



Corporate Participants

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Moderator: Ladies and gentlemen good day and welcome to the Update on Business and Strategy conference call hosted by Sun Pharmaceutical Industries Limited. As a reminder for the duration of this conference, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Uday Baldota. Thank you. And over to you sir.

Uday Baldota: Thank you, Marina. Good evening and warm welcome to our Strategy Update call. I am Uday from the Sun Pharma investor relations team. We hope you have received our press release that we sent out earlier today. This is also available on our website.

Today, we have Mr. Dilip Shanghvi, Chairman and Managing Director, Sun Pharma, Mr. Kal Sundaram, CEO and Mr. Sudhir Valia, Wholetime Director for this interactive call. Together they will discuss and respond to queries.

Just as a reminder, this session is being recorded and the replay will be available. This session transcript will also be put on our website soon.

It would be appropriate to mention that this discussion today may include certain forward-looking statements and these must be viewed in conjunction with the risks that our business faces.

I would like to request all of you to kindly send in your queries that remain unanswered today.

I will now hand over to Mr. Dilip Shanghvi.

Dilip Shanghvi: Thank you, Uday. Good evening and welcome. I am happy announcing the Sun Pharma--MSD joint venture for emerging markets. This joint venture will focus on developing, manufacturing and commercializing innovative branded generic medicines.

As all of us are aware, experts estimate that emerging markets are expected to drive 90% of the world's pharmaceutical growth. Differentiated products that offer benefits to patients will be important contributors to this growth. This opportunity to help patients coupled with the ability to offer differentiated products, including those with proprietary delivery technologies across emerging markets, forms the basis of this partnership between Sun Pharma and MSD.



As I see it, this partnership rests on four pillars. It will leverage Merck's market presence and regulatory competence across emerging markets, Merck's global peer recognition as a leader in science, marketing prowess and ethics. This ought to maximize the potential for JV products. The critical value driver for this partnership is the innovative delivery technology capability from SPARC Ltd. And finally, the partnership will also derive substantial benefits from Sun Pharma's rapid product development capabilities and credible world-class manufacturing infrastructure.

This joint venture which covers emerging markets will be managed by people from both the companies and draw expertise from both teams. A key characteristic of this venture is that it focuses on a new business opportunity even while partners retain their existing businesses and relationships in all of these countries and in substantially the same form as they are, today, including in India. We consider it as a privilege to partner with Merck. It is indeed a matter of great fulfillment that this strategy collaboration with MSD values and builds on the intellectual property that has been created by the R&D team at Sun Pharma and SPARC Limited. An appreciation of the innovative work that has been done by our scientists. Truly a beginning of long symbiotic relationship, and an important milestone for all of us at Sun Pharma and SPARC Ltd. for creating long-term shareholder value. Thank you. I now leave the floor open for questions.

Moderator: Thank you very much. We will now begin the question and answer session. Anyone who wishes to ask a question may press * and 1 on their touchtone telephone. Participants are requested to use only handsets to ask their question. Participants who may wish to ask a question may press * and 1.

The first question is from Nimish Mehta from MP Advisors. Please go ahead.

Nimish Mehta: Hi Thanks for taking my question. Can you let us know whether the joint venture is a 50-50 joint venture or what is the ratio?

(inaudible)

Uday Baldota: Hi Nimish, Uday here.

Nimish Mehta: Can you hear me?

Uday Baldota: We can hear you. Can you repeat the question please?

Nimish Mehta: I wanted to know what is the % stake of each company in the joint venture, is it 50-50?

Kal Sundaram: This is Kal Sundaram here, We are still finalizing the financial structure, vote structure, voting etc. All in all what we can tell you now is that in terms of operations, it will be equally represented between Merck and Sun Pharma.

Nimish Mehta: Operationally, it will be equally represented?

Kal Sundaram: Correct, yes. Balanced decision-making powers.

Nimish Mehta: Okay. But there can be a change in the financial structure? I mean it can be different than the operational structure, right?

Kal Sundaram: No, all I am saying is that this is to be yet finalized.

Nimish Mehta: Okay. And is there a likelihood of cash investment by each company? And if yes, how much?

Dilip Shanghvi: I think basically this builds on existing SPARC Ltd. and Sun Pharma relationship where Sun Pharma has a right of first refusal for all the products in emerging market, so Sun Pharma will make an investment in developing and in bringing the product to the market, along with Merck in terms of clinical development and various other regulatory investments. And Merck will market this product using its existing sales and marketing organization in different countries. However, as I explained, the existing Sun Pharma business in all geographies including India will continue to market their own products as they are doing now. So this is not excluding Sun Pharma, or ability to introduce new products in any market.

Nimish Mehta: Right. So essentially the development will be done by Sun Pharma. It will not be done by the joint venture is what I understand.

Kal Sundaram: There are components to development. Components relating to formulation development, PK studies, BE studies things like that will be done by Sun Pharma. Regulatory studies, because they need to be conducted across markets in emerging markets, will be conducted by Merck the costs and benefits will go to the joint venture.



Nimish Mehta: This will be a novel or new product as I understand...

Uday Baldota: Nimish, can we take a question from someone else? You can join the queue back?

Moderator: Thank you. The next question is from Sonal Gupta from UBS Securities. Please go ahead.

Sonal Gupta: Just wanted to understand the BE studies and the regulatory studies are not within the purview of the JV, they have to be done independently by Sun Pharma and Merck.

Kal Sundaram: They are being done for the JV by the partners using their infrastructure.

Sonal Gupta: Okay, but they will be charged to the JV in a sense?

Kal Sundaram: That is correct.

Sonal Gupta: Okay. And so will this JV set up its own front end or they essentially are saying that they will use Merck's front end in various markets?

Kal Sundaram: More often than not the JV will use the existing infrastructure of the partners.

Sonal Gupta: Right. And have you identified any products, or how many products could be there at least initially for this JV to begin with, given the current state of development?

Kal Sundaram: That is a sort of next stage, the JV partnership will decide what products, which therapy area, which country, that is what Mr. Schechter & Mr. Shanghvi were saying.

Sonal Gupta: Have you identified any initial set, maybe three, five, whatever...?

Kal Sundaram: Not yet.

Sonal Gupta: Okay, thank you so much.

Moderator: Thank you. The next question is from Kartik Mehta from Daiwa Capital Markets. Please go ahead.

Kartik Mehta: Can you explain if there will be a commercial relationship here amongst three parties, one is Sun Pharma and SPARC Ltd., then it will be Sun Pharma and the JV, and then it will be JV and



actually Merck or actually will it be Sun Pharma, and SPARC Ltd. will have an independent business as it is now, I mean in the financial part of this JV, will Sun Pharma be involved, or will SPARC also be involved since they have NDDS platforms?

Kal Sundaram: SPARC Ltd. will contribute its technology into the joint venture, and those technologies will be used for the products. As and when the products are developed, SPARC Ltd. will get returns in terms of one-time payment, milestone payment, royalties. Sun Pharma will develop products where appropriate, also manufacture where appropriate. And in terms of direct financial relationship, Sun Pharma will have the relationship with the joint venture.

Kartik Mehta: If I may ask one more thing-- if this particular arrangement of the JV only particular is Merck and is there a possibility that if in a particular market or there is a certain portfolio, if Merck has no expertise in those markets, but actually SPARC Ltd and Sun Pharma can jointly make that in the same set of markets, can Sun Pharma have an arrangement with someone else, is my understanding correct?

Kal Sundaram: Repeating what we said earlier on. The arrangement is specifically to emerging markets and the intention is to use Merck's infrastructure and capability in these markets and as such products developed by the joint venture will be marketed, or the JV products will be marketed either by Merck or by Sun Pharma, depending upon the decision that the JV board makes.

Kartik Mehta: Okay. So when can we have some more details in terms of the addressability of the markets or the portfolio or when can you share some additional details in terms of the platform where you intend to start with?

Dilip Shanghvi: The idea is to use the SPARC platform technologies as well as Sun Pharma's own capability in developing differentiated products. I do not think that we would be sharing specific product (info) that will be selected for development for commercial and confidentiality reasons. And the process will work in such a way that there is a board equally represented by both the companies which will look at and select products to be developed for markets, and then timelines and milestones related to those developments will be worked out.

Kartik Mehta: Okay, thank you.

Moderator: Thank you. The next question is from Abhay Shanbhag from Deutsche Bank. Please go ahead.



Abhay Shanbhag: In terms of timelines, is this going to use any of the existing product baskets of Sun Pharma or Merck in any of the markets or it will be a new set of products which will take two, three years development?

Dilip Shanghvi: The joint venture has an option to choose any of the existing products that are there in the Sun Pharma or SPARC Ltd. product development pipeline. The focus is to bring differentiated and innovative products to market which based on the clinical differentiation, and can be effectively promoted and marketed in all the key geographies. And we will try and find a way by which we can bring some products to market in the shortest possible time, but unless and until the specific products are selected by the JV board and there is a clarity in terms of timeline, we will not be able to share specific timelines with you. What I think is critical and important for us to keep in mind is that the relationship is structured in such a way that it will utilize the capability and skill of both the companies in a synergistic way. It is a relationship which has active involvement from the highest management in Merck as well as 100% commitment both of Sun Pharma and SPARC Ltd. to make it work and succeed.

Abhay Shanbhag: Okay. Just if I understand it correctly, it would be the products where there would be some value-add in terms of research. So it may not be the existing product basket of Sun Pharma or SPARC at this point of time.

Kal Sundaram: Strengthening what you are saying. The entire focus of the joint venture is to bring products that are essentially not available in the market. So to the degree, number one, it will require formulation development, clinical development and regulatory. And as such generally speaking, it has from a medium to long-term impact. Within that confines if the products from either Sun Pharma or SPARC Ltd. which has the differentiation or high-entry barriers, there is scope for us to put it into the joint venture.

Uday Baldota: Abhay, can we take... can you join the queue back?

Abhay Shanbhag: Okay. Thank you.

Moderator: Thank you. The next question is from Bino Pathiparampil from IIFL Please go ahead.

Bino Pathiparampil: Most questions have been answered, but just to explore the question about details, I know lot is yet to be decided but in terms of strategic milestones to be reached, do you have



any five-year, ten-year vision for the joint venture, certain number of products or certain revenue levels in the emerging markets, etc.?

Dilip Shanghvi: I think as of today, there are no specific numbers, however, if this was only for a limited number of products, the kind of involvement that you see from a company as large as Merck would not have been there. So I think all through the negotiations and discussions we have seen very active involvement and interest in making this joint venture work and bring differentiated products to market so that Merck is able to use this product to also find additional significant revenues and avenues of growth in emerging markets.

Bino Pathiparampil: Right. And finally, would it be safe to assume that SPARC Ltd. would be a bigger beneficiary because of the technology platform coming through, which could be more valuable than the manufacturing services of Sun Pharma?

Dilip Shanghvi: We expect both the companies to benefit significantly from relationship. The benefit for SPARC Ltd. clearly is that SPARC had (granted) a right of first refusal to Sun Pharma with limited presence in emerging markets. Now, that will be commercially exploited and developed by a much larger partner. So the upside potential for SPARC Ltd. would have gone up from that perspective.

Bino Pathiparampil: Okay, thanks very much.

Moderator: Thank you. The next question is from Prakash Agarwal from RBS. Please go ahead.

Prakash Agarwal: Good evening, sir. Just a question basically in terms of tying up with Merck, what is the strategy behind it, in terms of either its more from the product side that you would get help because Sun Pharma and SPARC Ltd. itself has a huge product portfolio which is upcoming, or it is more of registration expertise and the geographical footprint that excites you in Merck?

Kal Sundaram: I think you yourself answered it. On our side, we have the portfolio; we have the technology platform and the manufacturing capabilities. On their side, they have the clinical, regulatory as well as marketing capabilities. So that basically forms the bone of the strategy behind the partnership. They bring their strength and we bring our strength and in an combined manner, we aim to launch products that others do not have.



Prakash Agarwal: It is more on the registration expertise or more on the clinical side that you think Merck would bring more into the table?

Kal Sundaram: I think what you say, clinical ultimately leads to regulatory, regulatory ultimately leads to marketing, they are all totally interlinked.

Prakash Agarwal: And in terms of exclusive deals, is this tie-up exclusive, like Sun Pharma cannot go and do the similar deals with other big pharma or vice versa?

Kal Sundaram: Our aim is to maximize the opportunities in this partnership with Merck in emerging markets. So right now our focus will be to make it work, make it happen.

Prakash Agarwal: Okay, but it is not exclusive basically?

Kal Sundaram: That is not what I am saying. Our focus at this stage is to make it happen.

Dilip Shanghvi: I think the important (thing) for us to keep in mind is that as a company we are not structured to manage a very large number of relationships. However, our ability to manage intensively, a limited number of relationship has been very successful. If you see our success in maintaining long-term relationships with key specialists in India we have maintained and built on that relationship over a very long period of time. So I think structure of relationship is designed to leverage on both our strength as well as on our limitations.

Uday Baldota: Prakash, can you join the queue?

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

Sameer Baisiwala: Hi Good evening. Just wondering that the number of products that fit your definition of products which are part of the JV which is innovative branded generic products. How many such products are presently being sold in the Indian market which I would imagine to be readily available for the JV?

Kal Sundaram: Sameer, the biggest difference between India and the rest of the world will be the underlying regulatory data that you need to add, to what you need to do in India. So while the number of products in India may be as such conceptually seem to be suitable, to register them in most of the

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semi regulated market, we may have to develop it on set of clinical data, so super impose that demand on the underlying portfolio, the number of products that one can aim to develop and launch may not be as broad as what we typically have in India. But conceptually, the number of products that we have in India should have the opportunity and potential, subject to clinical and regulatory development in emerging markets.

Sameer Baisiwala: Fair enough. But is it possible to quantify what is readily available right now even though we may not be able to replicate this in many emerging markets? Is it few dozens, is it one dozen or under one dozen?

Dilip Shanghvi: I think under one dozen would be more appropriate I think it is important for us to keep in mind that the relationship will not produce something next year or in subsequent year. And it is one of the initiatives of both Sun Pharma and SPARC Ltd to create long-term shareholder value with a view to both leveraging their key capability, and minimizing the risks. So I think that strategy continues here.

Sameer Baisiwala: Okay. Just I am not sure whether the prodrugs of SPARC Ltd. which is like NCE and in developed markets. Are these two going to be part of the JV at all, as things stand now, or in the future?

Dilip Shanghvi: Yes, Sameer, NCE's are excluded... it does not mean that they may not be marketed together, but that is not included in the beginning.

Sameer Baisiwala: And the developed markets?

Dilip Shanghvi: This is an emerging market relationship.

Uday Baldota: Sameer can you just join back?

Sameer Baisiwala: Not a problem

Moderator: Thank you. The next question is from Vivek Kumar from SBI Cap Securities. Please go ahead.

Vivek Kumar: Just one question. How long is this JV going to be for, like, is there anything that you have been putting in the clause like five years, ten years...?

Dilip Shanghvi: It is a long-term JV.

Vivek Kumar: Okay. And secondly, definitely, that is a long-term, but how soon, is it the three years, four years phenomena when we really start looking at something in terms of finances?

Dilip Shanghvi: I understand the reason why you are asking this question. I want you to understand why I will not be able to answer. Because it all depends on the product, it depends on the country and also the regulatory work required.

Vivek Kumar: Okay, thanks a lot.

Moderator: Thank you. The next question is from Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: On the rationale for the deal articulated for the emerging market that pretty much holds for developed markets also in terms of Merck and regulatory and the marketing sort of presence in those markets. So why the agreements are structured only for the emerging markets?

Kal Sundaram: The growth opportunities in the near term are going to be more from emerging markets. And the cost of development and the returns between emerging markets and the developed markets may also differ. And Merck of course what you see in addition to our work, Merck's focus for this joint venture is on emerging markets. That is why at this stage the deal, the territory for the joint venture is for emerging markets.

Nitin Agarwal: In terms of products that are developed, who has got the right of first refusal for developed markets assuming the product has potential to be taken into developed markets?

Uday Baldota: Nitin, I think this JV is structured on emerging markets. I think we are clear that the developed market is not part of the scope right now.

Nitin Agarwal: Okay. Fair enough.

Moderator: Thank you. The next question is from Sonal Gupta from UBS Securities. Please go ahead.

Sonal Gupta: Just a couple of follow-up questions. One is how many countries exactly will be covered by this JV?



Kal Sundaram: If you are looking at number of countries it will probably be 100 plus countries, if you're looking at potential probably the top 10-15 countries should produce more than 80% of the sales.

Sonal Gupta: Right. And how many of those would Merck have presence on the ground?

Kal Sundaram: In all the markets we are talking that account for 80% potential; they will have presence in all of them.

Sonal Gupta: Right. And just another question, while it sounds very good on paper that you are bringing best of the worlds together but the way it looks is that there is no clarity on who is driving, what end, who you can be marketing--- Merck can be marketing, manufacturing may or not be with Sun Pharma, who drives the ownership for this JV in that case?

Kal Sundaram: I think when we went on to say there will be equal number of representations from both sides utilizing the, generally speaking, the infrastructure of the partners. That being the case, if one has to generalize, formulation development, manufacturing, etc., barring exceptions, will be done in-house within Sun Pharma. Same way on the other side, barring exceptions, clinical development, regulatory, and marketing will be done by Merck. Does it answer your question?

Sonal Gupta: Broadly, yes, thanks.

Moderator: Thank you. The next question is from Jesal Shah from JM Financial. Please go ahead.

Jesal Shah: My question was, you mentioned in your opening remarks that emerging markets will also include India. If that is the case given the fact that Sun Pharma is also present significantly in India as opposed to maybe a Merck Sharpe and Dohme, so in that case the option of marketing would it include co-marketing option for both the partners or would it go to Merck still? And the same thing actually expands even to the other markets let us say for example where Sun Pharma is also present. I think you mentioned that it will be marketed by Merck or by Sun Pharma. Would that kind of close out the co-marketing options or would that still remain open?

Dilip Shanghvi: What I said, Jesal, is that the partners will continue to keep their existing business in all the markets including India, which means that there is no equity relationship and there is no relationship impacting existing business of Sun Pharma both in India as well in emerging markets. And we will continue to make efforts to grow both of these businesses so that they can continue to grow in



the way in which they have grown in the past. This is a joint venture with a view to leverage both the technology capability of Sun Pharma and SPARC Ltd. and ability to create differentiated value-added products and using Merck's marketing and regulatory capability to bring them to market, and also to get sensible market share for these products.

Jesal Shah: That part I understood. My question was still on the pipeline products, particularly from SPARC. On those products, particularly for India, would Sun Pharma continue to have co-marketing options or would that go with Merck?

Kal Sundaram: I think the opportunities in India are different from the opportunities in emerging markets. In India, Sun Pharma will certainly have the marketing rights to SPARC products and what do you see in India, probably on this call shall we think more about emerging markets than India.

Jesal Shah: Okay. I was thinking maybe India was part of this deal. I do not know whether that was kept separate or not?

Kal Sundaram: Because the market dynamics and the nature of the opportunities are different, we are not focusing on India in this joint venture. It does not mean that if there are other opportunities we will not pursue.

Uday Baldota: Jesal, we have other people also, can you join back the queue?

Moderator: Thank you. The next question is from Ravi Agarwal from Standard Chartered. Please go ahead.

Ravi Agarwal: Thanks and congrats for the deal. Just a question follow-up on the fact that if Merck is basically the marketing holder for most markets excluding India. Does it actually mean that in the relationship Merck is the senior partner as far as this relationship is concerned?

Kal Sundaram: I think we mentioned, remember, there will be equal representation from both the sides.

Ravi Agarwal: Yes, sir. Just the fact that they hold the final marketing and the distribution end so I presume that at the end of the day when the sales are all kind of bifurcated to the JV, the representation at that point in a way would that also try an equal representation there?



Kal Sundaram: I think whatever the partners do they are doing on behalf of the joint venture. And you got to separate ownership from service provision. The JV will own the products and ultimately, any activity done, will be done in the context of being a service provider.

Ravi Agarwal: Okay. The second question is on the fact there is already a body of product development and IP which SPARC Ltd and to some extent Sun Pharma already have. I presume a part of that would be transferable to these operations as well. Now, going in this timeframe of launches in a period of two to three to four years, does it imply that Sun Pharma could get some upsides prior to this period on account of this body of IP which we have?

Kal Sundaram: You got to allow adequate clinical development and regulatory times outside India. So unlikely there is any material or significant impact on a three-year timeframe.

Ravi Agarwal: Thank you so much.

Moderator: Thank you. The next question is from Saravana Vishwanathan from Unifi Capital. Please go ahead.

Saravana Vishwanathan: My questions have been answered. I just want to know if the JV will be based out of India ?

Uday Baldota: Saravana, as we said that the details of the deal, particularly, the financial details and some of the others, we have not yet disclosed. At the appropriate time, we would disclose these details.

Saravana Vishwanathan: Okay, fine.

Moderator: Thank you. The next question is from Krishnendu Saha from Quantum Asset Management. Please go ahead.

Krishnendu Saha: Thanks for taking my question. Just one clarification. As I understand that products will be taken from SPARC Ltd. and Sun Pharma and regulatory filings will be handled by Merck, does Merck bring any product to the JV or it is only you who is bringing products to the JV?

Dilip Shanghvi: Actually, I think the products will be selected by a board which has equal representation by both the partners. So it could potentially include improved products of Merck also.



Krishnendu Saha: Okay. That is one, and number two is on the size, is there a certain benchmark you look at, as to one product will have an addressable market size of \$200 million or \$100 million, is there any benchmark you have set for yourself or is that still on the talks, you will go ahead and then we will disclose it?

Uday Baldota: Benchmark product size. The JV board will have to decide ultimately I think. Most of the decisions will be taken by the JV board.

Krishnendu Saha: Okay, thank you very much.

Moderator: Thank you. The next question is from Manish Jain from Axis Holdings. Please go ahead.

Manish Jain: Congrats on this very smart deal. Just taking Latanoprost BAK free eye drops or Baclofen GRS could you explain as to who will spend on clinical trials and what will be the royalty structure to SPARC Ltd. and Sun Pharma? And once these products are commercialized in the emerging markets, same product when they go to developed markets, will this JV get some rights or royalty for the developed markets?

Dilip Shanghvi: If I understand your question, is that if these products are marketed by the JV, the clinical development for this will be paid for by the JV.

Manish Jain: Yes.

Dilip Shanghvi: And the product development and manufacturing will be provided by Sun Pharma. Marketing will be done in this case by Merck. And SPARC Ltd. will get milestone payments as well as upfront payments if these products get selected.

Uday Baldota: Manish, you have your answer?

Manish Jain: I am getting my answer...Who will spend on the clinical trials?

Uday Baldota: The JV will spend.

Manish Jain: Okay. And let us say Rs. 100 is given out as a royalty, what will be the split between SPARC Ltd. and Sun Pharma?



Dilip Shanghvi: SPARC will get the royalty it is a SPARC technology. **Sun Pharma** will get a share of the profit from the JV.

Manish Jain: Fair enough. And the final clarification was that the IP which is being generated **to get the** product in emerging markets, should you use the same data for the developed markets, how will the arrangements be then?

Dilip Shanghvi: If the data for the emerging markets is used for registering in the regulated markets, then a certain amount of money will be paid to the JV by the company who is marketing in the regulated markets.

Moderator: Thank you. The next question is from Hitesh Mahida from Marwari Shares and Securities Pvt. Ltd. Please go ahead.

Hitesh Mahida: Thank you sir, all my queries have been answered.

Moderator: Thank you. The next question is from Abhay Shanbhag from Deutsche Bank. Please go ahead.

Abhay Shanbhag: Taking up from an earlier question-- in India typically one major strength that Indian companies have, is combination products which don't exist in most parts of the world. So do you think that these types of things are what you could offer for the joint venture from day one?

Kal Sundaram: Abhay, again, conceptually, you are right. There is a lot of scope for combination products in other emerging markets. But once again I am saying both in terms of regulatory and clinical, the data requirement will differ from market to market. Subject to that once we register the product we can market them.

Dilip Shanghvi: Also I think to keep in mind, the ability to... if you spend a lot of money and there is no intellectual property and ability for some form of exclusivity, then that needs to be traded off against the cost.

Abhay Shanbhag: So when you identify products, would it be for at least as you said, it should make sense for at least 40-50 minimum markets or how would that go, because every market may have

slightly different requirement so the benchmarking would have to be fairly different in terms of product identification?

Kal Sundaram: I think that is correct. But once again I am saying that top 15 markets in majority of the markets since the costs and the investments justifies by potential commercial returns. The JV management will take that into account as the factor for investment. It may not be 40-50 markets it may be fewer than that, because the market potential between big markets and small markets may vary.

Abhay Shanbhag: And just broadly like 5, 10, 15 products, would you be confirming or would you decide or would you take a longer time frame or would it be a shorter timeframe?

Dilip Shanghvi: I think the idea would be to have at least a certain minimum number of products so that we can start working on them, some of those products will be existing products also, so that we can get an early start. The idea from both the company managements is to try and find the way by which we can hit the ground running. At the same point of time, I think we do not want to create unreasonable and unnecessary expectations that this will start generating cash flow for both the companies in a relatively very short period of time.

Abhay Shanbhag: Fine. And just one more question. Will this be followed on with more agreements for most products, or you restrict yourself to this innovation led joint venture?

Dilip Shanghvi: I think the idea would be as I explained earlier also is that rather than trying to manage many relationships it is better for us to focus on limited number of relationships but more intense relationships. But I think typically you would expect that people will focus on making one relationship work before broadening it.

Abhay Shanbhag: Okay, so you could look at something but at least to the first extent it has to add value for some of the basic stuff right now and then you could look at deepening the relationship going forward?

Dilip Shanghvi: Yes, I think when I am saying deepening of relationships, no discussions related to equity investment, because I think it is important for us to keep in mind that we are working with a view to create long-term shareholder value in both the companies, that is something we wish to repeatedly clarify so that there is no confusion.



Abhay Shanbhag: Fine, thank you, sir.

Moderator: Thank you. The next question is from Vihari Purushothaman from Tata Securities. Please go ahead.

Vihari Purushothaman: About three years ago, when SPARC Ltd. was actually demerged, we understood that you would need about say \$200 million to take products forward by which time over a period of three years or so, SPARC Ltd. should become a self-sustaining entity either through revenues from products sold or through licensing. Would you say that by this deal firstly how much of the \$200 million would be saved in a sense by the transfer of the clinical development risk now to Merck?

Dilip Shanghvi: I think it is not \$200 million, Vihari, it was Rs. 200 crores. And I think the work related to product development for regulated market will continue to be spent by SPARC Ltd. for those markets. That does not change the future investment requirement for SPARC Ltd. For the emerging markets in any case where Sun Pharma was to exercise a right of first refusal, then the investment was to be done by Sun Pharma. Now, it will be done by the JV.

Vihari Purushothaman: Okay, thank you.

Moderator: Thank you. The next question is from Ashish Goel from SPA Securities. Please go ahead.

Ashish Goel: I just want to know who will bear the initial cost of development, formulation and until and unless the product goes into clinical trial, who will bear that cost, JV or SPARC Ltd. or who?

Kal Sundaram: It will be borne by the JV.

Ashish Goel: Okay. SPARC will only provide the services and it will get revenue in form of royalty when the products could succeed later on?

Dilip Shanghvi: Yes, it will be arms length transaction.

Ashish Goel: Okay.

Moderator: Thank you. The next question is from Rajat Tyagi from PTI Trust. Please go ahead.



Rajat Tyagi: Mr. Shanghvi, I just wanted to know the share of the companies, and the JV and what would you name it?

Uday Baldota: I think those financial details and the name of the JV is not yet disclosed. The name of the JV actually has not yet been decided so as and when it is decided you will get to know.

Rajat Tyagi: Thanks a lot.

Moderator: Thank you. The next question is from Jesal Shah from JM Financial. Please go ahead.

Jesal Shah: Thanks for taking my question again. You mentioned about Merck also bringing in some improved products. Would that exclude NCEs or is that part of the consideration there?

Dilip Shanghvi: I did not say that they will introduce products. What we said is the JV board can decide to look at Merck's products and I think it is up to Merck, there is no specific commitment as to Merck's intention to bring or give that product if both Merck and JV feel that using the technology the value can be enhanced, then that is something which will get selected.

Jesal Shah: Right. So it would probably exclude NCEs and it will still need some kind of technological input from Sun Pharma's side?

Uday Baldota: Which NCEs Jesal?

Jesal Shah: I think you were referring to improved product, I thought previously you defined that as excluding NCE.

Uday Baldota: Correct. NCEs are excluded.

Kal Sundaram: Our NCE's are excluded.

Jesal Shah: Right. And so presuming that this includes even India as part of emerging markets and even broadly, there is my question does Sun Pharma get any access to Merck's products for India market?



Uday Baldota: I think, Jesal what we have said is that in the emerging markets the existing infrastructure of both the companies stays as it is. So basically in this JV the existing businesses of both the companies, the relationships that they have, those will stay as they are.

Jesal Shah: Right, okay. And given that there will be some technology rights that would be probably given to JV once the products are selected. Would that kind of trigger some milestone payments to SPARC Ltd?

Kal Sundaram: That is correct.

Jesal Shah: Okay, thank you.

Moderator: Thank you. The next question is from Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: Thanks for taking my question. Just one question, as you mentioned that Sun Pharma has the right of first refusal and is supposed to do the development for the emerging markets. Can you throw some light as to how much we would have already invested in developing these products for emerging markets which are very likely to go into this JV now?

Dilip Shanghvi: I do not think we have that specific number that we can share with you.

Saion Mukherjee: Okay, thanks.

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

Sameer Baisiwala: Sir, there continues to be a rationale for SPARC Ltd to remain so to say demerged, independently listed or could this situation change in the future?

Dilip Shanghvi: Actually, this increases the reason for SPARC to remain a separate company. Because I think if SPARC's existing business in regulated markets continues to be owned by SPARC, and now that it has a stronger partnership with right of first refusal for SPARC products, it has both a better visibility and size of potential value that it will get from the products which will be selected, so their ability to invest for, let us say, registering these products in regulated market on their own will also go up, thereby enhancing the value for SPARC Ltd's shareholders.



Sameer Baisiwala: Sir, just because this JV seems to be between Sun Pharma and Merck, it looks like SPARC Ltd is getting subordinated in this three-party deal. I am just wondering is there a reason why SPARC Ltd should not be an equity holder in the JV and would have shared the platform almost on the same footing.

Dilip Shanghvi: Mr. Valia can explain. There are some tax reasons why SPARC Ltd. cannot get into selling as a business. So SPARC is essentially a research company.

Sudhir Valia: SPARC basically demerged with the objective of research where they get approval under Section 80-I. And that research company is allowed to do only research as a focus, and they cannot do any manufacturing or marketing activity. Technology developed by them can be licensed or they can earn royalties.

Dilip Shanghvi: But also this (tax related restriction) is timebound for 10 year period so once that gets over then there is no restriction

Sameer Baisiwala: Which gets around 2015 or somewhere on that, right?

Sudhir Valia: That is correct.

Sameer Baisiwala: And final point is there any reason for timing of this deal to be now as in terms of deal with Merck, not in terms of days or months, maybe in terms of years, are we near any important milestones in terms of major product coming out of SPARC?

Dilip Shanghvi: There is no linkage with any product coming out I mean that is a not a trigger. The trigger I think is the opportunity that we see as a company to leverage our skill set and capability and also learn things which will ultimately help us create long-term shareholder value, which if we try to do on our own it would have taken much longer. And I think I must admit that philosophically Kal has looked at partnership much more with strategic view than what I used to. So I think to a very great extent he has been the key driver in helping us go through this with the relationship.

Sameer Baisiwala: Excellent. Thanks. Good luck to you.

Moderator: Thank you. The next question is from Manish Jain from Axis Holdings. Please go ahead.



Manish Jain: Essentially, it is going to be a year since we got an update on SPARC's pipeline. With this key development when will you give an update on SPARC's pipeline?

Dilip Shanghvi: I think Uday did check this with me so we will work out a date and share that with you.

Manish Jain: Thanks.

Moderator: Thank you. The next question is from Nimish Mehta from MP Advisors. Please go ahead.

Nimish Mehta: Thanks for taking my question. Most of my questions have been answered. Just one philosophical question, what is the reason of having partnered with company like Merck, where we have many other companies who would be having a bigger presence in emerging markets, other global companies?

Kal Sundaram: I think like Mr. Adam Schechter mentioned, within multinational companies, Merck's DNA falls back to research and development. That goes very well with our own strategy to more and more focus on the development, growth being driven by differentiated products and on our own long-term NCEs, so it is much more that than the size or the geographical footprint or anything else.

Nimish Mehta: I mean the primary reason for doing a deal was Merck's presence in all these markets.

Dilip Shanghvi: No, I do not think that was the primary reason. I think primary reason was our ability to work with them effectively as a partner, cultural fit, and the way in which both the companies are run. So I think when we started this discussion with a few companies I think the criteria was not where we get the maximum, but where we find the highest level of comfort so that we can work together more effectively and create more synergy.

Nimish Mehta: Okay, thank you very much and best of luck.

Moderator: Thank you. The next question is from Vrishank Chandravarkar from Economic Times. Please go ahead.

Vrishank Chandravarkar: Good evening sir. I just wanted to get some questions answered which I was hoping to get in the press conference. One is why did Sun Pharma not really look to leverage its existing portfolio through this joint venture? That is one. Two, what is the timeline that you had planned

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for this JV to really formalize, and to end Mr. Shanghvi did say that the legal procedure was on, but I had heard something about 2015. Can you just give me an idea of these two things?

Dilip Shanghvi: I just answered saying that this is a long-term joint venture. And I also answered in the press meet about the timing for the JV to be formed, the name to be selected, and there are various countries to be worked out. So the idea is to find a way to do that in the next few weeks.

Vrishank Chandravarkar: Do we have an ending timeline as to if things does not go as planned then will there be a termination for joint venture also?

Dilip Shanghvi: Vrishank, 2015 is not clearly a long-term definition for us.

Vrishank Chandravarkar: Okay. That is the date then that is the year.

Dilip Shanghvi: No, no, I mean if you want to do a long-term relationship with anybody four year is not long-term in pharma business.

Vrishank Chandravarkar: Yes sir. Definitely. And sir, I just want to know looking at this deal from a surface point of view, does it look like a much better deal for Sun Pharma than Merck? Because quite frankly, Merck has taken on all the risks right now by undergoing the clinical trial. So is it a much better deal for you all than Merck?

Dilip Shanghvi: JV is the investor. Kal can explain better.

Kal Sundaram: The entire cost of developing the product from formulation development, clinical development, regulatory, everything will be borne by the JV. Like we mentioned we will use the infrastructure of Sun Pharma for formulation development, PK studies, BE studies things like that and we will use Merck's infrastructure for regulatory and clinical development and marketing. But entire cost and consequently the benefit of all these activities will be borne by the JV.

Vrishank Chandravarkar: Okay, sir, thank you.

Moderator: Thank you. The next question is from Ravi Agarwal from Standard Chartered. Please go ahead.



Ravi Agarwal: Actually I just had two questions. One is on the set up which we have-the manufacturing of product finally selected is going to be done by Sun Pharma, and the marketing is going to be done by the JV, the clinical development and regulatory work is going to be done by the JV, is that right?

Dilip Shanghvi: Marketing will be done by Merck on behalf of the joint venture. Product will be owned by the JV.

Uday Baldota: Even the manufacturing by Sun Pharma will be on behalf of the JV.

Ravi Agarwal: And the regulatory as well as the clinical development will be by the JV?

Uday Baldota: Everything will be done by the JV. It will be paid for by the JV, it will be done by, as Kal explained, using the infrastructure of either partners.

Ravi Agarwal: Okay. The second question is more of a broader question. Basically, tied up with all these deals which some of us our domestic players have been doing for larger basket of products across many countries. What is the thought process in Sun Pharma, can we expect to see some enlargement of this deal for such kind of products, or with some any other large company or is it something which we are not completely comfortable doing at this stage of time?

Dilip Shanghvi: I think we have shared this in some of our previous investor calls, that we do not look at ourselves as a contract manufacturer, and our idea is to create long-term shareholder value and invest in developing products, which we will own. So this is more a continuation of that philosophy.

Ravi Agarwal: Okay, thank you so much and best of luck.

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

Uday Baldota: Thank you very much to all of you for joining the call today. If you have any questions that you think are unanswered please get in touch with me or Mira and we will help you out. Thank you very much.

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

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