Corporate Participants

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Moderator: Ladies and gentlemen, good day, and welcome to the Sun Pharmaceutical Limited Q4FY20 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 call, please signal an operator by pressing * then 0 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 fourth quarter FY20 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 earlier in the day. These are also available on our website.

We have with us Mr. Dilip Shanghvi – Managing Director, Mr. Abhay Gandhi – CEO (North America), Mr. C. S. Muralidharan (CFO) and Mr. Kirti Ganorkar (Head – 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 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: Thank you, Nimish. Welcome, and thank you for joining us for this earnings call after the announcement of financial results for the fourth quarter of FY20. I hope you and your family are safe and healthy.

During this pandemic period, our main focus has been to maintain continuity of our product availability and ensure that in this challenging time, patients who are on treatment continue to get their medications uninterruptedly. Our employees have put in significant efforts through this period of crisis to ensure supply chain and business continuity and have done a reasonably good job of it. Within 2 or 3 days of the lockdown being announced, our IT enabled almost close to 1,000 people to work from home. In a situation where there were multiple disruptions in manufacturing because of multiple challenges in terms of availability of intermediates, availability of packaging material, our supply chain team ensured that we have uninterrupted supply of all our products across market at all our manufacturing facilities. So I wish to place on record the appreciable work that all of these people did in this challenging time which is globally a huge challenge.

Now let me discuss some of the key highlights of our performance for the quarter. Consolidated sales for the quarter were Rs. 8,078 crores, a growth of approximately 15% over Q4 last year, while the full year FY20 sales were Rs. 32,335 crores, recording a growth of about 13%. Key growth drivers for the full year FY20 include India, our global specialty business, coupled with growth in our rest of the world and API businesses.

While we continue to focus on controlling costs, improving productivity and improving efficiencies in all our parts of businesses, the COVID-19 pandemic is likely to change the way business will be conducted in future, at least for a short time. And the key focus areas for us in the coming quarter will be:

1. Employee protection and keeping workplace COVID-19 free
2. Digital engagement with doctors and patients
3. Supply chain protection, ensuring optimum utilization of our factories; working closely with vendors to ensure continuity of supply, while at the same time continuing our focus on improving productivity, improving throughput; enabling work from home for employees wherever and whenever it is necessary and
4. Focus on cash collection, cash preservation and where possible, finding a way to reduce the overall debt for the company.

We estimate some softening of sales in the near term due to the lockdown and some stockpiling by the customers. It is difficult to quantify the impact at this point of time. Our endeavor will be to ensure that we continue to progress in all our businesses.

Let me now update you on our specialty business. We are witnessing a consistent progress in our global specialty revenue. For Q4, our specialty revenue was approximately US$126 million across all markets, while specialty R&D accounted for 24% of our total R&D spend for the quarter. ILUMYA has recorded approximately US$94 million sales globally in its first full year of commercialization. Abhay will discuss more details on our specialty business later.

I will now hand over the call to Mr. Murali for discussion of the financial performance.

C. S. Muralidharan: Thank you, Mr. Shanghvi. Good evening, everyone, and welcome to all of you. Our Q4 financials are already with you. As usual, we will look at key consolidated financials.

Overall Q4 sales are at Rs. 8,078 crores, up by 15% over Q4 last year. On the expenses side, the year-on-year increase in material cost is mainly driven by product mix and increase in material consumption for Taro. Staff costs are up by 5% over Q4 last year, while other expenses are up by 1% over Q4 of last year. EBITDA for Q4 was at Rs. 1,256 crores with EBITDA margin at 15.5%. Adjusted net profit for Q4 was at Rs. 660 crores, excluding the impact of exceptional items of Rs. 260 crores. Reported net profit for Q4FY20 was at Rs. 400 crores, while reported EPS for the quarter was Rs. 1.67.

Let me now discuss the movements versus Q3 of this year. The increase in material cost for Q4FY20 over Q3FY20 is driven mainly by product mix and increase in the material consumption for Taro. The sequential increase in staff costs is mainly due to provisions for incentives and bonus in one of our subsidiaries. Other expenses were higher in Q4 compared to Q3FY20, mainly due to higher SG&A at Taro. EBITDA margins for Q4 at 15.5% were down compared to Q3, mainly due to the forex loss of Rs. 143 crores versus a forex gain of Rs. 82 crores, a swing of about Rs. 225 crores. Almost 50% of the sequential decline in EBITDA is due to the swing in forex, while the remaining is due to the increased expenses as mentioned above.

Tax expenses for Q4 at Rs. 83 crores are also significantly lower as compared to Q3FY20, resulting in 10% effective tax rate. We have consistently maintained that our quarterly tax rates are volatile and the investors should look at our annual tax rate, which was at 16.4% for the full year FY20.

Now we will discuss the full year performance.

Net sales were at Rs. 32,325 crores, a growth of 13% over FY19. Material cost as a percentage of the net sale was at 28.6%, which was higher than same period last year, mainly due to higher material consumption for Taro and overall product mix. We were able to restrict the year-on-year staff cost increase to single digit despite the full year impact of Pola Pharma acquisition. Other expenses were up by nearly 16% over FY19 due to the marketing spend for the specialty business and the full year consolidation of Pola Pharma.

As a result of the above, EBITDA for the full year was at Rs. 6,477 crores, a growth of 9% over the full year period last year, with resulting EBITDA margin of 20%. We have been able to maintain our EBITDA margin near to that recorded in FY19 despite the significant spend on marketing and promotion of specialty products.

FY20 finance cost has reduced year-on-year to Rs. 303 crores as compared to Rs. 555 crores in FY19, mainly on account of debt repayments in FY20.

Excluding the exceptional items for both FY20 and FY19, net profit for FY20 was at Rs. 4,026 crores, up approximately 4% over FY19. Reported net profit for FY20 was at Rs. 3,765 crores while reported EPS for the full year was Rs. 15.69.

At today's Board meeting, the Board of Directors have declared the final dividend of Rs. 1 per share.

Let me now briefly discuss Taro's performance. Taro posted Q4 FY20 sales of US$ 175 million, down 3% over Q4 last year. For the full year FY20, sales were at US$ 645 million, down by 4% over the last year. Taro's net profit for Q4 was at US$ 54 million, down by 7% over same period last year and for the full year FY20 was at US$ 244 million, down by 13% over the previous year.

I will now hand over to Mr. Kirti Ganorkar, who will share the performance of our India business.

Kirti Ganorkar: Thank you Murali. Let me take you through the performance of our India business.

For Q4, sales of branded formulations in India were Rs. 2,365 crores, accounting for approximately 29% of total sales. Sales for Q4 last year included a one-time impact of approximately Rs. 1,085 crores related to the change in distribution for India business.

If we look at the full year FY20, India sales were at Rs. 9,710 crores with an adjusted growth of 15%. We have shown a robust business growth in India business of 15% against the market growth of about 10%. Our India business has done well, and we have started witnessing an increase in our market share. While AIOCD-AWACS MAT March 2020 market share is 8.2%, now on a monthly basis, it is continuously improving, and it has now improved to 8.4% in Q4FY20.

Although our medical representatives have not been able to physically visit doctors' clinics in the past 2 months, we are reaching out to the doctors and health care professionals digitally. As government regulation permits physical movement of people, our medical representatives have started visiting clinics and meeting doctors. Our strong brand equity with the doctors, especially in the chronic segment, has helped us in protecting our business in these difficult times, although the prescription in the acute segment has suffered.

We continue to focus on maintaining our strong brand equity with the doctors and patients. The Indian formulation market offers good long-term potential given the favorable macroeconomic drivers of pharmaceutical consumptions. We also continue to remain the partner of choice for in-licensing, given our strong no. 1 position in many therapy areas.

With this, now I hand over to Abhay.

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

For Q4, our overall sales in the US were at US$ 375 million, accounting for approximately 34% of overall sales. Although we recorded a 15% decline YoY, the numbers are not strictly comparable as sales for Q4 last year included a one-time contribution from the special business in US. The US generics business continues to be competitive and we continue to evaluate ways to counter the competitive headwinds.

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

Our specialty revenues in US have grown over December quarter despite the anticipated seasonal decline in Absorica and Levulan sales. The growth is mainly driven by improving sales of Ilumya, Cequa and Yonsa.

Like in case of all other innovator companies, our specialty sales force was unable to visit doctor clinics for brand promotion in the last couple of months. We have relied on digital engagement with doctors and healthcare workers for promoting our products. Patients in US have also significantly expanded their digital connect with doctors.

As different states in US gradually lift the lockdown, we expect our sales representatives to restart doctor visits.

Although we continue to invest in branding and promotion of specialty products, we believe that our ability to absorb these costs will improve in the coming years as our specialty revenues ramp up.

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

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

Our sales in emerging markets were at US$ 187 million for Q4, up by about 8% year-on-year and accounting for 17% of total sales. As indicated in our previous earnings call, we are witnessing a reduction in tender revenues in our South Africa business. Excluding the impact of the tender sales, we have recorded a double-digit growth year-on-year for our emerging market portfolio. Key markets which contributed to the growth were Russia, Romania and Brazil.

Formulation sales in rest of world markets, excluding U.S. and emerging markets, were US$ 155 million in Q4, up by 1% over the same period last year. Rest of the world markets accounted for 14% of Q4 revenue.

Our API sales for Q4 were at Rs. 483 crores. For the full year FY20, our API sales were at Rs. 1,916 crores, recording a growth approximately of 11% year-on-year.

We continue to invest in R&D for enhancing our pipeline. Consolidated R&D investments for Q4 is Rs. 536 crores, accounting for 6.6% of sales. Our current generic pipeline for the U.S. includes 98 ANDAs and 5 NDAs awaiting approval with the U.S. FDA.

Our overall R&D spend for the full year FY20 was Rs. 1,974 crores at 6.1% of revenue. This R&D spend enables development of future product pipeline, including specialty and differentiated products.

As for the guidance, I wish we could give you a guidance. However, given the uncertainties in the near term, we are breaking from our normal practice of giving a guidance. We will revisit this stance in the next quarter. Our endeavor will be to gain market share in each of our business by doing better. Despite the near-term uncertainties related to COVID-19, we hope to be able to do better consistently.

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

Moderator: Thank you very much. We will now begin with the question and answer session. We take the first question from the line of Neha Manpuria from JP Morgan. Please go ahead.

Neha Manpuria: My first question is on the specialty business. We did see the initial traction that was being witnessed in Cequa sort of come off due to COVID. Sir, based on your conversations, when do you see Cequa going back into at least gaining market share again particularly because of ophthalmology, could this be slightly longer than, let's say, other categories in the U.S.?

Abhay Gandhi: So thanks for the question, Neha. You're right. We were ramping up quite nicely before the pandemic occurred. And I think ophthalmologists and optometrists were two of the first categories to actually close shop. So yes, there was a little bit of a downward trend in the prescription till last week. And when I saw the reports in the morning today, for the week, the current week, I can see an uptick. But it's just a week's data, so let me caveat that. And hopefully, sooner rather than later, we will start getting back to where we were. Our number of prescriptions have dropped. But if I see market share, we haven't lost market share. But I mean the overall category of dry eye has come down because it would be considered like sort of a lifestyle disease. So the number of patients reaching to the doctors also has come down. What I hear is that the number of clinics which are now offering both tele-consultation as well as slowly starting opening up is increasing. And this is, of course, the numbers will keep varying depending on what report you will read and on which day you read it. But I think slowly and steadily, the number of clinics opening up is something I can look forward to.

Neha Manpuria: And sir, just another question on Cequa. Given the competition scenario, I mean, like you said, the entire market has slowed down, is our sales and marketing strategy different for the product now versus, let's say, pre-COVID in terms of the amount of investment we had planned?

Abhay Gandhi: We had to quickly change track and shift a lot of our direct to doctor kind of promotion and an in-clinic promotion to a lot of virtual media. But we haven't cut back on investments. I mean we kept doing the virtual meetings with doctors, we kept doing virtual group meetings with doctors and speaker programs and so on. So we haven't deliberately cut back on expenses because I think the disruption is going to be short term. However, I think the potential of the product and, in general, the products that we have in the specialty business, I think we have taken a long-term view of what is possible.

Neha Manpuria: Understood, sir. And second, sir on Ilumya, given new patient getting new prescriptions might be slightly more difficult and it's a more competitive product, has our view changed on the product versus, let's say, pre-COVID? Do you think it's more difficult or it's going to be slower to get patients on to Ilumya?

Abhay Gandhi: Our long-term view is intact. There has been no change in our thinking at all. I think the durability of the product in terms of the response and the safety profile actually resonates very well with doctors, even in today's situation or specifically in today's situation. So I think doctors are happy with the product. I think there is a place in therapy, even in the competitive market, for this product, and our long-term view remains intact.

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

Prakash Agarwal: So question on Ilumya only. So I just wanted to understand if you could share the overall investment made in Ilumya post acquisition and then the investment there on and current profitability and the expectation of future investments over 3 years and what are we expecting in terms of topline and if you could throw some light there, it would be helpful.

Abhay Gandhi: I think most of the questions you have asked are so granular in asking me to give out numbers and strategies. I unfortunately cannot answer you.

Prakash Agarwal: Sir, broad level, like, when you bought, it was about $80 million, $100 million and how much you invested there on presume...

Abhay Gandhi: So we have said in different calls that we have made a significant investment on Ilumya, not only on the marketing side, in terms of optimal size field force and the SRM teams and MSLs. We also invested in DTC. And parallelly, we are also doing different trials to improve the label of the product going ahead and also locally done IITs, which doctors are interested in doing on the product. So the investment is definitely heavy on this product. And as we said in the readout also, we feel that with the ramping up of the business, we should be able to absorb these costs going ahead and hopefully churn profits going ahead.

Prakash Agarwal: Would it be profitable now, sir, if I can ask that? Like, you mentioned $94 million global sales.

Abhay Gandhi: If you look at the current year sales versus the expenses, no, it won't be.

Prakash Agarwal: Okay, fair enough. And secondly, just one clarification on one of the comments in the press release says that expectation of soft sales due to, obviously, lockdown and stocking up. While we saw stocking up in Taro sales in the U.S., India and U.S., we haven't seen. We have seen a normal growth of 8%. And in U.S. also, Q-on-Q it's flat ex of Taro. So have we not seen stocking up in our business while other competition has talked about similar things and also seen in Taro?

Abhay Gandhi: Kirti, would you like to answer the India piece first?

Kirti Ganorkar: Yes, sure. So in India, we are definitely seeing the stocking by the patients in the chronic segment. Just to give us an example is like patient is a diabetic or has hypertension, he has started purchasing in advance for 1 or 2 months with the view that the product may go into shortage. So this is the behavior we are seeing right from the month of March, and it continued from say March, April or in the month of May also. So there is advanced purchase by the patient in especially chronic segment. But you don't see the same behavior in the semi-chronic or acute because there they don't need to buy anything in advance, which you don't need on day-to-day basis.

Abhay Gandhi: So U.S., we had some supply challenges in March, mainly because of lower attendance in our supply chain area in the U.S. So although we've had orders, not all of them could be executed. So we did have extra orders, not all of them, we could execute. Specialty business, of course, most of our brands are in the launch or a-year-old products. So they are not like $1 billion products where wholesalers will buy in very large quantum. So yes, we did have a little extra sales in March. But maybe Taro had a little more than what Sun had.

Moderator: Thank you. The next question is from the line of Tushar Manudhane from Motilal Oswal. Please go ahead.

Tushar Manudhane: Sir, just on the domestic formulation, previous call, we had talked about field force expansion. So now with this COVID situation, where do we stand?

Kirti Ganorkar: Sure. So in the last call I said that we are expanding into India business, and that is our long-term strategy. There is no change in our strategy. But due to COVID, our expansion in some of the areas has been interrupted. So when COVID gets over, once we will have a clarity, then we will complete our expansion. Part of the expansion has already been done pre-COVID.

Tushar Manudhane: So now how many MRs from the India business?

Kirti Ganorkar: So what I said is like we are going to add like 10% of our total field force through the expansion. Majority of almost like 70%-75% we have already expanded.

Tushar Manudhane: And just secondly on emerging market and ROW market, if you could share chronic, acute composition?

Dilip Shanghvi: It's very difficult to give that kind of distribution, chronic, acute in different geographies.

Tushar Manudhane: I mean at an overall emerging market and ROW overall level.

Dilip Shanghvi: So I think, overall, in India, if our acute business will be much lower percentage of our chronic business, in emerging markets, it will be slightly higher percentage.

Moderator: Thank you. The next question is from the line of Chirag Dagli from HDFC Mutual fund. Please go ahead.

Chirag Dagli: What percentage of our Ilumya patients would be on the early access program?

Abhay Gandhi: I mean it's a question I really I don't think I'll be able to give an answer on the call.

Chirag Dagli: Would you say that majority of your patients are still on early access?

Abhay Gandhi: Definitely, no. As I said in my previous comments on calls as well, I mean, our EAP and how many patients we are able to convert from an early access program to commercial patients are as per industry standards and in some months, even better than what I see as an industry.

Chirag Dagli: And what will be industry standard, sir?

Abhay Gandhi: That will be answering your first question. So I'll request you to kindly not corner me on that one. Thank you.

Chirag Dagli: Understood, sir. And the second question was on the sales and promotion spends in India. So 2 parts to this. One is that travel is not happening. So how does this change the cost line item near term and as well as structurally, if you see a decline in the operating cost for the India business, especially for this line item, sales and promos.

Kirti Ganorkar I think for India business, we will have some saving in terms of travel cost and some of the allowances given to field force. But in terms of promotions, I don't think there's any reduction in the cost because we are connected to the customer digitally. We are organizing webinars, we are connecting them digitally. That's how some of the places even, we have started working in the field and able to do a few calls with the doctors. So the saving is really in terms of some of the allowances and the travel cost.

Chirag Dagli: You don't see this structurally easing the OPEX item for the business as a whole, sir?

Kirti Ganorkar: Can you just repeat what you said, structurally?

Chirag Dagli: Whatever is happening through COVID, do you think that, structurally, the costs in the business can come down even when normalcy resumes?

Kirti Ganorkar: It will come down temporarily, I should say, this first quarter, but slowly from second, third quarter, it will come back to normal. I don't see there will be much, it is a saving, which is a meaningful saving, will be there. We don't have any clarity on how this will pan out, COVID, how long will be the lockdown, when the patient will come back to the doctors, when doctors will start practicing normally. So there are a lot of ifs and buts and unknowns here.

Moderator: Thank you. The next question is from Anubhav Aggarwal from Credit Suisse. Please go ahead.

Anubhav Aggarwal: One question is on Absorica. Just wanted to check Absorica and the lower dosage version. Are we promoting both the versions right now? I'm asking from a perspective that the conversion rate that we've seen from one market to the other so far in IQVIA is sub 10%. So from that perspective, I'm trying to understand why the conversion rate is still sub 10%.

Abhay Gandhi: So the answer is yes. We are promoting both the products to the doctors. On the conversion rate, I just want you to keep in mind that we barely had 4 weeks of promotion before the reps started working from home and took us 2-3 weeks for us to then get into a digital kind of promotion to doctors. So it was a setback, which I think, post COVID, we will get back to promoting it with full force.

Anubhav Aggarwal: Sure. That's helpful. And second, just a clarity on the Ilumya sales that you reported in the press release of $94 million. Does this include any milestone or deferred revenue as well?

C. S. Muralidharan: It does not include any deferred revenue or milestone.

Anubhav Aggarwal: So in the balance sheet, when we have a deferred revenue of, let's say 220 crores in the FY '19 balance sheet, other current liabilities, what does that line item correspond to?

C. S. Muralidharan: That corresponds to the upfront payments, milestone payments, which we receive on licensing agreements, which get amortized along with the supply agreements as per the Indian accounting standards.

Anubhav Aggarwal: And where do you include that, Murali, in the income statement?

C. S. Muralidharan: That goes in the sales line.

Anubhav Aggarwal: I think the 220 crores is not the item that we should attribute. It's a much smaller number for Ilumya?

C. S. Muralidharan: Anubhav, 220 crores includes other upfront licensing payments also. It's not attributable only to Ilumya.

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

Sameer Baisiwala: Sir, if you can provide us the outlook for U.S. generic business for next year or 2. I mean how does the product flow look like, what could be the pricing environment? And what could be the market share gains for the current portfolio, would be very helpful.

Abhay Gandhi: I think in the readout itself, we have said that our generic pipeline has 98 ANDAs and 5 NDAs. So the pipeline is strong. On pricing, we still see pressure on pricing, and we don't see that abating in the near term or even in the mid-term, if I say so. So we keep hoping, but I haven't seen that happening. So we have a strong pipeline, but we see continuous pressure, which is product specific.

Sameer Baisiwala: Abhay, but you have been having 100 ANDAs or so pending approval for quite some time now. The question here is, what could be the flow to the market? How much can you commercialize? I'm not looking for a specific number, but just qualitatively going forward a year and two? And also, do you have substantive filings from non-Halol sites?

Abhay Gandhi: So if I see for the new financial year, 2021, then without giving specifics on the exact number of products, I'm comfortable with the flow of products that we expect will hit the market and add to our revenue base.

Sameer Baisiwala: And sir, any color on non-Halol filings, if you can?

Abhay Gandhi: So there are different filings we have. Halol, of course, is important. And then we have non-Halol filings as well. At the same time, we are also working with the business development team very aggressively to try and get products through licensing deals with other companies. So all of that adds up to the basket.

Sameer Baisiwala: Okay. Great. One more from my side, on margins. Even if I adjust for the Forex part, the EBITDA margins are much lower than what we have seen in the last several quarters. So is it just a quarterly aberration because of the factors that you mentioned? Or do you think there's something that there's a reset, a structural reset to the margins for the business?

C. S. Muralidharan: So Sameer, I would take it as a quarter aberration. It's not a reset. That's what I would submit.

Sameer Baisiwala: And sir, you expect this to go back to your normal levels going forward?

C. S. Muralidharan: Our endeavor is to do better than previous levels, normal levels.

Moderator: Thank you. The next question is from Nithya Balasubramanian from Bernstein Research. Please go ahead.

Nithya Balasubramanian: I just wanted to say a quick thank you for stepping up, obviously, during these extraordinary times and providing us with essential medicines. I have 2 questions, one on India and the other one on Ilumya. So on India business, some of your peers had reported that they had faced logistic issues towards the end of the month. Was that something that Sun Pharma saw as well? And can you quantify that impact?

Kirti Ganorkar: Sure, yes. What happened is at the end of the March month, we had orders, but we were not able to supply due to the COVID situation. So that's the reality. And we also faced some of the challenges in terms of availability of the stock during the month of April. But now things look more normal. And we have almost all of our products are available across the retail, and there are no major shortages.

Nithya Balasubramanian: I was saying, given that during COVID, immunocompromised patients have been asked to stay away from hospitals in the U.S., do you expect new prescriptions to actually tilt towards kind of the self-administered competing drugs versus Ilumya, which needs to be infused in the clinic? And given that this is a chronic therapy, do you expect this shift?

Abhay Gandhi Towards the end, you broke up, but I think I got the gist of your question, so I'll attempt to answer that. If it doesn't satisfy, kindly then ask a supplementary question. So you're right. There was initially some talk of whether immunocompromised patients should be given a biologic at all. But that was quickly resolved by KOLs because, a) it was talking about the entire class, not just Ilumya. And second, I think this is where I think the safety of the product became a very critical factor. And very big KOLs actually went on record and said that in the current situation, a product like Ilumya actually would be a good choice to prescribe. So that was very reassuring and positive from our perspective. Yes, I mean, if you see the category itself, the prescriptions of almost every product in the category has dipped in the last, say, 1.5 months or so. So I don't think we have been an exception to that, possibly on a lower base, admittedly, our drop has been lesser than some of the bigger competitors that we have in the market. I hope I have been able to answer your question there.

Nithya Balasubramanian: Yes, partially. If I might just add some clarification. So my question was, for example, in pegfilgrastim, there was a shift in market share to the Onpro self injector. Do you expect...

Abhay Gandhi: Okay. You're talking about the medically administered product versus a product which can be used at home also.

Nithya Balasubramanian: Yes.

Abhay Gandhi: So I think what we have seen is that many doctors have not changed our prescriptions actually to another product. But because they believe that the product has a durable effect, they have said, continue till you are able to come back to visit us and then we will give you a new prescription and administer the product. Having said that, in many of the ASOCs or alternative sites of care, our product is still getting administered to doctors. So while there has been some impact, I won't deny that, but I think it has been far lesser than what I would have expected. And the credit goes to doctors' belief in the product, both on the safety front as well as the durability of response.

Moderator: Thank you. The next question is from Ankush Mahajan from JM Financial. Please go ahead.

Ankush Mahajan: Sir, my question is regarding to the Indian business. Now our business in the fourth quarter has grown by 15% while industry is 9% to 10% and in the initial remarks, we have said that our endeavor is to increase the market share. So sir, what are the steps that we are taking to increase the market share? And what is the strategy for the Indian market? And second point, sir, even in the month of April and May, there's a lack of new prescriptions as well as supply chain constraint. Would you throw some light on that part also?

Kirti Ganorkar: Sure. I think before I answer your question, let me clarify. One thing is what I said is like the India business grew by 15% on an annualized basis, not for the last quarter. If you look at our numbers for the entire year, we have grown by 15% annual number against the market growth of 10%. This is a situation up to say March. But from April onwards, there was a lockdown and most of the private clinics were closed. And even the patients are not visiting the doctor. So April sales have been impacted. If you look at our numbers in IMS and AIOCD-AWACS, then you will see that we have grown by minus 5% there. So going forward, what I see is some hope in the month of May based on the survey what we have done, there are about 30% to 40% of the doctors have started attending their clinic. And depending on the state you look at, some states, it's about 70%, some states, it is 20%. But the number of patients who are coming to doctors is less than 25%. If earlier, they were seeing 100 patients, now only 20% to 25% of the patients are coming physically to them and another 10% to 15%, they are consulting through telemedicine. So in my opinion, maybe this first quarter would be challenging, not for us, for the entire pharmaceutical industry because no new prescriptions are coming. And this impact would be more for acute business and semi-chronic business. There are not many infections are happening. There are no elective surgeries. Even in the month of April, hospitals were operating almost at like a 15%, 20% of their capacity. But we see some change in the month of May. And if this continues, I think June will be much better than this. But at the same time, during this challenging period also, we have advantage since our brands are well-known to the doctors. And doctors also feel that the bigger brand will have better availability. So we got some benefit in the chronic segment. And we are continuously in touch with the doctors digitally. So we are not disconnecting with the customer even if there's a COVID. So they are aware of our products, and we are connecting through various media, including digital, webinars and scientific promotions.

Ankush Mahajan: And sir, what are the various steps that we are taking to increase the market share in the Indian market over a longer period of time?

Kirti Ganorkar: So I think as I said in the last call, we are expanding the business. In the last call, we discussed the field force expansion in India. We want to expand by 10%. Out of that, 7%, 8% we have already achieved, so that we cover a large number of doctors and we cover some of the territories, which we have not covered. At the same time, we also want to build a brand, our existing brands, we want to make them mega brands. We want to introduce new products ahead of the competition. And we want to make products available in supply chain. So looking at all these factors long term will help us to increase our market share. And as you see, maybe if you track us on a monthly basis, right from October, November, you will see there is a continuous improvement in our growth, both in the IMS and AWACS. And that also our market share is also improving. Just as an example, like, in March, our market share in the month of March was 8.54%. And on MAT basis is 8.3%. So the things are going in the right direction, but COVID pandemic has put a new challenge for us.

Moderator: Thank you. The next question is from Shyam Srinivasan from Goldman Sachs. Please go ahead.

Shyam Srinivasan: My first one is on the Halol plant and the regulatory compliance there. Can you provide us some update on the kind of dialogue you are having with the FDA now? And do you think, given that there is no inspections possible, is there a possibility that you could remediate this without an actual inspection happening?

Dilip Shanghvi: So we continue to update the agency with our remediation plan in terms of monthly update. As to finding a way to bring facilities back in compliance, USFDA has already given a guidance as to what are the various tools that they will use to bring a facility back in compliance, in case if they are not able to visit the facility. So they have a process in place. And we believe that we will continue to focus on ensuring that they are satisfied with our effort and also satisfied with the solutions that we are proposing for addressing their concerns.

Shyam Srinivasan: In the interim, what are we doing in terms of, say, like transfers or do you think those efforts are also on? And is there any timing that you want to put for this resolution of the plant?

Dilip Shanghvi: So we have facilities currently which possibly we can consider for transfer. But as on today, I don't think we've started any serious effort towards transferring any of the product.

Shyam Srinivasan: My second question, I think in the opening remarks, there was a mention of capital conservation and I think debt reduction as well. If you could actually help us understand what those things that you're looking at, specifically.

Dilip Shanghvi: The effort is to reduce the overall debt of the company. And you will see that the total borrowings have come down by almost US$ 400-plus million in 1 year. And we will continue the same focus reducing the overall debt.

Shyam Srinivasan: Got it. And last question, which is just a follow-up on CAPEX. Given the COVID outlook, I think we've heard companies modernizing plants using any, if you can share anything on how you're looking at the CAPEX for fiscal '21?

Dilip Shanghvi: So I think we don't have a specific number to share with you. But many of the facilities will be expanding their capacity. And in many facilities, we would be upgrading. We are not setting up any new greenfield project at this point of time, but there would be CAPEX during the year. So whatever debt repayment that I'm talking about is post the CAPEX.

Moderator: Thank you. The next question is from the line of Damayanti Kerai from HSBC. Please go ahead.

Damayanti Kerai: My first question is regarding clinical trial of Ilumya in other indications. Can you update us like what is the status currently? Has COVID disrupted our clinical trial plans here?

Dilip Shanghvi: I think the worst negative impact of COVID has been in all ongoing clinical trials. Fortunately, for us, some of our product trials were more or less done, and what was being done was the data analysis and all of those things. Now those things are continuing. But we were to start a Phase III study for Ilumya that we haven't started. So there is a delay in terms of our ability to start the Phase III study.

Damayanti Kerai So now when you're expecting to resume or start the clinical trial, Phase III?

Dilip Shanghvi: It is a function of when doctors come back and we are able to resume. Because I think, globally, most of the clinical trials have come to a significant disruption. So we don't have a fixed date for resuming the studies.

Damayanti Kerai: Sure. My second question is regarding Cequa. So have we started a DTC promotion for the product, like 4Q number reflects DTC costs for Cequa also? Or we are yet to start on that?

Abhay Gandhi: There is a small component of DTC in Q4. The real DTC effort would have started in Q1 and beyond. And the digital DTC piece has already started in Q1 of this year.

Damayanti Kerai: Just a linked question. For Ilumya, are we still putting more efforts for DTC promotions? Are we expanding the cost there? Or it is similar to what we have done in last few quarters? Like what are our plans there?

Abhay Gandhi: We are optimizing the cost, but DTC for Ilumya will continue with an optimized cost. So it will not be as large as last year.

Moderator: Thank you. The next question is from Surya Patra from Phillip Capital. Please go ahead.

Surya Patra: Sir, just first question is on the potential opportunity. I mean, do you really see any structural export opportunity post COVID situation for any specific business or any specific market or else in terms of replacing certain Chinese export in various markets, if not in the U.S.? So anything on that side, if you have seen so far and which can be a kind of structural opportunity?

Dilip Shanghvi: So I don't think that in our business, it is very easy to replace a vendor with a new vendor. Because you will have to file with the new vendor, you have to ensure that the material meets all the specifications which they were currently using. So it takes time.

Surya Patra: On the second question on the R&D side, sir. So far for the current year, let's say, we have spent near about $270 million, $280-odd million kind of R&D and 25% of that, is around $70 million, is for specialty business and the revenue from the specialty side is currently around $100 million around. So that means the revenue to R&D equation, if you consider here versus the rest of the business, so there is a kind of significant mismatch. So do you have any aspirational kind of indication or like is there a kind of thought process goes parallelly on that side? R&D spend versus kind of a potential revenue generation from the specialty project over, let's say, 2-year period or 3-year period, can you just give some sense on that?

Dilip Shanghvi: No. I think before any project is approved, we do the return on that investment analysis, then only the project is approved. And we evaluate the potential by the time the indication or the product will come to market, what will be the competitive scenario, what kind of clinical outcome we are expected to get. So we do all of that. However, to give you some context, because I think you are mixing up between quarterly number and annual number, you talked of $100 million of sales, which I think it's $120-plus million. But that's a quarterly number. The $80 million that you calculated is the annual number. So I think there is a disconnect there.

Surya Patra: So that means it is not significantly disconnect. It is 4x versus 8x kind of equation that is there currently, which can improve further?

Dilip Shanghvi: Yes. All I'm trying to say is we evaluate every product for investment before we approve the project, whether it's a generic product, whether it's a biosimilar or whether it is a branded investment.

Moderator: Thank you. The next question is from the line of Krish Mehta from Enam Holdings. Please go ahead.

Krish Mehta: My question was on the R&D for FY '21. So I wanted to know whether or not the R&D will continue to be at, like, the similar level of 6.1% as of this year because it was guided of 7%, I think, at the start of FY '20 or whether or not it would be...

Dilip Shanghvi: I think it was supposed to be higher. Some of the R&D spend we could not do because some of the trials we had planned to be started, and they were not able to be started.

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Hopefully, we should be able to do that this year. So we are not guiding for anything. So I'm not also giving the R&D number. But the effort will be to go to 8% to 9% kind of R&D spend.

Krish Mehta: And I had a second question on the Japanese business. And how you see with the Pola Pharma acquisition the growth in Japan and like opportunities you see there?

Dilip Shanghvi: We continue to look at opportunities to invest in Japan. The first priority and focus for us, of course, would be to launch Ilumya once it is approved in Japan and for which we would be creating a significant organizational capability to launch our first biologic in the Japanese market. But we will continue to look at attractive opportunities, where we can leverage effectively our existing presence and look at opportunity to grow the business.

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

Anubhav Aggarwal: A question for Abhay. Just a clarity, maybe I missed it. The specialty sales that you mentioned for this quarter, $126 million, was there any stocking benefit in this quarter? Or this was very much the normal sales for us?

Abhay Gandhi: There is a little bit of stocking, but it's not a very material number.

Anubhav Aggarwal: Yes. So in December quarter, you mentioned that, when we reported $118 million sales, you mentioned that there were higher seasonal sales for Levulan and Absorica that contributed to a sharp jump over there. So assuming that was a seasonal sales, those would have come down in this quarter from a financial perspective and you're saying that stocking benefit is not that significant. So then Ilumya, Cequa and Yonsa sales would have significantly ramped up in this quarter to compensate for the decline in Levulan and Absorica sales and also grow the business overall.

Abhay Gandhi: So the entire quarter was not a low period for, say, Levulan and Absorica. Not to forget, we also launched Absorica LD during the same quarter towards the end. Only in the last 15 days of March, I can say that Levulan sales actually dipped below expectations. And season wasn't as much an impact, but because doctors quickly delayed the surgeries and procedures which are not considered essentials and which were considered to be elective. So last 15 days, there has been an impact on Levulan on the downward side. But the first 2.5 months was as per our expectations. Having said that, yes, Cequa did ramp up and Yonsa and Ilumya too. And on these 3 products, there has been a little bit of overstocking towards the end of the quarter. In the context of the entire industry, my point was that these are not very large products, in the context of the industry. For us, it's, of course, meaningful, but from the context of industry. So you wouldn't have wholesalers really stocking up these products. I mean, if you are a leader brand, I mean, that pressure to buy more from you would be higher.

Anubhav Aggarwal: Sure. And just a clarification on what you said on Absorica LD. So the sales that you were getting from Absorica and once you launched a low dosage version, are we getting combined sales are higher or just lower dosage version is largely substituting some of the prescription for Absorica?

Abhay Gandhi: Maybe too soon for me to answer. As I said, we could only launch LD for 4 weeks. And then we ran into this pandemic situation. So the April month has not been great for obvious reasons known to us. So very soon for me to draw any on those conclusions. But of course, the hope is that both put together will be a higher number. And that's how we are looking at it anyway.

Anubhav Aggarwal: Sure. Just want clarity on the way you guys report Ilumya sales, just this last question. And from our European partner, Almirall, we ideally should be getting a royalty, right? So in the $94 million number, we should be only including the royalty that we get from the Ilumetri sales for them, right?

C. S. Muralidharan: So let me clarify. The US$ 94 million sales number for Ilumya for Q4 does not include the deferred revenues and the royalty. It only includes Ilumya sales that we have recorded in U.S. and other markets.

Moderator: Thank you. Due to time constraints, we'll be able to take one last question. We take the last question from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: Sir, is there any update on the forensic audit being done by SEBI?

Dilip Shanghvi: No, I think nothing that we wish to report at this point of time.

Sameer Baisiwala: Any timelines you're looking at for the closure?

Dilip Shanghvi: Yes. I mean, we would like to close it the fastest, and that's the focus.

Sameer Baisiwala: Fair enough, sir. And just on Ilumya, I know a lot has been asked and discussed. It's been 20 months, if I'm not wrong, since the launch. So you must have tried many things, and it was the first time and the learning curve was steep, I would imagine. How would next 12, 18 months be in terms of your effort to ramp this up, would be easier or harder? What would you be focusing on?

Abhay Gandhi: You're right, the learning curve was steep. And setting up the systems to be able to navigate through the access channel with a medical benefit product and all that was a learning for us. I think those things are in place now. And we are looking at now executing better in market and ramping up the product sales. So there's nothing like easy and difficult, but it's a question of executing well.

Sameer Baisiwala: And just on this, what's the time to convert the early access program patients to commercial? I mean, is it 6 to 9 months, higher or lower? And second, would it be fair to say that whatever patients turn commercial, the stickiness next year and the year thereafter would be 70%, 80%? Would that be a reasonable assumption?

Abhay Gandhi: It's easier for me to answer the latter part of your question. I think the stickiness is pretty high. And possibly could be something like the numbers that you are giving. There is no direct data, which I get, which I can give you a very specific number. But fair to say that the stickiness is high and possibly could be somewhere in the range that you are talking about. EAP, I mean, each case is a different case. And hopefully, it doesn't take 9 months, it should be lesser than that in most cases. And the best I can say is, when I look at what time does it take and what anecdotally is what other companies are able to achieve for similar products through information that we have, we seem to be doing well.

Moderator: Thank you very much. We'll take that as the last question. I would now like to hand the conference back to the management team for closing comments.

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

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