MOTILAL OSWAL

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ANNUAL REPORT THREADBARE

The ART of annual report analysis

SUN PHARMACEUTICAL

- INR1.0b of additional provisioning made towards USD400m deal.
- Tax rates remained low at 14.2%; contingent liabilities for tax dispute rise to INR26.7b.
- Goodwill on acquisition (partially representing brand/products) at INR13.6b which in our view should be amortised

SUNP's FY15 annual report analysis highlights 71% YoY increase in revenue to INR274b while EBITDA margins declined to 28.7% (FY14: 43.5%), led by Ranbaxy's merger and Halol issues. Legal and consultancy charges increased to INR14.2b (21.4% of PBT) v/s INR4.8b in FY14 while, additional provisioning of INR1.0b (1.5% of PBT) was recognized toward USD400m deal. Unrealized forex gains increased to INR7.8b (12% of PBT) v/s INR0.1b in FY14. Tax rate remained low at 14.2% on account of (a) SPLL structuring leading to tax savings of INR3.2b, (b) recognition of DTA of INR7.3b and (c) no taxation in the Dubai entity. Contingent liabilities for tax disputes increased to INR26.7b (FY14: INR12.1b). Goodwill stood at INR50b (20% of net worth); of which, INR13.6b pertains to acquisition (part of which represents brands /products in pipeline); which in our view should be amortised.

- **Revenue jumps 71% YoY to INR274b; EBITDA margins decline 1480bp to 28.7%** due to (a) Ranbaxy's merger related cost and relatively low-margin business and (b) Halol issues. Operating cash flow increased 34% YoY to INR53b in FY15.
- **INR1b of addl. provisioning recognized toward USD400m deal** for financing Protonix settlement with a third party in FY14. During FY14, SUNP made an initial provisioning of INR2.3b (USD38.5m).
- **Legal, professional and consultancy charges increase to INR14.2b** (FY14: INR4.8b); of which, INR6b (FY14: INR2.8b) pertains to subsidiaries.
- **Tax rates remained low at 14.2%; contingent liabilities for tax dispute rise to INR26.7b** v/s INR12.1b in FY14. Tax rates remained low on account of (a) nil taxation on profits of INR11.3b of the Dubai subsidiary, (b) INR3.2b of tax savings on account of SPLL structuring and (c) DTA recognition of INR7.3b.
- **Goodwill on consolidation increased to INR37b (14.4% of net worth),** primarily on consolidating subsidiaries of Ranbaxy. Also, goodwill increased for Sun Pharmaceutical Industries Inc.—a wholly owned subsidiary—from INR7.3b in FY14 to INR11.5b in FY15.
- **Intangibles stood at INR25.1b (9.8% of net worth),** primarily comprising goodwill (part of which represents for acquisition of brands/product pipeline) of INR13.6b. We believe that this is primarily on acquisition of DUSA and URL in FY13 and Ranbaxy in FY15; though we believe that it should be amortized, the company tests goodwill for impairment.

ART will present a threadbare portrait of annual reports - statistical, strategic and structured. We believe ART's wide canvas - from accounting and auditing issues to operating performance to management insights to governance matters - will help readers paint a clearer picture of the stock's investment worthiness.

Stock Info

Bloomberg	SUNP IN
CMP (INR)	882
Equity Shares (m)	2,406.0
52-Week Range (INR)	1,201/792
1,6,12 Rel. Perf. (%)	0/-14/8
M.Cap. (INR b) / (USD b)	32.0/1.0

Financial summary (INR b)

Y/E March	2015A	2016E	2017E
Sales	273.7	289.5	332.1
EBITDA	80.0	77.4	106.5
Rep. PAT	47.4	47.2	76.3
Rep.EPS (INR)	19.7	19.6	31.7
EPS Gr. (%)	50.9	-0.5	61.7
BV/Sh. (INR)	110.1	121.4	146.1
RoE (%)	21.1	16.9	23.7
RoCE (%)	25.3	19.0	28.5
Payout (%)	21.8	27.7	19.7
Valuations			
P/E (x)	44.7	45.0	27.8
P/BV (x)	8.0	7.3	6.0
EV/EBITDA (x)	25.7	26.0	18.3
Div. Yield (%)	0.5	0.6	0.7

E: MOSL Estimates (Analyst estimates)

Shareholding pattern (%)

As on	Jun-15	Mar-15	Jun-14
Promoter	54.7	63.6	63.7
DII	7.8	4.6	5.1
FII	23.8	20.0	23.0
Others	13.8	11.9	8.3

Note: FII Includes depository receipts

Auditor's name

Deloitte Haskins & Sells LLP

Sandeep Gupta (S.Gupta@MotilalOswal.com); +91 22 3982 5544

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ART #1 ACCOUNTING & KEY FINANCIAL INSIGHTS

Acquisition and corporate restructuring continue

- SUNP acquired and merged Ranbaxy Laboratories with itself during FY15, strengthening its position as the fifth largest generic player globally. Further, pursuant to an organizational restructuring, SUNP merged Sun Global Inc., BVI—a wholly owned subsidiary—with the parent. As a result, financials for FY14 and FY15 are not comparable at both standalone and consolidated basis.
- Following the merger, net worth increased by INR176b at standalone level and INR30b on a consolidated basis.

Exhibit 1: Acquisitions and restructuring continue over the last three years

Year	Acquisition	Restructuring
FY15	Acquisition of Ranbaxy and merger with the standalone entity	Merger of Sun Pharma Global Inc with the parent entity
FY14	Acquisition of Pharmalucence	Merger of Sun Pharma Global FZE's therapeutic & investment business with the parent entity
FY13	Acquisition of Dusa Pharma Inc and URL's generic business	Demerger of domestic formulations business into a wholly owned subsidiary Sun Pharma Laboratories

Source: Company Annual Report, MOSL

Ranbaxy merger leads to revenue growth; weighs on margins

Revenues grew 71% YOY while, EBITDA margins declined 1480bp on Ranbaxy merger and Halol issues

- Revenue for the consolidated entity grew 71% to INR 274b (FY14: INR161b), primarily on the back of Ranbaxy acquisition.
- EBITDA margins declined to 28.7% (FY14: 43.5%), with gross margins declining 800bp, employee expenses rising 300bp and other expenses rising 500bp.
- We believe the above is primarily due to (a) Ranbaxy's merger cost, (b) relatively low-margin business of Ranbaxy, and (c) lower contribution from US markets due to import alert on the Halol facility.

Exhibit 2: Margins decline on Ranbaxy merger and Halol issues

Particulars	Consolidated				Subsidiary (Derived)				Standalone			
	FY14		FY15		FY14		FY15		FY14		FY15	
	(INR b)	(% of revenue)	(INR b)	(% of revenue)	(INR b)	(% of revenue)	(INR m)	(% of revenue)	(INR b)	(% of revenue)	(INR b)	(% of revenue)
Net Revenue	**161**	**100.0**	**274**	**100.0**	**133**	**100.0**	**194**	**100.0**	**28**	**100.0**	**80**	**100.0**
Raw Materials Consumed	28	17.3	67	24.6	17	12.9	32	16.6	11	37.7	35	43.8
Gross Margin	**133**	**82.7**	**207**	**75.4**	**115**	**87.1**	**162**	**83.4**	**18**	**62.3**	**45**	**56.2**
Operating and Administrative Expenses	42	26.3	84	30.6	28	20.8	48	24.8	15	51.9	36	44.6
Personnel Cost	21	12.9	44	16.1	18	13.5	29	15.2	3	9.9	15	18.5
EBITDA	**70**	**43.5**	**79**	**28.7**	**70**	**52.7**	**84**	**43.4**	**0**	**0.6**	**(6)**	**(7.0)**

Source: Company, MOSL

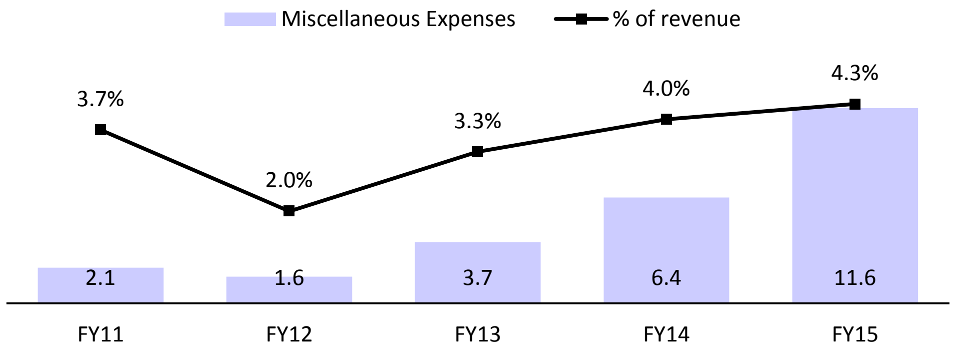
Additional provisioning of INR1b on deal to finance Protonix liability

INR1b of provisioning made toward expected discounts on USD400m deal

SUNP recognized additional provision of INR1b (USD16.5m, 1.5% of FY15 PBT) toward the USD400m arrangement with a third party for financing the liability of Protonix. During FY14, INR2.3b (USD38.5m) of initial provisioning was recognized toward the expected discounts and incidental expenses of the arrangement. The provisioning forms part of miscellaneous expenditure, which increased to INR11.8b (FY14: INR6.3b)

Misc. expenditure increases to INR11.6b (4% of revenue)

Exhibit 3: Miscellaneous expenditure continues to rise(INR b)



Source: Company Annual Report, MOSL

Legal, professional and consultancy charges increase to 14.2b

- Legal, professional and consultancy charges increased from INR4.8b in FY14 to INR14.2b in FY15—led by the standalone entity, which merged Ranbaxy and Sun Pharma global Inc. and reported an increase in legal, professional and consultancy to INR8.3b (FY14: INR2.1b).
- Legal, professional and consultancy charges for subsidiaries increased from INR2.7b in FY14 to INR6.0b in FY15.

Exhibit 4: Legal, professional and consultancy charges up at standalone and subsidiaries (INR b)

Particulars	Standalone		Derived Subsidiary		Consolidated	
	FY14	FY15	FY14	FY15	FY14	FY15
Professional, Legal and Consultancy	2.1	8.3	2.7	6.0	4.8	14.2

Source: Company Annual Report, MOSL

Taro reports strong performance; losses incurred in SPLL and Caraco

Caraco's losses increased to INR1.2b. DTA of INR0.7b recognized

- Taro's performance improved significantly, with Consolidated PAT increasing from INR26b in FY14 to INR46b in FY15. Taro and its subsidiaries in contributed ~66% to the consolidated profitability FY15.
- DUSA Pharmaceuticals' PAT increased from INR0.3b in FY14 to INR1.3b in FY15.
- Sun Pharmaceutical Laboratories' PAT declined from INR2.4b in FY14 to a loss of INR0.2b in FY15.
- Sun Pharmaceutical Industries Inc (formerly known as Caraco Pharmaceutical Laboratories Ltd.) performance declined, with losses increasing from INR0.5b in FY14 to INR1.2b in FY15. The company has recognized a DTA on losses of INR0.7b (FY14: INR0.3b)

Exhibit 5: Taro's profitability continued; performance dip in Sun Pharma global (FZE) (INR b)

	FY14				FY15			
Subsidiary	**Net Worth**	**Turnover (net)**	**PBT**	**PAT**	**Net Worth**	**Turnover (net)**	**PBT**	**PAT**
Taro Pharmaceutical Industries Ltd.(TARO) & its subsidiaries	104.4	85.3	31.5	26.3	149.4	97.3	52.7	46.4
Dusa Pharmaceuticals Inc	(0.1)	4.2	(0.1)	0.3	1.0	6.9	2.2	1.3
Sun Pharmaceutical laboratories	186.3	39.5	3.5	2.5	186.1	43.7	1.8	(0.2)
Sun Pharmaceutical Industries Inc.	6.2	46.7	(0.8)	(0.5)	5.2	43.2	(2.0)	(1.2)
Alkaloida Chemical Company Zrt.	6.5	1.0	(1.1)	(1.1)	35.3	0.8	(1.2)	(1.2)
Sun Pharma Global (FZE)	69.1	31.6	31.7	31.7	81.9	22.1	11.3	11.3
Others	433.7	27.1	159.90	156.2	562.8	103.4	(0.02)	(2.3)
Total	**806.0**	**235.4**	**224.6**	**215.4**	**1,021.6**	**317.4**	**64.8**	**54.1**

Source: Company Annual Report, MOSL

Tax saving of INR3.2b on demerger of domestic formulation business

SPLL's structuring leads to tax expenses being lower by INR3.2b

- SUNP's consolidated PAT (INR54.9b) before minority interest is higher than the cumulative PAT of standalone entity (-INR14.7b) and aggregate PAT of subsidiaries (INR54.1b); we believe this is primarily due to inter-company transactions, which get eliminated at the time of consolidation.
- SUNP demerged its domestic formulation business into a separate entity Sun Pharmaceuticals laboratories (SPLL) in FY13. The assets were recognized at fair values, leading to higher depreciation cost (and hence lower book profits)—which gets eliminated on consolidation.
- We believe the fair valuation of assets has led to amortization being higher by ~INR15b and tax expense lower by ~INR3.2b

Exhibit 6: Aggregate profit of standalone and subsidiaries <consolidated profit (INR b)

Particulars	**FY15**
PAT before Minority Interest	
Standalone	-14.7
Cumulative profits of subsidiaries as per section 129	54.1
Total (A)	39.3
Consolidated (B)	54.9
Difference (B-A)	**15.6**

Source: Company Annual Report, MOSL

Tax rate remains low at 14.2% …

- SUNP's consolidated tax rate remained low at 14.2% in FY15 (FY14: 15.3%) due to (a) deferred tax credit of INR7.3b recognized, (b) low tax rates in certain subsidiaries (Sun Pharma Global FZE—0%) and (c) SPLL.
- Deferred tax assets have increased from INR11.9b in FY14 to INR18.5b; of this increase, INR4.6b is on account of Taro Pharmaceuticals. DTA at Taro increased from 8.0b in FY14 to INR12.6b in FY15.
- SUNP recognized MAT credit entitlement of INR7.5b, which was written off by Ranbaxy in 3QFY15 on reassessment by the management that the combined amalgamated entity will pay normal income tax during the specified period; we believe this may reduce the future cash outflow.
- The cash tax paid for FY15 stood at INR17.4b as against the tax expense of INR9.1b. Advance tax paid stood at INR11.0b (FY14: INR5.7b)

Exhibit 7: DTA increases in FY15 (INR b)

Particulars	FY14	FY15
Unpaid Liabilities	5.8	8.6
Unabsorbed Loss	0.1	0.1
Intangibles	3.1	3.3
Deferred Revenue	1.4	2.2
Others	1.5	4.3
Total	**11.9**	**18.5**

Source: Company Annual Report, MOSL

Exhibit 8: Deferred tax primarily on account of Taro Pharmaceuticals (INR b)

Particulars	FY14	FY15	Difference
Taro (Consolidated)	8.0	12.6	4.6
Sun Pharma (Consolidated)	11.9	18.5	6.6

Source: Company Annual Report, MOSL

…However, contingent liabilities from income tax demand rise

Contingent liability for tax disputes rises to INR26.7b v/s INR12.1b in FY14

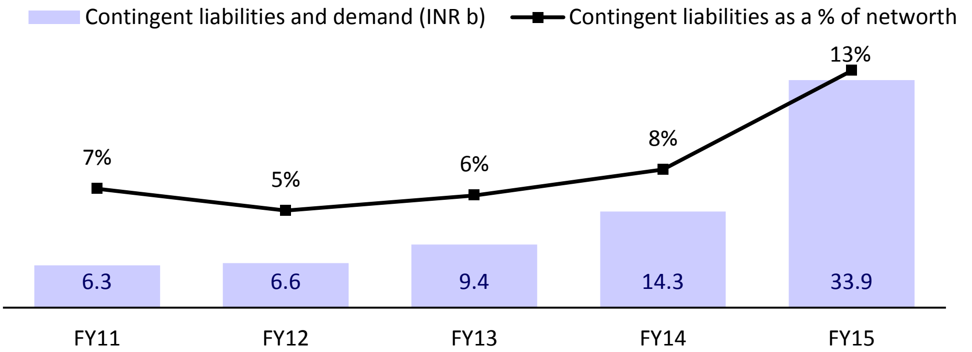
- Contingent liabilities on a consolidated basis increased steeply from INR14.3b in FY14 (8% of net worth) to INR33.9 (13% of net worth).
- The increase is primarily on account of (a) income tax disputes, which have increased to INR26.7b (FY14: NR12.1b); (b) DPEA demand toward unintended benefit of INR3.2b in FY15.
- The increase in tax dispute liabilities is driven by subsidiaries—increased from INR7.2b in FY14 to INR15.6b in FY15.

Exhibit 9: Income tax demand significantly increase contingent liabilities (INR b)

Particulars	FY11	FY12	FY13	FY14	FY15
Income tax disputed liabilities	2.6	5.1	7.6	12.1	26.7
Excise duty disputed liabilities	0.3	0.3	0.5	0.6	0.6
Claims against the company not acknowledged as debts	0.8	0.8	0.7	0.8	1.0
Guarantees given by bankers on behalf of SUNP	0.2	0.3	0.6	0.7	0.8
Other demands	2.4	0.0	0.1	0.1	0.5
DPEA on account of demand towards unintended benefit					3.2
Fine imposed for anti-competitive settlement agreement by European Commission					0.7
Other matters					0.3
Total	**6.3**	**6.6**	**9.4**	**14.3**	**33.9**

Source: Company Annual Report, MOSL

Exhibit 10: Contingent liabilities increase to 13% of net worth



Source: Company Annual Report, MOSL

Goodwill on consolidation increases to 14.4% of net worth

Goodwill on consolidation of existing wholly owned subsidiary—Sun Pharmaceutical Inc.—increases to INR11.5b v/s INR7.3b in FY14

- Goodwill on consolidation increased from INR18.3b in FY14 (9.9% of net worth) to INR37b (14.4% of net worth) in FY15, primarily on consolidation of Ranbaxy subsidiaries.
- Goodwill on consolidation of existing wholly owned subsidiary Sun Pharmaceutical Inc. increased from INR7.3b in FY14 to INR11.5b in FY15 despite increased losses—from INR0.5b to INR1.2b.
- Goodwill of INR1.0b (1.5% of PBT) was impaired. The entity for which the goodwill is written off has not been disclosed.

Exhibit 11: Goodwill on consolidation increases significantly (INR b)

Particulars	FY11	FY12	FY13	FY14	FY15
Goodwill					
Sun Pharmaceutical Industries Inc	5.0	6.0	6.8	7.3	11.5
TKS Farmaceutica	0.4	0.4	0.4	0.4	0.4
Taro Pharmaceutical Industries	3.2	4.6	4.9	11.4	11.8
Ranbaxy Pharmaceuticals (Pty)	0.0	0.0	0.0	0.0	1.3
S.C Terapia S.A.	0.0	0.0	0.0	0.0	12.0
Other subsidiaries	0.0	0.1	0.1	0.1	1.1
Less: Capital reserve					
Alkaloida Chemical Company Zrt	0.9	0.9	0.9	0.9	1.1
Other subsidiaries	0.0	0.0	0.0	0.0	0.1
Total	**7.7**	**10.2**	**11.3**	**18.3**	**37.0**

Source: Company Annual Report, MOSL

Intangibles at 9.8% of net worth

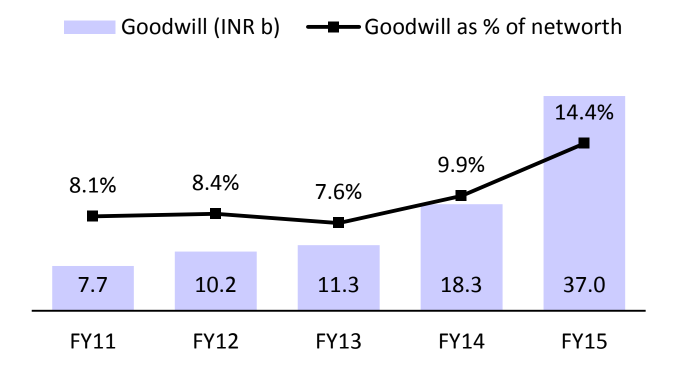
- Intangibles increased 69% YOY to INR25.1b (9.8% of net worth). The increase is primarily on account of intangibles under development and acquired goodwill.
- Goodwill acquired stood at INR13.6b (FY14: INR10.8b), were recognized on DUSA and URL acquisitions of INR9.1b in FY13 and INR2.8b on Ranbaxy and is not being depreciated but tested for impairment
- We believe that this goodwill may partially pertain to acquisition of brands / products in pipeline which in our view should be amortised.

Exhibit 12: Intangibles primarily comprise goodwill on acquisition (INR b)

Particulars	FY11	FY12	FY13	FY14	FY15
Goodwill	-	0.6	9.7	10.8	13.6
Computer software	-	-	-	-	0.8
Trademarks, Designs and Other	2.9	2.5	3.8	4.1	5.7
Intangible Assets Under Development	-	-	-	-	5.1
Total Intangibles	**2.9**	**3.2**	**13.5**	**14.8**	**25.1**

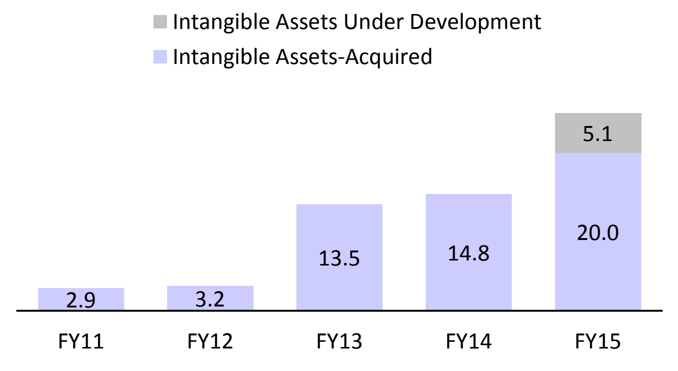
Source: Company Annual Report, MOSL

Exhibit 13: Goodwill rises on consolidation of Ranbaxy's subsidiaries



Source: Company Annual Report, MOSL

Exhibit 14: Intangibles up 69% YoY (INR b)



Source: Company Annual Report, MOSL

Cash at 42% of net worth yields 5.2%; debt rises on Ranbaxy acquisition

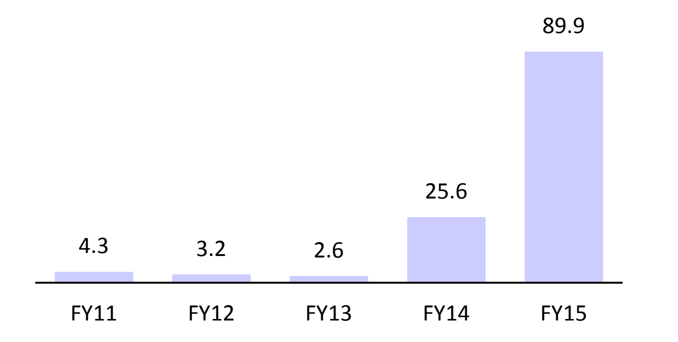
- Cash and investments increased to INR107.1b (42% of net worth) from INR71b in FY14 (38% of net worth), yielding 5.2% returns; of this amount, INR57.4b (FY14: INR37.8b) is in Taro Pharmaceuticals.
- Debt increased from INR26b in FY14 to INR90b in FY15, primarily on account of Ranbaxy acquisition.

Exhibit 15: Yield on investment falling over the years (INR b)….

Particulars	FY11	FY12	FY13	FY14	FY15
Income	2.7	4.4	3.5	5.0	4.6
Investment, cash and loans	31.9	43.6	45.3	71	107.1
Yield on average Basis	11.3%	11.6%	7.9%	8.6%	5.2%

Source: Company Annual Report, MOSL

Exhibit 16: Debt increases on Ranbaxy acquisition (INR b)



Source: Company Annual Report, MOSL

Other assets maintained at consolidated level, down on standalone

- During FY14, USD400m receivable from a third party pertaining to Protonix settlement was represented as part of other assets (amongst other current assets)—which stood at INR24b both for standalone and the consolidated entity.
- During FY15, the amount under other assets outstanding on the standalone entity declined to INR9m while at the consolidated level it stood at INR25.6b. However, the details pertaining to amount outstanding in FY15 are not specified.

Exhibit 17: Other assets decline at standalone, maintained at consolidated (INR m)

	Standalone		Consolidated	
Particulars	FY14	FY15	FY14	FY15
Other Current Assets - Others	24,002	9	24,002	25,602

Source: Company Annual Report, MOSL

Cash flow continues to improve

- Operating cash flow post interest increased 29% YoY to INR51b while the free cash flow declined 9% YoY on rising capex.
- Unrealized forex gains stood at INR7.8b, 12% of PBT (FY14: INR0.1b, 0.2% of PBT)

Exhibit 18: Operating cash flow rises 38% while free cash flow declines on higher capex (INR b)

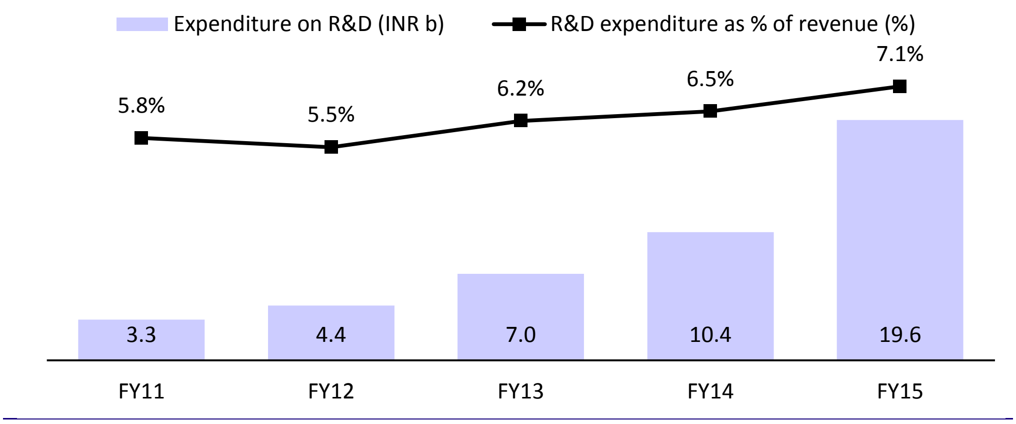
Particulars	Standalone		Subsidiary (derived)		Consolidated	
	FY14	FY15	FY14	FY15	FY14	FY15
PBT	**-28**	**-16**	**74**	**80**	**46**	**64**
Add/Less: Unrealized forex gains	-	-	-0.1	-7.8	-0.1	-7.8
Add/Less: Non-cash adjustments	1	8	3	6	4	13
Add/(Less): Non-Operating adjustments	-1	-2	-4	3	-5	2
Less: Direct Taxes Paid	-1	-2	-6	-15	-8	-17
Operating Profit Before Wkg. Capital Changes	**-29**	**-12**	**67**	**65**	**38**	**54**
Inventories	0	4	-5	-2	-5	2
Trade Receivables	3	3	-1	-13	2	-10
Loans and Advances	-1	-1	4	-1	3	-2
Other Current Assets	-24	28	0	-29	-24	0
Trade Payables	0	1	3	2	3	3
Current Liabilities and Provisions	27	-23	-4	30	24	7
Cash Generated from Operations after Tax	**-24**	**1**	**64**	**52**	**40**	**53**
Less: Financial Cost	0	-3	0	1	0	-3
Free Cash Flow from Operations post Interest	**-24**	**-2**	**64**	**53**	**39**	**51**
Less: Capital Expenditure	-4	-10	-5	-13	-9	-23
Free cash flow post interest	**-29**	**-12**	**59**	**40**	**30**	**28**

Source: Company Annual Report, MOSL

R&D increases to 7.1% of revenue

- R&D increased to 7.1% of revenue (FY14: 6.5%) in FY15 on the back of increased activities in complex generics and specialty branded products.

Exhibit 19: Increase in R&D



Source: Company Annual Report, MOSL

ART #2 MANAGEMENT SPEAK / KEY PLANS

Future outlook

- **Investing for future**: As a part of the focus toward enhancing share of specialty/branded business and targeting differentiated product offerings, the ophthalmic and OTC teams in the US have been strengthened. A dedicated team for MK-3222 (an anti IL-23 anti-body), which is currently undergoing Phase-III clinical trials, is also being set up. Significant resource allocation to R&D will continue to strengthen the specialty pipeline, including patented products and complex generics; this will entail increased R&D investments, including that for the development of MK-3222.
- **FY16 outlook**: Various factors are likely to adversely impact the company's overall revenue and profit for FY16, with consolidated revenue expected to remain flat or decline over FY15. Consolidated profit for FY16 may be adversely impacted due to lower revenue and certain expenses/charges arising out of Ranbaxy integration as well as remedial actions.
- **Long-term outlook:** Post the consolidation in FY16, the company will be better placed to pursue above-industry growth in subsequent years. The above initiatives will help the company return to a more sustainable growth trajectory.

Ranbaxy merger

- In March 2015, SUNP completed the merger of Ranbaxy. The merger has strengthened SUNP's positioning as the world's fifth largest specialty generic company. The merger has also made the SUNP the undisputed leader in the Indian pharmaceutical market, with almost 9% market share and the No. 1 prescription ranking with 13 different doctor categories.
- The merger significantly enhances SUNP's presence in many markets including the US, emerging markets and Europe. It also gives us an entry point in the over-the-counter (OTC) business segment—a strategic strength, which we plan to leverage for establishing a global OTC business. The merger also significantly enhances SUNP's ability to invest further in R&D.
- There are specific integration milestones that have been identified to generate the targeted synergy benefits of USD300m from the merger. While we will need to incur certain one-time integration charges to generate synergies, this objective has offered us the unique opportunity to analyze every aspect of our business to increase efficiencies and optimize operations while focusing on where resources can be best utilized.

FY15 highlights

- **Taro**: Reported good performance despite increasing competition. For FY15, Taro's revenues grew 14%, while EBITDA grew 22%. EBITDA margins expanded by over 400bp to 63.1% for the year. Taro's net profit for FY15 increased 34%.
- **Manufacturing consolidation**: In May 2014, SUNP announced the closure of its Detroit (USA) facility as a part of manufacturing consolidation. All relevant products, which were being manufactured at this facility, were shifted to SUNP's other facilities.

- **Enhancing the specialty pipeline**: In September 2014, SUNP and Merck & Co. Inc. entered into an exclusive worldwide licensing agreement for Merck's investigational therapeutic antibody candidate tildrakizumab, (MK-3222), which is currently being evaluated in Phase-III trials to treat chronic plaque psoriasis—a skin ailment. Under the terms of the agreement, Sun Pharma acquired worldwide rights to tildrakizumab for use in all human indications from Merck in exchange for an upfront payment of USD80m—milestone payments and tiered royalties.
- **Strengthening presence in controlled substances**: In March 2015, SUNP entered into an agreement with GSK to acquire the latter's Opiates business in Australia along with two manufacturing facilities. The acquisition provides Sun Pharma access to a product portfolio consisting of poppy-derived opiate raw materials that are primarily used in the manufacture of analgesics for the treatment of moderate to severe pain. The global opiates market holds good potential and the addition of GSK's opiates business will strengthen SUNP's positioning.
- **Divisional highlights, FY15:** SUNP's presence in emerging markets expanded significantly due to Ranbaxy acquisition. The sales of emerging markets increased 260% to INR37,326m in FY15, but were partly moderated by currency volatility in few markets of the region. Revenue contribution from emerging markets increased to 14% in FY15.
- Revenue in Rest of the World (RoW) markets increased significantly by 166% to INR23,320m in FY15, driven by Ranbaxy acquisition. Revenue contribution from the c region increased to 8% in FY15.

ART #3 GOVERNANCE MATTERS

Auditor rotation likely as per Companies Act 2013

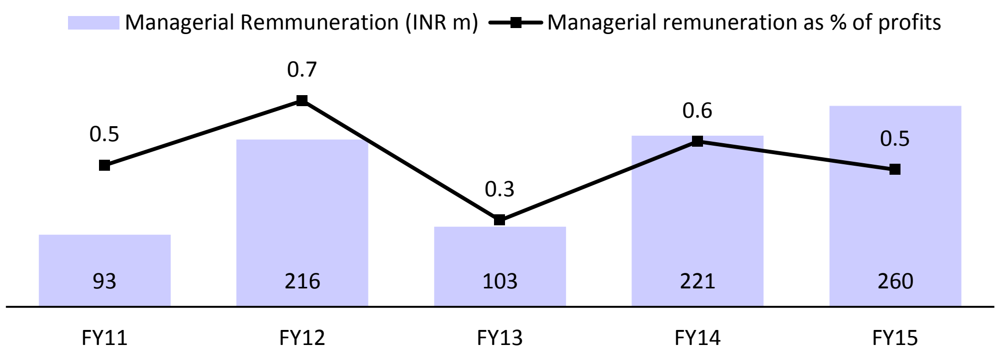
Statutory auditors to be mandatorily changed post FY17, in accordance with the new Companies Act

- Deloitte Haskins & Sells (DHS LLP) has been the auditors of Sun Pharma since FY04.
- The Companies Act 2013 requires mandatory rotation of auditors for listed entities after serving for 10 consecutive years. The Act further provides a three-year period (from April 1, 2014) to comply with this requirement.
- As required by the new Companies Act, DHS LLP was appointed as the statutory auditor of the company in FY14 for three years till FY16-17 (subject to ratification of its appointment at every AGM).

Managerial remuneration as a percentage of PBT dips during FY15

- Managerial remuneration stood at INR260m, 0.5% of PBT (FY14: INR221m, 0.6% of PBT).

Exhibit 20: Managerial remuneration constant (INR m)



Source: Company Annual Report, MOSL

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