are after taking a one-time charge of US$ 45 million in Q4 related to inventory write-offs and certain other charges. Net profit for the quarter was at Rs. 1,223 crores with Net profit margin at 18% compared to Net profit of Rs. 1,416 crores for Q4 last year. EPS for the quarter was Rs. 5.20.

Let me also explain the variance in certain key items compared to December-2016 quarter. The other operating income variance over Q3 is the result of higher income booked in Q4 due to licensing income

from Almirall for Tildra. Lower finance cost in Q4 versus Q3 is mainly on account of the impact of forex on interest cost.

Now we will discuss the full year performance. Net sales were at Rs. 30,264 crores, a growth of 8.5% over full year last year. Material cost, as a percentage of the net sales was 26.9% which was higher compared to last year. The staff cost for the full year was at 16.2% of net sales while other expenses were at 28%, both lower than last year.

As a result of the above the EBITDA for the full year was at Rs. 8,775 crores a growth of 16.1% over last year. EBITDA margins were at 29% for the full year compared to 27.1% last year.

Net profit for the full year was at Rs. 6,964 crores with Net profit margin at 23% compared to Net profit of Rs. 4,546 crores last year. Net profit for full year last year was adversely impacted by one-time items as well as exceptional charges of Rs. 685 crores. EPS for the full year was Rs. 29.00.

Let me now briefly discuss Taro's performance.

Taro posted Q4 sales of US$ 196 million, while sales for the full year were US$ 879 million. Taro's net profit for Q4 was US$ 83 million while net profit for the full year was at US$ 456 million.

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

Kal Sundaram: Thanks Mr. Valia. First, let me take you through the performance of our Indian business. Our Q4 sales of branded formulation in India were 1,916 crores, a growth of 10% over Q4 last year and accounting for approximately 28% of our total sales. Growth is gradually recovering post the impact of demonetization announced by the Government of India in November 2016. For the full year, sales grew by 8% to Rs. 7,749 crores.

Sun Pharma is the largest pharmaceutical company in India and holds approximately 8.6% market share in the over Rs. 100,000 crore pharmaceutical market as per March 2017 AIOCD-AWACS report.

As per latest SMSRC report, Sun Pharma is ranked no. 1 based on share of prescriptions with 11 classes of doctors. For Q4, 11 new products were launched in the Indian market.

Future focus will be maintaining our leadership position in an intensely competitive market. The productivity of our acute care portfolio is gradually improving and we are focusing on profitable and sustainable growth in this segment. We are also targeting to expand our product portfolio through a combination of internal development and in-licensing.

The demographics of India will be the key growth driver for the industry in the long-term. However, competitive intensity, changing regulations and government mandated price controls are the other key factors which will determine the long term growth trajectory of the industry.

Let me now discuss our performance in emerging markets.

Our sales in emerging markets were at US$ 181 million for Q4, a growth of 46% partly driven by the acquisition of Biosintez in Russia. Emerging markets accounted for 18% of total sales. For the full year, our emerging market performance has improved 23% year-on-year. The growth is broad-based amongst emerging markets. Post the volatile currency movements last year, some of the emerging market currencies have stabilized in FY17 thus reflecting the potential of underlying business.

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

Dilip Shanghvi: Thank you, Kal. I will briefly discuss the performance highlights of our US and ROW business. Let me start with the US.

For Q4, our overall sales in the US were at US$ 381 million accounting for approximately 37% of our overall sales. We have recorded a year-on-year decline in US revenues mainly due to lower Imatinib sales post the expiry of exclusivity and also due to the overall pricing pressure in the US. Our growth has been partly constrained by the delay in approvals from the Halol facility.

Formulation sales in Rest of World markets excluding US and Emerging Markets were US$ 109 million in Q4, a growth of 38% over last year, partly driven by consolidation of the Japanese acquisition. ROW markets accounted for approximately 11% of revenues for Q4.

For Q4, the external sales for our API business were at Rs. 395 crores while for the full year API sales were at 1,598 crores, up 14%. This growth was partly driven by the consolidation of the opiates business in Australia.

We continue to invest in R&D for enhancing our pipeline. Consolidated R&D investments for Q4 was Rs. 600 crores, accounting for 8.8% of sales. This R&D spending enables development of future product pipeline including specialty and differentiated products and we continue to expect increased R&D investments in future.

We have a strong pipeline for the US market with 157 ANDAs and 5 NDAs awaiting approval with the US FDA. For the quarter, 14 ANDAs were filed and 4 approvals were received.

Let me update you on the Ranbaxy integration – We have achieved about 2/3rd of the US$ 300 million synergies in FY17 and these synergies have helped us mitigate some of the challenges that we just alluded to in the call. The synergy benefits will also help us fund our future investments in building the specialty pipeline.

Let me discuss our specialty initiatives in detail.

We have added significant momentum to our specialty strategy. During the quarter, we announced the acceptance of Tildrakizumab filing by EMA for European markets. Post the close of the quarter; we announced the acceptance of Tildrakizumab filing by US FDA for US market. We will be gradually filing Tildrakizumab in all key markets in the next few quarters.

We recently had a pre-NDA meeting with the US FDA for Seciera and we are on track to file this NDA by Q3FY18. We continue to evaluate filing Seciera in other markets.

Recently, we started marketing Odomzo, our specialty oncology product, in the US. We will be leveraging our dermatology sales force in the US for co-promoting this product to dermatologists.

Our ophthalmic specialty product – BromSite – which we launched in the US in Q3 is gradually ramping up.

And finally on the FY18 guidance.

FY18 is likely to be a challenging year for us. The US generics industry is facing rapidly changing market dynamics. Increased competitive intensity and customer consolidation is leading to pressure on pricing. Continued delay in approvals from the Halol facility is also impacting us. Also, we had the benefit of Imatinib exclusivity in US in FY17 which has ended in July 2016. In the Indian market also, there is

uncertainty amongst the trade channels due to the upcoming GST implementation, although it may be temporary. Given these factors, growth could be a challenge in FY18 and we may even have a single-digit decline in consolidated revenues for FY18 over FY17.

Despite these challenges, we continue to invest in enhancing our global specialty and complex generics pipeline. Investments will also continue for setting up the requisite front-end capabilities for our specialty business in US. These investments may not have commensurate revenues in FY18. Our consolidated R&D investments for FY18 will be about 9-10% of revenues. We expect a gradually increasing tax rate over the next few years while capex for FY18 is estimated at US$ 350 million.

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. We'll take the first question from the line of Bino Pathiparampil from SBI Capital. Please go ahead.

Bino Pathiparampil: If I look at your US revenue for the fourth quarter excluding Taro, I see a quarter-over-quarter decline of almost $100 million. So my question is, is there anything significant change in Benicar revenues from 3Q to 4Q? Or is it completely because of price erosion in other products?

Dilip Shanghvi: There is a bigger impact of Benicar revenue, but otherwise there is also a price erosion impact. And also a bit reduced sales for Imatinib.

Bino Pathiparampil: And I couldn't completely understand the $45 million inventory charge that you took. Could you please explain that once more?

Dilip Shanghvi: I would like investors to treat it as a kind of a one-time cost that is not likely to be recurring.

Bino Pathiparampil: So that's the one-time inventory write-off in the US related to some US inventory.

Dilip Shanghvi: Yes, that and some other costs, which are non-recurrent costs.

Bino Pathiparampil: And the total of these costs is $45 million.

Dilip Shanghvi: That's correct.

Moderator: Thank you. We'll take the next question from the line of Anubhav Aggarwal from Credit Suisse. Please go ahead.

Anubhav Aggarwal: Yes, sir. Just one clarity, this $45 million cost, this is included, where? I missed that.

Uday Baldota: It is part of the material costs.

Anubhav Aggarwal: And, just a clarity on this US sales drop. Yes, Benicar and Imatinib, we can understand. But in your portfolio, did you see a major amount of new, let's say, competition from new approvals? I have not seen the portfolio getting so many new entrants that in one quarter, on the base portfolio even excluding the Benicar, Imatinib, we can see a very big delta in one quarter.

Dilip Shanghvi: There would be some products that we may not have sold in last quarter, which can come in this quarter. So, it is difficult for me to specifically respond. And there may be some product that we would have sold larger quantity in the previous quarter. So that the subsequent quarter may have taken a lower value.

Anubhav Aggarwal: Would you say that is a very big chunk or because it's such a large number, some clarity will be helpful. I mean, are we talking about, let's say, north of 30, less than $10 million, some sense will be helpful.

Dilip Shanghvi: It would be meaningful for sure. Difficult to give a specific number, but it's meaningful.

Moderator: Thank you. We'll take the next question from the line of Alok Dalal from CLSA. Please go ahead.

Alok Dalal: At what stage are we in the down cycle of the generic pricing cycle? And for how long or how much time do you see this been continuing?

Dilip Shanghvi: It's a product-to-product situation; there are many products where I don't see a significant delta for price cuts. There may be a few products, where, depending on competitive intensity, some kind of price correction.

Alok Dalal: So it will be more product-specific, other than entire portfolio?

Dilip Shanghvi: Generally that's my sense.

Alok Dalal: And what are the signs that one should monitor, which signal that pricing pressure has stabilized or things have normalized in the US?

Dilip Shanghvi: I can't see a specific signal. And it will be different for different companies.

Alok Dalal: But, with respect to the timeline, is it a one-year kind of a thing or you see this as a multi-year challenge?

Dilip Shanghvi: For many things, there is a new normal which is getting established. Say like, value of the first-to-file products, even during exclusivity is likely to go down and that's a new normal.

Moderator: Thank you. We will take the next question from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: Just on Q3 to Q4 and for the US business for Gleevec, there are just two competitors, Apotex and Teva. And they had both entered in August. So my guess here is that, everything that had to happen would have happened by December quarter. So why should they be a sequential decline in Gleevec between December and March?

Dilip Shanghvi: How competitors behave is a function of their decisions. So approval is not necessarily a function of their action. So your premise is that in August they came in, and if we didn't lose market share in August, why would we have lost market share or pricing in this quarter. But it's a function of market dynamics.

Sameer Baisiwala: Fair enough, sir. But I'm actually looking at the market share in the December quarter, which is largely unchanged in the March quarter. So the market share has not changed, my guess here is that the competitors' decisions too would not have changed too much?

Dilip Shanghvi: What you don't see is pricing impact. We would have preserved market share by competing and giving up pricing.

Sameer Baisiwala: Even though there was no new competitor in?

Dilip Shanghvi: But same competitor can behave differently.

Sameer Baisiwala: And you think there has been a material drop in the prices between that in these two quarters?

Dilip Shanghvi: That's what is the conclusion, if we see, because we haven't lost market share.

Sameer Baisiwala: Okay, sir. And just side stepping on this and just looking at the big picture, which is of in the entire quarter, would you say that all the pluses and minuses, the sales that you reported, which is about Rs.6,825 crores and the operating profits adding back to $45 million. This is a new normal, this is a new base for your base business?

Dilip Shanghvi: Generally I have avoided giving bottom-line guidance because many things impact during the year. We have many levers by which we can control the bottom-line. We will work towards improving profitability for sure during the year.

Sameer Baisiwala: And I asked this question because this probably this quarter takes us back, maybe, I would say 14 quarters or 12 quarters in the history of Sun Pharma. So, it was a bit surprising to see then operating numbers so low. And that's why I asked this question, that is this quarter representative of the new normal for Sun Pharma.

Sudhir Valia: But US is the only market, which is the pressure, otherwise everywhere company is performing.

Dilip Shanghvi: I think in US also we are capable of performing better. We should be performing better and there are issues that are in our hand, which within the constraint of what we are doing can allow us to do better. But we have to execute before that happens.

Moderator: Thank you. We will take the next question from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: In the light of your outlook on Halol now and the fact that for the last few years of the time the problems have been lingering on Halol, we've not actively going about switching products. I mean, is there a re-think on how we're looking at de-risking our sales in terms of creating more revenues for launching some of these products? Or I mean, how we're looking at new product launches now going forward, which are contingent, which are till now been contingent with Halol?

Dilip Shanghvi: We are actively looking at transferring a few of the critical products.

Nitin Agarwal: And this would include your active filings, I mean, in-market products, as well as your future filings?

Dilip Shanghvi: Priority is for future approvals.

Nitin Agarwal: And secondly, was this quarter also impacted in any material way by the additional remediation work you may have had to undertake in Halol post the recent observations?

Dilip Shanghvi: Nothing specific.

Moderator: Thank you. We'll take the next question from the line of Nishant Chandra from Asian Market Securities. Please go ahead.

Nishant Chandra: I'm trying to understand what are the controllable levers that you were having in mind, and you said that with no change in market outlook, there could be a potential improvements in performance based on certain controllable levers that you have. I'm just trying to understand what those are?

Dilip Shanghvi: We can try to improve market share for some of our products. I see an opportunity for some of the products where we can improve our penetration in terms of some segments that we were not participating in the past.

Nishant Chandra: And what is the factor that it was not applicable this quarter or why was it not possible for us to do it this quarter or the last two quarters. For example, which we think will embark on in the next few quarters?

Dilip Shanghvi: We will need to execute better, but there is nothing which gives a specific reason as to why we shouldn't have done it this quarter, we should have. But now that there is increasing pressure, we will try and focus, because I think clearly we are at the level of profitability that we were 12 quarters back.

Nishant Chandra: Understood. And is that factored into your topline guidance or the incremental portion is not factored into your accounting?

Dilip Shanghvi: Some improvements that we will plan to do may have been factored, some may not have been factored.

Moderator: Thank you. We'll take the next question from the line of Anmol Ganjoo from JM Financial. Please go ahead.

Anmol Ganjoo: You spoke about a single-digit decline in topline. Just wanted to understand that what is the base outcome at Halol that you are building in as you arrive or communicate this number?

Dilip Shanghvi: We are presuming no new approval from Halol, so if that should change during the year, then we might have an opportunity to relook at our guidance.

Anmol Ganjoo: And my second question is, I understand that you refrain from giving a margin guidance, but the fact remains that given the cost levers and the benefit of incremental Ranbaxy synergies for the year, is it a fair assumption to make that the bottomline or profitability contraction will be less than the topline contraction and as we get more focused on the cost from an FY'18 perspective?

Sudhir Valia: Benefit of synergy will continue.

Dilip Shanghvi: Of course, these are recurring synergies. But what is the question?

Anmol Ganjoo: The question is that I know you don't give an explicit margin guidance or a bottomline guidance. But directionally, given the cost levers we have and benefit of incremental Ranbaxy synergies that comes in for FY'18, is it fair to assume that profitability contraction will be lower than the topline contraction for FY'18?

Dilip Shanghvi: Ultimately I will end up giving you guidance, as a result.

Anmol Ganjoo: Directional, not in a..

Dilip Shanghvi: Everything is directional, give me some flex here. I don't want to say things which then become difficult for me to execute on. So I try and not create unnecessary pressure points for our company. So if you see over last so many years, we have avoided giving long-term guidance. Because, I think in such an uncertain environment, where we do not have visibility of long-term, giving you five-year guidance, I only have to come back and say either I over-executed and did much better or say that, sorry, I couldn't execute. It is better for us to focus on meeting what we say, rather than at some point of time saying sorry.

Moderator: Thank you. We'll take the next question from the line of Kartik Mehta from Deutsche Bank. Please go ahead.

Kartik Mehta: You mentioned about increase in tax rate in the future. Would that be above 100 bps now or can you just maybe explain that number?

Uday Baldota: Generally, upward going, it's very difficult to put into percentage.

Kartik Mehta: And on the R&D, the number was 9% to 10% of sales. So, will most of this be on the non-generic side and if at all, would you be able to quantify whether this will be 30% of it or maybe higher than that? Thank you.

Dilip Shanghvi: I don't have that level of sub-granularity, but there is an increasing focus on investing for specialty products for new indication development and things like that.

Kartik Mehta: So you mean the new indications for the existing molecules we have, right?

Dilip Shanghvi: Yes.

Moderator: Thank you. We'll take the next question from the line of Abhishek Sharma from IIFL. Please go ahead.

Abhishek Sharma: Any color on Halol remediation timeline, by which time would you be in a position to invite the US FDA back again?

Dilip Shanghvi: I don't think that we have to specifically invite them. We keep them updated with the progress that we are making with the remediation or there are 483 observations and how we are addressing those observations. But, they will decide when to come.

Abhishek Sharma: And it could be this quarter or I mean, is it long time away, some color on that.

Dilip Shanghvi: It could be this quarter also. But it may not be also in this quarter, they will actually not inform us.

Abhishek Sharma: But from your side, you're ready for a re-inspection?

Dilip Shanghvi: I think all pharmaceutical manufacturers have to be ready all time to have a FDA inspection.

Abhishek Sharma: No, what I meant was that the 483, the deficiencies that it would have pointed out, the last one have they've been addressed?

Dilip Shanghvi: But we had a remediation plan and we keep on updating. And we have a timeline in our remediation plan that we have shared with the FDA as to by what time this will get addressed.

Abhishek Sharma: Okay. And substantial work on that is done or?

Sudhir Valia: We said that they may come in this week, this quarter also. So you understand.

Abhishek Sharma: Yeah. Okay. Got you. The other question is around Seciera, in your pre-NDA meeting, were there any additional clinical studies asked for or the data that you had is sufficient for you to file?

Dilip Shanghvi: If they ask for additional clinical study, how can we file in such a short time?

Abhishek Sharma: And last one is on Tildra, any target dates, PDUFA dates that have been given for filing?

Dilip Shanghvi: In our press release explained that this was filed by Merck, but my understanding is that Merck hasn't received a PDUFA date. There we have only received the acceptance of the filing.

Moderator: Thank you. We'll take the next question from the line of Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: On Halol, the remediation is done after the last inspection. Are we facing any supply constraints still from that side?

Dilip Shanghvi: For some products.

Saion Mukherjee: Okay, we are still facing. Okay. And sir this on Isotretinoin and Absorica, some competitors have moved out of the market, has that benefitted us through the last quarter?

Dilip Shanghvi: I think the Absorica competitors would have benefited generic companies much more than what it would have benefited us.

Saion Mukherjee: Okay. And sir, finally on M&A strategy, what we are seeing is a lot of activity on the specialty side that Sun Pharma is indulging in. On the generic side you have Ranbaxy already there. I mean, will you have any appetite to do M&A on the generic side to further expand the US footprint or in any other emerging markets?

Dilip Shanghvi: Not at this point of time.

Moderator: Thank you. We'll take the next question from the line of Surya Patra from Phillip Capital. Please go ahead.

Surya Patra: On the revenue decline guidance, so are you factoring that the US business is likely to see around more than 10% kind of a decline Y-o-Y and because of the GST implementation, the domestic formulation growth would be single-digit, low single-digit. So that is why are you indicating about single digit decline on the overall business verticals for other two segments or other regions that we are anyway progressing?

Dilip Shanghvi: The current situation is that, there are, large number of uncertainties. So that's why we are not even giving a specific number, because it's better for me to be broad-based, because I need to be confident.

Surya Patra: Okay. And GST could be a kind of an important one as in…

Dilip Shanghvi: Yes. GST is a one-time impact. I mean, hopefully the IT backbone and all of that the government has set-up this work.

Surya Patra: Okay. The second question is about the benefit, what you indicated, sir, synergy benefit, 2/3rd of the synergy benefit already indicated is already been achieved in FY17 itself. And so that means, possibly, we can see incremental $100 million kind of a benefit and which will largely be spent on the specialty portfolio creation for the US business. So we might not see any incremental benefit that way for FY18 out of this. Is this correct understanding, sir?

Dilip Shanghvi: If we increase the cost, then you will not see the increase in profitability. If we license a product and pay upfront money then that's not something, which is a revenue cost.

Surya Patra: Okay. Just on the specialty portfolio side or is the initiative towards this in creating specialty portfolio and expansion of the specialty field force there in US. Can you just sum up something and tell what is the kind of outlook there on that particular initiative in creating specialty business spreads there in US. And when do you think that some meaningful revenue contribution or earning contribution that one should expect out of it?

Dilip Shanghvi: We should start seeing some improvement in Odomzo revenue. We should start seeing some improvement in the BromSite revenue. For launch, we should be launching Tildra beginning of next year.

Surya Patra: Okay. Beginning of next year that will come. Tildra is the new product?

Dilip Shanghvi: Correct. And sometimes during next year, we will also potentially see Seciera. And we will start creating a field force for Tildra this year.

Surya Patra: Okay. So how big it has become sir? Earlier it was something 50 or 60 member of team that was there for this?

Dilip Shanghvi: Okay. But again that's a very approximate number. Because I think it's much lower than what competitors have for marketing similar products.

Moderator: Thank you. We'll take the next question from the line of Manish Jain from Sage One Investment Advisors. Please go ahead.

Manish Jain: I just had one technical question on Tildra, that when would you start doing clinical trials for other indications?

Dilip Shanghvi: We are in the process of starting.

Moderator: Thank you. We'll take the next question from the line of Neha Manpuria from J.P. Morgan. Please go ahead.

Neha Manpuria: Just two questions on the guidance. Does our guidance assume delay of approvals from Dadra?

Dilip Shanghvi: No.

Neha Manpuria: Okay. Sir, we're assuming that being normal. And second on price erosion, are we assuming a worsening of price erosion versus what we've seen this year ex-Gleevec given the additional consolidation?

Dilip Shanghvi: Generic business will always see pricing pressure.

Neha Manpuria: Yeah. But has that trend worsened, I mean, do you expect that trend to worsen into FY18?

Dilip Shanghvi: This year it is much more than what it was in the earlier year.

Moderator: Thank you. We will take the next question from the line of Girish Bakhru from HSBC. Thank you.

Girish Bakhru: Just again on Tildra plan study. Is there any plan to do comparative efficacy study against in market products like Cosentyx?

Dilip Shanghvi: No. We are evaluating the detailed data. We haven't yet formed a view on what additional studies we want to do in terms of comparative studies.

Girish Bakhru: And is there any possible priority review for this application. I mean, I'm not sure, if you would have filed for a priority review voucher given some of the other competitors have filed in this category?

Dilip Shanghvi: No. There is no priority review for this product.

Girish Bakhru: Okay. And just on Seciera versus Restasis, am I correct to understand, the key benefit is the better patient compliance owing to lesser side effect, particularly irritation or is there any significant advantage that you have seen in the data versus Restasis?

Dilip Shanghvi: From a study design point of view, Seciera has produced whatever benefit it has to produce in 3 months, which is 12 weeks and Restasis is 24 weeks. So from duration of efficacy, I mean, the time to efficacy is much shorter. And we should not look at this, because they are not comparable. But the overall, compared to placebo, I think the study outcomes are better in terms of percentage. But then, we cannot say that it's better than Restasis, because it has not been done in a comparative study.

Moderator: Thank you. We'll take the next question from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

Chirag Dagli: In Tildrakizumab, how do we see our market share scaling up without having head-to-head data with existing products in the market?

Dilip Shanghvi: The primary efficacy data will allow us to get the product reimbursed and also allow us to promote the product effectively with the customers or with the doctors. We do not need a head to head study at this point of time.

Chirag Dagli: Okay. You don't need it at least initially is what…?

Dilip Shanghvi: True.

Chirag Dagli: Okay. And sir, on this incremental R&D that we are sort of guiding to in FY18, where is the incremental increase going to be? Is it largely specialty?

Dilip Shanghvi: Yes.

Chirag Dagli: So generic R&D over the last three years would have been increasing trend, sir, or would have been sort of flat?

Dilip Shanghvi: We've started investing in specialty R&D almost 3-4 years back but that number is increasing. And now likely to increase even more significantly.

Chirag Dagli: And you are not sharing the split between specialty versus generic currently?

Dilip Shanghvi: No. Not at this point of time.

Moderator: Thank you. We'll take the next question from the line of Narottam Garg from CWC Advisors. Please go ahead.

Narottam Garg: Just wanted a question on Tildra, so it is expected to launch by FY19. And by that time, some of your competitors such as Cosentyx and Taltz already have completed 3 to 5 years. So given this fact, and the fact that these products are quite sticky with the dermatologists, is it probable that the US market for psoriasis may become saturated, because of which Tildra may not gain market share despite being much safer and much more convenient?

Dilip Shanghvi: But I think we have a very good product, both from an efficacy standpoint, duration of efficacy standpoint and safety standpoint. And it should be possible for us to find a way to communicate this message effectively to doctors. So that we can get sensible market share for the product.

Narottam Garg: Sure. And just second question on the other two products which is Odomzo and Seciera. So what we have been seeing from Bloomberg data that Odomzo sales have been flattish since the time you have acquired. And for dry eyes the other product which has been launched called Xiidra hasn't been able to scale up its sales revenue and hasn't been able to take market share from Restasis. So given this, I just wanted to understand, would you believe that these products will be able to achieve the sort of low payback period that you usually target?

Dilip Shanghvi: So I don't know what is your source for data is for Odomzo. But in our own assessment, I think we are getting early response to our promotional activity. We have a good ramp up on BromSite and we believe that with Seciera, we have a compelling profile for the product, both in terms of shorter duration of action as well as side effect profile. So I think it should be possible for us to use this compelling clinical benefit in terms of market share.

Narottam Garg: For your US-based business, which is the US business ex of Gleevec and Olmesartan, what was the decline in the revenue, was it in high single digits or was it in double-digit? Because it's quite a meaningful decline that we have seen.

Dilip Shanghvi: We don't break-up sales into specific products.

Narottam Garg: But directionally, has the decline in businesses increased?

Dilip Shanghvi: Compared to what?

Narottam Garg: Compared to last year.

Dilip Shanghvi: Of course, because otherwise we would have grown.

Moderator: Thank you. We'll take the next question from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.

Nimish Mehta: A lot of my questions have been answered. I have just two questions. Are we likely to shift the Xelpros and Elepsia out of Halol given that now we have started shifting.

Dilip Shanghvi: Yes.

Nimish Mehta: Okay. And so in that case, approvals of those products can be expected in next year? Because facility is the only thing which is stopping the approval. Is that a fair assumption?

Dilip Shanghvi: Yeah. That's a fair assumption.

Nimish Mehta: Okay. The other thing and that is slightly on macro. In India, we have seen that there has been some change in the guidelines of approvals or all the products from now on would be required to undergo BA/BE trials for all the companies and you can correct if my understanding is wrong. Will that have any bearing in the overall competitive scenario, we I India having the competition decrease, because lot many may not be able to do it or what do you think?

Dilip Shanghvi: We think it doesn't change the life for us. Because most of the products that we have launched are backed with either BA/BE studies or with clinical trials.

Nimish Mehta: Yeah, true. But I'm trying to understand the overall scenario and given that the company's competition with so many small companies and may or may not be doing it. So will that change or you don't think that is, the hurdles are anybody to cross?

Dilip Shanghvi: No. I'm not visualizing a significant change.

Moderator: Thank you. We'll take the next question from the line of Rhunjhun Jain from Nirmal Bang Securities. Please go ahead.

Rhunjhun Jain: Just one last question sir. Out of the pending 157 ANDAs, approximately how much would be from Halol?

Dilip Shanghvi: We haven't given out specific details about which facility has filed how many products.

Moderator: Thank you. We will take the next question from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.

Anubhav Agarwal: Yeah. I have a question on the India business. For last two years, we have shown only single-digit growth rate; before Ranbaxy acquisition we used to show a consistent high-teens growth. I know they have an impact on NLEM etc. but could you guys just give a trend on prescription growth before Ranbaxy acquisition or after that acquisition in last two years? How're you doing on prescription growth? Because value growth, it doesn't give a lot of confidence what has happened in last two years.

Dilip Shanghvi: Kal, would you like to respond?

Kal Sundaram: In our core therapeutic areas being, let's say, cardiovascular, diabetes, CNS, gastro, neurology, we are experiencing continued growth in prescription. As far as the actual business goes, what you say, this is seasonal. And I wasn't in India last year. My understanding is that there was a sort good year of antibiotics growth last year last season. So if we remove that sort of what you say, seasonality for acute care it by and large for the whole sector will reflect a lower growth event, chronic, that applies to us also. So overall our primary sales are accompanied by, in totality, underlying growth in prescriptions.

Anubhav Aggarwal: Kal, just one question over there. Would you say when you say in your core areas is growing prescriptions, are you growing a market share in prescription?

Kal Sundaram: In core therapeutic areas, particularly say, cardiovascular and diabetes, which is the largest by value for the company, we are continuing to experience growth in overall rupee value sales. And the reason, of going for rupee value sales is the product mix also changes. The value of a product like Istavel and Istamet will be substantially different from the value for some of the older products. So, both in terms of product mix and in totality, the volume of prescription that we generate from chronic care is on an increase.

Anubhav Aggarwal: Just to make sure that I understand this. So from your comment should I infer that if I don't want to look at value, but in prescription, are you gaining market share or is that flattish? Because, your prescriptions are growing for sure, but are you gaining market share? That's what you wanted to say.

Dilip Shanghvi: Yes.

Moderator: Thank you. We'll take the next question from the line of Chirag Talati from Kotak Securities. Please go ahead.

Chirag Talati: I have just one question on your facilities. Now that Mohali is cleared and you don't seem to be doing a lot of volumes as far as oral solids are concerned. What's the plan for this facility going forward, will it be a backup or should we expect a divestment?

Dilip Shanghvi: No. We are also filing new products from that facility.

Chirag Talati: So, it will remain a core facility for us going forward.

Dilip Shanghvi: It will be, yes.

Moderator: Thank you. We'll take the next question from the line of Mayank Hyanki from Axis Mutual Fund. Please go ahead.

Mayank Hyanki: In the specialty segment from the new products that we have launched in FY17 and onwards, and from the incremental cost perspective, in which year do you see the operating breakeven

of the segment. If you are not including Absorica and the likes and I'm just kind of see the launches, which happened in FY17, it's Odomzo, Tildra, Seciera and the cost that will go for it. So in which year would you see the breakeven?

Dilip Shanghvi: I think 2020.

Moderator: Thank you. We'll take the next question from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: Just any update on Glumetza launch?

Dilip Shanghvi: I don't want to give a date but value of Glumetza is much lower today than what it was, if we had launched it say 4-5 months back.

Sameer Baisiwala: Okay. But you think, you can do this in the current fiscal year.

Dilip Shanghvi: Yes.

Sameer Baisiwala: Okay. And second question for Gleevec, what's your assessment and it's very, very difficult, but over the next 6, 12, 24 months, do you see some competition joining you or do you think now the market is more or less stable?

Dilip Shanghvi: I am aware of some people who have filed, but who haven't got approvals. So I don't know when they will get approval.

Sameer Baisiwala: Okay. And sir, one final question with respect to Seciera. My understanding is that, I may be wrong that for Dry Eye, even after Phase 3 completion, the applications may not get accepted or rejected by FDA, etc. There have been some fatalities around that. So your pre-NDA meeting and your confidence to be able to file NDA in 3Q, do you think it's a major win of some sort and its sort of endorsement that this product will now see the light of the day?

Dilip Shanghvi: What is your question?

Sameer Baisiwala: Sir, what I'm saying is for Dry Eye indication, if my understanding is correct, I think few other candidates had failed even after Phase 3 trials.

Dilip Shanghvi: No. That's a different issue. I think what we have to keep in mind for Seciera is that there was an agreement, in my understanding, is that there was an agreed outcome that was finalized with the FDA for the clinical study end point. And the outcome has been achieved. And post the outcome, the company from whom we have licensed this product had a meeting with the FDA, sharing the data that they achieved in the clinical study. And there is a plan to file this by third quarter. So, there may be something within the data which can potentially create questions, but I don't think those things will be outcome because outcome was something that was agreed. What I think has happened in the past is that some products could not achieve the outcome. Even if you see the summary basis of approval of Restasis, it is also actually kind of got approved after 2-3, set of to and fro with the FDA and finally it got approved. Because at that point of time, no product was approved for Dry Eye.

Moderator: Thank you. We'll take the next question from the line of Bino Pathiparampil from SBI Capital. Please go ahead.

Bino Pathiparampil: All my questions have been answered, but one small request. Given that your specialty business is becoming focused and big, it would be great, if you could break up the US revenues in the specialty and generics going forward?

Dilip Shanghvi: Yes. Let it become big and we will definitely do that. As on today, it's not big enough to split. We are making big investments now. And also I understand what you're asking, and I understand that for us to help investors, it makes sense to share this opportunity.

Moderator: Thank you. We'll take the next question from the line of Alok Dalal from CLSA. Please go ahead.

Alok Dalal: One question on the approval cycle. Sun Pharma has not been receiving approvals off late or rather the approval cycle has been weak. Now not all products would be linked to Halol. So where do you think the approvals are getting stuck?

Dilip Shanghvi: So, I think, it's a valid question. I think we are working towards improving our ability to get faster approval of products that we have filed.

Alok Dalal: So in fiscal '18, do you think that approval pace will improve or still there will be some time before you start to get approval?

Dilip Shanghvi: I think we've been working on this for some time. So fully we should start seeing some improvement in approvals.

Alok Dalal: Okay. And one last question. How do you envisage this latest government initiative to shift from brand to generic? Do you see that getting implemented? Is that going to be a disruptive factor for the industry over the next few years?

Dilip Shanghvi: I think the underlying objective of the government is improving excessive high-cost, high quality medicine for large number of people. I think industry agrees with and wants to work with the government. Where I think industry wants to also help government realize is that solution to this is not through the generic prescription, because of many issues including substitution, including quality of products, including actually generic may not lead to reduced price. And I think whenever we are sharing this information with the government, there is an openness to listen to us.

Moderator: Thank you. Due to time constraints, we will take the last question from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

Chirag Dagli: Sir, can you flush out some details on the US organization that you've built over the last couple of years, field force, therapies, people?

Dilip Shanghvi: We have this specific therapy segments for which we have teams for both sales and marketing, depending on the nature of products, the teams of the different product will be different. We have also created a, access, reimbursement and all the things which are necessary for us to succeed in getting our product reimbursed and getting our product into more preferred tier in the formulary. So we are equipped to kind of participate in the market in a way which is appropriate, so that when we launch our important products, they will not suffer from those operating challenges.

Chirag Dagli: But on approvals you'll eventually scale up the field force?

Dilip Shanghvi: Some of the organization is already built. So field force may not be there, but some managers will be there, so that we can start building relationship with key opinion leaders and all of that will be there in the place.

Chirag Dagli: So from the FY17 base sir, broadly speaking there will be higher R&D and not too much incremental organization cost, that understanding is correct?

Dilip Shanghvi: There will be an increased organizational cost this year for, let's say, Tildra, because we will create a separate field for it. Next year there will be a new field for Seciera, because the field force which is promoting BromSite and Seciera will have to be different. So like that as the products will get launched there will be expansion of field force.

Chirag Dagli: Yes, sir. Okay. And sir second question was on the license. How should we think about the value capture, so the partner who is going to manufacture the product is also going to get some development royalties. So as per industry standard typically the guy who brings it to the market gets to keep 60% of the eventual upside, would that be sort of a thumb rule for our deals as well?

Dilip Shanghvi: It's difficult to go into specifics, excepting where we would have given some guidance about royalty and other details. I think deals have been quite moderately valued and should give us competitive advantage in terms progress further.

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

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

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