

Sun Pharma Q2 and H1 2005-06 Results
Conference Call Transcript
5:00 pm, October 28, 2005



Corporate Participants

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

Sudhir Valia
Wholetime Director, Sun Pharmaceutical Industries Ltd.

Moderator:

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

Uday Baldota:

Thank you, Parimala. Good evening and a warm welcome to our 2005-06 second quarter earnings conference call. I am Uday from the Sun Pharma Investor Relations team. We hope you would have received the second quarter and half year financials and press release, sent out earlier today. These are also available on our website. Just as a reminder, this call is being recorded and a replay of the call will be available for the next 5 days. The call transcript shall also be available on our website soon. Today, our hosts are Mr Dilip Shanghvi, Chairman and Managing Director and Mr Sudhir Valia, Wholetime Director and will discuss the performance and developments on strategy. It would be appropriate to mention that the discussions today may include certain forward-looking statements and these must be viewed in conjunction with the risks that our business faces. Also, I would like to request all of you to kindly send in your queries that remain unanswered during today's earnings call to corpcomm@sunpharma.com. I now hand over the call to Mr Dilip Shanghvi.

Dilip Shanghvi:

Once again, welcome and thank you for joining us today for the conference call after announcement of the financial results for the second quarter and half year. As always, in this call we will discuss operations and developments on strategy. Mr. Valia will first share the performance and financial highlights, and later I will talk about strategy and direction.

Before I handover to Mr Valia, two important announcements - Sun Pharma was this week selected among Asia's 200 best companies by Forbes Asia, based on a 25,000 company screened for growth and consistency using data over a 5 year span. Deloitte Technology Fast 500 selected Caraco among the fastest growing 500 companies in the US - the third year in a row. This ranking further validates our speciality pharma model, with predictable revenue streams.

We last week also received our first para 4 win - with the summary judgment on Ultracet received in Caraco's favour. Caraco now awaits FDA approval before launching the product. This can be an exciting product opportunity for Caraco.

I will now hand over to Mr. Valia.

Sudhir Valia:

Good evening everybody. Our half-year and second quarter numbers are with you- we have good growth to report across our business, and in some areas we have outstripped projections. First, we'll look at the financials. Our second quarter numbers are unaudited numbers and for Sun Pharma, limited review has been done by statutory auditor. For ease of discussion, we shall look at consolidated numbers for the quarter. Before I begin, I would like to point out that the numbers for this half year also include that of the recent acquisitions.

Net income from operations grew to Rs 8199 million from 5886 million, up by 39% over the first half last year. For the current quarter, net income from operations is at Rs 4223 million, an increase of 41% over the corresponding quarter last year. This highlights the continued growth of the underlying business. Net profit after minority interest is up 53% at Rs. 2839 million from Rs. 1858million. This half, net profit margin is 33% against 31% for the same half last year. The net interest income was Rs. 318 million for the first half against net interest expense of Rs. 24 million first half last year, on account of the FCCB funds parked with the banks. Material cost as a % of net income from operations is up from 28.6% to 30.9% . Part of the reason for this is the acquisitions that have a different cost structure, and we have only begun to integrate purchasing with our central purchase function. Part of this is on account of continuing pricing pressure in the US which I had mentioned the last quarter also. Caraco does have

the advantage of integration of bulk active for most of its important products, however, top-line pressure continues to impact realizations in the US generic market. After salary revisions and increase in staff, with the two acquired international plants alone bringing in close to 500 people, staff costs are up from 9.6% to 9.8% of net income from operations. For the half year, the integration of MJ, full operations at Jammu and Bangladesh, and the integration of Phlox also contributed to this cost. Indirect taxes, excluding excise duty, as a % of net income from operations is down from 3.8% to 2.8%. R&D expense has increased from 614 mill to 692 mill, up 13%. Taxes at Rs.56 mill, 1.9% of Profit before tax as versus 68 mill, or 3.4% of profit before tax for the first half last year, as we continue to take advantage of the various tax benefits that we have, and going ahead we expect the tax to remain at about the same level. EPS basic is at Rs. 15.3 up from Rs. 10 for the first half last year. On a fully diluted basis, EPS for the first half is Rs 13.7, up 37% from the corresponding half last year.

Now for a closer look at the operations.

Domestic formulations has shown exceptional growth. Domestic formulation sales for the first half have grown 41% over corresponding half in the previous year and again, this includes some impact on modifying our distribution system. As we've shared earlier, this has an overall 10-15% topline positive impact without any bottomline impact, during the course of the year. As per the August 2005 ORG IMS MAT data from the Secondary Stockist Audit, Sun Pharma is growing at 13.2% and the market share is now 3.27%. As most of you probably know, ORG IMS has recently restructured its system of data capture which is now collected at the stockist level rather than the retail level as was previously done. While doing so, they also combined parts of several companies that were previously being tracked separately. This is the reason our rank and marketshare look different than they did earlier. Our five core therapy areas, cardiology, psychiatry, neurology, gastroenterology, and diabetology accounted for almost 74% of our domestic formulation sales. To recap, the specialist prescription data place us at top rank with psychiatrists, neurologists, cardiologists and ophthalmologists and at 2nd rank with diabetologists, gastroenterologists. We are among the top 5 companies with 11 classes of specialists, in all. 23 interesting new products were brought to market across 17 divisions. 4 new products used bulk active that had been developed in-house. We continue to actively develop products in which technology is differentiating factor such as Lupride Depot- lupreolode 3 month depot, Careprost- Bimatoprost eyedrops for glaucoma and Cernos- testosterone gel. We have an interesting pipeline of products lined up for the rest of the year. Among our leading products, Glucored, Pantocid, Susten, Repace group, Aztor, Oxetol, Gabantin continued to register healthy double-digit growth.

International formulation and bulk active was 36% of total turnover. This in addition to bulk sales includes branded generics, US generics and some sales from the newly acquired Hungarian and Ohio operations. Caraco's results for their quarter ending September 30, 2005 have been recently shared - and now their financial year has been brought in line with that of Sun Pharma. For the second quarter, ie the quarter ending 30th September 2005, they reported sales of USD 19.8 million dollar and a net loss of 4.8 million dollars after product transfers. This compares with sales of \$15.3 mill and net income of \$1 mill in the corresponding period in the previous year. The US markets continue to be extremely competitive, and Caraco has seen a 10-15% price erosion for major products. This pressure on margins is largely on account of new entrants from India and East Europe, and will likely continue, in our opinion. Export formulations from Sun Pharma to 26 markets where we sell speciality prescription brands continues to do well. In addition to the pickup from the new markets of Brazil and Mexico, initial forays were made into the markets in Peru, Nigeria and Columbia. The first neuropsychiatry products now being marketed in Mexico have received good support.

As we continue to sell greater proportions of speciality bulk actives to regulated markets, the consistency of customer orders flows to the bottomline. In the first half we worked on 11 drug master files, and scaled up technically complex products like Pramipexole, Levitiracetam, Terlipressin and Ciclesonide. After the acquisition in Hungary, our bulk active reactor capacity doubles to over 1000KL, and this adds 21 bulk actives, eight of which hold approvals for regulated markets. In addition, at Sun Pharma we now have 7 DMFs approved, 10 CEP approved, and 27 DMF plus 6 COS awaiting approval. As you know, our bulk filings help us compete better in the regulated markets as an integrated dosage form company, with advantages of margins and speed to market.

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

Dilip Shanghvi:

Thank you Mr. Valia.

As you know, in this half year we have completed two acquisitions that have added to the topline, and these have a different level of profitability. We have also seen solid growth across all four parts of our business. Predictability and strong revenues do seem natural advantages of remaining speciality focused.

Usually, the consistency of the business flows to the bottom-line, however, this half year has the impact of the interest earned on the FCCB and these acquisitions. Overall profitability, may therefore be higher than your projections.

The two acquisitions that we have done this half have cost us less than \$10mill, and we continue to be on the lookout for acquisition opportunities at the right price. Both these acquisitions bring specific advantages to the table. With ICN Hungary, we get to enter a relatively closely held market- that of controlled substances at a reasonable price, and with a bulk capacity that straightaway doubles our bulk capacity, and this will equip us to enter the world markets, including the US. As for the liquid, ointment and cream manufacturing facility in Ohio, you would appreciate we can now file for new products in the US, where filing for these products from India would be uncompetitive because of transportation costs.

If you look at the business breakup, and take a moment to compare this to the breakup from year 2000, then there are two important points- international markets are at 36% from 25%. Also, bulk active sales which were 33% of turnover are at 17% now. We have always said that we want to become an international formulations company and we are in line with that intent. International formulation was up 31% for the first half as versus the first half previous year, reflecting increases in speciality prescription products across markets and US generics, net of the price erosion.

Investments in R&D continue to increase focused on intellectual property for the long term. At the two new research centers, we continue to add lab area as we commission newly constructed space and add people, particularly in new chemical discovery and novel drug delivery systems. You would have noticed R&D spend in excess of 8 % for the half year but we are in line to spend 10-11% for the year as shared. .

Caraco has reported its numbers recently, and is on track for 15-20% revenue growth for the year as they had projected. Across Sun and Caraco, we have been aggressive in filing ANDAs. Till June between Sun and Caraco, 26 ANDAs were awaiting approval. The number cumulative to September for both the companies is 37.

I am often asked whether the US generic market in general and the opportunity for para 4 remains attractive, with authorized generics, subsequently listed patents and out of court settlements. Yes, these continue to whittle away at the para 4 opportunity, on the other hand one reads about some of these moves viewed as being anticompetitive. I'd close my comment with two points - product selection is very important. Deciding how to tackle a patent challenge is also very important. As we have shared earlier, we do have a few para 4 filed which are likely to get into litigation shortly. Recently we have seen some success with our first para 4 filing with Ultracet. However we believe we have a mix of para 3's and a few para 4 filings so that we can build a dependable revenue stream while capturing the opportunity on the upside.

With our own NCE, the new chemical entity which has completed phase 1 study, and we are awaiting the pre IND meeting with the USFDA this quarter. We are also on track to file IND for 2 NDDS in the next few months.

At Sun Pharma, if you see our last 46 quarters as a public company, we have built businesses that have delivered stable sales and gradually increasing profits. All four parts of our business offer opportunities for the immediate, medium and long term and each of these have different risk / return profile. This allows us to invest returns from immediate term projects into longer-term opportunities. The returns from these long term investments, when they become successful, will be on a different scale and add qualitatively and quantitatively to the valuation of the company going forward.

We have close to 450 million US dollars available with us, and are looking for attractively priced opportunity in the US market. We continue to be as value focused as we have been in the ten years of being a public company.

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For further updates and specific queries, please visit www.sunpharma.com or feel free to contact

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I think we are quite excited about the future as we see it. With this, I would like to leave this floor open for questions. Thank you.

Moderator:

Thank you very much sir. We will now begin the Q&A interactive session. Participants who wish to ask questions please press *1 on your telephone keypad. On pressing *1 participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, please press *1 now. First in line, we have Mr. Rajesh from ICICI Securities. Over to you sir.

Rajesh:

Good evening gentlemen and congratulations for a pretty good set of numbers. If Mr. Shanghvi can take this little bit forward in terms of what he mentioned on the research space specifically the progress has been pretty much steady so far and investor has not got to know much about the filings and the therapeutic focus. At what stage would you like to disclose some of this? Post IND filing? Going forward when is it that an investor can know a bit more, get more color on the drug discovery program? Secondly, on the cash war chest that you have built and you did mention about some part of it being utilized, in this paradoxical situation of business dynamics worsening at a macro level for the sector while the potential target companies continue to get very expensive valuations by the bidders, in that kind of situation where do you see Sun Pharma looking at M&A space over the next 12 months and utilization of the funds?

Dilip Shanghvi:

We have shared with you Rajesh that we will talk more about the new chemical entity when it completes phase two. At that point in time from our point of view the predictability of it coming to market will become fairly high and we will have a much better clarity about the product in terms of its profile and its superiority over currently marketed products because sharing this information early on will only introduce uncertainty in the investors perspective, so we do not currently expect to get any significant valuation for our new chemical entity program. As to the drug delivery system products, I think we should be in a position to share more specific information about the product, I think within 12 months because by that time we would have at least much greater clarity as to by what time they will be coming to market. From our perspective the risk of failure in this case is likely to be very low. Now about the acquisition, I agree with you that valuations today appear to be fairly aggressive and it is not very easy to get an opportunity to invest in such an environment with our kind of return expectation. So we continue to look for opportunity, but we would be very disciplined in looking for and making any investment. Till that point of time the money would stay invested in short term bank deposits with AA and AAA rated international banks.

Rajesh :

Okay, and you mentioned that you will disclose more on the NCE front once phase two is completed, would you like to share when is that possible in terms of the time line, phase two completion?

Dilip Shanghvi :

I will not know very specifically. I think sometime within 12 to 15 months.

Rajesh:

Okay, thank you so much and all the best.

Dilip Shanghvi:

Yes, thank you.

Moderator :

Thank you Mr. Rajesh. Next in line we have Mr. Ajay Sharma from CLSA. Over to you sir.

Ajay Sharma:

Two questions. First is on generic Ultracet. In your court filing you have mentioned that you expect an imminent approval. Could you give us a time line on that? Secondly, on the same issue. Why is that Teva and Par cases have not yet got resolved? Is it a formulation issue?

Dilip Shanghvi:

I think on timelines for approval Caraco would be able to give more clearer information than we would be, but that is what they have shared with investors that they are awaiting approval. I do not think they have shared specific time by which they expect the approval. As to what is the formulation of Teva and Par, I will not know, and it is a fact that their case has not been resolved for a fairly long period of time whereas we have received a summary judgment for the same case. So I think in a way it reflects that we have possibly used either a formulation development strategy which was more appropriate or a litigation strategy which has succeeded with the court.

Ajay Sharma:

Just one more question is on the Hungary acquisition. How much of the employee cost has been added on a sequential basis because your employee cost has gone up this quarter?

Sudhir Valia:

Yes, I do not think we have specific numbers, but it would be slightly in excess of a million dollars.

Ajay Sharma:

Great. Thanks a lot.

Moderator:

Thank you Mr. Sharma. Next in line we have Mr. Nimish from Edelweiss Capital. Over to you sir.

Nimish:

Good evening everybody. I just want to know what is this firm that you have mentioned in the annual results wherein you have mentioned the profit, the share of income from this firm. Can you give us a color on that, what is its business activity and what could be the potential sales of this firm?

Sudhir Valia :

See we have partnership firm in which Sun Pharma Industries Limited is a 95% shareholder. This has been designed with the objective to encourage employees and retain them. For this, that the employees beneficiary trust has been made partner with the company. So the contribution or the share of profit which is received by the trust is handed over to the employees over a period of time based on their involvement and work and various other factors and that is what is the share.

Nimish:

But what business activity is it into?

Sudhir Valia:



It is same business. Sun Pharma Industries has the business of pharmaceuticals and the partnership firm also has a pharmaceutical formulation business.

Nimish:

Okay, and you said that it is mainly incorporated to incentivize the employees so the profit that we see in this quarter in the P&L on Sun Pharma will that again flow back to the employees is that how you are trying to do?

Dilip Shanghvi:

Profit that goes to the trust comes into minority interest. So it is not the profit of the company.

Nimish:

Okay, so the profit that we are seeing in Sun Pharma remains with Sun Pharma?

Dilip Shanghvi :

Yes, it is excluding that profit.

Nimish:

Okay, thank you very much.

Moderator:

Thank you Mr. Nimish. Next we have Ms. Visalakshi from DSP Merrill Lynch. Over to you madam.

Visalakshi:

Yes, thank you for taking my question. I have one follow-on question on generic Ultracet. I would like to know when was the ANDA filing done, you know, is it like close to 12 to 13 months so that we can expect approval this year, that is the first one?

Dilip Shanghvi:

I have no specific information right now, but it would be somewhere in that kind of time line.

Visalakshi:

Okay, but can we draw some inference from the fact that you know Teva and Par have taken nearly about close to 20 months to get tentative approval, so is there something complex in terms of the chemistry for this product?

Dilip Shanghvi:

I think typically the FDA takes certain amount of time for para-4 challenges -there is a 30-month stay. So they are not under any pressure to clear before 30 months, I do not expect any major complexity in approval process because of which this will take longer time.

Visalakshi:

Do you think it can be a revenue opportunity this year?

Dilip Shanghvi:

This is predictive guesswork. It is difficult for anybody to take a specific time view on the FDA approval.

Visalakshi:

Okay, and my followup question is on, you know, if you can give us an update on the litigation status of Protonix or Ethyol, any of the other para-4 challenges that you are involved in?

Dilip Shanghvi:

Both these cases have not yet gone into litigation. They are at discovery stage.

Visalakshi:

No, in terms of litigation spend, legal spend, is there any budget for this year and next year, if so, what is the amount?

Dilip Shanghvi :

There will be some money spent for both these projects during this year as well as next year.

Visalakshi:

And R&D spend for next year?

Dilip Shanghvi:

We have not yet crystallized that number. Also, that is a function of how all the projects move this year.

Visalakshi:

Okay, thank you so much.

Dilip Shanghvi :

Thanks.

Moderator:

Thank you madam. Next we have Mr. Harshad from ABN Amro. Over to you sir.

Harshad:

Hello, can you hear me?

Moderator:

Yes sir, go ahead.

Harshad:

Actually I missed initial part of the call so I do not know if you have answered this or not, but can you tell me how much acquisition is top line?

Sudhir Valia:

Can you repeat?

Harshad:

How much have the two acquisitions added to the top line?

Sudhir Valia:

About 2.5 million.

Harshad:

Okay, thanks.

Moderator:

Thank you sir. Next we have Mr. Rakesh from Mehta Partners. Over to you sir.

Rakesh:

Hi, good evening gentlemen. Thanks for taking my question. I have three questions here. Number one being, can you explain me your distribution network that you have in the US, basically I want to know how you get your products to the end user, and also I would like to know what kind of tie up you have with the distributors? You take your drugs to some small distribution network that we have in the US? The second question is, you have said that the focus is on niche products, if you can give me the kind of drugs that you are going after and if you could also give me the market size of it that would be helpful? The third question is, you have said that the new facility that you have will help you reduce your cost, if you can give me the extent of it, that would be helpful? That's it.

Dilip Shanghvi:

I think Caraco participates in all the key distribution channels which are there in the US, including wholesalers, pharmacy chains, and distributors. It has reasonable share of distribution in all the distribution channels. For confidentiality and business reason we cannot share specific products that are we are working on. What is the third question?

Sudhir Valia:

New facility

Dilip Shanghvi:

Okay, I think you are referring to our investing in Bryan, Ohio because that is a facility for manufacturing oral liquids, which are fairly bulky to transport from India, so it is easier and cheaper to produce them in the US so that we can avoid the transportation cost.

Rakesh:

Okay, can you give me the market size that you are targeting and the cost reductions that you expect from this?

Dilip Shanghvi:

Actually it is not for cost reduction, there is no cost reduction per se, but it is competitive costing.

Rakesh:

Okay. My second question was about the niche drugs that you are targeting. It you can give me the market size and the number of ANDAs that you are going to do?

Dilip Shanghvi:

I think it is difficult for me to answer for confidentiality reasons. We cannot share specific information about product and market size.

Rakesh:

Okay, can I have the market size that you target?

Dilip Shanghvi:

Once we get approval, we will give specific information.

Rakesh:

Okay, thank you gentlemen.

Dilip Shanghvi :

Thanks.

Moderator:

Thank you Mr. Rakesh. Participants who wish to ask questions, may please press *1 now. Next, we have Mr. Shreyans Jain from Share Khan. Over to you sir.

Shreyans Jain:

Thank you. I have two or three questions. The first one is, if you look at the bulk exports, the bulk drugs in general, the sales have gone up this quarter but if you see the half yearly results they have actually decreased, so I wanted to know exactly. Similar trend is seen, the increase in bulk drugs in Wockhardt, Nicolas Piramal, the other companies also. So I just wanted to know if it is a quarterly trend which is being followed or is there any other reason for this?

Sudhir Valia:

Exports of bulk drug has done well, per se; domestic bulk is not an area of focus and there is definitely a reduction in domestic market. But as compared to it, in the international business there is a significant growth, which you can see even for quarter ending or for the half year ending. So I see there is a difference which we are talking of in terms of business. Domestic bulk definitely is an area we are not focusing on for various reasons including competitiveness, price competitive market. Price is the deciding factor, not the quality or other reasons so it is not the area of our priority.

Shreyans Jain:

Right. So going ahead would you be concentrating on bulk exports also?

Sudhir Valia:

That is true.

Shreyans Jain:

Okay. My second question was regarding Caraco, and you said that the FDA approval process becomes faster if the applications are made through Caraco. Can you please give some more light on this?

Dilip Shanghvi:

I do not know when have we shared this.

Shreyans Jain:

Hello..

Dilip Shanghvi:

When have we shared this that if it is filed from Caraco it is faster?

Shreyans Jain:

Is it because if the application process is done in the United States and it becomes faster, is it that way?

Dilip Shanghvi:

No, I do not think we have ever shared that if it is filed out of US approval can be faster.

Shreyans Jain:

Okay, then I think there was some misunderstanding. It is the same process which everybody goes through the same process, is it right?

Dilip Shanghvi :

Yes.

Shreyans Jain:

Okay, great. Thank you.

Moderator:

Thank you Mr. Jain. Next we have Mr. Vihari Purushothaman from Enam Securities over to you sir.

Vihari Purushothaman:

Hello, this is Vihari. I just had a couple of questions. One is that the tax rate has gone down even further to some 1.5%. Now is this because of any additional carry forward losses on the latest acquisitions that you have? Secondly, is there any schedule for transfer of products to Caraco? If so, how much should we budget for R&D expenses in Caraco over the next two quarters, whatever guidance you can give?

Sudhir Valia:

As regards to tax rate, there is no significant change other than one factor about deferred taxation. As the income tax rate has been changed currently, the reversal which takes place now will be lesser and whatever we have provided up till the last year 2005 will be more than enough for even this year because now we will be providing depreciation in income tax at a lower rate while the company law rate remains same; difference between company law and income tax has been reduced. So there will be a definitely lower amount of deferred tax which is provided and which as a comparative you will get a percentage little lower than what it is. Coming to the second question of yours in terms of Caraco's product. We generally share that about five to six products we would like to transfer provided Caraco can take them. So that is by and large about Caraco.

Vihari Puroshothaman:

Thank you.

Moderator:

Thank you Mr. Purushothaman. Next we have Mr. Surya from Capital Market. Over to you sir.

Surya:

Yes, good evening to the management. Sir I have a query that Sun Pharma has a huge amount of external debt. So in the situation of increasing dollar against rupees, what would be the impact on the company?

Sudhir Valia:

There is no impact as all receivables are totally hedged for.

Surya:

It is completely hedged. Can you tell me what is the current external debt position now?

Sudhir Valia:

As such we have no debt other than the FCCB which we raised, and ECB of about USD 40 million.

Surya:

Okay, this is 40 million ECB and FCCB is 350 million.

Sudhir Valia:

Correct.

Surya:

Okay. Thank you sir.

Moderator:

Thank you Mr. Surya. Next is a followup question from Ms. Visalakshi of DSP Merrill Lynch. Over to you madam.

Visalakshi:

Yes thank you. My question is essentially on your gross margins. We can see that raw materials as a percentage of revenues has gone up, what would be the top two factors attributing to this or should one assume this kind of a trend continue going forward?

Dilip Shanghvi:

I think it is a very long answer to your question. We have shared earlier that the domestic formulation business we will have around 10 to 15% increase top line without any change in bottom line, so that is increasing our costs, including material costs. The other is that we have acquired some businesses where we have got some top line, but there is no bottom line from those acquired businesses. That acquired business also includes MJ where we have some third-party manufacturing which is not adding anything to the profitability, so it only adds to top line. The underlying Sun business continues to have more or less the same material cost and more or less the same margin.

Visalakshi:

Would you also attribute to any pricing pressure in the US to result in lower gross margins?

Dilip Shanghvi :

Sure, I think if you see in Caraco's case there is a significant increase in the material cost over last year.

Visalakshi:

Okay, but you do not see that as a primary factor for your increase in material cost?

Dilip Shanghvi:

That will be also one of the factors, but that is not the primary factor.

Visalakshi :

Okay, thank you so much.

Moderator:

Thank you madam. Next in line, we have Mr. Anshu Govil from CLSA. Over to you sir.

Anshu Govil:

This is about the gain on forex you have seen this quarter despite the rupee depreciating against the dollar. Can you explain what is the hedging level at which Sun has?

Dilip Shanghvi:

I think this depreciation happened in October. I think up to September, the rupee appreciated.

Anshu Govil:

Okay, thanks. So going forward what is the rupee level we are hedged at, the rupee dollar level we are hedged at, and can we see some losses on this account?

Dilip Shanghvi:

We do not have specific information right now that we can share.

Anshu Govil:

Okay, thank you.

Sudhir Valia:

If you look at the business we have more exports than import.

Anshu Govil:

No, I am talking about the FCCB funds

Sudhir Valia:

Hedged transactions, and till this money is brought to India it is rolled over. This is only a quarter to quarter or period to period profit and loss, because once it is hedged the roll over is only at second higher level even if I see that it has been transacted. We see the impact of that in the book for book purpose, but reality there is no impact.

Anshu Govil:

Okay, thank you.

Moderator:

Thank you Mr. Govil. Next is a followup question from Mr. Nimish of Edelweiss capital. Over to you sir.

Nimish:

Yes, once again my question is from the share of income from the firm. Can you tell us why is the income increasing so much because if you actually take away that income then the profitability at least in the standalone number remains flat, and if you take away the same income from the consolidated number for the half, I think the EBITDA is almost halved, so if you can throw some light on that, you know, because that essentially becomes the most important part in terms of profitability?

Dilip Shanghvi:

I think it is the same profitability, it is the way the business is structurally managed, that is the only difference. It is the Sun Pharma formulation business in India, those products are manufactured by the partnership firm and the profit is captured in the partnership firm, which comes back to Sun Pharma as a share of that profit. So there is no rationale to look at that separately from our overall profitability.

Nimish:

Next, I would like to understand as to how do you reconcile between the domestic formulation growth you have reported at 41% and after adjusting for the distribution modification at about, by 10 to 15% down, versus the ORG number that is at about 13%. What do you think would be the major difference?

Dilip Shanghvi:

No, I think there will always be a situation where ORG and company data do not match, as you are aware that ORG is making some readjustment in the way the data is captured and because of which our overall share of market has come down, so I do not think that it is possible to compare the ORG number on a like-to-like basis consistently, maybe by next year the numbers would stabilize and they will become more consistent with our internal numbers.

Moderator:

Thank you very much sir. Next in line we have Mr. Sameer Baisiwala from J.M. Morgan Stanley. Over to you sir.

Sameer Baisiwala:

Good evening everyone. The only question is about the two Hungarian and Ohio manufacturing facility acquisitions. Are there any pending drug registrations done from these two?

Dilip Shanghvi:

Do you mean any pending ANDAs out of these facilities?

Sameer Baisiwala:

ANDA for Ohio perhaps, and Hungary even for the EU market?

Dilip Shanghvi:

There is nothing pending approval. There are DMF filings, but there is no pending approval.

Sameer Baisiwala:

Okay, so 8 DMFs are there from the Hungarian facility, which have already been triggered?

Mira Desai:

Regulated market approvals, DMF and COS.

Sameer Baisiwala:

Okay, and when do you think you can start doing the registrations from these two facilities?

Dilip Shanghvi:

Typically our experience is that that takes anywhere from 6 to 12 months to file a product, and then there is lead time for getting approval.

Sameer Baisiwala:

Okay, thank you very much.

Dilip Shanghvi :

Thank you.

Moderator:

Thank you Mr. Baisiwala. Next is the followup question from Mr. Rakesh of Mehta Partners. Over to you sir.

Rakesh:

I want to know from you what kind of therapeutic focus would you have going forward in next couple of years per se two to three years? You have said that specialty model is the model that you are going to replicate all over, so in that case is it wise to assume that this is something which we are going to do with Caraco also, or what exactly you are going to do, and what kind of niche therapeutic focus you are going to have going forward? Second question is, if you can also give me some range of the marketing expense of Caraco? That would be helpful.

Dilip Shanghvi:

Caraco is in the US, is a generic company, so it has no therapeutic focus. And in our branded prescription market wherever we are competing, we already have existing therapy focus that I think we have shared with investors even in every year's annual report.

Rakesh:

Okay, can I have the idea of the marketing distribution expense of Caraco?

Dilip Shanghvi:

I think if you look at Caraco numbers in the 10K and 10Q filings where those details are given.

Rakesh:

Okay, thank you gentlemen.

Moderator:

Thank you Mr. Rakesh. Next we have Mr. Rajeev from Continuum. Over to you sir.

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Rajeev:

Good evening, I just had a question on your US pricing. You just said that Caraco has seen 10 to 15% price erosion. Going forward in the next two quarters, do you see this getting accelerated or do you see this at this range even in the next few quarters also?

Dilip Shanghvi :

Difficult to predict, but we see increasing pricing pressure.

Rajeev:

Thank you so much.

Dilip Shanghvi:

Yes, thank you.

Moderator:

Thank you Mr. Rajeev. Participants who wish to ask questions, may please press *1 now. At this moment there are no further questions from participants. I would like to hand over the floor back to Sun Pharma management for final remarks. Over to you.

Uday Baldota:

Thank you to all the participants who participated on this earnings conference call from all of us.

Moderator

At this moment, there are no further questions from participants. I would like to handover the floor back to Sun Pharma management for final remarks.

Uday Baldota

Thank you to all the participants who participated on this earnings conference call from all of us.

Moderator

Thank you sir. Ladies and gentlemen, thank you. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice day.