

Sun Pharma Q2 2007-08  
Results Conference Call Transcript  
1000 hours, October 26, 2007



## **Corporate Participants**

Dilip Shanghvi  
Chairman and Managing Director, Sun Pharmaceutical Industries Ltd.

Sudhir Valia  
Wholetime Director, Sun Pharmaceutical Industries Ltd.

**Moderator:** Good morning ladies and gentlemen. Welcome to the Sun Pharma earnings conference call. I am Rita, the moderator for this conference. For the duration of the presentation, all participants' lines will be in the listen-only mode. There will be a question and answer session after the presentation. Now, I would like to hand over to Sun Pharma. Thank you and over to Sun Pharma.

**Uday Baldota:** Thank you, Rita. Good morning and a warm welcome to our 2007-08 second quarter and half year earnings call. I am Uday from the Sun Pharma Investor Relations team. Today, our hosts are Mr. Dilip Shanghvi, Chairman and Managing Director and Mr. Sudhir Valia, Wholtime Director and they will, as usual, discuss the performance highlights and share some developments on strategy. We hope you have received our second quarter and half year financials and press release, sent out yesterday, which are also available on our website. These financial numbers are unaudited and for the ease of discussion, we will look at the consolidated numbers. For the purpose of this discussion, net sales is taken net of excise duty and indirect taxes.

Just as a reminder, this call is being recorded and a replay of the call will be available till October 29. The call transcript will also be put on our website soon. It would be appropriate to mention that the discussions today may include certain forward-looking statements and these must be viewed in conjunction with the risks that our business faces. Also, I would like to request all of you to kindly send in your queries that remain unanswered during today's earnings call to [uday.baldota@sunpharma.com](mailto:uday.baldota@sunpharma.com) or [miradesai@sunpharma.com](mailto:miradesai@sunpharma.com). I now hand over the call to Mr. Dilip Shanghvi.

**Dilip Shanghvi:** Welcome and thank you for joining us today for the conference call after announcement of the financial results for the second quarter and first half of 2007-08.

Before we get into a discussion of operations and strategy highlights, a quick update on our US generics business. Last 2 months have seen several of our first to file patent challenge based ANDA filings mature. While we continue to evaluate all options for Pantaprazole and Rivastigmine, we have launched Oxcarbazepine, a product on which we were not sued. In other significant development, for our ANDA on generic Effexor XR, Wyeth has given us, of its own accord, a covenant not to sue. This clears our path for launching the product once we receive US FDA approval. As usual, we tend to take a cautious, science based approach to these filings and are happy at the opportunity such products offer.

Now, Mr. Valia will first talk about the performance and financial highlights, and later I will come back to talk about strategy and direction.

I will now hand over to Mr. Valia.

**Sudhir Valia:** Good morning everybody. Our first half and second quarter numbers are already with you. It has been a good half year, with growth across all our business segments. First, we'll look at key consolidated financials.

For the first half, net sales is at Rs 12618 million, an increase of 24% over the first half last year. For the second quarter, net sales is at Rs 6465 million, also an increase of 24% over the second quarter last year.

EBIDTA for the half year is Rs 4558 million, an increase of 30% over the first half last year. Resulting EBIDTA margin is 36%, higher than 34 % achieved in the first half last year.

EBITDA at Rs 2409 million during the second quarter is 41% higher than that for the second quarter last year. EBITDA margin at 37% is significantly higher than 33% achieved in Q2 last year.

For the first half, net profit after minority interest is at Rs 4458 million, an increase of 23% over the first half last year

Net profit after minority interest for the second quarter is up 17% at Rs. 2186 million from Rs. 1864 million.

Net margin for the first half is 35%, at the same level as for the first half of last year. Net margin for the second quarter is 34%, lower from 36% in second quarter of last year.

For the second quarter, material cost as a % of net sales is down to 28% from 30% in the previous corresponding period. For the first half it is at 30%, compared to 29% for same period last year.

Staff costs for the quarter are at 12% of net sales, more or less the same as the corresponding period last year.

R&D expense for the quarter has decreased from Rs 829 million in second quarter last year, to Rs 713 million this quarter. Current quarter costs do not include R&D costs for the innovative projects that have moved to SPARC, while these are included in the costs for last year.

On a fully diluted basis, EPS for the second quarter is Rs. 10.60, up from Rs. 9.0 for the second quarter last year.

Now we'll take a closer look at each of our business segments.

We continue to add to market share with key specialists as India's largest speciality company. Domestic formulation, the largest component of our business, continues to grow and profit.

Domestic formulation sales at Rs 3720 million have grown a 31% in the second quarter this year over corresponding quarter last year. For the entire first half, growth has been 28 %. As per the latest MAT ORG IMS data, Sun Pharma market share is now 3.3%. Our five main therapy areas, cardiology, psychiatry, neurology, gastroenterology, and diabetology accounted for over 70% of our domestic formulation sales.

So far this first half, 21 key products were brought to market in India. Aztor, Repace group, Oxetol continued to show double digit growth rates.

Caraco recently announced its H1 and Q2 numbers. Caraco reported second quarter sales of USD 41.4 million, up 46%. Gross margin was 44%, as against 50% for Q2 of last year, largely on account of increase of revenue share of distributed products. Gross margin for the first half on manufacturer products was at 49%. Net income was USD 4.6 million for the second quarter compared to USD 2.3 million in the same quarter last year.

Our expertise in process chemistry has enabled more cost effective processes and introduction of several new products, including our ability to file interesting para 4 challenges for the US. In all, this half we scaled up 13 APIs. The tally for regulated market approvals for APIs at the end of the first half is 45 regulated market approvals, of 92 filings made for DMFs and CEP. Our API business was down 26% and 8% during the second quarter and first half respectively when compared with these periods of last year.

With this, I will now handover to Mr. Shanghvi.

**Dilip Shanghvi:** Thank you Mr. Valia.

This has been an interesting quarter. Our business, modeled as it is for a consistent revenue and profit stream, continued to show good growth across areas. Other than business as usual, the issues around the Taro merger and patent challenges kept us busy.

As I've said earlier, we continue to seek companies in the US generic space that offer an increase in our generic footprint, which the proposed capital raising program prepares us for. However any action on this front will wait till we complete the Taro merger, and we will not raise any additional funds till we use up the funds available with us.

Taro is to announce its performance for the year ending Dec 2006, for which there is currently no date indicated and subsequently reschedule its shareholders meeting. Our holding in Taro stands at 25%, and we remain confident of closing this transaction.

As most had expected, both the the Republican and Democrat manifestos feature healthcare as one of the key priorities, and appear to be pro-generic.

Recently the FDA called for public comment on several complex issues related to certain 180-day exclusivity forfeiture and Orange Book patent "delisting" issues concerning ANDAs submitted with a paragraph IV patent certification. While it is early days yet to comment, and it does seem that FDA is considering this on a case by case basis, leaving the field open for court's interpretation, instead of proactively addressing such issues more broadly when it frames regulations. I think Indian companies filing ANDAs with a para 4 patent certification are in for interesting times.

With recent newsflows on generic Effexor XR, generic Protonix, generic Trileptal and generic Exelon, we've begun to get clarity on the way forward and timelines for the first set of ANDAs filed with paragraph 4 certification. We are confident of our science that backs these ANDA filings.

Caraco had reported a good set of numbers for the first half recently. Across Sun and Caraco, ANDAs were filed for 11 products during this quarter and 17 products during the first half. Between both the companies, 86 ANDAs for 71 products await approval, including 8 tentative approvals.

R&D investment for the first half is Rs 713 million, or 11% of net sales. As you know, numbers for last year are not comparable as the costs related to innovative R&D have, as of March 1, moved to SPARC Ltd.

At our research labs we now have 565 scientists working on projects in generic development, with one of the strongest research productivities in the industry. As you know, these projects power our growth plans in India and in international markets. Based on their work, we have built a patent library of 426 patents filed of which 74 patents have been approved.

We have delivered strong operating profitability and a performance above guidance, despite continuing appreciation of the rupee against the dollar. We expect to deliver consistent performance in the second half too.

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

**Moderator:** Thank you very much sir. We will now begin the Q&A interactive session. Participants who wish to ask questions kindly press \*1 on your telephone keypad. On pressing \*1 participants will get a chance to present your question on a foreseen line basis. Participants are requested to use only handsets while asking questions. You ask a question kindly press \*1 now. First in line we have Ms. Visalakshi from DSP Merrill Lynch, over to you madam.

**Ms. Visalakshi:** I have two questions. The first question on your domestic formulations business, this quarter has seen an all time high in sales in domestic formulations, could you highlight what has driven this kind of surge in growth in this business and what are the key drivers going forward? Secondly, on Effexor XR do you believe that you qualify for an AB rating first of all and if yes, why do you believe so?

**Dilip Shanghvi:** We are actually trying to work out a very different kind of field incentive program with a view to achieving consistency in our business and what we are seeing is a result of these changed distribution and incentive programs. As to whether this reflects underlying growth, we are confident of these numbers. Our feeling is that there is a certain amount of one-time benefit that we are seeing. The exact numbers of this one-time benefit are difficult to estimate, but we expect going forward that sales growth will moderate. It will not remain at 30%. About Effexor XR, our understanding is that our product will not be AB rated to Effexor XR, but it will be a therapeutically equivalent product but not both pharmaceutically

equivalent as well as therapeutically equivalent. So it will require a slightly different way for both selling as well as distributing that product.

**Ms. Visalakshi:** So in that case do you believe that there can be a reasonable switch that can happen from the brand to the generic, in case you get an FDA approval.

**Dilip Shanghvi:** There should be a reasonable switch. All of this depends on when we get the approval, what is the time that we get this product to market and what is the emergence of the other generic competitors. So it is difficult for us to very clearly estimate the impact that this product can make in terms of switch.

**Ms. Visalakshi:** Thank you very much.

**Moderator:** Thank you very much madam. Next in line we have Mr. Mehta from Mehta Partners, over to you sir.

**Mr. Mehta:** Good morning everybody and congrats for good numbers. I have couple of questions. First of all, looking at your consolidated gross margins that have increased substantially although the gross margin in Caraco has actually decreased, I assume that there would be negative impact of foreign exchange as well, sir can you highlight the reasons behind this robust increment in gross margin?

**Dilip Shanghvi:** I think part of it is because of our formulation business as a percentage of overall business has gone up significantly and I think we continue to remain focused on maintaining cost control for all our businesses, so what we see is possibly some margin increases on account of those controls.

**Mr. Mehta:** Sir, do we take this as a sustainable margin going forward?

**Dilip Shanghvi:** I think it is difficult for us to take a long term view on margins.

**Mr. Mehta:** Okay, can you also briefly mention about the foreign exchange impact on the financials. What could be the negative impact or how will you neutralize against the foreign exchange liabilities that you have?

**Mr. Valia:** The exchange valuation affects the dollars, which is very important for all of us, and is mainly outside India. Since all the current assets which we have, have to be valued at the market value, any reduction in the currency which we hold has to be valued at a lower rate. And since we are also present across world markets, all the financials of subsidiaries, first booked in their currency or dollar, finally gets reflected into rupee that variation also we have to account for. When we have a closing stock in a subsidiary, in terms of rupee whether it is higher, lower or even if there is no transaction, this becomes a complex scenario when we consider the transaction.

**Mr. Mehta:** Thank you, so I understand that the translation impact would be very complex. But if we were to just take that away, or do not consider that, what could be the broad or rough impact, on a YOY basis in the Rupee.

**Mr. Valia:** Only to the extent that we have current assets, if we have an investment then the currency translation does not affect that .

**Mr. Mehta:** Okay but currency translation would have had some impact on Caraco profitability, on margins, when you converted to rupees.

**Mr. Valia:** That always happens, what you are say is right. Marginal issues of cost as well as margin, since Caraco is buying in dollars and selling in dollars, if you consider Caraco separately then there will be no major impact. When you consolidate and convert currencies, there will be some impact.

**Mr. Mehta:** Okay and that is the translation.

**Mr. Valia:** Yes

**Mr. Mehta:** Okay.

**Dilip Shanghvi:** Well, also if you see the overall financial income in this quarter, it is significantly lower than the previous quarter. The underlying business income has grown significantly higher than the 17% overall increase. So part of this is also on account of exchange rate fluctuations.

**Mr. Mehta:** So financial income being lower is actually a reflection of that foreign exchange impact.

**Dilip Shanghvi:** That is correct, the interest income has not changed.

**Mr. Mehta:** Okay. One last question and that is on Effexor XR. You just mentioned that you are expecting an approval which is not an AB rated but therapeutically equivalent, so in that case it will be launched as a separate brand and to that extent you will have to deploy a sales force to launch it.

**Dilip Shanghvi:** Again that is one option, not necessarily the most attractive option, because the duration of exclusivity is limited.

**Mr. Mehta:** What could be the other options, if you can just kind of educate us?

**Dilip Shanghvi:** I personally think that it should be possible to look at different class of customers with different strategies. And we are currently working out all of the options that are available to us.

**Mr. Mehta:** Okay, thanks a lot.

**Moderator:** Thank you very much sir. Next in line we have Mr. Kapadia from Prabhudas Liladhar, over to you sir.

**Mr. Kapadia:** Good morning and congratulations on a good set of numbers. The formulation business has shown a robust growth, but the API business is lagging. So what are the strategies, though the business constitutes only a small portion of your overall business, still - 24% declined in domestic and 27% decline in export, does that worry you?

**Mr. Valia:** Well, that is a good question and every reduction in business is always a matter of anxiety, but what really happens is a little different than what we read, because there are impacts which we have to factor in when we consolidate the numbers. API manufactured by us, at our facility for either our own formulation business or that of our subsidiary, is not to be accounted for as a sale on consolidation. So actually the production capacity or ability to produce a larger quantity than we used to produce has increased, but when we read through the consolidated number then we realize that this sale is reflected not under the head of API sale, but it is booked in the sales of formulation, because ultimately that API has been converted by our factory into a formulation. So that is one of the major reasons for this reflection. But yes, what one can otherwise say is that the customers or outside parties whom we used to cater to, now we are catering to a lesser number of people than earlier or lesser quantity than earlier. Definitely, this is a lumpy business and competition is high, price erosion is very high and input cost, as all of us know, is going up. So it is definitely a very competitive business where we have to find ways to survive, but the capacity allocation is also an important criteria, because if I want to divert larger capacity towards in-house consumption, then I have to compromise somewhere. I can only focus on a value added product and move out a lower value added product. So we have removed most of the lower value added API products, and that gets reflected into a little upswing in margin for the business.

**Mr. Kapadia:** Sir I understand that the benefits of API have already been captured in the sales of formulations. So is that the residual part of the business which is showing a loss, or showing lower growth or lower margins.

**Dilip Shanghvi:** That is partially the effect of the erosion of dollar, because the dollar has lost 10% and most of our exports are in dollar terms. Also a significant impact of more of our product being approved for international markets, and a larger part of the facility being deployed for inhouse supply of bulk. After this, we have relatively smaller quantity of material that we can offer to third parties.

**Mr. Kapadia:** Thank you very much.

**Dilip Shanghvi:** Yes thank you.

**Moderator:** Thank you very much sir. Next in line we have Mr. Amit Shah from ICICI Securities, over to you sir.

**Amit Shah:** Congratulations on good set of numbers. Sir, couple of questions. Out of Rs. 2000 million which was supposed to be transferred to SPARC over the next 2-3 years, how much will the company be transferring in next half of the year?

**Dilip Shanghvi:** Yes I think we have no specific number that we can share, other than Rs. 2000 million being transferred within next two and a half years.

**Amit Shah:** Okay and my second question is: there has been significant drop in the other income, so maybe apart from this rupee appreciation any other major reason for this? Because the drop has been on a YOY basis and even on a QOQ basis.

**Dilip Shanghvi:** Yes, there would be some reduction in interest income because we would have made investments for acquiring 25% of Taro equity.

**Amit Shah:** Okay. And another question is that R&D cost has gone up significantly as you mentioned now at 11% of sales. So will this trend will continue going forward?

**Dilip Shanghvi:** Our guidance is 8% to 10%.

**Amit Shah:** Okay, thanks a lot sir.

**Dilip Shanghvi:** Thank you.

**Moderator:** Thank you very much sir. Next inline we have Mr. Rahul Khetan from Capital Market, over to you sir.

**Rahul Khetan:** Yes good morning gentlemen. Congrats on a good set of numbers. My question is regarding Trileptal, could you please guide us as what sales Trileptal has generated for the company for the quarter. And what sort of competition is present in the market.

**Dilip Shanghvi:** We will not be able to give specific guidance for a single product. As on today, three approved generics are present in the market, generics from Roxane, Sun as well as Glenmark. And it is difficult for us to give an estimate, since we expect additional approvals as well. We do not know when this will happen. So difficult for us to take a long term view.

**Rahul Khetan:** But at present, three competitors are there.

**Dilip Shanghvi:** Yes.

**Rahul Khetan:** Sun, Glenmark and...?

**Dilip Shanghvi:** Roxane.

**Rahul Khetan:** Okay. And sir like what is the price erosion for this product?

**Dilip Shanghvi:** Pardon.

**Rahul Khetan:** What has been the price erosion, as against the innovator's price?

**Dilip Shanghvi:** That is what I told you, we expect new competition so it is difficult to estimate price erosion.

**Rahul Khetan:** Okay. And sir, when do we expect launch of Protonix and Exelon?

**Dilip Shanghvi:** As I said in my introduction, we continue to evaluate all options for Protonix, so that remains the answer.

**Rahul Khetan:** Okay. And could you please give us the post-conversion fully diluted equity capital.

**Uday Baldota:** 207 million shares.

**Rahul Khetan:** Okay fine. And sir, what is the preference capital as on 30<sup>th</sup> September.

**Uday Baldota:** Rahul I think we can take these questions offline.

**Rahul Khetan:** Okay sir fine. Thank you very much.

**Moderator:** Thank you very much sir. Next in line we have Mr. Gupta from UBS, over to you sir.

**Mr. Gupta:** Yes hi, just little further on the other income question because I mean there is a drop from quarter-on-quarter basis and clearly the rupee appreciation is probably not that different I mean there might be 1% or 2% rupee appreciation. So just wanted to know, if you could just elaborate as to why there is such a significant drop in other income. I understand part of it has gone into your investment in Taro but if you could elaborate further on the drop.

**Mr Valia:** We have just replied that the interest income has gone down marginally with the investment in Taro, but at the same time, the exchange fluctuation write-off which we have to take in terms of current assets, also has to get accounted for. And that is reflected in the total, when we say that interest and other income. So that number is lower than what we used to have, quarter after quarter.

**Mr. Gupta:** So it is mainly on account of translation losses do you think.

**Mr Valia:** Not only translation losses, but translation plus investment in Taro.

**Dilip Shanghvi:** All dollars as such, will have to be restated at new prices.

**Mr. Gupta:** And another question was, there is a very strong growth, even quarter-on-quarter, in your international formulations rest of the world sales. So could you just elaborate as to where the growth is coming from, I mean in which key specific countries are you seeing a very strong growth.

**Dilip Shanghvi:** I think broadly growth is coming from most of the markets. We haven't given this time specific guidance for the international business, but underlying business has been growing at around 40% annually. So it will continue to grow at a similar rate.

**Mr. Gupta:** Okay, thank you very much.

**Dilip Shanghvi:** Thank you.

**Moderator:** Thank you very much sir. Next in line we have Mr. Mishra from Credit Suisse, over to you sir.

**Mr. Mishra:** Yes hi, sorry I have to persist on the other income question. Is it fair to assume that you haven't take cash flow hedges or some of the revenues you have booked are at a higher exchange rate. And the losses on those have been booked at other income.

**Mr. Valia:** Very good question. We appreciate what you said. Exports of the sales which we sell in forward, is always booked at a rate at which the forward is shown. When the current assets are there abroad, it has to be valued quarter after quarter at the end of the quarter, and accordingly the translation income or loss is to be booked. So what you say can happen that I may have a forward cover and I have encashed dollar at a higher rate. But my current assets were in dollar terms. I have to depreciate it in books of account and write off the loss.

**Mr. Mishra:** Okay.

**Dilip Shanghvi:** While it is possible to do what you say, but we have not done it. We have lot of money and a significant part of that money is used for buying dollar assets, including our investment in Taro. So the impact of valuation reduction in dollar will impact that investment, on a quarter-on-quarter basis.

**Mr. Mishra:** Okay thanks very much.

**Moderator:** Thank you very much sir. Next in line we have Mr. Mehta from Man Financial, over to you sir.

**Mr. Mehta:** Yes, can you please tell me what would be the cash equivalent on the books as on 30<sup>th</sup> September.

**Dilip Shanghvi:** What you mean is disposable cash.

**Mr. Mehta:** That is right.

**Dilip Shanghvi:** The disposable cash would be in the region of around \$250-\$300 million or maybe slightly more. So about \$250 million.

**Mr. Valia:** About \$250 million is on standalone basis, on consolidated basis it would be slightly more... It will be about \$300 mill plus, consolidated.

**Moderator:** Can we take our next question sir?

**Dilip Shanghvi:** Yes.

**Moderator:** That is Mr. Agarwal from SSKI, over to you sir.

**Mr. Agarwal:** Thanks for taking the question. Just wanted to know something more about the acquisitions of Valeant in Ohio, in terms of the status of filings from these acquisitions. Have you started filing ANDAs from both of these sites?

**Dilip Shanghvi:** Our guidance is that we will be filing this year and we will. I am unable to specifically respond whether any specific product has been filed from there. My sense is, filings have been made.

**Mr. Agarwal:** Okay sir, thank you very much.

**Moderator:** Thank you very much sir. Next in line we have Mr. Surya from Reliance Money, over to you sir.

**Mr. Surya:** Good morning sir and congratulations for the good set of numbers, but in the opening remark you have indicated that the margin for Caraco business has come down slightly because of increasing contribution from trading business or something like that. So can you give some elaboration on that, and at least can you tell me what is the kind of contribution currently from the trading business.

**Dilip Shanghvi:** On Caraco business, actually Caraco can answer better, but the trading which happens is on account of a Sun product being sold by Caraco in the US market, and they get only the distribution margins.

**Mr. Surya:** And it is Sun's product or they must be marketing somebody else's product also, third party products also in US?.

**Dilip Shanghvi:** Not as of today, only Sun's products.

**Mr. Surya:** But can you tell me, what is the kind of contribution these Sun Pharma products get?

**Uday Baldota:** They have disclosed in the 10 Q, 13 million US Dollars out of 76 million for the first half.

**Mr. Surya:** Can you repeat that again please.

**Uday Baldota:** 13 million revenues from distributed products out of 76 million sales for Caraco for the first half.

**Mr. Surya:** Okay, thank you.

**Moderator:** Thank you very much sir. Next in line we have Mr. Shah from Dolat Capital, over to you sir.

**Mr. Shah:** Good morning everyone and congrats on the results. My questions really pertains to Caraco performance's that you said 45% growth. So if you could share what kind of product launches you have done in the first half, and what do we expect in the second half, having known that they have 7 FDA approvals and 4 tentative approvals, what would be the market value of those products.

**Dilip Shanghvi:** I think that is a question which Caraco will be in a better position to answer, but I think their overall guidance for this year is around 30% to 35%, 30% growth. And up to first half I think the growth has been around 40%. So they are in line with their guidance. And some of this would have come out of newly introduced products but some of the new products would have taken time in gathering momentum.

**Mr. Shah:** Thank you so much.

**Dilip Shanghvi:** Okay.

**Moderator:** Thank you very much sir. Participants who wish to ask questions kindly press \*1 on your telephone keypad. Next in line we have Mr. Sheetal Shah from Kotak Portfolio Management, over to you sir.

**Sheetal Shah:** Yes about this capital raising program of 3500 crores what is the timeline, is it subject to Taro acquisition.

**Dilip Shanghvi:** Yes I think that is exactly what I said is that we do not plan to raise money till we use up the money that we have, because right now we have enough for Taro acquisition.

**Sheetal Shah:** Okay thanks.

**Moderator:** Thank you very much sir. Next inline we have Mr. Sonawane of Religare Securities, over to you sir.

**Sonawane:** Yeah hi, just kind of broader question on the industry. Currently the outlook for the industry is pretty challenging considering commodity generics, depreciating dollar and high

cost structure. So how do you look at opportunities for the industry for next 3 to 5 years, and particularly for Sun Pharma.

**Dilip Shanghvi:** We are quite excited about the opportunity that we see for Sun Pharma. And our strength is in all of these difficulties that you mentioned, because companies which are focused on delivering value, still will find methods by which it can consistently deliver reasonably high growth and reasonable level of profitability.

**Sonawane:** Okay so would you like to comment on the current valuation in terms of M & A deals over the period of next couple of years, valuation in terms of EV/EBITDA or EV/ sales, valuations on these will actually come down in an attempt to, in the long term as more people exit from the business?

**Dilip Shanghvi:** Well it's like we are not great experts on acquisitions. So I would not be able to answer, but if we see some of the large deals which have been done recently that does not seem to be happening.

**Sonawane:** Okay thanks a lot sir.

**Moderator:** Thank you very much sir. Next in line we have Mr. Manoj from MK Shares. Over to you sir.

**Manoj:** Yes thanks for taking my question. In last two months we have got 3 or 4 para 4 ANDA filings, which we have got first to file. So going forward how many para 4's we have which have FTH status and we intent to have approval over the next 1 or 2 years?

**Dilip Shanghvi:** Time will tell, but I think currently we are not sharing information on Para IV, first to file products. And at some point if we decide to share this information we will be able to give a more precise answer. But as I have consistently maintained, as a philosophy we will continue to file Para I, Para III as well as Para IV products. They will be a fair mix of specialized, difficult-to-make products, and large volume and commodity kind of products. So we can offer a diversified product basket for our customers.

**Manoj:** Okay and in your earlier remarks you said that in the domestic sales you have some one-time benefit, would you be able to put some color on that, it would be the total amount?

**Dilip Shanghvi:** As I said we have changed our incentive as well as distribution policy to make it more efficient as well as more consistent. As a result of this we have seen some one time benefit, is difficult for us to quantify and what is the exact benefit that we are deriving. But we expect that on a consistent basis, growth will not be maintained at the same level as currently. It will go down.

**Manoj:** Okay sir thank you.

**Moderator:** Thank you very much sir. Next in line we have Ms. Gupta from ING Mutual Fund. Over to you ma'am.

**Ms. Gupta:** Hello sir.

**Dilip Shanghvi:** Yes.

**Ms. Gupta:** Congratulations on good results.

**Dilip Shanghvi:** Yes thank you.

**Ms. Gupta:** Regarding the Indian growth, would it be safe to assume that most of the growth in Indian market is volume growth or have we taken any price increases also.

**Dilip Shanghvi:** There maybe, I think 1% or 2% price increases.

**Ms. Gupta:** It is very insignificant.

**Dilip Shanghvi:** True, not significant.

**Ms. Gupta:** Okay and sir regarding the consolidation of Taro's numbers with Sun Pharma, when will we see that happening, I believe we have a 25% stake.

**Dilip Shanghvi:** 25% stake will not allow us to consolidate. We have to acquire Taro, our current offer is to be voted by Taro shareholders, and the Taro shareholder meeting got deferred so that Taro can publish the audited numbers of 2006. So till the time those numbers are published, we cannot say exactly when this shareholders meeting will take place.

**Ms. Gupta:** Okay sir.

**Dilip Shanghvi:** But when it takes place, we believe that we have a very fair offer for investors. And then we will be able to consolidate Taro as part of Sun.

**Ms. Gupta:** Okay sir thank you.

**Moderator:** Thank you very much sir. Next in line we have Mr. Jain from Axis Holding. Over to you sir.

**Manish Jain:** Yeah hi this is Manish Jain from Axis. I had a question on R&D related expense, if you look at breakup of R&D even though innovative research is out of the system, the R&D expense has gone up pretty significantly. Are you doing any clinical work on non-innovative business.

**Dilip Shanghvi:** I will not be able to give a clear answer. As we have shared at the time of separation of the innovative research, that we will continue to invest 8% to 10% of our

turnover for R&D. And I think we had spent, more or less along the same lines. So I think what we are doing on the generic side is to work on more products, and work on more difficult products, so these can generate significant value for shareholders going forward.

**Manish Jain:** Fair enough, thanks.

**Dilip Shanghvi:** Thank you.

**Moderator:** Thank you very much sir. Next in line we have Mr. Joshi from Aviva Life Insurance. Over to you sir.

**Mr. Joshi:** You said that there is some component of FOREX loss in other income.

**Dilip Shanghvi:** Yes.

**Mr. Joshi:** Yes sir if we can quantify the same.

**Dilip Shanghvi:** We do not give separate FOREX income as well as expenses it is consolidated and shared with you.

**Mr. Joshi:** Thank you sir.

**Moderator:** Thank you very much sir. Next in line we have Mr. Desai from Motilal Oswal. Over to you sir.

**Mr. Desai:** Yeah I had one question on your FCCB conversion assuming that you will exercise option of forced conversion for your FCCB's sometime in this quarter. Could you just give us some color on what could be the impact in terms of FOREX loss or gains which maybe one time, that you need to book or show in your book?

**Mr. Valia:** From conversion point of view once it converts we do not have to do any booking of the loss and gain. Actually when the money either comes to India or does not come to India, is the only factor because once it is a the current asset, it is valued as current asset. So it is prior to build that a current value then there is no issue. At the same time when we are talking about conversion then there is a conversion premium which goes to you know conversion premium account. And as I have to adjust it, there are no other financial entries to be passed.

**Mr. Desai:** But whatever FOREX gains so you would have booked on this FCCB's in the past, maybe translations, will that entry have to be reversed.

**Mr. Valia:** There is no FOREX gains here, let us understand how the mechanism work. We say at Rs.45 to a dollar will be getting converted and we will then convert into reserves. I have to do the same thing but when that you have given me the dollar, the dollar is either brought to India or dollar has been kept there. If this dollar is kept there even today also, I have to go on

booking the value of the dollars. So maybe at that day it was 45 today it is 39 it is 49, in the books of accounts. So I have already accounted for that loss. When I bring it today I don't have any loss thereafter. So if the product of translation I have already booked that. So that part is concern it will not be getting reflected as of any further loss on account of conversion.

**Mr. Desai:** Okay.

**Mr. Valia:** But if I have taken a forward cover then I will have that income in today's rate, but since forward cover is different part and as translation loss was account of the current asset is different so far current assets remains there we have to translate into a book value, market value. So that loss is been booked.

**Mr. Desai:** Okay fine thanks.

**Moderator:** Thank you very much sir. Next in line we have Mr. Shah from ICICI Securities. Over to you sir.

**Mr. Shah:** Hello just one question on your taxation side, after providing for about Rs.98 million in the first quarter the provision for taxation in this quarter is negligible. So what do you expect for the full year FY2008.

**Mr. Valia:** Tax is very low this quarter, tax is going up, if we see with reference to India. When it comes across the world then the impact is based on what takes place in India and other markets. In India now for EOU we have to provide for MAT liability. So that way tax is going up in India.

**Mr. Shah:** Okay. Thank you sir.

**Moderator:** Thank you very much sir. Next in line we have Mr. Prashant from Lehman Brothers, over to you sir.

**Prashant:** Hello sir can you tell me what is happening on Amifostine patent front.

**Dilip Shanghvi:** We are waiting for the approval. And the case is continuing to be litigated.

**Prashant:** Okay the case is still under litigation.

**Dilip Shanghvi:** That is correct.

**Prashant:** Okay, do you expect a favorable judgment in your favor?

**Dilip Shanghvi:** Otherwise why would we fight?

**Prashant:** Okay thank you.

**Moderator:** Thank you very much sir. Next in line we have Mr. Basu from Network Stock Broking, over to you sir.

**Rabindra:** Yes good morning sir this is Rabindra. I would like to know the guidance for the next half, would it be the same as indicated 15% to 18% or would it change, since we have seen strong quarter results would we increase the guidance, I mean the top-line guidance.

**Dilip Shanghvi:** No, our guidance for next quarter will still remain 15% to 18%. We have not issued any new guidance.

**Rabindra:** Okay so for the next half year we would see a similar guidance.

**Uday Baldota:** For the whole year the guidance remains the same.

**Rabindra:** Okay thank you sir.

**Moderator:** Thank you very much sir. Next in line we have Ms. Jyothi from Business Line, over to you ma'am.

**Jyothi:** This is Jyothi here, good morning Mr. Shanghvi.

**Dilip Shanghvi:** Very good morning.

**Jyothi:** Just wanted to know, you have talked of 426 patent applications would this be under the SPARC entity or Sun Pharma or both.

**Dilip Shanghvi:** Can you ask this question again please.

**Jyothi:** The 426 patent applications that you have talked about, would this be under the SPARC entity or ....

**Dilip Shanghvi:** It would be for both.

**Jyothi:** It will be across both.

**Dilip Shanghvi:** Yes.

**Jyothi:** And what is going to be your research spend from SPARC.

**Dilip Shanghvi:** I think what we have shared is that we will spend around Rs.200 crores in first 3 years, but that is also very tentative number because if we are very successful with a product we may decide to move it fast in development. Or if we are not very successful we may drop the project. So it is all based on probabilities that are difficult to quantify.

**Jyothi:** Okay. And you have talked of Para IV so of the total number of ANDAs how many, what percentage would be patent challenges.

**Dilip Shanghvi:** Again it is not a fixed number.

**Jyothi:** Okay and just one last question what is the status on Gabapentin you know following the recent reversal are you selling in the US now?

**Dilip Shanghvi:** We have always been selling because we believe that our product is clearly non-infringing.

**Jyothi:** Sorry the call broke up there, you were selling in the US the recent reversal on the Pfizer, reversal of the earlier judgment does not affect you.

**Dilip Shanghvi:** No it does not affect us.

**Jyothi:** Okay thank you.

**Dilip Shanghvi:** Thank you.

**Moderator:** Thank you very much sir. Next in line we have Mr. Manoj from MK Shares, over to you sir. Mr. Manoj. Next in line we have Mr. Pradhan from ASK Securities. Over to you.

**Pradhan:** Hi and this is regarding amifostine does it mean that once we get the approval we will launch the product.

**Dilip Shanghvi:** No that is an option that we will evaluate seriously.

**Pradhan:** What other issues are you considering right now before launching Exelon and Protonix.

**Dilip Shanghvi:** The product is under litigation and if we launch it, what are the risks, what is the probability, what are the best options to monetize the assets. Those are the things that we are evaluating.

**Pradhan:** So can we expect that resolution of the same soon or it will take time.

**Dilip Shanghvi:** The litigation can continue for sometime.

**Pradhan:** Okay and what is the current market share of oxcarbazepine

**Dilip Shanghvi:** Oxcarbazepine we do not know because IMS numbers have not come out.

**Pradhan:** Okay, thank you.

**Moderator:** Thank you very much sir. Next in line we have Mr. Basavaraj, from Centrum, over to you sir.

**Basavaraj:** Hi good morning everybody. You had mentioned about some initiatives which has given a one time benefit. So could you please give some more color on that in terms of timing and structure etc.

**Dilip Shanghvi:** We started the initiatives this year, for competitive reasons I cannot share what we are doing.

**Basavaraj:** Yes, but this is since the beginning of the year.

**Dilip Shanghvi:** The beginning of this year yes.

**Basavaraj :** Okay thank you.

**Dilip Shanghvi:** Welcome.

**Moderator:** Thank you very much sir.

**Uday Baldota:** Yes we will take the last two questions.

**Moderator:** Sure sir. Next is a follow up question from Mr. Gupta from UBS, over to you sir.

**Gupta:** Yeah thank you. Just a couple of questions on the R&D side I just wanted to understand that if you look at the breakup in terms of Caraco the cash R&D expenses are also going up significantly. So I just wanted to understand if that is a part of your strategy in Caraco also doing its own independent research.

**Dilip Shanghvi:** Yes I think we have shared this in the past that Caraco will do its own R&D and develop its own products.

**Gupta:** Okay and similar question, 565 scientists that you have stated is both across generic and SPARC or is it just generic.

**Dilip Shanghvi:** That is for Sun Pharma.

**Gupta:** That is for Sun Pharma. And just to understand when is the next date for Taro's shareholders meeting.

**Dilip Shanghvi:** First Taro has to announce the audited numbers.

**Gupta:** So there is no date.

**Dilip Shanghvi:** There is no clear date for that.

**Gupta:** And could you just also give us an update on Exelon, where is it in the litigation process.

**Dilip Shanghvi:** I think it is in the process of expert witness as well as discovery.

**Gupta:** Okay thanks.

**Moderator:** Thank you very much sir. Next in line we have Ms. Visalakshi from DSP Merrill Lynch, over to you ma'am.

**Ms. Visalakshi:** Thank you again, my question is on gross margin improvement this quarter, and that is a gain at nearly a all time high, what would you say are the top reasons

**Dilip Shanghvi:** We lost you.

**Uday Baldota:** We lost you at the end can you repeat the question.

**Ms. Visalakshi:** Yes this is on the gross margin improvement this quarter, what would you say are the top two reasons for this improvement and how do you see this trend going forward.

**Dilip Shanghvi:** Primarily more and more captive use of the API and reduction in the sales of API with low margin, are the two major reasons for better contribution.

**Ms. Visalakshi:** So essentially you are saying that the product mix improvement.

**Dilip Shanghvi:** Yes I think it is a different way of saying it.

**Ms. Visalakshi:** But can you elaborate a little more on that, you know what are the major chunks of revenues which are given you, any kind of gross margin numbers that you can throw up. You know if you can split the business into say one or two major pieces...

**Dilip Shanghvi:** See broadly if you see the formulation business has gone up to close to 90% of the business compared to 85%, that is one reason as Mr. Valia says that the low margin business has been replaced with high margin business. The second thing is that because then we have limited capacity we are focusing only on the relatively high margin bulk actives. And also focusing more on longer term, stable kind of business which give consistent margins.

**Ms. Visalakshi:** And how much would you be outsourcing from third parties for your bulk requirement, what percentage.

**Dilip Shanghvi:** For the US or ...

**Ms. Visalakshi:** For the company as a whole.



**Dilip Shanghvi:** I do not have the exact number but it is a significant number. I think Uday or Mira can give you specific numbers.

**Ms. Visalakshi:** Thank you so much.

**Dilip Shanghvi:** Yes thank you.

**Moderator:** Thank you very much ma'am. At this moment I would like to hand over the floor back to the Sun Pharma management for the final remarks. Over to you sir.

**Uday Baldota:** Thank you very much, all of you for joining the call. If you have any balance questions, we can talk about it after the call. Thank you.