Corporate Participants

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Sun Pharmaceutical Industries Limited Q4 FY16 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' and 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 morning and a warm welcome to our fourth quarter FY16 Earnings Call. I am Nimish from the Sun Pharma Investor Relations team. We hope you have received the Q4 financials and the press release that was sent out yesterday. These are also available on our website. We have with us Mr. Dilip Shanghvi – Managing Director and Mr. Sudhir Valia –Whole Time Director, and Mr. Abhay Gandhi – CEO of our India business.

Today, the team will discuss performance highlights, update on strategies and respond to any questions that you may have. As is usual, for the ease of discussion we will look at consolidated financials. Just as a reminder, this call is being recorded and a replay will be available for the next few days. The call transcript will also be put up on our website shortly.

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

Dilip Shanghvi: Welcome, and thank you for joining us for this earnings call after the announcement of financial results for the fourth quarter of FY16. In July last year we had guided investors that our overall revenue for FY16 will decline or remain flat year-on-year. For the full year performance, you can see that we are in line with our guidance. As indicated earlier, these numbers include the upside from exclusivity of Imatinib in the US. Sales of Imatinib were in line with our original expectations. Our performance in US has been adversely impacted by price competition, customer consolidation, and supply constraints. Our emerging market performance has been impacted by currency fluctuations and supply constraints.

Let me now discuss some of the key highlights:

First on the Ranbaxy integration. The implementation of the integration is progressing well. We are on track to generate the targeted synergies of US$300 million by FY18. As we enter the second year of integration, we should be able to accrue a reasonable portion of these synergies in FY17.

Now let me update you on Halol:

As indicated in the previous call, we are in the process of completing the remediation steps at Halol in the current quarter. We expect to request the US FDA to re-inspect the facility once these remedial steps are completed. We are in line with our indicated timeline.

During the quarter, we announced our entry into Japan through acquisition of 14 brands from Novartis. Japan is a market of strategic interest to us. This acquisition marks Sun Pharma's entry into the Japanese market and will serve as a base to build a more significant business in future.

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

Sudhir Valia: Thank you, Mr. Shanghvi. Good morning, everyone. We welcome all of you to our Q4 financials are already with you. As usual, we will look at the key consolidated financials.

Before we discuss the financials, let me highlight that the US dollar for the quarter and for the full year was at a higher rate as compared to the last year. Q4 net sales are at Rs.7,414 crores, up by 21% over Q4 last year. Material cost as a percentage of the net sales was 19.6%, staff costs was at 16%, and other expenditure was at 33.5% of the net sales, all lower than Q4 last year. As a result of the above, the EBITDA for the Q4 was Rs.2,300 crores with EBITDA margin at 31%. Net profit for the quarter was at Rs.1,714 crores with net profit margin of 23.1%. EPS for the quarter was Rs.7.10.

Now, we will discuss the full year performance:

For full year, net sales were at Rs.27,744 crores, up by 2% over last year. Material cost as a percentage of the net sales was 23.4%, an improvement of 130 basis points over last year. The staff costs for the full year was at 17.3% of the net sales while other expenses are at 30.7%, both higher than last year. These numbers reflect the higher investment needed for building the specialty business in the US. As a result of the above, the EBITDA for the full year is Rs.7,956 crores, EBITDA margin were at 28.7%,

same as last year. Net profit for the full year 2016, was adversely impacted by exceptional one-time charges of Rs.685 crores in Q1 FY16. These exceptional charges relate to the impairment of the fixed assets and goodwill and other related costs and have arisen on account of integrations and optimization measures. As a result of the net profit for the full year financial year 2016 was at Rs.4,716 crores resulting into EPS of Rs.19.60.

Taro posted Q4 financial year 2016 sales of $265 million, up by 8% over Q4 last year. For the full year, sales were $951 million, up by 10% over last year. Taro's net profit for Q4 was $115 million while net profit for the full year was at $541 million, up by 12% over last year.

I will now hand over to Abhay Gandhi who will share the performance of our Indian business.

Abhay Gandhi: Thank you, Mr. Valia. Let me take you through the performance of our India business. For Q4, sales of branded formulations in India were Rs.1,807 crores, a growth of 17% over Q4 last year, and accounting for approximately 24% of total sales. The recovery in the business continues post the soft performance experienced in the first half. However, we continue to witness the adverse impact of withdrawal of bonus offers on certain acute care products which we believe is temporary. The WPI based price changes and the regulatory changes related to fixed dose combinations will have some adverse impact on the business going forward, although the number may not be very material.

For the full year, sales were Rs. 7,254 crores, a growth of 9% over last year. Growth in the second line sales as well as prescriptions continued to be strong. Sun Pharma is ranked number one and holds approximately 8.8% market share in the Rs.98,000 crores pharmaceutical market as per March 2016 AIOCD AWACS report. As per latest SMSRC report, Sun Pharma is ranked number one based on share of prescriptions with 13 classes of doctors. The integration between the India businesses of both Sun and Ranbaxy is on track. Competition, changing regulations and government-mandated price controls are the other key factors which will determine the long-term growth trajectory.

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

Dilip Shanghvi: Thank you, Abhay. I will briefly discuss the performance highlights of international business. Let me first start with the US business. For Q4, our overall sales in the US were at $580 million, accounting for approximately 52% of our overall sales. These numbers include sales from

exclusivity of Imatinib. Sales for the quarter were impacted due to competitive pressure on some products and supply constraints arising from remediation efforts at Halol.

Our sales in emerging markets were at $124 million for Q4 accounting for 11% of total sales. Sales were impacted due to volatile currency movements in certain emerging markets and strategic decision of not participating in low margin business. Formulation sales in rest of the world markets, excluding US and emerging markets, where at $79 million in Q4 accounting for approximately 7% of revenues. We have made a conscious effort at reducing the participation in non-remunerative business which was contributing to the de-growth in the business. The API business is of strategic importance to us due to benefits from vertical integration. External sales of API for Q4 where at Rs.376 crores, up 46% from the corresponding quarter last year. This growth was partly driven by consolidation of opiate business in Australia.

We continue to invest aggressively in R&D. Consolidated R&D expenses for Q4 were Rs.711 crores accounting for 9.6% of sales. For the full year, R&D spend was Rs.2,302 crores at 8.3% of sales. This includes significant investments on account of funding the clinical development of Tildrakizumab. 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. Current profitability is after this increased investment in R&D.

We have a strong pipeline for the US with 159 ANDAs awaiting approval with the FDA. Our comprehensive product offerings in the US market consist of approved ANDAs of 413 products. For the full year, ANDA for 22 products were filed and 14 approvals were received.

Let me now update you on our specialty initiative. We recently announced a successful outcome of the Phase-III trial of Tildrakizumab. The preparations for the BLA are on way and we should be able to file the BLA as per our original guidance. The detailed results of this trial will be shared at a medical conference in the next few months. We also recently announced the final approval from US FDA for BromSite NDA. This will strengthen our specialty ophthalmology portfolio in the US.

And finally, we would like to share the guidance for FY17. I see traction in all parts of our business and after considering various factors like our Halol remediation, Imatinib post exclusivity sales, we expect our overall consolidated revenues to grow by 8% to 10% for FY17. Given the way, the recent Japanese

acquisition is structured, it will start contributing to our sales from sometime in the second half of FY17 onwards. We will continue to incur higher R&D investments at around 9% of sales. We will also continue to invest in building the specialty business in the US, which may impact short-term profitability. 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. Our first question is from the line of **Saion Mukherjee** from Nomura. Please go ahead.

Saion Mukherjee: Sir I was wondering, is there any bunching up of expenses during the quarter? The reason I am asking is, if I look at the EBITDA number and take out what Taro has reported we are talking about a Rs.1,000 crores EBITDA and that also includes Gleevec, so I see higher other expenses. So I was just wondering is there something bunching up which has happened during the quarter?

Sudhir Valia: Generally in the end of the quarter all the provisions and other accounting is taken care, but it is nothing which is a very special for the quarter.

Dilip Shanghvi: Uday, you have any view?

Uday Baldota: As Mr. Valia is rightly saying, there would be some expenses that would have come during the quarter. Typically, what we have seen is on the sales and marketing side as well as on the R&D side, we see a higher spend in Q4, which is also visible in the current quarter. So I think apart from that, there is nothing else, which is very specific.

Saion Mukherjee: And my second question is regarding the ANDA filings. We have 22 filings this year which includes 10 from Taro, so we are talking about 12 ANDA filings across Sun plus Ranbaxy. There was expectation of a higher filing, so you mentioned last time there is more focus on complex products etc, so can you just throw some light there, should we look at the numbers or you think the quality of filings have increased significantly?

Dilip Shanghvi: No, I think if you see our guidance then we have not met our guidance for filing. So clearly after factoring that we will be filing complex product, we expected a certain number of products to be filed, which because of one or the other reason we have not been able to. So I think that remains an area of focus and improvement for us.

Moderator: Thank you. Our next question is from the line of Girish Bakhru of HSBC. Please go ahead.

Girish Bakhru: Just again, a follow-up on other expenses, I mean would you say there are any element of synergies in this quarter?

Sudhir Valia: What is the question?

Girish Bakhru: Are there any synergies in this quarter, I mean compared from last quarter where we had indicated there were some synergies flowing from Ranbaxy, just wanted to see if there are any synergies that you would have booked in this quarter?

Uday Baldota: So I think there are some synergies in the overall numbers, so that continues. Actually, you see an improving trend of that.

Girish Bakhru: And when you say that you are in line with the guidance for $300 million and of course FY17 would be substantial, but just in the sense, I mean would there be a very minuscule part of synergies would have been realized so far or how should one see it?

Uday Baldota: I think the way to look at it, and probably Mr. Shanghvi can add to this, is that while we are realizing synergies, we are also continuing to invest substantially in building new businesses, specifically this specialty business both on the infrastructure for the specialty business as well as the R&D investment required for that. So to that extent I think the overall quality of spend has improved quite and we expect this to sort of continue for at least some more time.

Girish Bakhru: And just second question on the US part, I mean you said Gleevec was as per your expectation, so just looking at the QoQ delta of say $80-odd million, would one assume Q1 of next fiscal would be similar in terms of Gleevec would be higher in Q1?

Dilip Shanghvi: So I think after factoring, Gleevec and various other things including negative impact of price cuts and combination products in India, we are expecting 8% to 10% overall growth, but it is difficult to give a quarter-by-quarter number, but I see that all our businesses have good traction beginning of the year.

Moderator: Thank you. Our next question is from the line of Chunky Shah of Credit Suisse. Please go ahead.

Anubhav Agarwal: This is Anubhav here. One question, out of six months of exclusivity of Gleevec, how many months of sales we have recorded in this quarter?

Dilip Shanghvi: Two months, right Uday?

Uday Baldota: Yes, that is right.

Anubhav Agarwal: And Uday, just a couple of questions on the balance sheet clarification, this Japanese acquisition has not been integrated in the March 2016 balance sheet?

Uday Baldota: It has been.

Anubhav Agarwal: It has been, so can you explain that when it has already been in the accounts but P&L impact of this will only come in second half, how does that happen?

Uday Baldota: So which is what I think Mr. Shanghvi hinted at when he mentioned about the guidance that the way it is structured is that we are getting the marketing authorizations transferred in our name and that will take some time and once these are transferred in our name that is when we will start actually booking the sales part. So till that time, whatever benefit we get out of the business will not be reflected in the sales line.

Anubhav Agarwal: And you expect this to get integrated in the second half, you mentioned right?

Uday Baldota: That's right.

Uday Baldota: And this will be second, third quarter or the fourth quarter?

Uday Baldota: Sometime in the second half Anubhav, and I think different products probably maybe at different times also.

Moderator: Thank you. Our next question is from the line of Manoj Garg of Healthco. Please go ahead.

Manoj Garg: I will use my two questions, first on pricing and second on Halol. On pricing, so you mentioned in the US pricing pressure and peer consolidation adversely impacting your business. Was wondering, so out of the 8% to 10% top-line growth what are your expectations for pricing degradation in fiscal 2017.

Dilip Shanghvi: So, I think generally our experience is that typically we would lose anywhere between, depending on the competition intensity, anywhere between 5% to 10% pricing. Overall, it is significantly less than 10%, that is our overall experience.

Manoj Garg: So somewhere between on average 5% to 10%?

Dilip Shanghvi: That is correct.

Manoj Garg: And is that consistent what it has been in years past or has there been any inflection, meaning has the peer consolidation increased that or has it always been in that range, 5% to 10%?

Dilip Shanghvi: No, I think it has increased a little bit in last two years. But there has always been and that is something which we have always shared with investors that as the competition in the market continues to increase, the pricing competition, pricing pressure will continue.

Manoj Garg: And then secondly on Halol, when do you expect to ask the FDA to come back?

Dilip Shanghvi: I mean we originally guided that before the end of this quarter we should be able to request FDA in writing to re-inspect the facility, I mean of course it's up to them to decide when they want to, but as I said in my readout that we are going to meet this objective.

Manoj Garg: And then lastly, I believe that site is continually audited by different regulatory agencies, can you provide some color as to the last time it was inspected?

Dilip Shanghvi: So I do not have exact details about which agency audited this facility when, but I think we got recently a product approved in Japan from that same facility.

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

Prakash Agarwal: Just a question on remediation measures for Ranbaxy, so if I understand it correctly January 2017 is the when the five year consent decree is getting over. If you could help us understand where we are and do we expect facilities to be operational by next year, starting of next year?

Dilip Shanghvi: So I think what we have guided is that we expect that, or we plan to have one of the facility offered for re-inspection to the FDA and that is what is the objective hopefully, we will do that sometime this year.

Prakash Agarwal: And sir secondly, just trying and understanding the US business, Q on Q ex-Taro and ex-Gleevec, so there has been you talked about supply constraint and this we have been talking because of Halol in the last few quarters. So, Q-o-Q that business would have further eroded is what you are saying because of increased consolidation and price competition. Is that understanding correct?

Dilip Shanghvi: Yes, and also there would be possibly some pricing adjustments of previous quarter that we would have done in terms of this, but yes, I think that is what is the correct assessment.

Moderator: Thank you. Our next question is from the line of Neha Manpuria of JP Morgan.

Neha Manpuria: Sir on ROW and EM, we saw a very good quarter in the third quarter where we had gone back to our pre-acquisition level, but that seemed to have declined quarter-on-quarter, any specific reason for the deterioration quarter-on-quarter?

Dilip Shanghvi: I mean generally it is better not to look at emerging market as a kind of a quarter-on-quarter business, basically we should look at this more as a trend business. And I see underlying business trends to be quite positive.

Neha Manpuria: Sir, is it fair to assume that our divestment and our clean-up in terms of the low margin and non-remunerative business for both these ROW and EM market is completed in FY16?

Dilip Shanghvi: More or less, yes.

Neha Manpuria: And my second question is on the India business. Sir, you mentioned that we will see some adverse impact from the regulatory changes, but given we had a weak FY16 because of the withdrawal of bonuses, is it fair to assume that we can at least grow in line with market in FY17?

Abhay Gandhi: The attempt is definitely to grow more than the market, so I think when we are looking at all the opportunities and the constraints in the market, we are factoring the NLEM and all these factors into it. So yes, we will definitely try and grow better than the market, that has always been our objective.

Dilip Shanghvi: Also I think Abhay, if you look at as per IMS or AWACS, we continue to grow faster than the market.

Abhay Gandhi: Yes, that is true.

Moderator: Thank you. Our next question is from the line of Manish Jain of SageOne Investments. Please go ahead.

Manish Jain: My questions were primarily on the specialty side, so on Tildra just wanted to know, you were planning to do a detailed call on that, if you could give some insight on that whether post sharing of the clinical trial data at the conference, will you share that with investors?

Dilip Shanghvi: Yes, that is the idea, Manish.

Manish Jain: And second is on PICN, have you filed that or in the process of filing that?

Dilip Shanghvi: PICN is a SPARC product, but I do not have a latest update.

Manish Jain: And on non-specialty side, I just wanted to know on Halol when you all mentioned that 12 products have been filed from Sun in FY16, has any product been filed from Halol?

Dilip Shanghvi: I think so, only thing is that not many out of these 12 would be from Halol.

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

Sameer Baisiwala: Just some guidance on two or three questions. One is, have you assumed any upside benefit from Halol or you assume it does not happen this year?

Dilip Shanghvi: We have factored some amount of improved supplies out of Halol.

Sameer Baisiwala: But is it only improved supplies or is it also about new approvals coming through.

Dilip Shanghvi: Yes, I mean improved product flow, correct.

Sameer Baisiwala: Second point, you did mention that the profitability may go down because of the US specialty build out, so are you bending towards lower margins for fiscal 2017 despite Ranbaxy related synergy benefits flowing through and Gleevec four months coming through?

Dilip Shanghvi: So I think I do not want investors to build a significant increase in profitability because like what is happening now also is that if you see our investment in R&D is going up significantly. We are parallely building a business, so that is why SG&A expenses in US are going up. So a part of our synergy benefit we are using for building a stable long-term business. So we are not taking a short-term view on increase in profitability. So it is a guidance with that view, so that people do not expect that all the synergy will kind of go to the bottom-line.

Sameer Baisiwala: But mathematically speaking, is it going to be just up or down?

Dilip Shanghvi: Generally you know that I have never guided on margins, so I do not want to start again. But I think our focus will of course be to find a way to make our business more profitable, and I see opportunities for doing that in many areas.

Sameer Baisiwala: On the R&D spend, I am just curious because tildrakizumab was the major expense that I would imagine for fiscal 2016, but Phase-III is over and you are now preparing for BLA, so why should R&D spend still remain at those elevated levels?

Dilip Shanghvi: So there are safety studies of Tildra, there is a pediatric study, there are other extension indication studies. So we will be continuing to invest for all of that.

Sameer Baisiwala: One final question if I may. Your press release talks about a buyback plan, can you just talk about that and what is the thinking behind this?

Dilip Shanghvi: Uday, I think maybe it is better that you answer it from your side there, so Mr. Valia can also respond.

Sudhir Valia: What is the question there, buyback?

Sameer Baisiwala: The question is, what is the thinking behind coming with buyback at this point in time?

Dilip Shanghvi: So I would say Sameer, I think broadly it is a way to return money back to shareholders.

Sameer Baisiwala: And your assessment is that the stock is undervalued?

Dilip Shanghvi: If you ask promoter then what answer you will get?

Moderator: Thank you. Our next question is from the line of Nishant Chandra of Temasek. Please go ahead.

Nishant Chandra: I had a question around how one should look at the normalized PAT for FY16. So there is an element of one-timers that you indicated, how does that flow through to the PAT, is it entirely addable back to PAT? And secondly, with respect to the profits declared by Taro, they had certain currency translation related adjustments that were made. Does any of that flow through into the exceptionals reported by Sun in the consolidated statement and hence overall what would be your normalized PAT for FY16?

Uday Baldota: I will answer the second part first. The Taro foreign currency related number that they have reported, that is visible in our other income line. Can you elaborate on the first question? It wasn't very clear what you want.

Nishant Chandra: So there was this exceptional of Rs.685 crores for full year ending March 2016, now that comes through at the PBT level that will be the impact prior to taxation. Now how should one interpret the impact of taxation on that, is it entirely tax deductible or that would not have any offset for you and hence should I add back the entire Rs.685 crores to Rs.4,716 crores of reported PAT to get the sort of normalized PAT for March 2016?

Uday Baldota: To the extent that this would probably also come from different kind of one time and correct, also different geographies. I think it would depend on the tax jurisdictions, but I would say that it would be deductible at least in part.

Nishant Chandra: And would you be able to share a rough cut sense of what a normalized PAT would look like for March 2016 adjusting for these two factors?

Uday Baldota: I think the Taro part is easier to do because it has corresponding impact, one is obviously if the negative had not there Taro's profit would have been higher, so to that extent the minority interest also would have been higher, so I think that is easy to work out. On the Rs.685 crores, I think I would say that it's a bit difficult to really give granular details as to what would be the net of tax or pre-tax impact on that.

Dilip Shanghvi: I mean on a conservative basis, you should presume full tax and presume that rates.

Moderator: Thank you. Our next question is from the line of Abhishek Sharma of India Infoline. Please go ahead.

Abhishek Sharma: Sir, you had guided for a total cost of I believe about $230 million for you to bring Tildra to the market. These extension studies and additional indications that you are planning for Tildra, are these the cost related to these, is that going to be over and above the $230 million?

Dilip Shanghvi: So, I actually do not remember the specific guidance that I would have. So Uday, this is clinical cost alone, correct?

Uday Baldota: That is right, sir. I think we had indicated, I think probably immediately after the in-licensing that we would spend roughly about $250 million over the next four years to five years. I think that is what we had indicating.

Dilip Shanghvi: Yes, so this is included in the studies. But I think some of the new indication studies will not be included in this, It is only psoriasis related studies. So we are doing anything related to any additional indications, then that is not included in this cost.?

Abhishek Sharma: And the additional indication trials, would they be as large as the psoriasis trials sir, in terms of patient….

Dilip Shanghvi: If we want to get approval, then clearly they will have to be as large.

Abhishek Sharma: And some of these you are planning to start in FY17 itself?

Dilip Shanghvi: Yes, but then those will be smaller studies because they will basically depending on the type of study we might have to do, dose range finding study or a Phase-II study. So it will be with a view to decide the strategy for the Phase-III study.

Abhishek Sharma: And sir I see you placing a lot of effort on Absorica, so are you planning any studies in order to sort of differentiate it further from the non-substitutable generic variance which are available in the market? And given the fact that you have time till 2020 now on that product?

Dilip Shanghvi: No, I think Absorica is a very interesting product and we believe that product has far bigger potential than what we have, and it requires continuous investment. So, investment will be with a view to both strengthen the marketing focus and also give greater scientific tools to our field force through studies. So both of those will be the plan.

Abhishek Sharma: And if you could just elaborate on the scientific tools that you are planning, I mean, would this come in the form of additional trials or

Dilip Shanghvi: Yes, it will include clinical studies.

Moderator: Thank you. Our next question is from the line of Manoj Garg of Bank of America. Please go ahead.

Manoj Garg: I just would like to understand about our ophthal plan in the US, with BromSite approval already in, when are we going to start marketing of the products and how many more specs we are looking to launch in the ophthal division over the next 12 to 18 months?

Dilip Shanghvi: So I think hopefully we should be able to launch BromSite by let's say August or September period, and we will definitely have one, maybe one more product for the field force in ophthalmology.

Manoj Garg: And sir, what kind of field force or number of people we are looking for this division?

Dilip Shanghvi: So, it will be I think around 100 people.

Manoj Garg: And the second thing sir, are you sharing any guidance in terms of the ANDA filing for FY17?

Dilip Shanghvi: We have not, that is not part of my guidance this year.

Manoj Garg: And just last question from my side sir, housekeeping more on the tax side. So what kind of tax rate we are looking for FY17 and FY18? Like in the past you have indicated the high tax rate, so how higher it could be?

Manoj Garg: So around 14%-15%?

Sudhir Valia: Yes, should be.

Moderator: Thank you. Our next question is from the line of Dheeresh Pathak of Goldman Sachs. Please go ahead.

Dheeresh Pathak: Just a clarification on Japan consolidation, so products currently are being marketed under Novartis label and the profits that accrued from that they will be shown in our P&L starting Q1 FY17, but sales would get shown in our P&L in the second half once the authorizations get transferred to Sun. Is that a fair understanding?

Uday Baldota: That's right.

Dheeresh Pathak: So from a profit point of view, the first half and the second half will not be different, it is just that the revenues would come in the second half?

Uday Baldota: That's right.

Dheeresh Pathak: And the guidance includes the second half consolidation of revenues only, 8% to 10% guidance that you gave?

Uday Baldota: That's right.

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

Surya Patra: Just wanted to clarify one thing that, the $300 million synergy benefit what we have been talking by FY18, so are we on track to achieve that kind of or even that can be lowered than the kind of indicated number actually?

Dilip Shanghvi: No, I think that is what I have clarified is that we are happy with the way in which the synergies are being captured and we believe that we should be able to capture all the synergy by FY18 and an important part of that is being captured in this year.

Surya Patra: So are we giving any update on the plant like Mohali from Ranbaxy side, sir?

Uday Baldota: No, there is no plant specific update.

Dilip Shanghvi: And we have said that we plan to have one facility from Ranbaxy, hopefully we will offer it for re-certification.

Surya Patra: This year?

Dilip Shanghvi: This year.

Surya Patra: Just one more, considering the buyback plan and the kind of the cash position what we are currently having more than $2.5 billion kind of, and the kind of cash visibility what that is there over next two year, so what would be our M&A plan in the near future?

Dilip Shanghvi: I think we are always disciplined about buying any business and we will continue to remain disciplined. We believe that in many geographies, valuations are not consistent with what we consider to be reasonable valuation, so we will remain opportunistic about acquisitions.

Surya Patra: And this focus will be around US only or…?

Dilip Shanghvi: US, a few specific emerging markets.

Moderator: Thank you. Our next question is from the line of Kartik Mehta, Deutsche Bank.

Kartik Mehta: Yes, can you tell us the CAPEX plan for the next two years sir and if you can update us from your side the recent DOJ subpoenas which you have received, your thoughts on that?

Dilip Shanghvi: Uday, may be you have the details.

Uday Baldota: Sure, so I think Kartik on the CAPEX, I would see that what we have seen over the last couple of years, we will see a continuing of that, specifically we are not sharing a number, but I think

we continue to, while we are rationalizing our manufacturing network to ensure that we have more meaningful size and appropriately located facilities, but we also continue to invest in additional capacity particularly for specific products or for specific markets. So I think there will be a CAPEX that will happen over the next two years. As far as the DOJ subpoena is concerned, I think we have given a notice to the stock exchange and I do not think at this current stage we have anything more to share beyond that.

Kartik Mehta: Sure, anything on timelines, does the DOJ expect you to submit all the details within a timeline and is there a process when they get back and add some more details and ask for some details on that?

Uday Baldota: I would say that we are fully cooperating and we are ensuring that whatever is required from our side is sort of given as part of this process. Timelines, I would say as to when all of this will get completed, I think is not clear at the current stage

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

Nitin Agarwal: Sir on BromSite, I mean if you can just probably help us understand from your perspective where do you see the competitive advantages for the product, given the fact that there are competitors around in this space?

Dilip Shanghvi: So, I think the product has a good label both in terms of concentration in eye as well as in terms of pain. So we believe that that can be an important clinical benefit for patients and the product will have good traction with doctors.

Nitin Agarwal: So essentially around the fact that you are talking about elimination of prevention of pain or over reduction of pain, which is a typical label for most of the other competitors, that is going to be a clinical benefit for us?

Dilip Shanghvi: Yes.

Nitin Agarwal: And the market size we mentioned is like about $400 million market category, that is a $400 million market?

Dilip Shanghvi: I mean market is a function of units and price, so at the prescription product prices at which it would have been considered would be around $400 million, that is correct.

Moderator: Thank you. Our next question is from the line of Saion Mukherjee of Nomura.

Saion Mukherjee: Just one clarification, Uday. So you mentioned the CAPEX for FY16 was around Rs.1,000 crores. Will that be the right number?

Saion Mukherjee: I think it will be less than Rs.1,000 crores, I will need to check.

Saion Mukherjee: No problem, thank you. And the other thing on synergy, based on whatever you indicated, is it fair to assume that in FY16, less than one-third of $300 million synergy would have been utilized?

Uday Baldota: We have not given a specific phasing, Saion. So I think it would not be appropriate for me to say, but I think we can say that based on whatever was our internal plan, we are on track.

Saion Mukherjee: Because Uday I was maybe having an impression that a large part of the synergies would be front-ended, so I am wondering how the synergy kind of is phased out over the three-year period?

Dilip Shanghvi: I think you should understand what is a synergy, simplest example is that supposing if I have an expensive source of material and I have to replace the material with a less expensive material; we have to do studies, we have to do stability and then file for regulatory approval, depending on different geographies you can get approval anywhere between six months to one and half years. So all of that can end up taking let's say two years, two and half years for you to start accruing synergy. So like that, many synergies take time to be captured. There are some synergies, which you can get straight away.

Saion Mukherjee: Sir, just one question if I can, on the buyback. So if I look at, and correct me if I am wrong, if I look at your balance sheet most of the net cash is actually lying with Taro and Taro anyway is doing a buyback, and given that in the past Sun Pharma has been more acquisitive, so I was just wondering why to consider buyback at this point?

Dilip Shanghvi: No, I think we will factor this as a feedback, but as on today I believe that the intention of the Board is to use buyback as a way to effectively return cash to shareholders.

Moderator: Thank you. Our next question is from the line of Nimesh Mehta of Research Delta Advisors.

Nimesh Mehta: Sir, on the guidance part if I were to take the Q4 result sales as what else Rs.7,400-odd crores, if I were to multiply it by four, it is more or less giving me an 8% increase over FY16 full year sales. What I am trying to understand is that over and above the Q4 sales that we have seen, we will have additional sales from Gleevec, we'll have synergy benefits, we will have Japan related acquisition sales in the second half, full production of Halol, so all this will get negated by something is what I understand from your guidance. So what is that which is so significant which can negate all those benefits?

Dilip Shanghvi: I think there are lots of mathematical inaccuracies in the way you are computing. First of all, there is a two-month period of Gleevec exclusivity in our current period and we have only four months left, so you have eight months of non-exclusivity period. So I think when we have done the calculation, I think we have factored many things including potential let's say de-growth, financial impact in India business, potential pricing correction during the year in the US for our US business. So all of that is factored and the increased business is what we have guided for.

Nimesh Mehta: But is there any one thing substantial enough which can negate a lot of the benefit in terms of the numbers or mathematically may be I am wrong, but is there any one big thing which is negating so much of potential upside?

Dilip Shanghvi: No, there is nothing specific that is negating this. So I think you should do a more detailed calculation and you will understand that your calculation needs to be done differently.

Nimesh Mehta: Understood and specifically on Gleevec, we are just trying to understand the kind of competition if any and what I am trying to understand is have we launched our version, kind of a beta crystalline version which is similar to Novartis' version or it is an amorphous version, if you can answer?

Dilip Shanghvi: I think it is better for me not to respond because I am not fully clear, but most probably what I reckon is that our version is a non-infringing version.

Moderator: Thank you. Our next question is from the line of Sameer Baisiwala of Morgan Stanley.

Sameer Baisiwala: Just on PICN, I am not so sure whether you can take this, but is the route that the SPARC wants to take is bio-studies route or would it be full-blown clinical trials?

Dilip Shanghvi: We are seriously evaluating all options to register the product cost effectively, so that will include a bio-study also.

Sameer Baisiwala: Okay and second is on Tildrakizumab, just trying to prepare tildrakizumab before you disclose the data, if the competing products are 5%, 7% better on PASI 90. Is that really a cause for concern or do you think Tildra can still do well in the market with that kind of a difference?

Dilip Shanghvi: So I think ultimately success of a product is not only dependent on efficacy but it is also dependent on safety. So I think if I look at the overall picture or look at the whole issue holistically, we believe that the product will do well in the market.

Moderator: Thank you. Our next question is from the line of Chunky Shah of Credit Suisse.

Anubhav Agarwal: This is Anubhav here. Uday sir, one question on the balance sheet. If I look at provisions and other current liabilities, they are down by almost $400 million from September to March. Can you just help, what is the nature of these liabilities which have gone down?

Sudhir Valia: What is the question?

Anubhav Agarwal: If you look at short-term provision, long-term provision and other current liabilities, all three put together, they are down $400 million from September 2015 balance sheet to March 2016 balance sheet and this is the reason why maybe your debt has gone up as well and cash acquisition is very, very low. What is the reason why this other current liabilities and provisions are down so much?

Uday Baldota: No, but the debt is also included there, Anubhav. See what happens is the long-term borrowings, if there is a current portion of that and that gets included in these other current liabilities.

Anubhav Agarwal: So that may explain other current liabilities, but what about the short-term provision and long-term provisions, they are also down significantly.

Uday Baldota: Well, I think the dividend part which is there, I think to that extent it will change. When you announce a dividend and then you pay it out. Till that time you hold it as a provision.

Anubhav Agarwal: So you are saying dividend and just the debt portion is largely this delta of $400 million?

Uday Baldota: These are the large components.

Anubhav Agarwal: And I just have one more clarification on other expense. Actually I am not clear, when you say the quarter four expenses are always high, I appreciate that, but the quantum here is too large for either we are not accounting it properly in the first three quarters because what we are seeing is in the quarter four, other expenses up 23% sequentially and that is almost like I mean let's assume R&D is equally proportioned between different line items, we are talking…

Sudhir Valia: No, you see you cannot presume, when R&D is happening at a point of time when the product is to be filed.

Anubhav Agarwal: So let's say even take R&D into account, we could delta in R&D sequentially is only Rs.100 crores.

Sudhir Valia: That means the whole delta.

Anubhav Agarwal: No, delta in R&D is only Rs.100 crores sequentially from third quarter to fourth quarter whereas other expenses are up Rs.500 crores.

Dilip Shanghvi: Sudhir, he is saying that R&D expenses are only up by Rs.100 crores. The overall other expenses are higher by some Rs.500 crores.

Sudhir Valia: That is basically happening in the last quarter, and if you see last quarter of the last year also similar things are there. So these are very normal situation which happens and marketing expenses are also getting loaded because of conferences all in the last quarter. Last year's Rs.2,600 crores was the amount which is now Rs.2,480 crores. So it is less than last year's expenses if we see other expenses, if you say quarter-to-quarter for the 2015 and 2016.

Anubhav Agarwal: Sudhir, last year we had Rs.600 crores as one-off.

Sudhir Valia: See, there are so many things that happen in the business.

Anubhav Agarwal: Sure, we will budget it accordingly next time. Just one question on DOJ subpoena, is there any product specific query on this or this query across products, I was not clear with your press release on that?

Uday Baldota: It is not a product specific query.

Moderator: Thank you. Our next question is from the line of Abhishek Sharma of India Infoline. Please go ahead.

Abhishek Sharma: Sir, two questions, one is on domestic. How would withdrawal of schemes impact acute versus chronic differently, if you can just take us through that?

Abhay Gandhi: First of all, we never had bonus offers and schemes in the chronic part of the business, so there is no impact in chronic at all. In the acute, Ranbaxy used to have very large bonuses and that we have either stopped or curtailed very significantly.

Abhishek Sharma: And would this continue to impact the business on an ongoing basis, because on the acute side I believe what you are saying is that the market discipline is lesser?

Abhay Gandhi: See, I would like to believe that we will not see any shrinkage because of this going ahead because a team always takes time to get used to a new way of working. It has been now almost close to nine months since these changes have been made. So I think overall the team realizes that prescription generation is the only thing that gives them sustainable business. It takes time to make that change, but I think nine months should be good enough period. So going ahead, I would say not completely, but most of it I think the pain point would be over for us.

Abhishek Sharma: And sir, a question on Tildra on the supply side sir, I believe I mean you have some ongoing arrangement with the Merck, but I mean long term how are you thinking about that, I mean how are you securing your supplies going forward?

Dilip Shanghvi: So, I think we will create backup supply sources for both dosage form as well as the API.

Abhishek Sharma: And any progress on that sir, and how do you see biological capacity, is there ample capacity available where you could site transfer this or you know just some comments on that?

Dilip Shanghvi: I think both capacity and expertise is available.

Abhishek Sharma: And have you taken any initial steps towards that?

Dilip Shanghvi: I mean clearly it is an important product, so I think ensuring consistency of supply is an important priority, so we are continuing to move in that direction.

Moderator: Thank you. Our next question is from the line of Manish Jain of SageOne Investments. Please go ahead.

Manish Jain: I just had a question for Uday, in terms of depreciation and amortization charge compared to the March quarter which was Rs.462 crores in March 2015, that has come down to Rs.264 crores in March 2016, Uday. Can you just give some insight on that?

Uday Baldota: I think if we go back to March 2015 announcement, I think the depreciation was higher that point in time on account of several things. There was a bit of a catch up that was required on account of the change in the regulation and also there was alignment across Sun and Ranbaxy that was required. So I think all of that was accounted for in Q4 of last year.

Moderator: Thank you, Ladies and Gentlemen, that was the last question. I now hand the floor back to Mr. Nimish Desai for closing comments. Over to you, sir.

Nimish Desai: Thank you all for joining on the call. If any of your questions have remained unanswered, I request please send them over and we will have them answered. Thank you and have a good day.

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