Corporate Participants

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Moderator: Ladies and gentlemen, good day, and welcome to the Sun Pharma Q4 FY'19 Financial Results 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 at the end of the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and 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 fourth quarter FY19 earnings call. I am Nimish from the Sun Pharma investor relations team. We hope you have received the Q4 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. Sudhir Valia – Whole Time Director, Mr. Kal Sundaram – Whole Time Director & CEO (India, Emerging Markets & Consumer Healthcare) and Mr. Abhay Gandhi – CEO (North America). 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 S. Shanghvi: Welcome and thank you for joining us for this earnings call after the announcement of financial results for the fourth quarter of FY19.

Let me discuss some of the key highlights:

Consolidated sales for the quarter were at Rs. 7,044 crores, a growth of 5% year-on-year.

As announced in January 2019, Sun Pharma has terminated its distribution arrangement with Aditya Medisales with effect from 1st April 2019 and going forward, Sun Pharma's wholly owned subsidiary will be doing the distribution in India. Our Q4 sales include a one-time impact of approximately Rs. 1,085 crores for this change. Excluding this impact, our consolidated sales for Q4 were at Rs. 8,129 crores, a growth of 21% over Q4 last year.

We continue to focus on strengthening our core operations and managing our overall cost structure which is necessary to ensure competitiveness in the market.

There is no further update to share on the whistle blower complaint.

I would also like to take this opportunity to discuss the US generic price collusion allegations. On May 10, 2019 a new complaint was filed by various US states, and the suit names our subsidiary Taro USA and one of its former employees. Taro continues to believe these suits are without merit and will continue to defend against them vigorously.

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 key consolidated financials.

Overall Q4 reported sales were at Rs. 7,044 crores while adjusted sales were at Rs. 8,129 crores.

Given the one-time impact on India sales explained before, analyzing expense items as percentage of sales will not be relevant.

In absolute terms, employee cost was higher year-on-year mainly due to the increased staff cost for the specialty business as well as an incremental increase due to consolidation of Pola Pharma.

The Q4 increase in other expenditure over Q4 last year is driven by:

a) forex loss of Rs. 52 crore in Q4FY19 versus a gain of Rs. 174 crore in Q4 last year

b) Increased branding and promotional spend for the specialty business in US. This includes the spend on the recently launched direct-to-consumer initiatives for Ilumya

c) Consolidation of Pola Pharma financials

Reported EBITDA for Q4 was at Rs. 897 crores with reported EBITDA margins at 12.7%; but for the one-time adjustment for India distribution transition, the EBITDA margins would have been higher.

Reported net profit for Q4 was at Rs. 636 crores while reported EPS for the quarter was Rs. 2.65.

Let me now discuss the movements versus Q3 of this year. The increase in staff costs for Q4FY19 over Q3FY19 is driven mainly by the incremental staffing for the specialty business and the consolidation of the Pola Pharma business.

Other expenses were higher in Q4 compared to Q3FY19 mainly due to:

a) forex loss of Rs. 52 crore in Q4FY19 versus a gain of Rs. 227 crore in Q3

b) Increased branding and promotional spend for the specialty business in US. This includes the spend on the recently launched direct-to-consumer initiatives for Ilumya

c) Increase in R&D spend by over Rs. 100 crore

d) Consolidation of Pola Pharma financials

Now we will discuss the full year FY19 performance. For full year FY19 period, net sales were at Rs. 28,686 crores, a growth of 10% over full year last year. Adjusted sales growth for the full year was 14%. Staff costs and other expenses are higher year-on-year mainly due to:

a) Build-up of the specialty sales force in US

b) Increased branding and promotional spend for the specialty business in US. This includes the spend on the recently launched direct-to-consumer initiatives for Ilumya.

As a result of the above the EBITDA for the full year was at Rs. 5,928 crores with resulting EBITDA margin of 20.7%.

Reported Net profit for the full year FY19 was at Rs. 2,665 crores, up 27% with resulting net margin of 9.3%.

Let me now briefly discuss Taro's performance.

Taro posted Q4FY19 sales of US$ 180 million, up by 2.7% over Q4 last year. For the full year FY19, sales were US$ 670 million, marginally up over full year last year. Taro's net profit for Q4 was US$ 58 million while for the full year period, it reported a net profit of US$ 282 million.

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

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

For Q4, sales of branded formulations in India were Rs. 1,101 crores. Q4 sales include a one-time impact of approximately Rs. 1,085 crores for the change in distribution from Aditya Medisales to our wholly owned subsidiary. This is a result of return of unsold inventory of Rs. 716 crores and rest being lower invoicing to Aditya Medisales. Excluding this impact, India sales for Q4 have grown by 11% over Q4 last year, mainly driven by our chronic care portfolio.

Sun Pharma is the largest pharmaceutical company in India and holds approximately 8.2% market share in the over Rs. 131,000 crore pharmaceutical market as per March 2019 AIOCD-AWACS report.

Cardio Vascular Diabetes has become the dominant therapeutic category for both the industry and Sun Pharma as the category continues to increase its share in the total pharma market. Sun Pharma continues to enjoy market leadership in this important category.

Sun Pharma leads prescription share in eleven specialties including pshychiatry, neurology, cardiovascular and diabetes.

Over the past few years, we have embarked on a strategy to in-license, the latest generation patented products from various innovators. We have now eight in-licensed brands which are growing well above our average sales growth and we will continue to invest in these brands to maintain the growth momentum. 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.

Our persistent focus on field force productivity has delivered good results with a gradual increase in productivity over the past three years. Continued efforts are being made to train, develop our field team to build strong brands, led by strong scientific communication and helping the healthcare providers to improve their patients' disease outcomes.

Let me now discuss our performance in emerging markets.

Our sales in emerging markets were at US$ 173 million for Q4, down by 13% year-on-year and accounting for 17% of total sales. On constant currency basis, there was a marginal de-growth in sales. The de-growth is partly driven by lower tender sales in Africa coupled with a few other markets where sales have declined. Given the favourable macro-economic variables in emerging markets, we remain positive on the long-term prospects of this business.

I will now hand over the call to Abhay.

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

For Q4, our overall sales in the US were up by 20% at US$ 443 million, accounting for approximately 44% of overall sales. This growth was mainly driven by a significant business of generic supply to a customer, to be serviced over 6 months starting from Q4. For the overall generics business, we have not seen any broad-based improvement but at the same time the pace of overall price erosion has reduced. We continue to expect the market to be competitive in the near term.

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

Ilumya is gradually gaining traction in US. Approximately, 1200 doctors have prescribed the product till date. These prescriptions are yet to reflect in revenues as many patients are on early access program.

In Q4, we commenced a direct-to-consumer promotion campaign for the product which will continue for some months in FY20 as well. These DTC promotions are fairly expensive with a portion of the cost reflected in Q4 while the remaining will be incurred in FY20.

We expect to launch Cequa in US in Q2 of current fiscal. As indicated in our last call, we had faced some technical issues which have now been resolved. The sales force required for Cequa's promotion is now on-board.

We continue to invest in branding and promotion of these specialty products. Although, we have built the front-end infrastructure for the specialty business in US, there would be specific marketing and other costs for these products. We expect to continue to be in an investment phase for building our specialty business.

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

Dilip S. Shanghvi: Thanks 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$ 153 million in Q4, a growth of 32% over last year accounting for approximately 15% of Q4 revenues. This growth was partly driven by consolidation of Pola Pharma with effect from 1st January 2019. We launched Ilumya in Australia some months back and I am happy to report that we have received a good initial response. Our European partner, Almirall has also received encouraging response to Ilumetri in Germany. Almirall has also recently received a favourable response from National Institute for Health & Care Excellence in UK.

We continue to focus on developing and utilizing APIs for captive consumption for benefits of vertical integration. For Q4, the external sales for our API business were at Rs. 484 crores, up by 46% over Q4 last year.

We continue to invest in R&D for enhancing our pipeline. Consolidated R&D investments for Q4 is Rs.567 crores, accounting for 8% of sales. Our current generic pipeline for the US market includes 118 ANDAs and 8 NDAs awaiting approval with the US FDA.

This R&D spending enables development of future product pipeline including specialty and differentiated products. We also continue to critically evaluate generic R&D spend given the competitive nature of the US generics market. Our overall R&D spend for the full year FY19 was Rs. 1,985 crores at nearly 7% of revenues.

The board has announced a dividend of Rs. 2.75 per share for the year.

And finally on FY20 guidance:

We expect our consolidated sales to grow by low to mid teens on a reported basis. We will continue to invest for building our global specialty business and also on clinical trials for some of our specialty products. While these investments are necessary for long-term benefits, they are likely to keep our profitability in check in the near-term. Consolidated R&D investments are estimated at about 8-9% of sales. Capex for FY20 is estimated at approximately US$ 200mn.

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 Neha Manpuria from JP Morgan. Please go ahead.

Neha Manpuria: Sir, first on ILUMYA. Could you give us some color on how the formulary coverage is panning out for the drug?

Abhay Gandhi: Formulary coverage is not a limiting factor for how we will perform with ILUMYA in market. We are pretty satisfied with the coverage we have. Like I have said on the previous calls, the fact that the product is a medical benefit product has been useful for us to get the kind of formulary coverage that we desired.

Neha Manpuria: Sir, given that we have seen more launches in IL-23, does not formulary coverage become important? I understand the medical benefit, but would not that therefore become more important with the launch of more IL-23s?

Abhay Gandhi: It does, but what I am trying to say is that the current formulary coverage that we have, would not put us in a non-competing position with any of the other products in market. Also, as I said in my readout, we have an early access program. So, patients who had initially a difficulty in getting formulary coverage, we quickly put them in the early access program while we work towards getting coverage for the product and this has also helped us.

Neha Manpuria: My second question is the direct-to-consumer program that we have launched. Has that significantly helped the prescriptions after we have launched that program? Let us assume we discontinue that program. Is there a risk that the prescriptions fall off? Have we seen a very sharp improvement after this program or that will be gradual, we will get to know after a couple of months?

Abhay Gandhi: You are right actually because in any kind of DTC, there will always be a lag between when you are first on air and when you expect to see results. Now we have been on air like for about 2.5-months now. I have not received too many metrics where I can conclusively state one way or the other. Having said that you do not do DTC for three months and then go off. So, that is why we also said in the readout that for most of the coming fiscal we will be definitely investing in DTC, and then looking at results, we will evaluate our strategy going forward.

Moderator: Thank you. The next question is from the line of Chirag Dagli from HDFC Asset. Please go ahead.

Chirag Dagli: Sir, this DTC campaign, who is this targeted to -- Is this to doctors? Patients? Because I would imagine that the payer is a very critical component of what the patient gets prescribed, right?

Abhay Gandhi: True. The DTC campaign is essentially focused on the patient of course. As far as the payers are concerned and we have a strong team in our market access group, which directly meets all the relevant stakeholders amongst all the payers and PBMs and the whole group that is involved in a decision-making. So, they would also get an opportunity to see your DTC campaign, but that is not the primary way of communicating with the payer group.

Chirag Dagli: I am just trying to evaluate the merit of DTC, sir because if the patient is not the decision maker, then why would you go ahead because you were anyway detailing the doctor and getting...?

Abhay Gandhi: You are right. I think the US market in that sense is very different from many other markets that I have worked in. Almost every brand that is there in the psoriasis segment does DTC campaign and a very significant one. There is data, which I have seen which basically says that patients do look at these ads. Their search therefore for very targeted information on the Internet goes up significantly. That initial data I have also seen for ILUMYA. And then they also strike up conversations with their caregiver and doctors for what should be the best mode of treatment. So, I

think the market is completely different from most markets that we have operated in so far and not doing DTC would have been a competitive disadvantage for us as compared to the IL-17s and IL-23s.

Chirag Dagli: You may also have to do some DTC for CEQUA, it is not a given?

Abhay Gandhi: It is not a given, it will be something that we will evaluate for each product and looking at what works in a given segment or a particular therapy, we will make our decision.

Chirag Dagli: The second question was on the Halol pipeline. Mr. Shanghvi, it has been a while that Halol has been resolved. Are you now happy with the products that are getting approved out of that or do you still think that this is not a full blown approval cycle, there are still products, which are overdue, how should we think about this Halol pipeline?

Dilip S. Shanghvi: As I said in my readout, we will have 118-products awaiting approval. So, some of them will potentially be products which are interesting and from Halol. So, if a product is not approved, it is because there are certain deficiencies that we have not been able to respond to or we are in the process of responding. Last year we have received quite a few of approvals, some of them are interesting, some of them are not so exciting and some of them we may never launch. So, I believe that once we are current with all our approvals, we should get some meaningful additional business from new approvals.

Moderator: Thank you. The next question is from the line of Kunal Dhamesha from SBICAP Securities. Please go ahead.

Kunal Dhamesha: Could you quantify the impact of one-time charge you have taken for domestic business on profitability? On revenue we all know the impact, but in terms of profitability, how it is adjusted for that, how the EBITDA margin would have been?

Nimish Desai: We are not disclosing the impact on profitability. The sales impact is already disclosed. Maybe you can make some assumptions and work out calculation of impact on EBITDA.

Kunal Dhamesha: Any further charge do you think you would be taking in FY'20 related to that because your AML will still be acting as an agent till the time SPDIL get all the necessary license?

Sudhir Valia: This agent is only for the sales. Whatever reversal has to be taken has been done already in March quarter.

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

Manish Jain: Abhay, just wanted to know on our launch plan for XELPROS, which we had received approval in September 2018?

Abhay Gandhi: We have already launched the product; it has been like roughly three months that we have launched the product and we are in market.

Manish Jain: Because there was no comment on the readout or the press release, what has been the performance and your experience on the same?

Abhay Gandhi: So, in the overall context of our total specialty business and in the current payer environment, this would not be a very huge product. We have gone to market with a sort of cash pay model. Quite a few doctors have taken it up and we continue to grow but it will not be like a very huge product in the overall context of the specialty business.

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

Anubhav Aggarwal: Abhay, just one question on ILUMYA. These 1,200 doctors that you mentioned that prescribing it, just can you put this in context, I mean, 1,200 as a number like what is superset or addressable set of doctors that you are looking at? So, I am just not able to understand 1,200 as an absolute number. Can you put that into context for me? Actually, 1,200 represents 5% of your targetable or let us say at certain internal estimates we expect ILUMYA to reach, background reading will be let us say, x number of doctors should be prescribing that product at that time, so...?

Abhay Gandhi: Anubhav, we cover about 8,000 doctors totally. These are all doctors who use Biologics. Amongst them of course if you look at the top prescribers of biologics, they will hardly number about 1,800-2,000. So, that should give you some idea about the context. I think when we are talking about say 1,200 of course this is the mix of every decile, but we are lucky that lot of these

doctors are the good users. So, you can either look at it as 1,200 out of an 8,000 possible doctors or you can look at it as 1,200 out of 2,000, but as I said, it will be a mix of every decile here.

Anubhav Aggarwal: Just one question also on the US sales this quarter, when you mentioned about this one-off sales, which you have started for six months, is this a one product, basket of products, can you just talk about is this low margin business, high margin business, and after six months, does this go to zero or does this remain some part over there?

Dilip S. Shanghvi: My understanding is that there is a chance that we may continue and overall margins are I think quite attractive. Beyond that, I do not think I have any additional information that I want to share.

Anubhav Aggarwal: Is this one product or basket of products?

Dilip S. Shanghvi: That is what I am saying. So, I am not sharing additional information at this time.

Anubhav Aggarwal: It is very confusing because it is a very large business that you have and this...?

Dilip S. Shanghvi: I understand. But my competitors are also listening to what I am saying.

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

Surya Patra: Just wanted to have a sense. I think with the distribution change happening, so whether any advantage which we earlier used to have it that will not be continued hence there would be some impact, anything of that sort that you are looking at it?

Kal Sundaram: Going forward, our own subsidiary will be directly selling to the wholesalers and beyond that I cannot see any other impact.

Surya Patra: But otherwise, any tax related benefit or anything which earlier that was there it may not come now. Any financial benefit which was earlier there, will not be coming?

Nimish Desai: There would not be any material impact.

Surya Patra: Just on the Japanese business front, with the acquisition of the Pola Pharma and the existing branded portfolio of Novartis that we have been having, so I think it is a kind of decent set or basket of products that we have already created there. Knowing the kind of pricing pressure that is there in the Japanese market, so how should one really look at in terms of growth as well as in terms of the profitability or pressure on the prices rather?

Dilip S. Shanghvi: For us, the Japan business to become attractive and profitable, it will need to become bigger than what it is today. The way we look at it is that because of Pola Pharma and its field force covering a large number of dermatologists, it will allow us to launch ILUMYA ourselves. At the same point of time, we can also look at launching other dermatology products that we have in development, also in Japan.

Surya Patra: So, for an outside developed product, now is it relatively okay to get a registration there in Japan or it is still tough as it used to be earlier?

Dilip S. Shanghvi: Generally, there is a requirement for doing a Japanese study and we are factoring all of that in our future product development plan. Fortunately for us, Japan was already included as a country in which there was a clinical trial done for ILUMYA.

Surya Patra: On the specialty front, what is the kind of revenue for all the launch products that you are currently generating for the full year?

Dilip S. Shanghvi: We are not giving out specialty revenue at this point of time. When we decide to give some additional information, then that is one of the issues that we will look at.

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

Nimish Mehta: My question is related to ILUMYA. Just wanted to know what is the basic reason why the sales have not picked up -- Is this the DTC campaign only which was kind of putting us behind, how should we look at because we had initial excitement and does this dilute the excitement that we had earlier?

Abhay Gandhi: DTC campaign was not delayed. As per regulation, you can launch a DTC campaign six months post the launch of the product. And exactly at that point in time, we went into the DTC campaign. So, for the first six months, you are only communicating to the doctors and the payers and the patient group was not in the frame. Post six months, this has started and this will also help. As I said, the keenness among doctors to use our product. We are clearly seeing and even in my personal interaction with the doctors, I am yet to hear a single doctor saying that the product did not work, we have received only good feedback. One of the reasons for the slow revenue uptick that you see is as I mentioned while we negotiate the payer environment, the patients are put on an early access program which delays revenue. But then you are better off holding onto the patient to your drug and working through the access scenario rather than giving up on the patient. So, it delays revenue to a certain extent, but in the long run you are better off keeping the patient with you especially since it is a chronic long term treatment.

Nimish Mehta: That scenario would also be applicable to other competing products, right, , otherwise have witnessed pretty high ramp up in the sales so...?

Abhay Gandhi: It does, but then you also need to understand that we are a new entrant into the field competing with some of the stronger giants. So, we have to fight our way through. That is the bottom line and that is what the team is doing here.

Nimish Mehta: Does this change your internal estimates in any which way for FY'20?

Abhay Gandhi: Our internal estimates, I mean Mr. Shanghvi always gives me a number which keeps looking up. So, I have no relief there.

Nimish Mehta: Second question is a simple one is on the domestic front, we have seen the disruption because of the change in distributor. Are we likely to see any one-off positive impact in FY'20 or we will now have very regularized sales from here on?

Kal Sundaram: We will have regularized sales reflected in the financials going forward.

Nimish Mehta: Not be any bunching up effect?

Kal Sundaram: No.

Moderator: Thank you. The next question is from the line of Ashi Anand from Allegro Capital Advisors. Please go ahead.

Ashi Anand: The question was with relation to the DTC spend that we are doing. The spends that we have seen this quarter would we expect similar quantum spends going forward on a quarterly basis in FY'20, and is there any particular seasonality with relation to these spends?

Abhay Gandhi: The spend on DTC for the next fiscal is going to be a material number, that is for sure. Seasonality in a way, yes. Typically, for this indication in the US, you have two quarters where the spend is significant and then two quarters where we sort of pulse it a little down based on what we think is the seasonality factor of patients reaching out to doctors during particular season for psoriasis, and that is something we will factor into our DTC. But on a whole year basis, it will be a material number.

Ashi Anand: Would it be possible for you to share which quarters bunching up is likely to be on? So, we would broadly be prepared to see a margin impact in subsequent quarters.

Dilip S. Shanghvi: It does not change, no? I mean, it is also not this because of one major cost, other cost will not be sustained. So, I think there are costs which will continue and there are costs, which will be campaign-related, which maybe as Abhay says, episodic, but it will come during the whole of the next year.

Ashi Anand: The previous participant has asked about the bunching up and whether we see some kind of a positive benefit of the distribution change that we have seen. I just wanted to understand if we run down inventory because of changing distribution should we not have some kind of benefit of inventory refill that happens that should benefit FY'20?

Kal Sundaram: What happened was let us say, Aditya Medisales would have had little over Rs.1,000 crores of inventory in December. That was basically run down during the course of Q4. As far as Aditya Medisales sales to the wholesalers is concerned, it was uninterrupted. Coming into this year, whatever our subsidiary will invoice to wholesalers will be reflected as our sales in our financials. I do not see any further upside or downside going forward.

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

Sameer Baisiwala: Abhay, on ILUMYA, during this early access program, who funds the patient, and what is the time lead or lag between this finally catching up with the revenue recognition?

Abhay Gandhi: Early access program basically is that you start the patient with a free product so the doctor can initiate treatment. So, it is on the company, this is one. Depending on the kind of plan that the patient is on, the timeline varies. We have seen patients as soon as on the second dose moving away from the EAP on to being a paid patient and there are some patients where if we have reached the second or the third dose and we are still navigating the access environment. So, it varies depending on the plan that a particular patient is on.

Sameer Baisiwala: So, once you get into fiscal '20, then you would have some of the older ones moving on to paid but you will be getting more and more new patients which may still remain on early access program?

Abhay Gandhi: Yes. So, it will be something that we will continue, because it is part of your marketing strategy and most competitors in the segment also do that. But what we are saying is there is some who will move from being early access patients into a paid patient and then more will keep coming into the EAP.

Sameer Baisiwala: Just related to this, so how long would you be running this EAP program? And b), are any of the current IL competitors concurrently running EAP program or they are all on paid basis?

Abhay Gandhi: As I said, every competitor is running an EAP program. The total duration on which a patient will remain is different from company-to-company. Usually, companies stop at two years and the maximum I have seen in this segment goes up to five years also.

Sameer Baisiwala: So, is it two years and five years is time of the launch?

Abhay Gandhi: Yes, from the time the patient goes on the EAP. So, the program is more or less continuous. But from the time a patient gets their first EAP dose, it can go up to two years or five years depending on each company.

Dilip S. Shanghvi: Abhay, I think you are putting lot of fear in people. The percentage of people who actually go into this two years and five years is a very small percentage. So, I think over many years of past experience, people would have formed this process and actually a large number of states in the US have laws which make it compulsory for plans to reimburse a product even if it is not in the formulary if the doctor is satisfied that the patient is responding to the product. So, there are methods by which you can force the system to reimburse your product.

Abhay Gandhi: Texas is an example.

Dilip S. Shanghvi: Yes. There are many-many such states.

Abhay Gandhi: Texas is one of the largest markets for this product and there you have to have compulsory access.

Abhay Gandhi: But to complete this conversation, why companies keep that kind of a timeframe is that if a doctor does not get the confidence that if you start a patient, you will have some sort of visibility or sustenance, they would never start. But that does not mean companies will not work on access and start moving patients from EAP to being a paid patient.

Dilip S. Shanghvi: Also, I think since we have a fairly good coverage from our point of view the time by which the patient will get covered is not going to be very large. If there is a plan in which we do not have a coverage, is where we have a higher challenge. But since that is not a very large number, we are not looking at a very large number of patients being denied coverage.

Sameer Baisiwala: How does the DTC budget compare across the competition, all other IL products, is everyone spending the same dollar amount or different?

Abhay Gandhi: In the ballpark range, I would have no access to information of how much a particular competitor spends. I can only estimate that. Our spending will be keeping us competitive in the market is what we feel.

Dilip S. Shanghvi: In the US if you are seeing a TV channel then within an hour or so you see at least one or two spots of our advertising. So, what I was surprised this time because I specifically watched is that psoriasis ads are one of the largest number, not only our product, but all competing products.

Sameer Baisiwala: For the US one-time sales that you talked about, so you mentioned it is going to be for six months starting Q4. So, was it for the entire three months of Q4?

Dilip S. Shanghvi: Yes, more or less.

Sameer Baisiwala: The top line guidance that you have given, have you taken for one quarter for fiscal '20 or you have taken longer than that?

Dilip S. Shanghvi: We factor both existing business as well as potential business with some probability of success. Even if something does not work out, we by and large meet our guidance.

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

Nitin Agarwal: For ILUMYA, on the clinical trials for the additional indications just wanted to understand the thought process in terms of how we are looking to approach it now?

Abhay Gandhi: It's basically based on our own assessment and the customer feedback on where we think the mechanism of action is likely to yield good results, and of course internally we also keep in mind that will we be in time to capitalize on that opportunity or are we late to market, and of course, the overall costs involved because these are sizable numbers. So, any decision that we make has to be well thought of.

Nitin Agarwal: Abhay, the existing guys have multiple indications. Is that a handicap when we sort of go out and market the product?

Dilip S. Shanghvi: The coverage that we have is for the derms, and in derms, psoriasis is one of the major indications, and I do not think that is a disadvantage really. We are not covering the rheumatologist for example. What you are not covering is the market you have decided at the present moment to stay out of.

Nitin Agarwal: Secondly, on Odomzo, any sort of updates on molecule the product has progressed for the year?

Abhay Gandhi: I do not have the number in front of me, but we are little above 10.5% in terms of market share for the product. In the last couple of months and clearly going forward from April not only are we covering the oncologists, but also started meeting some of the key derms who treat the indication. We hope this will help us to move the market share upwards.

Moderator: Thank you. The next question is from the line of Purvi Shah from Sharekhan Limited. Please go ahead.

Purvi Shah: Sir, if you could just help us with the tax rate guidance going forward since we have lot of volatility in the tax rate as well?

Dilip S. Shanghvi: Like what we have shared with you in the past, it will progressively go up.

Purvi Shah: If I go back to the past numbers in '18, we had around 18%, 19% and this year, it is considerably down, I understand the reasons. But is it fair enough to take into consideration around 18-20%?

C Muralidharan: Difficult to say. It will be a function of geographical mix.

Moderator: Thank you. The next question is from the line of Aditya Khemka from DSP Mutual Fund. Please go ahead.

Aditya Khemka: Abhay, did I hear you right you have 10.5% market share now in the derm space for IL-23s or is it for psoriasis treatment by biologics, what is the space that 10.5% market share addresses?

Abhay Gandhi: We were talking about Odomzo.

Aditya Khemka: Next question was on the CAPEX. Mr. Shanghvi alluded to some $200 million budget for the CAPEX. Can you throw some more light on the split of this CAPEX in maintenance and expansionary and where is the expansionary CAPEX aimed at?

Dilip S. Shanghvi: Generally, there will be little maintenance CAPEX. Maintenance is treated in repairs and maintenance and that number we do not share; it is part of the operating cost. This is for creating additional manufacturing. So, either a Brownfield or Greenfield project-related investment most of the time leading to increased capacity. In some cases, it may be for the purpose of strengthening the compliance or safety or such issue.

Aditya Khemka: But my question came from the perspective that you have been closing a few manufacturing plants in the past year which sort of told me that you had enough capacity to rationalize the few plants and reduce the manufacturing footprint and on the other hand as we announced again spending on Brownfield or Greenfield expansion sort of a mixed signal. Is it not?

Dilip S. Shanghvi: You have many reasons to rationalize your manufacturing footprint. Capacity is not the only thing. Plus, sometimes you are getting approval for new products in a plant in which you do not have matching capacity. Sometimes you need to set up lines that you require to file a new product. So, there are specific reasons why we need to invest.

Aditya Khemka: The last question I had was Halol. A gentleman asked on the call about the state of approvals you have gotten since the warning data was lifted and yet we have more than 100-ANDAs pending. Could you also guide me to as to how many generic products would you expect to launch in FY'20 out of the 120 or whatever number of ANDAs pending approval?

Dilip S. Shanghvi: It is difficult to give a specific response, but growth guidance includes potential growth of existing products as well as expected sales of new products.

Aditya Khemka: We had put out a press release regarding settlement of insider trading case with Sun Pharma employee. Any more such cases currently ongoing with SEBI on the insider trading side specifically? I understand your comment on there were still lower aspect.

Dilip S. Shanghvi: Nothing that we are aware of.

Moderator: Thank you. The next question is from the line of Hari Bilawat from Tech Fin Consultant. Please go ahead.

Hari Bilawat: This is regarding the recall of certain medicines. Certain cases had been there in the month of January some anesthesia injections were recalled. First thing sir, it dents the image of the company. Second thing is what is the legal and financial implication of such recall? This is in January '19, some 14,000 cartons of anesthesia injections had been recalled because of the particulate matter was found in that. This is what we have been reading.

Dilip S. Shanghvi: Most probably this would be Vecuronium. There is a financial implication if the material is sent back and we have to destroy. But whatever that you see if it is going to be significant or material, then we share information, but in this case since we have not shared information, it will not be material. But this recall I do not think there was any potential risk of hurting or damaging the patients.

Moderator: Thank you. The next question is from the line of Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: Sir, my question is on the India Formulations business. If I look at, since the Ranbaxy acquisition, the growth has been in single-digit; FY'16, it is 7.5%, then 8.5%, 3.5% and this time adjusted business is 5%, it seems that the growth is definitely lower than the broader market. Can you explain why the growth for such a long time has been in single digit for India business?

Kal Sundaram: If you remember, in Q2 also, we reduced the inventory levels at AML. So, I will say the numbers are for purchase are of not directly comparable. What I can tell you will be, in-market sales which we use for management measurement, adjusted for the GST impact last year on price grew by about approximately 12%.

Saion Mukherjee: So, you are talking this number about FY'19, is it?

Kal Sundaram: FY'19 end of March, our growth in this year. On last year on a comparable basis only subject to adjusting that Q1 GST price impacted, about 12%. And growth was driven more by chronic care which is a set of our focus.

Saion Mukherjee: So, it means that going forward, we would expect double-digit growth if the market is growing at let us say 10%, you would expect the growth to be ahead of that?

Kal Sundaram: Sure.

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

Shyam Srinivasan: My first one is on the balance sheet movement between September 2018 and March 2019. I just saw that the total asset number is moving from Rs.71,000 crores to Rs.65,000-odd crores. Can you just walk us through the key things? Maybe it is related to the non-related loan and stuff, but if you can just walk us through the key movements? I could see financial assets moving significantly and cash balances reducing significantly.

C Muralidharan: So, there are two factors we have -- One is that we have announced the winding down of the rights and obligation of Atlas which was a substantial amount of about Rs.2,200 crores, then also there is also Taro dividend of $500 million. These were the two material movements between the two periods what you are referring.

Saion Mukherjee: So, the Taro, it has been already paid out at March 2019?

Sudhir Valia: Yes.

Shyam Srinivasan: My second question is on the comment in the opening remarks on evaluating generic R&D given the competitive nature of the US. Maybe a year, year and a half back you said about 50% of your R&D was close to generic R&D. So, do you think this can materially come down as we look into the future years?

Dilip S. Shanghvi: I am not guiding for generic R&D currently. Hopefully, from next call onwards, we will start giving percentage spent on generic, but even then, I do not think I expect the generic R&D to fall below 50%.

Moderator: Thank you. The next question is from the line of Rahul Sharma from Karvy Stock Broking. Please go ahead.

Rahul Sharma: Just I wanted to reconfirm, should we take the adjusted sales for March '19 as the base for our future forecast?

Nimish Desai: The guidance that we have given is on a reported-to-reported basis.

Rahul Sharma: I missed out that. What is the total guidance for the year?

Nimish Desai: It is low to mid teens growth on a reported-to-reported basis.

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

Anubhav Aggarwal: Just two clarifications for me: One, when we terminated distribution contract with AML, was there any consideration paid or was it just a termination without any consideration?

Dilip S. Shanghvi: No consideration paid.

Anubhav Aggarwal: Secondly, for Sun Pharma Global FZE, we shifted our generic business from there to the parent company. So, the business which is carried out in Global FZE right now is only the specialty business right now?

Dilip S. Shanghvi: Yes, whatever products are still with FZE, whichever IPs residing there, that is continuing with them.

Anubhav Aggarwal: Even for the generic products?

Dilip S. Shanghvi: I do not remember specifically, but if it is there, then it will be treated there.

Anubhav Aggarwal: No, I was actually little confused. When you put out in the notes item last quarter that the unbranded generic business has been shifted from there. So, earlier IP was residing for most of the products that were being sold in Global FZE. Have we shifted those products?

Dilip S. Shanghvi: Yes.

Anubhav Aggarwal: Just on ILUMYA when do you expect it to breakeven on EBITDA -- fiscal '22, fiscal '23, fiscal '24?

Abhay Gandhi: Generally, for a branded product, it takes four to five years for us to reach peak revenues. And in that early phase they will always be investment also going into optimize the potential. So, in the near-term, we will be in the investment mode.

Anubhav Aggarwal: But my question was not on peak sales, but on EBITDA breakeven.

Abhay Gandhi: I really do not have an answer right now, which will be accurate so, difficult for me to disclose.

Dilip S. Shanghvi: Also, I think how much we will continue to invest in new indication and all of that, I think also will have an impact on breakeven. Because when we will maintain product in P&L, then we will look at all the investments, including new studies and other things. So, we might let us say breakeven in psoriasis, but we may be continuing the investment for other indications.

Moderator: Thank you. The next question is from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

Charulata Gaidhani: My question pertains to US sales manufacturing for six months. Can you give the product name?

Nimish Desai: We cannot disclose the product name.

Charulata Gaidhani: What is the range of R&D investments that you see over the next two to three years?

Dilip S. Shanghvi: This year we have guided for 8-9% of sales.

Charulata Gaidhani: And next year?

Dilip S. Shanghvi: We do not give guidance beyond one year.

Charulata Gaidhani: Do you expect any rationalization of products in the US and in India?

Dilip S. Shanghvi: That is an operational decision. So, we will always be looking at overall viability, profitability long-term just for a product to continue. But you do not expect any significant action on this that a large number of products being discontinued, it is not the plan.

Moderator: Thank you. The next question is from the line of Sajan Didwania from Frontline Capital. Please go ahead.

Sajan Didwania: Is there any P&L impact on winding off transaction of Atlas Global trading?

Sudhir Valia: Nothing any significant.

Sajan Didwania: So, it is just balance sheet entry?

Sudhir Valia: Yes, more or less.

Moderator: Thank you. Ladies and gentlemen, that would be the last question for today. I now hand the conference over to Mr. Nimish Desai for closing comments. Thank you and over to you, sir.

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

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