

Scaling up Specialty. Leading with Care.



Sun Pharmaceutical
Industries Limited

Annual Report 2021-22



Reaching People. Touching Lives.





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NOTICE

Scaling up Specialty. Leading with Care.

At Sun Pharma, we have built a scalable global specialty business over the past few years to drive sustainable growth. Our R&D investments, highly skilled people, emphasis on technology and the ability to spot the right opportunities have enabled us to build a strong portfolio of specialty products.

Sun Pharma has become the first Indian pharmaceutical company to cross US\$ 5 billion in global revenues. Our specialty focus has started yielding results with our global specialty business nearly doubling its contribution in four years. With four molecules

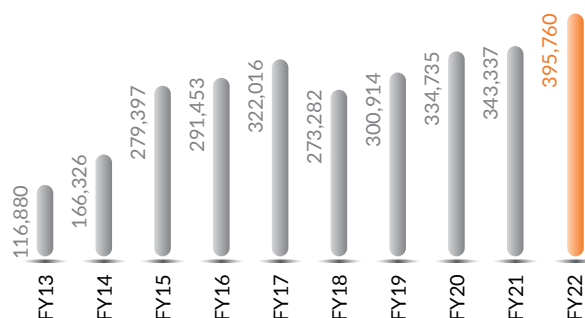
undergoing clinical trials in different phases, we expect to continue scaling up our specialty business while moving up the pharmaceutical value chain.

As we continue to enhance our focus on innovation, care remains integral to our core purpose of reaching people and touching lives globally. We remain committed to patient care and providing uninterrupted access to quality medicines – leveraging our global presence and market positioning, and making continued investments towards creating a shared, healthier future for all.

KEY PERFORMANCE INDICATORS (CONSOLIDATED)

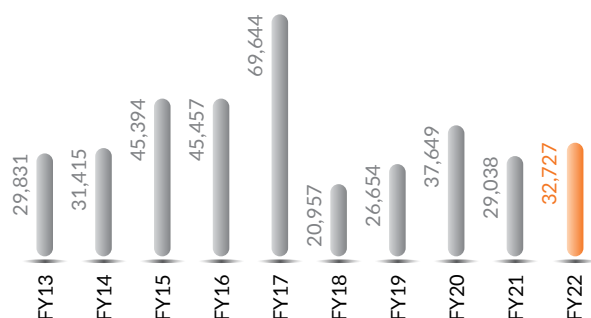
Total income

(₹ Million)



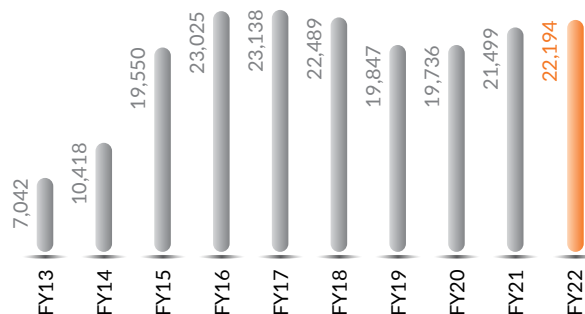
Net profit after minority interest

(₹ Million)



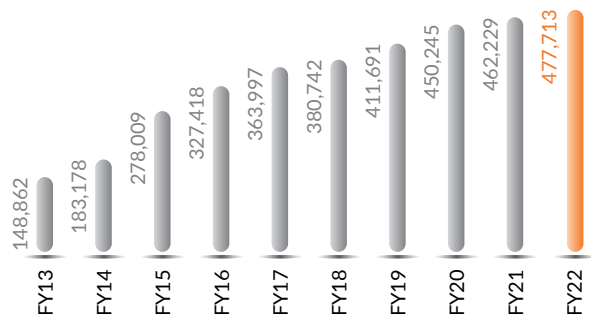
R&D investment

(₹ Million)



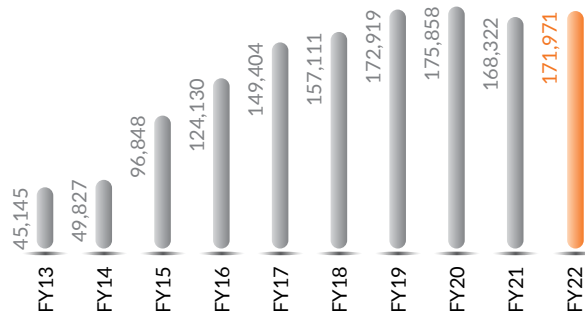
Reserve & surplus

(₹ Million)



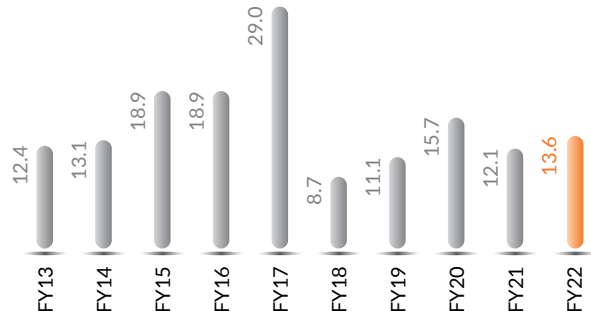
Carrying value of property, plant & equipment and other intangible assets**

(₹ Million)



Earning per share (adjusted for bonus/split)*

(₹ per share)



* During the FY14, the Company issued bonus shares in the ratio of one equity share of ₹1 for every share held.

* During the FY16, the Company's equity shares increased to 2,407 Million due to the merger of erstwhile Ranbaxy Laboratories Ltd. (RLL) with the Company, wherein 0.80 equity share of ₹1 each of the Company have been allotted to the shareholders of RLL for every 1 share of ₹5 each held by them.

The Company has adopted Ind AS accounting standard w.e.f April 1, 2016 with prior period restated from April 1, 2015. Hence, FY16 onwards the financials are reported as per Ind-AS and are not strictly comparable with previous years.

** Carrying value of property, plant, equipment and other intangible assets includes Capital work-in-progress & Intangible assets under development

TEN YEAR FINANCIAL HIGHLIGHTS (CONSOLIDATED)

(₹ Million)

Particular	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Operating performance										
Revenue from operations	112,999	160,804	273,920	284,870	315,784	264,895	290,659	328,375	334,981	386,545
Total income	116,880	166,326	279,397	291,453	322,016	273,282	300,914	334,735	343,337	395,760
Net profit for the year (after minority interest)	29,831	31,415	45,394	45,457	69,644	20,957	26,654	37,649	29,038	32,727
R&D expenditure	7,042	10,418	19,550	23,025	23,138	22,489	19,847	19,736	21,499	22,194
a) Capital	427	556	1,178	783	1,679	1,819	718	484	471	869
b) Revenue (excluding depreciation)	6,616	9,862	18,373	22,242	21,459	20,669	19,129	19,252	21,028	21,325
c) % of sales	6.3	6.5	7.2	8.3	7.6	8.6	6.9	6.1	6.5	5.8
Financial position										
Equity share capital	1,036	2,071	2,071	2,407	2,399	2,399	2,399	2,399	2,399	2,399
Reserve and surplus	148,862	183,178	278,009	327,418	363,997	380,742	411,691	450,245	462,229	477,713
Property, plant & equipment and other intangible assets (at cost)**	75,763	86,505	143,616	187,212	217,315	238,073	271,424	298,549	308,582	332,393
Carrying value of property, plant & equipment and other intangible assets**	45,145	49,827	96,848	124,130	149,404	157,111	172,919	175,858	168,322	171,971
Investments	24,116	27,860	35,028	18,299	11,919	71,429	79,025	101,431	96,125	128,486
Net current assets	86,618	126,969	135,488	167,973	150,666	117,716	137,296	159,477	142,965	178,144
Stock information										
Number of shares (in Million)	1,036	2,071	2,071	2,407	2,399	2,399	2,399	2,399	2,399	2,399
Earnings per share (adjusted for bonus/split) (in ₹)*	12.4	13.1	18.9	18.9	29.0	8.7	11.1	15.7	12.1	13.6
Earnings per share-Basic (in ₹)*	28.8	15.2	18.9	18.9	29.0	8.7	11.1	15.7	12.1	13.6
Earning per share-Diluted (In ₹)*	28.8	15.2	18.9	18.9	29.0	8.7	11.1	15.7	12.1	13.6

* During the FY14, the Company issued bonus shares in the ratio of one equity share of ₹1 for every share held.

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MANAGING DIRECTOR'S MESSAGE



Dear Shareholders,

I am happy to write to you on the completion of a good year with strong performance across multiple parameters.

FY22 witnessed robust top-line and EBITDA growth with global revenues crossing the US\$ 5 billion mark and adjusted net profit surpassing the US\$ 1 billion mark for the first time in Sun Pharma's history. All geographies did well, recording double-digit growth, while profitability improved despite rising costs.

Normalcy is returning to economic activities globally. Patient visits to doctor clinics are improving and new product launches are gaining traction.

Our global consolidated revenues grew by 15.6% to ₹ 384 Billion while EBITDA grew by 23.6% to ₹ 101 Billion with EBITDA margins expanding by 170bps to 26.5% over the previous year. Adjusted net profit (excluding exceptional items) was up by about 29% to ₹ 76 Billion.

Excluding exceptional items, ROCE improved by 288bps to 16.4%, ROIC by 306bps to 21% while ROE improved by 256bps to 15%.

The contribution of our global specialty business has nearly doubled from 7% of consolidated revenues in FY18 to about 13% in FY22.

Operational performance

For FY22, India formulation sales were at ₹ 127 Billion, up 23% and accounted for about 33% of overall revenues. Excluding the contribution of COVID products, the underlying business performed well, with about 20% growth over the previous year.

Our India business outperformed the average industry growth, driven by our leading presence in chronic segments coupled with our strong brand equity with doctors. As per AIOCD AWACS March 2022 data, our market share increased to 8.34% on MAT basis from 8.17% in the previous year.

As per SMSRC data for February 2022, Sun Pharma ranks No. 1 by prescriptions with 11 different classes of doctors. We continued our new launches momentum with 77 new product introductions in India.

The India field force expansion undertaken in FY21 met with good success and the new field force achieved its targets ahead of time.

Revenues in the US grew by about 13% to ₹ 114 Billion and accounted for approximately 30% of our consolidated revenues for FY22. Specialty sales in US continued to gain traction. While the generics business continued to face price erosion, we were able to partly compensate it through new launches and an efficient supply chain.

Our subsidiary, Taro, recorded about 2% growth in overall revenues to US\$ 561 Million. During the year, Taro acquired Alchemee (formerly The Proactiv Company) from Galderma, including the Proactiv® brand for acne treatment. The acquisition further strengthened Taro's OTC dermatology portfolio.

Our Emerging markets (EM) sales grew by 16% to ₹ 67 Billion and contributed about 18% of our consolidated revenues. In local currency terms, large markets like Russia, Brazil and Romania recorded strong double-digit growth. Post the close of the financial year, Sun Pharma expanded its OTC presence in Romania by acquiring Uractiv™ OTC portfolio from Fiterman Pharma. It is the number one brand in its category and the portfolio comprises food supplements including minerals, vitamins and adjuvants; cosmetics and medical devices used for maintaining urinary tract health.

Our sales in the Rest of World (RoW) markets grew by 11% to ₹ 54 Billion and contributed about 14% to consolidated revenues. Growth was driven by higher sales in Western Europe and ramp-up in Ilumya sales in Australia and Japan. Odomzo also gained traction in RoW markets.

Research & Development (R&D)

Our R&D investments were approximately ₹ 22 Billion, at 5.8% of overall sales. During the year, we filed approximately 200 formulation dossiers globally. We continued our R&D efforts to develop differentiated generics and innovative specialty products. Some of the clinical trials for our specialty products got delayed during FY22 due to the pandemic but are expected to gradually normalise in FY23.

We have multiple R&D centres and a strong R&D team which enables development of new products for various markets globally. We remain disciplined in identifying future R&D projects for the US generics market and the focus is on developing complex products. Investments for developing the long-term specialty pipeline are expected to continue and R&D investments are expected to increase as clinical trials for specialty products gain traction.

We continue to focus on improving the efficiency and productivity of our R&D operations, targeted at faster new product launches and ahead of competition.

Specialty business performance

Global specialty revenues recorded a strong 39% growth to reach US\$ 674 million. We witnessed a strong traction in global Ilumya sales, which were up by about 81% to US\$ 315 million. Cequa, Odomzo and Levulan were the other contributors to the ramp-up in the specialty business.

During the year, we in-licensed and commercialised Winlevi, an anti-acne product in the US market. Given its new mechanism of action, the medical community has shown good interest in prescribing the product to their patients.

Progress on specialty R&D pipeline – Sun Pharma's specialty R&D pipeline has four molecules undergoing clinical trials:

- a. **Ilumya** – is undergoing Phase-3 clinical trials for psoriatic arthritis. A successful Phase-3 trial, subject to regulatory approval, is likely to expand the addressable market for Ilumya.
- b. **SCD-044** – is in Phase-2 clinical trials as a potential oral treatment for atopic dermatitis and moderate to severe plaque psoriasis. SCD-044 is a selective S1PR1 modulator with good cardiac safety profile.
- c. **MM-II** – is currently in Phase-2 trials as a potential treatment for knee pain in patients with symptomatic knee osteoarthritis. MM-II is a product with empty multi-lamellar liposomes for treatment of pain in osteoarthritis.
- d. **GL0034** – a GLP-1R (Glucagon-Like Peptide-1 Receptor) agonist – is undergoing Phase-1 clinical trials for treating diabetes. The pre-clinical data had demonstrated significant outcomes on various diabetic parameters, such as glucose reduction, decrease in HbA1c, augmented insulin secretion, lowering of glucagon level, meaningful reduction in triglyceride levels and larger body weight reduction. We are enthused about the pre-clinical data and look forward to validating it in human trials.

cGMP compliance

With economies worldwide returning to normalcy and the resumption of international travel, global regulatory agencies have re-initiated physical visits to manufacturing facilities for cGMP inspections. During the year, many of our manufacturing plants underwent such inspections by multiple regulatory agencies. Adherence to global cGMP standards is a key priority for us, and we have an unwavering focus on 24x7 compliance to ensure continuity of supplies to our customers and patients worldwide.

After close of the year, the USFDA inspected the Halol (Gujarat) facility and issued Form-483 with 10 observations. We will submit a comprehensive response including the corrective actions to be undertaken for addressing the observations within the stipulated timeframe, to the USFDA. We are fully committed to meeting all cGMP standards and will work closely with the USFDA to resolve these observations.

Efficiency improvement

Our focus has always been on sustainable cost reduction via technology interventions and process enhancements. We are also directing our efforts to reduce working capital deployment across our businesses. Sustained efforts are being made to further improve our manufacturing efficiencies, optimise our manufacturing footprint and reduce overall fixed costs.

Debt reduction

Debt repayment during the year was about US\$ 355 million; over the last three years, we repaid debt of about US\$ 1.38 billion. At year-end, Sun Pharma had a strong net cash position of about US\$ 2 billion.

Overall outlook

All our businesses are positioned for growth, and we expect high-single-digit to low-double-digit consolidated topline growth for FY23. Ramp-up in our global specialty business is expected to continue. As business operations normalise globally, overall expenses are expected to increase. Our R&D investments will be about 7-8% of sales in FY23 with increased spending expected on clinical trials for specialty products.

Top priorities for FY23

- Sustainable and profitable business growth
- Supply chain continuity along with focus on inventory optimization
- Continued focus on cost and operational efficiency
- Increased investments in IT to facilitate business and digital transformation
- Focus on improving overall return ratios
- Sustained efforts on reducing carbon footprint, water consumption and environmental impact

Our employees are our key assets. Over the last two years, they have worked hard to ensure business continuity despite the multiple pandemic-induced disruptions, thus enabling us to maintain supplies of our products in various markets while ensuring overall productivity and without compromising on safety protocols.

We are grateful to our Board of Directors for their guidance and support.

Your support to us as a shareholder is of vital importance, and we hope that you will continue to repose your confidence in us in the future as well.

Warm regards,

Dilip Shanghvi
Managing Director
Sun Pharmaceutical Industries Limited

BOARD OF DIRECTORS



Israel Makov
Chairman, Non-Executive and Non-Independent Director



Dilip S. Shanghvi
Managing Director



Rama Bijapurkar
Non-Executive and Independent Director



Sudhir V. Valia
Non-Executive and Non-Independent Director



Dr. Pawan Goenka
Non-Executive and Lead Independent Director



Gautam Doshi
Non-Executive and Independent Director



Sailesh T. Desai
Whole-time Director



Kalyanasundaram Subramanian
Whole-time Director

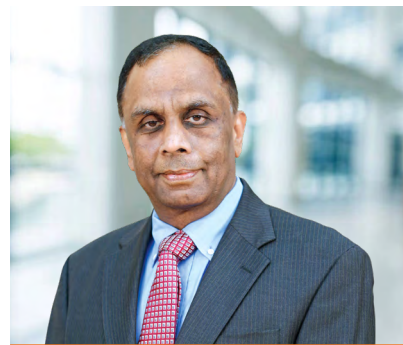
LEADERSHIP TEAM



Abhay Gandhi
CEO - North America



Dr. Sapna Purohit
Senior Vice-President,
Head of Human Resources



S. Kalyanasundaram
Whole-time Director and
Director - Corporate Development



Aalok Shanghvi
Executive Vice-President,
Head - Emerging Markets
Head - Global Generics R&D
and Business Development



C. S. Muralidharan
Chief Financial Officer



Jila Breeze
Executive Vice-President,
Global Head - Quality



Anil Rao
Senior Vice-President,
Chief Information Officer
(w.e.f. June 20, 2022)