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31 May 2023.

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: Q4 FY23 Earnings Call Transcript

Dear Sir / Madam,

Please find enclosed herewith a copy of the transcript of the Company's Q4FY23 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**

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ANJANIKUMA
R DESHPANDE

Digitally signed by ANOOP ANJANIKUMAR DESHPANDE
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Date: 2023.05.31 14:13:05 +05'30'

(Anoop Deshpande)
Company Secretary and 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 Q4 FY23 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 touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Dr. Abhishek Sharma, Head of Investor Relations. Thank you and over to you sir.

Dr. Abhishek Sharma: Thank you. Good evening and a warm welcome to our 4th Quarter FY23 Earnings Call. I'm Abhishek from the Sun Pharma investor Relations team. We hope you have received the "Q4 Financial" 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 Financial Performance for the Quarter, Business Highlights and Respond to any Questions that you may have. For ease of discussion, we will look at consolidated financials.

The call recording and call transcript will also be put out on our website shortly.

The discussion today might include certain forward-looking statements and these must be viewed in conjunction with the risk that our business faces.

You are requested to ask two questions in the initial round. If you have more questions, you are requested to re-join 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, Abhishek, and welcome and thank you for joining us for this earnings call after the announcement of Financial Results for the 4th Quarter and Full Year of FY23.

Let me discuss some of the Highlights. Financial Year '23 was a good year for us with consolidated sales growing by 12.6% to Rs.432,789 million, driven by strong performance across markets led by USA, India, emerging markets and rest of the world markets, all recording double digit growths. We posted EBITDA growth of 12% and adjusted net profit growth of 12.8% for the year.

For the 4th Quarter, consolidated sales were Rs.107,256 million, recording a growth of 14.3% year-on-year driven by Global Specialty, Emerging Markets India and Rest of the World markets.

Let me now update you on our Global Specialty Business. In FY23, we recorded a strong ramp up in our Global Specialty sales which were up by 29.3% to reach US$871 million.

For Q4, our global specialty revenue was US$244 million, up by 31.7% year-on-year. This included a milestone payment of US$6.8 million received in Q4 FY23. Excluding the milestone payment, specialty business accounted for 18.2% of overall sales for the quarter.

Specialty R&D accounted for 31.7% of our total R&D spend for the quarter.

On January '23, we announced the launch of SEZABY in the US for treatment of neonatal seizures. Abhay will give you more details on the specialty business later.

I will now hand over the call to Murali for discussion of Q4 Financial Performance.

C.S. Muralidharan: Thank you, Mr. Shanghvi. Good evening, everyone. Welcome to all of you.

Our full year and Q4 Financials are already with you.

As usual, we look at key consolidated financials. The full year FY23 sales were at Rs.432,789 million, a growth of 12.6% over the same period last year. Excluding COVID product sales for the last year, overall sales were up by 13.9%. Material cost stands at 24.6% of sales lower year-on-year due to better product mix and higher specialty product sales. While staff cost as a percentage of sales are marginally higher than last year, the increase in absolute value is on account of the annual merit increase, consolidation of the Alchemee acquisition and the expansion of sales force. Other expenses were 30.4% of sales is higher than last year on account of higher selling and distribution expenses, higher R&D expenses and consolidation of Alchemee business.

Forex loss for the year was Rs.1,261 million compared to a gain of about Rs.1,540 million in FY22.

EBITDA for the full year was at Rs.116,468 million, a growth of 12% over the same period last year with a resulting EBITDA margin of 26.5%.

Adjusted net profit for FY23 was at Rs.86,450 million, up by 12.8% year-on-year. Reported net profit for FY23 was Rs.84,736 million.

As of 31st March 2023, net cash was US$1.5 billion at consolidated level and US$196 million at ex-Taro level.

Let me now discuss the Q4 FY23 Performance:

Gross sales for Q4 were at Rs.107,256 million, up by 14.3% over Q4 last year. Material cost as a percentage of sales was 21%, significantly lower than Q4 last year due to better product mix including higher specialty sales. Staff cost stood at 20.3% of sales. Other expenditure stood at 34.2% of sales higher than Q4 last year. The increase in other expenses is largely driven by continued normalization of sales and distribution expenses over the past few quarters. The normalization of other expenses happened to a large extent.

Forex loss for the quarter was at Rs.272 million compared to a gain of Rs.1,610 million for Q4 last year.

EBITDA for Q4 was Rs.28,021 million, including other operating revenues up by 19.7% over Q4 last year with EBITDA margins at 25.6%.

Reported net profit for Q4 was Rs.19,845 million. Adjusted net profit is up by 36.3% year on year compared to adjusted net profit of Q4 last year. Reported EPS for the quarter was at Rs.8.27 per share.

Let me now discuss the key movements versus Q3 FY23":

Our consolidated gross sales were lower by about 3.4% QoQ at Rs.107,256 million. Material cost at 21% of sales lower than Q3 FY23 on account of several moving parts leading to change in product mix.

Material cost as a percentage of sales should normalize going forward. Staff cost at 20.3% of sales were higher in absolute terms versus Q3 FY23 due to higher incentives and consolidation. Other expenses are 34.2% of sales were higher compared to Q3 FY23.

EBITDA margin for Q4 was at 25.6% compared to 26.7% for Q3.

Reported net profit for Q4 stands at Rs.19,845 million.

Let me now briefly discuss Taro's performance:

Taro posted Q4 FY23 revenues of US$146.6 million, higher by 2.3% over Q4 FY22. Net profit of US$6.9 million.

For the full year FY23, revenues were US$573 million, up 2.1% year-on-year and net profit was US$25.4 million, lower by 56.4%. Taro's financials per Q4 FY23 and FY23 includes the consolidation of the Alchemee acquisition.

I will now hand over to Mr. Kirti Ganorkar, who will share the Performance of our India Business.

Kirti Ganorkar: Thank you, Murali.

Let me take you through the performance of our India business:

Our India formulations sales for the full year FY23 were Rs.136,031 million, recording 6.6% growth over previous year. The underlying business has performed well excluding the contribution of the Covid product from previous year, the sales grew by 10.2%.

For Q4, the sales of formulations in India were Rs.33,641 million, recording a growth of about 8.7% over Q4 last year. India formulations sales accounted for 31.4% of total consolidated sales for the quarter.

We continue to witness good growth across multiple therapy areas in the chronic and sub-chronic segment for the quarter.

Sun Pharma is ranked #1 and holds 8.33% market share in over Rs.1,850 billion Indian pharmaceutical market as per AIOCD AWACS MAT March '23 Report. The corresponding market share for the previous period was 8.31%. As per SMARC MAT February '23 prescription report we are #1 rank Company. Sun Pharma is also ranked #1 by prescription with 12 different doctor categories. For Q4 Financial Year '23, the Company launched 24 new products in the Indian market.

I will now hand over the call to Abhay.

Abhay Gandhi: Thank you, Kirti. I will briefly discuss the performance highlights of our US business. Our overall US business grew by 10.3% to US$1,684 million for the full year FY23, driven mainly by the strong performance of our specialty business. For Q4, our overall sales in the US grew by about 10.5% over Q4 last year to US$430 million. The main drivers of growth were the specialty business, driven by Ilumya, Winlevi, Cequa and Levulan. The US accounted for over 33% of consolidated sales for the quarter.

Specialty sales have also grown compared to the December '22 quarter and we remain excited on growth opportunities in the portfolio.

Let me now update you on our US generics business. Over the last year, this business has gained from a combination of new launches and market share gains from existing products. However, those gains were offset by full quarter impact of the import alert at our Halol facility.

We launched generic lenalidomide capsules during Q4 FY23 in the US. For Q4, we launched four generic products in the US on an ex-Taro basis.

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 branded formulations revenues in emerging markets were at about US$983 million for the full year, up by about 8.6% year-on-year. For 4th Quarter, sales in emerging markets were about US$221 million, up by 7.5% over 4th Quarter last year. The underlying growth in constant currency terms were about

10% for year-on-year for 4th Quarter. Emerging markets accounted for about 17% of total consolidated revenues for Q4.

Amongst the larger markets in local currency terms, Russia and Romania have done well.

For the full year, formulations sales in rest of the world markets, excluding US and emerging markets were about US$ 752 million, up by about 2.7% over last year. On a constant currency basis, the ROW markets grew by 10.6% in FY23. For Q4, rest of the world sales were US$191 million, up by about 7.4% over 4th Quarter last year. Rest of the world markets accounted for approximately 15% of consolidated Q4 revenues.

API sales for FY23 were at Rs.19,724 million, up by about 7.5% over last year. For Q4 were at Rs.3,852 million, declined by about 6.9% over Q4 last year.

We continue to invest in building R&D pipeline for both the global generics and specialty business. Consolidated investment towards R&D for Q4 FY23 stands at Rs.6,657 million, 6.2% of sales and this compares to 6,700 million, 6% to sales for Q3 FY23 and Rs.5,433 million, 5.8% to sales for Q4 '22.

Our current generic pipeline for the US market includes 97 ANDAs and 13 NDAs awaiting approval with the US FDA. Our Specialty R&D pipeline includes five molecules undergoing clinical trials.

In the future, R&D investments are likely to increase both for our specialty and generic businesses.

The board has proposed a final dividend of Rs.4 per share for the year FY23. This is in addition to the interim dividend of Rs.7.5 per share paid in FY23, taking the total dividend for FY23 to Rs.11.5 compared to Rs.10 per share for FY22.

And lastly, on the guidance for FY24, we expect high single digit consolidated top line growth for FY24. All our businesses are positioned for growth. Ramp up in our global specialty business is expected to continue. R&D investments will continue to be 7% to 8% of sales next year.

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

Moderator: We will now begin the question-and-answer session. The first question is from the line of Chirag from DSP. Please go ahead.

Chirag: Sir, as we look at our $870 million based on the specialty piece, what are the key products that you think will drive growth from here on over the next two to three years as we look at this business?

Abhay Gandhi: I think the three major products for us which can drive global growth will be obviously Ilumya, Cequa and Winlevi. And if you talk about the timeframe we could also have other interesting products in the pipeline.

Chirag: Is our specialty business of this $870 million number, is it significantly EBITDA positive, just some colour around profitability of this business will help?

Abhay Gandhi: You are aware that business wise profitability numbers we do not share, so really can't answer that question, Chirag.

Chirag: Would it be fair to say that FY23 cost base for the specialty business has not dramatically changed over FY22, sir?

Abhay Gandhi: That would be a fair statement.

Chirag: Do we think deuruxolitinib is FY24-25 launch event?

Dilip Shanghvi: No, I think our current guidance is that we should be filing the product by second quarter, which I think because of the FDA hold on 12 milligram, we are relooking at what should be the exact date for us to be able to file. And based on that, once we have clarity we will give you some guidance as to by what time we can come to market.

Moderator: The next question is from the line of Kunal Dhamesha from Macquarie. Please go ahead.

Kunal Dhamesha: So, first one on the goodwill jump that we have seen of around $200 million from September to March, could you provide some colour there?

C.S. Muralidharan: So, the goodwill increase is mainly driven by Concert acquisition.

Kunal Dhamesha: But as far as I see there is also increase in intangible under development which is roughly US$ 427 million, which is roughly US$ 576 minus the cash that they had.

Kirti Ganorkar: So, as far as Concert is concerned, we have time to finalize the purchase price accounting, one year, based on the provisional purchase price accounting, there's a share in the goodwill and also the intangibles under development, that's why you see the increase in that.

Kunal Dhamesha: Would you provide any update on Mohali, what is the situation there? It seems that from the press release it looks like we are fairly confident of resolving the issue, but any timeline, would you like to provide there?

Dilip Shanghvi: What is the question?

Kunal Dhamesha: Mohali plant resolution, when we'll be able to restart the supply from that plant?

Dilip Shanghvi: We've already received EIR and we believe that in a gradual and phased manner, we should be able to start selling products out of Mohali.

Kunal Dhamesha: I think in the opening remarks, you said the gross margin would revert to a more sustainable level. Would you be providing any range, etc., where the gross margin could end up in the next year or maybe what is the kind of one-off part that you see here?

C.S. Muralidharan: So, specifically, we're not guiding anything towards gross margins. As we said that the Q4 gross margins is mainly contributed by the change in product mix and higher specialty. However, there are many moving parts within this that have resulted in this increase. As we shared in the readout, it will normalize as a percentage of sales going forward.

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

Damayanti Kerai: My first question is in 4th Quarter; we have seen other operating income as well as other income were substantially higher than what you booked in the previous quarter. So, can you explain what has come in incrementally there? And also, the milestone income of 6.8 million, which line item it's going in?

C.S. Muralidharan: So, as far as the other operating income is concerned, there are multiple moving parts, however its related to the export related incentives and other drawbacks we have. As far as the milestone is concerned, it is considered as revenues.

Damayanti Kerai: My next question is like the deuruxolitinib update where like your 12 mg strength is like have got partial hold back from FDA. So, obviously you're evaluating opportunities, but if it doesn't come, do you think the opportunity size will remain similar if you just have to go by single strength instead of two strengths?

Dilip Shanghvi: We are evaluating a possibility where we might have to launch only 8 mg. However, our preliminary analysis indicates that even 8 mg on a longer-term basis is, of course, studies are different, but on different studies overall response rate much better than reported by competing products.

Damayanti Kerai: Can you update us on phase three studies of Ilumya in psoriatic arthritis, when the studies will be likely completed?

Dilip Shanghvi: I think what we indicated during the last call is that we will start guiding for what are the study timelines. Unfortunately, I think we're not ready with that information. Maybe from next call onwards we will give clarity on what is the status of different studies as a part of the readout. But I don't expect the Ilumya psoriatic arthritis study to get completed in this financial year. It may take a little bit more than this financial year to complete.

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

Sameer Baisiwala: So, a couple of questions on specialty side. One is how does the annual price increase for these products filter down to your net realization? The second is on Ilumya. Given the positive clinical outcomes for oral IL-23, what could be the implication for your product?

Abhay Gandhi: So, Sameer, I'm trying to understand the nuance of your first question, when you say filter down to net realization, what exactly do you mean that?

Sameer Baisiwala: What I'm trying to understand is does it proportionately, you know, the rebates go out of that or is it any different?

Abhay Gandhi: So, the price increase that we take for the specialty products at least in the US, I can't answer this question on a global basis is very nominal. And when you talk about rebating, it is very product-specific again every year that we retain or pass on, is very product-specific. So, I don't want to give a colour saying that most of us we are able to retain or most of it goes back to the payers, it's like moving parts.

Sameer Baisiwala: But I presume some of that does come to the Company.

Abhay Gandhi: Of course.

Sameer Baisiwala: And for the second one?

Abhay Gandhi: Can just repeat quickly?

Sameer Baisiwala: On the oral IL23, the positive clinical trial, so I know it's four years or so away from any launch, if at all, but how are you thinking about that?

Abhay Gandhi: The data that is coming out with the orals are positive, but I think the injectable IL23 clearly give a higher response. So, there is a place in therapy for the injectable and especially when you have an injectable which is only four times a year administered by the doctor, we don't see a resistance from the HCPs for the use of the injectable IL23 and our product specifically.

Sameer Baisiwala: Quickly on Revlimid, I think Sun is the 7th or the 8th player to enter the market. So, as things stand, do you think it's a nice good lucrative opportunity or is it a lot diluted?

Abhay Gandhi: As of now, it's holding up. But the more number of competitors coming in during the course of this financial year, we have to observe and see what really happens.

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

Prakash Agarwal: A question on CTP-543. So, you mentioned that because of partial hold, 12 mg is evaluated, but just a reclarification, 8 mg is on track to be filed by Q2?

Dilip Shanghvi: Q2 is already over. So, we are studying the FDA letter indicating the hold and evaluating what is the best way for us to progress with the filing. So, that is where we are. And it gives us an opportunity to re-look at the data in terms of 12 mg and what is the differential side effects and all of that. So, I think we want to find a way to file the product in such a way that we still have an opportunity to get both the strengths approved.

Prakash Agarwal: If I got that correct, so 8 mg also you are re-looking with respect to the pros and cons of 12 mg?

Dilip Shanghvi: I think if you see our release, I think what agency asked us to do was to move all the patients of 12 mg to 8 mg. So, based on the experience and long-term safety study, which we already have on some of the patients have been on treatment over multiple years, its kind of looks like a very safe product.

Prakash Agarwal: Sir, I'm trying to understand the filing time period for 8 mg, sir.

Dilip Shanghvi: You can't file for one strength and then file for another strength.

Prakash Agarwal: And secondly on India business. So, we had added some field force. I see the growth. But what we pick up from the channel is volume growth has been very tepid. Would you explain please?

Moderator: The participant has left the question queue, sir. The line has dropped.

Dilip Shanghvi: Let him come back, then we will explain.

Moderator: The next question is from the line of Ankush Mahajan from Axis Securities. Please go ahead.

Ankush Mahajan: Sir, due to the Concert, we have a high R&D cost and that has impacted the consolidated EBITDA margins. Sir, any guidance for the same?

Dilip Shanghvi: No, I think we are on the lower end of the overall R&D guidance. So, what is the question?

Ankush Mahajan: Sir, actually, last quarter there is a 100-basis point impact on the margins on the consolidated basis due to the higher R&D on the Concert, sir. Just throw some light on it.

Dilip Shanghvi: I think when we are looking at numbers, we don't see what you are asking. So, I think it is best that you separately speak to Abhishek and get the details clarified.

Moderator: The next question is from the line of Naushad Chaudhary from Aditya Birla Sun Life AMC. Please go ahead.

Naushad Chaudhary: Just one update I wanted on the ongoing five molecules which is there in the pipeline. Last quarter, we had indicated that we will come up with some more additional update on this. So, qualitatively, just wanted to understand in next one or two years, can we see, or do you see at least one or two sizable products coming to our specialty basket from these five molecules? And at least if you can share us in terms of size of opportunity on the molecules you are working on, currently?

Dilip Shanghvi: I think I indicated that we were to share the development timeline for all these innovative products and what is the plan that we have for these products to be brought to market. Unfortunately, we couldn't do that this quarter, we will start doing it from next quarter as a part of readout only.

Naushad Chaudhary: Last quarter, we had indicated that in India portfolio, we had some challenges in our gastro portfolio. Any update on that, do we continue to feel have that challenge or have you overcome on that bit?

Kirti Ganorkar: In the last call what we said is, both in gastro and ortho portfolio, we are seeing some challenges, but now it's too early to say, but we are seeing some improvement in this quarter. Maybe we will be able to update you better after two or three quarters.

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

Prakash Agarwal: Yes, hi. Sorry, I got dropped. On the India business, my question was that in the market level, are we seeing volume coming down quite a bit over the last two, three years? And if so, what are the changes, actions we are taking, apart from the field force addition that we have done and also the field force count, please?

Kirti Ganorkar: I would at least try and help you out. Like if you look at the IQVIA MAT data for March '23, the volume growth for the industry is almost zero or minus 0.5%. So, to compare to that, the Sun's growth is about 11%. And if you divide this 11% growth into three buckets, the 6% growth is coming from the unit growth, that is a pure volume growth, then 2% of the growth is coming from new products for us; and then the 3% growth is due to price increases. And when we compare Sun among all our peers or the top 10 companies, I think our volume growth is one of the best. There are one or two companies which are like Sun only. But most of the other players, they are not growing by 6% in volume. So, I think we are well placed. And this is also a reflection that we are able to generate the prescription in the market.

Prakash Agarwal: Any commentary on the new product launches like we are not among the top 5, top 10 also I think in the new range of DPP-4 gliptin, etc.

Kirti Ganorkar: No, that's not correct. I think, we are the leader.

Dilip Shanghvi: You don't see our product in new, because we already have these products here.

Prakash Agarwal: Sir, you have kept the brand, but the volume and price both would have come down, right?

Dilip Shanghvi: No. on price, we are competitive. But volume has gone up significantly.

Kirti Ganorkar: See, just to give an example, in terms of volume in both sitagliptin and sitagliptin metformin market we are number one in unit terms, yes. In value term, we are not... because we have reduced the price post-patent expiry. And then after the post-patent expiry, we have launched a good number of combination products, which will also help us to grow this franchise.

Prakash Agarwal: And lastly, the field force count, sir?

Kirti Ganorkar: Field force, we are close to around 10,000.

(Post Call Edit: The field force number as of Mar 31, 2023 is 12,692)

Prakash Agarwal: This is despite adding the last year 1,000-plus?

Kirti Ganorkar: Yes. See, expansion is a part of our strategy. So, we continuously keep evaluating territories where we can add MRs, so that's a part of our strategy.

Prakash Agarwal: So, 10,000 in terms of --

Dilip Shanghvi: Market dynamics are changing. Consultants are now starting to practice from smaller cities and towns, and we need to find a way to reach out to these people.

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

Krish Mehta: My first question is on the debt in the balance sheet. So, could you just provide some colour on why we've seen an increase in the debt and how you sort of see this going forward?

C.S. Muralidharan: So, debt in the balance sheet increases is mainly for the bridge funding for the Concert acquisition.

Krish Mehta: Can you provide the number for the interest income for FY23?

C.S. Muralidharan: We will get back to you on the specific number.

Krish Mehta: I just wanted to ask if you could provide a number for the full year ILUMYA sales?

Abhishek Sharma: We are not providing ILUMYA annual number.

Krish Mehta: No, I just asked because we used to get that annual data so far.

Dilip Shanghvi: We will continue with whatever the practice if we were giving, then we will share that number.

Moderator: The next question is from the line of Bino Pathiparampil from Elara Capital. Please go ahead.

Bino Pathiparampil: Just one clarification on Revlimid. Has that significantly contributed to your 4Q numbers or would it be significant in 1Q?

Abhay Gandhi: For Q4, it was a significant contributor.

Moderator: The next question is from the line of Punit Pujara from Helios Capital. Please go ahead.

Punit Pujara: My question was on Concert. So, via Concert acquisition, we have got a DCE platform. So, do you wish to continue developing deuterated products through this platform?

Dilip Shanghvi: As on today, I think our primary interest was in Deuruxolitinib and we are potentially looking at additional indications of that product in different indications. We have no immediate plan of working on deuteration as a platform.

Moderator: The next question is from the line of Cyndrella Carvalho from JM Financial. Please go ahead.

Cyndrella Carvalho: Sir, just wanted to understand on the India piece, would we continue the similar growth that we have reported in FY23 or do you see opportunities to calibrate this growth further?

Kirti Ganorkar: No, I think what we have said in the past also, it's very difficult to forecast what will be the growth in the coming years. But whatever is a market growth, India business we want to grow in line with the market or slightly better than the market, that will be our effort.

Cyndrella Carvalho: And we would have some benefits of the new added MR force also, right, in terms of FY24, is that a correct understanding?

Kirti Ganorkar: Yes, that's correct.

Cyndrella Carvalho: On the US piece, an earlier participant also asked for Ilumya number. If you would want to share, that would be helpful. However, if I look at the gross margin, so I'm just trying to clarify this again, so is that because largely our mix was tilted towards specialty business and that's the reason we saw this gross margin, would that be a correct statement?

C.S. Muralidharan: No. So, what we have said is that, in Q4, the expansion of margins was contributed by of course higher sales of Specialty, but there are also other parts leading to change in product mix, so both have contributed, it's not only higher specialty sales.

Cyndrella Carvalho: In terms of the overall growth of specialty business in the US, Ilumya will continue to be the major driver? And how do we see Sezaby and Winlevi for at least coming two years, how is the ramp-up, if you could help us understand some nuances there, would be helpful?

Abhay Gandhi: All the three products that you have mentioned will contribute to our growth. However, in absolute dollar terms, I would expect Ilumya to be the largest contributor to the growth.

Cyndrella Carvalho: Any color on how Sezaby is expected to pan out in patients in terms of neonatal coverage, anything that you would like to share, sir?

Abhay Gandhi: Hi. Your voice was a little patchy for me. Were you referring to Sezaby?

Cyndrella Carvalho: I was asking to some understanding on the Sezaby product, sir, in terms of the market formation, how are we picking up the coverage?

Abhay Gandhi: So, it's a niche market. So, obviously, it will not be on the same scale as let's say an Ilumya. But in that niche, it's a very interesting product. We are right now in the process of going literally hospital formulary by hospital formulary, trying to sell the concept of our product being the only FDA approved product and trying to get a buy in from those. So, it will take some time and it will ramp up, but the scale is completely different from a much larger opportunity, let's say, Ilumya, or Cequa, or Winlevi. This is a niche play.

Cyndrella Carvalho: And on the Winlevi side, sir, anything on the coverage side, do you want to highlight how are we seeing this?

Abhay Gandhi: It improved in the last quarter, and of course, it's always a work-in-progress, and we hope to continue to improve coverage even further during this financial year.

Moderator: The next question is from the line of Chirag from DSP. Please go ahead.

Chirag: Sir, our other expenses are almost Rs.500 crores higher than the past averages. Is there anything specific you want to call out over here, or is this run rate something that we should see as a sustainable number?

C.S. Muralidharan: So, we have said that other expenses are triggered by the higher selling and distribution expenses, and of course, from the year-on-year quarter on consolidation of Alchemee business also is there. However, what we have said that, we have almost reached normalization to some extent. With the growth in operations, some of our expenses we'll incur towards the growth. Otherwise, I think we are almost near there.

Chirag: There is no one-off in the other expenses?

C.S. Muralidharan: No, there is no one-off as such.

Chirag: And sir, second question was in the notes to accounts, there is a Rs.164 crores impairment related to an associate. Can you just provide some color around what exactly this is sir?

C.S. Muralidharan: So, this is regarding an impairment of a loan on advances given to an associate. We are actively monitoring the progress of this associate. As a prudent practice, we have provided for it.

Chirag: Can you quantify the total outstanding towards this transaction, sir?

C.S. Muralidharan: We do not want to comment on the total outstanding or total thing. We have taken based on the current understanding the impairment provision as required.

Chirag: This heightened R&D that you are guiding towards, it's almost Rs.1,000 crores higher than the current annual run rate. I mean, I'm just trying to think what is it that you are kind of thinking about in terms of the Rs.1,000 crores, US$125 million-odd seems like a fairly large number even for specialty business. Just what is it that you are kind of baking, are you baking in incremental products like Concert's products, etc., as well in this or just what is your thought process around this incremental Rs.1,000 crores kind of R&D budget?

Dilip Shanghvi: I think like what you identified, Concert R&D would be clearly contributing to a part of that increase.

Chirag: And future products as well if at all you end up acquiring more or -?

Dilip Shanghvi: Or we decide to develop additional indication.

Chirag: For your existing products?

Dilip Shanghvi: No, even Deuruxolitinib.

Chirag: Do you expect this to kind of come through in like a year or so, I mean in one full 12-month period, you will see this activity just go up to that kind of level?

Dilip Shanghvi: No, I think, my sense is that some of the clinical studies for Ilumya will start recruiting rapidly during this year. At the same point of time, we may start additional studies for our GLP-1 as well as the Concert product. So, all of that I think there is a much more clearer visibility of why and how this cost will go up.

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

Neha Manpuria: Abhay, one clarification on Winlevi. You mentioned that the coverage has improved in the quarter and it's gradually picking up. But if I were to look at the prescription data that is available, Winlevi has been sort of broadly been in the range of what we have seen for the last couple of months. How should we look at improvement in prescription for Winlevi? And is it tracking in line with your expectation, better than your expectation, are you seeing any challenges in ramp-up, any color there?

Abhay Gandhi: So, what you're seeing is the outcome. And if you're tracking the prescriptions with the improved coverage and also the change in the co-pay, these are far more valuable prescriptions than what we saw earlier. And the coverage has improved, it is like part of the covered population, right. In some pieces, other pieces still remain. So, when you made the co-pay change, prescriptions will sort of let go for some time. But with an improved coverage, I think the idea is to grow the prescriptions in the current quarter.

Neha Manpuria: Yes. But when do you start seeing that in numbers? Now, you've seen that the prescriptions come off as we change into the co-pay, coverage is improving. So, in your view, when do you start seeing the benefit of the improved coverage in prescription numbers stepping up from the current run rate, is that two quarters away, three quarters away, take longer?

Abhay Gandhi: I don't think it should take that kind of time. In fact in our budgeting, we are expecting it to happen early. But if Q2, Q3 it might, I would be happy.

Neha Manpuria: And we're not seeing any challenges in our ability to get more coverage for the product, that's not a concern?

Abhay Gandhi: It's a challenge. I mean it's a process that we have to go through, keep explaining to the payers why it makes sense for them to cover this product. So, I mean, getting coverage for any product is always a challenge and it's a challenge that we are expecting to meet.

Moderator: We'll move on to the next question from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

Tushar Manudhane: Just if you could quantify the PLI benefits which has been there for this quarter?

C.S. Muralidharan: So, normally, we do not quantify any type of incentives or grants what we see as part of our achievement of targets or scheme-related investments.

Tushar Manudhane: This would be in other operating income, right?

C.S. Muralidharan: Other operating income, yes. What I want to say is that this has been consistent between Q4 and Q3.

Tushar Manudhane: And just on the guidance, while the specialty sales continues to ramp up nicely, even we continue to outperform in the domestic formulations market and emerging markets and ROW also continue to grow at a robust double-digit growth. So, what's holding on to guide for a single-digit growth for FY24?

Dilip Shanghvi: No, I think it's after evaluating all the businesses upside as well as downside and taking a conscious decision that we want to share a number, which has a certain element of stretch, but at the same time, ascertain possibility for achievability. Because we don't want to kind of take a number far out and then say that we couldn't deliver on the number. At the same time, we don't want to give a lower number and overperform.

Tushar Manudhane: In fact, Revlimid also would be having a full year impact and through certain niche launches as well. That's the reason why is this question.

Dilip Shanghvi: Yes. I mean I understand, but we've also shared with you that Halol, we will have certain challenges in terms of being able to sell products. We've also said that Mohali, we will gradually start reintroducing products. So, I think all of those things have potential negative. So, that's factored in our guidance. It's an achievable guidance.

Tushar Manudhane: So, while there was import allowed at Halol, that time we had mentioned about the sales from that facility. On the similar lines, given the kind of regulatory action that has happened at Mohali, would it be possible to quantify how much was the sales and how much has been got destructed because of the recent regulatory action?

Dilip Shanghvi: I think we actually ourselves are not clear. So, we are not giving a separate guidance on that, because we don't know by what time, what products we want to bring back and we might be able to protect the entire business also. So, I don't want to kind of come with a number which then has no relevance.

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

Nitin Agarwal: Given the challenges that we've had this year, how are you seeing the outlook for our business over the next two to three-year period on a qualitative basis? Given the fact there is some talk about the market stabilizing, prices erosion improving at the margin in the overall US market for generic side of the business?

Abhay Gandhi: So, could you reframe your question, please? I'm really not sure what you are asking.

Nitin Agarwal: I was just trying to ask is that given the fact that we've had challenges this year in the generic business, but at the same time, there are some positive signs in the market stabilizing from a pricing perspective in general. And given the fact with whatever the pipeline that we have about 97-odd ANDAs are waiting approval, qualitatively, where do we see the generic business headed over the next couple of years for us given where we were in FY22-23?

Abhay Gandhi: So, I don't see the price stabilization that you are speaking about not just from Sun perspective, but also from an industry perspective. I think your basic assumption is probably incorrect. So, in the overall context, I think if I look at the market in general, it's a low growth or a degrowth kind of generic business in the US. Volume growth is there, but value growth, I do not see from an industry perspective.

Nitin Agarwal: Sir, on the acquired assets like the Concert business, what is the typical account amortization policy to be followed sir?

C.S. Muralidharan: So, normally, it depends for the class or type of asset, various range for economic life between eight to 15 years.

Nitin Agarwal: Even for patented clinical assets will take such a long period of amortization, sir?

C.S. Muralidharan: So, that one also driven by the patent expiry, that's one factor we'll consider.

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

Surya Patra: First question is to understand the cost equations better. The first, whether the remediation spend on the two facilities which is under observation, so whether that expenses are fully factored in the quarter?

C.S. Muralidharan: So, the incremental expense of remediation has broadly been already factored in the quarter.

Surya Patra: So, practically, the question was that sir, we have seen already kind of an upswing in the gross margin, which also to some extent supported our margin this quarter, and for future going ahead, we are guiding for kind of enhanced R&D spend, 200 to 300 basis points from the current year base. And we are also indicating that the gross margin scenario is likely to be normalizing going ahead. So, I'm just trying to understand how the profitability would be for FY24? So, from that perspective, my first question would be that, how should one really see Taro's performance in the subsequent period? Because it has been very subdued in the current financial year and possibly that could play kind of a margin-boosting trigger. So, if you can share some idea about it and how should we really look at it?

Dilip Shanghvi: I think we don't guide for overall profitability because there are so many moving parts. At the same point of time, some of your points about increase in some of the costs that we are guiding for are valid. However, finally, your question about Taro, I mean if I see Abhay's statement about overall competition for pricing, dermatological products that Taro currently markets has the highest level of new entrants and new competitors coming. So, it will continue to see significant price competition going forward.

Surya Patra: My second question on the India formulations business. We generally having seen a kind of a consistent performance during difficult times of last two years. So, most of the players have either expanded their field force, enhanced their market presence, product basket, all that. So, that is in a way has intensified competition I believe. So, here we have expanded our field force as well, and we have penetrated in the existing product basket better. So, if you can give some sense versus FY22, in FY23 how the profitability would have changed, not any specific number, but qualitatively also if you can share something?

C.S. Muralidharan: So, specifically on the India business or business-wise profitability, we do not comment as such.

Surya Patra: So, that means the full field force expansion cost has been reflected in the last year numbers? And with the -

C.S. Muralidharan: Yes, it has been reflected.

Moderator: Ladies and gentlemen, that was the last question for today. I now hand the conference over to Dr. Abhishek Sharma for closing comments.

Dr. Abhishek Sharma: Thank you, everyone, for joining us at this late hour. If you have any remaining questions, you may write in to me and we'll be happy to respond to your remaining questions. Thank you, and have a good weekend.

Dilip Shanghvi: Thank you.

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