Sun Pharma Q4 FY22
Earnings Call Transcript
06:30 pm May 30, 2022

Corporate Participants

Dilip Shanghvi
Managing Director, Sun Pharmaceutical Industries Ltd.

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

C. S. Muralidharan
Chief Financial Officer, Sun Pharmaceutical Industries Ltd.

Kirti Ganorkar
CEO (India Business), Sun Pharmaceutical Industries Ltd.

Moderator: Ladies and gentlemen, good day, and welcome to the Q4FY22 Earnings Conference Call of Sun Pharmaceutical Industries Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nimish Desai, Head of Investor Relations. Thank you, and over to you, sir.

Nimish Desai: Thank you. Good evening and a warm welcome to our fourth quarter FY22 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. C. S. Muralidharan (CFO), Mr. Abhay Gandhi – (CEO – North America), and Mr. Kirti Ganorkar (CEO – 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 and full year FY22. I hope you and your family are doing well.

Let me discuss some of the key highlights:

FY22 was a good year for us with consolidated topline growing by about 15.6% to Rs. 384,264 million, EBITDA growth of 23.6% and adjusted net profit growth of 29%. All geographies have done well and have recorded double digit growth for the year.

For Q4FY22, consolidated revenues were at Rs. 93,861 million recording a growth of about 11% YoY driven by strong performance across markets.

Branded formulation revenues in India and Emerging Markets together now account for about 50% of our global consolidated revenues.

Let me now update you on our global specialty business. We have done well in the specialty business over the past few years. Global specialty revenue contribution has nearly doubled from about 7% in FY18 to about 13% in FY22.

In FY22, we have recorded a strong ramp-up in our global specialty sales, which were up by 39% to reach US$ 674 million.

We have seen a strong traction in global Ilumya sales for the year, which were up by about 81% to US$ 315 million. This figure does not include about US$ 100 million of Ilumetri end-market sales.

During the year, we added Winlevi to our portfolio which was commercialized in the US in November-2021. We continued our efforts to take our specialty portfolio global, with the launch of Ilumya and Cequa in Canada.

For Q4FY22, global specialty sales were at US$185 million, up by about 30% over last year. Specialty R&D accounted for approximately 20% of our total R&D spend for the quarter.

Abhay will give you more details on the specialty business later.

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

C. S. Muralidharan: Thank you, Mr. Shanghvi. Good evening, everyone, and welcome to all of you. Our full year and Q4 financials are already with you. As usual, we will look at key consolidated financials. I am happy to report that our topline for FY22 has crossed the US$ 5 billion mark while the net profit has crossed US$ 1 billion.

The full year FY22 sales were at Rs. 384,264 million, a growth of 15.6% over FY21. Staff cost stands at 19% of revenues, lower than last year; however, in absolute terms the Staff Costs have increased on account of annual merit increases. Other expenses were at 28.0% of revenues marginally lower than last year; however, in absolute terms the Other expenses have increased on account of higher Selling, Distribution and Travelling expenses while in FY21, these expenses were lower on account of pandemic related restrictions across markets. Forex gain for the year was Rs. 1,540 million compared to Rs. 237 million in FY21.

EBITDA for the full year was at Rs. 101,697 million, a growth of 23.6% over the same period last year, with EBITDA margin of 26.5% compared to 24.8% YoY. EBITDA margins have expanded by about 170bps to 26.5% driven by operational efficiencies and cost management. Margins have expanded despite input cost pressures and normalization of branding, promotional & travel expenses.

Excluding the exceptional items & non-recurring tax credit for both FY21 and FY22, the adjusted net profit for FY22 was at Rs. 76,671 million, up by about 29% YoY, crossing the US$ 1 billion mark. Reported net profit for FY22 was at Rs. 32,727 million.

The Company has repaid debt of about US$ 355 million in current fiscal. Over the last three years, the company has repaid debt of about US$ 1.38 billion.

As of 31-Mar-2022, at the ex-Taro level, net cash stands at US$ 713 million. At the consolidated level, including Taro, the company has a net cash of about US$ 2 billion.

Our focus on improving return ratios is yielding results with ROCE improving by 288bps to 16.4% compared to FY21, ROIC by 306bps to 21% while ROE has improved by 256bps to 15%.

Let me now discuss the Q4FY22 performance.

Q4 sales are at Rs. 93,861 million, up by about 11% over Q4 last year. Material cost as a percentage of revenues was 27.1%. Staff cost was up 12.4% YoY and stands at 20.1% of revenues. Other expenses were up 11.7% YoY and stands at 30.3% of revenues. Forex gain for the quarter was Rs. 1,610 million compared to a loss of Rs. 108 million for Q4 last year.

EBITDA for Q4 was at Rs. 22,797 million, up by 14.6% YoY with resulting EBITDA margin at 24.3% compared to 23.5% for Q4 last year.

Excluding the impact exceptional items and related deferred tax, the adjusted net profit for the quarter was at Rs. 15,817 million, up by about 18% over the adjusted net profit of Q4 last year.

Reported net loss for Q4 was at Rs. 22,772 million including the exceptional charge of Rs. 39,358 million. The adjusted EPS for the quarter was Rs. 6.60.

Let me now briefly discuss Taro's performance.

Taro posted Q4FY22 revenues of US$ 143 million and adjusted net profit of about US$ 27.4 million lower by 3.4% and 11.6% respectively over Q4FY21. For the full year FY22, revenues were at US$ 561 million, up 2.3% YoY and Adjusted Net Profit was at US$ 126.4 million, lower by about 10.6%.

In Feb-2022, Taro acquired Alchemee, formerly The Proactiv Company, from Galderma. The acquisition includes Alchemee's business and assets worldwide, including the Proactiv® brand for acne treatment.

I will now hand over to 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.

Our India formulations sales for the full year FY22 were Rs. 127,593 million recording a strong 23.4% growth over previous year. Even if we exclude the contribution of Covid products, the underlying business has performed well, with about 20% growth over the previous year.

For Q4, formulation revenues in India were Rs. 30,956 million, recording a growth of about 16% over Q4 last year. Contribution from Covid products was negligible at about 1% of India sales for the quarter.

India business accounted for about 33% of consolidated revenues for Q4. We have maintained the trend of the past few quarters of outperforming the average industry growth, which has led to increase in our overall market share.

As per AIOCD AWACS data, our market share has been gradually increasing over the past few quarters. For Q4, it was at 8.86% compared to 8.59% for Q3. On a MAT basis, as per AIOCD AWACS data for March-2022, our market share was at 8.34%.

We have witnessed growth across most of our therapies. The growth was driven by a combination of factors like normalized market conditions and improved patient flow to doctor clinics, which led to higher growth in the chronic and semi-chronic segments. New products also contributed to the growth and we are seeing good momentum in products launched in last 24 months. For Q4, we launched 11 new products in the Indian market.

Field force operations were near to normal in Q4 with almost all doctor clinics operational. The productivity of the new field force continues to improve. Travel cost for medical representatives was near to normal while we continue to see some savings in terms of the cost of medical conferences.

The field force expansion done in FY21 has met with good success and considering the current market conditions, we will be undertaking a further expansion of about 10% for our field force in FY23, driven by the twin objectives of brand focus and geographical expansion.

Sun Pharma is the largest pharmaceutical company in India and as per SMSRC report, we are No.1 ranked, by prescriptions, with 11 different doctor categories.

I will now hand over the call to Abhay.

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

Our overall US business grew by 12% to US$ 1,526 million for the full year FY22 driven mainly by the strong performance of our specialty business.

Global Ilumya sales coupled with Ilumetri end-market sales are now nearing the half a billion-dollar mark.

For Q4, our overall formulation revenues in the US grew by about 5% over Q4 last year to about US$ 389 million. The main driver of growth again was the specialty business which grew 24% YoY. US accounted for about 31% of consolidated revenues for the quarter.

Q4 witnessed a large number of Omicron related cases in the US. While doctor clinics were open in the US during the quarter, the patient flow to doctor clinics as well as frequency of doctor calls by our medical representatives, are both still below pre-Covid levels.

Our specialty revenues in US have grown over Q4 last year, mainly driven by Ilumya, Cequa, & Odomzo. This is despite the decline in Absorica sales due to the entry of generics.

Winlevi continues to generate significant interest amongst dermatologists as a new treatment option for acne. Till date, over 9,000 doctors have prescribed Winlevi. Our established presence in the dermatology market will help in ramping up Winlevi going forward. We will not be able to share more details on Winlevi on this call.

Let me now update you on our US generics business.

While the US generic business continues to be competitive, the Sun ex-Taro generics business has grown for the full year FY22. While we do experience price erosion, we have been able to counter it by a combination of new launches and better supply chain management.

In Q4, we launched 5 new generic products in the US market.

In terms of complex generics, we have commercialized generic Amphotericin B in the US market. We also recently launched generic Mesalamine Extended Release Capsules in US.

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 branded formulation revenues in Emerging Markets were at about US$ 905 million for the full year, up by about 16% year-on-year. For Q4, sales in emerging markets were about US$ 206 million, up by 7% over Q4 last year. The underlying growth in constant currency terms was about 10% YoY for Q4. Emerging Markets accounted for about 17% of total consolidated revenues for Q4.

Amongst the larger markets, in local currency terms, Russia has grown by 43%, Romania by 18% and Brazil by 32%.

As of now, we have not witnessed any major impact of the geopolitical issues on our operations in Russia. Our presence in Ukraine is very small.

For the full year, formulation revenues in Rest of World markets excluding, US and Emerging Markets, were about US$ 732 million, up by about 11% over last year. For Q4, Rest of World sales were US$ 178 million, up by about 7% over Q4 last year. RoW markets accounted for approximately 14% of consolidated Q4 revenues.

API revenues for Q4 were at Rs. 4,137 million, lower by about 5% over Q4 last year.

We continue to invest in building a R&D pipeline for both the global generics and the specialty businesses. R&D efforts are ongoing for the US, Emerging Markets, RoW Markets and for India. Consolidated R&D investment for Q4 was at Rs. 5,433 million compared to Rs. 5,571 million for Q4 last year. Our current generic pipeline for the US market includes 93 ANDAs and 13 NDAs awaiting approval with the US FDA.

Our specialty R&D pipeline includes 4 molecules undergoing clinical trials.

Ilumya is undergoing Phase-3 trials for psoriatic arthritis while SCD-044, an oral dermatology product, is in Phase-2 trials for psoriasis and atopic dermatitis. MM-II is also in Phase-2 trials for treatment of pain in osteoarthritis. Our GLP-1R agonist, GL0034, is undergoing Phase-1 trials for type-2 diabetes.

The Board has proposed a final dividend of Rs. 3.0 per share for the year FY22. This is in addition to the interim dividend of Rs. 7.0 per share paid in FY22, taking the total dividend for FY22 to Rs. 10.0 per share compared to Rs. 7.5 per share for FY21.

Recently our Halol factory underwent a cGMP inspection by the USFDA. Post the completion of the inspection, the USFDA issued 10 observations. We will be filing our response to the USFDA, on the corrective actions to be undertaken for addressing these observations, within the stipulated time. We will not be able to disclose further information on Halol as of now.

And lastly on the guidance for FY23 - We expect high-single digit to low double-digit consolidated topline growth for FY23. All our businesses are positioned for growth. The ramp-up in our global specialty business is expected to continue. As indicated in our previous calls, overall expenses are inching up as markets across the world normalize. R&D investments will be about 7-8% of sales next year.

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

Moderator: Thank you very much, sir. The first question is from the line of Tarang Agrawal from Old Bridge Capital. Please go ahead.

Tarang Agrawal: Two questions from me. The first one, there was the settlement that was undertaken in this quarter and similarly, some settlements were undertaken in the previous year as well. How should we see this going forward? Are there any further settlements that are anticipated? That's number one. Number two, is the specialty business as an SBU now breaking even on a cash flow basis?

Dilip Shanghvi: All the ongoing litigations have been disclosed by the Company in the Annual Report as well as have been disclosed by us in the past. So, I think it will help you in understanding what are the potential. We believe that we have a strong case for all the residual cases. However, part of this depends finally on the way in which the litigation progresses. We feel reasonably comfortable that we should be able to do quite well in these litigations. We don't give out the business-wise specific profitability numbers. But I think as you see, we've grown that business quite well and the business continues to grow well. And I think that's important for that business to become an increasingly more important component of our overall business.

Moderator: Thank you. The next question is from the line of Neha Manpuria from Bank of America. Please go ahead.

Neha Manpuria: My first question is on the specialty business. It seems to be a flat number quarter-on-quarter. And if I remember correctly, in the last quarter, you mentioned there's very few contribution from Winlevi. So, if you could just give us some color in terms of despite the contribution, what's driving the flattish number?

Abhay Gandhi: So, two reasons. One is the period itself because, as you know, Jan and Feb are when the insurance reset, and that's always a little lower month for the total business. So, that is one reason. Another is the declining in sales of Absorica post launch of the generics. Overall, when I look at the prescription trends of the products, I am reasonably comfortable with what I am seeing.

Neha Manpuria: Abhay, but wouldn't Absorica pretty much be there in the December quarter? I mean, there could have been some erosion quarter-on-quarter, but wouldn't the Ilumya ramp-up in Winlevi more than made up for it?

Abhay Gandhi: So, we have certain strategies in place to have a slower decline of Absorica. So, therefore, post launch of generics, the decline of Absorica was not rapid, but it was gradual. So, it took a couple of quarters for the product to reach where it is today.

Neha Manpuria: And in terms of Winlevi, are our promotions on the product still ongoing? And what's the feedback that you've got from doctors? Could this product be larger than Ilumya product in the U.S.?

Abhay Gandhi: I think larger than Ilumya would be a stretch, to be honest because of the different price points. In terms of number of prescriptions, it is anyway larger than Ilumya even today. But the value of prescription will be very different from what you get for Ilumya. So, in dollar terms, the answer would be no. But to give you a sense of how the product is performing in market, I mean acne, depending on what data set you look at, approximately 15,000 doctors are regular users of acne products, all kinds, whether it is brands or generics. And in five months, 9,000 have at least used the product launch. So, that tells you something about the interest created by the product, the impact of promotion and the real need in the market for a new solution. Our hope is to capitalize on that and to make this into a meaningful product for the specialty business going forward.

Neha Manpuria: Kirti, on the India Business, we have announced another expansion. Will this allow us to continue the outperformance? And where are we adding this field force? Is there particular therapies that we're looking at having the field force?

Kirti Ganorkar: We are doing two things. Geographically, we are expanding. So, this field force is added across a couple of BUs, certain BUs. And what we see, our idea is to declutter our current portfolio. So, there is a space for each of the business units to promote specific products to the doctors and at the same time, cover the geography, which has not been covered by us in the past.

So, that would help us. I think the objective of our India business is to grow faster than the market and gain market share.

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

Damayanti Kerai: My question is regarding study of Ilumya in psoriatic arthritis. So, when you're likely expecting to finish off Phase-3 trial and file for the product?

Dilip Shanghvi: We are reassessing the study time line and study completion date. COVID and subsequent disruption of the doctors attending their clinics and also now, some of the sites being in Russia as well as in Ukraine have disrupted the speed of recruitment. So, we are recalibrating and also thinking through what is the best option for us to find replacement for sites that we are unable to support. So, our objective would be to find a way to file the study at the earliest.

Damayanti Kerai: Okay. And a related question for Ilumya will be, are you looking to start clinical trials in other indications or first, you will finish this and then might look at other indications?

Dilip Shanghvi: I think we will, first, of course, do a much more comprehensive commercial assessment and the potential return on investment if, we have to do any further development because we don't have significant presence in any other therapy area. So, we not only will have to spend significant amount of money for the studies, but also then create a field force and sustain cost for that expansion. So, we have to do this carefully.

Damayanti Kerai: And my last question is on the spend for specialty products, both in terms of marketing as well as maybe like R&D spend, which we might be incurring in near term. So, maybe some update on, how we should look at specialty spend in one or two years?

Dilip Shanghvi: Abhay, would you like to respond?

Abhay Gandhi: For the larger products, as I mentioned on the last call itself, say Ilumya or Cequa, which have been in market now anywhere for three to four years, the spend is more or less optimized and we look at growing the business without necessarily increasing the cost base or the promotion spend.

On the other hand, if you look at the Winlevi, which is a product which is new to market, then I think we are going to be spending sufficiently to be able to optimize our asset there. So, it's a combination of the two that I would look at when I run the business.

Damayanti Kerai: So, very broadly, with like optimized costs for Ilumya and Cequa spend going towards relatively new launches, should be on upward trend, but on a more major basis would be...

Abhay Gandhi: Not really, it will be upwards, but not very significant.

Moderator: Thank you. The next question is from the line of Kunal Dhamesha from Macquarie. Please go ahead.

Kunal Dhamesha: First, on the R&D. So, we are expecting at the midpoint of our guidance for a significant jump from 5.5 to roughly 7.5. So, what would be the major driver of this 200 bps? I can understand, I mean, what would be the split between maybe specialty and generic for that 200 additional bps?

Dilip Shanghvi: we expect the clinical trials to pick up in this year, so that we can complete or we can progress with the clinical studies rapidly. And that essentially is the key reason for subdued spend last year. We significantly underspent over our guidance last year. And a key reason was under spend on account of clinical studies that could not recruit enough patients.

Kunal Dhamesha: So, would it be fair to say that as and when it comes it will be more lumpy in nature?

Dilip Shanghvi: What would you mean by lumpy?

Kunal Dhamesha: So, let's say, maybe until we are recalibrating our psoriatic acetic Phase-3 trial? We are not clear on our strategy; we will not execute it. So, maybe in the next couple of quarters until we are calibrating it might be subdued and then once we are in full portrayal on the trial, it can jump?

Dilip Shanghvi: You should look at annual numbers rather than looking at quarter on quarter. So, there will always be a certain amount of lumpiness in the clinical trial spend.

Kunal Dhamesha: Sure. And second question, just on the logistic question on Ilumya. I feel I'm missing something. So, global Ilumya sales, we have said it's roughly $350 million, which has grown at 81%. But as far as I remember, last year, global Ilumya sales was roughly Rs. 143 million. So, that accounted the growth should be more than 100%. What am I missing here?

C. S. Muralidharan: So, the FY22 number is the total revenue from customer contracts, that includes product sales, royalty and milestone, which was already disclosed in our Q2 FY22

Kunal Dhamesha: The 350 it would be milestone payments?

C. S. Muralidharan: Royalty and milestone, which we have disclosed in the Q2 FY22 results.

Kunal Dhamesha: But still these growth number doesn't make sense, like 143 and 350, why is it 81%, so 81% is without milestone payment is what you are trying to say?

Nimish Desai: This is Nimish here. Let me explain. So, when we include the royalty and milestone of Ilumya in the 350 number for FY22, correspondingly for FY21 also, those equivalent numbers have been included. So, the base is also on a like-for-like basis.

Kunal Dhamesha: It would be 175 then if I have to manage the growth number for FY21 numbers?

Nimish Desai: Yes. So, what we have given you as growth is a like-for-like comparison. Otherwise, we would have ended up giving you something which is not comparable. So, we have given us the growth number.

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

Krish Mehta: Congratulations on the specialty performance. The first question I had was our note for subsection (d) where we've taken, I think, Rs. 562.5 million charge in relation to restructuring of operations. So, could you throw some light on what geographies we saw this restructuring? And if Russia has been a key part of this and whether this is going to be an exception that we might see in the future given the dynamic situation geopolitically?

C. S. Muralidharan: The restructuring is for the Western Europe region, for certain geographies.

Krish Mehta: Yes. The follow-up for this is. The second one is on the cash position of the Company. Given the net cash position we've built, how do you see the capital allocation going forward in terms of acquisitions or buybacks and like dividend payouts?

Dilip Shanghvi: No, I don't think that we can, I mean some of this, of course, we also don't know. But also, I think we don't forecast those numbers. Generally, we've kept the dividend payout at 30%+ of the profit.

Moderator: Thank you. The next question is from the line of Bino Pathiparampil from InCred Capital. Please go ahead.

Bino Pathiparampil: Lot of questions answered. Just a couple of them. Taro acquired the Proactiv brand some time in last quarter? And I believe that closed around some time in Feb. So, what I would like to know is whether there is some revenues on Proactiv, which is included in Taro top line?

C. S. Muralidharan: Yes. So, as we have said, the Proactiv, Alchemee related acquisition got done end of Feb. So, one month of revenue, but not very material is built in the quarter financials.

Bino Pathiparampil: And could you give some idea about generic Revlimid launch? Are you expecting to launch in the second wave, which is coming in soon?

Abhay Gandhi: I couldn't understand the question again. What is it that you're trying to ask?

Bino Pathiparampil: Generic revlimid launch in the U.S. So, could you give some idea? Are you looking forward to launch it along with the others in the second wave of generic entry?

Abhay Gandhi: We have an agreement and we haven't disclosed the terms of the agreement. And we will follow that like many other companies, there have been different time line set for when we can launch. So, it will be as per that. And as we launch, we will, of course let you know.

Bino Pathiparampil: Okay. Great. But you won't be able to come in, whether it's this calendar year financial or anything like that?

Abhay Gandhi: No, I think it is better that we don't because let us follow the process that has set out in the agreement that we have.

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

Sameer Baisiwala: A quick one on Winlevi. You got a very nice prescription support from doctors. Is it equally well supported on the insurance coverage side? And what happens to those prescriptions, which are not covered under plans?

Abhay Gandhi: So, as you know, it's five months since launch. So, as far as insurance support is concerned, it is work in progress. We are meeting with each one of them sequentially explaining the story, using the key doctors to also explain why insurance companies should cover. So, yes, it's work in progress.

To the latter part of your question that what happens if the coverage is not there? Like every specialty product when we launched too, we have a co-pay program, which reduces the burden on the patient and that can get the doctors in using the products frequently and get into the habit. And the number of prescriptions that we generate, which, as I said, looks nice, also becomes then a factor why insurers should try and cover a product. So, it's a combination of all these and definitely work in progress and an agenda for the team on the ground.

Sameer Baisiwala: And second question is Ilumya. Good showing with US 350 million sales including Europe, 420-odd something. So, where is Ilumya, in your view, in its product life cycle? Do you think it can continue to grow well over next two to four or five years? Or how are you thinking about it?

Abhay Gandhi: So, in my head, it's still in the growth phase, that's the direct answer to your question. So, we believe that there is still a lot more to be done for the product and a lot more headroom for the brand to do well.

Sameer Baisiwala: And just if I can ask about the Alchemee acquisition by Taro, it's one reads was about this product Proactive, so it has had quite a history and the sales has been declining over the last seven, eight years. And actually, it was declining even, say, 40% all the way to 2021. So, is it possible for you to share your thinking what you want to do with this asset? What's the turnaround plan? What's the strategic thinking behind it?

Dilip Shanghvi: We cannot share unless and until Taro shares with their shareholder. I mean, of course, the macro-objective for all acquisition would be that it can help the business at both top line as well as bottom line and also help grow on a consistent basis.

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

Surya Patra: So, just on the cost side, is it possible to have a sense, I possibly missed in the initial remarks, the sequential kind of cost impact, what we have seen in the fourth quarter versus the previous quarter, what has led to this kind of incremental cost pressure impacting our margins? That is the first question. And the related aspect is that let's say, for FY23, if we need to be concerned or cautious about certain cost items, then considering, let's say, 200 basis point kind of expansion in the R&D spend side or people cost, which could also be seen because back-to-back two-year of a field force expansion to the tune of around 10% and given the elevated otherwise challenging cost scenario of what we are witnessing for all the industry. So, given these what were the reason for the kind of sequential impact? And what outlook that one should really have about cost for next year?

C. S. Muralidharan: So, in terms of the cost, what I want to share is that these are normal as our operations have normalized, which we also shared in our earlier earnings call.

Surya Patra: Okay. Anything about next year, are you worried about the rising cost trend what we're witnessing in all those cost line items? So, anything that you think we can counter those easily to sustain the margin profile?

Dilip Shanghvi: No. I think hopefully; we should be able to offset some of the cost increases with our ability to take a price increase in the marketplace. So, we are not guiding for any significant change in the cost of goods at this point of time. If situation changes then, it may happen. But as on today, that's the thinking.

Surya Patra: And sir, my second question is on the growth guidance of high single-digit kind of growth for the full year. So, in that, whether we have considered Revlimid launch as well as any M&A scope in that or it is the core existing running business growth guidance that you have indicated?

Dilip Shanghvi: It is after factoring all potential price erosion as well as new product launches in the regulated market as well as in India, where we have to grow when we don't expect any significant amount of COVID sales. So, to that extent, we expect India businesses to get adjusted for that growth. So, it is factoring all of that.

Surya Patra: Just last one question, sir. On the domestic business front, so this 10% kind of expansion field force. Is it to counter the competition which is now becoming aggressive in the post-COVID period and the entire industry is talking about expansion of field force? Or it is to focus more on the organic growth rather than the industry, which is now looking for more of M&A-led growth in the domestic market?

Kirti Ganorkar: In my opinion, it's more like organic growth. So, what we are looking at, as I said earlier is, we are expanding to geographies where we had a limited presence or no presence. So, it's nothing to say that we are looking at competition and then expanding. So, wherever we are seeing growth opportunities in the territories where we are expanding. And second important point is also, we have a large product portfolio which also we need to declutter, that's why we are expanding in terms of number of MRs as well as in terms of number of business units, which are promoting products to the doctors. So, it's more of our strategy to grow in the future.

Moderator: Thank you. The next question is from the line of Deep Master from One-Up Financial Consultant. Please go ahead.

Deep Master: I just really had one question on the specialty business strategy over the medium term. So, now that we've seen good initial signs of the business stabilizing and seeing signs of your initial success, how are you kind of thinking about the medium-term sort of growth formula in a sense, if I may call it that? Your product portfolio will continue kind of growing at its own pace, but how should we think about new additions both from your internal pipeline as well as acquisitions? Is there a number that we could kind of expect one or two every year? How could we think about it?

Abhay Gandhi: If I look at it from a medium to long-term perspective, I think growth will be driven by a combination of organically growing the products that we have, whereas I feel that most of them are in growth phase, leaving us enough headroom to continue the growth trajectory. And of course, keeping your eyes open for any opportunities to look at product. And having the cash in the bank, which in the readout also we have mentioned, helps us to look at these very aggressively without, of course, overpaying for it. But we keep looking. Winlevi is an example. But I don't have a number in mind, whether it will be 1 or 2**.**

Deep Master: And in terms of a therapy focus, would it kind of would derma be top of the list and then sort of it followed by ophthalmology or how could we look at maybe your therapy focus or strategy for the portfolio?

Abhay Gandhi: So, without categorizing it as top of the list, I mean, the two segments we want to grow our dermatology and ophthalmology clearly. And in related oncology areas too, which are derm-focused, we keep looking at ways to grow the business. So, it's not one over the other. Idea is to try and grow both these franchises.

Moderator: Thank you. The next question is from the line of Kunal Dhamesha from Macquarie. Please go ahead.

Kunal Dhamesha: So, just an overarching question on Ilumya that what kind of insurance and coverage progress we would have made over the, let's say, last two years from the perspective of whether we have been able to reduce the step therapy kind of provision or the number of lives that are covered by the insurance which are covering Ilumya, a broad overview of how that has stand out would be helpful.

Abhay Gandhi: Right from the launch, whenever I have been on these calls, I have said that access was never a big constraint for Ilumya. And year-on-year, I think we have either been able to maintain or slightly improve upon the access. So, I think access is not really a big worry for me as far as Ilumya is concerned. But how do you then use that to continue to grow the brand is where I think the team and I will be focused on.

Kunal Dhamesha: So, I mean, pardon me if I'm wrong, basically, when I see a lot of insurance formulary, I typically see Ilumya being approved after a couple of step therapy. So, do you see a lot of...

Abhay Gandhi: Are you looking at the pharmacy side of the formulary or are you looking at the medical side of the formulary?

Kunal Dhamesha: I would say when you get, let's say, Express Scripts formulary or United Health basic formulary, those kind of thing.

Abhay Gandhi: My suggestion is, look at the medical side of the formulary, this is a medical benefit product. I think there you will not find those barriers and constraints that you just spoke about.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Nimish Desai for closing comments. Over to you, sir.

Nimish Desai: Thank you all of you for taking time out to join 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. Ladies and gentlemen, on behalf of Sun Pharmaceutical Industries Limited, that concludes this conference. We thank you all for joining us, and you may now disconnect your lines.