

Sun Pharma Q3 2008-09
Results Conference Call Transcript
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Corporate Participants

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Melissa: Ladies and gentlemen good morning and welcome to Sun Pharma Q3 FY'09 Earnings Conference Call. As a reminder all participants will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Uday Baldota of Sun Pharmaceuticals. Thank you and over to you, sir.

Uday Baldota: Thank you, Melissa. Good morning and a warm welcome to our 2008-09 Third Quarter Earning 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, Whole Time Director, and they will discuss the performance highlights and share developments on strategy. We hope you have received our third quarter financials and press release sent out yesterday evening and these are also now available on our website. For ease of discussion we will look at the consolidated numbers. Just as a reminder this call is being recorded and the replay of the call will be available till February 9, 2009. 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. 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 or mira.desai@sunpharma.com. I now handover 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 third Quarter and first nine months of 2008-09. It has been an eventful quarter for us.

First, some of the negative developments. Earlier this quarter Caraco received a warning letter from the US FDA related to its manufacturing site in Detroit primarily outlining SOP compliance issues. While the existing business and manufacturing at this facility has not been affected, this warning letter has the potential to delay some product approvals filed from Detroit for Caraco. Caraco in its timely response to the FDA confirms to having addressed the issues making a few specific time bound commitments. We believe that all issues will be resolved with a joint team of Sun and Caraco working on them.

Another set back was the denial of approval by US FDA for our ANDA for generic Effexor XR tablets. While we were hopeful of getting an approval despite a citizens petition seeking to block the approval, US FDA based its decision on the invalidity of the suitability petition used for our ANDA filing once

Osmotica product was approved. With this we do not expect generic Effexor XR to be a near-term opportunity.

Now for some positive news. Recently a Sun Pharma subsidiary received approval for hydrocodone with acetaminophen, our first controlled substance approval out of our Cranbury facility. This is an opportunity to get a foothold in the US market for controlled substances. One more site in India at Karkhadi near Baroda received US FDA approval for manufacturing of generic Cephalosporin.

Now, an update on Taro. On the recommendation of Supreme Court of Israel, we are now engaged in mediations with all parties to the litigation as well as the Levitt and Moros families. These mediation proceedings are to be held in Israel. If no agreement is reached, the court will be requested to give a verdict. Though this delays our getting control of Taro, we remain committed to this approach outlined by the court that aims to resolve all outstanding disputes between the parties and not only the matter under appeal. As in the past we will keep you posted about all material developments on this front. Now as usual, Mr. Valia will first talk about performance and financial highlights and later I will come back to talk about strategy and direction. I will now hand over the call to Mr. Valia.

Sudhir Valia: Thank you, Mr. Shanghvi. Good morning everybody. Our nine months and first quarter financials are already with you. It has been a reasonably good year so far with the growth across all our business segments, some in face of tough competition in our two largest markets, India and the US. The pricing pressure continues in US generics. First we shall look at key consolidated financials for the third quarter and then for the nine months period. While comparing the financials, it would be appropriate to keep in mind that generic oxcarbazepine was launched under 180 days exclusively during the third quarter of last year, and generic Pantoprazole was launched in end January 2008. As you are aware, sales and profits from such products is not recurring and skews the expense ratio as well as the growth number.

Third quarter net sales are at Rs. 9083 million, an increase of 14% over Q3 last year. EBITDA at Rs. 4134 million during the Q3 is 17% higher than that of the Q3 last year. EBITDA margin at 45% is marginally higher than 44% achieved in Q3 last year. Net profit after minority interest for the Q3 is up 28% at 4086 million from Rs. 3184 million. Net margin for the Q3 is 45%, higher than 40% achieved in Q3 last year.

Material cost as a percentage of the net sales is down to 19% from 22% in the previous corresponding period. Staff cost for the quarter is at 12% of the net sales up from 10% in the previous corresponding

period last year. Other expenditure remains 23% of the net sales, the same as the quarter of the last year. On a fully diluted basis, EPS for Q3 is Rs. 19.70, up from Rs. 15.90 for Q3 last year.

For the nine months period, net sales is Rs. 31379, million an increase of 50% over the same period last year. EBITDA for the nine months period is Rs. 14893 million, an increase of 89% over the same period last year. Resulting EBITDA margin is 48%, significantly higher than 38% achieved last year. For the period net profit after minority interest is at Rs. 14229 million, an increase of 86% over the similar period last year. Net margin is 45%, significantly higher than 36% achieved in the corresponding nine months previous year. Material cost is lower at 20% of the net sales compared to 26% for the same period last year. Staff cost for the period is at 10% of net sales, marginally lower compared to the corresponding period last year. Other expenditure is 21% of the net sales compared to 24% for the same period last year.

Now we shall look at each of the business segments. Our Indian business for the quarter was 48% of the turnover and in the nine months period accounted for 43%. We continue to add market share with key specialists. Domestic formulation, the largest component of our business continues to grow and profit. Domestic formulation sales at Rs 4,302 million have grown 15% in the Q3 this year over corresponding quarter last year. For the year-to-date growth has been 17%. As per the last MAT ORG IMS data, Sun Pharma market share is now 3.5%. Our five main therapy areas, Cardiology, Psychiatry, Neurology, Gastroenterology, and Diabetology accounts for over 70% of our domestic formulation sales.

So far 25 products have been brought to the market in India, across 18 marketing divisions. Pantocid group, Aztor, Strocit, Gemer, continue to grow at double-digit growth rates in extremely competitive markets.

Caraco recently announced its nine months and Q3 numbers, which continue to reflect the effect of limited competition products, generic Protonix and Ethyol. Caraco reported Q3 sales of USD \$56 million, down 32%. Gross margin was 29%, as against 28% for Q3 of last year, largely on account of revenue share of distributed products. Gross margin for the period on manufactured products was at 45%. Net income was USD \$5 million for the Q3 compared to USD \$17 million in the same quarter last year.

International branded generic exports have grown by over 165% for the Q3 and 105% for the cumulative period after taking into account currency fluctuation. In these markets we expect a slow and a steady increase in sales as we continue with brand rollout in difficult economic conditions. So far this year we scaled up 24 API. The tally for regulated market approved API is 67 of 123 filings made for DMF and

CEP. As you know, a large part of API capacity is being used for internal consumption. Our API sales to customer outside the company has grown 49% for the Q3 and 32% for the year so far. With this, I will now handover to Mr. Shanghvi.

Dilip Shanghvi: Thank you Mr. Valia.

With a new Democrat President in the US, and the economic situation continues to be a cause of concern, we expect that the US market will continue to be progeneric. However, of late there has been some concern in the US about high dependence of its citizens on medicines produced outside the US, and for this they are modifying their overseas inspection infrastructure and creating facilities in India for inspecting Indian manufacturing facilities and we expect this to be a positive development going forward.

Caraco has recently reported numbers for Q3, which are already with you. Across Sun and Caraco, ANDAs were filed for 13 products during this quarter and 28 products cumulatively for the year. Between both the companies, 109 ANDAs for 103 products await approval including 7 tentative approvals.

R&D expense for the quarter has increased from Rs.804 million in the Q3 last year to Rs.946 million this quarter. R&D investment so far for the year is Rs, 2572 million or 8% of net sales. At our research centers, we now have over 500 scientists working on projects in generic development, with a strong pipeline and a focus on technology. Products like Octrilde Depot were launched this year in India. Based on this work we have built a patent library of 229 patents filed of which 73 patents have been approved. As you would have seen, our base business has been reasonably consistent while our one off business has not been as is expected. It is only in circumstances like these that one sees the advantages of a model we have at Sun Pharma where consistent growth and profitability of the sustainable business is the key. For the first nine months despite the difficulties mentioned earlier it has been largely business as usual as our numbers reflect. Other than the US, our business has shown good revenue numbers across all segments.

I think it is necessary to be pragmatic about the rest of the year and see how the shifting economic fundamentals as well as competitor action impacts the market not only in India and the US, but other large geographies as well. Going ahead we do anticipate lower growth of pharmaceutical markets in India and abroad to possibly have some impact on our sales. Recently Caraco has revised their annual sales guidance downwards to the level of sales achieved last year. This is a change that will need to be incorporated in our US guidance though our overall sales growth guidance of 18%-20% over financial year 2008 for our overall business remains in place. We shall continue to focus on performance, on

watching cost and building efficiency. It makes more sense than ever to pursue a sensible approach to opportunities making the best of each opportunity, doing what is best for the long term. With the current state of the capital, currency and consumer markets there are likely to be several reasonably priced acquisition opportunities worth evaluating though nothing on the immediate time horizon. With this I would like to leave this floor open for questions. Thank you.

Melissa: Ladies and gentlemen, we will now begin with the question & answer session. At this time, if you would like to ask a question, please press "*" and then "1" on your touchtone phone. If you decide you want to withdraw your question from the questioning queue please press "*" and "2" to remove yourself from the queue. Any one who has a question may press "*" and "1" at this time. The first question is from the line of Mr. Ranjit Kapadia of Prabhudas Lilladhar. Please go ahead.

Ranjit Kapadia: Sir, this is regarding the Caraco sales. Caraco has said that they will be doing the same sales as last year, which means that our last quarter sales will be about 64 million if you remove the first three quarters sales. So going further the growth rate has tapered, can you give some guidance for Protonix and Ethylol?

Dilip Shanghvi: Ethylol and Protonix are already factored in Caraco's guidance. We are not revising our overall guidance as a company, which remains at 18%-20% in spite of revision in the Caraco guidance. And the US business is already reflected in our overall consolidated results. So this is not a revision in the guidance for Sun Pharma.

Ranjit Kapadia: Okay. Thank you, very much.

Dilip Shanghvi: Thank you.

Moderator: Thank you Mr. Kapadia. The next question is from the line of Mr. Abhay Shanbhag of Deutsche Bank. Please go ahead.

Abhay Shanbhag: Couple of questions, number one, on any update on Taro- how long are the timelines one can expect in terms of the Israeli Supreme Court?

Dilip Shanghvi: Difficult to put timelines to litigation issues. There are many issues on which we have no control. We are not sure whether the mediation effort, which has been suggested by Supreme Court will work. If it does not work then we do not know how long will the litigation in Israel will continue. Or whether that will end the litigation in the US. So there are uncertainties and it is difficult to quantify

timelines; however, we remain reasonably confident of our position on the correctness of our stand in the litigation both in Israel as well as US, and we hope to prevail.

Abhay Shanbhag: Sir, has the court appointed a mediator like for arbitration proceedings or what exactly does one mean by mediation?

Dilip Shanghvi: I think there is a legal process in Israel that parties chose a mediator, that's what I understand, beyond which I am not very familiar with the entire process.

Abhay Shanbhag: Okay. On Pantoprazole do we see competition coming in the next one or two months in the US market?

Dilip Shanghvi: I think the 30-month stay for UCB should be expiring shortly. We do not know what is their intention and whether they intend to launch at risk or not.

Abhay Shanbhag: Okay and for you the drop in sales is largely on account of your decision of controlling risks or what are the reasons? Or has Teva entered the market?

Dilip Shanghvi: It is essentially because of our desire to control risk and our desire to control the price at which we sell the product.

Abhay Shanbhag: Okay one last question. If I look at the trends in costs in the Q2, which was the September quarter there has been sharp, increase in raw material to sales and other cost to sales despite the high base of revenue. Any light on it? Is there any seasonality? Is there any other thing which really happened in that quarter?

Dilip Shanghvi: You are talking about Q2?

Abhay Shanbhag: Yes, if we look at Q1, Q2, Q3, suddenly we see a steep jump in raw material to sales and other cost to sales despite higher quantity of Pantoprazole. Is there any seasonality or something like that?

Sudhir Valia: Nothing very specific, but generally the bulk business has a high cost and we try to take a charge as possible in those periods for the items which are non-moving and slow moving, but otherwise there is nothing, which is very specific, but that definitely influences the total material cost.

Abhay Shanbhag: Okay, so there are provisions for some slow moving items?

Sudhir Valia: Correct.

Abhay Shanbhag: Okay fine thank you.

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

Sonal Gupta: Thank you, sir. Just a couple of questions, one was could you tell us what is the cash at the end of the quarter?

Dilip Shanghvi: Should be in the region of Rs. 2600-2700 crores.

Sonal Gupta: Okay and how much of the Indian business comes from hospital related sales and not from a chemist or pharmacy?

Dilip Shanghvi: I do not have that number immediately, but it would not be very material.

Sonal Gupta: Okay, and sir carrying on the question that Abhay asked on the material side even if you look at it I think, I had this question last time as well, even if you look at in an absolute whatever the material cost in absolute terms I mean, the material cost year-on-year have also remained the same although last year you had Trileptal which I presume had higher profitability. The sense that I get from the material cost is that the profitability of your other businesses are now ahead of the US business. So is that the case?

Dilip Shanghvi: One thing which Mr. Valia just explained is that we have followed a conservative accounting practice of treating slow moving and out of specification intermediates, so if at some point we reprocess and sell them, that significantly reduces material cost. Also part of this will be because of the revalued inventory because of the exchange rate fluctuation and this is something which will happen going forward and we may give a more formal clarification sometimes. But there is a certain element of third party sales in our business in India which will go away maybe going forward and that business is very low margin, and in the third quarter there is a very little of that business.

Sonal Gupta: All right. And could you shed some more light on how you recognize the gains on current assets or your foreign currency receivables?

Sudhir Valia: The valuation of the closing stock is always done at the closing rate. But the valuation of the opening stock is at opening rate. So the difference between that gets reflected as a gain, or loss depending on what is arrived at.

Sonal Gupta: Right, also that gets reflected in, where are you recognizing that, in material cost?

Dilip Shanghvi: Yes, it will get reflected in inventory.

Sonal Gupta: Okay, sir, thank you so much.

Melissa: Thank you Mr. Gupta. The next question is from the line of Mr. Neelkanth Mishra of Credit Suisse. Please go ahead.

Neelkanth Mishra: Thanks. Trying to understand the US sales, you know, if I remove what our estimate is of Oxcarba, Pantoprazole and Amifostine. Basically, rest of the US sales seems to have a very little growth in revenues quarter-on-quarter or year-on-year. Is that assessment correct and if should this change going forward?

Dilip Shanghvi: I am not able to comment, but I think my general view is that over a period we expect our US business to become a bigger business than what it is and part of that is also because of our filing so many products and as we continue to get approval for those products, they will continue to add turnover. So I think it is partly linked to its new approvals, but if you mathematically calculate the numbers then your conclusion is correct that there is a relatively very low underlying growth of existing products.

Neelkanth Mishra: Thank you, sir. And a sharp increase in non-Caraco formulation exports, so from the formulation number if I take out Caraco sales this quarter there seems to be 120% year-on-year growth, is this sustainable number in growth terms or in the absolute sales number?

Dilip Shanghvi: No I think our overall guidance reflects this. There will be certain amount of one-time sales in these numbers, which you should not factor in as ongoing calculation.

Sudhir Valia: Part of it would be on account of exchange rate fluctuation.

Neelkanth Mishra: Understood sir. And a last question on the Taro mediation process. It seems to me that the Supreme Court seems to be very reluctant in passing a decision; first they asked you to settle

out of court and now they asked you to mediate. What is your understanding why the court is reluctant in passing a decision?

Dilip Shanghvi: I can tell you what I am hearing because we are not familiar with the legal process in the country. Our understanding is that the courts in Israel try and achieve as much settlement out of court as possible. Then I think our lawyers do not see anything unusual in our case specifically, and they say that this is a normal process there. So they are trying to send a message to all the concerned parties that it is in your best interest to settle out of court.

Neelkanth Mishra: All right sir. Thanks very much.

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

Sameer Baisiwala: Good morning everyone. If I assume that for the December quarter we have practically had very little Protonix sales, would it be fair to say that the net profit that you reported about Rs. 408 crores is something that is sustainable and is largely coming from the core business?

Dilip Shanghvi: No actually I think we are repeatedly saying that there was an element of exchange rate fluctuation or revaluation of inventory and various things, which cannot and should not be treated as a recurring event. So this is not a completely ongoing profit. A large part of our profit that is reflected is part of our ongoing continuously growing business, but there is certain element of one-time event, which we have not quantified but there is a significant factor there. I mean if you look at whatever is the inventory at Caraco or Cranbury facility, will now be valued at dollars in Indian rupees in today's rates, so that is a one time event.

Sameer Baisiwala: Let us say, but if it is adjusted for that and that has to be quarter end by 08' which moved from 47 to 48.5 or so....

Dilip Shanghvi: I can tell you exactly - it moved from 47 to 49.80.

Sameer Baisiwala: 49.80 is for December 31?

Dilip Shanghvi: Yes, it is about Rs. 49.72.

Sameer Baisiwala: So it is about Rs. 2.70. If you just had to take some rough-cut guess that how much is that one time element would it be 10% of the profit that you reported?

Dilip Shanghvi: I am sure you can work it out.

Sameer Baisiwala: So it was a little bit more harder to do on this. Moving on would there be any inventory write-off for Effexor XR or have you already taken that?

Dilip Shanghvi: We have not taken a write-off as yet because we do not think we will have to write-off. We may not have to write-off but then the point is that even if we have to write-off it is not a very significant part.

Sameer Baisiwala: The reason why you may not have to take the write-off because you would be selling it with some of the geographies?

Dilip Shanghvi: Yes, I think that is correct.

Sameer Baisiwala: On Protonix if you do get the desired level of pricing, if we think that there was some turbulence in the market, would you get back to the same extent that you were doing in the earlier quarters?

Dilip Shanghvi: I think it is really a hypothetical situation. It is difficult for me to respond but my overall position is that these are one-time events and we should not focus so much on this one-off profit and sales because I think the focus for us as a company is to grow all our business on a consistent basis, and that is the value we have focused on creating for our shareholders. So I think I am trying to communicate that the underlying business is far more important than one time sales and profits that we will achieve. But difficult to answer your question. We may get that, we may not get that.

Sameer Baisiwala: Just a quick clarification when your guidance of 18% to 20% top line growth on an overall business remains intact this is naturally excluding US business?

Dilip Shanghvi: That includes US business.

Uday Baldota: Now including US business, which was a change from what you have we said earlier.

Sameer Baisiwala: Which is a change from what you had said earlier?

Dilip Shanghvi: Correct, because we had two separate guidance numbers, one for the US, one for rest of the business. Now we are saying that even though for the US we may not do what we had said or what Caraco had said, but we will go for 18% to 20% on a consolidated basis.

Sameer Baisiwala: Fantastic, because given that US is such a large part of your business and that remains flat and you have taken a overall guidance so basically from non-US business the number moves dramatically up to meet this new guidance.

Dilip Shanghvi: Yes, mathematically absolutely correct.

Sameer Baisiwala: Okay, great excellent. That is all from my side.

Melissa: Thank you, Mr. Baisiwala. The next question is from the line of Mr. Bino Pathiparampil of IL&FS. Please go ahead.

Bino Pathiparampil: Just once again if you could throw some light on the non-Caraco international formulation business. What kind of geographies do they mainly come from and what kind of products?

Dilip Shanghvi: Mainly branded prescription products and we sell in all countries like South America, South East Asia, Middle East, CIS, Africa to some extent we have started selling now in Europe.

Bino Pathiparampil: Do you have an active organizational setup there or is it just that you supply it distributors?

Dilip Shanghvi: In some of the countries, we have our own infrastructure and in some countries we have exclusive agents and a dedicated field force.

Bino Pathiparampil: Just one more point about the minority interest line. You know what exactly is that related to, which subsidiary and it seems to be varying a little across quarters- which subsidiary is that related to?

Sudhir Valia: Yes, a very good question. If you see the data for nine months, then you will get the right picture. Now what has happened is that the minority interest calculation is based on the subsidiary's profit and the percentage of the shareholding held at that point of time by the minorities. While consolidation is done, the profit, of the subsidiary is adjusted for inter company transactions as these are eliminated and that larger profit is taken for calculating the base.

Bino Pathiparampil: What I was wondering was, are there one or two main subsidiaries, which contributes to bulk of that minority interest or is it distributed across?

Sudhir Valia: Majority is from Caraco.

Bino Pathiparampil: Caraco, okay. Thank you very much.

Melissa: Thank you Mr. Pathiparampil. The next question is from the line of Mr. Pinakin Parekh of JP Morgan. Please go ahead.

Pinakin Parekh: Yes, Good morning. Just a couple of quick questions; a) In the US generic business, are you seeing any slowdown in terms of USFDA approvals in which the slowdowns have increased post the Heparin issue and recent events, or is it more as part of the FDA process?

Dilip Shanghvi: Yes I think there is overall slowdown partly originating out of larger number of ANDAs that have been filed year after year, so the workload for FDA has gone up. FDA wants to address this issue by hiring more people. Various industry associations have been in active dialogue with the FDA to find a way to reduce this delay in approval of products, and options like user fee or filing fee are also being continued by the government as well as the various associations.

Pinakin Parekh: Okay, Second question is on Taro. One way to read through the lines from the press releases of the Levitt family is that there is an issue of price, and there seems to be an issue of intent, of eventually giving control. Assuming that there is an issue of price, is Sun Pharma willing to pay what it paid out for Brandeis Investment or some higher price?

Dilip Shanghvi: I think what we are prepared to pay has been disclosed in our proposals, which we have released to the public.

Pinakin Parekh: Last question- is in terms of the other income, there seems to be a sequential decline. What kind of yields should we assume on your cash balance?

Sudhir Valia: It will further go down. Interest rate is going down.

Dilip Shanghvi: With the interest rate going down, I think it will track that kind of rate only.

Pinakin Parekh: Okay thank you sir.

Melissa: Thank you Mr. Parekh. The next question is from the line of Mr. Jesal Shah of JM Financial. Please go ahead.

Jesal Shah: I have a few questions. Just to start off with the US business, what is the number in the consolidated entity, the US sales, is it Rs. 2.8 billion or is it more or less?

Uday Baldota: 2.5.

Jesal Shah: 2.5. And the other markets in export business of formulations?

Uday Baldota : The number is known if you removed this that will give the balance. I do not have it in front of me right now.

Jesal Shah: For Caraco, this time I did not come across the breakup of distributed and own manufactured products, can you share that with us?

Uday Baldota One can arrive at that number if one looks at the margin that they have given, again I do not have that in front of me...

Sudhir Valia: And we do not share what Caraco has not shared.

Jesal Shah: But in the past Caraco had shared.

Multiple speakers: Once they file the 10Q the details will be there.

Jesal Shah: On a sequential basis, would you say that there is a decline in the own manufactured products of Caraco?

Dilip Shanghvi: No I think once the number comes, then only that information can be validated, so I think it is better for us not to give information, which we have access to as a large shareholder but which Caraco shareholders do not have.

Jesal Shah: So on a sequential basis, if I see, based on some assumptions, assuming that the base business in Caraco has remained at similar levels, plus minus 10%, I see that there is significant decline in the distributed products, from \$90 million to about \$22 or \$20 million. Would you say that this decline is attributable to Pantoprazole or are there some other products, which would have declined?

Dilip Shanghvi: In the press release they have said Trileptal and Pantoprazole. I do not know whether there is decline in Sun products or Caraco products, once they share information of distributed and their own sales numbers then that part will be clear.

Jesal Shah: So just moving down to the minority line what you are explaining is only Rs. 10 million and I see that Caraco has reported \$5 million net profit so can you just explain exactly how this 10 million comes?

Dilip Shanghvi: I think, Mr. Valia explained this, there was some....

Sudhir Valia: No, what he is saying is Caraco is \$5 million for this quarter, it is \$23 million from three quarters and 27% is the minority holding and there is other companies in which minorities are involved, so those actually amounted to about 48 crores or 49 crores in our balance sheet.

Jesal Shah: I did not understand the last part. There are others....

Dilip Shanghvi: There are other means that we have this partnership firm for which there is a minority partner.

Sudhir Valia: We have a subsidiary in Bangladesh has a minority partner, we have a subsidiary in Mexico, which has a minority partner. So all of this is calculated in the number given.

Jesal Shah: The other question was on your foreign exchange. In last quarter, you mentioned that you do not have any hedge position, is that still valid or has that policy changed?

Dilip Shanghvi: That is essentially valid.

Jesal Shah: Okay there would be no foreign exchange hedge loss or gain in this quarter?

Dilip Shanghvi: Correct. That is correct.

Jesal Shah: Where do you report the gain on the receivables in your P&L?

Sudhir Valie: That is all factored in when we do the valuation for our closing. In rupee terms, it gets accounted as an exchange fluctuation gain or loss. There are liabilities also in some of the subsidiary and there are assets also.

Jesal Shah: So I presume you would have net gain only?

Dilip Shanghvi: In fact matematically correct.... It is very complex.

Jesal Shah: But where do you report it? Where does it come? Does it come in interest line, other income line or does it come in other expenses?

Sudhir Valia: Either it is other income or other expense, receivables will go into the sales later.

Jesal Shah: No, foreign exchange translation is...?

Uday Baldota: On account of receivables.

Jesal Shah: It goes into sales line, is it? Last year you had this FCCB, I guess it is a bit late to ask this question, but I think on a YOY basis it makes an impact in our analysis. So just if you could clarify?

Dilip Shanghvi : You are asking very complex questions on a conference call very difficult to explain because many accounting principles are involved, because we have to treat receivables very differently, actual sales very differently, so I think if what we are answering and if you understand incorrectly, it will be a problem. If you need to get these clarifications, you come and meet Uday and Dineshbhai and they will explain.

Jesal Shah: So just on the broader issue, hydrocodone and acetaminophen you talked about in the opening remarks, how do you see this opportunity in terms of market share and size?

Dilip Shanghvi: It is an attractive business. It is a business that we wish to participate in. I do not want to quantify because our sense is that we will require a more comprehensive product basket before we can become a meaningful player, so it will start off gradually but I see that in the next three to five years it can be a interesting future business for Sun.

Jesal Shah: Right, fine thank you.

Dilip Shanghvi: Thank you.

Melissa: Thank you Mr. Shah. The next question is from the line of Mr. Prashant Nair of Citigroup. Please go ahead.

Prashant Nair: My questions have been answered, thanks a lot.

Melissa: Thank you Mr. Nair. The next question is from the line of Mr. Rajesh Vora of ICICI Securities. Please go ahead.

Rajesh Vora: Good morning gentlemen. Dilipbhai, on generic Protonix, authorized generics, wherein we look at the numbers from Wyeth on a QoQ basis their sales have also declined by half almost from \$142 million to \$70 million. Is there any seasonality for this product for this quarter compared to previous quarters of the year?

Dilip Shanghvi: Not that we know of.

Rajesh Vora: Secondly, in terms of going forward, you mentioned about a couple of reasons why sales of Protonix could have fallen, one being the risk control strategy. Is it fair to assume that whatever you have done in this quarter is something you will continue in the near term or it is difficult to say at this stage?

Dilip Shanghvi: Our approach to risk is not going to change.

Rajesh Vora: On the other side on acquisitions, you mentioned that there are attractive acquisition opportunities available at current price, but nothing is likely in the immediate horizon, does it mean that you expect opportunities to become even more attractive given what is happening in terms of asset prices, or is it somewhat linked to what happens on Taro?

Dilip Shanghvi: I think both of these are valid positions. I think the case with Taro as well as we expect valuation to become even attractive going forward. I am not taking a view on stock market and only taking a view on increasing competition and increasing pressure on price.

Rajesh Vora: Sure. Going forward, Uday if you could give next year capex, do you have the number?

Uday Baldota: I don't have it right now.

Rajesh Vora: Okay not a problem. Thanks all the best.

Moderator: Thank you Mr. Vora. The next question is from the line of Mr. Anmol Ganjoo of BNP Paribas. Please go ahead.

Anmol Ganjoo: Good morning everybody, I just had a brief question on Taro, Dilipbhai you mentioned that Supreme Court in Israel has had a tendency to put matters out of court, but did you see this tendency in play when you were contesting in the lower courts. Did the lower courts also try to explore the mediation process?

Dilip Shanghvi: Not in the lower courts and that I think it is not necessarily reflective of standard practice. Standard practice even in the lower courts in Israel there is an effort towards asking people to settle out of court.

Anmol Ganjoo: But you saw none of that when you were contesting in front of lower courts because that ruling was very decisive?

Dilip Shanghvi: It is, and I think it is possibly reflected the judge's view that clearly our position was clear and our view, even our strength is that Supreme Court view is also not very different.

Anmol Ganjoo: My second question is with respect to FDA approvals and mentioning of the timelines do you see it spread across in particular therapeutic areas or you think it is spread uniformly?

Dilip Shanghvi: No I did not understand.

Anmol Ganjoo: Basically what I am trying to ask is that if you have a product in controlled substance or dermatology would you see a difference in approvals of time lines or ANDAs?

Dilip Shanghvi: If it is a generic I do not see a difference in the treatment of ANDA based on whether it is a controlled substance or a generic product.

Anmol Ganjoo: My third question and the last one is that would you comment qualitatively on the account receivable cycle, do you see any reservation in any of the geographies and what it means?

Dilip Shanghvi: We see some delay in CIS, we see some delay in some of the other geographies, but that is not... I mean fortunately for us that does not represent a large part of our current business. So to that extent it is less of an anxiety and concern.

Anmol Ganjoo: But internally even for those small delays are you working with the possibility of some potential write down or probably slowing the channel inventory leeway that you give your distributors, has that figure gone down?

Dilip Shanghvi: No clearly we are looking at appropriate processes that can protect our interest and will not have to take an unnecessary exposure.

Anmol Ganjoo: Thank you so much.

Dilip Shanghvi: Thank you.

Melissa: Thank you Mr. Ganjoo. The next question is from the line of Mr. Prashant M. of Nomura Securities. Please go ahead.

Prashant M: Hello.

Moderator: Please go ahead sir.

Prashant M: You have mentioned that in the non-Caraco formulation exports, there is some kind of one-off in this quarter, can you please tell us the sales pertains to which region or what kind of margins this kind of one-off sales had?

Dilip Shanghvi: I think for the sake of protecting confidential information, we cannot share anything more than what we have already shared.

Prashant M: Okay, but can we assume that it is higher than the normal sales, the margins?

Dilip Shanghvi: More or less in line with normal.

Prashant M: Okay, and you also have said that in the base business sales in the US, there has been low growth YOY that is adjusting for all nonrecurring items, why has this happened and how do you expect this going forward?

Dilip Shanghvi: I have asked Caraco to give a clarification, in absence of their clarifying we cannot give very specific information, but my sense is that part of it will also originate from the impact of the FDA warning letter, also approval cycle times. I mean increased delay in the approval of Caraco's new products, and all of these would be issues.

Prashant M: Okay, thank you sir.

Melissa: Thank you Mr. Prashant. The next question is from the line of Mr. Madhusudan Bagree of Alliance. Please go ahead.

Madhusudan Bagree: Hi, I have couple of questions, most of the Pharma companies that we track both here as well as outside have been actually lowering their sales to the international market that you talked of, where you have seen a over 100% jump due to rising risks in these markets, can you please clarify are you taking higher risks in these geographies to push the sales numbers?

Dilip Shanghvi: No, I think the nature of our business is such that we cannot sell more if we want to sell more, we can sell more only if there is a specific requirement and I think overall all our businesses are doing well and we have no need to push anything anywhere. That is not the intention and we wish to be consistently conservative in our approach to all parts of business.

Madhusudan Bagree: You know in terms of seeing the upside to your business, when you say that you will made good the shortfall in the US sales, obviously the Indian market is not growing any

faster, in fact that from the earlier days where your growth rates are much higher, now we are down to the low teens in India as well, so this upside has to come from these other emerging markets where we sense that other companies are pulling back. Is that a right assessment of where the growth will come from, the additional growth?

Dilip Shanghvi: No that is not right assessment. I do not think that we would take any more risk than what we normally take, simply because we have to make good the shortfall. Because from our point of view, whatever guidance we have given is guidance based on our comfort in our ability to achieve. Like Caraco felt that they will not be able to achieve the guidance, then they share that with investors and we would do the same if that is something that we felt.

Madhusudan Bagree: Thanks. The other question, the other point that I wanted to ask you was after whatever we have seen in terms of deterioration in the corporate standards on governance, etc., of late Infosys took a turn in sort of making the corporate disclosures far more amenable to investors, do you also foresee yourself disclosing where you have parked the Rs. 2600 crores of cash that you have?

Dilip Shanghvi: I think that something that we will consider, but we have not taken a decision as yet. However, all our money is invested in safe investments and we do not try to find a way by which we can get increased return by increasing the risk on any of the money that we manage. We are a pharmaceutical manufacturer and we do not understand finance.

Madhusudan Bagree: Okay, thank you and all the best sir.

Melissa: Thank you Mr. Bagree. The next question is from the line of Mr. Ankit Thakkar of Kim Eng Securities. Please go ahead.

Ankit Thakkar: Hi thank you for taking my question. My question was regarding other expenditure. I was trying to understand how it has reduced as a percentage of sales from 26% to 23% in spite of oxcarbazepine last year. So I was just trying to understand is there any of one-off or write backs in there?

Sudhir Valia: Because of relations to various things. First is if you take a percentage then it has a relation with sales, it has relation with the research, it has a relation with legal and other second issues.

Ankit Thakkar: But if I see the absolute amount...?

Sudhir Valia: Includes this fluctuation related cost also.

Ankit Thakkar: Okay, that is true, but if I see sequentially even on quarter-on-quarter it is reduced.

Dilip Shanghvi: Yes, that happens because of... I do not see a trend and I do not see this to be an annual event.

Ankit Thakkar: Yes. That is it from my side. Thank you.

Moderator: Thank you Mr. Thakkar. The next question is from the line from Madhuchanda Dey of Kotak Securities. Please go ahead.

Madhuchanda Dey: Good morning sir. When you mentioned this 18% to 20% sales guidance overall, if you could share behind this calculation how many new ANDA approvals have you factored in?

Dilip Shanghvi: I think very difficult for us to give specific information as to what forms the basis of our overall guidance. We are expecting continued approval of new Sun products, but I am not able to give you a specific number right now.

Madhuchanda Dey: Okay. Just let me clarify the contention that I had. You mentioned in your remarks that there is a slowdown from USFDA as far as ANDA approval is concerned so does this mean that this guidance duly factors in that kind of a slowdown as well.

Dilip Shanghvi: Yes, sure of course it does, but what I said overall sense the industry has that and also at the end of every year, FDA shares some information about the average approval time for a product, so that over last three years has been increasing year after year.

Madhuchanda Dey: How much has been the change in the last six months, if you could throw some colour?

Dilip Shanghvi: There are no partial year numbers, I do not have the numbers here, but we will find out and we can give you specific numbers about this delay if you are interested.

Madhuchanda Dey: Okay. Thank you sir.

Dilip Shanghvi: Yes. Thank you.

Melissa: Thank you, Ms. Dey. The next question is from the line of Mr. Sonal Gupta of UBS Securities. Please go ahead.

Sonal Gupta: Thank you. Just a couple of followup questions, sir could you give us sense on the Protonix pricing like people have already talked about the Wyeth sales is down to half, from your standpoint, how significant deterioration on the pricing side or any sense that relatively also if you can give on that?

Dilip Shanghvi: I mean I do not have any specific response beyond saying that both, I think we see that Wyeth is becoming more competitive for their own products by competing and trying and getting a bigger share of the Protonix market itself. Also, I think certain amount of inventory built-up with the pharmacists and retail chain, so they would not be purchasing.

Sonaal Gupta: All right. Related to Cardene IV I believe you are the first to file, so in case, there is a litigation going on, if the litigation does not completed, then will you get six months exclusivity how does it works really?

Dilip Shanghvi: We have to win the litigation or we have to launch at risk once we get an approval.

Sonaal Gupta: No, but the patent expires anyway in November 2009?

Dilip Shanghvi: So we get that period.

Sonaal Gupta: Sorry sir?

Dilip Shanghvi: If we get approval and we launch at risk then we can get that period.

Sonaal Gupta: And anything can you tell us on how Amifostine has progressed in terms of market share, are you the largest player in terms of market share?

Dilip Shanghvi: No I think we would have slightly less than one-third of the market.

Sonaal Gupta: So one-third.

Dilip Shanghvi: Yes, less than one-third.

Sonaal Gupta: Thank you so much.

Dilip Shanghvi: Thanks.

Melissa: Thank you Mr. Gupta. The next question is from the line of Mr. Deepak Sharma of Press Trust Of India. Please go ahead.

Deepak Sharma: Good morning sir. I have two questions. Sir you said that you have a cash surplus, cash of around Rs 2500 plus crores and keeping in mind the present valuations of companies in overseas market, I just wanted to know what type of the company ideally suited you for acquisition in which geography?

Dilip Shanghvi: I think we have been consistently communicating to shareholders that we are looking at an acquisition opportunity in the US and that has not changed.

Deepak Sharma: But what type of company in which therapeutic area, I just wanted to know an overall idea to what will be ideally suited for Sun Pharmaceutical?

Dilip Shanghvi: Something which helps us grow our presence in the generic industry and which meets our financial criteria for investment whereby we can get 20% to 25% annualized rate of return post synergy.

Deepak Sharma: But, can you tell me if some mid sized company or a large sized company?

Dilip Shanghvi: It has to be relatively mid sized company, nothing in the \$2, or \$5 billion range

Deepak Sharma: Coming back to you, a question related to Taro, time and again the Levitt family has accused that you are not paying the money, the type of money you paid for acquiring minority share of Brandes Investment so just wanted to know why is the difference these two offers, because there you paid around \$10 per share, here it is \$9 per share that too a revised deal?

Dilip Shanghvi: I think we are talking about same issue, but at different points of time and I think valuation has a relationship in the context of time and relative valuation of other companies. In our view, whatever we are offering at this point in time is the best that we think we can offer looking at all other issues.

Deepak Sharma: Has the Israeli court given any timeline for mediation process, by the time, we should complete the mediation process or is there any possibility of hiking the offer you have made?

Dilip Shanghvi: No. I think what we have shared about the mediation process is that we had the suggestion or the advice of Supreme Court and we have been advised to follow a mediation process beyond which there is nothing specific additional information to share.

Deepak Sharma: About any possibility of increasing the offer price of Taro?

Dilip Shanghvi: Beyond whatever that we have shared already, there is nothing no additional information to share.

Deepak Sharma: Thank you sir.

Dilip Shanghvi: Thank you

Moderator: Thank you Mr. Sharma. The next question is from the line of Mr. Abhay Shanbhag of Deutsche Bank. Please go ahead.

Abhay Shanbhag: Just a small question on the R&D cost, now that you are only focusing on the generic business and your focus market remains US, but taken the patent expirations falling off for another three or four years do we see the R&D cost continue to increase at this sort of rate?

Dilip Shanghvi: I think our R&D cost has been around 10% and that what has been guided for so I do not expect a dramatic upward or downward correction in that R&D cost.

Abhay Shanbhag: With sales growing at 20% and with the fact that the most patent expirations are expected fall off three four years down the line, so technically the number of filing after a period of time should start stagnating or falling?

Dilip Shanghvi: No I think, we will find something else to do if there are no new products that we can chase.

Abhay Shanbhag: Are you looking at complex products- earlier on you had said you were looking at Lupron and the other stuff, so would they be taking a lot of your cost, can you give a guidance on some of these factors as to approvals or when you would finish the filing?

Dilip Shanghvi: We continue to work on complex products and that I think should help the company grow in the medium and long term. They are very complex products and I think it is not wise for us to give any specific guidance for them, but we continue to work on them.

Abhay Shanbhag: Specifically for Lupron has the ANDA has been filed?

Dilip Shanghvi: No.

Abhay Shanbhag: And you have no guidance for you to take a year or six months for filing or anything like that.

Dilip Shanghvi: No we have not given any specific guidance.

Abhay Shanbhag: Okay, one last question, the size of business in US, you are not really looking at any of the other geographies for growth or the focus would remain the US as you have been talking about?

Dilip Shanghvi: Abhay I think you are breaking up, I could not hear clearly.

Abhay Shanbhag: I mean your focus has always been in the US and India and you have gained a fairly good amount of market share in these markets, with the filings that you have, growth also should be reasonably well, so are you not looking at other markets now, given that the cash kitty that you have and the targets available in these countries?

Dilip Shanghvi: I think we has been a very small player in the US, so no sense in trying to go to many countries when we are not meaningful in the main market of our interest.

Abhay Shanbhag: I mean all your focus will still remain in the US market at this point of time probably for another two or three years?

Dilip Shanghvi: That is correct.

Abhay Shanbhag: Okay fine thank you.

Moderator: Ladies and Gentlemen, we will be taking the last question of the day. The last question is from Cheenu Gupta from ING Investment Management. Please go ahead.

Cheenu Gupta: Hello sir. Good morning. My question is regarding the non-US International geographies that are mentioned, what is the currency that we deal in, is it like the local currency or dollar denominated?

Dilip Shanghvi: Typically our exports would be dollar denominated or euro denominated.

Cheenu Gupta: Okay we do not deal in local currencies?

Dilip Shanghvi: Generally we do not export in local currency.

Cheenu Gupta: Okay and this is another small one, what is the current inventory days and debtor days?

Dilip Shanghvi: I do not have specific information here with me, so I will not be able to share specific information.

Cheenu Gupta: Okay, yes, that is it from my side.

Melissa: Thank you Ms. Gupta. I would now like to turn the floor back to Mr. Uday Baldota for final comments.

Uday Baldota: Thank you everybody for joining us on this call today. If you have any questions remaining unanswered, please do not hesitate to get in touch with us. Thank you. Bye.

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