Corporate Participants

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Sun Pharmaceutical Industries Limited Q2 FY16 Earnings Conference Call. As a reminder all the participant lines will be in 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, sir.

Nimish Desai: Thank you. Good evening and a warm welcome to our second quarter FY16 Earnings Call. I am Nimish from the Sun Pharma Investor Relations Team. We hope you received the Q2 financials and the Press Release that was sent out earlier in the day. These are also available on our website.

We have with us Mr. Dilip Shanghvi – Managing Director, Mr. Sudhir Valia – Whole-time Director 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 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 up on our website shortly.

The discussion today might include certain forward-looking statements and this must be viewed in conjunction with the risk 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. Over to you, sir.

Dilip Shanghvi: Welcome and thank you for joining us for this earnings call after the announcement of financial results of the second quarter of FY16. And special thanks for joining on a Saturday evening. Let me discuss some of the key highlights.

This quarter I have a challenge. These results have to be compared to Q2 of last year, which was the best quarter in the history of the Company. Also, this quarter has been impacted by volatile currency movements and supply constraints. The Ranbaxy integration is ahead of track. We are going to implement synergies ahead of time and realize full value by FY18. While significant costs related to the integration have been incurred, and some costs will continue, the benefits will be visible going forward. Our cGMP remediation efforts at the Halol facility are also on track. We continue to make the necessary changes to address the cGMP deviations pointed out by the US FDA.

During the quarter, we bid for acquiring InSite Vision as a part of our efforts towards establishing a branded ophthalmic business in the US. Post the closure of the quarter, we successfully acquired 100% stake in InSite Vision for approximately US$ 48 million. We also successfully completed the acquisition of GSK's Opiates business in Australia which gives us strong backward integration benefits in the controlled substances business.

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

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

Before we discuss the financials, let me highlight that the US dollar for the quarter and the first half was at a higher rate as compared to last year. For Q2, net sales are at Rs. 6,803 crores, down 15% over Q2 last year. Material cost as a percentage of the net sales was 23% same as Q2 last year. Staff cost was at 18% and other expenditure was at 31% of net sales, both higher than Q2 last year.

As a result of the above, the EBITDA for Q2 was at Rs.1,899 crores with EBITDA margins at 28%. Net profit for the quarter was at Rs. 1,107 crores with Net profit margin at 16%. EPS for the quarter was Rs.4.60 on the expanded equity capital post Ranbaxy merger.

Now we will discuss the half year performance. For first half, net sales were at Rs.13,329 crores, a decline of 7% over first half last year. Material cost, as a percentage of the net sales was 24.6% which was slightly higher compared to H1 last year. The staff cost for the first half was at 18% of the net sales while other expenses were at 31%, both higher than H1 last year.

As a result of the above the EBITDA for the first half was at Rs. 3,514 crores a decline of 29% over the first half last year. EBITDA margins were at 26% for H1 compared to 34% for H1 last year. Adjusted for the one-time integration charges which we had disclosed in Q1FY16, the EBITDA Margins for H1 were at 28%.

Net profit for the first half FY16 was adversely impacted by the above mentioned one-time items as well as exceptional charges of Rs. 685 crores in Q1FY16. These exceptional charges relate to impairment of fixed assets and goodwill and other related costs and have arisen on account of integration and optimization measures. As a result, the net profit for the first half FY16 was at Rs. 1,586 crores with reported EPS of Rs. 6.60.

Taro recently posted Q2 FY16 sales of US$ 212 million, down 16% from the corresponding quarter last year. For the first half, sales were US$ 427 million, up by 12% over first half last year. Taro's net profit for Q2 was US$ 133 million, down by 7% over Q2 last year. Net profit for H1FY16 was at US$ 237 million, up by 25% over first half last year.

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

Abhay Gandhi: Thank you Mr. Valia. Let me take you through the performance of our India business. For Q2, sales of branded formulations in India were Rs. 1,819 crores, a growth of 1% over Q2 last year and accounting for approximately 26% of total sales.

Sales growth was adversely impacted due to conscious efforts to control overall inventory with the trade. In addition, sales in the acute segment were lower due to withdrawal of bonus offers and a relatively soft season for the acute segment. For first half, sales were Rs. 3,602 crores, a growth of 6% over H1 last year.

Despite a muted growth in reported sales, growth in the second-line sales for the quarter and the first half is 10% over corresponding periods of last year.

Sun Pharma is ranked No. 1 and holds approximately 8.9% market share in the Rs. 93,000 crore pharmaceutical markets as per Sept-2015 AIOCD-AWACS report. As per latest SMSRC report, Sun Pharma is ranked no. 1 based on share of prescriptions with 13 classes of doctors.

The integration between the India businesses of both Sun and Ranbaxy is on-track and we expect to emerge as a much stronger business post this integration. Strong brand equity with customers and a broad product basket ensures that we are well placed to capitalize on the expected increase in healthcare spending in the long-term. Competition 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 Q2, our overall sales in the US were at US$ 510 million accounting for approximately 48% of our overall sales. Sales for the quarter were impacted primarily due to competitive pressure on some products and temporary supply constraints arising from remediation efforts at the Halol facility. The Company had benefitted significantly in same quarter last year from the 180-day exclusivity on Valsartan tablets in the US resulting in a higher base. Sales for Q2 include non-recurring sales of approximately US$40 million which are unlikely to repeat in the remaining two quarters of this fiscal year. Regaining the trust of the regulator and customer confidence will be the key focus for us going forward.

Our sales in emerging markets were at US$ 140 million for Q2, accounting for 13% of total sales. Sales were impacted due to volatile currency movements in certain emerging markets and a strategic decision of not participating in low margin businesses.

Formulation sales in Rest of World (ROW) markets excluding US and Emerging Markets were US$ 76 million in Q2, accounting for approximately 7% of revenues for Q2 FY16. We have made a conscious effort at reducing the participation in non-remunerative businesses which has contributed to the de-growth in the business.

The API business is of strategic importance to us due to benefits from vertical integration. We continue to increase the API supply for captive consumption significantly for key products. External sales of API for Q2 were at Rs. 315 crores, up 13% from the corresponding quarter last year.

We continue to invest aggressively in R&D. Consolidated R&D expense for Q2 was Rs. 498 crores, accounting for 7.3% of sales. For H1, R&D spend was Rs. 1,009 crores at 7.6% of sales. This

includes significant investments on account of funding the clinical development of MK-3222. 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 market with 154 ANDAs awaiting approval with the US FDA. Our comprehensive product offering in the US market consists of approved ANDAs for 445 products. During the first half, ANDAs for 6 products were filed and 8 approvals were received.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Saion Mukherjee from Nomura Securities. Please go ahead.

Saion Mukherjee: So first on this India business, you mentioned about reduction in bonuses, so is this a industry wide phenomena or is it something which Sun Pharma is pursuing and how should we think about growth in the domestic market therefore going forward?

Abhay Gandhi: So it is not an industry wide phenomena, but having said that we realized that there are products where the strength that we have is enough for us to be able to have a reduction in the bonus offer and make the brand profitable and also continue to invest in the market. So these actions will have an immediate impact but long-term I think the teams are really confident that we will be able to increase the share of prescriptions and keep the brands growing as we go along.

Saion Mukherjee: And my second question, I see an increase in receivables, a significant increase, is there any reason for that?

Uday Baldota: Saion, this is Uday here. I think there are a couple of reasons, and let me at the outset say that there is no risk to any of the receivables numbers that you see there, everything is good. The only thing is that at a point in time which is end of September there has been some increase and when you compare it with March, I think there has been some reduction in the receivables partly on account of excess payment made by a large customer. So I think to that

extent the impact is getting a bit magnified, but overall I think the level will moderate going forward a bit but I think there is no risk to the receivables number.

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

Anubhav Agarwal: Uday, one question on the tax rate, tax rate this quarter is 20% and your balance sheet shows that the deferred tax rate net has increased with $35 million in the six months. I just want to understand one thing here that what implies as a cash tax rate, what you are paying is even higher than the 20% tax rate that you are paying in the second quarter, which entity is driving this, is it Taro, ex-Taro, can you give some clarify here?

Uday Baldota: I think we prefer not to get into the entity level details Anubhav.

Anubhav Agarwal: But can you give, P&L tax is 20%, cash tax rate is even higher, can you explain that deferred tax increase of $35 in six months?

Uday Baldota: That is on account of I think different litigations.

Sudhir Valia: Cash tax is also taken in to account with advance tax.

Anubhav Agarwal: Sir, I am understanding Mr. Valia with one thing simple here that in 1Q our P&L tax is 14%, now 2Q is 20%, average is 17%. And cash tax rate because of advance tax rate seems to be higher than 17%. So what is the expectation, simply let me ask on this question, what is your expectation of tax rate for the year both on tax rate and the cash tax rate because advance tax rate should get normalized over the year?

Sudhir Valia: That's right, it should get normalized. We have already indicated that as the size of the company and subsidiaries internationally increase the average tax rate is likely to go up.

Anubhav Agarwal: So should we assume that 17% for first half should…?

Sudhir Valia: That's for you to estimate.

Uday Baldota: But we have generally indicated that our tax rate should gradually increase over the coming years.

Anubhav Agarwal: Okay. My second question is, in your Annual Report on that $400 million deal you have done, you have taken expenses $16.5 million last year, can you explain the nature of that because we were under the impression that in FY14 when you have taken a $38.5 million expense in the P&L, the future expense on this deal were largely taken. So two questions here, nature of the $16.5 million expense, why this expense? Second, on this deal can we have further expenses like this in FY16, FY17?

Uday Baldota: I will take second question first. No, I think this is only in the year that you saw it and I think there was an increased charge on account of some amount of reworking that happened but this is only one time, it is not recurring.

Anubhav Agarwal: So the negotiation that you were running you were saying that the increase negotiation amount to the party.

Uday Baldota: No, I would not say that, I think there was some period extended and that's the reason there is an additional cost.

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

Girish Bakhru: Question on InSite, I mean I know it is a small company but just wanted to get sense on, if I see a lot of products in the market are already partnered so when you buy a company these partnerships basically continue and where would say the future products fit in, just to throw a ballpark color on overall how this entity will play in next few years.

Dilip Shanghvi: InSite has one NDA for which the PDUFA date is for March of next year and that is not a partnered product. They have one more product which hopefully we should be able to file with some additional studies and we are in the process of ascertaining the time that it will take us to file that product. But when we valued the business I think we have put minimum value to partnered product.

Girish Bakhru: So there are no more royalties to be paid to account or valiant on the existing products?

Dilip Shanghvi: We will get some royalty.

Girish Bakhru: I mean, so those partnerships basically will continue and you get royalties on those partnered products?

Dilip Shanghvi: Correct.

Girish Bakhru: And overall on the recent hires that you have done in the US to build this team, so if you could comment on where do you see this branded ophthalmology business, what is the peak potential given this technology and I am trying to also assess is if this technology per say can be replicated to do very high end products like emulsions and stuffs.

Dilip Shanghvi: I think we still have to fully understand the flexibility and the strength of the technology. The product technology helps to achieve higher level of drug delivery to the eye through eye drops. We still do not understand what is the level of flexibility within the technology. So as we get to understand the technology better I think we can brief you about those potential, but I think the idea for us is to create an attractive basket of ophthalmology brands which will help us become successful in the ophthalmology segment.

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

Surya Patra: Just the US$40 million one-off kind of revenue in the US for the quarter that you indicated, can you clarify what is that and it will not be there subsequently, right?

Dilip Shanghvi: That is what is our assessment, it does not mean that we cannot sell more of other products but I think it was important for me to indicate that so that it is factored while you calculate the current performance.

Surya Patra: So is it that part of the earlier US$400 million supply pact that we had indicated some time back, is it part of that sir?

Dilip Shanghvi: No, there is no relationship.

Surya Patra: And second, regards this GSKs opiates business, certainly this is kind of a great acquisition for us but what is the kind of revenue and earnings potential that we should see out of it and whether any number is already factored in the quarterly number so far?

Uday Baldota: Yes, it will be very negligible during Q2.

Surya Patra: And what is the kind of a potential of this business going ahead, can you just highlight something on it?

Dilip Shanghvi: Yes, I think longer term potential will be factored in our next year's guidance. We believe that the business is strategic and important for us to give attention to and that will be factored into our next year's guidance as we keep on utilizing this capacity for creating an attractive product basket.

Surya Patra: And just last one question sir, you have talked in the initial comment that your integration process are ahead of the expected time lines, by that what do you mean and is that okay we have completed all the kind of corrective actions in the Halol plant also, can you just give some indication?

Dilip Shanghvi: No, I think while we did the integration planning, we had certain scheduled list of activity and tentative dates by which we will close those activities. Now some of those activities we are able to close faster, so that is how we say that it is running ahead of schedule.

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

Sameer Baisiwala: How should we be thinking about Halol and I am specifically speaking about, whether you would require re-inspection and if yes then the kind of time that it is going to take finally it gets cleared, then have we de-risked Gleevec enough not to miss it's February timelines. And just on Halol, given that it has been more than 12 months since your inspection, so is there something to comfort that we are not heading towards a warning letter or import alert?

Dilip Shanghvi: No, I think the first one I think is easier for me to respond. Since the first inspection has official action indicated, the site will come back in compliance only after it is re-inspected and we address all the concerns which were raised by the FDA. And I think from our side we have submitted an original remediation plan to the FDA and we are keeping them updated on the progress that we are making at a particular frequency. And like what I said about integration, I think even for the remediation we have a scheduled timeline and we are pursuing the time line and we are meeting those timelines. So from our point of view I think, things that we have promised or assured FDA we are addressing. Now about the warning letter, I think that is an issue that clearly is difficult for me to respond because that is a decision which FDA needs to take. We believe that we worked very hard to address all their concerns and hopefully our optimism will be validated.

Sameer Baisiwala: And on Gleevec have you derisked it form Halol?

Dilip Shanghvi: Yes. Gleevec we have filed from an alternate site.

Sameer Baisiwala: And sir my second question is about MK3222, when are we expecting the data readouts for Phase III and the likely NDA filing date?

Dilip Shanghvi: By the end of this year I think we are expecting the top-line data read out and we are expecting the product to be filed in calendar year 2017.

Sameer Baisiwala: Sir just with your permission on MK3222, sir in Phase II data I think Merck had disclosed about PASI75 and not PASI90. Do you think this is important and is this something that we should expect in Phase III data readouts?

Dilip Shanghvi: No, I think it is an important question especially in the context of readout from all the other products I am seeing, the PASI90 and PASI100 will be important readouts. Now there is agreed primary end point for the study which has been agreed with FDA, so we have to evaluate and also I think that something we are actively evaluating because these are important decisions and we want to ensure that the product can effectively compete with the products which are in market. Initial internal analysis indicates that we have good data.

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

Manoj Garg: Sir like in your FY15 Annual Report you have disclosed that Sun Pharma Global entity has extended US$400 million interest free loan to third party for 12 months. So just like to know what is the interest here for Sun Pharma and can you disclose the identity of this party?

Uday Baldota: Manoj just to explain, I think that was a very short-term temporary arrangement and that has already been reversed.

Dilip Shanghvi: And it is a third party arm's length transaction.

Manoj Garg: So this transaction has already been reversed now?

Uday Baldota: Correct.

Manoj Garg: And sir another thing, if I look at on the other current assets line item, while in the standalone account there is a decline in other current assets are a line item but it is consolidated, it is on the same level. So my understanding is like this will pertain to last year, the deal which we have done vis-à-vis third party where we were supposed to receive that US$400 million. Whether that money has come back and what is the difference between the standalone and consolidated account statement?

Uday Baldota: Manoj, maybe I think this is a detailed question, we will take offline. But prima facie when I look at the consolidated numbers the other current assets is declining from March, so I do not know if you are referring to something else, but we can take this offline.

Manoj Garg: And the last question if I can ask you, again on Sun Pharma standalone domestic businesses and pharma laboratories, there is a professional and consultancy charges of 1.3 billion in FY15, so can I understand the nature of the charges because I think it is primarily for the standalone domestic business.

Uday Baldota: Yes, but I think that business also continues to draw upon the resources and advice, so I think it is basically related to that, I do not know what specific details you wanted there.

Manoj Garg: No, because the amount is significantly higher over there, it is almost 1.3 billion.

Uday Baldota: If you were to look at it is also engaged in using advisors and consultants and different kind of things that it will lead to running the business, so it is all related to that.

Moderator: Thank you. Our next question is from the line of Aditya Khemka from DSP Blackrock. Please go ahead.

Aditya Khemka: Sir so firstly if you look at Halol, so has anything changed Q-o-Q, I understand that we are really sending updates to the FDA, have you received any feedback from the FDA regarding whether they agree to what you are doing or any sort of color from them and how you should move forward?

Dilip Shanghvi: I do not think FDA responds to our updates in any kind of structured way, but they will consider all the updates and responses and validate that in the next inspection.

Aditya Khemka: And just on the same lines we have not really discussed an inspection date with them already?

Dilip Shanghvi: Yes.

Aditya Khemka: So have we already decided upon an inspection date with the FDA or are we yet to sort of invite them for an inspection?

Dilip Shanghvi: We have not decided on the inspection date.

Aditya Khemka: And on Halol again, have our supplies Q-o-Q from Halol improved both in terms of volumes and revenue?

Dilip Shanghvi: Marginally.

Aditya Khemka: And last question if I may sir, you EM business and ROW business both are getting impacted due to rationalization of low margin businesses, given where the currencies are obviously some businesses which were previously lucrative might be not so lucrative at this point in time, so just want to understand that in a little more detail if you may.

Uday Baldota: Aditya can we take this question later, you can join the queue.

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

Nimish Mehta Once again on Halol, if you can just let us know since even without the US FDA inspection technically we can start full production or you can redeem back to full production, so are we planning to coming back to full production before the inspection now that we are almost on schedule in submitting on the updates.

Dilip Shanghvi: There is no restriction currently on the exports out of the facility. So as we keep on remediating and also are confident that the processes and product meet the new expectation then we will continue to supply.

Nimish Mehta: No, I mean what I am trying to understand is that are we trying to come back to full production before the inspection or we would want to wait for the inspection to happen and only then we will come back for production?

Dilip Shanghvi: We will try to come back to full production without waiting for FDA to come back.

Nimish Mehta: The second thing I wanted to know on Tildrakizumab general understanding on the space, what do you think would be the biologic market share as percentage of the total plaque psoriasis market as of now and do you think biologics in general not just intermittent will also grow significantly within that space?

Dilip Shanghvi: Currently, the overall share or the usage of biologics for plaque psoriasis is less than 10% and as doctors will become more comfortable with relatively safer new biologicals, I expect the usage of biologics to continue to grow.

Nimish Mehta: And within biologics hopefully ILs should grow faster, I mean I am trying to understand that as well.

Dilip Shanghvi: We see that clearly these biologics have far higher efficacy and also relatively low level of side effects. So all the product IL23, IL17, all of them are likely to grow.

Moderator: Thank you. Our next question is from the line of Chirag Talati from Kotak Securities. Please go ahead.

Chirag Talati: Just one question, this year you have seen a sharp increase in contingent liability from tax disputes, what I would like to understand what is the timeframe for some of these tax disputes to end in terms of if there is a negative outcome what is the timeframe for these disputes, two years, five years, how should we look at it?

Sudhir Valia: We hope that it is shorter, but this is primarily due to the merger with Ranbaxy.

Chirag Talati: And we do not expect this to repeat in the coming years?

Sudhir Valia: It is a part of our business now. We will try to restructure so that we have lesser litigations.

Moderator: Thank you. Our next question is from the line of Surjeet Pal from Prabhudas Lilladher. Please go ahead.

Surjeet Pal: Just two questions, your improvement in US sales quarter-on-quarter by around US22 million, is it mainly for Halol improvement or is there anything else?

Dilip Shanghvi: It is also because of increased sale that we would have for products that are made in the US.

Surjeet Pal: And that includes your concern on latest recall from Ohm Labs?

Dilip Shanghvi: What is the question?

Surjeet Pal: I mean if the US manufactured products you mean Ohm Labs or your control substance product?

Uday Baldota: We have several facilities in the US actually.

Surjeet Pal: Second question is that, Dilip did you mention when you were talking about Halol, is it official action intended status already been there?

Dilip Shanghvi: Yes, it is there.

Surjeet Pal: So does it mean that virtually it is a warning letter from your experience?

Dilip Shanghvi: The FDA has different levels of escalation, so what FDA means by official action indicated is that till the time the concerns are not addressed we will not get new approvals. The expectations out of firms who receive warning letter are higher.

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

Abhishek Sharma: I had two questions. Just wanted to understand if this US$40 million that you are saying is one-off, was this present in the first quarter as well? And second, I wanted to understand what is the status of the import alert at the Karkhadi facility, I mean have you moved ahead on that?

Dilip Shanghvi: The US$40 million is only in this quarter, it was not there in the earlier quarter. The answer to second question is that I think like what we are seeing for Halol also I think we have given certain compliance plan to the FDA and we keep FDA updated on our compliance status of the facility.

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

Prakash Agarwal: Sir, question on Ranbaxy related cost, I mean this quarter practically we have not seen or have we seen any related cost which might have impacted the P&L or the balance sheet?

Dilip Shanghvi: There would have been amounts that we have not separately listed, so it is difficult for us to specifically mention and that's why we have not mentioned that as a separate item.

Prakash Agarwal: It would be miniscule versus large pieces which we have seen in the past quarter?

Dilip Shanghvi: That is right.

Prakash Agarwal: And secondly sir, some clarity on the tax rate, I mean I understand you gave some color that tax rates will on a higher level versus past year but would the current 1H would be the right way to look at it, some guidance would have helped.

Sudhir Valia: There is no guidance. We have many subsidiaries and we are present in so many markets. Hence, it is difficult to give a firm guidance.

Prakash Agarwal: Yes, but could we expect taxes at similar levels, if you could answer that.

Sudhir Valia: It will depend on which subsidiary will do well.

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

Manish Jain: My question was for the innovative product, just wanted to know how has been the response for PICN in India. And second one was, given that your filing MK3222 targeting in calendar 2017, the manufacturing plan for that? And the last one was on Doxil non-US approvals, are they getting impacted because of Halol?

Dilip Shanghvi: The first question is related to PICN in India. I think we see a lot of excitement and interest in the doctors and in a very short period of time we have more than 100 patients put on the product, so that is a good beginning. And also specially for PICN, we continue to pursue an approach whereby we will try and register the product as a bio-equivalent product as per the guidance shared by FDA for registering generics for Abraxane. So that is something which we continue to stay focused on. What was your second question?

Manish Jain: Was on the manufacturing plan for MK3222

Dilip Shanghvi: The API for the product will be initially made at the Merck facility and all the clinical trials and other supplies are also being formulated at Merck facility. At some point of time there will be a plan to move it out of the Merck facility, but Merck will be actively involved in selection of the CMO who will take up the production of MK3222.

Manish Jain: And last one was, are Doxil non-US approvals getting impacted by Halol by any chance?

Dilip Shanghvi: Actually we continue to supply the product out of Halol to all the markets, so from that point of view there is no constraint in our ability to file. But we have not filed this in any other major geography and the two major geographies would be Europe and Japan. So should we file this in any of these markets, we will keep you updated.

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

Sameer Baisiwala: On MK3222, you had I think a couple of calls back mentioned that you would be looking to expand the indication. What are the current thoughts on this?

Dilip Shanghvi: The thoughts remain the same, we actually are actively evaluating which other indications can we address and also preparing for new studies that we will need to do for new indication. The idea for us is to first close the dermatology related indications and say like one major overlap is psoriatic arthritis and that is something that we wish to address immediately. But you must have seen that Stelara has worked in Crohn's disease, so we continue to look at additional options, only thing is, each of the study involves significant costs so we need to balance between our ability to fund as well as the potential opportunity upside.

Sameer Baisiwala: And how much time does it take to add an indication to the label?

Dilip Shanghvi: Depends on our ability to complete the clinical study and file. So if it is relatively easy study to complete then maybe 2.5 years, maybe if it is a longer study then maybe a little bit longer. Also, other issue is the issue related to dosing, because some indications will require dosing of much higher level than what we would be using currently for psoriasis. So there will be additional work required.

Sameer Baisiwala: And the second question on this is, is there any clue at the moment that how does IL-23s would compare with IL-17? I understand yours is better than Stelara which is IL 12-23, but anything to compare with 17s?

Dilip Shanghvi: There are no head to head comparisons, difficult to immediately say that because they are superior, inferior. And also what we have seen for many of these class of drugs is that there is a relationship between the dose used and the outcome and companies have followed different approach towards dosing, some companies have been very aggressive and use very high dose and they see slightly higher level of efficacy, but maybe slightly higher level of side effect also.

Sameer Baisiwala: So I guess that takes us to the logical question that you have three IL-17s ahead of you and one IL-23 right behind you, so are you getting into a crowded space with a very little differentiation, is that something that bothers you?

Dilip Shanghvi: Clearly it is a crowded space there is no dispute about this. So on one side it is a crowded space, on the other side it is a space in which many of the currently used products are likely to be generics. So you are squeezed from both the side, the good news is that the product is much safer and clearly more efficacious than products which are getting genericized, so that is positive. Our own view is that with safer products coming to market the product usage which is currently very low is likely to become higher in terms of overall percentage of patients who are treated and who respond. And a large number of patients who have PASI 90 and PASI 100 scores that are expected will also increase the pressure on doctors to use this because if the patients can leave a kind of very-very high level of response and relatively safe then there is no medical justification not to use it. So that is the positive, so I am cognizant of increased competition but we are very excited about being part of the group which will expand the market.

Sameer Baisiwala: I don't know if I can ask one more question, but…

Dilip Shanghvi: Actually once we have the top-line data what we intent to do is we will have a much more detailed product specific conference call not related to quarterly call, because I understand two issues, one is that this is something which not many Indian companies have done in the past, so there is a natural level of curiosity and we are building that skill set of understanding and also putting value of these products into company values. At the same time this is exciting area, we are as excited about this that I see analysts are and we would be happy to share our excitement with you.

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

Anubhav Agarwal: One clarification on this number that you shared, US$40 million sales one-off in this quarter in the US, just can you help, is this higher inventory of an existing product or is this driven by new product that you have launched in this quarter?

Dilip Shanghvi: We have summarized what is the sum total of everything in to a number and share that's with you.

Anubhav Agarwal: Actually I am confused here, because if we adjust for this US$40 million and with your comment that Halol output is marginally higher and Taro sales were largely flattish, what adjustment this US$40 million means that our US sales are down US$20 million sequentially?

Dilip Shanghvi: Volumes are high but there are also pricing challenges. So I think it is a large number of moving pieces, but what I wish to emphasize that we are comfortable with the original guidance that we have shared with you.

Anubhav Agarwal: And one question on the India business to Abhay is that when he explains that you controlled inventory in the trade, can you explain that what does that mean? I could understand the bonus but I could not understand controlling inventory in the trade.

Abhay Gandhi: I mean bonus offer itself is responsible for higher inventory and the trade isn't.

Anubhav Agarwal: One question on the other income Uday, this quarter you have reported Rs. 190 crores, now Taro reported a forex gain of almost US$34 million which was itself Rs. 190 crores, so I just wanted to understand that what about interest income this quarter or is it that Ranbaxy incurred large forex losses and therefore we are seeing the net off?

Uday Baldota: There are forex losses which are there, but I think it would be part of the overall number. So it is difficult to give a breakup at the moment but there are forex losses at both Ranbaxy and Sun side.

Anubhav Agarwal: Can you confirm if Ranbaxy's structured options are exhausted not because of the run rate that they were exhausting should be over by now, it would be there in this quarter?

Uday Baldota: I think probably two or three more months, that's it.

Moderator: Thank you. Our next question is from the line of Aishwarya Dipak from Reliance Mutual Fund. Please go ahead.

Aishwarya Dipak: Just one thing, can you help us with the time line for Halol ramp up to full capacity?

Dilip Shanghvi: The major focus for us is to get back in compliance and focus on trying to get product approvals which are withheld because they cannot be approved. That is a much bigger focus for us than ramping up the production.

Aishwarya Dipak: So for that you people are already doing all the necessary things for the remediation, and say if the FDA takes time to visit the facility than would it not be prudent to improve the utilization or it is not possible?

Dilip Shanghvi: It is possible and we continue to do that and that also is equally important priority, so we have some products which are available based on the market requirement where we have adequate inventory and we have some products in which we have shortages. So the focus for us is to find a way to address the shortages as rapidly as possible.

Aishwarya Dipak: So sir do you have any internal timeline to address these things that okay maybe six months or three months is what we can finish it and reach to the level which we want to do?

Dilip Shanghvi: So let's say our service level today is in 80s, Taro service levels is in 95 plus so our objective would be to reach service level of 95 plus in as shorter period as possible and that is the focus.

Aishwarya Dipak: Yes definitely, but is it possible to give any timeline for this or…?

Dilip Shanghvi: It is difficult to give a date.

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

Manoj Garg: Given the fact that now this Secukinumab from Novartis is becoming a gold standard for the first line treatment in terms of plaque psoriasis**,** any thoughts like how our MK3222 performs against this molecule or is there any like-to-like or head on head kind of study which is there right now?

Dilip Shanghvi: There is no head to head study because when the study for MK3222 started Cosentyx was not even approved, how can we do a head to head study with that.

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

Prakash Agarwal: Just trying to understand this OAI that we normally get once the FDA inspects and finds some serious issues, so is this at the time of 483s that we received we get the potential OAI or OAI at that time or is it a function of basically later on with the further FDA correspondence, when do we get to know about these?

Dilip Shanghvi: It is difficult I mean in the sense that honestly I do not know I should, but I got to know this a few months after we got the 483s.

Prakash Agarwal: Because the question why I am asking is, in 2Q results of Dr. Reddy they shared that two of their products which were approved for partners have been reversed it because of the potential OAI. So they shared then, so I am not sure whether it comes at the time of 483s or later.

Dilip Shanghvi: You should check with Dr. Reddy's no.

Prakash Agarwal: No, no for Sun Pharma I am asking, what was our case?

Dilip Shanghvi: I said that I do not know, I got to know of this a few months after issuance of 483s and when I got to know we shared it with the investors.

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

Rahul Sharma: Just wanted to ask, on our other expenses on a Q-o-Q there has been an increase of almost 2 billion, any particular reason, anything which has come off which is one-off or anything?

Uday Baldota: So there would be a lot of things added and included in the other expense. Specifically responding giving granular details will be challenge but there would be a lot of moving parts there Rahul.

Rahul Sharma: Because what is happening is it is almost 31% as against 21%, so just wanted to…

Uday Baldota: I think that 31% you are also looking at YoY, right?

Rahul Sharma: Yes, on a YoY also if I am comparing it is from 26% to 31%, on Q-o-Q it was around 21% it has gone up to 31%.

Uday Baldota: That's the sale base once it is high than the difference will be the percentage number, that's only one contributor.

Rahul Sharma: But even if I take on absolute number it is almost 1.8 billion which is there, so anything particular which is there or it is just…

Uday Baldota: No one particular large item, it is a mix of several points.

Rahul Sharma: Is it recurring or…?

Uday Baldota: Most of these items would be recurring, not necessarily in the same level of quantum.

Dilip Shanghvi: And also I think our focus will be to find a way to improve our efficiency at all costs.

Moderator: Thank you. I would now like to hand the floor over to Mr. Nimish for closing comments. Over to you, sir.

Nimish Desai: Thank you everybody for joining this call on a late Saturday evening. If any of your questions have remained unanswered do send them across to us and we will have them answered. Thank you.

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