Corporate Participants

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Moderator: Good day, ladies and gentlemen and a very warm welcome to the Sun Pharmaceutical Industries Limited Q3 FY17 Earnings Conference Call. As a remainder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. 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 third quarter FY17 earnings call. I am Nimish from the Sun Pharma Investor Relations Team. We hope you have received the Q3 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 and Mr. Kal Sundaram – CEO (India, Emerging Markets & CHC Business). 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 third quarter of FY17. Let me discuss some of the key highlights:

Our overall sales have grown by about 8% for the quarter. These numbers include the upside from the authorized generic sales of Olmesartan and its combinations in the US.

Let me update you on the Ranbaxy integration – The accrual of synergies from the Ranbaxy acquisition is as per our integration plan and we remain confident of achieving the US$ 300 million synergy target by FY18. Some of the savings from these synergies will help in creating our new specialty businesses.

We have added significant momentum to our specialty strategy during the quarter and we will continue to invest in building this business in the Dermatology, Ophthalmology and Oncology segments.

In order to enhance our presence in the Russian market, we announced the acquisition of Biosintez in Russia. This acquisition gives us access to a local manufacturing facility, in addition to a number of products which it is marketing currently in the country.

And finally let me update you on Halol. As you all are aware, the US FDA re-inspected the Halol facility in Q3 and has issued nine observations. We have submitted our response and corrective action plan to the US FDA for resolving these observations. We are now in the process of implementing these corrective steps and await US FDA's response.

I will now hand over the call to Mr. Valia for discussion of the Q3 performance.

Sudhir Valia: Thank you Mr. Shanghvi. Good evening everyone and welcome to all of you. Our Q3 financials are already with you. As usual, we will look at key consolidated financials.

The Company has adopted Indian Accounting Standards (Ind AS) from 01-April-2016. To facilitate a like-to-like comparison, the financials for the previous quarter and nine months ended Dec 2015 have been restated as per Ind AS. As per the requirements of Ind AS, sales are now reported on gross basis and hence margins are also calculated on gross sales.

Q3 sales are at Rs. 7,683 crores, up by 8% over Q3 last year. Material cost as a percentage of sales was 29.3%, higher than Q3 last year partly driven by authorized generic sales in US. Staff cost was at 15.8% of sales and other expenditure was at 26% of sales, both lower than Q3 last year.

As a result of the above, the EBITDA for Q3 was at Rs.2,224 crores, with EBITDA margins at 29%. Net profit for the quarter was at Rs. 1,472 crores with Net profit margin at 19.2% compared to Net profit of Rs. 1,545 crores for Q3 last year. EPS for the quarter was Rs. 6.10.

Let me also explain the variance in certain key items compared to Sep-2016 quarter.

Our material cost has increased to Rs. 2,249 crores in Q3 from 1,840 crores in Q2 which has had a direct impact on EBITDA. The sequential increase in overall material cost reflects the impact of authorized generic sales in US and consolidation of the material cost of our Japanese business post the product transfers from Novartis to Sun Pharma.

The other operating income variance over Q2 is the result of higher income booked in Q2 due to licensing income from Almirall for Tildrakizumab and the income from Japan pending product transfer to Sun Pharma. In Q3, Taro sold the rights of Keveyis for US$ 8.5 million which has been included in other operating income.

Higher finance cost in Q3 versus Q2 is mainly on account of the impact of forex on interest cost.

Now we will discuss the nine month performance. Net sales were at Rs. 23,439 crores, a growth of 14% over nine months last year. Material cost, as a percentage of the net sales was 25.3% which was higher compared to last year. The staff cost for the nine months was at 15.6% of net sales while other expenses were at 26.8%, both lower than last year.

As a result of the above, the EBITDA for the nine months was at Rs. 7,575 crores a growth of 35% over last year. EBITDA margins were at 32.3% for nine months compared to 27.4% last year.

Net profit for the nine months was at Rs. 5,741 crores with Net profit margin at 24.5% compared to Net profit of Rs. 3,129 crores last year. Net profit for nine month last year was adversely impacted by one-time items as well as exceptional charges of Rs. 685 crores. EPS for the nine months was Rs. 23.9.

Let me now briefly discuss Taro's performance.

Taro posted Q3 sales of US$ 220 million, while sales for the nine months were US$ 683 million. Taro's net profit for Q3 was US$ 140 million while net profit for the nine months was at US$ 373 million.

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

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

For Q3, sales of branded formulations in India were Rs. 1,969 crores, a growth of 5% over Q3 last year and accounting for approximately 26% of total sales. Growth was partly impacted by the demonetization

announced by the Government of India in November 2016. For the nine months, sales grew by 8% to Rs. 5,833 crores. Our business has grown despite the combined effect of multiple regulatory changes which adversely impacted overall industry growth during the first quarter of the year as well as the recent impact of demonetization.

Sun Pharma is ranked No. 1 and holds approximately 8.7% market share in the over Rs. 100,000 crore pharmaceutical market as per December-2016 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 Q3, 6 new products were launched in the Indian market.

Our efforts to improve the productivity of our India business continue. We are also targeting to expand our product portfolio through a combination of internal development and in-licensing.

Favourable demographics should benefit the Indian pharmaceutical market in the long-term. However, competition, changing regulations and government mandated price controls are the other key factors which will determine the long term growth trajectory of the industry.

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

Dilip Shanghvi: Thank you Kal. I will briefly discuss the performance highlights of international business. Let me first start with the US business.

For Q3, our overall sales in the US were at US$ 507 million accounting for approximately 45% of our overall sales. These numbers include sales from the launch of authorized generics of Olmesartan and its combinations.

Our sales in emerging markets were at US$ 172 million for Q3, a growth of 14% over Q3 last year and accounted for 15% of total sales. For the nine months, our emerging market performance has improved 17% year-on-year. The growth is broad-based amongst emerging markets.

Formulation sales in Rest of World markets excluding US and Emerging Markets were US$ 113 million in Q3, a growth of 33% over last year, partly driven by consolidation of the Japanese revenues. ROW markets accounted for approximately 10% of revenues for Q3.

For Q3, the external sales for our API business were at Rs. 366 crores while for the nine months API sales were at 1,202 crores, up 17%. This growth was partly driven by the consolidation of the opiates business in Australia.

We continue to invest in R&D for enhancing our pipeline. Consolidated R&D investments for Q3 was Rs. 613 crores, accounting for 8% of sales. This R&D spending enables development of future product pipeline including specialty and differentiated products and we continue to expect increased R&D investments in future.

We have a strong pipeline for the US market with 149 ANDAs and 4 NDAs awaiting approval with the US FDA.

Let me discuss our specialty initiatives in detail. Our focus areas include dermatology, ophthalmology and oncology.

We recently announced the acquisition of a branded oncology product, Odomzo, from Novartis. This product, which is approved by the US FDA and in 29 other markets, is indicated for the treatment of adult patients with locally advanced basal cell carcinoma. As all of you are aware, we already promote Levulan to dermatologists in the US for actinic keratosis which is pre-cancerous lesions. This acquisition gives Sun Pharma its first branded oncology product and extends our commitment in the dermatology segment as approximately 70% of prescribers for this class of drugs are dermatologists.

We also announced the acquisition of Ocular Technologies giving us access to Seciera – for the Treatment of Dry Eye Disease – helping us further enhance our Specialty Ophthalmic Pipeline. Post the close of the quarter, we announced positive topline results of confirmatory Phase-3 trials for this product demonstrating a rapid onset of action at 12 weeks of treatment compared to other drugs from the same class. We will now engage into a dialogue with US FDA to decide future course of action for this product.

As indicated in the previous quarterly call, we commercialized BromSite, our first specialty ophthalmology product in the US market in Q3 thus initiating our ophthalmology business in the US.

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

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Neha Manpuria from JPMorgan. Please go ahead.

Neha Manpuria: Sir I understand the gross margin decline, you explained the AG launch in the quarter, but just wondering, if I look at the other expenses and exclude R&D from that, that seems to have come off sharply quarter on quarter. What was the reason for the decline in the other expenses?

Uday Baldota: I don't think you should remove R&D fully from other expenses because R&D has all kinds of cost. It has employee cost, it has material cost as well as other expenses. So that cannot be a right comparison.

Neha Manpuria: But was there any one-offs, let say in the previous quarter which led to the decline even if I do not remove that number?

Uday Baldota: Nothing which is a standout specifically.

Neha Manpuria: And sir second, any update on the Tildra BLA filing sir? We had indicated filing sometime in early CY17. So just wanted to know the progress there.

Nimish Desai: It was not early CY17. We had said that the filing will be in FY18 with a potential approval in FY19.

Neha Manpuria: Okay. So filing in FY18.

Dilip Shanghvi: Yes. It is a very important filing for us and we continue to focus on filing it at the earliest. But as we have also indicated that Merck will be responsible for filing this product.

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

Anubhav Aggarwal: One question on the remediation at both Halol and Mohali. If you can just give some idea about when can the remediation efforts be close to completion in say 3 months, 6 months, some timeline will be helpful. That is one part of this question and also now with the, there are no repeat observation at Halol, can we see now from meaningful increase in supply from Halol for the existing products?

Dilip Shanghvi: We have responded to the 483s that we have received from USFDA for Halol and we continued to update USFDA with the progress on the remediation effort. Hopefully we should be able to address this over next few quarters. About Mohali, we have said is that this is the first site that we want to focus on to bring it back into compliance as per the terms of the consent decree and that effort continues. I do not have any significant additional update beyond this for Mohali.

Anubhav Aggarwal: That is useful and the comment on supply increase now at Halol because there are no repeat observations?

Dilip Shanghvi: I think the idea for us is to find a way to improve our supply and also improve the market share for many of the products that we have lost in US. I have explained this in the past also, if you lose some of the market share, then it is not linked to improving supplies but linked to getting back the business at new terms. So we need to split that into two components. Improved supply and improved market share.

Anubhav Aggarwal: Agreed. The question was largely that has that process started from us, because my own thought process was that, at least the kind of injectable observation that we had in the previous 483s which was constraining a supply and let us say, just taking a product name like Sumatriptan auto injector, can that supply resume? Whether we get the market share or not that is a success but the first parts have started already or it is going to start in near term?

Dilip Shanghvi: That is our focus. It is not important only to increase supply but we have to also be confident of our execution to consistently maintain our supply.

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

Abhishek Sharma: What kind of base business erosion are we still seeing in US because if I compare, your US number of this quarter versus September and if I adjust for the nonrecurring as well as Taro and taking into consideration the launch of Olmesartan AG, the number is still down by $15 million Q-o-Q. So is this largely because of Gleevec or is the base business still eroding?

Uday Baldota: How you have done the computation is difficult for us to figure out over phone, but I think the base business, on account of largely on the pricing front and the customer consolidation front, continues to have challenges. I think that is clear.

Abhishek Sharma: And you saw that impact during this quarter as well?

Uday Baldota: That is right.

Abhishek Sharma: And sir just on Tildra, so we saw the top line phase-3 results in May last year, so what is the gap between the phase-3 result and the filing timeline. I mean, why is it taking so long after you have completed phase-3?

Dilip Shanghvi: As I explained, Merck is responsible for filing the product and once we have clarity about the time of filing and we have an agreement which is based on the resources and capabilities that we have. So once we have greater clarity we will share more information with you.

Abhishek Sharma: But are there any clinical or non-clinical studies which are pending which are delaying this filing, apart from Merck's resources?

Dilip Shanghvi: There are no clinical or non-clinical studies which need to be done. Let me qualify this statement. There may be a few stability studies or additional studies which may be ongoing, but other than that there are no major clinical studies which are pending except an ongoing safety study, but that is not a requirement for filing.

Abhishek Sharma: And sir just back on to the first question, was there any incremental impact of Gleevec's erosion or that was already in the base in last quarter itself?

Dilip Shanghvi: That will be a part of the overall impact on portfolio.

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

Sameer Baisiwala: Very frankly this quarter results are little confusing to me and I say that when I look at the net profits, but before we go there, how are you booking the Olmesartan income, is it just your share or is it the total sales and then you will back off the COGS?

Dilip Shanghvi: We book the sales and the COGS. That is why the COGS has gone up.

Sameer Baisiwala: And so if I then look at your US ex-Taro sales and if I go back pre-Gleevec launch, if I look at Q3'16, Q2'16, ex-Taro you were doing about maybe $230-240 million and in this quarter you have done about $287, call it 290. So there is just a delta of about whatever $40-50 million and not even that much and that includes the Gleevec which is I would assume still a very lucrative market for and Olmesartan. So that kind of is very puzzling.

Dilip Shanghvi: It will also include the impact of price changes, it will also include disruption in supply.

Sameer Baisiwala: I am not still very clear because any back of the envelop calculation will show that Gleevec would be more of a number $100 million a quarter or Olmesartan gave me about $90 million based on reasonable assumption on pricing in your market share. So therefore this number looks way too low. So do you think this is what is a stable number or do you think there was some major Gleevec disruption which will then comeback in the next quarter?

Dilip Shanghvi: So first of all there is no Gleevec disruption, so that is point number one. Second is that we have also periodically said that in our business there are certain lumpiness in our businesses. Sometimes we have lower sales of some products because those are hospital products like, Liposomal Doxorubicin. You should not read too much into this quarter and also not try to correlate on a quarter-on-quarter basis. Rather look at our overall guidance.

Sameer Baisiwala: Okay sir. My second question is if I go back to the net profit number and if I again look at your Q3 last year, which was again pre-Gleevec and even quarter before there obviously there was some Ranbaxy related charges but about you were doing about Rs. 14 billion –Rs. 15 billion and here after all of these Olmesartan, Gleevec, you again are back to roughly about Rs. 15 billion. So do you again see that, this is now the new sort of a base, earnings power for the company and in the changes whatever happened later or do you think this is again a bit of an aberration in a quarter?

Uday Baldota: So Sameer just to clarify. And if you go back to our Q1 and Q2 earnings call, we have given that in Q1 and Q2 there was some non-recurring income that was there.

Dilip Shanghvi: Other way of looking at it is that, this quarter I think profit is 19%, that is also not what I would call a sturdy number. So that makes a significant difference over the previous quarter. So there will be changes.

Sameer Baisiwala: So when you say, it is very important, there for just a final clarification, when you say this 19% is lot lower than what we used to see earlier and so there will be changes, you are referring to that, it is going to go back up again.

Dilip Shanghvi: That is the focus. Also I think what you do not factor in this is that, we have created a significant organization to support our entry into specialty business and that is reflected in the cost without any corresponding contribution to the top line. So when the top line starts contributing I think that will also add to the overall profitability. That is a certain lag between the sustenance of cost and the creation of top line and bottom line.

Sameer Baisiwala: Okay. Sir, if I were to, sorry, with your permission if I have to complete this point, sir most of these specialty products are going to come after 1 year – 2 year or 3 year with the exception of Odomzo in any material manner. So is that what you are saying that when all of these products come after two years, that is when the number is going to go up?

Dilip Shanghvi: So what I am saying is that we will continue to focus on growing our base business and base profitability, possibly our expenses will not go up, but as our sales from specialty product will continue to grow. That partly offset the, cost the cost that we are sustaining today. But there is a certain amount of, I think I have been consistently sharing that while we are focusing on growth of base business, we have to create or plan is to create a very successful specialty business in the therapy areas of our focus.

Moderator: Thank you. We will take the next question from the line of Neha Agarwal from Edelweiss Finance. Please go ahead.

Neha Agarwal: So the question is finally with respect to the NDA approval, that we are talking about, I think we have 4 NDAs awaiting approval there?

Dilip Shanghvi: Yes.

Neha Agarwal: Any update on the status and when are we expecting the approvals and also any guidance that we could build on the potential market size that we are expecting for these NDAs?

Dilip Shanghvi: So, we do not give product specific guidance. It is factored in our overall guidance, but it is not given product by product.

Neha Agarwal: And with respect to the timeline? Are we expecting them all to come up by FY18 later?

Nimish Desai: It is difficult to say. It gets built into our guidance. If you are looking at FY18, when we give FY18 guidance it will get built in.

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

Prakash Agarwal: First question is on the P&L statement that you send in excel, first time we had seen the R&D expenditure. The capital item number being significantly higher versus what it has been in the past versus the revenue R&D expenses. So what is that we are capitalizing in the R&D?

Dilip Shanghvi: We are not capitalizing anything which we were not capitalizing in the past and principally we have never capitalized. We do not capitalize R&D expenses. Only capital acquisition is capitalized.

Prakash Agarwal: Also, can you elaborate this, $10 plus million in the capital R&D expenditure?

Uday Baldota: You want specifics as to what it is?

Prakash Agarwal: Yes, I mean what is this related.

Dilip Shanghvi: It will be some equipment or something that would be required in R&D for the purpose of some expansion in R&D.

Sudhir Valia: Total R&D expenses are written off in the books.

Prakash Agarwal: Understood. Thank you for that. And sir just trying to understand and build Odomzo, so in terms of what could be the total market size there and where are we in terms of,

because we have some Bloomberg data about $5-6 million in the initial launch. But if you could just help us what could be the total potential market size for this?

Dilip Shanghvi: So there is a – Roche product already in the market called Erivedge which is in the same class. It also is a hedgehog inhibitor. So that product, between US and Europe is in excess of $150 million. But, Roche has significant experience in oncology as well as relationship with payers as well as with other stakeholders. So depending on how successful we are, we will able to get a share of that business.

Prakash Agarwal: And for this we did not have a set of front-end which we already built for Tildra and other specialty initiatives, or we would need more manpower for this?

Dilip Shanghvi: As I have said it is something which partly we will be manage out of the team which is handling Levulan but we will also need to create an oncology-focused field force which looking at the number of potential prescribers, is not likely to be very high.

Moderator: Thank you. We will take the next question from the line of Bino Pathiparampil from SBICAP Securities. Please go ahead.

Bino Pathiparampil: Just continuing on Odomzo, have you like done any major sales, efforts, in a short while since acquisition or is something like that planned? Like when I say, what I mean is like earlier probably there were only 10-15 guys promoting the product. As you guys straight away putting to 50 or 100 people, sales network or something like that?

Dilip Shanghvi: First of all transaction is not yet closed. So we cannot do anything related to the product at this point of time. Post the closure of transaction, we have a plan for launching the product properly. My understanding is that, except launching the product in the US, Novartis has not created any significant effort behind this project.

Bino Pathiparampil: Again following up from couple of other questions earlier. Looking at your US revenue for the quarter, if I look quarter-on-quarter remove Taro from that, I see a decline of about Rs. 500 odd crores. So there is one Gleevec which was there in last quarter which probably came off, there is Benicar which came in. But still there is a decline and these two are like similar sized products. So

would you explain this difference to pricing pressure or would you explain that in terms of quarterly volatility lumpiness.

Uday Baldota: It is related to both.

Bino Pathiparampil: Something like 50:50, 10:90.

Uday Baldota: It is difficult to give too many specifics but I think it is related to both. As we have said earlier that there is clearly a pricing pressure. There is erosion that we are seeing and I think there is some amount of volatility also.

Bino Pathiparampil: Great. If I could add one, there is this other operating income which has been quite high. Last quarter I understand there was this payment from Almirall but this quarter it is even higher than last quarter. So is there anything specific in there?

Uday Baldota: Other operating income is lower. Which number are you looking at?

Bino Pathiparampil: Other operating income for this quarter, 229 crores.

Uday Baldota: Yes, last quarter it was Rs. 500 crores.

Bino Pathiparampil: So there is nothing specific within this?

Uday Baldota: There will be specific but I think your question was why is it going up?

Bino Pathiparampil: Sorry, that was wrong. My question is specifically is there some one big item in there?

Uday Baldota: There are several items there. If I was to give something which is already known, Taro divested a product and that revenue is included here.

Moderator: Thank you. We will take the next question from the line of Manoj Garg from Bank of America. Please go ahead.

Manoj Garg: In your prepared remarks you have indicated that as a part of your specialty focus it would be largely your ophthal, derm and oncology. While we also licensed the neurology product

levetiracetam from SPARC. So just want to understand like, whether are we defocusing Neurology or Psychiatry or it will also remain as a part of specialty focus.

Dilip Shanghvi: It will. That product, we are in the process of transferring from Halol. We haven't created any organization to support that business right now.

Manoj Garg: And on the oncology, right now we have one asset, but then are we looking to build more and whether the focus will be largely on the inorganic side or there could be a SPARC portfolio which can complement this onco focus?

Dilip Shanghvi: I think there are products in Sun portfolio, there are products in SPARC portfolio which also will augment while we continue to look at inorganic opportunities.

Manoj Garg: And the other question on Glumetza, you do mention like we have got approvals and there are couple of months' delays, any update on this and likely timeline for this same?

Dilip Shanghvi: I do not have a timeline. It continues to be an attractive product. It is a part of the focus for our team to find a way to introduce this product at the earliest.

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

Alok Dalal: One clarification on Halol. You mentioned that you would look to address the issue over the next few quarters. So are you indicating that you will resolve the issue or this is the corrective action time that you will take?

Dilip Shanghvi: We can only talk about what we will do. This is the timeline for completing the corrective action. We have given our plan for corrective action to the USFDA and in next few quarters those corrective actions will be completed and we keep USFDA updated on how we are progressing.

Alok Dalal: In the process, would you look at side transfers which you have not done in the past and you have just mentioned that one SPARC product is getting transferred. Are there other products that you are looking to transfer?

Dilip Shanghvi: We are looking at transferring some of the critical products just as a safety measure.

Alok Dalal: Again for India the third quarter 5% growth is bit a difficult to believe. AIOCD is not reflecting that and secondly you as a company have a strong cardio or rather say a chronic presence. So despite non-cyclical chronic why do you think India grew 5% or is there something beyond demonetization?

Kal Sundaram: If you look from a momentum on prescriptions or sales before demonetization was announced, the business growth was in low-teens. Across the SBUs and across be it acute or be it chronic may be differing degrees, the fact of the matter was the primary sales into the chain came down, post demonetization. There is a certain amount of inventory held in the distribution chain.

Alok Dalal: But, Kal the reason I ask is that other companies have not demonstrated this trend, so you feel that things are getting normalized now in this quarter?

Kal Sundaram: A bit too early to say but I would expect.

Moderator: Thank you. We will take the next question from the line of Nishant Chandra from Temasek Holdings. Please go ahead.

Nishant Chandra: I have a couple of questions. So one is around Halol production, has it gone up in Q3 over Q2? And the second one was in terms of the expenses towards the specialty platform, is it possible for you to quantify roughly in terms of percentage of sales on the size of the organization superstructure that has been great?

Dilip Shanghvi: I do not think we gave specific plant by plant breakup of production in sales.

Nishant Chandra: Not production in sales. But directionally has it gone up, stayed flat or gone down is the question, I don't even want a specific numbers?

Dilip Shanghvi: Continuous efforts are there to improve the production. We do not have specific details so I think we will not be able to answer.

Nishant Chandra: So this is on the specialty related organization platform that has been created. We recognized that it is limited revenue that is flowing through from that chain at this point of time, but I wanted to understand what is the magnitude of cost basically you are looking at incrementally? Again just roughly a possibility of sales. What is the cost of the sales superstructure that has been created?

Dilip Shanghvi: As on today we actually do not give business-by-business detailed breakup in terms of cost. So it is not a significant cost.

Nishant Chandra: Any rough magnitude we can provide in terms of percentage of sales, just to see what the possible operating leverage could be?

Dilip Shanghvi: I think if we wish to give that detailed information we will decide and we will possibly share some information at that time of sharing our guidance for next year.

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

Shyam Srinivasan: Just a clarification on the rest of the world, so does it have a full quarter of the Novartis Japan. So it is like roughly US 40 million, is that right?

Uday Baldota: It would have part reflection.

Shyam Srinivasan: Okay. So it is not a full quarter at this point of time, actually what you are saying?

Uday Baldota: That is right.

Shyam Srinivasan: Okay. And the second question is on the Olmesartan AG set, how long is this exclusivity lasting? Is that something that you are sharing, when do you expect the next round of competition to probably come through?

Dilip Shanghvi: All exclusivities are 180 days depending on the settlements done by the innovator with the other generics.

Shyam Srinivasan: Okay sir. This is not different at all, you are saying?

Dilip Shanghvi: Yes.

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

Surya Patra: So for the NDA portfolio that we have built so what is the normal timeline we would be taking to make it breakeven or to have meaningful revenue based out of that portfolio?

Dilip Shanghvi: For the NDA portfolio?

Surya Patra: Yes.

Dilip Shanghvi: We are looking at products in areas where we are already covering as a specialty and depending on the kind of deficiency that we receive on our NDA, will determine, when we will be able to come to market.

Surya Patra: Just a continuation of the same question. So what proportion of this synergy benefit that we are indicating would be utilized for specialty business portfolio?

Nimish Desai: Surya, we haven't shared any numbers as such, as Mr. Shanghvi indicated that if we are to give a separate guidance on investment in specialty, it will be along with our full year guidance.

Surya Patra: Just one more question sir. One the Taro business front though there is a kind of a trend of a price erosion that we are observing. So the YTD performance is flat as of now and last year's fourth quarter was one of the strongest quarters, considering the current scenario of pricing erosion. So are we going to see a kind of flat-to-declining trend for Taro in the full year, after many years of double-digit growth?

Dilip Shanghvi: We cannot give numbers for Taro.

Surya Patra: Yes. Some sense actually on the pricing front wise because there was a surprise in the third quarter. So whether is only flowing from the fact of a price erosion case or something else?

Dilip Shanghvi: But beyond what Taro's press release, we cannot tell you anything more.

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

Anmol Ganjoo: Just referring to Mr. Shanghvi's prepared remarks, as far as the road map to realizing Ranbaxy synergy is concerned, does that bake in Mohali coming back to full compliance or is regardless of that outcome?

Dilip Shanghvi: It is regardless of that outcome. Actually, it is not factored into the US$300 million synergy number.

Anmol Ganjoo: And my second question is that for 9 months we have grown 14% on a year-on-year basis. I know we do not see much on the margins, but is there a case for revising our guidance for full year upwards, because otherwise we are working with a sequential decline. If that is the case then what is the reason for the cautious stance? Thank you.

Dilip Shanghvi: There is a certain amount sales of Gleevec in the last previous quarter. That is not likely to be there. So that is the reason why we are not making any change in our guidance.

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

Saion Mukherjee: Sir on Seciera do you have a timeline for the meeting with the FDA and at the earliest when you think you could file? Do you have any visibility there?

Dilip Shanghvi: We have requested for a meeting with the FDA and we will have greater clarity only post that meeting.

Saion Mukherjee: Sir, based on the trial results that you have seen, do you expect additional work coming your way based on such products and the experience in the past or do you think it is quite possible you will be able to submit with whatever you have at this point.

Dilip Shanghvi: We do not have actually had too much experience of these kinds of filings. We hope that what we have done is sufficient, but we really don't know how USFDA looks at it. So that is the reason why we have not given any kind of specific guidance. Once we have greater clarity we will share that with you.

Saion Mukherjee: And sir just one product question on this specialty initiative, most of the initiative are inorganic, in-licensing or acquisition, so sort of having working with midterm let us say 5-year-plan,

as to how big you want to make this specialty business. And in that of effort will it be fair to assume that we would expect many such inorganic moves to build that portfolio. Just to get a sense because we have seen a lot of activity in the last few quarters?

Dilip Shanghvi: The objective is to create a successful business in the segments that we are focusing on and that business will be created both by both organic as well as inorganic addition to our product portfolio. We will continue to look at opportunities in areas that we are interested in. As I have said, we would like to use part of our cash flow to create this future opportunity for growth because when these products will start contributing to our growth, they can add meaningful value going forward.

Saion Mukherjee: Are you working with any number in mind as a percentage of sales in the US, let us say 5 years down the line or you are just building as it comes your way?

Dilip Shanghvi: It is not right for us to work with a fixed number in mind because then it creates pressure on us to do an acquisition or licensing even if commercial terms are not in best interest of our shareholders. We want to remain opportunistic and focus on converting the acquisitions that we have done in licensing, we have done to cash flow in the fastest and the shortest period of time.

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

Anubhav Aggarwal: One clarity on this specialty portfolio, we say that our focus is derma, ophthal and oncology, what explains our acquisition product each in pain and CNS area. Are these like one off opportunities that you want to pursue and what is logic here. The product maybe good, but when you do not say these are not the focus area still we go and make acquisitions for the product?

Dilip Shanghvi: You were talking about the osteoarthritis product?

Anubhav Aggarwal: Correct, Phase-2.

Dilip Shanghvi: There is a certain amount of overlap between the rheumatoid arthritis as well as osteoarthritis, indication that, and Tildra we will be promoting to the rheumatologist.

Anubhav Aggarwal: Okay that is the synergy there. Otherwise it will be fair to expect that once we define our focus area of this therapy…

Dilip Shanghvi: We will not be all over.

Anubhav Aggarwal: One clarity on this dry eye compound when you bought this compound what is the assumption roughly you made on Restasis genericization? Do you think that if let us say any case possibly genericizes its two next years versus 2024, will it completely derail the plans that you have for this compound?

Dilip Shanghvi: That is not our view. Also looking at the phase-3 data, we have clear advantage over Restasis so the value of the product is much better if Restasis continues to be a promoted and branded product till 2024. But it does not become very unattractive even if the Restasis is genericized earlier.

Anubhav Aggarwal: If we see the first six months results of Sun Pharma. In the US you mentioned that we have booked like $35 million sales in first quarter and $25 million sales in second quarter, so roughly about $60 million sales we booked in the first half. I just want this clarity that when you look at the full year this may be one-off but when you look at year-on-year let us say fiscal '18 versus fiscal '17 would you still count them as one-off? They may not repeat in the same quantum but do you expect that may be just extra inventory for some product?

Dilip Shanghvi: I think it will get equalized during the year.

Anubhav Aggarwal: So some sales may still happened for those products in next year as well.

Dilip Shanghvi: Yes of course. It is not going away.

Uday Baldota: Anubhav what we had indicated in the past also if you see some of our comments we have said that these sales don't recur very quarter-on-quarter but as such it is very much part of our pharmaceutical business.

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

Abhishek Sharma: On the DOJ subpoenas has either of the companies heard from the agency during this quarter? When was the last you have heard from them regarding request of information?

Dilip Shanghvi: I don't want to respond to the specific whether we have heard anything because I will not know because they would be talking directly to our legal people in the US. But if there is something

material to report beyond what we have already reported we will report. But I would repeat once again is that we believe that we have followed the law in the US and all our people have followed appropriate behavior so that we are comfortable with the current status based on the information that we have.

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

Sameer Baisiwala: For Seciera how do you think about Xiidra which has about I think two weeks of onset of action versus 12 for you and may be 24 for Restasis. And the fact that the Restasis has been losing market share to Xiidra.

Dilip Shanghvi: I think it is an interesting question. My view is that we have to wait for this product to continue to sell in the market for some time. And also since there are no head-to-head comparisons between Xiidra and Restasis, it is difficult to understand how the measurements and all the other issues were done. Based on the interaction that we have had, we believe that we have a good potential and we feel that we can get meaningful market share for this product in the US and potentially in the other geographies.

Sameer Baisiwala: Second question is on the 4 NDAs, your press release says that two have been filed in the first half fiscal '17 so 2 would have been I guess prior to that is that PDUFA date round the corner for those two and second, are these substantially backed by clinical trials or that sort of work or are they minor formulation changes in terms of salt change, tab versus cap? Just any color on that would be very useful?

Dilip Shanghvi: Both of this. We will try and see what we can share universally rather than responding to the query at this point.

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

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

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