



Corporate Participants

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Moderator: Ladies and gentlemen, good day and welcome to the Sun Pharmaceutical Industries Limited Q2 FY19 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. 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 second quarter FY19 earnings call. I am Nimish from the Sun Pharma investor relations team. We hope you have received the Q2 financials and the press release that was sent out earlier in the day. These are also available on our website.

We have with us Mr. Dilip Shanghvi – 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 Shanghvi: Welcome and thank you for joining us for this earnings call after the announcement of financial results for the second quarter of FY19.

Let me discuss some of the key highlights:

Our overall sales for the quarter were at Rs. 6,846 crores, a growth of 4% over the same quarter last year. Our soft Q2 performance does not reflect the actual health of the underlying business. We



continue to focus on strengthening our core operations and enhancing our overall efficiencies and we are fairly positive on our performance for the rest of the year.

We continue to progress further in our specialty initiatives. Abhay will discuss more details on our specialty initiatives later.

We also continued with our efforts to control costs and improving efficiencies. These steps are necessary to ensure that we continue to earn reasonable returns in the current competitive state of the US generics market.

Post the clearance of the Halol facility by the US FDA in June, we have started receiving approvals from Halol for US. As indicated earlier, we expect a gradual increase in new approvals from Halol for US.

I will now hand over the call to Mr. Valia for discussion of the Q2 performance.

Sudhir V Valia: Thank you Mr. Shanghvi. Good evening everyone and welcome to all of you. Our Q2 financials are already with you. As usual, we will look at key consolidated financials.

Overall Q2 sales are at Rs. 6,846 crores, up by 4% over Q2 last year. Material cost as a percentage of sales was 25.7%, lower than Q2 last year. Staff cost was at 21.5% of sales, higher than Q2 last year. This increase is partly due to the expansion of the specialty teams in the US. Other expenditure was at 31.8% of sales, same as Q2 last year.

As a result of the above, the EBITDA for Q2 was at Rs. 1,440 crores, with EBITDA margin at 21%.

Adjusted net profit for Q2FY19 was at Rs. 996 crores with resulting adjusted net profit margin at 14.5%. After accounting for the provision of Rs. 1,214 crores for the estimated settlement amount payable to all the remaining plaintiffs related to the Modafinil antitrust litigation in the US, the net loss for the quarter was at Rs.219 crores.

Adjusted EPS for the quarter was Rs. 4.10.

Let me now discuss the quarter-on-quarter movements. Material cost at 25.7% of sales was lower than the June quarter mainly due to lower COGS for Taro and write back of certain provisions made



in the past. Other expenses were higher than June quarter mainly due to the build-out of the specialty business in the US.

Now we will discuss the half year performance. For first half, net sales were at Rs. 13,985 crores, a growth of 10% over first half last year. Material cost, as a percentage of the net sales was 27.6% which was slightly lower than H1 last year. The staff cost for the first half was at 20.8%, same as H1 last year, while other expenses were at 30.4%, lower than H1 last year.

As a result of the above the EBITDA for the first half was at Rs. 2,961 crores a growth of 25% over the first half last year with resulting EBITDA margin of 21.2%.

Adjusted net profit for H1FY19 was at Rs. 1,978 crores, up 38% over H1 last year, with resulting adjusted net profit margin of 14%. The reported net profit for the H1FY19 at Rs. 764 crores, was after providing an amount of Rs. 1,214 crores for the estimated settlement amount payable to all the remaining plaintiffs related to the Modafinil antitrust litigation in the US.

Let me now briefly discuss Taro's performance.

Taro posted Q2FY19 sales of US\$ 159 million, down 6% over Q2 last year. For the first half, sales were US\$ 314 million, down 5% over first half last year. Taro's net profit for Q2 was US\$ 63 million, up by 19% over Q2 last year. Net profit for H1FY19 was US\$ 130 million, up by 21% over first half last year.

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 Q2, sales of branded formulations in India were Rs. 1,860 crores, a de-growth of 16% over Q2 last year and accounting for approximately 27% of total sales. The decline was mainly on account of a planned one-time inventory reduction in the supply chain coupled with a higher base of Q2 last year which had witnessed post GST re-stocking. Year to date, the secondary sales to stockists is tracking as per plan and growing at low teens year on year.



Sun Pharma is the largest pharmaceutical company in India and holds approximately 8.3% market share in the over Rs. 126,000 crore pharmaceutical market as per September 2018 AIOCD-AWACS report.

As per latest SMSRC report, Sun Pharma is ranked no. 1 based on share of prescriptions with 12 classes of doctors. For Q2, 13 new products were launched in the Indian market.

Let me now discuss our performance in emerging markets.

Our sales in emerging markets were at US\$ 195 million for Q2, accounting for 20% of total sales. While we continue to grow the business in local currency terms, many emerging market currencies have depreciated, thus impacting our reported growth for emerging markets. Key markets which contributed to the growth were Romania & Eastern Europe, Brazil and Mexico & Latam markets.

I will now hand over the call to Abhay.

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

For Q2, our overall sales in the US were up by 11% at US\$ 342 million, accounting for approximately 35% of overall sales.

Let me update you on developments in our specialty business.

We have recently commercialized Ilumya in US and we are excited with the initial response to the launch. With this launch we have already commercialized two specialty products in the US in the first half. We have also received USFDA approval for Cequa and plan to launch it in the US during the course of this year. Although, we have built the front-end infrastructure for the specialty business in US, there would be specific marketing and other costs at the time of launch of these products. They will entail high upfront investments.

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

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



Formulation sales in Rest of World markets excluding US and Emerging Markets were US\$ 108 million in Q2, a de-growth of 2% over last year. ROW markets accounted for approximately 11% of Q1 revenues.

We continue to focus on developing and utilizing APIs for captive consumption for benefits of vertical integration. For Q2, the external sales for our API business were at Rs. 426 crores, up by 10% over Q2 last year.

We continue to invest in R&D for enhancing our pipeline. Consolidated R&D investments for Q2 was Rs. 452 crores, accounting for 6.6% of sales. Our current generic pipeline for the US market includes 134 ANDAs and 6 NDAs awaiting approval with the US FDA. We expect higher R&D spending in the coming quarters for the specialty business. 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.

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

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Chirag Dagli from HDFC Asset Management. Please go ahead.

Chirag Dagli: Sir, can you indicate the magnitude of increase in the specialty operating expenditure that we have seen in the first half of FY19... a ballpark should help sir?

Abhay Gandhi: The most significant expense we have incurred in the quarter is on the expansion of the field force for the impending launch of Cequa, that is the biggest expense and then all the marketing related activities geared up towards the launch of all the three products – Ilumya, Cequa and Xelpros. So that is a very big ramp up that we have had in Q2. If we get closer to market, some of these expenses are already in your base and some will get added when we are close to launch.

Chirag Dagli: This is spread across both the line items sir, staff cost as well as the other expense?

Abhay Gandhi: Yes.



Chirag Dagli: Sir, in your initial comments, you said you are evaluating generic R&D. Does this mean that there is a chance on an absolute basis the generic R&D spend can come down?

Dilip Shanghvi: I do not know whether we will be able to quantify the total value, but many products that we used to look at for development in the past, we are now not looking at as important products for us to focus on and develop. So to that extent, I think the relative attractiveness of products has changed.

Chirag Dagli: Sir, in terms of what you paid for Odomzo and what you spent on Tildrakizumab, ballpark we think that you spent about 2x to what you paid for Odomzo for Tildrakizumab, is the payoff period expected to be dramatically different or payback profile whichever way you think about this, IRR or NPV is it expected to be dramatically different for Tildrakizumab versus Odomzo?

Abhay Gandhi: Actually, I do not have the comparative numbers with me right now. But all I will say at this point is that internally we have a certain way of looking at things and we have no dramatic difference between products but I am just saying this off the top of my mind specific cases of Odomzo and Ilumya, I do not have the figures in front of me.

Dilip Shanghvi: But generally my sense I think is that the ramp up in the Odomzo business is not as rapid as originally we had felt that we will be able to achieve. That is something that we are working to fix. I think if I look at the initial uptick of Ilumya, the initial uptick, specially factoring in all the competitive scenario, I think is quite exciting. Would you agree with that assessment, Abhay?

Abhay Gandhi: Yes.

Moderator: Thank you. We will take the next question from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Sir, just a question on the US business on the QoQ decline especially ex-Taro. If you could help us explain what are the key parts which is leading to that kind of decline?

Abhay Gandhi: Primarily, the first quarter had a larger component of Yonsa sales. In the same quarter sales we have not seen. That is the primary reason. Otherwise, all other parts of the business are trending as per plan.



Prakash Agarwal: But delta is quite large, it is more than \$40 million, so would there be more elements of some AG sales of Welchol which continues in Q2 also or some gains on Halol or what, because Yonsa \$40 million not able to get the numbers?

Abhay Gandhi: The biggest one is Yonsa and the generic business is more or less having a similar kind of numbers month-on-month that I see. As Mr. Shanghvi also mentioned there has not been a growth on Odomzo but there has been no fall either. The way I look at the numbers I think the biggest contributor is Yonsa.

Prakash Agarwal: There is no major QoQ decline in the base portfolio is what you are saying?

Abhay Gandhi: Yes, when I look at the base portfolio I do not find a big decline.

Prakash Agarwal: Secondly, on the gross margin side, there was a mention about write-back of certain provisions. I understand this is one-time but what could be the quantum -- would we normalize Q1 gross margin as a base or how should we look at it?

Dilip Shanghvi: It is difficult for us to respond to that question. H1 is a better indicator. If we sell a product with higher margin, then it will have some impact on the overall margin. So difficult for us to quantify but I think H1 is a reasonable number.

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

Abhishek Sharma: I had a question around the India market decline. Last year when we had the GST event that also would have given you an opportunity to do destocking, in fact, it was forced upon you. So I was just wondering why this one-time inventory reduction after such a drastic event last year, did we aggressively restock in the market post event or was there some structural way of doing things that we are now trying to change?

Kal Sundaram: If you go back to last year, Q1 was weak for us and the industry, Q2 was quite strong and I will say close to normal inventory levels were reached at that point. If you see the AWACS report, Sun Pharma's average inventory level at the stockiest level is one of the lowest in the industry. So inventory levels are very well monitored and we focus on prescription generation. Much



of our internal measurement is based on the stockists uptake and not necessarily on the primary sales. So last year, it was not that the first half was in totality weak, first quarter was weak, compensated by second quarter. Compared to that coming into this year, overall as a company our efforts are to optimize working capital, improve ROCE, etc., as part of that initiative, we are doing a planned destocking, it is a one-time event, we are not planning to repeat it through the year and I am fairly confident the underlying business is in good shape. Like I mentioned it is in sort of low teens, is the first half growth and I am confident that we will maintain the momentum going into the second half.

Abhishek Sharma: Just like the GST destocking quarter, last year, there was a bounce back across the industry. Would we see a similar kind of a bounce back for you in the second half?

Kal Sundaram: No. I am saying the demand will be quite robust and we are not planning for a restocking at this stage.

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

Anubhav Agarwal: Continuing from the last question, can you please indicate rough quantum of this inventory reduction and did it correspond to any particular therapy because it cannot happen that across therapies you just take inventory reduction?

Kal Sundaram: I do not quite remember the number in rupees in crores, what I remember is without the destocking, the growth would have been low single digit and it was not across particular therapy area, it is more broad-based.

Anubhav Agarwal: Sir, can you explain this? I do not understand your comment, it is a broad base inventory reduction. How would that happen in general? So you are saying that it is ROC improvement initiative, so in general the inventory either it could happen inventory levels significantly higher that you wanted to reduce now, across the therapies... sorry I just do not get this?

Kal Sundaram: As you may be aware, we have a distributor to sell inventory into stockists in the country. So the inventory reduction is not at the stockist level which I have mentioned is probably



one of the lowest in the industry. This is the sale to the super stockist or distributor of our company. Understood?

Anubhav Agarwal: Yes, that is helpful. Second question is on the balance sheet. We have seen intangibles increased by almost Rs.2,000 crores in first half. Can you help because I do not remember we did made any acquisition this year?

C Muralidharan: This is regarding the capitalization of the specialty products in the current year, it relates only to that.

Anubhav Agarwal: But which item is this bucket coming from, because I see intangibles under development also going from Rs.1,000 crores to Rs.600 crores, so where were these items earlier present in the balance sheet?

C Muralidharan: So the overall milestones for the specialty products paid to-date is also included in this. So the post approvals, the launch of these have been capitalized, accordingly, the intangibles have increased.

Dilip Shanghvi: There were also many approval events no. So many milestones would have been triggered based on the approval. So depending on how the agreements have been signed, you will have milestone events also linked with those approvals. So some of these are back-ended and some of these are front-ended. So, I think that is what Murali is trying to explain to you.

Anubhav Agarwal: But just the quantum Dilip bhai was \$300 million is a large quantum. That is why I was thinking the milestones cannot be so large, that is why my question was there.

Dilip Shanghvi: But I think it is only milestones.

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

Nitin Agarwal: Sir, on the R&D cost, we have had a reasonably muted H1 versus what our guidance of 8% to 9% R&D spend for the year. Do we see a meaningful ramp up in the second half of the year or are we going to be much lower than our initial guidance on R&D sir?



Dilip Shanghvi: So it will be actually much higher than what we are. I also said that in my readout that some of the specialty business related R&D and some of the initiation of clinical studies, those costs are likely to be in the second half. Also, I think in our internal calculations, we also calculate the product related milestones also as a R&D cost. It is not reflected in the financial because ultimately it is all linked with the approval of the product.

Nitin Agarwal: Sir, including that metric that you have mentioned around the milestones, are we tracking 8% to 9% or even with the milestones at this point of time?

Dilip Shanghvi: No. With milestone we have actually gone significantly higher.

Nitin Agarwal: Secondly, likewise, on the other thing that you have been guiding to fairly regularly is on the SG&A sort of being higher because of specialty spends. Now we have had some increase in H1. So is bulk of the increase that will happen already in the base or we have some more increase to come through?

Abhay Gandhi: Especially in Q4, there will be an increase plus when you launch two, three, four products almost in parallel, there will be a lot of doctor group meetings that we will conduct. I would not say all of the costs is in the base. There will be some which are things which we will have to do in the first few months of launch, that is part of our activities and strategies to make the product successful.

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

Saion Mukherjee: Just continuing the point on SG&A spend, we have seen some increase of around Rs.100 crores QoQ but there would have been some impact of rupee depreciation also, you had earlier mentioned that would be significant. So you would say the large part of the increase has already come and what we are going to see in Q4 would be relatively lower?

Abhay Gandhi: That is what I am trying to explain repeatedly. I think in the next two quarters the marketing related cost will actually move up because we will be working towards making the product successful. So while the field force cost will be now into your base almost like a constant going ahead, the marketing spend in the first few months of launch will be higher.



Saion Mukherjee: Sir, my second question on Yonsa. You mentioned that was a big delta QoQ. So how do you see this going forward, was that related to some kind of inventory fill that happen led to that increase and how do you see the outlook going forward for this product?

Abhay Gandhi: I would not call it as inventory buildup, but clearly out of the gate, the product moved out pretty fast. In the latter half of the year, we may not be able to see that kind of an outgo of the product from the warehouses. So to that extent, the quarter was little slower for Yonsa as compared to the first quarter.

Saion Mukherjee: Sir, on this Modafinil litigation, you still have one more settlement to go, right, sir. Is it possible to quantify it because you had a settlement earlier, now there is still one more left, any color that you can give and is there for any other product?

Dilip Shanghvi: I think we have explained that this reflects our estimation of the total liability.

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

Sameer Baisiwala: Abhay, just on Ilumya, can you give some quantitative benchmark or some color when you say that the initial uptick has been good, that would be great? Second is, given that it is a competitive market. So which are the customer or patient segmentation which is really taking up Ilumya?

Abhay Gandhi: Sameer, the latter question obviously I cannot answer who are my customers in the segment patient, I mean it is competitive, so I cannot really give you any color on that. On the former, let me say that we are pretty clear of who are the customers we want to reach and so far when I see the first month we completed Ilumya in market, then I see a large number of the customers whom we had piloted in the first quarter as customers who should at least try the product, I feel that has happened. On the access side gain, the coverage that we are seeing is more or less as per our expectations. Of course, it is an ongoing discussion with different payers one-by-one and since we are more on the medical side and we have to deal with a larger number of customers because medical formularies are run by individual payers. So we have a very large number of customers that we need to go to, but overall coverage has not proved to be a barrier to the patient getting the product and that is very heartening. Long way to go, it is only a month into the business,



we are learning along the way and we are improvising along the way but team and I feel very confident about this product.

Sameer Baisiwala: Abhay, just on that point, should we take the previous two IL launches as a benchmark as to how they did in first three, six, nine months, is that the right way to look at it? Second is given the fact the recent other launches were...?

Abhay Gandhi: In terms of trajectory, Sameer, yes, but in terms of actuals, you got to remember that when you are the first, second, third, fourth in the market and then you are the sixth or seventh, you will not be able to match the units, but in terms of trajectory, that is how I would also look at. What kind of access, the other IL products get in the first few months, what is it that we have, how many customers were they able to get to prescribe and how many do we have, so I would also benchmark.

Dilip Shanghvi: I think, Abhay, he is trying to ask whether he can estimate the sales which they have announced as a quarterly uptick as part of his future projection. So I think you need to be clear on one issue is that even if your product is equally good, second product in the same class generally ends up getting relatively smaller share of the total market and this is true for...

Abhay Gandhi: Which is what I said, subsequent products will have a lower share.

Dilip Shanghvi: I do not want Sameer to start putting they did in the first quarter or as a part of the future projection. But considering that we are a new player, considering the relative lack of familiarity that we have in the biologicals, I think we are quite excited with the uptick that we are seeing and acceptance that we are seeing.

Sameer Baisiwala: Just to complete this point with your permission, a follow on Ilumya, sir the fact that the previous couple of launches were auto injectors versus us being vial or injection, does that make a difference? Second is the next IL that is Risankizumab, which is going to come from AbbVie, I think it would be middle of next year. So does that change anything for you? Does AbbView get into contracting well ahead of time and that is sort of an impediment with you as you approach for coverage now?



Abhay Gandhi: For a new product, you cannot legally start contracting well ahead of time. But nowadays the laws have become a little more lenient on that, so I think a few months ahead of launch, yes, you can start talking to payers, not contracting, but you can start talking, you can make your medical presentations and so on. So naturally the market will get more competitive with Risankizumab also coming and AbbView of course has far more experience than we have, thanks to the Humira, so it will become competitive and it was always known and factored into our thinking and planning. But yes, we have to maximize the time that we have before the next competitor comes in, that is the reason why we are working on speedy execution. Autoinjector for us, when I speak to customers, the fact that product is used the way it is and it is a medical benefit, if I look at holistically it is actually a benefit to us.

Moderator: Thank you. We will take the next question from the line of Manish Jain from SageOne Investment Advisors. Please go ahead.

Manish Jain: Just wanted to look at the specialty side that before March '19, we will have three more launches that is Cequa, Xelpros and Elepsia or will we have some more?

Abhay Gandhi: I am factoring in Cequa and Xelpros.

Manish Jain: I am glad you said that because that is where I have had the follow on where typically given that Elepsia falls in a different segment altogether. How much time one should budget for the sales team build up because it is a new segment altogether for you all?

Abhay Gandhi: As of now I really have not made up my mind on how I would like to go about the marketing of Elepsia. So I really do not have an answer for you, but I am grappling with the same question that, can we take on one more segment and can we take one another field force and do a new segment launch with all that we have. So it is a strategic decision that we need to internally discuss and agree upon.

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

Surya Patra: Just on the launch related expenses for the specialty portfolio which is likely to come up in the subsequent quarters, so how sticky or how sustaining that expenses would be? Secondly, is



there any sense on the breakeven timeline that you would be having internally like for the specialty portfolio?

Abhay Gandhi: Some of the expenses will be sticky of course. You cannot have a pulsating kind of expense on marketing. Of course, the initial ramp up will always be on the higher side and then up to some point it will taper down and then remain almost like a constant. We have not done a detailed budgeting item wise for the next few years. So difficult for me to give you a sense on that. On the breakeven side of specialty portfolio, there are lot of moving parts, and each product is in a different stage and something has been launched a year ago, something is being launched now, something will be coming two years later, but broadly I think product wise, at least two to three years there will be an investment going into the business.

Surya Patra: Just extending the same question, on the overall margin front for the consolidated business, since we are of the view that okay, the R&D spend is likely to move up in the subsequent quarter, and the expenses are on the specialty front also that is likely to move up, so is it right to believe the kind of margin profile what we are having currently for the first half is relatively better than what it could be in the second half or in the near future?

Dilip Shanghvi: I think we will also get some additional new business. So generally, we do not guide for the overall margin, you are only looking at the expense side, but if we have now ability to start selling products and generating income. So that is something which you should factor.

Surya Patra: So the quality of portfolio that should be improving sequentially. So that is one point one should have it in mind?

Dilip Shanghvi: That is correct.

Moderator: Thank you. We will take the next question from the line of Neha Manpuria from JP Morgan. Please go ahead.

Neha Manpuria: Just one question. Sir, in the last call you mentioned that we are talking with customers on contracting for Yonsa. Given the unfavorable litigation for Zytiga, has that slowed that process in terms of our ability to get adequate coverage for Yonsa?



Abhay Gandhi: The payers are looking at scenarios of when the generic would come in and we are now dealing with what if situations and trying to modulate our contracting strategies accordingly. So to that extent it has slowed down.

Neha Manpuria: So this would probably remain fluid for some time till we get some clarity on the generic competition?

Abhay Gandhi: That is correct.

Neha Manpuria: My second question is on Absorica. Now after change in the copay there, we have not really seen a recovery in prescriptions so far. Will the prescription stay at this level and it is unlikely to go back to what we were doing before with Absorica? I understand it is a more profitable product for us now.

Abhay Gandhi: The peak that you saw with the liberal copay is not the level that we have reached, that is for sure. But if you see the last three months, then there has been a steady increase in prescriptions, not significantly up, and we are also now utilizing the strategy where we are ensuring that prior auth of the product go through seamlessly, that is working out quite well for us. So the fill rate is much better now than what we had at some point in time. The bucket is no longer leaking so heavily.

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

Nimish Mehta: Sir, on Ilumya, you mentioned that there had been a good amount of ramp up or it has been exciting. So will you ascribe the performance in Ilumya to general shift in biologic or it is more IL inhibitor specific or is it more Ilumya specific or if you were to kind of rank order that, that will be very helpful?

Abhay Gandhi: I mean in one month experience none of these three questions I would have a clear answer to, because the kind of granular data that you would need to be able to make those assessments I do not have with one month and no external data I have. So even what kind of patients we have received, which kind of patients, doctors have used the product on, I do not know myself because it is too soon.



Nimish Mehta: Data is one thing but some kind of intuition, something which is matching your expectations, if you can just let us know what is the...?

Abhay Gandhi: Intuition will not help me answer those very broad questions so what has been the shift. whether it is a class or product. Doctors clearly overall had liked the profile of the product and therefore I think they were eager to give it a try, but what kind of patients they have tried on, to answer that question in more broader terms I think it is too soon.

Nimish Mehta: Next one is actually on the India business. With the restocking exercise, is it basically because of the GST-led structural change which is why a lot of the depots that we might have established to capture some tax benefit as no more important and that is we are kind of consolidating, is it something like that, I am just trying to understand?

Kal Sundaram: No, it is our effort to improve business efficiency. I do not have any idea whether it has any tax benefit or anything like that. If it is it is a bonus to us. This is a drive to improve the working capital efficiency particularly for inventory levels through the supply chain.

Moderator: Thank you. We will take the next question from the line of Kunal Dhamesha from SBICAP Securities Ltd. Please go ahead.

Kunal Dhamesha: The question I had is on Ilumya. You said the trajectory that you are seeing is similar to some other molecule. So I just want to understand while your market share will be lower as compared to the big molecule...?

Abhay Gandhi: First of all, we never said that, I said if I have to look at the performance of Ilumya internally, I would benchmark myself against competitors. With one month performance, how can we say that the trajectory is similar or equal or better, it is just one month. I do not want to jump to any conclusions and I would not want you to come to that conclusion, it is too soon. The initial response is good that is what we said, but beyond that I have not said anything on this call.

Kunal Dhamesha: Just on the similar line, how do you view the difficulty level of switching from one biologic to another biologic or is it purely the new patients that starts with the newer entrant?



Abhay Gandhi: I think I have answered this question again earlier. When I said that it is just one month, I do not have the data which tells me what kind of patients have doctors used to, were they biologic naive patients.

Kunal Dhamesha: I am not talking about Ilumya, I am talking about in a general, you must have studied the market right that we people usually do not change the brand they use, because that is a chronic disease or any insight on that?

Abhay Gandhi: I think the failure rate of some of the products is quite high. So after getting initial response, after a few months may be even a year or so, doctors do see failures and when they see a failure, the doctor is inclined to switch from one biologic to another.

Kunal Dhamesha: Second question is on the API business. So this business has been growing strong in the first half. So any particular reason or is it because of the China supply issue and how do we view this business for the rest of the year and going beyond?

Dilip Shanghvi: It is a relatively small part of our business. So why give so much attention? It is doing well and is expected to continue to do well.

Moderator: Thank you. We will take the next question from the line of Surjeet Pal from Prabhudas Lilladher. Please go ahead.

Surjeet Pal: My question is on domestic formulations. In Q2 FY18, your growth is 11%. So is that considered as a higher base for this quarter's number along with if I adjust my destocking thing, is it a matter of past of 11% growth or are we settling for a kind of growth of around 7-8% year-on-year on a normalized basis?

Kal Sundaram: All I am saying is the underlying growth is tracking low teens and is tracking to plan and my expectation is that the momentum will continue. All the indices that you can see are fairly healthy, I am not saying everything is working 100% to our expectation, but overall health of the business is good and through the year I would expect us to maintain a demand level in low teens.

Surjeet Pal: Another point is that adjusted EPS which you have said is around 4.1 adjusting that extraordinary items. These extraordinary items is post-tax?



C Muralidharan: There is no tax benefit on that.

Moderator: Thank you. We will take the next question from the line of Ashish Thavkar from Motilal Oswal Asset Management. Please go ahead.

Ashish Thavkar: I have a question on working capital. So if I compare this first half with last year, have we seen a substantial change or pressure on working capital especially because now Halol is also ramping up and there is a specialty basket that we are promoting, if I go to see your current assets as a percentage of sales, so is there a substantial change in that number?

C Muralidharan: There is no material change.

Ashish Thavkar: So even though Halol is like gradually ramping up, you feel it would be only a normalized number that we should be working on?

C Muralidharan: Yes.

Ashish Thavkar: Broadly on FY'18, if I go to see the return ratios, ROCs and ROAs, they are appearing very depressed in nature. I understand there could be various factors. But if you could help us understand how should we look at our core business ROEs and ROCs going ahead?

Dilip Shanghvi: I think what you need to factor is that we are building a new business and that business requires a lot of investment both in terms of allocation of capital and also creating infrastructure and creating other structures. So while all of this is happening, the existing business is funding all the future engines of growth, and this engine of growth will start generating profitability and value addition, then we will see through overall profitability because clearly the current EBITDA numbers do not reflect the underlying businesses true profitability.

Ashish Thavkar: So for a while you mean to say that the return ratios which are sub-10% currently, they would continue to remain so or in the next two to three years you are looking at something ballpark, I am not asking for a number, but just ballpark mid-teens kind of number we should be comfortable working with?

Dilip Shanghvi: No, I think what I am saying is that the current cost structure is for creating a future business. I am not giving you any guidance, but I am explaining to you that the current



profitability is not the profitability of the producing business, it is also paying for building the future business.

Ashish Thavkar: There is Rs.1200 crores increase in receivables compared to like March quarter.

C Muralidharan: Strictly, this is a translation of the currency receivables, this reflects that increase.

Ashish Thavkar: But that would normalize as we approach FY19 end?

C Muralidharan: It depends upon how the currency also moves.

Moderator: Thank you. We will take the next question from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

Shyam Srinivasan: Just first one on the US generic business and you can even talk about the industry as well. Ex of Taro how has the base business actually behaved, have we seen QoQ increase ex of Yonsa, have we seen increase in our base business sequentially? Just a related question on the kind of conversations you are having today with the channel, the distributor, has it actually improved over the year?

Abhay Gandhi: The business is doing as per expectations. I cannot say that quarter-on-quarter there has been a big jump. We also have not launched any major product in the second quarter. So it is in line with our expectation for the year. So when you say conversations with customers, we always had good conversations with customers, so what were you alluding to?

Shyam Srinivasan: Abhay, I was talking about is there the insistence on price discounts versus say surety of supply, have you seen those kind of narrative change, that is the key point I am trying to see?

Abhay Gandhi: No, I think in the last one year I do not think narrative has really changed, I mean there is pressure, product specific we keep seeing that and I have not seen that changed.

Shyam Srinivasan: My second question is on the Tildrakizumab for Europe. Has it been commercialized? And how should we look at these two markets Europe versus US, anything that you can share in terms of qualitative color will be helpful?



Dilip Shanghvi: I think Tildra should be commercialized hopefully by this quarter end and it will be launched gradually country-by-country in Europe based on reimbursement and various other things which are required for Europe. So once we launch the product I think we will get a greater clarity on how the product is doing.

Moderator: Thank you. We will take the next question from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

Charulata Gaidhani: Are there any specialty generic launches or how many specialty generic launches do you plan in the second half?

Abhay Gandhi: Generally, we do not give these numbers, but there are some interesting products which are waiting for the second half of the year.

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

Anubhav Agarwal: For Ilumya, this question was on formulary access. I just wanted to understand what it takes for us to get first or second line access in that therapy. I understand one is the time factor, second is the price. Is there any other determinant other than that?

Abhay Gandhi: There are two ways of looking at this and both are different if you ask me. What will it take to be a first line therapy? That is one part of the question. And the other is what does it take to be the preferred product? Now I do not think we are even aiming for being the preferred. As long as we have the chance to be the first line and then HCP makes a choice of what the doctor considers to be is first line, we are comfortable with that, because it is a question of how much you will need to discount to have a certain position. So the aim is to get yourself at parity with your competition, HCPs can then choose based on the merits of the product and the profile of the patient or what is it that they would like to use as their first line in each individual case.

Anubhav Agarwal I was just asking, can a company use price as a bigger factor and therefore get advantage of the competition if you are let us say fourth or fifth product?

Abhay Gandhi: More than price, it will be rebates and discounts, it is not price per se.



Anubhav Agarwal: Yes, I am taking rebates and discount as part of price basically, net effective price ...?

Abhay Gandhi: Sure, but the question is that how much would you like to discount and rebate the product and what do you gain at the end of it. So there is a very complex modeling that for each and every contract that we would go through and the contractors themselves would also look at their own way at data and then you come to a point which is comfortable for both company as well as for the payer.

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

Saion Mukherjee Sir, can you update on the status on the few clinical trials for the InSite Vision products and when do you expect NDA filing for those?

Dilip Shanghvi: Both the clinical trials for InSite product are ongoing. I think I do not recollect the exact plan for filing the product. Sometimes next year it will be filed.

Saion Mukherjee: On emerging market and ROW, any color we do not have much clarity or transparency on these two markets. I am just wondering is there any element of volatility that we see in terms of like components of tender business, etc., that we should be aware of or you think we should more or less expect fairly secular growth in constant currency terms?

Kal Sundaram: In the underlying business, I will probably sort of predict continuity of the momentum for the rest of the year. So we did not have any one-off business which is unlikely to either not continue or we are not also anticipating any one-off business to occur in the next six months.

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

Sameer Baisiwala: Just for Ilumya, for Tildra for both US and Europe, can you give us a holistic picture of the accounting treatment for both milestone and royalty and the fact that for Europe you



have got the approval in September, so therefore would that not have met a milestone inflow or is the intangible net number?

C Muralidharan: As far as Tildrakizumab is concerned, the milestone payments as we spoke in the past previous question, we have capitalized that is the part of intangibles in the balance sheet.

Dilip Shanghvi: Sameer, you are presuming that this \$300 million is all linked with Ilumya, it is not, it is also linked with Cequa.

Sameer Baisiwala: But sir the fundamental question remains that when you get the inflow from Almiral, would you also again take it through balance sheet and did you not receive it because you got the approval from EC in September, did that not trigger an inflow milestone?

C Muralidharan: The other component, you talked about in terms of, licensing income, is a deferred revenue that is accrued over a period of time.

Dilip Shanghvi: So like we are amortizing the expenses, we will also amortize the income.

Sameer Baisiwala: Just a second question sir on the US market, when you say that the relative attractiveness of a few products is not as good and you may take it out of your pipeline. I am just wondering then if you take it out of your pipeline, then who will service the US market for those volumes in a sense that India and yourself have probably the best cost structure. So it is a philosophical point is a sector wise point, then who does this business go to?

Dilip Shanghvi: I understand, I think that is the challenge that we struggle with every day is that if everybody drops out, then what appears to be a very unattractive product may become a very attractive product, but at some point you have to trade off against the probability. But your question is correct. That is what I think if we challenge for both the trade as well as the industry is that current squeeze on pricing will take away the initiative and the interest of the manufacturers both in investing for manufacturing, facility expansion, in R&D, all of that will potentially lead to future disruption in supply and future shortages which will increase their longer-term cost.

Sameer Baisiwala: How does one break the cycle?



Dilip Shanghvi: I think the only way by which the cycle gets broken is that on all the commodity products, when the business becomes less attractive, the supply becomes scarce, because marginal producers stop producing and then that leads to increase in profitability, bringing new supplies back to market. I mean that is what will happen here also.

Moderator: Ladies and gentlemen, due to time constraint this was the last question. I now hand the conference over to Mr. Nimish Desai for closing comments. Over to you, sir.

Nimish Desai: Thank you everybody for being on the call today. If you have any questions that have remained unanswered, do send them across and we will have them answered. Thanks and have a good day.

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