



Corporate Participants

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Moderator: Ladies and gentlemen good day and welcome to Sun Pharmaceuticals Q2 FY11 Earnings Conference Call. As a reminder for the duration of this conference, all participant lines 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. If you should need any assistance during this conference call, please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Uday Baldota of Sun Pharmaceuticals, thank you and over to you sir.

Uday Baldota: Thank you. Good morning and warm welcome to our second quarter 2010-11 earnings call. I am Uday from the Sun Pharma Investor Relations team. We hope you have received our Q2 FY11 financials and press release that we sent out on Saturday. These are also available on our website. Today, we have Mr. Dilip Shanghvi, Chairman & Managing Director; Mr. Kal Sundaram, CEO; and Mr. Sudhir Valia, Wholetime Director, for this interactive session. Together they will discuss and respond to queries on performance highlights as well as updates on strategy.

As is usual, for ease of discussion we will look at the consolidated financials. Just as a reminder, this session is being recorded and the replay will be available. This session transcript will also be put on our website soon. It would be appropriate to mention that the discussion 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 today. I will now hand over to Mr. Dilip Shanghvi.

Dilip Shanghvi: Welcome and thank you for joining us today on this earnings call after announcement of financial results for the second quarter of 2010-11.

An important unfinished business this quarter which has now been completed is the acquisition of majority stock in Taro Pharmaceuticals after the judgment of the Israeli Supreme Court. Taro brings to the table a large US generic business with 150 ANDAs and manufacturing sites in Israel and Canada. Of course, the big challenge of helping Taro improve its performance is still ahead and remains to be executed. This is being given the high priority that it deserves. While we are confident that performance for Taro will improve, it is likely that things will change only gradually.

On the patent litigation side, a big win was the appeals court ruling in the gemcitabine case. The appeals court has upheld the lower court verdict invalidating the patent. Perhaps, this is a first where an Indian pharma company as a single defendant in a patent litigation has been able to successfully invalidate the patent of an innovator company at the appeal stage.

Now as usual, Mr. Valia will outline the financial highlights and then Mr. Sundaram will cover the operational performance highlights. I will then talk about R&D investments and sales guidance. I will now hand over to Mr. Valia.

Sudhir Valia: Thank you Mr. Shanghvi. Good morning to everybody. Our second quarter and first half financials are already with you. As usual, we will look at the key consolidated financials.

Quarter 2 net sales is Rs. 1370 crores, an increase of 16% over quarter 2 last year. Material cost as a percentage of the net sales is 28% which is higher by 4%, compared to 24% in the same quarter last year. This is essentially due to the change in the product mix and the movement in the exchange rate.



Staff cost for the quarter is 11% of the net sales, more or less at the same level witnessed in quarter 2 last year. Other expenditure is 28% of the net sales again at the same level as for the quarter 2 last year.

As a result, operating margin achieved during quarter 2 equals 32%, lower than 34% in quarter 2 last year. Similarly, net margin at 37% is marginally lower than 38% achieved in the same quarter last year.

On a fully diluted basis, EPS is Rs. 24.30, up from Rs. 21.90 for the same quarter last year.

Net sales in the first half are Rs. 2770 crores, an increase of 40% over the first half of the last year. Adjusted for the lower sales in the first half of the last year, the underlying growth is 26%.

Material cost as a percentage of the net sales is 26%, lower than the 28% achieved in the same first half last year. This is explained essentially by the change in the product mix and partly by the exchange rate.

Staff cost for the first half is 10% of the net sales, significantly lower than the 13% witnessed in first half last year. This is on account of a lower sales base in the first half of the last year. On an absolute basis, increase of staff cost is 8%.

Other expenditure is 25% of the net sales, significantly lower compared to 31% of the net sales last year. This is also largely on account of the lower sales in the first quarter last year. On an absolute basis, the increase is 17%.

As a result, operating margin achieved during the first half equals 36%, substantially higher than 25% in the first half last year. Similarly, the net margin at 39% has shown significant improvement over 31% for the first half last year.

On a fully diluted basis, EPS is Rs. 51.60, significantly up from Rs. 29.60 for the first half last year.

Caraco recently announced quarter 2 numbers. Caraco reported quarter 2 net sales of \$ 98 million, up by 25% from the same quarter last year, due to an increase in the sales of distributed products. The sales of such product at this level are not expected to continue in the future. The net loss is \$ 1.5 million for quarter 2 compared to the profit of \$ 6.7 million in the second quarter last year.

Taro recently announced July-September numbers. Taro reported July-September net sales of \$ 103 million, an increase of 10% over the same quarter last year. Net profit is \$ 19 million for the quarter.

A brief mention about our API business – overall API sales registered an increase of 5% this quarter primarily on account of the lower growth in the international market and unfavorable exchange rate.

We scaled up 10 API in this quarter. Including Taro filings, we now have 120 DMF and 198 CEP.

I will now hand over to Mr. Sundaram who will share operational highlights.

Kal Sundaram: Thank you Mr. Valia and good morning everybody. Now I will take you through the Indian Formulation business and the rest of the world branded generic prescription business.



Starting with the Indian Formulation business, sales in Q2 at Rs. 641 crores reflected a growth of 36%. Adjusting for the lower base in the second quarter of last year, the underlying growth is approximately 27%.

For the first half, sales are Rs. 1239 crores, showing a growth of 55%. Once again, adjusted for the lower base, the underlying growth is approximately 22%.

According to IMS ORG, we hold market share of about 3.7% at the end of September 2010. Five therapeutic areas namely cardiology, psychiatry, neurology, gastroenterology, and diabetology are our focus areas and these segments account for over 70% of our total sales.

During the course of the second quarter, we launched 11 products, taking the total to 21 products for the first half. We continue to build our prescription base and add market shares with our key doctor specialties.

Now about emerging market branded generic business, sales for the segment reflected in this consolidated financials have grown by about 5% at constant dollar when compared to the last year same quarter.

For the first half, the growth has been closer to 20% again on constant dollar basis. This reflects first half growth in excess of 20%, supported by in-market demand for these products. In the rest of the world branded generic business, we expect steady increase in our sales as we build our presence with branded generic prescriptions, and expand our portfolio. Now, I will hand it over to Mr. Shanghvi. Thank you.

Dilip Shanghvi: Thank you, Mr. Sundaram. Second quarter performance has been in line with our expectations.

Caraco recently shared an update on its remediation process and indicated that it hopes to manufacture two products by the end of this financial year and another 2 to 3 products in the next year. Thus, sales build up of manufactured products as estimated by Caraco is likely to be gradual and slow.

R&D expense for the quarter is Rs. 76 crore, equivalent to 6% of net sales based on the work of our 600-strong scientist team. Added to this, we now have a strong R&D team at Taro as well. Significant efforts are required to build a good quality pipeline for Taro.

We continue to receive tentative and final approvals for ANDAs filed from Sun Pharma factories. In the second quarter, we received approval for ANDAs representing 3 products. ANDAs for 2 products were filed by Sun Pharma. Now together with Taro, we have a total of 363 products filed with the FDA, of which 146 are awaiting approval.

Sun's patent library now stands at 257 patents with 84 patents being granted. As the consolidated financials will include Taro for the next two quarters, we revise our 2010-11 sales growth guidance to 35% over the reported sales of 2009-10. With this, I would like to leave the floor open for questions. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen we will now begin with the question and answer session. Our first question comes from line of Abhishek Bishnoi from ET Now. Please go ahead.



Abhishek Bishnoi: Mr. Shanghvi, this is Abhishek Bishnoi from ET Now. Congratulations on a stellar set of numbers. What I wanted to understand is, this is mainly led by higher than expected sales in Caraco, so what we are looking for is a bit of clarity whether this upside in earnings is sustainable is going forward?

Dilip Shanghvi: I think Mr. Valia explained in his presentation that the numbers reported by Caraco will go down in the subsequent two quarters.

Abhishek Bishnoi: What about upside that they have seen from generic Effexor XR and Exelon, I mean we expected great contribution from this joint exclusivity in the second quarter numbers?

Uday Baldota: Abhishek, can you join the queue later on please.

Abhishek Bishnoi: Sure, I will get back in the queue.

Moderator: Thank you. The next question comes from line of Sonal Gupta from UBS. Please go ahead.

Sonal Gupta: Wanted to understand what is the impact of Taro for this quarter?

Sudhir Valia: We have consolidated numbers for only 10 days in these financials.

Sonal Gupta: So sir could you give us what are Taro's sales numbers for that period?

Sudhir Valia: It is very meager, and now for the quarterly results of Taro have already been disclosed.

Dilip Shanghvi: It is pro rata of 10 days on \$103 million.

Sonal Gupta: And sir just to understand on the India formulation side, we have seen very strong growth even on adjusted basis, so could you just highlight us to what the driving factor here, and it seems quite strong.

Kal Sundaram: As I mentioned, the underlying growth in-market demand for the products in second quarter is running in excess of 20%, in the low 20s. This is largely reflected by high quality demand across almost at all segments. Pickup has been better than what it was, even in the first quarter.

Sonal Gupta: Sir just one final question. Do we now have clarity on the direct tax code, now that the second draft is out and the bill is likely to be the same, how much would your tax rate be for next year, any guidance on that front?

Sudhir Valia: There will be a tax impact because of MAT going up.

Sonal Gupta: But do we see a substantial change from the current tax rate that we pay?

Sudhir Valia: There will be differently higher outflow as compared to what we pay currently.

Sonal Gupta: Okay sir, thank you.

Moderator: Thank you. The next question comes from line of Jesal Shah from JM Financial. Please go ahead.



Jesal Shah: Hi, thanks for taking my questions. Actually I have just a couple. One is if you can just tell us, there has been fairly decent growth in Caraco. Now if you were to exclude what you had highlighted was kind of one-off in the first quarter of this year, so can you just help us understand how this growth driven from first quarter to second? Could you say it is driven more by the new launches or otherwise?

Dilip Shanghvi: It has an element of residual sale of Eloxatin. As per Caraco's accounting practices, they do not calculate the sales made in last few days till the material would have reached the customer. So some sales that you see this quarter is the residual sale computed from the last quarter.

Jesal Shah: Okay thanks, and my second question is with regards to Taro, you have talked about some business aspects there. So can you help us understand, if you have any quick thoughts on where are the areas of synergies that you see between Sun group as well as Taro in terms of R&D, marketing and other things?

Dilip Shanghvi: I think more than the synergy, it is the ability to get into businesses that Sun is not present in, that has driven this investment. They have a pipeline of products that Sun neither has current capacity to develop, nor would be in time to bring to market. So the challenge for us is how do we leverage these products across other markets where Taro was historically not present, and where Sun is present. So we have to look at various products that we can consider for registration in other geographies where Taro is not getting current business. We also have to focus on strengthening the future research pipeline because for dermatology business, and especially some of the specific products, unlike oral products, require a comprehensive clinical study for product to be registered and for the last few years, Taro with its prior financial constraints has not invested as much as it could have in developing and registering these products. So we would have to start that activity in earnest and then too the result will be visible only may be three or four years down the line.

Jesal Shah: Okay thank you.

Moderator: Thank you. The next question comes from the line of Nimish Mehta from MP Advisors. Please go ahead.

Nimish Mehta: Thanks for taking my question and congrats for great numbers. My first question is related to Taro. Can you explain to us as to the high R&D expense that Taro is incurring, is it directed towards largely which segment it is to NCE or the branded topicals or exactly where they are investing is what I am trying to understand?

Dilip Shanghvi: I think they have these two or three products which are NDA products that they have been investing on, but from our analysis, they are far away from market. So we need to seriously see whether the company has the financial muscle to bring these products to market or to license them out to somebody, or co-develop with some other larger companies. So those are all issues that we are debating and reflecting internally.

Nimish Mehta: So R&D expense also will be a function of what your decision would be, because that is a big chunk of.....

Dilip Shanghvi: Not only investment, I think it is also the question of expertise because one product is used for treatment of epilepsy, the other is used for treatment of essential tremor and these are very



complex diseases. So you need enormous amount of scientific capability within the organization to develop them. So it is not only a question of money.

Nimish Mehta: Fair enough. Second if you can let us know what is if at all do you see any opportunity in Gemzar, now that the ruling is out and Sun Pharma do not have an FTF, but is there any possibility of low competition?

Dilip Shanghvi: I think you would have seen there are many tentative approvals. So we expect gemcitabine to be a very competitive product once Teva's exclusivity expires.

Nimish Mehta: And finally can you throw some light on how many ANDAs have been approved or filed by Caraco. We understand that last quarter Caraco had filed two ANDAs. So is that going still on or what is the status sir?

Dilip Shanghvi: No ANDAs were approved for Caraco last quarter.

Nimish Mehta: Sorry, it was about filing, did Caraco file any ANDA this quarter?

Uday Baldota: If you see their disclosure, Nimish they have not made any filing in this quarter.

Nimish Mehta: Okay. Thank you. I will join the queue.

Moderator: Thank you. Our next question comes from line of Bino Pathiparampil from IIFL. Please go ahead.

Bino Pathiparampil: Hi, congrats on a good set of numbers. The guidance revision. Does it entail just the addition of Taro or do you think even minus Taro, there is some upside which you have built in?

Dilip Shanghvi: What Bino you are trying to understand is whether we are using Taro as an excuse to revise our guidance?

Bino Pathiparampil: No, sorry. What I asked is the entire 15% guidance revision is that entirely coming from addition of Taro or is better performance of the base business also contributing to that extra 15%?

Dilip Shanghvi: I think it is essentially on account of Taro.

Bino Pathiparampil: And secondly on Taxotere, there was a court verdict which could be directly favorable for Sun. So has anything started moving in your specific case that could actually give some visibility on its launch?

Dilip Shanghvi: No, we still need to have that judgment applied in our favor or in our case. We have not yet been able to, and my understanding is that the approval on the product by the FDA from tentative to final, can happen only when they have clarity about this judgment.

Bino Pathiparampil: Right. And finally can I get some color on the large other income for the quarter?

Sudhir Valia: I think as usual, we have interest income and forex gain.



Bino Pathiparampil: Okay right, thank you very much.

Moderator: Thank you. Our next question comes from the line of Kartik Mehta from Daiwa Capital Markets. Please go ahead.

Kartik Mehta: Hi, any expenses in regards to Taro which one should look at, since they were unaudited numbers. I understand you have raised topline guidance, but how much does it impact on the overall EBITDA and PAT because they are unaudited numbers, and there could be some expenses also from older periods which could be non cash?

Dilip Shanghvi: No, I think if you see when we announced the acquisition, we had indicated that it would be EPS accretive but clearly the margins will go down.

Kartik Mehta: Which is actually understandable? But when you consolidate at the end of the year, would it include for any of the past numbers which are actually unaudited and will any of those expenses be taken in FY11 numbers for your company?

Sudhir Valia: There does not appear to be any significant issue so far as we read, but it will take the next or one more quarter for us to understand their accounting methods and systems. Primarily, it is not right at this stage to say anything.

Kartik Mehta: And just one last thing from my side is what are your thoughts on increasing the stake from 53% to higher?

Sudhir Valia: It does not depend on only our wish; it has to be the wish of the seller also.

Dilip Shanghvi: I think we have not yet formed a specific view on what is our plan for Taro in terms of increasing our equity position, but as soon as we clarify our position internally, we will share it with investors.

Kartik Mehta: Thank you.

Moderator: Thank you. Our next question comes from line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: Good morning everyone. Just a question on the revised guidance. If I do the math and applied 35% on the base fiscal 2011, Rs. 41 billion, it seems that the differential that I get versus earlier guidance and now it is about roughly \$140 million and Taro is roughly \$103 million a quarter. Are these numbers correct and if so, then should the guidance not be fair bit high on account for Taro?

Dilip Shanghvi: No, I understand. I think this \$103 million this quarter for Taro is different from the internal annual objective. Hopefully, they should be able to meet and continue to do what they are doing, and we are still to get a handle on the business. So that is a business that we do not understand as well as we understand the Sun Pharma business. So as we get clarity, I think if there is a need for us to share some different numbers with investors, we would do that, but your calculations in terms of basic numbers are correct.



Sameer Baisiwala: And the second question is on the warning letter that was issued to Taro sometime back for the Canadian facility. Any update on that and has the company overcome those issues?

Dilip Shanghvi: The Company is working to address those issues which the FDA has raised. I think the company has also shared with investors that post that warning letter, there have been two inspections by Canadian Regulatory Agencies and they are awaiting for the US FDA to come and audit. I think the warning letter can be withdrawn only after a successful US FDA inspection.

Sameer Baisiwala: And just on Taxotere, you mentioned that Hospira and Apotex ruling, has not yet been applied to Sun's case. Is it a procedural matter which is taking time or are other aspects to it?

Dilip Shanghvi: If your question is whether we feel confident that we will get it or not, is that the question?

Sameer Baisiwala: In a way yes.

Dilip Shanghvi: No, we feel that we will get the ruling applied in our case. We are not sure that by what time that would happen. It will not be very late, but we may miss the patent expiry date.

Sameer Baisiwala: Ok. And just one final question on two products that CPD plans to commence manufacturing probably by end of this year, are these the highest two selling products before the seizure and FDA problem started, or are they smaller products or any color you can give us on that?

Dilip Shanghvi: I think I cannot share more than what Caraco has shared with their investors. I think what generally FDA consultants advise, is that do not start with very ambitious products, start with products which are relatively simple and start with products which would then qualify you to certify for all the parts of your manufacturing process.

Sameer Baisiwala: Thank you so much.

Moderator: Thank you. The next question comes from line of Abhay Shanbhag from Deutsche Bank. Please go ahead.

Abhay Shanbhag: This is the follow up to Taxotere, has Sanofi appealed against the lower court verdict and any view on that, would they get an injunction or anything like that against the generic launch?

Dilip Shanghvi: Abhay, I do not have an immediate answer to this, but my sense is they have not appealed, but do not take this as final. I think Uday will give you the update and those who are interested for this may be can check with Uday.

Abhay Shanbhag: And what about Europe sir because Europe was also November 2010 expiry. So would you be looking at the European tender businesses in the near term?

Dilip Shanghvi: We will be; however, Europe is far more competitive today than US is.

Abhay Shanbhag: And as of now they have only two approvals, Teva and yourself for Europe also right?



Dilip Shanghvi: No, I think there are more approvals.

Abhay Shanbhag: One last question. On pantoprazole, anything on the verdict by the judge? On pantoprazole, the jury had upheld a patent, is there any verdict from the judge or any timelines for that?

Dilip Shanghvi: Honestly I do not know, but that is also something which Uday will update you about.

Abhay Shanbhag: And one last question on Taro, you mentioned manufacturing in Israel and Canada, there was some issue on the Irish facility where you had opposed the sale. So is the Ireland facility with you or has it already been sold earlier by Taro?

Dilip Shanghvi: I think it has been shut down by Taro and that is what they have shared with investors. What we understand is that a significant number of equipments from that facility have been moved from Ireland to Canada or to Israel. So there is some equipment in Ireland, but the facility as it is today is not in a usable form.

Abhay Shanbhag: But the equipment is with Taro itself, they have not gone out of Taro?

Dilip Shanghvi: They have not been sold yet, no.

Abhay Shanbhag: Thank you sir.

Moderator: Thank you. The next question comes from line of Ranjit Kapadia from HDFC Securities. Please go ahead.

Ranjit Kapadia: Thank you for taking my question and congratulations on a good set of numbers. My first question relates to the tax rate which has come down by almost half from 7.9% to 3.3% during the quarter and the second question relates to manufacturing sites of Taro, is there a restructuring possible in the near future for Canada and Israel sites?

Sudhir Valia: The consolidated tax you see here is combination of all the companies. This is a net figure, there are tax credits available somewhere and somewhere tax payments.

Ranjit Kapadia: Any specific one-off item in this?

Sudhir Valia: No, nothing like that. This happens because in some of the subsidiaries we are losing money and, till we start generating revenue from that organization, we may have some kind of a tax scenario, but once that company becomes profitable, you will see the tax payment number rising. About the restructuring and as far as Taro is concerned, currently we are continuing manufacturing activity as it is, it is not simple to bring about a site change and it is not in the interest of organization.

Dilip Shanghvi: Actually, there is a plan to significantly enhance both the Israeli and Canadian facility and new investments have been approved after our taking over the operations of the company and possibly as time passes like what we have done in Sun, we will continue to make at least 15, 20 or 30% investment year-after-year to prepare for increasing demand.

Ranjit Kapadia: Thank you and all the best.



Moderator: Thank you. Our next question comes from line of Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: Thanks for taking my question and congratulations on a very good set of numbers. Sir the first question is on Taro, you just mentioned that you are looking at investments, but our understanding was that the capacity utilization in these facilities was very low. So have they increased significantly in Canada and Israel?

Sudhir Valia: Investments are always required for balancing equipments or facilities or enhancing the product. For any particular product facility, investments are always required. Capacity is subjective, somebody may say that it is underutilized and somebody may say it is overutilized. There are number of matrix method by which one can work, but definitely increasing the utilization is the objective.

Saion Mukherjee: Ok. Can you share the level of investments that you are looking at in capacity at Taro?

Dilip Shanghvi: I think what I explained is this, like in Sun, where we have an incremental investment strategy year-after-year; we will follow that same strategy. So there is no likelihood of a huge one-time investment.

Saion Mukherjee: Got it. The second question relates to the domestic market, this quarter results indicate that the growth rate seem to be back to north of 20% from something like 17-18% which we were reporting earlier. So what is your sense, do you think more than 20% is the kind of growth rate that one can see in the coming quarters or it is more like 17-18% is a realistic number to look at?

Kal Sundaram: A lot depends on how the market performs. As I mentioned, second quarter has been better than first quarter. On a full year basis, it will be too premature for us to say anything that we will grow in excess of 20%. So as far as the next two quarters are concerned, we will still be probably looking at mid-to-high teens.

Saion Mukherjee: And finally few questions on the US, product related. For Effexor XR, is any royalty, milestone etc. shared with SPARC and can you share that number. Is it been booked?

Dilip Shanghvi: I think if you see in SPARC's quarterly result, they have been profitable last quarter, that was because of revenue that they received from the approval of the Effexor XR generic. So we are not giving specific number right now, but that has been booked in Sun as a cost and it has been reflected as an income in SPARC Ltd.

Saion Mukherjee: Sir on Taxotere, what is your sense of generic penetration, whether this product will be substitutable to the innovative product. Can you throw some light on that?

Dilip Shanghvi: Why would you ask this question?

Saion Mukherjee: No because I understand it's a different formulation, a 505B (2) filing.

Dilip Shanghvi: I think 505B (2) filing has to reflect either efficacy through their own clinical trial or certain amount of equivalence. So unless and until there is a clinical evidence of safety and effectiveness, products do not get approved.



Saion Mukherjee: And finally sir on Eloxatin, you mentioned that some sales got booked this year because of the accounting policy. Can you share like how many days' sales might have got booked for Eloxatin in this particular quarter?

Dilip Shanghvi: I can tell you days, but it will not help you. I think it is last 4 days or 5 days where they have not booked the sales.

Saion Mukherjee: Thanks a lot.

Moderator: Thank you. The next question comes from line of Rahul Sharma from Karvy Stock Broking. Please go ahead.

Rahul Sharma: Just wanted clarity on the revenue ramp up in Caraco, how much can be attributed to Exelon and rivastigmine?

Dilip Shanghvi: What is the question?

Rahul Sharma: How much was the revenue growth in Caraco we attributed to Exelon and rivastigmine?

Dilip Shanghvi: Exelon is rivastigmine, Eloxatin is oxaliplatin.

Rahul Sharma: Sir, Effexor XR?

Dilip Shanghvi: Effexor XR okay. We don't have specific numbers that we can share. I can tell you that we have decent market share for the tablet market for Effexor XR and reasonable market share for rivastigmine as a generic.

Rahul Sharma: And on the accounting side, goodwill on consolidation is mainly on account of the Taro consolidation?

Sudhir Valia: Yes. The entire incremental thing is on account of that. Your guess is right.

Rahul Sharma: And sir our inventory days, debtor days, and loans and advances have also increased quite substantially. All this could be attributed to Taro?

Sudhir Valia: Primarily.

Rahul Sharma: And sir in other income, the forex gain how much is on account of operations and how much is on account of your loans and other things?

Sudhir Valia: Generally, we have forex only to the extent of covering some of the investment, so it is not a large impact.

Rahul Sharma: Other income has gone up almost to Rs. 90 crores for the quarter.

Sudhir Valia: Last year a loss booked on inter-company transfers, otherwise there was no reason for the jump, it is consistent.



Rahul Sharma: Could you give us the breakup of the forex gain?

Sudhir Valia: We have not classified.

Dilip Sanghvi: We will not share specific numbers.

Rahul Sharma: Okay sir I will re-join the queue.

Dilip Shanghvi: Thank you.

Moderator: Thank you. The next question comes from the line of Prakash Aggarwal from RBS, please go ahead.

Prakash Aggarwal: Yes, good morning sir. Sir on this rest of the world business, how do we take it forward, I mean we have seen some currency headwinds there as you said, but at the base business is some specific reason why it is not done well or can you throw some color there?

Kal Sundaram: No I think, for one. My suggestion would be do not read by one quarter. In international businesses normally there could be fluctuations between quarters based on what we invoice. As we have mentioned, the underlying demand rates are growing in the region of 20% that I would expect to continue. Any further acceleration will depend on the future registrations that we secure. So as far as we are concerned, there is no particular slow down in the international business.

Prakash Aggarwal: Perfect and sir secondly on the US again, we have seen significant improvement as you said there is contribution from one-offs, but is this fair to assume that there has been significant improvement in the market share of existing products because IMS data showed that quite a few of your products are in terms of prescriptions they are gaining quite a good number of prescriptions, is that fair to assume?

Dilip Shanghvi: Actually our suggestion generally to people is not to look at prescription data for generics, because they are very indicative and sometimes they can be very wrong. Where as we get quarterly sales data which is more consistent. I don't see a significant increase in uptake for any of our product which warrants discussion or needs to be highlighted. We had shared with people that because of the issue of Caraco, the acceptance of Sun products have been gradual and slow. So that remains a fact and we had also shared that we will continue to focus on increasing market share. We are working towards increasing this market share.

Prakesh Aggarwal Okay sir and lastly on the cash side, you still have around \$650 million. Any plans, any highlights there?

Dilip Shanghvi: No, I think we continue to look for an interesting opportunity that we can invest in.

Prakash Aggarwal: Okay sir, thank you very much.

Moderator: Thank you. Our next question comes from the line of Sudharshan Padmanabhan from B&K Securities, please go ahead.



Sudharshan Padmanabhan: Hello, coming to your international branded generics, just wanted to know how do you see this business shaping up, is there any guidance that you would give or looking at the increased guidance, have you factored in any increase in your branded generics business?

Kal Sundaram: This a very diversified region and the dynamic is changing by the country, by the day. So all our focus is we are putting a lot of energy through is, for getting regulated dossiers for permissions in these countries. Once we have these dossiers approved only, we will have lot more clarity about the sales volumes and the growth potential. So, difficult to give you any precise guidance for the business.

Sudharshan Padmanabhan: And then coming to your cash on books and probably your investments, can you please give how much is your liquid investments what you have in terms of your investment in mutual funds and other liquid asset as such.

Sudhir Valia: All these are in liquid investments only, all the money which we have is either in a bank fixed deposit or in a liquid fund or a mutual fund, we don't take any exposures on the market and none of the invested liquid fund or mutual funds have market exposure. It is only debt.

Sudharshan Padmanabhan: And sir can you give us some clarity regarding debt about Taro and since you have so much of cash is there, what is the repayment plans of debt with respect to Taro as such?

Sudhir Valia: We intend to repay everything on maturity.

Sudharshan Padmanabhan: Thanks a lot sir, I will join the queue.

Moderator: Thank you. Our next question comes from the line of Nitin Aggarwal from IDFC. Please go ahead.

Nitin Aggarwal: Thanks for taking my questions. I just wanted to check on Effexor XR, have you seen any cannibalization we have been able to achieve share from the capsule business also, or it has largely been your function of how much from capsule intensive business.

Dilip Shanghvi: I think the first focus is to get a share of the tablet business and that is something that we believe we are gradually able to do. I think at some point, we may have to look at getting a share of capsule business, but that is a tough challenge.

Nitin Aggarwal: And sir how do you see this opportunity really playing out, do you see the opportunity worthwhile even beyond July or after some generics start coming in after July, the opportunity would start diminishing considerably?

Dilip Shanghvi: Honestly, I don't think I can answer your question immediately because this is something which there is no historical precedence, so we really don't know how this thing will play out, but before the capsule generic became available; Effexor tablets were a \$200 million business. So I do not know whether that business was converted out of capsule or that was an existing tablet business. So it is all a function of how the reimbursement will continue to work and what kind of price erosion we will see in different markets.

Nitin Aggarwal: Okay, thanks very much.



Moderator: Thank you. The next question is from the line of Bhagwan Choudhary from India Nivesh Securities. Please go ahead.

Bhagwan Choudhary: Thanks for taking my question. My question is from API front of view, your bulk business particularly from the export side which has been almost flat. So do you have any color on this particular export side?

Sudhir Valia: We mentioned that one of the reasons is exchange rate and it is always a lumpy business.

Bhagwan Choudhary: Thank you sir.

Moderator: Thank you. The next question is from the line of Manish Jain from Axis Holdings. Please go ahead.

Manish Jain: I just wanted to know in terms of differentiated products, when is SPARC Ltd. likely to contribute to Sun?

Sudhir Valia: SPARC Ltd. can do better than Sun. Not at this stage we can discuss.

Dilip Shanghvi: No, I think shortly we will be introducing some differentiated products in India, but the true value of the SPARC Ltd. pipeline is likely to start contributing to Sun Pharma when these products are registered internationally.

Manish Jain: Thanks.

Moderator: Thank you. The next question comes from the line of Sonal Gupta from UBS. Please go ahead.

Sonal Gupta: Thank you. Just a couple of follow up questions. One was are there any low-hanging fruits in Taro which you see in terms of sourcing or in some other places which can help improve the profitability in the one-year timeframe. Would there be something on that front?

Dilip Shanghvi: No, we are evaluating various options and there would be a few low-hanging fruits in any business that we will acquire; however, in pharmaceutical business change of itself is a 3- to 5-year timeline. So I do not know whether you can call it low-hanging fruit, but there is lot of way by which we can improve and focus on performance.

Sonal Gupta: And my next question was regarding the warning letter to your US facility outside of Caraco. So other than Caraco any comments on that what are we doing to strengthen our quality processes so that something similar does not happen anywhere else?

Dilip Shanghvi: This is a important concern and we are working aggressively to address this issue in such a way that it does not happen in remaining other locations. We've recently been audited in one of our Indian location and we went through that inspection successfully. So I think the processes we have in that location seem to be working, the challenge is how do all the locations have equivalent capacity and strengthen, robustness of their processes.



Sonal Gupta: So the Indian facility will be the Halol facility?

Dilip Shanghvi: Halol hasn't been inspected recently by US FDA. Halol was also inspected recently by European agency and that was approved.

Sonal Gupta: Okay sir, thank you so much.

Moderator: Thank you. Our next question comes from line of Kaushik Pal from Kotak Mutual Fund. Please go ahead.

Kaushik Pal: Hi sir, just wanted to know when we took over Taro about a month back, I think there was a skepticism of the profitability number, the bottom line number which they had earlier reported because of lesser chargeback and things like that, do we have any more clarity or should we take disclosed numbers of Taro with some skepticism on the profitability side, any color on that?

Sudhir Valia: So far so good, we continue the practices they have and work with them closely to worked out because they have revised twice in the past and tried to make it as reasonable as it is.

Kaushik Pal: But by your sense over the last 1-1.5 months, is there any like that chargeback which you might have to take, any sense on that for the prior period?

Sudhir Valia: Chargeback is very complicated because it comes in the debtors account and continuously going on. So it is very difficult to say sitting on one month or one and half months data to establish what is right and wrong, but we are putting our processes on. Secondly they have themselves revised twice in past to make it very less, difference to the extent possible in terms of realization as a chargeback. Those things are not significant if you see it is 3 months outstanding. So this comes to a reasonable control.

Kaushik Pal: And lastly whatever issues might be there, so prior period item your aim would be to sort of adjust all that before the consolidated balance sheet right?

Sudhir Valia: We have to consolidate irrespective of this, but we are putting processes on to see that we do not have to do what has happened in history.

Kaushik Pal: Thank you sir.

Moderator: Thank you. Our next question comes from line of Bino Pathiparampil from IIFL. Please go ahead.

Bino Pathiparampil: Just quick clarification on the US top-line. The Caraco number top-line reported you said that part of it is not sustainable and probably one-off, is the major part of that coming from the Eloxatin spillover or major part coming from other products in this quarter?

Dilip Shanghvi: Eloxatin spillover.

Bino Pathiparampil: Okay thanks.

Moderator: Thank you. The next question is from the line of Abhinav Chandak from Baljit Securities. Please go ahead.



Abhinav Chandak: Just had two things to ask. Can you quantify the amount of cash on liquid assets on book?

Uday Baldota Abhinav, it is there on our balance sheet that is included with the results.

Abhinav Chandak: Second thing what is the quantum of new investment that is the capex that you are looking for in your Canada and Ireland facility, any ballpark figure that you could give?

Sudhir Valia: It is in line with what we do incrementally in India.

Abhinav Chandak: What could be the amount, because....

Sudhir Valia: In India, we do between Rs. 75 to around 100 crore every year. So looking to their facility, it will happen.

Dilip Shanghvi: No, I think we should not calculate Rs.100 crore investments for Taro. Sun capital base is much larger than Taro. So it will be a similar percentage term.

Abhinav Chandak: Okay and any update on when do we expect some resolution on warning letter any timelines that we have received from the USFDA?

Dilip Shanghvi: You are talking of Taro as well as Sun facility?

Abhinav Chandak: Right, both.

Dilip Shanghvi: As soon as we have clarity, we will share it with you.

Abhinav Chandak: There is no timeline as such till now?

Dilip Shanghvi: As on today, there is no timeline.

Abhinav Chandak: Thank you so much for taking my question.

Moderator: Thank you. The next question comes from the line of Nimish Mehta from MP Advisors. Please go ahead.

Nimish Mehta: Can you just tell us how has been the domestic growth in comparison to the relevant segments that you are in. So how it used to be and it may be the underlying growth?

Kal Sundaram: 70% of the sales come from the five segments that I reflected. In almost like close to 30% of sales come from CNS where we are the leaders and still further consolidating our position.

Nimish Mehta: In CNS, is the growth is higher than the market or it was in line with the market that you had witnessed?

Kal Sundaram: Actually we have consolidated and gradually increasing market shares meaning our growth is ahead of the market.



Nimish Mehta: In all the 5 leadership segments?

Kal Sundaram: Except in CNS. In cardiology and diabetology, we are holding our shares and so with gastroenterology.

Nimish Mehta: Is it fair to assume that your growth had been higher than the market growth in those segments right?

Kal Sundaram: Yes.

Nimish Mehta: Okay fine thanks.

Moderator: Thank you. Our next question comes from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: Quick question on Taxotere, it looks like Hospira has single-vial formulation and so has innovator recently launched. Is this going to be a big competitive disadvantage for Sun?

Dilip Shanghvi: It will be a disadvantage. I do not know to what an extent the disadvantage would be in terms of ability to penetrate because I think pharmacists and hospitals prefer a solution product over a lyophilized product and our product is a lyophilized product.

Sameer Baisiwala: And the second question is on 27 pending ANDAs from Taro pipeline, anything that you can share for what is the nature of these ANDAs, they are all predominantly derma, niche opportunities or they are more mass market opportunities?

Dilip Shanghvi: I think in absence of Taro sharing, specific information we will not be able to give you more color on the pending ANDAs, but I shared my concern about and also our strategy about strengthening the quality of future ANDA filings so that we can improve our presence in relatively less competitive markets.

Sameer Baisiwala: And just final question on the payback period for Taro acquisition, any guesses over there?

Dilip Shanghvi: Payback meaning what?

Sameer Baisiwala: I think we would have infused \$170 million for 53% stake. So over what period of time do we get this money recovered?

Dilip Shanghvi: I think we should be able to achieve our internal benchmark on return on capital of anywhere between 20 to 25% on the investment.

Sameer Baisiwala: Okay, thank you so much.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor over to Mr. Uday Baldota for closing comments.

Uday Baldota: Thank you everyone for joining on this call. If you have any questions, please let me know. Thank you, bye.

Sun Pharma Q2 2010-11
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Moderator: Thank you. On behalf of Sun Pharmaceuticals that concludes this conference call. Thank you for joining us and you may now disconnect your line.