Corporate Participants

Dilip Shanghvi
Managing Director, Sun Pharmaceutical Industries Ltd.

Sudhir Valia
Whole Time Director, Sun Pharmaceutical Industries Ltd.

Kal Sundaram
CEO (India, Emerging Markets & CHC Business), Sun Pharmaceutical Industries Ltd.

Abhay Gandhi
CEO (North America Business), Sun Pharmaceutical Industries Ltd.

Moderator: Ladies and gentlemen, good day and welcome to the Sun Pharmaceutical Industries Limited Q1 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 'o' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nimish Desai. Thank you and over to you, sir.

Nimish Desai: Thank you. Good evening and a warm welcome to our first quarter FY19 earnings call. I am Nimish from the Sun Pharma investor relations team. We hope you have received the Q1 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 first quarter FY19.

Let me discuss some of the key highlights:

Our overall sales for the quarter were at Rs. 7,139 crores, a growth of 16% over same quarter last year. We have recorded good growth in all markets except RoW. We continue to record a gradual

improvement in performance despite a challenging US generic pricing environment. Our US business has recorded growth, both on YoY and QoQ basis.

We are gradually crossing key milestones in our specialty initiatives. As, you all know, FY19 is an important year for our specialty business with 3 potential launches lined up in the US. Of these, we have already commercialized Yonsa while we plan to commercialize Ilumya and Cequa in the US in the coming quarters.

Given the competitive intensity in the US generics market, cost control and improving efficiencies have become imperative, with these efforts spread across R&D projects, manufacturing footprint and other areas. These steps will ensure that we continue to earn reasonable returns on our investments.

Another important event during the quarter was the clearance of the Halol facility by US FDA. With this development, we now expect a gradual improvement in our business and in new approvals from Halol for the US market, including the two specialty products in-licensed from SPARC.

I will now hand over the call to Mr. Valia for discussion of the Q1 performance.

Sudhir Valia: Thank you Mr. Shanghvi. Good evening everyone and welcome to all of you. Our Q1 financials are already with you. As usual, we will look at key consolidated financials.

Q1 sales are at Rs. 7,139 crores, up by 16% over Q1 last year. Material cost as a percentage of sales was 29.5%, higher than Q1 last year mainly due to product mix as well as higher COGS for Taro. The same reasons apply for the sequential decline in gross margins. Staff cost was at 20% of sales, lower than Q1 last year and in line with that in Q4. Staff costs are likely to inch up in the coming quarters as we gradually expand our specialty sales force in the US. Other expenditure was at 29.1% of sales, lower than Q1 last year and lower compared to Q4 as well. This is partly due to lower R&D costs. As you all know, our R&D costs are not evenly spread out across all the four quarters of the year. We expect to incur higher R&D costs in the coming quarters.

As a result of the above, the EBITDA for Q1 was at Rs. 1,521 crores, with EBITDA margins at 21.3%.

Net profit for the quarter was at Rs. 983 crores, up 87% over Q1 last year after adjusting for the exceptional item in Q1 last year. EPS for the quarter was Rs. 4.10.

Let me now briefly discuss Taro's performance.

Taro posted Q1 sales of US$ 155 million, down by 4% over Q1 last year. Taro's net profit for Q1 was US$ 67 million up by 24% over Q1 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 Q1, sales of branded formulations in India were Rs. 2,152 crores, a growth of approximately 22% over Q1 last year and accounting for approximately 30% of total sales. As you all are aware, this growth is on a low base of Q1 last year which had the GST impact. Adjusted for GST impact, our sales in India have grown by approximately 29%. For Q1, we launched 16 new products in the Indian market.

Sun Pharma is the largest pharmaceutical company in India and holds approximately 8.3% market share in the over Rs. 122,000 crore pharmaceutical market as per June 2018 AIOCD-AWACS report.

We continue to focus on retaining our strong brand equity with doctors while simultaneously putting in efforts to improve the overall productivity of the India business. As per latest SMSRC report, Sun Pharma is ranked no. 1 based on share of prescriptions with 13 classes of doctors.

Let me now focus on our performance in emerging markets.

Our sales in emerging markets were at US$ 195 million for Q1, a growth of 16%. Emerging markets accounted for 18% of total sales. The growth is broad-based amongst emerging markets. Key markets which contributed to the growth were Romania, Eastern Europe and Asian 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 business.

For Q1, our overall sales in the US were up by 8% at US$ 380 million, accounting for approximately 36% of overall sales. New launches for the quarter were Yonsa in the branded portfolio and authorized generic of Welchol. These new launches coupled with improved sales of some our existing products are the main drivers of the growth.

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

We commercialized Yonsa in US during the quarter. The launch preparations for Ilumya are on-going. We are awaiting USFDA approval for Cequa, previously known as OTX-101, 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: Thanks you Abhay. I will briefly discuss the performance highlights of our other business as well as give you an update on our R&D and specialty initiatives.

Formulation sales in Rest of World markets excluding US and Emerging Markets were US$ 107 million in Q1, a de-growth of 7% over last year. ROW markets accounted for approximately 10% of Q1 revenues.

We continue to focus on developing and utilizing APIs for captive consumption for benefits of vertical integration. For Q1, the external sales for our API business were at Rs. 394 crores, up by 28% over Q1 last year.

We continue to invest in R&D for enhancing our pipeline. Consolidated R&D investments for Q1 was Rs.500 crores, accounting for 7% of sales. Our current generic pipeline for the US market includes 135 ANDAs and 3 NDAs awaiting approval with the US FDA. We expect higher R&D spend in the coming quarters for the specialty business. This R&D spending enables development of future product pipeline including specialty and differentiated products.

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

Moderator: Sure, thank you very much. We will now begin the question-and-answer session. We will take the first question from the line of Manoj Garg from Heathco. Please go ahead.

Manoj Garg: On the US business, one, can you talk a little bit about the backlog out of Halol and when do you expect to start getting that cleared? Two, you spoke at length about the increased investment in the US Specialty business both in terms of R&D and marketing, what level of investment you are talking about, can you maybe add some more color there in terms of what level of investment you are targeting and when do you expect that business to reach breakeven? Lastly, given the bifurcation of your growing specialty business and the challenging generics market, it would be helpful if you could start providing specialty product breakdown going forward?

Dilip Shanghvi: So let me respond to the first part of question in connection with Halol. The process requires that whichever product we expect the approval for, we have to specifically request or if there are some last-minute amendments to our filing if we can do that and then we get a goal date for the approval. We have started getting some potential goal dates during the year as well as some for the beginning of next year. So depending on when and how this goal date start coming, we expect to start getting the approval of the products. We will keep your suggestion for sharing more transparently the separate costs and bifurcation between the generic and the branded business. This is something that we will consider and if we feel that, it is in the best interest of shareholders, then we will start sharing it separately. Abhay will respond about the cost for the specialty business.

Abhay Gandhi: On the R&D front, related to our specialty products, there is a certain label which has been approved by the USFDA. We keep looking at how we can improve the label or are there any other indications or situations that the product can be used for. These will obviously entail high investments based on each new indication and what kind of patient population you need, the centers that you need and it is different for each product and each study that we undertake. But to keep improving on the product label and hopefully for us to be able to generate better sales on products, that investment is something that we will keep looking at and keep investing. So I do not have a firm number for that as yet, but it will clearly be a substantial investment. On SG&A, there are certain expenses which we incur prior to launch and there are certain expenses which we will incur closer or post-launch. Added up, we have always guided that this will be significant over the next few quarters at least. We really have not worked out at a broader level what will be the breakeven for the entire specialty business. Each product has a different timeline for launch and a different modeling that we

have done. So I do not have a number which we can give you as to when the overall business will be able to break-even. Third part of your question, I think Mr. Shanghvi has already answered.

Dilip Shanghvi: Also, we have guided for an overall R&D spend of between 8-9%. So it potentially includes the additional cost for developing the specialty product in terms of clinical indications.

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

Prakash Agarwal: Just a follow up on the earlier participant's question. From Halol you mentioned there are several potential goal dates. But any broad color in terms of number of launches and approvals that would be really helpful?

Dilip Shanghvi: The anticipated launches from Halol, as I had explained even in our last call, are factored in our overall guidance, but at this point of time, there is no additional information that we can share.

Prakash Agarwal: A clarity on the expenses side. When we do the deals like Yonsa, Welchol and we have deals with SPARC for Elepsia and Xelpros, so once these commercialized, would there be any milestone payments and which expense item it is clubbed into?

C Muralidharan: Based on the agreement, the initial milestone is paid, but subsequently post launch, based on agreement terms, royalty payment will be there but otherwise I do not think any capital is being treated as revenue expenses in our income statement.

Dilip Shanghvi: So it will be treated as revenue expenses.

C Muralidharan: Milestones in the beginning is capital expenses. Post launch, expenses like royalty payment is treated as revenue expenses.

Prakash Agarwal: Lastly on the gross margin side, I understand last quarter there was higher other operating expenses if the milestone income received but this quarter despite India being higher and US showing some improvement, if you could explain why the gross margins actually come off?

C Muralidharan: It is partly due to the higher COGS for Taro and partly due to product mix.

Prakash Agarwal: I was referring to ex-Taro also. So is it due to the increasing raw material prices, any broad color would help?

Sudhir Valia: Product mix also is one of the reasons.

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

Neha Manpuria: Sir, could you give us some color on Absorica? Last quarter you indicated that it was subdued, but it seems like it is picking up now. Is it not surprising that Absorica has picked up, it is still not contributing to gross margins given the profitability from the product was expected to improve?

Abhay Gandhi: The profitability as I explained in the earlier calls has clearly improved. As far as the overall business is concerned in terms of prescriptions, I think we still have a headroom to do better than what we have done.

Neha Manpuria: Sir, any reason for the delay in Ilumya launch, because I think we had guided to launch sometime in this quarter, are we indicating some sort of a delay in the launch, did I read that correctly?

Abhay Gandhi: I still think we will be able to launch it in Q2.

Neha Manpuria: My last question is on R&D. The R&D trajectory seems to indicate quite a sharp jump from the current level. Like sir mentioned, I think it is partly for the existing pipeline in terms of label enhancement or other indications. But beyond the products that are already there in our pipeline, are we looking at opportunities beyond the two, three products that we have discussed and disclosed?

Dilip Shanghvi: This R&D expense only includes budgeted R&D expense. If we do not have any budgeted acquisition for which we have to spend any money, then that is not included. So if we announce any subsequent acquisition or licensing and if that changes the basic numbers, then we will share it at that time, but as on today, this is not reflecting any future licensing.

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

Anubhav Agarwal: My question is on Ilumya. Just a couple of questions over there. What kind of insurance coverage we have already achieved in this product? Will this product mostly get tier-3 coverage?

Abhay Gandhi: Right now the detailed discussions with the payers and other stakeholders, we are trying to coincide it very close to the actual launch of the product. So we have not really entered into commercial discussions with the payers. We have been talking about the product, the attributes, benefits and designs behind it. We remain cautiously optimistic on getting decent coverage at this point of launch but since we do not have exact day on which we will launch the product and we are trying to time our discussions to coincide with that, there is no firm answer I can give at this point in time but I remain cautiously optimistic.

Anubhav Agarwal: Second question was on the US, ex-Taro sales that we have seen an increase this quarter. Mr. Abhay, would you largely attribute the delta to be the new Welchol launch that we have in this quarter or would you attribute to Apsorica or the base business there?

Abhay Gandhi: Generic Welchol has clearly been a contributor but a lot of our other products have also done well, so that is not the only contributor. I am happy with the spread of business which has moved up and done reasonably well and hopefully we will keep doing the good work going ahead.

Anubhav Agarwal: But what would have been a dominant contributor out of the two base business or Welchol?

Abhay Gandhi: There is no dominant contributor. I am happy with the broad-based performance of different parts of the business and that is good from our perspective clearly.

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

Nimish Mehta: I just wanted to know about the two products that we launched recently; one is INFUGEM and another is Kapspargo Sprinkle. If I understand and If I recollect well, INFUGEM is also

something that we have launched in the European market. If you can give some color about the performance there, I am basically trying to understand the US performance and also some color on how this Sprinkle, Toprol XL is likely to be addressing any unmet need and what is the addressable market there?

Abhay Gandhi: We have not launched INFUGEM so far in the US market as of now, we have an approval and over the next few months we will launch it. Kapspargo Sprinkle, we are just in the process of launching. I do not expect it to be a very large product. It is an interesting product in a nice niche and we have indicated that 40% of patients who are in the long-term care segment have dysphagia. So it is a product that the customers and the patients will need.

Nimish Mehta: If you also can allude to the INFUGEM potential market, I know it will be launched over a few months, but some understanding how are they are doing in the European market? Also, for both the products, if you can let us know whereas this will be sold at premium to the generic products in market or how will that be, some color on that?

Abhay Gandhi: Obviously, I will not discuss pricing strategy on this call. To be honest, I do not have a firm answer either because the team is working on different scenarios of how using in the RTU segment which is our first launch incidentally. So there is a lot of learning that is involved by the team to look at. Obviously, we feel there is a potential and that is the reason why we are launching it, but it is too premature for me to give you hard number and say that this could be.

Nimish Mehta: But we have launched it in Europe. At least tell us how is the performance there, that will be helpful, nothing else?

Dilip Shanghvi: In Europe we have launched it in a few countries and in the countries in which we have launched, in one country it is yet to pick up but in other countries it is doing quite well, both in terms of share of the total market as well as in terms of our ability to price the product sensibly. Clearly, the product will not be priced like a new innovative product, it will be priced at a premium to generic product for the value and the benefit that it provides to the patient.

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

Surya Patra: A clarification on the Xelpros and Elepsia. Whether it is still there in the Halol plant to be manufactured because SPARC had indicated that they are looking for site transfer of this product prior to the plant clearance approval itself. So, any clarity on that front would be useful?

Dilip Shanghvi: There is a plan for working for getting an approval out of Halol, that is for sure. Now, as to the progress with the product transfer to other sites, I do not have a clear update beyond what SPARC would have shared with you.

Surya Patra: This is the kind of launch that we are planning this current financial year, sir, we have indicated that way?

Abhay Gandhi: Xelpros clearly we will try and launch during the course of this year. For Elepsia, I am still contemplating how much we can take on our plate and some of the launches are all clustered in a couple of quarters, whether we take in on as a cluster or we stagger at a little is something I have not still made up my mind.

Surya Patra: On the spend front sir, in one end that we are seeing there is a cost cutting effort, obviously that is seen also and simultaneously we are now planning for enhanced spend on the SGA front because of the specialty portfolio, so what is the kind of SGA going ahead in the subsequent quarters, whether there is a kind of meaningful improvement sequentially once you would really factor?

Dilip Shanghvi: Abhay gave some information in his read-out that there will be some additional cost that will be there. There will be cost this year for businesses which will not generate as much revenue to justify the cost, there will be potential negative impact.

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

Sameer Baisiwala: A couple of questions: One is on the FX impact for the quarter especially mark-to-market or translational gains, can you just help us with that number, how much was that coming from net current assets, because on a sequential basis the rupee-dollar has moved up quite a lot and so therefore some of this current assets and receivables can actually make the result look a lot better than what it is, I just want to check if that is the case? Second is on Ilumya. Abhay, if you can just

share with us what are the big pluses and minuses for this product when you talk to the insurance companies?

Dilip Shanghvi: On forex details and fluctuations, we are not sharing specific information but they are factored in the results.

Sudhir Valia: We have a liability as well as investments, we have payable and receivable, we have edge over each other, so it is not which is of any significance, but it has not been worked out, most of it is nullifying.

Abhay Gandhi: I will go to the Ilumya part of your question then. I think the positive clearly is that whether it is the doctors to whom we are talking to, the KOLs who understand this product intimately or even the payers, I think the overall profile of the product in terms of the efficacy, the lasting effect that the product shows for the patient and very low incidence of side effect clearly are huge positives which are creating an impact. I would not qualify it as a negative but clearly the fact that we are entering into competitive crowded market with big competitors, and they have been in that business for longer time, and we are entering the market late, is clearly a challenge that we have to overcome. So I do not want to call that a negative. It is a status that we are in and we have to fight it through.

Sameer Baisiwala: But just on this point, when you talk about efficacy is PASI90 score that we have versus the others, I think we are in mid-40s and others are around 70, I am just saying this from a top line basis. is that an impediment or how do players look at it? Second follow on, on this is IL-23 versus 17, you mentioned that people are happier with 23, but if I see the commentary from 17 and also the numbers how they are ramping up sales, it looks like 17 are also doing actually pretty strongly?

Abhay Gandhi: On the latter part of your question, there is a certain comfort that doctors having been using the IL-17 for a longer period of time. It will take them sometime to experience and then get the same level of comfort with the IL-23 class. It is for all the marketers who try and address that and make sure that this segment grows. We are clearly seeing that growth is happening. Obviously we would like it to be faster so that you can ride the wave so to say. That is what we will be attempting to do when we get into the market and start promoting our product. As far as the

customers are concerned, they look at things holistically, they do not look at just one parameter of PASI90 or how soon it acts. They look at the product holistically and when they see the overall profile of Ilumya, I think my sense is they like this product.

Dilip Shanghvi: PASI90 and PASI75 and all are clinical trial measurement, that is not something which doctors use in their clinical practice, it is only a scale used for measuring outcome in clinical trial. I think by and large all the doctors who have been part of the study and with whom we have discussed, are very happy with the overall performance of the product both in terms of overall efficacy as well as the duration of response and continued response. However, I think clearly both of us agree that it is not going to be as big as Cosentyx or Taltz, clearly not in a short period of time, otherwise I think we would be looking at very different numbers than what we are looking at right now.

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

Saion Mukherjee: Sir, on Yonsa, can you share what kind of traction you are seeing and the formulary coverage, last time you mentioned it can be an interesting product from a short to medium term perspective, any more color if you can give on that?

Abhay Gandhi: It is an ongoing process, we are talking to different payers for contracting, some we have already got an entry into, some are work-in progress and we still maintain it will be an interesting product in the short-to-medium term.

Dilip Shanghvi: Also, it is also linked with how the litigation for Zytiga, what is the kind of judgment on that. So that I think also has a significant impact.

Saion Mukherjee: My second question is on Levulan Solution. There is an orange book patent which expires next year, it is a drug device combination. I just wanted to understand is it possible for the generic company to launch the product once the patent expires and use the blue ray device that you have provided to the practitioners, is that feasible or there are some hurdles for a generic to enter the market even after patent expiry?

Dilip Shanghvi: Our current view is that it will potentially require a study for a generic to be able to come to the market but I think we cannot discuss and decide this on behalf of the regulator.

Saion Mukherjee: That study would require the blue ray device from Sun Pharma right or…?

Dilip Shanghvi: Or a competing device.

Moderator: Thank you. We will take the next question from the line of Purvi Shah from Sharekhan. Please go ahead.

Purvi Shah: You highlighted on the call saying that the operating leverage that we had this quarter may not continue that is basically because of the couple of reasons like R&D cost increasing as well as SG&A increasing because of the investment that we will have to do for the specialty launches in the upcoming. Even this quarter's performance like which was 100 basis improvement in operating margins over the entire year's 21% will not be sustainable in the upcoming quarters is what we are trying to indicate?

Dilip Shanghvi: We are not guiding for profitability and EBITDA, but we are also sharing with you that along with various positives, there are potential costs that the investors need to be aware of.

Purvi Shah: If I have to say that Rs.500 crores of R&D that we have spent in this quarter is likely to inch up, like it has been 7% this quarter but we have guided for 8-9%, so if that is the case, we see a dip or the other thing that you highlighted that the cost efficiency is something that we are also looking at and the synergies from Ranbaxy also probably something that we are looking at and that is likely to help us to maintain at this levels also?

Dilip Shanghvi: Last time I had guided that we have been a high EBITDA company in the past and we will continue to make conscious effort to improve our EBITDA and that is with various initiatives -- controlling cost, improving margins, focusing on higher margin products but that will require investments, so maybe before the profitability goes up, it may go down. But I am not guiding for profitability for the year based on this but I want investors to be aware that there is going to be extra cost for sales and marketing efforts because that is not fully in first quarter. Second thing is that during the rest of the year we expect R&D investment to go up. How much of that we will be able to

optimize from better margins or cost controls and focusing on various initiatives for improving profitability is not something that we have any guidance for.

Purvi Shah: The other thing on the tax front for the quarter, it has been low compared to what we have done in the past two quarters. So is it that we are still sticking to the MAT rate or will there be a decline in the tax rate?

C Muralidharan: In the past, we have indicated that it will be appropriate for us to look at the tax on a full year basis rather than a quarter, there are various moving parts to it.

Purvi Shah: So 20% is the range that we can assume for the full year?

C Muralidharan: Broadly, we have indicated in the last call also that the tax rates will increase, so around that range.

Moderator: Thank you. The next question is from Mithun Soni from GeeCee Investments. Please go ahead.

Mithun Soni: Basically, the emphasis of our company, is it going to be more and more towards Super Specialty and hence as you explained that the company will have to make investments towards the front end SG&A and sales team, to that extent the breakeven sales what we were earlier doing and making certain level margins will be on the higher side?

Dilip Shanghvi: But that is in the beginning, because the sales have not kicked in. So afterwards sales will also start contributing, and these products are clearly at a very different cost structure, they would start contributing to profitability. So the key is that we are looking at specialty business as not a substitute for generic business. We are looking at specialty as an additional engine of growth. For that business to become profitable we will have to invest initially till that business achieves a certain critical size and mass.

Mithun Soni: So the incremental R&D spend what we are targeting which is going from 7% to whatever 8% or 9% which we are targeting, to be almost directed towards the Super Specialty and Generic Specialty products?

Dilip Shanghvi: What I have guided for is the overall R&D spend including the cost of clinical studies during the year, so they are not fully included in the current quarter's R&D spend… but I am not breaking up the R&D spend between the generic and specialty.

Mithun Soni: We were earlier making about $300 million of revenue on the quarterly basis excluding Taro. Is it possible that you share some view as to by when we can reach that sort of number, like how much time we will need, six quarters, something like that?

Dilip Shanghvi: We do not give longer-term guidance. Our guidance this year is low double-digit growth.

Moderator: Thank you. Next we have a follow up question from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Just on the guidance only, since you have done 16% and you earlier guided for low teens, so just asking if there is a rethink on the guidance?

Dilip Shanghvi: We have to wait till a year progress. Last year first quarter was a relatively low quarter and we have a larger quarterly base coming up. So we are not revising the guidance at this point of time.

Prakash Agarwal: Understanding Welchol as a product, Impax and Glenmark are the only two generic players, so do we expect more competition in the near-term in this product or we have some window of six months or so on this?

Abhay Gandhi: There maybe approvals, but as of now none has come into the market, so in the generic world every extra month that we get with the product is nice bonus to have.

Prakash Agarwal: Is just that the approval which is not getting through, there is no window of what you call settlement, so the AG period or limited period by Glenmark or Impax?

Abhay Gandhi: Not to my knowledge.

Prakash Agarwal: Lastly, on India business, just trying to understand the growth mix from chronic and acute side, because full year I understand it would be still mid-teens or low mid-teens, but how

is the mix behaving, I mean, is chronic started to grow faster again or if you could throw some color on chronic and acute growth?

Kal Sundaram: Historically, chronic has always grown faster than acute and it will continue to grow faster than acute.

Prakash Agarwal: Any number you would like to give and how it has grown in the last quarter, chronic and acute?

Kal Sundaram: That level of split in all honestly, I do not have it with me, but the quality of growth for chronic has been consistently higher than acute.

Moderator: Thank you. Next question is from Aditya Khemka from DSP Mutual Fund. Please go ahead.

Aditya Khemka: We were experiencing some supply constraints from Halol while you were doing remediation and while you are under warning letter. Would you say that this quarter accounts for the resumption of supplies or the normalization of supplies for the already approved generic products?

Dilip Shanghvi: Some of the increase in business will be linked with improved supplies, but may not be the only reason.

Aditya Khemka: Is there any further scope of normalization or are we where we wanted to be in terms of supplies of our existing product portfolio?

Dilip Shanghvi: We have to find a way to grow the business all the time and that is possible only if we have more products to sell.

Aditya Khemka: In this quarter did we see any stocking impact as when we started resumption of supplies, stocking of two to three months inventory of certain products in terms of channel or is this like a normalized sale of the Halol products?

Abhay Gandhi: No, there is no stocking impact.

Aditya Khemka: Just one last question on the specialty side. As we invested in some of these products and we look for more opportunities, do you have ticket size in mind or range of ticket size in mind in terms of the milestone of the upfront that you would like to shell out for such opportunities?

Dilip Shanghvi: I think more important is our confidence that we can do a good job. Because one is financial ability to pay, but more important is that after we pay for it, then whether we can market the product in a way whereby we can capture the highest value, and I think our decision is more driven by our ability to manage rather than only the size, I mean, clearly we do not want to do things which we cannot afford, but that is not the only constraint.

Aditya Khemka: The market as it seems that the entire generic universe seems to be focusing more on specialty and differentiated patented product offerings. So one is, are you seeing enough opportunities for sale in that segment? Secondly, are you seeing enough bidding for the opportunities that are available?

Dilip Shanghvi: I think if you heard Abhay's answer is that currently, at least this year and may be part of next year, we have a challenge in being able to handle so many new product launches.

Moderator: The next question is from C Srihari from PCS Securities. Please go ahead.

C Srihari: On the Specialty side, I would appreciate if you could give some kind of indication on what the fixed costs were for fiscal '18 and what is it likely to be in the current fiscal irrespective of sales, it would be of help in modeling, if you could give some kind of a ball park number.

Dilip Shanghvi: We are not breaking down the costs and separating business-by-business profitability. I understand I think it clearly will help, but I have my challenges, because it is not only information available to investor, it is also an information available to my competitors.

Moderator: Thank you. Next question is from Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: In your opening remarks, you talked about challenging US environment and subsequently about the cost control initiative. Now the general understanding is that the worst in terms of the channel consolidation and competition we have already seen. So I was just wondering you mentioned challenging environment, are you referring to the value of new launches because you

are seeing more players coming in or you see pressure in the base business itself? Also on the cost front I do not know how much you can share like, what is the quantum you are looking at and which are the areas where things can be further tightened?

Dilip Shanghvi: I think in all parts of operations, manufacturing, quality, R&D, cost of product, all of that we have opportunity to become more efficient.

Saion Mukherjee: It is substantial you think as a percentage of sales?

Dilip Shanghvi: Hopefully.

Saion Mukherjee: On the market dynamics?

Abhay Gandhi: On the market dynamics, it is a blend of everything put together. We clearly see larger number of approvals coming through. Runway available for a product even if you are the first or second in market is much shorter than what it used to be, and the competitive intensity and pressures that we see, I do not think it is abating.

Moderator: Thank you. Next question is from the line of Neha Manpuria from JP Morgan. Please go ahead.

Neha Manpuria: On the marketing cost that you mentioned related to the Specialty launches in the US, is my understanding correct that the marketing associated cost is probably the lumpy part of it? Once these launches are through probably in FY'20 would see SG&A part of it become more normalized? I understand that the field force cost would be there, but the launch associated cost?

Abhay Gandhi: I have not really modeled the SG&A expenses over a longer timeframe. So difficult for me to give you a clear answer. It will clearly not reduce, whether it will stay where it is or it will go up will also depend on the initial response of our spend and how well the trajectory looks like. Of course, if there are R&D expenses to do with newer indications and trials that will go along with that and that will be over a longer timeframe, not clearly a lumpy first year and then watered-down year-two, year-three. So, overall I think my sense is over the next two to three years, clearly we will have to continue to invest in the business to help it grow and reach where it should.

Moderator: Thank you very much. Due to time constraints we will take that as the last question. I would now like to hand the conference back 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 over and we will get them answered. Thank you and have a good evening.

Dilip Shanghvi: Thank you.

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