Corporate Participants

Dilip Shanghvi
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Sudhir Valia
Whole time Director, Sun Pharmaceutical Industries Ltd.

Abhay Gandhi
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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Sun Pharmaceuticals Q1 FY15 Earnings Conference Call. As a reminder, all participant lines will be in the listen only mode. 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. Please note that this conference is being recorded. I now hand the conference over to Mr. Nimish Desai. Thank you. And over to you sir.

Nimish Desai: Good morning and a warm welcome to our first quarter FY15 earnings call. I am Nimish from the Sun Pharma investor relations team. We hope you have received the Q1 financials and the press release that was sent out yesterday. These are also available on our website.

We have with us this morning Mr. Dilip Shanghvi – Managing Director, Mr. Sudhir Valia – Whole Time Director and Mr. Abhay Gandhi – CEO of our 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. Over to you, sir.

Dilip Shanghvi: Welcome and thank you for joining us for this earnings call after the announcement of financial results for the first quarter of FY15. Let me briefly update you on significant events:

In April-2014, Sun Pharma had proposed the acquisition of Ranbaxy Laboratories in an all-stock deal valued at an Enterprise Value of about US$ 4 billion. The merger requires approval from multiple regulatory agencies and shareholders of both the companies. Till date, we have received clearances from The National Stock Exchange, The Bombay Stock Exchange and anti-competition authorities in all

applicable markets excluding US and India. The process of obtaining the approvals from the Competition Commission of India and the US FTC is on-going. The merger will also require approvals from shareholders of both the companies and the Indian courts.

Post the closure of the quarter we announced the acquisition of Pharmalucence in the US. This acquisition gives us access to sterile injectable capacity in the US, supported by strong R&D capabilities.

We continued to enjoy the benefits of low competition for certain generic products in the US. As indicated earlier, these benefits may not be long-lasting. The product-mix for the quarter was favourable leading to better profitability. The quarter also had some one-time sales in our US business which may not recur every quarter. I will now hand over to Mr. Valia for discussion of the Q1 performance.

Sudhir Valia: Thank you Mr. Shanghvi. Good morning everyone and welcome to all of you. Our Q1 financials are already with you. Before we discuss the financials, let me highlight that the US dollar was at a higher rate as compared to last year. The resulting growth in rupee-reported sales and profit on account of that may not be sustainable.

As usual we will look at the key consolidated financials: Q1 net sales are at Rs.3,927 crores an increase of 13% over last year. On constant exchange rate, our revenue growth for Q1 was 7%. This is despite the 15% sales decline reported by Taro for Q1.

Material cost as a percentage of the net sales was 20% which is higher than Q1 last year. Staff costs as a percentage of net sales were at 15%, same as Q1 last year. Other expenditure as a percentage of net sales was at 22% which is lower than Q1 last year.

As a result of the above, the EBITDA recorded in Q1 is Rs.1,724 crores as compared to Rs.1,531 crores for Q1 last year, a growth of about 13%. EBITDA margins remained constant at 44% compared to Q1 last year.

Recurring net profit is at Rs. 1,391 crores, a growth of 12% over Q1 last year. Q1 last year had a one-time provision of Rs. 2,517 crores related to the generic Protonix settlement in US. EPS for the quarter is Rs.6.7, compared to recurring EPS of Rs.6.0 that we had earned for Q1 last year.

Taro recently posted Q1 sales of US$ 130 million, down 15% from the corresponding quarter last year. Taro's net profit for Q1 was US$ 46 million, a decline of 22% over Q1 last year. The decline in sales and profits is mainly due to the price protection charge taken by Taro during the quarter.

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

Abhay Gandhi: Thank you Mr. Valia. I will take you through our India formulation business. For Q1, sale of branded prescription formulations in India was Rs. 992 crores, up by 17% from Q1 last year. As per AIOCD-AWACS report, the average industry growth was approximately 8% for Q1FY15.

As per June-2014 AIOCD-AWACS report, Sun Pharma is ranked 2nd and holds 5.4% market share in the Rs.77,000 crores pharmaceutical market. The company continues to be ranked no. 1 based on share of prescriptions with 7 classes of specialists: psychiatrists, neurologists, cardiologists, ophthalmologists, orthopedicians, nephrologists and gastroenterologists.

We continue to find the Indian market as interesting as ever. In this intensely competitive market, we continue to look for innovative ways to differentiate our product portfolio, build customer trust and add prescription share.

The NPPA has recently announced price controls on some non-NLEM products. The financial impact of this development on Sun Pharma is not very high. However, the industry has opposed this move as it implies bringing non-NLEM products under price control.

With this I will hand over to Mr. Shanghvi.

Dilip Shanghvi: Thank you Abhay. I will briefly touch upon the performance of our businesses across other segments as well as our overall performance in the US. For Q1, our overall sales in the US were at US$ 389 million, which is higher by 7%. The growth has been adversely impacted due to the price protection charge taken by Taro.

For Q1, formulation sales in the rest of the world market grew by 2% to US$ 82 million in dollar terms over Q1 last year. And excluding Taro's non-US sales, Sun's RoW sales for the quarter grew by 4% in dollar terms. Growth has been adversely impacted by temporary supply issues which are likely to get normalized in the coming quarters.

Our API business has strategic importance for our formulations business. During the quarter, we increased the API supply for captive consumption significantly for key products which enabled us to enjoy the benefits of vertical integration. As a result, external sales of API were at Rs. 174 crores in Q1, a decline of 10% over Q1 last year.

R&D expenditure for Q1 was Rs.257 crores at 6.6% of sales. This R&D spending enables development of future product pipeline including differentiated products. We have a wide product basket for the US market with 350 ANDAs approved and 140 filings pending approval. In Q1, ANDAs for 14 products were filed, while we received 6 approvals from the US FDA. On a consolidated basis, we now have 575 patent filings with 349 granted patents.

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

Moderator: Thank you very much, sir. Participants, we will now begin with the question-and-answer session. The first question is from the line of Manoj Garg from DSP Merrill Lynch. Please go ahead.

Manoj Garg: Sir, in your opening remarks, you have indicated that there were some one-time sales in the US for the quarter. Is it possible for you to quantify that number and how do we see that going forward?

Dilip Shanghvi: It is difficult to quantify that number and as I have explained, since it is a one-time sale it may not recur in the subsequent quarter. However that does not change our overall guidance for growth this year.

Manoj Garg: Second question is on the other expenditure line item, where we have seen both in terms of sequential as well as YoY, there is significant reduction in terms of absolute amount. So, if you can put some light on that?

Uday Baldota: For the other expenditure in both the earlier quarter and the same quarter last year had some items which are probably not recurring this quarter and to that extent there is a reduction. But I think you should probably take the current number that you see as more indicative.

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

Anubhav Aggarwal: On the one-time sales that you mentioned in the US, what is the nature of the sales, in the sense, is this a higher channel stocking or is this is a chargeback reversal of one of the products or some key products?

Sudhir Valia: Higher sales have no relation with the chargeback.

Anubhav Aggarwal: So this is higher channel stocking for one of the product?

Dilip Shanghvi: I think you should treat it as a one-time sale. Maybe part of it would be channel stocking but you should treat it as one-time sale.

Anubhav Aggarwal: Second question, Mr. Shanghvi, is just on your capacity. Just wanted to understand the philosophy of having three US FDA approved sites in India. And if I look at the last five years, you have not added any green-field new site, I mean, you have been adding more blocks at the same capacity. How do you view it having a larger one facility versus having many smaller facilities from a risk perspective of US FDA?

Dilip Shanghvi: Both of these have risks as well as benefits. If you have a large facility and it is critical and important, then you focus and able to maintain compliance. If you have many facilities then you have a potential safety in terms of you have one facility has a problem, you continue to sell from other facilities. So I do not think there is a fixed specific response. We do not give out specific details of new capital projects excepting giving an overall guidance, so we continue to look at expanding or creating facilities.

Anubhav Aggarwal: But clearly, the thought that Sun Pharma has been preference for a larger facility than many smaller facilities. So, your past experience suggests that that is working much more better in favor of Sun Pharma to have a larger facility?

Sudhir Valia: It is a perception. Some of our solid dosage products are approved from more than one manufacturing location.

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

Girish Bakhru: Just on the US side again, I know you are not quantifying the one-off number; but can you give an indication that ex one-off sales and ex-Taro, would US have grown QoQ?

Dilip Shanghvi: Our answer still remains the same and that is our overall guidance for growth is not changing for the year.

Girish Bakhru: Actually coming from the fact that there has been what IMS data shows a significant decline in certain products like Diltiazem, Auto Injector, and Prandin is not there, Temodar has not done much. I know your US outlook for full year is intact, but in the quarter particularly if you can throw some color on the business overall, excluding Taro like what gives that confidence and how has the growth been?

Dilip Shanghvi: We are happy with the way in which the business has progressed, and we also see that on many products our internal sales and external sales are not reflecting the reality.

Girish Bakhru: Second question was on Pharmalucence. Actually I do not much color on the company. I mean as I understand, there are about 5-6 dye related products that they have. Could you give a sense on what is the market that it addresses and what are the sales and if these products are generic largely?

Dilip Shanghvi: These are generic radio pharmaceutical products. They have some products in development or are awaiting approval, but we also look at this as a site which can take additional injectable products to be filed for the US.

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

Sonal Gupta: One was on Taro. I just want to understand what gives rise to these sorts of price protection charges because ideally should not they be booked over the course of the contract, why do we take it as a one-time?

Dilip Shanghvi: It is a function of the kind of agreement that company has with the customers.

Sonal Gupta: So, these are like different contracts on what you would normally have or…?

Sudhir Valia: As per standard market practice, these are normal regular contracts.

Sonal Gupta: For Sun RoW products, do we have meaningful share of government contracts or tender-driven sales, if you could give some light on that?

Dilip Shanghvi: No, actually we have almost zero tender business, all of our exports are branded products which are promoted to doctors.

Sonal Gupta: The slowdown seems quite dramatic because clearly the base also is much lower in the first half as compared to the second half according to the numbers and growing on that low base by 4% seems a bit slow. So, is there a lot of seasonality in this business?

Dilip Shanghvi: No, there is no major seasonality, but will have some amount of adjustment quarter-on-quarter. We do not expect this to continue at this rate, we expect the growth to pick up.

Moderator: Thank you. The next question is from the line of Aditya Khemka from Ambit Capital. Please go ahead.

Aditya Khemka: On the RoW markets, the slowdown that we have seen, you mentioned some supply side issues which led to this sort of slower growth. Could you throw some more light on what the supply constraints were?

Dilip Shanghvi: It is a mix of many issues – availability of raw material, packaging material, breakdown of equipment. We are working towards addressing these issues so that the supply position improves.

Aditya Khemka: On the gross margins again, so, compared to our fourth quarter if I adjust for the $79 million that Taro took as a chargeback on the revenue, so if I adjust for that, we see that sequentially the gross margin has slightly declined maybe 70-80 basis points, but it is still an improvement over our third quarter run rate. Could you give us some hint on why are we seeing this improvement from the third quarter onwards? Was the one-time sale in this quarter also instrumental in driving the gross margin that we are talking about?

Sudhir Valia: This is a function of various things including product-mix, price changes, etc. Those variations are bound to be there.

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

Sameer Baisiwala: We announced Ranbaxy transaction in April. So between April and August, is there anything different that you have found at Ranbaxy and would you be changing $250 million synergy benefits in the year three after closure of the deal and would it be easier or more difficult to achieve that versus what you thought in April? And second, related to Ranbaxy again. Ranbaxy as part of its contractual agreement with Daiichi was to be the back-end for a Japanese entry and Daiichi being the front end. So would Sun be tied down to this or can Sun take its own route?

Dilip Shanghvi: Post announcement of transaction we have not done any additional diligence, but we still continue to believe that we should be able to achieve $250 million synergy on account of revenue growth as well as in terms of cost rationalization, and Ranbaxy continues to be run by the current management. We have no access to information that we would have as if we were running the business. So beyond whatever that we have seen when we closed the transaction we do not know too much more. What we had started is initiated internal process of integration planning so that we are able to protect the current business as well as protect the business post-closing. And that process is doing quite well where members of Sun team as well as Ranbaxy team are working together to develop a combined business plan for the company going forward.

Sameer Baisiwala: I think Sun had got the approval for PICN for the local market in January if I am not wrong. Has it been launched and how has been the market response for this product?

Dilip Shanghvi: We have not yet launched the product, we expect the product to be launched shortly.

Moderator: Thank you. The next question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

Sudarshan Padmanabhan: I just gone through some article that says that Taro settled a case with the State of Texas for about $19.5 million. What is the issue? Is it something to do with Medicaid? What is the granular issue here? And do we see other states coming out with similar kind of penalties on Taro?

Dilip Shanghvi: These are recoveries for overcharge by the company to be recovered by the state relating to past years. Whether there is a risk of this being claimed also by other states, will also be a

function of the kind of legal capacity that different states have in the US. So if you will see in whichever database you have seen about the charge payments made by Taro, you would see many other states claiming similar sums or much larger sums from other companies so that will give you an idea about which are the states which generally recover these money.

Sudarshan Padmanabhan: Sir, can you also throw some light on… if you are looking at Taro in the past, in the last few quarters we have been growing with taking opportunistic price increases. And I do understand that when you took over Taro, the company did not invest a lot in terms of R&D and pipeline generation. Now with $650 million of cash and more cash accruing, where do we see the growth engine actually coming in from? What is the kind of pipeline that it can have or do we look at some kind of an acquisition to drive growth? Because once you remove the pricing, I think then your growth might actually be on some kind of thin as far as Taro is concerned?

Dilip Shanghvi: We have increased investment in the R&D and there are many more products awaiting approval than what they used to have in the past and that will continue. Taro continues to look at potential acquisition opportunity but we will remain disciplined about acquisition like we have been in Sun also. So it means to make long-term business sense in terms of our yield expectation post synergy.

Sudarshan Padmanabhan: Would Taro continue to look at derma as a core specialty or would we be looking at diversifying into other areas as well?

Dilip Shanghvi: It is difficult for me to respond on behalf of Taro till Taro clarifies to its shareholders.

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

Ranjit Kapadia: My question relates to Doxil scenario in the USA. If you can throw some light on how is the competitive position currently?

Uday Baldota: So Mr. Kapadia are you asking about generic Doxil or Doxycycline?

Ranjit Kapadia: Generic Doxil.

Dilip Shanghvi: There is no change in the US about Liposomal Doxorubicin and Sun continues to be the only generic which is approved. Johnson & Johnson continues to sell its brand which is approved by the US FDA on a batch-to-batch basis.

Ranjit Kapadia: Johnson & Johnson have said that they have increased the capacity and they have stock of almost nine months. So how do you see that?

Dilip Shanghvi: I have also seen the press release. But they were always there in the market.

Ranjit Kapadia: So, it does not change our position in the US market largely?

Dilip Shanghvi: In the competitive market like the US, if you lose an important customer, then you will lose market share. It is difficult to predict what will happen in future.

Moderator: Thank you. The next question is from the line of Manish Jain from SageOne Investment Advisors. Please go ahead.

Manish Jain: I had a question on PICN. Would you need a dedicated sales force to market PICN or the existing oncology team will suffice in India?

Abhay Gandhi: We may actually have a small dedicated team in the key areas, and in the non-metro-A-class cities, we may continue with the current oncology team.

Manish Jain: Our Dry Powder Inhaler has been launched for more than 18 months now. How has been the market share gains in that business?

Abhay Gandhi: It has been okay, I would not call it great to be honest, but we are improving, winning back customers. The product is performing as per our expectation now and customers are happy, but after being out of the market for close to 2-years, it is a slow process but the team is committed and we hope to do well.

Moderator: Thank you. The next question is from the line of Prakash Agarwal from CIMB. Please go ahead.

Prakash Agarwal: A question is on this price protection charges and overcharging. So my question is actually last year also we saw something and there is an adjustment. We have recently taken one more price hike. So is this an ongoing thing that we can see that one of the four quarters we could see some adjustments or how do we look at it?

Dilip Shanghvi: I think there is no overcharging or anything, it is a contractual relationship which Taro has with its customers. If you read Taro's press release I think it is fairly exhaustive and self-explanatory. It will be difficult for me to share information which is beyond what Taro has shared with their shareholders.

Prakash Agarwal: Just a follow-up on this is, we take some price hikes and at the same time we always maintain that these are unsustainable in the medium to long term. So what is a delay in terms of entry for other players to come, is it the increased bioequivalence studies in the Derma portfolio or what is hindering the process of entry of other players, if you could just throw some light?

Dilip Shanghvi: This is simple business dynamics – competition and a number of players. So nothing prevents other people to come to the market.

Prakash Agarwal: But the question was actually in the last 2-3 years, we have not seen actually players increasing or coming up with similar product basket, they are all following the price hikes. So are you seeing more generic players entering the similar kind of product basket?

Dilip Shanghvi: I would expect that to happen. If I see Sun Pharma's experience we have been investing in increased R&D at Taro for a long time, we have not seen any important new product approval. So there is a lag time between new development and approvals. So that is what I think you should estimate.

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

Surya Patra: Just a clarification regards the Taro's price adjustment thing what we have seen in this quarter. Is it relating to the particular quarter or is it relating to the sales for a few previous quarters?

Dilip Shanghvi: No, it is not related to previous quarters.

Surya Patra: Even in the recent quarters, Taro has taken price hikes for certain product baskets. So is it possible to get a sense what is the kind of a price hike that we have taken recently and any of the product from the basket witness sort of price correction in the recent period?

Dilip Shanghvi: We will not be able to share more information than what Taro has shared.

Surya Patra: Could you shed some idea about what is the kind of a growth trigger that you are seeing for your US business or what is the kind of a growth indication that you are giving for your US business considering the various initiatives like increased R&D spend, acquisitions, and all that?

Dilip Shanghvi: We do not give business-by-business growth objectives. I think our overall guidance for the year is 13-15%.

Moderator: Thank you. The next question is from the line of Chirag Talati from Kotak Securities. Please go ahead.

Chirag Talati: First question, the Taro settlement with Texas, that is with regards to AWP litigation that has been going on with the entire industry. Am I correct in understanding that?

Dilip Shanghvi: Yes, that is correct.

Chirag Talati: If I look at other expenditure as a percentage of sales, it has been at a level that we have not seen for the past eight quarters adjusting for Taro. Is this due to the one-time sales that we have seen? So in other words, stripping out the one-time sales component, should the other expenditure as a percentage of sales be similar to the trend that we have seen in the past four quarters?

Uday Baldota: I think it is not linked to what you are saying, Chirag.

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

Nimish Mehta: I am trying to understand the Taro price protection charges. What I understand is that it is related to some contracts that we have or that we are running in Taro. What I am not able to understand is that how is it going to benefit in the coming quarters, so if you can throw some more light on this?

Dilip Shanghvi: We cannot share more information than what Taro has shared.

Nimish Mehta: But the benefits that you are looking at in the coming quarters, how are they related to pricing, I mean, are we expecting increased contracts or what is it? And you said that the number is related to this quarter itself. So I am just trying to understand how is the contractual obligation, how will it benefit?

Sudhir Valia: This price adjustment has been taken. Market dynamics is a different scenario – tomorrow, the competition landscape may be different.

Uday Baldota: By and large what Taro has disclosed in its press release is fairly comprehensive.

Nimish Mehta: Can you let us know roughly what is the contractual sales and percentage of total sales at Taro?

Dilip Shanghvi: No we cannot give any information beyond what Taro has shared.

Nimish Mehta: I just wanted to know if you can let us know the likely launches that you are expecting in Taro for the year?

Dilip Shanghvi: I think you try and understand Taro is a US public company, we cannot give information beyond what Taro has shared with its shareholders.

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

Anubhav Aggarwal: One question on the Ranbaxy merger requiring CCI approval. This is just a conceptual clarity here that unlike the US market, if we look at the Indian market, the competition is very high and there is a 10% price cap by the regulator also. Is there any rationale for divestment of common products between the two companies? And what is CCI basically going to give a decision on?

Dilip Shanghvi: Our understanding is that CCI is looking at this issue and is open to look at all the rationale and logical explanation. They are concerned about ability to utilize the monopoly position to the loss of the customers or consumers. So all of these issues that you talked of price, increased limits, what

you call, multiple generics all of these are things that they will factor in taking that decision. Abhay is more involved with this, maybe he can share something.

Abhay Gandhi: I think what the CCI is actually saying is these are our concerns, help us to understand, and help us to come to a decision which is in the best interest of the patient. To that extent I think our advisors and multiple members of the team from our organization are having discussions with CCI. We have found them very receptive, we have found them very open, and we are making our best attempts to convince them. Since it is a process is currently on, it is difficult for us to share more information, but both the CCI as well as we as an organization are committed to do what is best for the patient, and when that clarity is there I think satisfactory solution is bound to happen.

Anubhav Aggarwal: Is there past precedence of divestment of products in a merger between two entities in Indian market?

Abhay Gandhi: Not that I am aware of.

Anubhav Aggarwal: Second question is on Pharmalucence. I have not understood what is the main reason of acquiring Pharmalucence. Is it just to get the facility of a sterile injectable in the US? If that was the case, is it just that a ready facility you are getting because you could have always built that capacity in India at a lower cost, lower Opex. I am just trying to understand. This is one part of the question. Second is you mentioned you also get some additional R&D capability versus what you already had. What additional capability does Pharmalucence bring on the R&D to Sun Pharma?

Dilip Shanghvi: Before we execute on any strategy it is inappropriate for us to start sharing the underlying purpose. So may be in next 3-4-years we will be able to give greater information about what has been the benefit of investment in Pharmalucence.

Anubhav Aggarwal: Or let me simply just get a clarity from you is that the objective of acquiring Pharmalucence is more than just get the sterile injectable facility in the US. Will that be a correct statement?

Dilip Shanghvi: Yes, that is correct.

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

Saion Mukherjee: Just wanted to have one clarification... in the last quarter you mentioned about this third-party contract for $440 million. Has that started in this quarter, is it reflected?

Uday Baldota: No, it is not.

Saion Mukherjee: So when do you expect this contract to commence?

Uday Baldota: During the year.

Saion Mukherjee: Second question on the other expenditure. You have been doing like Rs.1,000 crores or so in the last few quarters. So we have seen a dip here. Is the provision related to that contract is what is leading to this change or there is something else? I just wanted to know what is the nature of that one-time expense which you had in the previous year.

Uday Baldota: I think there were two quarters in which there was some one-time, I do not remember specifically what was that related to, but what I am saying is that when you are comparing it with Q4 as well as Q1 of last year, both of those quarters have done some one-time elements, so to that extent it is not strictly comparable from that standpoint.

Saion Mukherjee: Can you throw some light what is the nature of those one-time expenses are?

Uday Baldota: Part would be related what you are mentioning, part would be other elements.

Saion Mukherjee: On the FTC clearance in the US, any timeline you have and is there any challenge to that process?

Dilip Shanghvi: We do not see any challenge from the process. We also do not believe that to be a constraint in the timeline that we have shared with you or being able to close the transaction.

Moderator: Thank you. The next question is from the line of Rahul Sharma from Karvy Stock Broking. Please go ahead.

Rahul Sharma: Just wanted to know, API sales there has been a degrowth and you mentioned some supply issues. Could you please give clarity on that, and is it going to even out in the going quarters ahead?

Dilip Shanghvi: I did not refer to any supply issue for the API business. I said that there has been a significant increase in our internal consumption which has lowered external sales.

Rahul Sharma: But do you foresee this as a trend, sir? And your API business is not a focus area going ahead?

Sudhir Valia: Not necessarily. Over a period of time, capacity can be expanded, outsourcing can be done, and multiple things are possible.

Dilip Shanghvi: Also, I think during the year we have commissioned a new facility in Dahej. So that also should increase our capacity to produce significantly.

Rahul Sharma: On the other expenses, is there a forex gain element which is there?

Dilip Shanghvi: In other expenses, the mark-to-market or exchange-related changes will not come, that will come in other income.

Moderator: Thank you. The next question is from the line of Bhagwan Chaudhary from Sunidhi Securities. Please go ahead.

Bhagwan Chaudhary: One question again on this PICN. I think it had been 5-6 months since the approval. Can you please explain what had been the reason for delay in launch in India?

Dilip Shanghvi: We got approval significantly earlier than when expecting. So, we were not prepared for the launch. So we are preparing for the launch.

Bhagwan Chaudhary: So, by what time it can be launched now?

Abhay Gandhi: During the second quarter we should be able to launch the product. It also not a time dependent launch. So I do not think a delay for a few months impacts the product going forward.

Bhagwan Chaudhary: Can you please put some comment on your earlier acquisition of URL and DUSA, how they are performing now, are these accretion had been in line what we expected or some more color on that side?

Dilip Shanghvi: Both the acquisitions are working quite well and we are actually doing better than what we have originally expected**.**

Moderator: Thank you. The next follow up question from the line of Sonal Gupta from UBS Securities. Please go ahead.

Sonal Gupta: The contract that you signed with the innovator for $440 million last year, which is a multi-year contract, I understand the sales have not started as yet, but is it primarily related to the US market or to other markets?

Dilip Shanghvi: It is related to exports, it is not for India.

Sonal Gupta: But which markets, you cannot…?

Dilip Shanghvi: No, we will not clarify.

Moderator: Thank you. The next follow up question is from the line of Chirag Talati from Kotak Securities. Please go ahead.

Chirag Talati: One question on Pharmalucence. Does it also have any API development capabilities for the next generation contrast media agents?

Dilip Shanghvi: It is a generic contrast manufacturer.

Moderator: Thank you. The next follow up question is from the line of Aditya Khemka from Ambit Capital. Please go ahead.

Aditya Khemka: Sir, after the Karkhadi inspection, I remember last quarter you have said that if it is an issue then FDA might inspect the other facilities as well to identify if similar issues were existing. So, has there been any progress on that front?

Dilip Shanghvi: Your question is that has any other facility been inspected?

Aditya Khemka: Yes, that is right. And any observations from the FDA on those facilities?

Dilip Shanghvi: Not yet.

Aditya Khemka: Second question is on Taro. So they had this $6.5 million sort of a write-back of settlement and contingencies this quarter. So in our P&L, would that be sitting in other expenses as a set off?

Uday Baldota: Yes, that it is correct.

Aditya Khemka: On the CCI front, I understand CCI objections as you said that it could be because this year adverse impact on customers because of a monopolizing effect by Sun Pharma and Ranbaxy. What is our defense here? Because as I understand it, NPPA is already regulating the essential drugs that they believe are essential and they are actually going beyond the NLEM to regulate the prices. Then why would they be afraid of any monopolistic behavior at all because in any case, you are regulating what is essential, right? So, what is the defense that we are putting in front of the CCI here?

Abhay Gandhi: Broadly, in one of the earlier questions I have explained. We respect the process, and it is a process which is ongoing at the moment. So, I think to give a view point here at this point in time would not be correct.

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

Sameer Baisiwala: Just a quick clarification… you mentioned this $250 million synergy benefit from Ranbaxy in year-three is driven by both sales growth and cost synergy. So does that imply that this is not at EBITDA level, would this be the correct understanding?

Dilip Shanghvi: No, I think if it is a growth synergy, then we converted that into an EBITDA impact. Supposing if synergy is $100 million from growth, then the growth needs to be much more than $100 million. So, this is the EBITDA impact of all the potential synergies.

Sameer Baisiwala: So this $250 million is the EBITDA impact net?

Dilip Shanghvi: Yes.

Moderator: Thank you. The next follow up question is from the line of Prakash Agarwal from CIMB. Please go ahead.

Prakash Agarwal: Just wanted some broad highlights on the entry strategy for our Respiratory portfolio in the European markets. Are we too far behind or it could be a function of fiscal '16 onwards, any broad color would help, sir?

Dilip Shanghvi: Actually, we are evaluating what is the best choice and option for us. We have not yet crystallized the full plan.

Prakash Agarwal: Secondly, if the current net cash position could be shared and the M&A strategy what we are seeing in the markets and what are the possibilities we could explore?

Dilip Shanghvi: I think we have shared that till the time we are able to integrate Ranbaxy effectively, we will be cognizant of our ability to manage. But we will continuously opportunistically look at acquisitions if we think we can manage effectively those acquisitions and if they are strategic to our future growth.

Prakash Agarwal: If you could share the cash and capex position, sir?

Uday Baldota: Cash would be roughly close to Rs.12,000 crores.

Sudhir Valia: Capex generally is about Rs.80 to Rs.100 crores for the quarter.

Moderator: Thank you. The next question is from the line of Kartik Mehta from ICICI Securities. Please go ahead.

Kartik Mehta: Can you explain the tax rate that we should assume for this year and next year? Second question is, is there any update on Doxil for the EU markets that you can share? I understand that we were supplying to MSD for some of the non-US markets. So if you can explain anything on the EU markets, it will be helpful.

Dilip Shanghvi: We have no update related to EU market of Liposomal Doxorubicin.

Sudhir Valia: Tax rate for current year will not be significantly different.

Kartik Mehta: Would we assume the same level for the next year also, sir?

Sudhir Valia: We will not be able to comment.

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

Anubhav Aggarwal: Just one clarity… on your R&D expense, the way you reported, does it include royalty on Doxil?

Uday Baldota: Royalty payment made for Doxil, you are saying whether it gets included in R&D?

Anubhav Aggarwal: Yes.

Uday Baldota: No.

Anubhav Aggarwal: If we look at your R&D expense… excluding our Taro R&D expense, per application that you have been filing if you take an average of two to three years, let us say in 2011-2012 you were spending about $2 million to $3 million approximately per ANDA, now you are spending almost like $5 million to $6 million. That is why this question I was trying to ask that does R&D now include some milestone payments, royalties on some outsourced R&D or outsourced trials that it has increased dramatically?

Uday Baldota: Not this royalty that you are talking about.

Anubhav Aggarwal: But, in general, the answer to the question there is, like per ANDA spending almost now doubled. Is that driven by outsourced clinical trials or milestones related on outsourced R&D or something of that sort?

Uday Baldota: I think, Anubhav, we need to see the way you work this out, because I think to respond on this over a call is difficult.

Anubhav Aggarwal: The other clarity was in the Doxil market. Now the way J&J reports their number on Doxil, it seems like their market share has already ramped up to 30%-40%. Have you seen from Sun Pharma's perspective your volumes on Doxil significantly lower versus what you were selling in the March quarter?

Dilip Shanghvi: By default then I will have to give you product-by-product revenue. So total sales that we see is a result of all negative or positive impact that we have on both existing and new products.

Moderator: Participants that was the last question. I now hand the floor back to Mr. Nimish Desai for closing comments. Thank you. And over to you, sir.

Nimish Desai: Thank you, everybody for being there on the call. If any of your questions have remained unanswered, I request them to please send them over. Thank you and have a good day.

Moderator: Thank you. Ladies and Gentlemen, on behalf of Sun Pharmaceuticals that concludes this conference call. Thank you for joining us. You may now disconnect your lines.