Corporate Participants

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Moderator: Ladies and gentlemen, good day, and welcome to the Sun Pharmaceutical Industries Limited Q4 FY '24 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Dr. Abhishek Sharma. Thank you and over to you.

Abhishek Sharma: Thank you. Good evening, and a warm welcome to our fourth quarter FY '24 earnings call. I'm Abhishek 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; and Mr. Abhay Gandhi, CEO, North America; and Mr. Kirti Ganorkar, CEO India Business.

Today, the team will provide an update on financial performance and business highlights for the quarter, pipeline update and respond to any questions that you may have. We will refer to the consolidated financials for management comments. The call recording and call transcript will also be put up 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. 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 our CFO, Mr. C. S. Muralidharan.

C. S. Muralidharan: Welcome, and thank you for joining us for this earnings call after the announcement of financial results for the fourth quarter FY '24. Our full year and Q4 financials are already with you. As usual, we will look at key consolidated financials.

The full year FY '24 sales were at INR477,585 million, a growth of 10.4% over last year. Material cost stands at 22.3% of sales, lower than last year on account of higher specialty sales and better product mix. Staff cost stands at 19.7% of sales, higher versus last year on account of annual merit increase, consolidation of Concert and increased headcount in India field force.

Other expenses are at 32.3% of sales, higher on account of higher R&D expenses, including Concert and selling and distribution expenses. Forex gain for the year was INR361 million compared to a loss of INR1,261 million last year. EBITDA for the year was a INR130,231 million, a growth of 11.8%, with resulting EBITDA margin of

26.9%. Adjusted net profit for the year was INR100,707 million, up 16.5%. Reported net profit for the year was INR95,764 million compared to INR84,736 million in same period last year.

Let us now discuss the Q4 FY '24 performance. Q4 FY '24 sales were at INR118,133 million, a growth of 10.1% over the Q4 FY '23 and lower by 2.8% over Q3 FY '24. Material costs for the quarter was 20.2% of sales, lower year-on-year on accord of better product mix, including higher specialty sales. Material cost is lower versus Q3 FY '24 on account of geographic and product mix.

Staff costs came in at 19.5% of sales, higher than Q4 FY '23 on account of merit increase, increase in headcount and consolidation of Concert. Other expenses were higher year-on-year and also Q-on-Q on account of higher R&D spend, which includes consolidation of Concert and higher sales and distribution expenses across geographies.

Forex loss for the quarter was INR564 million compared to a loss of INR272 million in Q4 FY '23. EBITDA, including other operating revenues, was at INR30,352 million, higher by 8.3% over Q4 last year. EBITDA margin for the quarter was 25.3% compared to 25.6% in Q4 FY '23 and 28.1% in Q3 FY '24.

Adjusted net profit, excluding the exceptional items, for Q4 FY '24 was INR27,562 million, representing a growth of 27.8% over Q4 FY '23. Reported net profit for Q4 FY '24 stands at INR26,546 million as against reported net profit of INR19,845 million in Q4 FY '23. The effective tax rate for Q4 FY '24 was 5.1%.

Reported EPS for the quarter was at INR11.1 per share. As of 31st March 2024, net cash was $2.4 billion at consolidated level and $1.1 billion at ex Taro level. Moving on to Taro's performance. Net sales for the full year was $629 million, up by 9.8%. Net profit for the full year was $53.9 million. For Q4 FY '24, sales were $165 million. Excluding impact of GTN adjustments, sales growth was in high single digits. Net profit for Q4 FY '24 was $15.1 million compared to $6.9 million in Q4 FY '23.

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

Kirti Ganorkar: Thank you, Murali. I shall take you through the performance of our India business. Our India formulation sales for the full year FY '24 were INR148,893 million, recording 9.5% growth over previous year. For Q4, the sales of formulation in India were INR37,078 million, recording a growth of 10.2% over Q4 last year. India formulation sales accounted for 31.4% of total consolidated sales for the quarter.

Sun Pharma is ranked number one and holds 8.5% market share in the over INR1,970 billion Indian pharmaceutical market, as per AIOCD AWACS MAT March 2024 report. Corresponding market share for the

previous period was 8.3%. For the quarter ending March 24, we grew higher than IPM, and we have done well across all major represented therapy areas.

As per SMSRC MAT Feb 2024 report, we continue to be number one brand company based on the prescription volume. Sun Pharma is also ranked number 1 by prescriptions with 12 different doctor categories. For Q4 FY'24, the company launched nine new products in India.

I will now hand over the call to Abhay.

Abhay Gandhi: Thank you, Kirti. I will update on the performance highlights of our U.S. businesses. Our overall U.S. business grew by 10.1% to $1,854 million for the full year FY'24. The growth is driven by specialty with all our growth products contributing, like Ilumya, Cequa, Winlevi and Odomzo.

For Q4, our overall sales in the U.S. grew by 10.9% over Q4 last year to $476 million. The U.S. accounted for over 33.5% of consolidated sales for the quarter. For Q4, we launched two generic products in the U.S. on an ex-Taro basis.

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

Dilip Shanghvi: Thank you, Abhay. I will provide an update on 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 $1.041 billion for the full year, up by 5.9% year-on-year. For Q4, sales in Emerging Markets were $245 million, up by 10.8% over Q4 last year. The underlying growth in constant currency terms was 17% year-on-year for Q4.

Emerging markets accounted for 17.2% of total consolidated revenue for Q4. Amongst the larger markets in local currency terms, Brazil and South Africa have done well. Formulation revenues in Rest of the World were $811 million, up by 7.8% over last year. For Q4, Rest of the World sales were $196 million, up by 2.5% over Q4 last year. Rest of the World markets account for approximately 13.8% of consolidated revenue.

We continue to invest in building an R&D pipeline for both the Global generics and the Specialty businesses. Consolidated investments towards R&D for Q4 '24 stands at INR9,000 million, 7.6% of sales. The specialty R&D accounted for 42% of our total R&D spend for the quarter.

Moving on to updates on Global Specialty. In FY'24, our Global Specialty sales were up by 19.3% to reach $1.039 billion. In Q4 financial year '24, our global specialty sales were up by 11.1% to reach $271 million. We've seen a

strong growth in global ILUMYA sales for the year, which were up by 21.7% to $580 million. This figure does not include end market sales of our partners.

The Board has proposed a final dividend of INR5 per share for the year FY'24. This is in addition to the interim dividend of INR8.5 per share paid in FY'24, taking the total dividend for the FY'24 to INR13.5 per share compared to INR11.5 per share for FY'23.

And lastly, on the guidance for FY'25, we expect high single-digit consolidated top line growth for FY'25. All our businesses are positioned for growth. For the current year, we will be in investment phase for the several businesses. This include, but not limited to, product launch costs in the U.S. as the ramp-up of our global specialty business is expected to continue. R&D investments will be 8% to 10% of sales for the next year.

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. We'll take the first question from the line of Damayanti Kerai from HSBC. Please go ahead.

Damayanti Kerai: My first question is on your U.S. business, excluding Taro and Specialty. So have you seen improvement in the performance, considering prior few quarters have seen lower shipment from key plants like Mohali? So excluding Revlimid also, have you seen a pickup in that part of the business?

Abhay Gandhi: Your question is on the generics business, right?

Damayanti Kerai: Yes, U.S. generic business.

Abhay Gandhi: Yes. So I think supplies from Mohali have resumed, but obviously not fully in effect, and it will gradually improve over a period of time. So we had to make do with what we had. And in that context, we'll did the best as possible.

Damayanti Kerai: Okay. And you mentioned two launch during the quarter. How are you positioned for launches in FY'25 for U.S. generic business?

Abhay Gandhi: So we have a plan of filing and getting approvals for a few products. Specific details, obviously, we won't give. But the pipeline looks healthy and most of the key products that we wanted to get to market are in that basket.

Damayanti Kerai: Sure. And my second question is on your pipeline for GLP-1 products. So can you share like how far those are from market launch? And like how many you have filed so far? Some colour on that will be helpful.

Dilip Shanghvi: You mean the generic GLP-1?

Damayanti Kerai: Yes, generic GLP-1 products.

Dilip Shanghvi: We generally don't give out information related to future products, specific product launches but they are interesting products globally.

Damayanti Kerai: Okay. But you are working for your global portfolio, right, without discussing further?

Dilip Shanghvi: Yes, we are working for the global portfolio, correct.

Moderator: We'll take our next question from the line of Neha Manpuria from Bank Of America.

Neha Manpuria: Sir, based on your guidance of high single-digit growth for FY '25, even if I were to just think about the various businesses, particularly Specialty; is it fair to assume that this year, even with ILUMYA growth, we are not expecting too much momentum in the rest of the portfolio, particularly Winlevi? Is that how I should be reading this number? And along with that, if you could just give us an update on what you're seeing in Winlevi.

Dilip Shanghvi: Abhay will respond to specifics. But otherwise, the overall guidance is a consolidated guidance for all businesses. Not only specific businesses Abhay, maybe you can respond.

Abhay Gandhi: On Winlevi specifically, Neha, if you see the quarter and from external data, you can validate this; I mean we have seen actually a very strong quarter for Winlevi.

Neha Manpuria: And do you expect the momentum to build from here, now that you've started seeing a pickup on Winlevi? Would that be fair to assume?

Abhay Gandhi: That would be our expectation, yes.

Neha Manpuria: And on Ilumya, Abhay, given 20% growth, are we close to getting sort of the growth peaking out? Or you think there's more steam left in ILUMYA as we look through the next few years?

Abhay Gandhi: I mean our task as a team is to continuously find ways to grow this product.

Neha Manpuria: Understood. Despite the fact that we are seeing competition from biosimilar, Humira, etc?

Abhay Gandhi: Yes, sure.

Neha Manpuria: And the Deuruxo launch approval, which is due in July, launch-related cost for that would start coming through in the second half of this year, will that be a fair assumption? I mean, just wanted to get a sense on the launch timeline for Deuruxo, assuming we get approval in July?

Abhay Gandhi: There are small costs that we are incurring even today for all the pre-launch activities. But I think the major cost will obviously hit our numbers when we actually launch the product.

Neha Manpuria: Which would be when, based on the July '24 timeline for approval?

Abhay Gandhi: So we are on track to launch it post the PDUFA date. Do remember, it takes a little bit of time to actually enter the market with all the pre-launch activities that need to be done. But we are on track as of now.

Moderator: We'll take our next question from the line of Bino Pathiparampil from Elara Capital.

Bino Pathiparampil: Dilip Bhai, could you please comment a bit on this FDA issues at Mohali and Dadra. Do you think the worst we've seen and from here on, we will improve? Or do you expect anything more?

Dilip Shanghvi: No, I think we are concerned about the negative outcomes in the audit. And I think it's our job to find a way to ensure that we come out of whatever the learnings that we have so that we perform much better in subsequent audits.

Bino Pathiparampil: I understand. But I asked you this because especially in Mohali, we had inspection for 483, then we've got an OAI status. And subsequently a few months later again, we've got something else which is like that third-party consultant verification, etc. So, you have been on a worsening course. Do you think that has bottomed out? Or do you have the confidence that, that has bottomed out?

Dilip Shanghvi: I mean, we feel that we've done enough corrections so that we should see a positive outcome in subsequent audits.

Bino Pathiparampil: Okay. Second, on this product, MM-II, from your press release, I see that you plan to initiate a Phase III. But if I remember correctly, it has not met the primary endpoint in Phase II. So could you put that in context, please?

Dilip Shanghvi: No. I think what we disclosed in the Phase or the press release is that it did not meet the primary endpoint. But we believe that with our learnings and our understanding, we can design a Phase III study, which will not only meet primary endpoint but will also be proven to be a very effective product.

Bino Pathiparampil: Okay. And the Phase III will be in the U.S.?

Dilip Shanghvi: Yes. It's a global study, including U.S.

Bino Pathiparampil: Including U.S. Okay. If it's successful, you can directly file in the U.S. That's the way it's designed.

Dilip Shanghvi: Sure.

Bino Pathiparampil: Okay. If I could push one last question on the Nigeria-related Forex loss. Is that a balance sheet item? I mean is it a receivable that you have written down?

C. S. Muralidharan: So this was due to the sharp currency depreciation by the regulator, and we've booked an MTM loss against the payables.

Bino Pathiparampil: Understood. Okay. So it's a balance sheet item. On the payables, you had to book.

C. S. Muralidharan: It's a P&L item, shown as exceptional because action was initiated by the regulator.

Bino Pathiparampil: Understood. So what I'm trying to understand is that on the balance sheet, you had some money that was receivable or payable. And on that, because of the devaluation, there is a loss. Is that correct?

Dilip Shanghvi: That's correct. Balance sheet via P&L.

Moderator: We'll take our next question from the line of Tushar Manudhane from Motilal Oswal.

Tushar Manudhane: Sir, with respect to Deuruxolitinib? Are there any queries pending with US FDA?

Abhay Gandhi: We haven't received any specific queries, which have till date not been answered.

Tushar Manudhane: Understood. And just on this India market, if you could share the outlook for at the industry level, what do you think would be the growth rate for next one to two years? Is the trade generics eating away the volume from the prescription sales, if you could give your perspective overview?

Kirti Ganorkar: For us, it's very difficult to predict what will be the industry growth in the next 1 to 2 years, but the effort in India business as a team is always we grow in line with market or slightly higher than market.

And your questions on trade generics, there is a momentum and growth in trade generics, but we don't see any direct impact on our prescription business because the market is large enough for all the players to grow.

Moderator: We'll take our next question from the line of Girish Bakhru from OrbiMed.

Girish Bakhru: Abhay, just on deuruxo, just need a clarification. If the approval comes in by July, should this product have a normal NCE exclusivity of 5 years like any other?

Dilip Shanghvi: Abhay, are you responding?

Dilip Shanghvi: Yes, I think it will have the normal 5-year NCE exclusivity.

Girish Bakhru: Sure. So Dilip bhai, just digging this little bit deeper because there was no compound patent in this case. So I mean, is that understanding correct that generic cannot file for at least NCE minus 1, so you will have that window like any other product, right?

Dilip Shanghvi: Yes. Yes. I think, I'm not responding to specific patent-related issue. But your understanding of generics ability to file is correct. Now we have multiple patents and we feel that we should be able to protect the product for a much longer period of time.

Girish Bakhru: That's helpful. And just when you compare this vis-a-vis Ilumya, I know there's no direct comparison, Ilumya has become a very sizable product for you; I mean, given that this makes a larger share in terms of growth for you in FY '26 and beyond and you are possibly the third player entering alopecia, market with a very strong product, do you think this product essentially will have a much higher potential than Ilumya for you?

Dilip Shanghvi: I mean, we are not giving comparative, what you call, sales long-term projection. But I think we feel very happy about the way the product has performed. Abhay, you're back?

Abhay Gandhi: Yes, I'm back. I think you said it correctly. We are happy with the way the product has performed. We are happy with the way that in our initial discussions with KOLs and other doctors and payers and the response that we are seeing. And I think we broadly see an acceptance that we have a strong product in our hands.

Girish Bakhru: Understood. And just last one, if I can squeeze. Is it possible to give a specific US sales number for Ilumya?

Dilip Shanghvi: No. We've given global sales, no.

Girish Bakhru: Yes. I was just wondering if US-specific sales, if you can get Ilumya?

Dilip Shanghvi: I mean, US is a major market, is what I can tell you. But no specific detail for US sales.

Moderator: Mr. Patra, please go ahead.

Surya Patra: My first question is on the margin profile, sir. So starting with the current quarter, see, in fact, the gross margin swing of around more than 200 basis points that we are witnessing for this quarter, although we have seen a sequential decline in the domestic business, there is a last quarter was supported by there is a $20 million of licensing income. So despite those key contributors to the margins were not there, still there is a more than 200 basis point kind of swing that we are witnessing.

What is driving this, this quarter? And another extended point about this margin thing is that when you are saying that growth for FY '25 is likely to be single digit and we are raising our R&D spend guidance by more than 200 basis points, so how should we think about the margin profile of the business overall for FY '25?

C. S. Muralidharan: So you're right, first, on the gross margins. You're right that in the previous quarter, the milestone income was there. However, with the current quarter, the gross margins have increased by about 200 basis points, primarily because of the function of both products and geography mix.

There are many multiple small contributing factors, which individually may not be very high, but on an aggregate basis, did have a positive movement in the current quarter. From the overall perspective for FY '25 outlook, we have given the revenue guidance. At this point of time, we are not giving any EBITDA margin guidance for FY '25.

Dilip Shanghvi: I think we are clear that we have to continue to invest for the future. And our effort would be that while we are creating that investment for future, we don't do it at the cost of profitability. But even if it does require some increased investment, we would do that because ultimately, our focus is on building a business which is strong long term.

Surya Patra: Sure, sir. Sir, my second question is about the global specialty business, which will about the Ilumya's progress in China. In fact, the last quarter, we had seen a big development, so far as Ilumya is concerned,

in China. I think that was included into the National Reimbursement List China. That is one. So any progress on that front? And also, if you can split for the Global Specialty, what is the kind of US and non-US that split if you can share?

Dilip Shanghvi: No. I think your assessment that the product got what you call reimbursement as well as we are happy with how the product launch is progressing. We just responded to a question about the US sales of Ilumya. So we don't break down the sales in different geographies, but we're giving consolidated global sales. And we remain excited about the future potential of the product, not only in all the existing markets, but also in new markets, we are in the process of launching.

Surya Patra: Okay. No, my point was that, in fact, in the last few quarters, we have seen extending our global or the US specialty portfolio to various global markets. And possibly there is a kind of few quarters already lapsed on that front. So are we seeing a kind of enhanced growth for the specialty portfolio played by the non-US market presence and progress there?

Dilip Shanghvi: I think, we will see my view is that we will see specialty business becoming an increasingly important part of the business. And that's what I think we've been guiding. And our initial focus and presence was in the US. And now that we are launching these products in other geographies, we will see increasing acceptance in potential sales of this.

Our hope is that our growth in the US will keep up with the new business that we will generate, so that US will continue to have a much higher share of the future growth. But we will sell it will become a global business.

Surya Patra: Okay. Just last one, if I may. So can you share some thought process about your plans for the Taro about its integration and integrating the business into the overall US and the potential growth subsequently? How should one think about this integration of Taro?

Dilip Shanghvi: So I think broadly, Taro, we have been actively involved in managing the business. So it's not a pure acquisition where we kind of buy a company and we don't know anything about it. So I'm not seeing any dramatic change in the way the business is run.

Moderator: We take our next question from the line of Saion Mukherjee from Nomura.

Saion Mukherjee: Abhay, you have indicated in the past, these last 2 quarters, Revlimid was not a big contributor. I remember, in 4Q, I think you mentioned last year, it was. So I just wanted to check, is there a big contribution from Revlimid this quarter? How should we think about that in the coming year, please?

Abhay Gandhi: So for quarter 4, it was not a huge contributor. Certainly, more than what we did in Q3. And like you said, referring to my earlier comments on the product, the sales of this product will be episodic and a bit lumpy when we look at it from an annual kind of basis.

Saion Mukherjee: All right. Understood. And the second question again on ILUMYA in the US, in particular. So what are the growth drivers that you see, now the product is established, going forward, that could help it grow for the next, say, 5 years or so?

Abhay Gandhi: I think the biggest growth driver we have is the current amount of data and the experience that current users have had with the product. So I think that's a big positive, as far as product is concerned. Secondly, I think over a period of time, we should be able to get our new indication of psoriatic arthritis. That will be another driver for growth.

Moderator: We'll take our next question from the line of Ankush Mahajan from Axis Securities.

Ankush Mahajan: This is in extension to the gross margins, a very healthy improvement in gross margins Q-on-Q. Sir, as we are launching new products in the specialty this year also, the product mix is changing towards specialty. So there is any further scope of improvement in gross margins?

C. S. Muralidharan: So while you are right that we have seen an upward movement of gross margin in Q4, however, it's difficult to say at this juncture what we feel is that our full-year gross margin will be a better indicator to look at while looking at forward period.

Ankush Mahajan: Okay. So we can say whatever we are spending on R&D that could be set off by the improvement in gross margins?

C. S. Muralidharan: We are not giving any guidance on margins at this point of time.

Ankush Mahajan: Okay. Sir, this what is the status for the NIDLEGY in the European market? And can you tell us, sir, what is the total market size for this drug in the Europe?

Dilip Shanghvi: So I think it all depends on the kind of label that we will get. We are excited with the kind of clinical data that we've seen. But it all depends on what kind of final label we will get. It's a useful and important product for patients in Europe.

Ankush Mahajan: Sir, any idea about what is our total market size for this product?

Dilip Shanghvi: No, I think you should keep in mind that the number of patients would be in thousands. It not a very large market. But I think and also how many we will be able to capture is the second issue. But we feel comfortable, based on the market research, that we can get reasonably good reimbursement. And in Europe, if you get good reimbursement and you have good marketing infrastructure, you should be able to at least successfully ensure that the product benefits are able to reach the patient.

Moderator: We have our next question from the line of Krish Mehta from Enam Holdings.

Krish Mehta: I just wanted to ask on the restructuring costs you've taken in Japan of around INR232 million this quarter, as to what this restructuring involves? And as a follow-up to that, if you could just expand a bit on our Japanese portfolio and how we are seeing Japan products in terms of the specialty business as well as the Novartis portfolio that you had acquired several years ago? Thank you.

C. S. Muralidharan: So the first question on the Japan restructuring costs, we've been a global company. We do relook at our businesses on the structures, and we have taken some appropriate business decisions to the current circumstances. That's why you see this restructuring cost, which is a onetime cost. On the Japan portfolio, of course, we have our specialty products currently approved, ILUMYA is our product there. And we also got the long-listed brands, which we market there currently.

Dilip Shanghvi: I think, we are excited about the overall success that ILUMYA has had in Japan, especially considering limited familiarity that doctors had with Sun Pharma as a company. And our effort now is to ensure that we are able to get a fair share of the prescription of the IL-23.

Moderator: We'll take the next question from the line of Vishal Manchanda from Systematix.

Vishal Manchanda: On Ilumya, would you be able to share what would be its market share in the biologics category for psoriasis?

Abhay Gandhi: Is the question pertaining to US?

Vishal Manchanda: Yes, in the US, right.

Abhay Gandhi: It will be very small. It will be a slightly less than 1% of total market.

Vishal Manchanda: Sorry.

Abhay Gandhi: Of total market, it will be less than 1%.

Vishal Manchanda: Yes, the psoriasis market and biologics category.

Abhay Gandhi: That's what I referred to.

Vishal Manchanda: Okay. So 1% of the biologics market in psoriasis.

Abhay Gandhi: Yes.

Vishal Manchanda: Okay. And another one on Deuruxolitinib, if you could share some sense on how is it differentiated versus the other 2 options Olumiant and Ritlecitimib?

Abhay Gandhi: So that's a very specific science question, which I don't know that on the call I can do justice without spending 10 minutes on it. So maybe you can separately take it up with Abhishek later.

Dilip Shanghvi: Yes. But actually, we don't have any comparative study. All that understanding we have is based on separate...

Abhay Gandhi: Our own data.

Dilip Shanghvi: And also separate Phase III studies, which are available in public domain or around label of both the products. And based on that, I think at least based on the feedback that we've received from KOL they feel that the overall performance of deuruxolitinib is very good.

Vishal Manchanda: Okay. And on Sezaby, if you could update if there is something around exclusivity getting triggered for the product during the year.

Abhay Gandhi: I think Spark has filed a citizens petition and we are working on that. That's all I will say.

Vishal Manchanda: Got it. And just one more. With Stelara getting genericized next year, do you expect any pricing pressure for that?

Abhay Gandhi: I mean, it is one of the options out of many. And all these competitive activities keep happening around us. So the overall guidance, which Mr. Shanghvi has given, factors in whatever possible competitive changes that we see, not only for one product, but for all products and on a global scale.

Moderator: Thank you. We'll take our next question from the line of Madhav Marda from FIL. Please go ahead.

Madhav Marda: I had two questions. The first one was the initial launch cost, you need approvals also for Durexo in the next few months. Is this a sort of a nonrecurring expense, which would happen in the first few months the first few months of first 2 quarter of it's launch and then that goes away or still down? Is that how we should think about initial launch expense for products?

Abhay Gandhi: So some of those expenses may be onetime, but a large part of the expense will be a recurring one.

Madhav Marda: And these expenses pertain to basically manpower and promotion costs or both, both the items I am seeing?

Abhay Gandhi: Yes. And there will be others, but these 2 will be the bulk of it.

Madhav Marda: Understood. And then just a second question was on the R&D spend, where when we're guiding for 8% to 10% that would mean...

Abhay Gandhi: Sorry, your voice is a little low, and you're speaking very fast. So I don't think that I'm catching your questions very clearly.

Madhav Marda: I'll just repeat my question. So my second question was that we are seeing the R&D spend could go up to 8% to 10% of revenue, but I'm just doing this simple math. That would mean almost $200 million increase on the R&D spend. So could you help us understand where some of this incremental spend will be going towards? Is it like the Phase III of Phase II study for the products?

Dilip Shanghvi: Yes, I think what I indicated in my readout is that a large part of the R&D spend increase would be in the specialty products.

Madhav Marda: Okay. If you can call out anything more specific? Is it like specific tiers for specific products? Anything that you can share on will be helpful.

Dilip Shanghvi: We have shared the plans for all the products.

Moderator: Thank you. We'll take the next question from the line of Prashant Nair from Ambit Capital. Please go ahead.

Prashant Nair: My first question is on your comment that you would be in investment phase during the next financial year. So just wanted to understand, would this be more skewed towards R&D? Or would it be more

evenly set between the R&D and launch expenses related to your specialty products in the U.S.? I mean, how should we think about this?

Dilip Shanghvi: I think my comment was more for the R&D-related expenses. We believe that increased business that we will get, we should be able to adjust for the increased marketing spend, except in some onetime costs. But those are not big costs. And as I explained, our focus would be that how do we increase the spend without negatively impacting our overall profitability. How much we're able to execute is something that we will see. So we are not guiding for any profitability, but the focus would be that even if it means some compromise with profitability, we would like to create a longer-term high value for the business.

Prashant Nair: Yes. That helps. And the second question is related to your tax rate. I mean how should we think about it on an annual basis over the next few years?

C. S. Muralidharan: So we already mentioned that tax expense should be seen on an annual basis. Yes, we look at the current annualized ETR for the current year is 13%, what was 9% in the previous year. So we have been recommending that look at our tax rate on an annual basis. And it's likely to inch up as we move forward year after year.

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

Saion Mukherjee: Just two questions. So firstly, sir, on the Emerging Market, I think you mentioned, if I got the right on constant currency term, a 17% growth. This quarter, it is, a very strong growth, and we have seen good traction there. Typically, for these markets, what we understand, do not have a very high growth, right, in Brazil, South Africa and all.

So if you can more sort of give some more colour, just thinking how sustainable the kind of growth in Emerging Markets, and what exactly is driving the strong growth there?

Dilip Shanghvi: So I think our focus is to, what you call, sell products, which are a more consistent business rather than focusing on tender kind of business. Unfortunately, the markets are such that we always have the risk of currency depreciation. What we are happy is that in spite of this, the business continues to do well.

Saion Mukherjee: Okay. And my second question was on R&D, you mentioned about investments there. In your guidance, you suggest a meaningful step-up in the spend. If I look at the speciality pipeline, it appears that there

would be products which can get into Phase III possibly in calendar year '25 or FY '26. So will it be will we see another step-up in R&D maybe in FY '26 before it starts to moderate?

Dilip Shanghvi: No, I think my challenge has been that I have limited capacity to predict long-term future. So I don't know what will happen in 2 years, 3 years later. So our focus is to find a way to give you a guidance for this year, and our effort would be to see that we meet the guidance.

Saion Mukherjee: Sir, just to sort of ask this question in a different way, right, clearly, you suggest that you we will invest in short-term is required from a long-term perspective. Are there any sort of how do you manage the risk here in the sense that do you have some limits on the spend that you want to incur as a company?

Dilip Shanghvi: No, I don't think I want to respond to a specific question whether I have a limit or not. But I believe that when we look at our overall performance, then our investment in R&D is significantly higher than many generic companies. At the same point of time, if we look at our overall spend in what you call R&D-as-a-specialty company, then there are many other companies whose overall spend is much higher than ours. So we need to find a balance and find a way by which we continue to generate growth and positive cash flow for our investors while we continue to create long-term value, and that's our focus.

Saion Mukherjee: If I can ask one last question on the generic business, firstly, sir, any comment on pricing environment? And secondly, the plant issues that we have with Dadra, Mohali, etc. Is that having any impact on your meaningful launch that you expect, let's say, in the next 1 years or 2 years? Or do you think the meaningful launch are protected, given the compliance status at this point?

Dilip Shanghvi: So Abhay, maybe you can respond about the pricing.

Abhay Gandhi: Yes, we have said this on our call in the past as well that is a highly product-specific issue. On certain products, we see a deep cut. And on certain, we don't see deep cut. But overall, I think the environment remains the same as we saw in the previous year.

Dilip Shanghvi: Yes. And I think the overall guidance we have presumes in fact of the current challenges that we have in the facilities.

Moderator: Thank you. We'll take our next question from the line of Nitesh Dutt from Burman Capital. Please go ahead.

Nitesh Dutt: I have a question on our India business. So I just wanted to understand our manufacturing strategy, basically two questions. One, what percentage of the production is being done in-house versus outsourced? And are you trying to maintain the same mix of trying to increase in-house? And also, is it like a concentrated supply base or segmented across a lot of players?

Dilip Shanghvi: No, I think I don't know whether we've shared this specific information, but I think our focus would be to find a way to produce in-house as much as possible. So our relative percentage of outsourced products are limited. But it would be buying from a few vendors, and that increases the challenge in terms of ensuring that they meet all the compliance requirements for what we are expecting from manufacturing facilities that we run ourselves. So that's one of the key reasons why we want to produce in-house.

Nitesh Dutt: And sir, as government is tightening the norms, etc. For the contract manufacturer, so can you provide us an, again, opportunity to move in-house or improve our gross margins in that sense if you move some production?

Dilip Shanghvi: Since we don't have a large business from third-party manufacturers, it cannot have a material impact on what further we do.

Nitesh Dutt: Understood. Thanks for the response. I'll come back to this.

Moderator: Thank you. We have a next question from the line of Prashant Nair from Ambit Capital. Please go ahead.

Prashant Nair: The first question is on Ilumya. So in terms of development, are there any indications other than psoriatic arthritis that you are currently thinking about from this product's perspective? Or will that be the only additional one that you look at?

Dilip Shanghvi: Yes. I think that's the only disclosed indication

Prashant Nair: Okay. And is there a potential to look at other options as well or at a later date?

Dilip Shanghvi: We haven't taken any specific decision. If we decide to, then that's something that we will share with people.

Prashant Nair: Okay, great. Thanks a lot.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Dr. Abhishek Sharma for closing comments. Over to you.

Abhishek Sharma: Thank you. Everyone, for joining us at this late hour. If any of your questions remain unanswered, you can get back to the Investor Relations team or to me, and we'll be happy to take those separately. Thank you.

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