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National Stock Exchange of India Limited,
Exchange Plaza, 5th Floor,
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Scrip Symbol: SUNPHARMA

BSE Limited,
Market Operations Dept.
P. J. Towers,
Dalal Street,
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Scrip Code: 524715

Sub: Q3 FY22 Earnings Call Transcript

Dear Sir / Madam,

Please find enclosed herewith a copy of the transcript of the Company's Q3FY22 earnings conference call, which we shall be uploading on our website after sending this letter to you.

This is for your information and dissemination.

Thanking you,

Yours faithfully,
For **Sun Pharmaceutical Industries Limited**

A. I. Bhuta

Ashok I. Bhuta
Compliance Officer

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 Q3FY22 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. I now hand the conference over to Mr. Nimish Desai, Head of Investor Relations. Thank you and over to you, Mr. Desai.

Nimish Desai: Thank you. Good evening and a warm welcome to our third quarter FY22 earnings call. I am Nimish from the Sun Pharma Investor Relations team. We hope you have received the Q3 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 third quarter of FY22. I hope you and your family are doing well.

Let me discuss some of the key highlights:

Consolidated revenues for the quarter were at Rs. 98,142 million recording a growth of about 11% YoY driven by strong performance across markets. Despite rising costs, we have achieved higher

profitability. We continue to focus on topline growth, operational efficiencies and business continuity.

For Q3, branded formulation business in India and Emerging Markets together now account for about 50% of global consolidated revenues.

Let me now update you on our global specialty business. I am happy to inform you that our global specialty revenues for the first nine months, have already crossed previous full-year revenues. For Q3, our global specialty revenues were approximately US$ 183 million across all markets, up about 21% YoY. The global specialty revenues do not include Ilumetri end-market revenues.

As you all are aware, we launched Ilumya in Canada and Winlevi in the US during the quarter. Recently, we also announced launch of Cequa in Canada.

Specialty R&D accounted for approximately 22% 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 Q3 financial performance.

C.S. Muralidharan: Thank you Mr. Shanghvi. Good evening everyone and welcome to all of you. Our Q3 financials are already with you. As usual, we will look at key consolidated financials.

We recorded the highest ever quarterly revenues at Rs. 98,142 million in Q3, up by about 11% over Q3 last year. Material cost as a percentage of revenues was 27%. Staff cost was up by 8% YoY and stands at 18.9% of revenues. Other expenses were up 13% YoY and stands at 28.1% of revenues; increase is attributed towards higher Selling & Distribution and Travelling expenses while in Q3 of last year, these expenses were lower on account of global pandemic. As indicated in our past earnings calls, the expenses are seeing an increasing trend across all the markets as we reach full normalization. Forex loss for the quarter was Rs. 106 million compared to a gain of Rs. 716 million for Q3 last year.

EBITDA for Q3 was at Rs. 25,574 million, up by 7.5% YoY with EBITDA margin at 26.1%. It is important to note that we have been able to record EBITDA growth despite a significant increase in other expenses and a negative swing in forex.

Reported net profit for the quarter was at Rs. 20,588 million, up 11% over net profit of Q3 last year. The reported EPS for the quarter was Rs. 8.60.

Let me now discuss the key movements versus Q2FY22:

Our consolidated revenues were up by about 3% QoQ at Rs. 98,142 million, primarily driven by the specialty business.

Material cost stands at 27% of revenues. For Q3, other expenses were at 28.1% of revenues higher than Q2 on account of higher Selling & Distribution expenses. We had a forex loss of Rs. 106 million for Q3 as against forex loss of Rs.764 million in Q2.

EBITDA for Q3 stands at Rs. 25,574 million, which is flat compared to Q2. It is important to note that in Q2, we had a milestone income of US$ 10 million, excluding which we would have recorded a minor growth in EBITDA sequentially.

Other income for Q3 was higher compared to Q2 mainly due to settlement income from the Dusa-Biofrontera litigation and interest on income tax refund.

Reported Net profit for Q3 was at Rs. 20,588 million marginally higher than Q2 this year.

Now we will discuss the nine-month performance.

For nine-month period, net revenues were at Rs. 290,403 million, a growth of 17% over the nine-month period last year. Staff cost stands at 18.6% of revenues, lower than nine-month last year; however, in absolute terms the Staff Costs have increased on account of annual merit increases. Other expenses were at 27.3% of revenues lower than nine-month period last year; however, in absolute terms, the other expenses have increased on account of higher Selling, Distribution and Travelling expenses while in nine-month of last year, these expenses were lower on account of pandemic related restrictions across markets.

As a result of the above, the EBITDA for the nine-month was at Rs. 78,900 million, a growth of 26.5% over the nine-month last year, with EBITDA margin of 27.2% compared to 25.2% YoY.

Excluding the exceptional items, adjusted net profit for nine-month FY22 was at Rs. 60,851 million, up by about 33% YoY. Reported net profit for nine-month FY22 was at Rs. 55,500 million.

The Company has repaid debt of about US$ 254 million in first nine-months of the current fiscal.

As of 31-Dec-2021, we continue to remain net cash positive, even at the ex-Taro level with US$ 767 million of net cash.

At the consolidated level, including Taro, the company has a net cash of about US$ 2.1 billion.

Let me now briefly discuss Taro's performance.

Taro posted Q3FY22 revenues of US$ 139 million and net profit of US$ 26.3 million higher by 5% and 6% respectively over Q2FY22. On a YoY basis, revenues for Q3FY22 were flat while the net profit was lower by about 20%. For the nine-month, revenues were at US$ 418 million, up 4% YoY and Adjusted Net Profit was at US$ 99.2 million, down by about 7% YoY.

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 Q3, the formulation revenues in India were Rs. 31,676 million, recording a strong growth of about 15% over Q3 last year. India business accounted for about 32% of consolidated revenues for Q3. Despite a challenging and competitive environment, we have maintained the trend of the past few quarters of outperforming the average industry growth which has led to increase in market share.

Our market share has been gradually increasing over the past few quarters. For Q3, it was at 8.6% compared to 8.1% for Q2 as per AIOCD AWACS data.

On a MAT basis, as per AIOCD AWACS data for Dec-2021, our market share was at 8.2%.

We have witnessed growth across most of our therapies. The growth was driven by a combination of factors like, improved demand for non-Covid treatments which led to higher growth in the chronic

and semi-chronic segments, better patient flow to doctor clinics and increased healthcare awareness.

As per AIOCD-AWACS data for Q3, for some of our key therapy areas like CNS, CVD & Gastro, we outperformed the segment growth. As per the data, our growth in CNS was 7.8% against 7.5% for overall CNS segment. In CVD also, against 3.3% segment growth, our growth was 12%. Also, in Gastro the therapy grew by 15.7% against segment growth of 10.8%.

We had negligible revenues of Covid products in Q3.

Field force operations were near to normal in Q3 with almost all doctor clinics operational. The productivity of the new field force has started improving and about 70% of the territories for the new field force are performing as per our expectations while the performance for the remaining 30% is likely to improve going forward.

Travel cost for medical representatives was near to normal while we continue to see some savings in terms of the cost of medical conferences.

For Q3, we launched 25 new products in the Indian market.

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.

We also continue to remain the partner of choice for in-licensing of products, given our strong no. 1 position in many therapy areas, including therapies for treatment of Covid infection, coupled with our large distribution network.

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.

For Q3, our overall formulation revenues in the US grew by about 6% over Q3 last year to about US$ 397 million. The main driver of growth was the specialty business. US accounted for about 30% of consolidated revenues for the quarter.

While doctor clinics were open in the US during the quarter, the situation is yet to fully normalize. Patient flow to doctor clinics as well as frequency of doctor calls by our medical representatives, are still both below pre-Covid levels.

Our specialty revenues in US have grown over Q3 last year, mainly driven by Ilumya, Cequa, & Levulan.

Specialty revenues are significantly higher compared to Sept-2021 quarter, mainly driven by Ilumya, Cequa, Levulan & Absorica.

We have done well in the specialty business in US as well as globally over the last few years. Global specialty revenue contribution has doubled from about 7% in FY18 to about 14% in Q3FY22.

As you all are aware, we launched Winlevi in the US in Nov-2021. We have received a good response from doctors for the product as there is a need in the market for a new mechanism of action to treat acne, which Winlevi is addressing. It is the first time that an androgen inhibitor is being used for treating acne. Our established presence in the dermatology market will help in ramping up Winlevi going forward. For competitive and strategic reasons, we will not be able to share granular 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 stabilized. While we do experience price erosion, we have been able to counter it by a combination of new launches and better supply chain management.

During the quarter, we launched 5 generic products in the US market.

We have received approval for generic Amphotericin B Liposome Injection and we are eligible for 180 days of exclusivity for the product under the Competitive Generic Therapy designation by USFDA. We will be launching the product shortly in the US.

I will now hand over the call back 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 US$ 239 million for third quarter, up by about 17% year-on-year and lower by about 2% over second quarter this year. The underlying growth in constant currency terms was about 15% YoY. Emerging Markets accounted for about 18% of total revenues for third quarter.

Amongst the larger markets, in local currency terms, Romania has grown by about 25%, Russia by 17%, South Africa by 33% and Brazil by 29%.

Formulation revenues in Rest of World markets excluding, US and Emerging Markets, were US$ 181 million in third quarter, up by about 3% over third quarter last year. RoW markets accounted for approximately 14% of consolidated third quarter revenues.

API revenues for the third quarter were at Rs. 4,710 million, higher by about 5% over third quarter last year and by 8% over second quarter.

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 third quarter was at Rs. 5,471 million compared to Rs. 5,595 million for third quarter last year. Our current generic pipeline for the US market includes 88 ANDAs and 13 NDAs awaiting approval with the US FDA.

Lastly, the board of directors today declared an interim dividend of Rs. 7.0 per share against the Rs.5.50 per share declared last year keeping the distribution percentage of profit constant.

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

Moderator: We will now begin the question-and-answer session. The first question is from the line of Neha Manpuria from Bank of America. Please go ahead.

Neha Manpuria: My first question is on the US Specialty business. Abhay, if I heard correctly, most of the quarter-on-quarter increase you indicated were from your other products other than

WINLEVI. Is it fair to assume that the US$183 million does not include any large launch quantity sort of supplies and therefore should not normalize, is that a fair understanding?

Abhay Gandhi: No, I don't think so, because I think what we are seeing today as buying from the wholesalers is almost as per what they are selling out of their warehouses, so it's like, there is no buying that you are seeing at the launch, which we will have to carry forward.

Neha Manpuria: In terms of Levolon and Absorica, particularly for Levulan, has the momentum goes back to what we were doing pre-COVID levels, particularly given there was a spike in cases again in December, so was there some sort of an impact in December and therefore, you could see more build up in Levolon as we go ahead?

Abhay Gandhi: The number of elective surgeries has clearly come down. So if I look at it on a three-year basis, we are nowhere near where we were say two years ago. And that's not because we have lost share, it's mainly because the number of patients who are treated have come down because of new requirements of how many cases you take in a day and can you postpone surgery. So it's definitely not normalized. We see a seasonal uptick in this quarter, which is normal. But the numbers for maybe the last year or even the previous year would be higher.

Neha Manpuria: WINLEVI, I know you don't want to share granular details, but in terms of initial launch, it's fairly early days. Any feedback that you think you would like to highlight, is it in line with expectations? And also, we saw uptick in SG&A. So, was that related to WINLEVI launch?

Abhay Gandhi: WINLEVI launch certainly would have increased our SG&A because during the launch you have a higher expenditure, that's for sure. As I said in my readout itself, for competitive reasons, I wouldn't give too many granular details on this call. But the only thing which I will definitely say is that the initial response has not just met but maybe exceeded expectations. Of the doctors that we covered for the product in the first three months, 80% of them have given at least one prescription for WINLEVI, which is a very good indicator that the interest level at the customers for a new mode of action is very high. And then of course it's for us to be able to use that as our base and increase the depth of prescriptions from these doctors and continue to improve on our launch performance.

Moderator: The next question is from the line of Kunal Damesha from Emkay Global Financial Services. Please go ahead.

Kunal Damesha: So just one question on how we account the Specialty sales? Do we kind of account the sales as a pre-coupon rate or we kind of net out the coupon or any assistance that we provide to customers in our sales numbers?

C.S. Muralidharan: So this is accounted as part of net off in top line.

Kunal Damesha: When we had Absorica coupon program, I think at that time we were accounting the gross phase and then I think coupon was netted in marketing expense if I remember correctly?

C.S. Muralidharan: I do not think so. We have been having a consistent policy of accounting towards coupon.

Kunal Damesha: The second question is if I look at the ex-Taro numbers, the gross margins have kind of sequentially compressed by roughly 100 bps. So would you ascribe this to geographic mix shift or that the higher raw material prices, or any particular mix of both the items?

C.S. Muralidharan: So, my suggestion will be that we should look at annually instead of quarter and further, Taro has also published the results and given their press release in terms of their results for the quarter.

Kunal Damesha: So, we have said our Specialty sales are doing well. But would it be fair to say that ILUMYA nine months sales are comfortably above the FY21 level?

Abhay Gandhi: Yes, they will be.

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

Prakash Agarwal: My question is on R&D. Just trying to understand better. We've been talking about higher R&D and also expected further trials to start for ILUMYA, etc., If you see the run rate is still about 5.5, under 6. In the past, we have talked about 8%. So how do we expect the year to

close and what's the outlook for the next year and what kind of trials we're talking about for next year?

Dilip Shanghvi: I think the objective is to spend that kind of money. I think like what Abhay said, is that some of the challenges in terms of patient recruitment, especially in the kind of studies that we are doing, which are extremely competitive trials, where competition for all potential patients to participate in study from multiple companies is very high. So it's kind of leading to a much slower recruitment. We are making multiple efforts, including diversifying the geography in which we are doing the studies so that we can spend the intended money. What I think we share with you every year is the plan to spend. I think your assessment as to we have not been able to spend is a fact, but hopefully, we should kind of go back to the kind of money that we wanted to spend.

Prakash Agarwal: And does that impact as the trials are getting delay in terms of the new trials starting and closing hence the commercialization?

Dilip Shanghvi: It would have impact, yes. I mean, that's where the effort would be to find a way to minimize that impact.

Prakash Agarwal: Second one was on the US. So there was a comment kind of bottoming out and with the new launches and supply chain improvement, we expect things are bottoming out and to improve from here. But what we heard from the different other companies also is about that pricing pressure has been continued. In fact, you talked about more supply chain challenges, like freight cost, etc., So, I mean, what is changing for us? Are we seeing a spate of new launches? And there's some corrective action being done or what exactly gives us confidence on the base business ex-Taro for the US?

Abhay Gandhi: Typically, in a quarter, we have been able to launch close to five or six products each quarter. That's one thing which helps us. And of course, we have been consistently saying on every single call in the past few years actually, that pricing pressure which is product-specific, we continue to face, but then we have to be able to overcome that with launch of new products which we have been able to and better supply chain management. So these are the only two tools which can help us stabilize our business and find a way to grow in a competitive market.

Prakash Agarwal: So we are expecting launch rate to improve or what is exactly changing?

Abhay Gandhi: Launch rate may not improve. I mean, we are very clear on what are the products we have in our R&D portfolio, when are we supposed to launch them. And I think the visibility I have as of now, going ahead, is also we don't look at it as each quarter, but average for each quarter should be in the same range of anywhere from five to six products.

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

Anubhav Agarwal: One question is on the US Specialty business. So this US$183 million run rate, would you say, Abhay, that this new base on which you can grow even in the March quarter? I'm asking because I remember last year in December, we had some stocking benefit and March quarter number was much lower than the December quarter. Would you say that was just one of last year if not the case this time?

Abhay Gandhi: It's a combination of not just one or two products, but we also need to see how in Q3 the overall Absorica franchise contributes or does not. When we run the business we don't look at it on a quarter-on-basis necessarily, we look at it that long-term do we have headroom to grow and what do we need to do to continuously grow on each of our franchises. I think the way I look at each business has opportunities to grow their own franchise and their own product. So, rather than answer it as a next quarter question, I would look at enough headroom for the businesses to grow their own franchises.

Anubhav Agarwal: But just a clarity on that, you mentioned that Levulan typically has a seasonality which has peaked out in December quarter. But any other product...

Abhay Gandhi: Little bit spills over to Jan and Feb also, but it's typically in the winter months, which goes up to at least February where you see a seasonal impact on a lot of derm products, not just Levulan but even acne, there is a seasonal impact.

Anubhav Agarwal: But other than the derm product, the other portfolio normally does not see any spike in the numbers in the December quarter?

Abhay Gandhi: Not as prominently.

Anubhav Agarwal: This second question is outside the US, that's on the overall company. This is on other expenses. This question is that as in the initial commentary was mentioned that we have seen increase in other expenses across our business segment, but just trying to understand how far away or close we are to the normalized level of the company like we have been talking about pre-COVID certain level, we will not go back to the pre-COVID level, but how close we are to that number, are we very close, because we have seen surprise in increase sequentially, which we were not expecting, but are we very much close to that normalized number now?

C.S. Muralidharan: As I said in my readout that, yes, we have been guiding the street that expenses will inch up as market operations normalize, which we have witnessed. But more importantly is that the product mix and the geography mix also helps us to maintain the margin despite the cost pressure increase. However, having said that we are having a close watch on that so that we can contain and maintain the momentum of a growth on EBITDA.

Anubhav Agarwal: Sorry, there was some disturbance. So net-net, what's the response? Are we closer to the normalized levels or are we still far away from that?

C.S. Muralidharan: They may go up slightly higher than the current level, but not anything significant.

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

Sameer Baisiwala: Abhay, just on the US Specialty business, when do you expect the footfalls in the doctors clinic to sort of normalize to pre-COVID level? And which products are getting impacted because of that? I guess it's Levulan and ILUMYA. Anything else?

Abhay Gandhi: To first question, I really cannot give color, Sameer, because even today, I saw the morning news, the average 7-day cases are still like 500,000. So that's not small. So footfalls at the doctor's level are restricted and clearly access to reps also much lower than pre-COVID. When will it stabilize? Your guess is as good as mine. I don't know. And if I look at it very broadly, then every single product does get impacted, only the extent of one over the other changes, electives has the worst hit, but really speaking, the impact is on all products.

Sameer Baisiwala: Abhay, it's quite commendable that despite lower activity, you are able to grow your Specialty so well.

Abhay Gandhi: Thanks. I will definitely communicate your comment to my team members. It's nice of you to say that, but the way I look at it, and I guess this is true for everybody. When you have a level playing field, it impacts everybody, so that you are not disadvantaged over anyone else. So it's a common scenario for everybody. I think it's all a question about how you execute in a changed environment as a team and as a company which eventually makes the difference.

Sameer Baisiwala: And the second question is on WINLEVI. I know you won't give any specific detail, but you did not cite WINLEVI as one of the Specialty products that drove quarter-on-quarter growth. So was WINLEVI not an important contributor because your prescription trends in IQVIA shows a pretty good traction over there.

Abhay Gandhi: We launched the product only on the 1st of November. So we didn't have the full quarter. That's one. Secondly, I think November and December are also many days of holidays. So the real impact of WINLEVI sales will not be seen in Q3. Some of it may actually be seen in Q4.

Sameer Baisiwala: What's the typical duration of treatment if the patient is using WINLEVI, in the sense, is it a chronic use, there is an argument for a lot of repeat uses or no?

Abhay Gandhi: Too soon for me to really give you a quick handle on that because one tube is supposed to be used by a patient for a month. And then even if it is not used, the patient is supposed to discard that and use the next one. This product unlike ABSORICA for example doesn't have a rems program. So the patient may or may not visit the doctor every month. So what kind of prescribing and adherence behavior is being demonstrated, we are also trying to understand more, and I don't think I have a very accurate answer for you, Sameer, but it's a great question that I am also trying to get an accurate answer to.

Sameer Baisiwala: Real life situation is different; we don't know what's going on. But just medically speaking, scientifically speaking, what do you think would be a typical duration? I know it varies from patient-to-patient, but on an average is a three-month treatment cycle, six-month treatment cycle, just any range would work?

Abhay Gandhi: I don't know. I don't want to like give you an answer which I cannot back it up with scientific data. Because even today, I'm not 100% clear in my own mind, whether this has been used in the majority of patients as a first line monotherapy or in combination with existing therapies. If we use as a sort of a combination therapy with other products, then what the doctor decides to continue, what the doctor decides to maybe stop or wean away from, these are the questions we try and get answers to. As of now the information is so sketchy. If I give you a sort of a clear answer on this, I may be misleading you.

Dilip Shanghvi: Sameer, I think if it's helpful, then for WINLEVI like most of the acne products, the clinical trial is a 12-week trial. And the primary endpoint is reduction in the severity of acne. Now, along with that, all products also have to do a 12-month safety study in certain subset of patients. So my sense is that depending on the severity of patient, and the type of acne that they suffer from, the duration of treatment will be different. So, I think the challenge is to understand what is the percentage of severe, moderate, or mild acne patients and how doctors treat them, so if it's helpful.

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

Krish Mehta: I had two questions. The first of which is on psoriatic arthritis trial. Could you provide any update on how you're seeing footfalls for enrollment, so how we are progressing on that front?

Dilip Shanghvi: So, when I explained about the relative challenge in terms of recruitment of patients, psoriatic arthritis is one such trial. So we are not on schedule and we are trying to find a way by which we can catch up by multiple strategy.

Krish Mehta: My second question was actually on the R&D front. As I've seen that the quarterly spends have gone down as a percentage and you explain that it's due to the lower footfalls. But assuming that the footfalls normalize after a few quarters, how do you see R&D going forward in terms of building a steady state increase in organic R&D versus more of acquisitions or partnerships that we saw with WINLEVI, so what's the strategy in terms of R&D going forward?

Dilip Shanghvi: I think our sense is that the steady state R&D should be around 8%-9%. Because like, we have this SCD-044 study in phase-2. After the phase-2 is complete, we will then have to

enroll subjects for phase-3 and that will be much more expensive than phase-2. So like that, there are potential indications that will keep on increasing the cost going forward.

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

Damayanti Kerai: My question is on Specialty spend. So we pick up in all the key brands, how should we see costs moving ahead? And are you near to cost break-even for your Specialty portfolio?

Dilip Shanghvi: Generally, I think we haven't been sharing segment wise profitability and cost. But in the past, I think we have indicated that we are in an investment phase in this business. And I think depending on how the clinical trial costs continue, and how we capture the clinical trial costs, it will require significant investments going forward. But I think overall, I'm happy with the margins that we've been able to improve in the whole business.

Damayanti Kerai: Just to clarify, on the clinical trial part, obviously, it depends on progress in the pipeline asset, but have you optimized cost more on the marketing and promotional part for the key brands?

Abhay Gandhi: I think for most of the major products, we are clear now, what is it that is required for us to succeed and the stable expenses? But for a new product, like WINLEVI, of course, there will be disproportionate investment going in.

Damayanti Kerai: My second question is on your capital allocation strategies, like where are you looking to invest mostly, say for next, one or two years?

Dilip Shanghvi: I think philosophically as a company, we have always looked at our preference for investing in businesses or creating businesses with ability to grow steadily year-after-year. And I think that philosophy will continue to drive our future investment.

Damayanti Kerai: Can you call out like what are your CAPEX plan for FY22 and FY23?

Dilip Shanghvi: I think this year we haven't given any specific guidance. But in the past, I think we've indicated that our major CAPEX plan has been kind of complete till our volumes go up

significantly. So till that point of time, I think we will have marginal new CAPEX in all businesses, all facilities.

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

Tushar Manudhane: Sir, just on the US generics ex-Taro if you could share what kind of price erosion you're experiencing on the base portfolio?

Abhay Gandhi: We look at it on a product-to-product basis, it's never on a portfolio and each product has a different kind of scenario. I think in the last call Mr. Shanghvi also mentioned that it's not a basket, there are some products on which we face pricing pressure, on some products we may be able to take small price increase as well. So, net-net, we always say there is pricing pressure but obviously we wouldn't give a number to say that we have this percentage of price erosion on the base business.

Tushar Manudhane: What that net number is? The kind of launches we have and the kind of base at which currently we are like if I normalize the 3Q US generics ex-Taro sale, then we are more or less at a $1 billion kind of number. So going forward, will the new launches be able to offset the price erosion is what I'm trying to understand?

Abhay Gandhi: That will be our attempt.

Tushar Manudhane: Just on the ILUMYA per se like the conditions of mild-to-severe psoriasis and the psoriatic arthritis are quite often related and the peer having now approval for both the indications, so you see the change in the way the doctors look at let's say ILUMYA and the peer products or you see still continuing prescription rate on a single indication?

Abhay Gandhi: In a way Mr. Shanghvi has answered in response to a question on this call earlier, that not having the indication does have an impact clearly. And that's why we are trying to speed up our trial so that we are not disadvantaged versus the peer's products.

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

Surya Patra: This Amphotericin B Liposome exclusivity what you have called, so, how bigger is this opportunity that you think because it's an old product and discontinued by many, but the prescription progression and all that if we can see, then it looks like a larger product than that is looking like? And is it a kind of rightly timed product approval that we can see considering the COVID trend that is what we are witnessing in US?

Dilip Shanghvi: I don't know what information you have that this is a discontinued product, because that's not my understanding. It's the only approved generic. And because it is a difficult product for which no generic was approved, USFDA by a separate direction, indicates that the first approved generic, will get six months exclusivity, once is approved, is launched within 75-days. So we should be able to launch this shortly. It's an interesting product. It's not a very large product, but the sales as well as the growth of the product are in public domain, so you should be able to see that. And at the same point of time, I think in the US it has never been used for COVID because these mucormycosis problems that we faced in India, is not a problem faced by any patient in other geographies. So it's not been used for COVID.

Surya Patra: Secondly, can you split the R&D spend between the Specialty and the normal generic?

Abhay Gandhi: 22%.

Surya Patra: Is the price erosion trend for the Taro portfolio is meaningfully different than the non-Taro portfolio? You commented obviously, price erosion cannot be portfolio based...

Dilip Shanghvi: No, also we can't share any information about Taro beyond what they have shared.

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

Sameer Baisiwala: Just a couple of them. Any update on Halol reinspection?

Dilip Shanghvi: I think we haven't heard back. I think last time also I said that is that we've requested them for inspecting the facility and we are yet to get any indication as to when they will be inspecting. So hopefully soon, is our expectation.

Sameer Baisiwala: Is it hurting our business a fair bit in terms of not getting new approvals, especially some complex products?

Dilip Shanghvi: I believe so because it would be affecting our business and growth.

Sameer Baisiwala: For other income of Rs.430 crores, I don't know if you have given the breakup or is there any one-off in this.

C.S. Muralidharan: In the readout, I just said, it's a settlement income for Dusa Biofrontera litigation of $22.5 million on interest on income tax refund.

Sameer Baisiwala: How much is the income tax refund?

C.S. Muralidharan: That we have not disclosed, but the Biofrontera settlement amount of $22.5 million is disclosed.

Moderator: The next question is from the line of Ritesh Rathod from Nippon India AMC. Please go ahead.

Ritesh Rathod: Can you give some quantitative color on the India outperformance? We had done MR addition; we have launched number of products. So how much increased has been on the doctor coverage? How effective has been this product launches in last 12-months?

Kirti Ganorkar: I think for the India business; we have done well in all three quarters. I think we are doing well in India business. It's a combination of a lot of things. One is whatever strategies we thought during this financial has worked well. The team has executed all the strategies and the team is also performing above the expectation in most of the territories. We're also focusing on building brands, that's also working in the right direction. As far as the prescriptions is concerned, we are already leading in 11 doctor categories where we are number one. And the new product launch momentum has also gone up substantially in last two, three quarters, which is also helping us to grow the business. As I said in my readout, we have expanded the sales force two years back

and that has also worked well for us, almost 70% of the territories are meeting our expectation and what we're seeing is that the remaining 30% how they will improve their performance in next one or two years. So, India business performance is a combination of all of these things, which are working well and we are gaining market share from Q1 to Q2 to Q3. In Q3, we have almost reached market share of 8.6%. That's just in the recent times.

Ritesh Rathod: The second question is on the Derma sales force in US. From WINLEVI, you will leverage the existing MRs or would you set up a separate thing for that?

Abhay Gandhi: We have a separate field force for WINLEVI and Absorica franchise.

Ritesh Rathod: Would there be an opportunity for cross-leveraging or you would be deploying Absorica field force and basically there won't be any incremental cost?

Abhay Gandhi: There was an existing Absorica field force and we expanded that to be able to meet the requirement for the WINLEVI launch.

Moderator: Next question is from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.

Anubhav Agarwal: One question to Murali sir on the accounting for the Specialty sales. I think you mentioned on the coupons that you report sales net of coupons, but what about royalty component, for example, in ILUMYA that you pay to Merck or WINLEVI that you will pay to the partner?

C.S. Muralidharan: Royalty expenses are expensed out.

Anubhav Agarwal: So that will be captured in other expenses?

C.S. Muralidharan: Correct.

Anubhav Agarwal: Second question is to Abhay. On the ILUMYA revenue, just want to understand that for this product roughly, Medicare, Medicaid put together will be what percentage of the product? I'm not interested in the exact number, but will it be less than 50% or more than 50%, some indication?

Abhay Gandhi: It is a significant portion and meaningful. I really don't want to get into that granular detail because what you're asking is a question of strategy and that information may hurt us.

Moderator: The next question is from the line of Anubhav from MC Research. Please go ahead.

Anubhav: A couple of questions on Specialty. One, could you share views on competitive landscape for Absorica as such and what could be the market share now, is it still around 7%?

Abhay Gandhi: All our forms of Absorica, the original brand, LD and the authorized generic put together, we are more or less maintaining the market share we had earlier, I think marginal but more or less there.

Anubhav: Secondly, last quarter, you mentioned that for Levulan, there were some supply chain issue. Firstly, if you can just mention what was the issue, it was more from the raw material side kind of or distribution side? And given that issue, are we over with that issue?

Abhay Gandhi: It's more to do with the quality testing, which is outsourced and because of COVID they had their own issues. But this quarter has been much better and I think the next quarter we will be able to improve further.

Moderator: The next question is from the line of Saion Mukherjee from Nomura Securities. Please go ahead.

Saion Mukherjee: On emerging markets, in your initial comments, you mentioned some strong growth across markets and we've seen that traction in the recent past. Sir, can you provide some color what is driving, is there a COVID-related element there, and how sustainable the growth in the emerging markets that you're seeing?

Dilip Shanghvi: I think a large part of our emerging market business is branded generic business. And they are all based on generation of prescriptions. So there is a certain amount of consistency and continuity in that business. Now, I don't have that level of granular understanding of different markets that whether the markets are positively impacted because of COVID or not. Generally, in most of the geographies that I am familiar with, COVID has a negative impact on overall business.

And we don't have a large portfolio of COVID-specific products in emerging markets. And also, if you see over the last few years, emerging markets has been consistently growing year-after-year. So hopefully, we should be able to maintain that continued growth.

Saion Mukherjee: I was saying because despite COVID you are seeing good growth in those markets. So in terms of strategy are you looking at own development products or partnerships, is it new products or market share gain in existing products, broadly speaking, I know, it may be different for different geographies, but any broad trend that that is there driving the growth?

Dilip Shanghvi: So actually, I think it will be both -- the increased share of business and new products. What I think the business has made up in spite of significant erosion in currency of some of the key geographies, say, like Russia, South Africa, Brazil, which are important geographies, which have seen significant erosion in the value of their local currency. At a constant currency, actually, every year, emerging markets has grown at double-digit.

Saion Mukherjee: Sir, just one question on capital allocation, because your cash generation is quite strong. So, you have been investing in Specialty quite a lot as you were building it out, at the same time, what kind of opportunities you're seeing let's say in branded business in India, or emerging markets or even in US generics, I mean, given all the pressures that are there in these markets, do you think there is a possibility of opportunities beyond Specialty and if there are, would it make sense for Sun to sort of pursue such acquisition, especially meaningful ones?

Dilip Shanghvi: I think in the past, we have indicated that we are continuing to look at Specialty assets, either existing products or products close to market, or existing businesses where we believe that we can add value and the business is of strategic long-term importance for the company. So that philosophy continues to be the same is that we want to find a way to put our capital to use whereby it can help us grow profitably year-after-year. Challenge for us has been to be able to get businesses which we believe that will help us. Hopefully, I think we should be able to break this drought of potential acquisitions that we've seen in last few years in next maybe one or two years.

Saion Mukherjee: That Specialty number, is it possible to break up between US and non-US, or any color in terms of growth that you want to gain between US and non-US geographies?

C.S. Muralidharan: So, we are sharing the global Specialty revenues and for competitive reasons, we would like to stick to our current disclosure norms.

Moderator: Ladies and gentlemen, that was the last question for today. I now hand the conference over to Mr. Nimish Desai for closing comments.

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

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