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
Head (India Business), Sun Pharmaceutical Industries Ltd.

Moderator: Ladies and gentlemen, good day, and welcome to the Sun Pharmaceutical Industries Limited Q2 FY21 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 call, please signal an operator by pressing * then 0 on the touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nimish Desai from Sun Pharmaceuticals Industries Limited. Thank you, and over to you, sir.

Nimish Desai: Thank you. Good evening and a warm welcome to our second quarter FY21 earnings call. I am Nimish from the Sun Pharma Investor Relations team. We hope you have received the Q2 financials and the press release that was sent out earlier in the day. These are also available on our website.

We have with us Mr. Dilip Shanghvi – Managing Director, Mr. C. S. Muralidharan (CFO), Mr. Abhay Gandhi – CEO (North America), and Mr. Kirti Ganorkar (Head – India Business). Today the team will discuss performance highlights, update on strategies and respond to any questions that you may have. As is usual, for ease of discussion we will look at the consolidated financials. Just as a reminder, this call is being recorded and a replay will be available for the next few days. The call transcript will also be put on our website shortly.

The discussion today might include certain forward-looking statements and these must be viewed in conjunction with the risks that our business faces. You are requested to ask two questions in the initial round. If you have more questions you are requested to rejoin the queue. I also request all of you to kindly send in your questions that may remain unanswered today. I will now hand over the call to Mr. Shanghvi.

Dilip Shanghvi: Thank you, Nimish. Welcome, and thank you for joining us for this earnings call after the announcement of financial results for the second quarter of FY 2021. I hope you and your family are safe and healthy.

Consolidated sales for the quarter were at Rs. 8,459 crores recording a growth of 6% YoY and 13% QoQ. Our Q2 performance reflects our focus on business improvement which has enabled a gradual recovery in all our businesses compared to Q1, despite market conditions that have not fully

normalized. We continue to focus on growing our topline, gaining market share, control costs and ensure business continuity. We also continue to serve our patients and customers while ensuring safety of our employees.

Let me now update you on our global specialty business. For Q2, our global specialty revenue was approximately US$ 108 million across all markets. Specialty R&D accounted for approximately 37% of our total R&D spend for the quarter.

We have recently launched Ilumya in Japan for treatment of plaque psoriasis and have received a good initial response from the market.

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

I will now hand over the call to Mr. Murali for discussion of the Q2 financial performance.

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

Q2 sales are at Rs. 8,459 crores, up by 6% over Q2 last year. This is the highest ever quarterly sales that the company has recorded. Material cost as a percentage of sales was 25.4%, lower than Q2 last year due to product mix as well as optimization of cost. Other expenditure was at 28.3% of sales, lower than Q2 last year mainly due to reduced marketing, selling & distribution and travelling expenses across markets.

EBITDA for Q2 was at Rs. 2,099 crores, up by 30% YoY with resulting EBITDA margin at 24.8%.

Reported net profit for the quarter was at Rs. 1,813 crores, up 70% over net profit of Q2 last year. The reported EPS for the quarter was Rs. 7.56.

Adjusted net profit for Q2 was Rs. 1,590 crores, up by 49% over Q2 last year, with resulting net profit margin of 18.8%.

Let me now discuss the key movements versus Q1FY21:

Our consolidated sales are up by 13.3% Q-o-Q and reflects recovery in sales post gradual lifting of lockdown restrictions across markets. We have added almost Rs. 1,000 crores of incremental sales over Q1.

Material costs at 25.4% of sales, are lower than Q1 due to product mix, cost optimization measures and higher sales of specialty products in the US. Other expenses at 28.3% of sales are marginally higher than Q1 mainly due to increase in R&D spend. We had a forex loss of Rs.116crs for Q2 as against forex gain of Rs.79 crs in Q1, leading to an impact of Rs. 195 crs.

EBITDA for Q2 at Rs. 2,099 crores, was higher by 22% compared to Q1 despite the adverse impact of this forex loss.

Adjusted net profit for Q2 at Rs. 1,590 crores, was higher than the adjusted net profit of Q1 by about 39%.

Now we will discuss the half year performance.

For first half, net sales were at Rs. 15,926 crores, a de-growth of 1.7% over first half last year. As indicated in the past, the first half of last year included contribution from a non-recurring special business in the US and hence the YoY sales numbers are not strictly comparable. Material cost for H1, as a percentage of the sales, was 25.8% which was lower than H1 last year mainly due to product mix. Other expenses were at 28.2% of sales, lower than H1 last year driven by mainly by reduced marketing, selling & distribution and travelling expenses across markets.

As a result of the above, the EBITDA for the first half was at Rs. 3,824 crores, a growth of 9% over the first half last year, with resulting EBITDA margin of 24%.

Excluding the exceptional items, adjusted net profit for H1FY21 was at Rs. 2,736 crores, up 12% YoY, with resulting net profit margin at 17.2%. Reported net profit for H1FY21 was at Rs.157 crores.

The Company has repaid debt of over US$ 300 million in H1 of the current fiscal.

Let me now briefly discuss Taro's performance.

Taro posted Q2FY21 sales of US$ 142.8 million and net profit of US$ 45.1 million which represents a growth of 21% and 55% respectively over Q1FY21. On a YoY basis, sales for Q2FY21 were lower by 11% while the net profit was lower by 20%.

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 Q2, the sales of branded formulations in India were Rs. 2,531 crores, a growth of 1% over Q2 last year and 6% on QoQ basis. India business accounted for about 30% of consolidated sales for Q2.

Our growth for Q2 was in-line with the overall market growth, led mainly by chronic portfolio which grew in high single digits. The growth in the semi-chronic portfolio has started recovering while the acute segment has recorded a decline, although compared to Q1, the de-growth in acute segment is much lower. For both Q1 and Q2, the chronic segment has continued its growth trajectory. The acute segment is still facing some challenges due to lower incidence of infections and less patient footfalls at the doctor clinics.

Our medical representatives have re-started field work across the territories, barring in those areas that has been designated as containment zones by the respective authorities. The doctor call rates have improved significantly compared to Q1.

Our expansion of the field force in India is complete and it will help us in the long-term to enhance our geographical and doctor reach.

For Q2, we launched 22 new products in the Indian market.

Sun Pharma is the largest pharmaceutical company in India and holds approximately 8.1% market share in the over Rs. 142,000 crore pharmaceutical market as per September 2020 AIOCD-AWACS MAT report.

We also continue to remain the partner of choice for in-licensing, given our strong no. 1 position in many therapy areas.

I will now hand over the call to Abhay.

Abhay Gandhi: Thank you, Kirti. I will briefly discuss the performance highlights of our U.S. businesses. For Q2, our overall sales in the US were flat over Q2 last year at US$ 335 million, but recorded a good recovery sequentially by over US$ 50 million, driven by both the specialty and generics business. US accounted for about 30% of consolidated sales for the quarter.

Our specialty revenues in US have increased over Q1 and for products like Ilumya, Cequa and Odomzo, sales are at pre-Covid levels. Levulan sales are yet to recover fully for the obvious reason that patient visits for treatments at dermatology clinics have not yet reached pre-Covid levels.

Given our unwavering focus on the specialty business, for most products, we have gained market share despite the challenging market conditions during the last six months. Doctor clinics have been gradually opening up during the quarter although patient-flow and access to industry is yet to fully normalize.

Let me now update you on our US generics business.

As you all have seen, the US generic business continues to be competitive. The Sun generics business has stabilized and has shown growth YoY.

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

Dilip Shanghvi: Thank you, Abhay. I will briefly discuss the performance highlights of our other businesses as well as give you an update on our R&D initiatives. Our sales in emerging markets were at US$210 million for Q2, up by 4% year-on-year and by 21% over Q1FY21. On a year-on-year basis, the underlying growth in constant currency terms was higher, at about 9%. Emerging markets accounted for about 18% of total sales for Q2.

Formulation sales in Rest of the World markets, excluding U.S. and emerging markets, were US$178 million in Q2FY21, up by 10% over last year and by 31% over Q1FY21.

This was mainly driven by all-round growth in multiple markets like Japan, Europe, coupled with growth in Taro's Rest of the World business. Rest of the World markets accounted for approximately 16% of Q2 revenues.

We've also done well in our API business with Q2 sales at Rs. 510 crore, up 9% over Q2 last year.

We continue to invest in R&D for enhancing our specialty and differentiated generic pipeline. Consolidated R&D investments for Q2 is Rs. 613 crore, accounting for 7.2% of sales. Our current generic pipeline for the U.S. market includes 92 ANDAs and 6 NDAs awaiting approval with the USFDA. With this, I would like to leave the floor open for questions. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Sir, first question on the India business. If you could help us give us the split of chronic, sub-chronic and acute? As I understand, 1% growth is just about the industry growth and we have seen peers doing much better. So, a) the breakup, and if you could highlight what the daily, I mean you said sub-chronic is in recovery, acute is still declined, but if you could give some granular detail, that would be outstanding. Thank you.

Kirti Ganorkar: Sure. Yes. So as I said, compared to Q1, in Q2, most of our businesses are doing well. So we have divided this into chronic, sub-chronic and acute business. So chronic business, both in Q1 and Q2, has shown good growth, and this is a high single-digit growth. Semi-chronic segment suffered in the Q1, but is recovering very fast in Q2. And it has also shown low single-digit growth. The most affected business is acute, where we see some recovery compared to Q1, but for Q2 still it is showing a negative growth, though it is better than Q1. So overall, there is a recovery in the business from Q1 to Q2. And as the lockdown is opening up, more number of doctors coming to clinic and footfall of the patient is improving, and our call average also is going up, we see that for Q3, we will even have better growth numbers.

Prakash Agarwal: The breakup, sir? Chronic, sub-chronic, acute?

Kirti Ganorkar: Generally, we don't provide the breakup for chronic, sub-chronic and acute businesses.

Prakash Agarwal: Roughly ballpark, sir?

Kirti Ganorkar: Yes. Roughly, as I said, we don't provide. So there's no point in just roughly giving you the numbers.

Prakash Agarwal: Okay. And secondly, on Halol facility status, have you heard anything in terms of inspection and also any update on the CAPA plan?

Dilip Shanghvi: So I think last time also, I updated that we've completed all our responses. And also all the deficiencies have been completed. So we are awaiting any further response from agency. As you are aware, the agency is still not visiting international facilities. We are requesting them, in case if based on desk audit, they can approve. But I don't think the agency currently has a process by which they can approve a facility. So I think it continues to be a work in process.

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

Neha Manpuria: Sir, just correct me if I'm wrong, but did you mention that specialty revenues for ILUMYA, CEQUA and YONSA are back to pre-COVID levels? Or did you indicate prescription?

Abhay Gandhi: You heard it right, Neha. The revenues are back to pre-COVID levels.

Neha Manpuria: Okay. And sir, in case of CEQUA, hypothetically, if we do see generic entry for a competitor product, could you highlight some thoughts on, would this mean a slowdown in our prescription momentum or would it be actually loss of prescription share? Some thoughts there?

Abhay Gandhi: I mean it could probably also grow the market. So sure, it will have some challenges in terms of access because we would probably then have to go through a step-through, generic maybe first recommended. It may also lead to an expansion of market. So we remain positive. And the experience of doctors who have used the product is quite good. So they've experienced a good product. And we are hopeful a lot of them will continue to prescribe which will help us.

Neha Manpuria: Understood. And my second question is on the ILUMYA launch in Japan. How should we look at ramp-up in Japan? If you could give us some color on how exactly it works there?

Dilip Shanghvi: So Japan as a market, is a 100% reimbursement market and it is state funded. So we have a price approval. We need to go to the next stage of getting our product in various formularies in different hospitals because biologics in Japan are used only in hospitals. And looking at our early response, we are quite optimistic about the acceptance and potential success of the product. However, we need to keep this in perspective that the biologics for psoriasis is only US$500 million market in Japan, unlike a US$10 billion market in the U.S. But it's growing very rapidly. So I think in excess of 20%, 25% annual growth and we have great expectations about this product. Our acquisition of Pola and our familiarity with dermatologists will help us further, even though the field force that is promoting ILUMYA is a totally independent and a separate field force.

Neha Manpuria: And sir, this entire process of getting it to various formularies in hospitals, is this like a multi-month process or does it take longer?

Dilip Shanghvi: No, it's a multi-month process.

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

Kunal Dhamesha: So first question is on the ILUMYA, especially on the European psoriasis market. So after the launch of Enbrel and Humira biosimilar, have we seen any early trends in terms of how the market will pan out, whether it increases the market size or it kind of increases the obstacle for the targeted biologics in terms of this? Any early trends that you have seen? And second question, on the selling and promotional expense for the specialty business in U.S., so I think that has reduced significantly in quarter one and quarter two. So will there be some structural saving there going forward or will it come back to normalized level? Thank you.

Dilip Shanghvi: My understanding is that even when we launched the product, I think biosimilars were already there in the market in Europe. So I think in any case, looking at the safety and the overall effectiveness and response rate, and we've recently announced our five-year safety and efficacy data, it's clearly a significantly different product compared to the older biologics. And the number of non-responders to older biologics will always be moved to this. However, as you estimated, maybe initially, patients will be put on biosimilars as they are also put on other biologics

in the U.S., but we expect all the IL-17, IL-23 will see increasing future penetration and increasing market share in all the markets, including Europe.

Abhay Gandhi: Answering the second part of your question, I think in Q3, definitely some of the savings which you have seen in sales and marketing will continue. For Q4, even, I'm not so sure, to be honest, as of this moment because in the U.S., the number of cases, of Covid, have gone up significantly in the past one month or so. So how Q4 will pan out is difficult to estimate. But I would not look at it as a structural saving. Given the choice, some of that, we would like to do. And if the situation normalizes, I think the spending should come back to the trend levels. But in Q3, I think some of that saving will get carried forward.

Moderator: Thank you. We will move on to the next question that is from the line of Krish Mehta from Enam Holdings. Please go ahead.

Krish Mehta: So I have two questions. The first is that, historically, when you look at our financials, we used to be at a much higher EBITDA margin profile in excess of 35%. So now as we see specialty finally picking up and we are making cost and making profits on it, in the future, do you think we can scale back to those historic margin levels?

Dilip Shanghvi: Unfortunately, we don't give out long-term forecast of both profitability as well as topline. I think philosophically, we would always like to grow faster and improve profitability. So that would be the effort. How successful we will be and what will be the opportunity, we will not know. But you need to also keep this in perspective the investment in R&D, as we continue to grow our specialty business, we will always continue to invest in that business with a view to create a much bigger future for us. we are just starting the clinical studies on EDG agonist, and these are Phase-II studies, and they will go on to become Phase-III studies. So while profitability and turnover and contribution for specialty business will grow, the expenses will also continue to grow till we become a meaningfully sized specialty business.

Krish Mehta: And my second question was, can you provide the actual gross and net debt numbers for the quarter ex Taro?

Dilip Shanghvi: So, Murali, maybe you can brief?

C. S. Muralidharan: We have got net debt as of end of September of over US$400 million, ex Taro.

Krish Mehta: Okay. That's net debt, right?

C. S. Muralidharan: Net debt. Correct.

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

Sameer Baisiwala: Thank you, and good evening everyone. Sir, just thinking about your global specialty business, how do you plan to expand the product portfolio, that innovation portfolio going forward?

Dilip Shanghvi: So Sameer, I think you are aware that we're doing additional studies on ILUMYA for psoriatic arthritis. In the same way like that we are also working on the EDG agonists, and that has potential usage in multiple other indications. We are also looking at if there is an opportunity for us to develop a much better product out of ILUMYA for gastroenterology indications. So I think the idea would be to, looking at our existing portfolio, create a base business, which can then justify and sustain and support our future investments.

Sameer Baisiwala: Sir, are you looking at another late Phase-II, Phase-III type of in-licensing acquisition deal of $500 million plus/minus? Is this the way you think you can grow this portfolio?

Dilip Shanghvi: So we always remain opportunistic about potential acquisition opportunity. However, every acquisition needs to justify itself, both in terms of strategic compatibility as well as value for future that we can create. Our belief is that with CEQUA as well as ILUMYA, we have one major product in both the therapy areas which we can build on, and ODOMZO and Levulan gives us a potential success in onco-dermatology. So I think there is an existing portfolio that we can build on, but we will remain opportunistic. I don't think we have currently an investment that we are investigating or seriously looking at, but we will remain opportunistic.

Sameer Baisiwala: And sir, my second question is on the U.S. generic side of the business. Any thoughts on the pricing environment over there? And our expectation of volume gains and new launches, sir?

Abhay Gandhi: On pricing, I mean in every call, I'm repeating the same thing. We haven't seen the pricing environment softening in certain segment and within the current environment, we try and look for opportunities where we can get our share of the business.

Sameer Baisiwala: Sir, anything on new launches, if you can share?

Abhay Gandhi: I think in every quarter, we are able to launch two to three products, which we incrementally add to our business. We had the same in Q2 as well. And I'd be hoping that in quarter three, we will have another two, three launches coming up.

Sameer Baisiwala: With your permission, one clarification. Did you say net debt is $400 million? I thought it was $415 million by end of Q1 and you have further deleveraged 100 bucks. So it should be actually 315 or so.

C. S. Muralidharan: No, Sameer. the net debt at the end of the 30th September, ex Taro, is around $400 plus million.

Dilip Shanghvi: No, I think what he is asking is that at the end of first quarter, the number was the same. So if you've repaid debt, then how the number hasn't changed? That's his question.

C. S. Muralidharan: The end of first quarter number was different. I will take it offline with him.

Dilip Shanghvi: Okay. Yes, you should take it up offline. This time, of course, we have also published balance sheet numbers. So that will become clear.

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

Surya Patra: Sir, just first question on the specialty business. Just recently, what we have announced about the 5-year sustained efficacy and safety data. So what significance it adds to the

ILUMYA's progress, although we have seen a kind of strong sequential as it is Y-o-Y growth for ILUMYA's prescription count in U.S.?

Abhay Gandhi: It essentially give the doctors the confidence that when they start putting a patient on ILUMYA, it not only works but it works for a long period of time. And I think five years data is significant where a lot of patients actually on biologics may or may not be able to sustain results for that period of time. So I think skin clearance up to a 90-plus PASI level for five years is very significant from a customer perspective. And when I say customer, it is both doctor as well as the patient.

Surya Patra: Any commercial sales out of it, sir? Is it possible?

Abhay Gandhi: The data is hardly a week or 10 days old. So we haven't done any modeling on how this particular data will impact your commercial sales. But obviously, when our team members are able to use this and speak about this data to doctors, I mean we definitely hope commercially, it will benefit the product and give it one more fillip to grow the business.

Surya Patra: Okay. Sir, just extension of this question, sir. In fact, for the overall specialty business, how should one really look at the specialty business, let's say, over a 3- to 5-year period in terms of sales progress or profitability or in terms of the core IRR of the business? Why because we could be seeing a depressed at this current moment because of the promotional spend on selected projects, which can gradually see a kind of a better improvement with the penetration and all that, but subsequently, we can add up a couple more projects there which can further bring in some kind of weakness in the overall earning efficiency of the specialty project. So in fact, if you can provide some clarity, let's say, over 3- to 5-year period, what business books one should really anticipate for the specialty business? And also, if you say, this is a global practice also that for any lead molecule, if you can provide at least competitive positioning, progress and all that, at least quarterly for your lead molecules on the specialty side, that can really help in evaluating and valuing the company better.

Abhay Gandhi: I couldn't understand the question.

Surya Patra: So my question was that over a five- year period, if we just try to evaluate or see what kind of business progress the specialty efforts can see? And what IRR kind of target that you'd be having or that you are anticipating for this business, sir?

Abhay Gandhi: I'm speaking from a U.S. perspective, but for the specialty business is something we are also trying to reach a global market, not just the U.S. Of course US would be a significant part of it. And the idea which we have been saying on calls, Mr. Shanghvi has been saying this, is to create this into a meaningful business for the organization, which can both bring in topline, reasonable profitability and enable us to keep investing in the business. Having said that, IRR numbers, I don't think we are giving out on calls. Each part of the business is different. So let me take an example, the Levulan business will always be a profitable business because it is a legacy business which was acquired. But there are certain parts of the business like ILUMYA, which we are in the investment phase, and are likely to continue to invest for the next maybe a couple of years. So different parts of the business are in different stages of its own life cycle. So at an aggregate level, we hope that, sooner rather than later, we start generating returns from the business.

Surya Patra: Okay. Just a similar question, sir, on the domestic formulation side. And what I have seen that, obviously, that the domestic formulation business, obviously, this is undisputed leadership positioning that we are having in most of the therapies where we have kind of a meaningful presence. But I believe it is just like a kind of FMCG kind of a business because sure, the brands are ever-rising and consistently gaining momentum, expansion and all that, and no greater investment and all that. So then, obviously, this is a kind of a business which ideally should be valued at significant multiples. And just like any FMCG company like, for example, similar size of the business of India domestic business if we consider, the company like, let's say, Nestle, who is having a similar revenue base, but it is valued like possibly a few times of equity value for the domestic business what we are currently having. So I think, sir, if we can possibly segregate our business and report the segmental performance, let's say, into the four broad categories or whatever the broad category like U.S. specialty, U.S. generic, branded business, it could be including domestic as well as the ROW market, and separately API. So that also can provide a kind of a better understanding of all the progress of each segment and hence, the proper valuation of the company like Sun Pharma, which I believe it is really undervalued.

Dilip Shanghvi: I agree with you. Generally, when you tell any entrepreneur that your business is undervalued, you will see very little resistance. So that part, I think, is clear. And my suggestion to you is that we have challenge in terms of segmental revenue sharing because it will potentially create some future challenges for us and operating challenges for us. But if you wish to look at our India business, look at SPLL, which is a 100% subsidiary of Sun Pharma, and we give separate annual report of SPLL, even though it's not a complete India business, but it still represents a significant part of our India business and you will get comprehensive information about growth, profitability, cost, where it is going. So hopefully, that will help you understand and value the business differently if you think that is useful. And we will continue to internally debate whether we want to or we should, at this point of time, give segmental revenue.

Moderator: Thank you. The next question is from the line of Shatayu Mehta from Tata Investment. Please go ahead.

Shatayu Mehta: I just wanted one question, accounting. Your subsidiary, Sun Pharma Global FZE, it has made a loss of around 3,000 crore in FY20. If you can just help me out how the performance has been in first half, please?

C. S. Muralidharan: So Sun Pharma FZE is a pass-through entity. So that's not a requisition of the number what you're creating and you also see in the notes that, the entity is under merger with us. So we are going to merge with the Indian SPIL. So in the first half, there is no concern as such.

Shatayu Mehta: Okay. But can you just share what kind of number it is?

C. S. Muralidharan: No, for the subsidiaries, in the interim period we don't disclose numbers separately. However, in the annual reports, all the subsidiaries, as Mr. Shanghvi pointed out recently, will be available for you.

Shatayu Mehta: But whether there's been turnaround or whether it is…

C. S. Muralidharan: No, it's a pass-through entity. So I need not…

Dilip Shanghvi: So what loss you see there is not actually a business loss.

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

Shyam Srinivasan: On the U.S. elections, last day of polling today, both candidates have actually talked about drug price control. And if the polls were to be believed, I think Democrats, if they were to come, any thoughts on, now that you have a U.S. specialty business, what are your thoughts on drug pricing? How do you ensure that payers, patients paying them get the best value for money? So if you could share your thoughts around that. And now that ILUMYA has been two years in the U.S., if you could share something in terms of what are the net price increases that you have taken on that part?

Dilip Shanghvi: So Abhay, you can talk of the price changes for ILUMYA.

Abhay Gandhi: 5% is the price change we have taken this year.

Dilip Shanghvi: Okay. So I think if I see the various announcements which President Trump has made and also, what I see is a, what you call, manifesto and poll or election promises of both the candidates, both of them want to find a way to effectively control drug prices. There are some potential directions coming out of their answers. Say like they want to negotiate Medicare prices because as on today, the government doesn't negotiate. So like that, they are talking about a few things. But we have to finally see how it turns out and then assess what is the final impact of that on the business. However, if I look at the valuation of the major pharma companies, I don't see any significant negative impact of this pronouncement on their valuation. So I have no clue as to finally what is going to be implemented because that's an idea and execution have big challenges in the U.S. system because it needs to get approved by senate, it needs to get approved by, even if the President wants to do a few things. Abhay, you have something to add or maybe I said something which is not correct?

Abhay Gandhi: No. I think we are only as wise as what we read today. Both the presidents, the incumbent and the challenger, have made different announcements. But what actually will get implemented and in what form, I think we have to wait and see.

Shyam Srinivasan: So, Abhay, on the net price increases for ILUMYA?

Abhay Gandhi: I said, we have taken a 5% increase this year.

Shyam Srinivasan: Got it. And my last question is on the gross margins. Clearly, Taro's gross margins have been coming down. But if I just strip that out and just look, ex Taro, gross margins have actually been going up. In fact, this quarter number was some 77%, 78%. So just want to understand from a non-Taro perspective, some of the drivers of that margin going up, if you could help us understand qualitatively?

C. S. Muralidharan: Shyam, as I said in my readout, the margin expansion in terms of gross margin is contributed both by the product mix and the various cost optimization measures and, of course, the highest special revenues in the current quarter. And this has been a continuous effort to improve overall the margins for us through various cost optimization measures.

Shyam Srinivasan: Yes. Just if you could rank order, I'm not looking quantitatively, because the numbers seem to be almost like one way. So I'm just trying to curious, is it specialty where the realization is now starting to improve? What could be the bigger drivers if you were to rank them? That's what I'm looking for.

C. S. Muralidharan: So in the quarter, we have said that higher specialty sales in the current quarter did, of course, one of the components. In the readout, I did mention that. So that's one of them, but then we are saying continuous focus on cost and improving measures also is a major contributing factor.

Moderator: Thank you. We will move on to the next question that is from the line of Anubhav Aggarwal from Credit Suisse. Please go ahead.

Anubhav Aggarwal: Question on CEQUA. Just trying to understand, could you be just give a sense that out of the total patients that we're serving today on CEQUA, the majority would have been new patients to the therapy or those patients would have tried either Xiidra or Restasis and would have come to CEQUA. Sir, which will be bigger segment?

Abhay Gandhi: CEQUA is now almost a year-old product. We launched somewhere in November of last year. So in the initial phase of the first, let's say, four to six months, there were a lot of warehouse patients, which we were able to move to the product. But I think today, there are two

segments. And I think the larger segment is new prescriptions. We still get patients who have failed on either of the two competitors out of the product. But my sense is that the larger component will be newer patients.

Anubhav Aggarwal: Okay. That's helpful. And secondly, what are your thoughts on DTC campaigns for CEQUA? I know last six months have not been the right period to look at it, but at some point in time, would you look at it?

Abhay Gandhi: We are initiating the DTC from this month actually. But of course, having said that, it is not going to be television advertising like we did for ILUMYA. So it will be using other channels to reach out to consumers and customers both.

Anubhav Aggarwal: That's helpful. And second question was on ABSORICA and the ABSORICA lower dosage version. So we are almost two months away from possible generic entry in this product. Because of situation in the U.S., IQVIA suggested they've been only able to share about 20% of the market rate. Is there any other difference that we have that we can like save a larger franchise of ABSORICA getting impacted from potential generic entry over there?

Abhay Gandhi: You're right. I mean we have been able to take 20% share from ABSORICA onto the LD formulation. But as you know, because of the COVID environment, we have lost valuable time. Trying to do the best we can, but if there is a generic which comes in December, that could have an impact on the business.

Anubhav Aggarwal: So there is no other defense still available with us which can save us at the last moment?

Abhay Gandhi: Not from a product perspective, but there are other strategies we are toying with. But obviously, on the call, I will not be able to spell out some of those strategies.

Moderator: Thank you. The next question is from the line of Ritesh Rathod from Nippon India Mutual Fund. Please go ahead.

Ritesh Rathod: Yes, sir, post the strong 5-year data of the ILUMYA, would there be any change in DTC strategy for the ILUMYA?

Abhay Gandhi: Not much from the DTC. I think the first objective will be to use this data to communicate with the doctors. And I think that is where I think the medical reps and the MSLs, and even the FRMs, who will speak to the payers, would be more important. And I think the focus will be on communicating with the health care professionals. I think this will be the key.

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

Nimish Mehta: Following up on the previous question, now that we have this strong 5-year data, is there any idea as to which other company would have done a similar trial? And if yes, how does it compare? How does our data compare with other company's data?

Abhay Gandhi: In the IL-23 space, I haven't seen 5-year data from the competitors…

Dilip Shanghvi: Abhay, we announced also in the press release that this is the first IL-23 five-year data.

Abhay Gandhi: But having said that, the competitors would also be working on that kind of data. And at some point in time, they may be able to present it. But I think being first to market with this data is positive from our perspective, and we will try and use that time to the best of our advantage.

Dilip Shanghvi: And also, I think, if you see qualitatively, the data reflects that over time, actually, the percentage of PASI 90 and PASI 100 increases.

Abhay Gandhi: It improves, yes.

Nimish Mehta: Yes. Sure. No, the data looks very strong. I'm just trying to see if there is any comparable data. Even in IL-17, if you know of any company which would have undertaken such trials, some perspective on how does it compare with any other, not IL-23, you are the first one, but within IL-17, how does it compare?

Dilip Shanghvi: So my sense is everybody will have a five- year data because these are regulatory requirements for you to do five-year safety studies.

Nimish Mehta: And sir, how many would have published it so far?

Dilip Shanghvi: Everybody would have. I think if you can see Cosentyx, all of them came before us. So their 5- year data should be available.

Nimish Mehta: I see. But do we have any idea as to how does our data compare with their data? Obviously, we can look up, but your perspective will be very useful.

Dilip Shanghvi: I think generally, doctors who use both IL-17 and IL-23, their feedback has been that IL-17 produces faster response, but IL-23 produces durable response. And within IL-23, we believe that ILUMYA has done even better, both in terms of durability as well as in terms of improvement.

Nimish Mehta: I see. That's very interesting. The second thing I just wanted to know about the generics business. I mean we have had some time since we had a low competition launch. So any idea or is it kind of contingent upon our Halol status? If not, then when are we likely to see any important launch mission where we might be the first or second one to launch literally in the market? That perspective is very helpful.

Dilip Shanghvi: Unfortunately, we've not given any data about growth for this year. But whatever information that we share about potential annualized growth will factor our expectation of approval of these products.

Nimish Mehta: That I understand, sir. I'm just trying to understand the launches of important complex generic product. I don't want a number of launches, but….

Dilip Shanghvi: I think you have to understand, that for difficult-to-make products for which no generic exists, USFDA on last day can also ask you a question that can potentially delay your approval by one year. So I don't think that it's fair for me to give you any date unless and until we have an approval. So we have a peptide product in which now USFDA has asked us that you compare your impurity level at different stages in your shelf life compared to the innovator product. So I have to then do stability study for both my and innovator product for two years before I can respond.

Nimish Mehta: And following up on that, with your permission, is there a policy likely coming from FDA related to complex generics? We've been hearing about it sometime back as to whether they will help generic companies expedite complex generic approval. Now that they also depend on…

Dilip Shanghvi: I think there is an existing policy where people who have filed or who wish to file, USFDA consults, but USFDA will not help you make the product. They will tell you what you are supposed to do, and they will talk more frequently to you than otherwise.

Moderator: The next question is from the line of Sanjay Shah from Alphaline Wealth Advisors. Please go ahead.

Sanjay Shah: Sir, as regards to the ILUMYA, we have different dosage that is of 200 mg ILUMETRI. What we have got approval from EU, correct me if I'm wrong. So what is the potential of that going ahead?

Dilip Shanghvi: In Europe, Abhay, we have both 100 and 200. So what he is saying is, what is the potential for 200?

Abhay Gandhi: In Europe, I think the product is designed and marketed as a self-injectable product, where I think they have a value for both the strengths. The data that we had submitted in the U.S. and the permission for which we have is only for the 100 milligram. And the product is designed to be a medical benefit product. In Europe, I think Ilumetri, has both the strength. But even there, I think my sense is, and I don't have updated data, maybe we will try and get that. But I think 100 milligram in the Europe still sells more than 200, but I could stand corrected. We will verify that.

Dilip Shanghvi: Abhay, you're right because 200 mg is only for obese patient above a certain weight class.

Sanjay Shah: Sir, it was regarding API business, I was talking. What opportunity do you see on that side? And do we have any plan to grow that business?

Dilip Shanghvi: So we clearly look at API as an important component of our business, but primarily with a view to strengthen our dosage form business. However, looking at the diversity of

products that we make, many of these products have significant potential to sale. And that is the reason why we are focusing on it. And now that we are focusing on it, I think it's growing quite decently. So we will continue to grow that business.

Sanjay Shah: So we have not planned any massive CAPEX for that or ramping up the business?

Dilip Shanghvi: We are all the time investing in that business, because today our API turnover is almost twice the turnover of what it was three years or four years back. What you see is the external turnover. What you don't see is what it is supplying to Sun Pharma? So if I look at the total volume produced by API business, it's more or less doubled in 4 years.

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

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

Dilip Shanghvi: Thank you.

Moderator: Thank you. 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. Thank you.