Sun Pharmaceutical Industries Limited
SUN HOUSE, CTS No. 201 B/1,
Western Express Highway, Goregaon (E),
Mumbai 400063, India
Tel.: (91-22) 4324 4324 Fax.: (91-22) 4324 4343
CIN: L24230GJ1993PLC019050
www.sunpharma.com

11 November 2021.

National Stock Exchange of India Limited,
Exchange Plaza, 5th Floor,
Plot No. C/1, G Block,
Bandra Kurla Complex,
Bandra (East), Mumbai- 400 051

Scrip Symbol: SUNPHARMA

BSE Limited,
Market Operations Dept.
P. J. Towers,
Dalal Street,
Mumbai - 400 001

Scrip Code: 524715

Sub: Q2 FY22 Earnings Call Transcript

Dear Sir / Madam,

Please find enclosed herewith a copy of the transcript of the Company's Q2FY22 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 Q2FY22 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 would now like to 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 second quarter FY22 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 (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 second quarter of FY22. I hope you and your family are safe and healthy.

Let me discuss some of the key highlights:

Consolidated sales for the quarter were at Rs. 95,567 million recording a growth of about 13% YoY. All our businesses, except the API business, have grown year-on-year. Compared to Q1 of this year,

sales have grown by about 2% excluding the contribution from Covid-related products in both the quarters.

Let me now update you on our global specialty business. For Q2, our global specialty revenue was approximately US$ 157 million across all markets. This includes US$ 10 million in sales milestones for two of our specialty products. The global specialty sales do not include Ilumetri end-market sales.

Ilumya has grown on YoY and QoQ basis. It continues to gain traction in both, the US and other markets. We have recently announced the availability of Ilumya in Canada, adding one more market to the global Ilumya franchise.

We have also launched Winlevi in the US recently. Specialty R&D accounted for approximately 28% 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 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. 95,567 million, up by about 13% over Q2 last year. Material cost as a percentage of sales was 26.4%; which is higher than Q2 last year due to product mix and geography mix. Staff cost stands at 18.9% of sales. Other expenditure stands at 27.1% of sales; increase in absolute value is attributed towards higher Selling & Distribution, and Travelling expenses while in Q2 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. 764 million compared to a loss of Rs. 1,164 million for Q2 last year.

EBITDA for Q2 was at Rs. 25,608 million, up by 21% YoY with resulting EBITDA margin at 26.8% compared to 25.0% for Q2 last year.

Reported net profit for the quarter was at Rs. 20,470 million. Excluding the impact of the exceptional item for Q2 last year, the net profit is up by about 29% YoY. The reported EPS for the quarter was Rs.8.5.

Let me now discuss the key movements versus Q1FY22:

Our consolidated sales were lower by about 1% Q-o-Q at Rs. 95,567 million, primarily due to lower sales of Covid products in India in Q2FY22. Excluding the Covid-related sales in both the quarters, our topline has grown by about 2% sequentially.

Material cost stands at 26.4% of sales; which is lower QoQ on account of product mix and geography mix. For Q2, staff costs were at 18.9% of sales while other expenses were at 27.1% of sales; both marginally higher than Q1. We had a forex loss of Rs. 764 million for Q2 as against forex gain of Rs.799 million in Q1.

EBITDA for Q2 stands at Rs. 25,608 million, which is lower by about 8% compared to Q1, mainly driven by the forex movement.

Reported Net profit for Q2 was at Rs. 20,470 million. Excluding the impact of the exceptional item for Q1 this year, the net profit is up by about 3% QoQ.

Now we will discuss the half year performance.

For first half, net sales were at Rs. 192,262 million, a growth of 20% over first half last year. Material cost for H1 was at 26.9% of sales which was higher than H1 last year mainly due to product mix. Staff cost stands at 18.5% of sales, lower than H1 last year; however, in absolute terms the Staff Costs have increased on account of annual merit increases & increase in field incentive. Other expenses were at 26.8% of sales lower than H1 last year; however, in absolute terms the Other expenses have increased on account of higher Selling, Distribution and Travelling expenses while in H1 of last year, these expenses were lower on account of pandemic related lockdown across markets. Increase in R&D expenses has also partly contributed to higher other expenses.

As a result of the above, the EBITDA for the first half was at Rs. 53,325 million, a growth of 38% over the first half last year, with resulting EBITDA margin of 27.7% compared to 24.2% for H1 last year.

Excluding the exceptional items, adjusted net profit for H1FY22 was at Rs. 40,262 million, up 47% YoY. Reported net profit for H1FY22 was at Rs. 34,912 million.

The Company has repaid debt of about US$ 209 million in H1 of the current fiscal. Over the last 6 quarters, we have repaid debt of about US$ 790 million.

As of 30-Sept-2021, we continue to remain net cash positive, even at the ex-Taro level.

Let me now briefly discuss Taro's performance.

Taro posted Q2FY22 sales of US$ 132 million and adjusted net profit of about US$ 25 million lower by 10.2% and 40% respectively over Q1FY22. On a YoY basis, sales for Q2FY22 were lower by about 8% while the adjusted net profit was lower by about 45%.

Lastly, I would like to draw your attention to a news report published in a section of the Indian media today, alleging that a complaint has been filed with the U.S. Securities and Exchange Commission related to Sun Pharma's acquisition of Taro shares. Sun Pharma strongly denies all the allegations made in the news report. Neither Sun Pharma nor its subsidiary, Taro Pharmaceutical Industries Ltd., have received any communication from the U.S. Securities and Exchange Commission or from any other regulatory agency on this matter. Therefore, we have no further information to share at the moment and we would not be discussing this matter in today's earnings call.

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

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

For Q2, sales of branded formulations in India were Rs. 31,878 million, recording a growth of about 26% over Q2 last year. India business accounted for about 33% of consolidated sales for Q2. We have maintained the trend of the past few quarters of outperforming the average industry growth.

Sun Pharma has increased its market share in Q2 compared to Q1 of this year and also over Q2 last year. As per AIOCD AWACS MAT data for Sep-2021, our market share has increased to 8.1% compared to 8% for June-2021 MAT data.

We have witnessed growth across most of our therapies. The growth was driven by a combination of factors like, improving demand for non-Covid treatments which is driving the growth in the chronic and semi-chronic segments, peak monsoon season leading to higher demand for anti-infectives and cough & cold medications, improved patient flow to doctor clinics and increased healthcare awareness.

Sale of products used in treating Covid symptoms and other associated products accounted for approximately 2% of India sales for Q2, compared to about 8-10% of India sales for Q1 this year. I am happy to announce that we have recorded strong growth in the underlying base business excluding Covid product sales.

Field force operations were near to normal in Q2 with almost all doctor clinics operational. The new sales force has started contributing and is already on the ground engaged in field work. Travel cost for medical representatives is near to normal while we continue to see some savings in terms of the cost of medical conferences.

For Q2, we launched 28 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 10 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 Q2, our overall sales in the US grew by about 8% over Q2 last year to US$ 361 million. The main drivers of growth were the specialty business coupled with the Sun ex-Taro generics portfolio. US accounted for about 28% of consolidated sales for the quarter.

Our specialty revenues in US have grown over Q2 last year, mainly driven by Ilumya, Levulan, Odomzo, Cequa & Absorica LD.

Specialty sales are slightly lower compared to June-2021 quarter. While Ilumya has grown QoQ, Absorica sales have declined as expected, due to generic entry. We also witnessed a slight decline in Levulan sales compared to Q1FY22 due to some temporary supply constraints which are in the process of being addressed.

Further, Ilumya and Cequa grew by about 70% and more than 100% respectively on an annualized basis for Sep-2021.

Quarter-2 is typically a soft quarter for dermatology products. In addition, there was surge in Covid cases in the US.

While doctor clinics have been 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 both still below pre-Covid levels.

You would have seen our recent announcement of launch of Winlevi in US, an anti-acne specialty product. Winlevi is a new class of topical medication in dermatology and will complement our existing oral acne portfolio. The addition of Winlevi further strengthens our position in the acne segment.

The nature of the acne market is such that there is room for a new product, especially with a new mechanism of action, which Winlevi has. It is the first time that an androgen inhibitor will be used for treating acne. Our established presence in the acne market will help in ramping up Winlevi going forward.

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 recorded growth on YoY basis. This growth is driven by a combination of new launches and better supply chain management.

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$ 243 million for Q2, up by about 16% year-on-year and 12% higher over Q1 this year. The underlying growth in constant currency terms was about 14% YoY. Emerging Markets accounted for about 19% of total sales for Q2.

Formulation sales in Rest of World markets excluding, US and Emerging Markets, were US$188million in Q2, up by about 5% over Q2 last year and 1% over Q1 of this year. RoW markets accounted for approximately 15% of consolidated Q2 revenues.

API sales for Q2 were at Rs. 4,358 million, lower by about 15% over Q2 last year; mainly due to lower opiates revenues.

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 Q2 was at Rs. 5,364 million compared to Rs. 6,127 million for Q2 last year. The YoY decline is due to spill-over of some clinical studies into subsequent quarters. Our current generic pipeline for the US market includes 88 ANDAs and 13 NDAs awaiting approval with the US FDA.

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

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

Prakash: Sir first question is actually a clarification US business ex-Taro, what I heard right was it was a growth Q-on-Q led by new launches and better supply chain management, if you could highlight more which were these new launches, because I understand the market is very

competitive, and there's a huge pricing pressure that is happening. Did we have any big product launch?

Abhay Gandhi: So, we had six new product launches in the US in the last quarter. And of course, with the help of the supply chain and the production and quality and R&D teams, we ensured that most of our products remained available to the levels that we wanted them to so we could look for businesses and keep our existing business continued.

Nimish Desai: Prakash, this is Nimish here. What Abhay had indicated in his opening remarks was that, Sun ex-Taro generics business has recorded growth on Y-o-Y basis, there was no mention of Q-o-Q.

Prakash: Okay, and some outlook can be shared, that would be great on the US generic business, what is on ground pricing pressure has it been better, or the competition has increased some color would be helpful, thank you.

Abhay Gandhi: Situation broadly remains the same Prakash. The number of competitors, looking at specific products keeps on increasing every quarter. And like we have said consistently, depending on the product and the number of competitors, the pricing pressure on the ground is something we continue to face, that's the reality of the market. I don't think much changes from a quarter-to-quarter basis.

Prakash: Okay, perfect. And from a Halol side, are we seeing any communication already from the FDA, as seen by other corporates also they're sounding, do we expect it by this fiscal year and some resolution, what is our current thinking around this?

Dilip Shanghvi: We haven't received any intimation from the agency about their plan to audit the facility. We continue to stay in touch with them with a request that they should audit the facility at the earliest because we make many products, which are potentially or sometimes in regular shortages. But it all depends on their priority and their importance of the facility based on which, they will decide when to inspect us.

Prakash: Okay, perfect thank you. And my last question is on Winlevi. So, from a build out perspective, is the existing setup good enough or do we need to invest in the near term, at least one, two quarters before we see gaining momentum or the existing setup is good?

Abhay Gandhi: So, when you say setup, you're talking about the field force?

Prakash: Yes sir.

Abhay Gandhi: So, we have had some increase in the size of the field force, then the team which used to promote that Absorica and Absorica LD and for the last quarter, a large part of that cost has already been reflected. Some more you will see in this quarter-3, but there has been an increase taken in the size of the field force looking at what the potential of this product can be.

Prakash: Okay, perfect. So, unlikely to see a major cost expansion is what I wanted to understand?

Abhay Gandhi: Did you say unlikely?

Prakash: Yes.

Abhay Gandhi: Yes, I would agree.

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

Kunal: So, first on the R&D expense, which we already indicated that a couple of clinical trials have spilled over. For those the trials related to psoriatic arthritis and SCD-044. We are talking about?

Dilip Shanghvi: That's correct. Cost of a clinical trial is linked with ability to commission new sites as well as enrollment of subjects. So, if that is going slow, and the cost is much lower.

Kunal: So, does that mean that the cost would be apportioned over a much longer period and hence, with lower R&D expense as a percentage of revenue would continue?

Dilip Shanghvi: My understanding is that major reason for the slowness of the enrollment is linked with the COVID. As Abhay said that in last quarter there was a potential impact in the patient

visiting doctor's clinic. But gradually, things are normalizing so we should expect that we should go back to the normal and then that should help enrollment of subjects faster.

Kunal: Sure. And the second question would be on the, that is one clarification that I require. We have said that the Ilumya and Cequa on an annualized basis, which I believe would be kind of a MAT basis has grown at 100% and 70%. Is that the right way to look at it?

Dilip Shanghvi: Yes, that is the right way it's an annualized growth, comparable periods.

Kunal: Okay, sure. And so my last question would be on the specialty breakeven, which we earlier added to be kind of next year. So, do we still stick to the same figure?

Dilip Shanghvi: What?

Kunal: Specialty breakeven.

Dilip Shanghvi: I don't think we ever said that there'll be a break even across the board next year. We always said that this is a business-by-business working that we do. And internally, we are clear which business will breakeven in which year based on how well we execute on our plans.

Kunal: So, any guidance for the specialty business as of today on the growth that we have seen?

Abhay Gandhi: You're talking about breakeven?

Kunal: Yes.

Abhay Gandhi: No, no real guidance really, we don't give those details, business-by-business of course.

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

Damayanti Kerai: My question is again on Winlevi. So, here, will you be incurring DTC cost for next few quarters and how is your reach in terms of formulary coverage for the product?

Abhay Gandhi: Initial focus will be on communicating our messages to doctors. What you need to remember is in the US, for the first six months post launch of the product, you can't do any DTC, that's not allowed. So, for six months post launch we can't do DTC anyway. So, our focus will be on communicating our messages to doctors, convincing them that it's a product, they should give a trial to see the results and then hopefully start prescribing it far more regularly.

Damayanti Kerai: Okay, then how about the formulary coverage for the product, which has been progressed here?

Abhay Gandhi: So, it's a launch product, we in fact launched it yesterday. So, yesterday was the first day of launch, so formerly the access is an ongoing process. It's not that you get complete access or on before the launch or day one of launch. Different payers take their own time and period to make a determination of whether to cover and how to cover and then which formula they should put it on. So, it's a process that we have to go through, but we are comfortable with the initial coverage that we have for launch and we find that it is comparable to a lot of new products in the space which have been launched in the past.

Damayanti Kerai: Okay, that's helpful. My second question is; how do you see higher commodity prices impacting your gross margin over next few quarters?

Abhay Gandhi: So, can you repeat your question please?

Damayanti Kerai: How higher commodity price, how it's going to impact your gross margins in next few quarters?

Dilip Shanghvi: So, the margin will be under pressure from the cost point of view. Actually currently if, our cost of goods is X may go up a little, but in many businesses we are able to pass on the cost increases to customers. So, then to that extent, there is an adjustment.

Damayanti Kerai: Okay, but broadly there will be some increase from current level in next few quarters, that's what you are saying?

Dilip Shanghvi: I have no understanding of how long this increase in the commodity prices is going to continue, because we are seeing that in many products, there is also a reversal. It doesn't

go back to its original price base, but it comes down significantly from the peak that it is reached. So, is it difficult to quantify. The positive for us is that because of COVID we created a strategic inventory for many products, and that is the reason why you see our working capital is a little bit higher. But that is now useful for us in terms of those materials that have been procured at old prices. So, we don't know.

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

Krish Mehta: My first question was related to a Ilumya in terms of the phase three trials for psoriatic arthritis. So, given the slowdown because of COVID and enrollments, is there a rough timeline you could share on when we expect these trials to be completed?

Dilip Shanghvi: We haven't shared the specific date by which we should have the last patient enrolled in both psoriatic arthritis as well as in other products. But our focus is to find a way to complete the study at the earliest.

Krish Mehta: Okay, and my other question was on the sales and marketing expense and other expenses in general. So, would it be fair to assume that the percentages we are seeing in Q2 would be a steady state percent going forward to account for the COVID aberration we've seen in the last few quarters?

C. S. Muralidharan: We have maintained our position in the last earnings call also that as the normalization of operations is happening, quarter-by-quarter you will also see the increase in expenses. However, we also maintain that probably even at full normalization, maybe we will not hit the full pre COVID levels. That's our position.

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

Anubhav Aggarwal: Just a couple of clarities, one, this US $10 million milestone that you talked about in the specialty business, is that including revenue, or that's including the other income?

C. S. Muralidharan: It is included in the revenues.

Anubhav Aggarwal: Any reason for including the revenues not in other income?

C. S. Muralidharan: It's part of the IndAS accounting standard for revenue contract for supplies, as per the IndAS GAAP.

Anubhav Aggarwal: So, when you report US $361 million sales is this US $10 million inside the 361?

C. S. Muralidharan: For the Q2 the number reported is US$157 mn which includes the US$10 mn. Let's put it like this.

Anubhav Aggarwal: No, but that's right. But 157 is across the businesses and this I assume US $10 million, specifically for the US, so that's the reason I'm asking is that 361 includes that US $10 million?

C. S. Muralidharan: So, in the total global specialty sales that we have reported, includes US $10 million milestone.

Anubhav Aggarwal: Okay, sure. Second on the COVID sales, can you just mention about contribution from India, but was there any material sales done to EM and ROW market as well in this quarter or not?

Dilip Shanghvi: There would be marginal sales, not significant.

Anubhav Aggarwal: Okay, sure. And last question, just on the DTC and Ilumya, so our current expenses reflecting the normalized level of DTC Ilumya like in the past you mentioned that DTC and Ilumya has come down from when you started initially but as the situation normalizes in the US, as the cases go down, etc., is this the base level of DTC that we need to do, which we are doing already, as situation normalizes we need to ramp up on the DTC?

Abhay Gandhi: No, you can consider this to be your baseline.

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

Sameer Baisiwala: Question on operating leverage, company had a great job over the last few quarters. But where the margins are now 26.7% do you think we should expect more of this to continue, which is sales going faster than the cost?

Dilip Shanghvi: That is the effort. How much we are able to execute will determine whether it happens or not

Sameer Baisiwala: Okay, great sir. And the second question is on the US side, especially on the generic side. So, can you give us some visibility of new launches as we go forward, and especially some high value content for that?

Abhay Gandhi: I can tell you the number of products, I did that last quarter, we launched around six, this quarter again you will have some launches. But till we have an approval in hand, and are able to tie up business, I don't want to give names of products, because that affects me competitively. But every quarter the attempt is to have a few products and come to market, preferably first to market, or at least in the first batch of products to come to market.

Sameer Baisiwala: Okay. And, I'm just looking for any names, specifically, but just that some high value complex products. And I know the timing can be very up and down, but since you take a four to eight quarter view you think you have sufficient ammunition that can come to market?

Abhay Gandhi: Yes, I do.

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

Nimish Mehta: My first question actually about the Winlevi, can you explain as to how is it better in the standard of care in fact, it could be great if you can also allude to what, which is the standard of care and what is the mechanism of action of Winlevi, there is some element that is given in the press release, but it's hard to understand if you can help, that will be great.

Abhay Gandhi: So, to be able to fully answer your question, I will have to give you a complete product briefing. So, I'm perfectly alright, if you want to take this offline. And I can explain to you the product and the mechanism and the scope. So, I'm happy to do that, if you wish.

Nimish Mehta: Yes, I will be very happy to do that.

Abhay Gandhi: Nimish and Gaurav can find time and I will be happy to brief you on that.

Nimish Mehta: Okay, no issues. The other one, actually may be related to the same, you mentioned that there are 13 NDAs which are pending approval, it's quite a large number. So, if you can kind of break it up between how many could be 505 B2 and how many would be NCEs that would be helpful.

Abhay Gandhi: And all of them are in the 505 B2 generic space, there is no NCE in that.

Nimish Mehta: Okay. And if I may last one to squeeze in about the domestic business, it has actually grown significantly above the wider market, the overall market as well even if we adjust for the COVID related phrase so any specific reason how should we read that going forward. Thank you.

Kirti Ganorkar: I just told in my readout that the overall things are coming back to normal. So, what I see is almost close to 95% to 98% of the doctors are practicing. A patient footfall still is not pre COVID level but it is around 85% to 90% and there are only two specialties which is like pediatric and dermatology, where footfall is within 70% to 75%.

Nimish Mehta: That must be true for the entire market?

Kirti Ganorkar: Yes, that is for the entire market and second is that, even this year the monsoon started earlier it was a long-drawn period. So, that also helped and as you know, there are a large number of infections like a viral infection cough, cold. So, anti-infective market has also grown substantially compared to last year, but in this growth we have done better than the market. So, we have gained market share. In sub chronic as well acute therapy we have grown faster than the market, both in Q1 and Q2.

Nimish Mehta: Yes, exactly. That is what I wanted to any specific reason and is this something that you would likely to continue. Growing better than the market and significantly better than the market?

Kirti Ganorkar: No, the India business objective is to grow faster than market and gain market share. That's what we are trying to do. So, if you remember we have done expansion also, so 10% of the field force we have added two is years back. So, that also helping us, last year there was COVID and there were challenging times, but now the things are coming back to normal. This expansion has also helped us to gain better growth compared to our competitors. So, it's a mix of all the factors, but the idea is to grow faster than the market in most of the therapeutic area where we are present today.

Moderator: Thank you. The next question is from the line of Tarang from Old Bridge Capital. Please go ahead.

Tarang: Just wanted to check, given the size scale and the moving parts of the business just wanted to get a better handle on which are better or more profitable revenue segments. So, would it be possible for the management to provide revenue segments in descending order of gross margins? Without the number, just the ranking would be okay.

Dilip Shanghvi: In this call, the information that we share is not only with analysts and investors, it's also with competition. So, we need to be cognizant of that. We will generally avoid doing anything, which will negatively impact our business. So, that would be difficult.

Tarang: Sure, okay. The second question is, if you could give us a sense on your launches last quarter in Q1, FY22. And how many launches should we see in FY22 as a whole in North America generics ex-Taro?

Abhay Gandhi: So, I answered this part of the question earlier, last quarter we have launched six products. But the future, I don't really want to give a number because it is uncertain we are doing our best. And it is also competition sensitive information so for me to give a number, again, impacts us negatively.

Tarang: Sir, I meant Q1 of FY22, when I asked you.

Abhay Gandhi: Q1FY22 was similar number, I don't recall exactly, but it was five or six again, quarter two I can confirm it was six. And to an earlier question, I did mention that when I look at

the portfolio over the next four to eight quarters of what we think we will be able to come out in the US market, I'm comfortable with the pipeline that we have.

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

Surya Patra: First question is on Winlevi. So, considering the kind of for superior, the attributes of the product like tolerability and safety profile, the superiors of the profile, and the way it is indicated for like moderate patients. So, does that provide some indication in terms of faster or kind of relatively larger volume penetration of the product in the first year, and also a communication from your partner side indicated that before the launch of the product itself, the enrollment of the product with payer group is like one of the best. So, does that really indicate anything about the penetration of the product and the quantum of the prescription that it can generate in the first year?

Abhay Gandhi: Frankly, we really couldn't understand the gist of the questions. Could you kindly rephrase it for us?

Surya Patra: Sure. What we are seeing sir, the product has got better tolerability as well as the safety profile and also as per the partner's communication, for Winlevi they are saying that the product has already got enrolled with maximum payer group in US before launch. So, does that indicate anything great about the penetration of the new molecule compared to the comparable product?

Abhay Gandhi: Let me take the first part of your question, anecdotally when we have spoken to the KOL about this product, even before we licensed it and today, when we are talking to doctors after licensing it, in doctor conferences, or individual doctors and clinics, we see a fair degree of interest because it's a first in class molecule after a span of almost four decades. Now, attempt of the team obviously will be to convert that initial interest into an action and then repeated action in terms of prescriptions. And that is what will give us that volume that you talked about. And I am not privy to what you call the so called partners communication about whatever you did was a term you use best of access. In response to an earlier question, I did say that access is an evolving thing when you launch a product, and each payor has a different timeline when they make a

determination of when to cover and how to cover and on which formulary to cover. So, it's an ongoing negotiation and I also said that, at the point of launch, I'm comfortable with the access that we have and but the attempt for the team will always be to improve and that won't be a next three-month kind of task it will be an ongoing forever kind of a task to maintain and to grow access will be a forever task.

Surya Patra: Second question is on Revlimid, is it is it possible to share like what is the timeline and how is our preparedness for launching the product as per the settlement although that is not known.

Abhay Gandhi: So, that will be difficult, we will not be able to share that because it is definitely competition sensitive information. And there are confidential parts of the agreement as well. So, all in all, I cannot give you specifics.

Surya Patra: Okay. So, just a last question if I may sir, about the biosimilar initiative what you talked in the earlier calls also. Can you just give some sense that okay, what is the progress has been, what is the kind of thought process about it to add product or build product or develop products like that?

Dilip Shanghvi: We have indicated that the product that we have chosen is a product which is likely to be in the third wave of biosimilars, which means that potential patent expires after 2027-28. And we are working on the product and the R&D right now, and we haven't yet scaled up to any kind of size. We are still at very small fermenters. But the early validation of the structure and characterization does indicate that we are on the right path.

Moderator: Thank you. The next question is from the line of Cyndrella Carvalho from Centrum Broking. Please go ahead.

Cyndrella Carvalho: So, the first question is on the Winlevi side, if you could. I don't know if you will be comfortable giving a guidance but what will be a peak sale estimate because there were some analyst expectations which were indicating north of US $400 million sales for this particular product. Do you relate to it or anything that you would want to share on this?

Abhay Gandhi: No I really cannot give any guidance on that.

Cyndrella Carvalho: Okay. So, sir on the opiates side, on the API lower sales, we have specifically identified that lower opiate sales have led to this, any current scenario that we can highlight sir and any sense that you can provide on the outlook?

Dilip Shanghvi: So, our sense is that, opiates are controlled by narcotics commission and they are not currently issuing permits. So, the expectation is that they are not issuing new permits till the company has existing inventory. So, to that extent the sale is subdued. Hopefully when inventory comes down then some better sales will start.

Cyndrella Carvalho: This is very helpful sir. And sir one last question if I can squeeze in, it's on the India run rate, quarterly run rate at almost 3200 how do sir we see this going ahead, do you think this is a more sustainable run rate going ahead?

Kirti Ganorkar: It is very difficult to predict because we are in uncertain times. So, we don't know whether the COVID wave-3 will come on how much it will impact our business. So, it's very difficult to say like how next two to three quarters will be. Things remaining normal, our endeavor is to keep on growing faster than the market, that's what I said earlier.

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

Neha Manpuria: On Ilumya and Cequa, if I were to compare our performance in both of these in terms of how they're trending versus our pre-COVID expectation. Is it in line with that or do you find lost due to COVID, there is still recovery when it comes to the performance of these products.

Abhay Gandhi: Clearly, if there was no COVID, I'm certain the uptake of these products would have been better than what we have today. There is no doubt on that because all said and done, these are new products launched by a relatively new company in the specialty space in the US. So, we to be able to directly meet doctors communicate your product benefits over that of the competitors, gaining access. These are all things which have to be done on the ground you can't do it virtually, not at least for a newer product and a newer company. So, clearly, but for COVID, we would have been in a better place than we are now that's for sure.

Neha Manpuria: And that does not change, your expectation does not change even with the COVID and there is a fair bit of uncertainty in terms of next wave coming through and therefore this kind of ramp up, but how is your expectation from these product change either ways up or down, post COVID?

Abhay Gandhi: See, my personal mindset always is that you can either let circumstances bog you down, or try and find ways by which you do better than what you think you are capable of under any circumstance. So, in my head at least this is not a setback of a permanent nature. We have to find creative ways of getting back to where we should be and keep moving forward. That's my personal mindset.

Neha Manpuria: Understood. My second question is from a capital allocation for the specialty business development. We have seen after been fairly smaller assets, Winlevi seems to be a midsize asset. We'll have to see how that **(Inaudible)**, two questions, one is there any part of the specialty segment where we'd like to see more product conditions versus another in terms of our fixed cost investment there in terms either of derma, et cetera. And second, has our let's say ramp up or success so far in the specialty launches that we have done or progress of the specialty launches, change the type of the asset to the size of the asset that we're ready to look at?

Abhay Gandhi: So, we don't necessarily start off any business development process by looking at size. But we look at gaps in our portfolio and needs of customers or what is it that they're looking for. So, whether you call Winlevi a midsize asset or a larger asset, the fact is, if we look at it from a customer point of view, they were looking for an androgen inhibition drug for the past four decades. We were able to acquire that and give the customers what they want and that will translate into a business opportunity for the company. So, rather than look at the size of the acquisition, we try and look at gaps in therapy, needs of the customer, and how we can augment our portfolio in the segments that we said that we remain keen on investing and growing of course.

Neha Manpuria: Okay, so it's not as if we have, even though there might be assets available we are ready to look at a larger asset now versus let's say we were not keen two years back.

Dilip Shanghvi: So, our view was that it's better for us to see a certain size that we achieve in our specialty business before we continue to make additional investment. Because for us also I

think there is a learning process, and clearly what we know today is more than what we knew two years back. So, that gives us the confidence and the courage to consider future investments.

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

Shyam Srinivasan: Just the first one on capital allocation again. We are generating significant amount of cash. Even looking at your half yearly numbers. So, just want to understand we've been paying down debt so far. So, looks like now with net cash that revenue probably closer. So, just trying to understand, what are some of the capital allocation priorities, is it more R&D, is it CAPEX, is it M&A, any sense on that like a three to five year that we need to keep in mind?

Dilip Shanghvi: The focus is to find businesses that will help us improve our return on capital employed, return on equity. So, that anything which will help us grow our top line as well as bottom line, as long as it is reasonably priced, or something that we can afford to pay. Now what is reasonably priced is a very big zone of reasonableness. But that is an important decision for us and we will always remain disciplined about what we pay for an asset.

Shyam Srinivasan: Looking at the quantum of cash flows, do you think the rank order, I'm also trying my luck with rank orders today, is it India asset is it US spec asset, any directional sense?

Dilip Shanghvi: Directionally, we've explained in the past also is that with our size and with our presence in almost all therapy areas of interest in India, unless and until we get a specialized opportunity, we are not looking at buying something in India. But we will look at bolt on businesses in markets, in emerging markets where we have existing presence and we can scale. We can look at small medium sized businesses in Europe. We can also look at existing businesses with either existing products or products close to market in the US. And because the market is much bigger in terms of value, possibly that can be a much higher cost potential acquisition.

Shyam Srinivasan: Thank you Dilip. My second question is just on Absorica, Abhay mentioned that there has been Q-o-Q decline. Maybe it's in the generic part of the thing. So, how should we, or is it the entire portfolio, I'm unable to understand so how should we look at this, is there more one, two quarters of pain more before kind of then it stabilizes at some market share where we think things can't get worse?

Abhay Gandhi: It will depend on how you want to look at the overall business. One way to look at is, say about a year ago, when we were only marketing Absorica, we had roughly and I'm rounding it off, we had roughly like a 7% share of market. And then we launched Absorica LD, and a few months ago, we launched the authorized generic of Absorica also. Now, if you look at all three products put together or three forms of the product put together, then our market share is more or less the same.

Shyam Srinivasan: But maybe the realizations are different, maybe that's where probably the things are different.

Abhay Gandhi: Yes, realizations would be different and also where it is classified so Absorica will be classified as a specialty product business, whereas the AG will be classified as the ex-Taro generics business.

Shyam Srinivasan: Got it. And last question, Murali sir is on the ETR. Q2 was abnormally low, but if you can help us what would be the ETR for fiscal 22. Thank you.

C. S. Muralidharan: So, as far as the Q2 ETR being low, there is a one-time adjustment on account of the common control merger, otherwise we would say that you should look at the ETR at an annualized basis**.**

Shyam Srinivasan: And Murali sir it is just going trending up gradually, that's been the period that.

C. S. Muralidharan: So, we stand with the same guidance as we progress.

Moderator: Thank you. The next question is from the line of Vishal Manchanda from Nirmal Bang. Please go ahead.

Vishal Manchanda: I have a question on Cequa just want to get your views on what it would actually take for you to gain share from Restasis, because as I understand, there is a large population that does not respond to Restasis. And so we probably are still struggling around single digit numbers and I also understand you have been doing a post marketing study to understand Cequa in non-responders. So, any color there will be helpful.

Abhay Gandhi: So, you're right, better execution is the only answer and a lot of our marketing strategy is to try and convert share from the existing incumbents, whether it is Restasis or Xiidra to our product and we clearly will have to do a better job at executing on our strategies. So, I'm with you on that and yes, to the second part of your questions, we are trying to work on the product and create the scientific evidence of why a doctor should either start a patient on Cequa or move a patient to Cequa in case they have non responders to existing products.

Vishal Manchanda: So, would we have some data around this anytime now, later?

Abhay Gandhi: Data on what?

Vishal Manchanda: Basically, non-responders Cequa's performance in Restasis non-responding?

Abhay Gandhi: So, once these studies are published, then they are in public domain and therefore then you will have access to it. But obviously till it is in public domain, I cannot share it with you.

Vishal Manchanda: Got it. And just one more question on Taro, for there was a sharp decline in gross margins on a quarter-over-quarter basis, about 500 basis points. Could you share some color there?

C. S. Muralidharan: So, the sharp decline is due to one-time impact in the cost of goods sold, otherwise we don't see any change in the normal range bound margins as far as Taro is concerned at the gross margins level.

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

Nimish Desai: Thank you everybody for taking time out and joining this call. If any of their questions have remained unanswered do send them across and we will have them answered. Thank you and lastly from all of us at Sun Pharma wish you all a very Happy Diwali.

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