

Sun Pharma Q2 2006-07 Results Conference  
Call Transcript  
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Corporate Participants

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Sudhir Valia  
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**Moderator:** Good morning ladies and gentlemen, I am Monali, the moderator for this conference. Welcome to the Sun Pharma conference call. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would now like to hand over to Mr. Uday Baldota, VP Investor Relations of Sun Pharma. Thank you and over to you sir.

**Uday Baldota:** Thank you Monali. Good morning and a warm welcome to our 2006-2007 second quarter and the first half conference 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 as usual discuss the performance and developments on strategy. We hope you have received the second quarter financials and press release sent out yesterday evening. These are also available on our website. Our second quarter numbers are unaudited. For ease of discussion, we shall look at consolidated numbers for the quarter. Just as a reminder this call is being recorded and a replay of the call will be available until October 27. The call transcript will also be put on our web site soon. It would be appropriate to mention that the discussions today may include certain forward-looking statements and these must be viewed in conjunction with the risks that our business faces. Also I would like to request all of you to kindly send in your queries that remained unanswered during today's earnings call to [uday.baldota@sunpharma.com](mailto:uday.baldota@sunpharma.com) or [miradesai@sunpharma.com](mailto:miradesai@sunpharma.com). I now hand over the call to Mr. Dilip Shanghvi.

**Dilip Shanghvi:** Once again, welcome and thank you for joining us today for the conference call after announcement of the financial results for the second quarter. As always in this call we will discuss operations and strategy highlights. Mr. Valia will first share the performance and financial highlights and later I will talk about strategy and direction. Before I hand over to Mr. Valia, a few special mentions.

Yesterday, we had announced the tentative approval for amifostine injection, a first to file para 4 product in which we have received the tentative approval. Earlier in the quarter we received approval and launched gabapentin, a product where we are fully integrated. In the Indian markets, we added yet another speciality area where we are ranked no. 1. i.e., orthopedics.

I will now hand over to Mr. Valia.

**Sudhir Valia:** Good morning everybody. Our second quarter numbers are with you, having strong growth across our business. As you know, most parts of our business offer predictable growth and steady margins. First we shall look at the consolidated financials.

For the first half, net sales Rs. 10478 million, an increase of over 30% over the first half last year. For the second quarter, net sales is at Rs. 5362 million, an increase of 29% over the same quarter last year.

Operating EBITDA for the half year is Rs. 3519 million, an increase of 34% over the first half last year. Resulting EBITDA margin is 33.6%, higher than 32.6% achieved in the first half last year. This is despite a 48% increase in our R&D spend.

For the first half, net profit after minority interest is at Rs.3632 million, an increase of 28% over the first half last year. Net profit after minority interest for the quarter is up 26% at Rs. 1864 million from Rs.1478 million.

For the half year and second quarter, net margin is at 35%, almost the same levels as first half last year. We have maintained profitability even as we have added three sites from which we continue to incur developmental cost.

For the second quarter, material cost as a percentage of net sales is down to 30% from 31% in the previous corresponding period.

Staff cost are up to 12% from 11% of net sales over corresponding period last year.



R&D expense including capital and revenue expenses increased from Rs. 379 million to Rs. 599 million. Similar to last quarter, this includes R&D cost for innovative projects which would move to the demerged company once the process is complete.

On a fully diluted basis, EPS is Rs. 17.60, up from Rs. 13.70 for the first half last year.

Now, we shall take closer look at each of our business segments.

Domestic formulation continues to offer us strong base and we continued to be extremely optimistic about our prospects.

Domestic formulations have grown 15% in the second quarter over Q2 last year. As per the August 2006 ORG IMS MAT data, Sun Pharma is growing at 18% and the market share is now 3.3%. Our five core therapy areas, cardiology, psychiatry, neurology, gastroenterology, and diabetology accounted for over 71% of our domestic formulation sales. We are now ranked #1 as per CMARC with psychiatrists, neurologists, cardiologists, ophthalmologists, diabetologists as well as orthopedics as mentioned by Mr. Shanghvi earlier in the call.

In the first half, 22 important products were brought to the market, 24 new API were scaled up. The new products feature a few that are difficult to make such as Xelflo which is alfuzosin extended-release, Cozabal, which is balsalazide, and Korandil IV which is nicorandil injection. Glucored, Pantocid, Susten, Repace group, Oxetol, Gabantin continued to gain market share and speciality prescriptions.

Caraco recently announced its second quarter and first half numbers. Caraco reported sales of USD 53 million up 42% and profit of USD \$7.3 million after product transfers. Gross margin was at 51% as against 48% for the first half last year. Net income before non-cash charge was USD 19 million for the first half up 77% from USD 10.7 million in the first half last year.

International formulation outside of the US, from Sun Pharma, continues to show strong growth. This is largely driven by our exports to 26 markets where we sell speciality prescription brands. Chronic ailments and lifestyle disease seem to go hand-in-hand with development, hence our speciality products will continue to grow at a decent pace.

As we put into the place better processes for areas such as controlled substance API, our expertise in process chemistry and ability to scale up many difficult types of API simultaneously continue to offer support to our formulation business. This quarter we scaled up API like calcitonin, entacapone, and memantine. The tally for regulated market approvals for APIs at the end of the second quarter is 28 regulated market approvals, 65 filings made for DMF and CEP. With this I will now hand over to Mr. Shanghvi.

**Dilip Shanghvi:** Thank you Mr. Valia. The US markets continue to be as dynamic - to add to unexpected moves from large innovator companies with a recent move to offer heavily discounted generics by retailers. This, of course, is in addition to well executed moves such as authorized generics cannibalizing price. In our opinion, going ahead, the competitive landscape will remain as unpredictable.

Caraco had reported its number for the first half recently, and they have done reasonably well. Of the 23 products that Caraco markets, it is now ranked among the top 3 by market share for 14 products. Across Sun and Caraco, 56 ANDAs await approval, 27 approvals, and 8 tentative approvals have been received so far out of Sun Pharma and Caraco sites. At Sun Pharma, we now hold ANDA approvals for metformin ER, zonisamide, gabapentin capsules, gabapentin tablets, and tentative approvals for amifostine injection, rivastigmine, ondansetron injection, ondansetron tablets, ondansetron ODT, and pantoprazole tablets.

R&D investments continue to increase; spend for second quarter is Rs. 599 million or 11.2% of net sales. Of this the cost related to innovative R&D would eventually go to the demerged company and this move will offer focus, resources and flexibility for innovative research in NCE and NDDS. Our own NCE and NDDS projects continue to progress. As I have said earlier, we will share more information about the R&D projects a month or so prior to listing the new company to enable our shareholders to take an informed decision. The demerger process is taking slightly longer than anticipated, and in our opinion, should be completed by this fiscal end.



Over the last year, we have completed strategic capability expansion across several of our sites, both of API and formulations. At Panoli we have added about 6.2 acres to the existing plant site and built 2 plants with significantly increased capacity. We have already shared that a formulation unit for sterile and nonsterile cephalosporins has been commissioned at Karkhadi, and that we are preparing the Dadra Plant for submission to the US FDA. We also announced that we would be commissioning a 3 billion tablets per year capacity plant in Sikkim by the fiscal end. Both at Caraco and Bryan, we have completed important capacity expansions.

At ICN Hungary significant upgradation of manufacturing and packaging area was done. The emphasis is on controlling operational costs by improving capacity utilization by better use of space. As the Hungary API plant streamlines manufacturing and upgrades processes with more recent chemistry, the process of identifying and prospecting customers that offer better value has begun. This is a time intensive process.

We have recently added a 78 bed, 25,000 square feet bioequivalence center with international class facilities for biostudies in Baroda.

Growing consistently and profitably our existing business while preparing for challenges in several markets that we operate in and making productive and prudent investments in R&D, manufacturing, as well as human resources, we remain committed to strengthening the long-term health of the business. This commitment is evident once again from this quarter performance.

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 may 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 questions. To ask a question participants may please press \*1 now. First in line we have Mr. Neelkanth Mishra from Credit Suisse.

**Neelkanth Mishra:** Hi. Some bookkeeping questions first, could you please provide a breakup of your export sales into formulations and API?

**Sudhir Valia:** Sure, we have given but I can read for your immediate reference if you would like to know. Formulation business is Rs. 4630 million and API is Rs. 1004 million.

**Neelkanth Mishra:** Okay. I was looking for exports and what were your sales in the international markets.

**Sudhir Valia:** The break up of international and domestic is given....

**Neelkanth Mishra:** Sorry, non-US international.

**Sudhir Valia:** Non-US we have not taken out separately but exports when we say in terms of formulation exports include sales to US is 1795 million and the domestic formulation is 2834 million.

**Neelkanth Mishra:** Okay, thank you. Could you also provide a breakdown of your other income?

**Sudhir Valia:** Interest and exchange fluctuations are the main components of the other income.

**Neelkanth Mishra:** Okay. Now, moving to what Mr. Shanghvi mentioned, the changes in distribution, I was running through the list of the drugs on which Walmart has cut prices and the exposure for Caraco sales was about 56%, I understand most of this is actually Walmart competing against other pharmacies, but is there any pass on of a cost and a margin pressure to you?

**Dilip Shanghvi:** If you actually read Walmart's subsequent statement, what they have said is that without making any special reduction in price for their own purchases, that is, without losing money they are able to sustain this offer. So I do not think that this specific issue should have a major negative in terms of price for generic companies. However, our view is that competition will continue to be intense and put pressure on pricing.



**Neelkanth Mishra:** Thank you. My last question and then I will join the queue again. One of the Indian companies I recently met, they said they would be targeting the VA contracts for metformin and tramadol when they come up for bidding again. When does your contract expire?

**Dilip Shanghvi:** I will not have specific details immediately, but these are period contracts.

**Neelkanth Mishra:** Okay, thank you.

**Moderator:** Thank you very much sir. Next in line is Mr. Bhavin Shah from Amit Nalin Securities.

**Bhavin Shah:** Very good morning sir and congratulations on numbers. Sir, I just do not understand what is the amount of capex as initiated for this year and a brief outlook on how the ICN Hungary operational performance has been so as to really give a complete picture on how things stand as of now?

**Dilip Shanghvi:** I think our overall guidance is that annually this year we will spend around 1000 million rupees for capex that will include plant upgradation, new facilities, and R&D additional investment. This does not include investments that we do out of India, say like in ICN Hungary or in the US. I think what Mr. Valia said about ICN Hungary is that we are improving processes, we are improving efficiencies of the plant and enhancing capability so that we can increase overall size of business from that facility.

**Bhavin Shah:** Right sir, but if you could just give me the turnover that is reported for this quarter.

**Dilip Shanghvi:** I think on an annual basis in our annual report we give these subsidiary reports but we do not give specific quarterly breakup of subsidiary turnover.

**Bhavin Shah:** All right sir, thank you so much.

**Moderator:** Thank you very much sir. Next in line is Mr. Pawan from Kotak.

**Pawan:** Yes, hi. Good morning and congratulations for the great numbers. I have one question which is on other income. Can you please give us the breakup Mr. Valia?

**Dilip Shanghvi:** As Mr. Valia said in the earlier answer that the other income is exchange fluctuation and interest income, but we have not given specific breakup.

**Pawan:** Because it would be useful if we could know what was the specific exchange fluctuation or the non-recurring part really, and this may be you know if you decide to ...

**Dilip Shanghvi:** Yes, if we decide to then we would share this with everybody.

**Pawan:** Thank you.

**Moderator:** Thank you very much sir. Next is Mr. Rajesh Vora from ICICI Securities.

**Rajesh Vora:** Hi, good morning, congratulations on good set of numbers. Mr. Shanghvi, if you could tell us in terms of the US business last couple of years you have very quickly built a very impressive ANDA pipeline of now standing at 56 ANDAs with good mix of para 4, non-para 4, niche generics and so on and so forth. Despite being just in commodity generics broadly so far, you have continued to- despite pricing pressure and all those onslaughts you have continued to earn significantly better and superior margins than your competition in the US with more and more products coming from such niche segments. With dynamics changing in the future with new techniques coming in terms of you know new competitive challenges, how do you see your US business over the next 3-4 years in terms of, (A) the competitive landscape, (B) in terms of broad margin profile from where we are today and any other issues that you think is important?

**Dilip Shanghvi:** It is a big question, so, I hope at least my answer is as big, but the US market will continue to see increasing competitive pressure, and to remain efficient and fast, focus is an important prerequisite for success in the market place. We believe that we should be able to grow the business consistently in the US; however, it is



very difficult to take a call on the future margins of the US business. We have, as you say, ramped up our filings for US market over the last two years and we continue to focus on filing more products and a mix of products of para 1, 3, 4 so that our business can grow. We are focused on the US, we still not looking at any other investment in Europe, and we believe that over a period of time that should help us develop a stable and consistent business like our India business right now.

**Rajesh Vora:** Okay. In terms of number of filings you know the very accelerated pace that you have witnessed last two years, do you expect further acceleration in that number on an annual basis going forward over the next few years?

**Dilip Shanghvi:** Normally, we give our guidance for the filing at the beginning of the year. This year I think our guidance is 25-30 products and we should meet that guidance may be try to do a little bit better and we are working on what we can do next year, so that we can give that clearer number at the end of this year.

**Rajesh Vora:** Okay, and the last question in terms of you have filed for amifostine, you have filed for motion for summary judgment for non-infringement, any idea in terms of timeline, should it take 3 months, 6 months for the summary judgment?

**Dilip Shanghvi:** I think the timelines are difficult to predict because the decision as to when the judge will give his judgment is not predictive.

**Rajesh Vora:** Sure, and last in terms of the 56 ANDAs awaiting approval, would you like to share you know the one with para 4s?

**Dilip Shanghvi:** We generally do not share specific data on para 4s

**Rajesh Vora:** Okay, and last question to Mr. Valia on income tax provision, it stands at significantly lower number for the first quarter, for the second quarter, and therefore for the first half, any broad picture for the full year?

**Sudhir Valia:** This will continue the same because after provisioning which we have to do as per the regulations for deferred tax and whatever is expense is to pre-work and major flow of income is from tax free zone, so hopefully should not be very significantly different than this for the balance part of the year.

**Rajesh Vora:** Okay, even the same holds for the current income tax provision which was about 6 crore for the first half?

**Sudhir Valia:** Yes, I think so.

**Rajesh Vora:** Okay. Yes, thanks a lot and all the best.

**Sudhir Valia:** Thank you.

**Moderator:** Thank you very much sir. Next in line is Mr. Abhay from Deutsche Bank.

**Abhay:** Good morning sir, thanks for taking my questions. Just a couple of things, one on the US market, Caraco has only launched two products for the quarter, and has recorded a 43% growth despite pricing pressures. So can you throw some light on the growth drivers you know how is growth being done by Caraco?

**Sudhir Valia:** The people at Caraco.

**Abhay:** Okay. So, in some sense like volume, in terms of market shares I mean if you can throw some light what has the growth been like?

**Dilip Shanghvi:** I think broadly we believe that growth is coming from all products and as I shared or as Caraco has shared with its investors that of the approved products which are in all something like 22 or 25 products, in as many as 14 or 15 products they are amongst the top 3 products, and in quite a few of those products there are as



many as 15 or more approvals, so I think they have successfully managed to get a meaningful market share for most of the products that they are selling right now.

**Abhay:** In terms of pricing pressures I mean there is a 43% value growth, so volume growth is significantly higher than that I mean what sort of volume growth?

**Dilip Shanghvi:** It must be, because what I think I understand is that generic pricing pressure is continuing, so they would have produced more in terms of tablets for achieving this 43% value growth.

**Abhay:** Okay, and sir I mean now that we have seen a big ramp up in DMF and ANDA filings now, so do we start seeing a pickup in ANDA approvals going forward in a significant manner?

**Dilip Shanghvi:** Yes. I think what you are saying is that since last year there is an acceleration in filings at Caraco. Is that what you just said?

**Abhay:** Yes, exactly.

**Dilip Shanghvi:** Then should it lead to increased approvals during this year?

**Abhay:** Okay. Are a lot of them para 3's so that you can launch immediately or it is a larger proportion of para 4s, so you know you take sometime for the litigation issues on a lot of things to happen?

**Dilip Shanghvi:** I think it is a mix- some para 1, some para 3, and some para 4.

**Abhay:** Sir one final thing on this speciality products you are looking at you know on this Lupron Depot and others, I mean can you throw some timelines as to probably in about say 2 years or 1-1/2 years, you should be looking at commercializing the products?

**Dilip Shanghvi:** Commercializing is far away. We are struggling to give some timelines which we can give and fulfill. These are not simple products and that is possibly the reason why there are not many people working on them. Since we have, I think, done large amount of resource investment on this product we continue to be committed on making these filings, but it is very difficult for me to give specific dates.

**Abhay:** One last question in terms of margins, even though there are cost pressures in India given the pricing pressures in the US market which is your second largest market, do we see margins stabilizing or do you see margins put a bit under pressure going forward?

**Dilip Shanghvi:** I think we believe that margins will continue to be tight. We will struggle and work hard to see how we can remain as profitable as we are, but we see few opportunities for improving efficiency in our existing operations.

**Abhay:** And sir in terms of ICN Hungary you see it like by the end of the year it should start breaking even?

**Dilip Shanghvi:** I am not able to give specific number.

**Abhay:** Okay. Thanks a lot sir. Thanks for taking questions.

**Dilip Shanghvi:** Yes, thanks.

**Moderator:** Thank you very much sir. Next in line is Mr. Ajay Sharma from Asian Management

**Ajay Sharma:** Yes. Good morning Dilipbhai and the team, as usual consistent performance. I have a more longer term question on your para 4 pipeline. A lot of companies are trying to monetise their uncertain opportunities; Teva has done that. What is your view on that and would you want to do this kind of a thing in amifostine and those kind of opportunities?



**Dilip Shanghvi:** No, I think both the questions are difficult to answer because as you understand each para 4 is unique and different, and your position for each para 4 needs to be appropriate to the position that you have on that product. We have no view which is either positive or negative against settlement. However, we also realize that there are uncertainties and potential risks of future if FTC investigations with all para 4 settlements. I think to give a general answer would be very difficult, but we will take decision based on the product and the specific situation.

**Ajay Sharma:** Okay, and the second thing was just looking at your annual report there are couple of US generic investments that the company has made, I think it was Andrx and Impax, any rationale on that, was it because you were pursuing those acquisitions? Why would you invest in those companies?

**Dilip Shanghvi:** No, we believe that the companies at that point of time were a good investment opportunity, so it is just an investment. There is no strategic intent to that decision. We were not interested in ~~acquiring Andrx or Impax~~

**Ajay Sharma:** Okay, understood. Lastly, on the cash, it has been quite some time, anything on the acquisition front or you are still waiting and watching.

**Dilip Shanghvi:** Yes, we are waiting and watching.

**Ajay Sharma:** Theek hai, great, all the best. Thanks a lot.

**Dilip Shanghvi:** Thank you.

**Moderator:** Thank you very much sir. Next is Ms. Visalakshi from DSP Merrill Lynch.

**Visalakshi:** Yes, thank you for taking my question. I have a question on this Lupride Depot and Lipodox. Could you take us through what is the status of launching in the semi-regulated markets and what sort of revenues do they contribute right now?

**Dilip Shanghvi:** I think it is under registration in some countries, I am not very sure. I think it is under registration in China, I think it is under registration in some of the CIS countries, in some South American countries, and we are also selling in 3 or 4 markets. I am not very sure as to the specific markets. The total size of the products for us - Lupride Depot would be something like \$3 million or \$3.5 million for the whole company. We have not yet filed this product in any regulated market and should we have clarity as to the timeline that we can file this, we will share this with you.

**Visalakshi:** Okay, thank you, and my second question is on this ICN Hungary operation. You said you are upgrading the manufacturing capacity. When do you think the new capacity will go on stream and what is the filing status on ICN?

**Dilip Shanghvi:** When I said upgrading what it meant was that we are bringing it in compliance with current GMP.

**Visalakshi:** Okay, and what is the filing status?

**Dilip Shanghvi:** I think they have already filed a few DMFs for actives from there, and they should shortly start filing also some dosage forms.

**Visalakshi:** Is there any differentiated product line that you are filing from ICN?

**Dilip Shanghvi:** Except I think controlled substances, there is no other differentiation.

**Visalakshi:** Thank you so much.

**Dilip Shanghvi:** Thank you.

**Moderator:** Thank you very much mam. Next is in Mr. Jesal Shah from JP Morgan.

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**Jesal Shah:** Yes. Good morning everybody. I just have a few, you know, finance related questions to kickoff with, one is that your minority outflow for this quarter has been lower than in the first quarter, whereas if I look at the Caraco accounts and the profits that they have reported, I think on a sequential basis they are almost at the same level, so can you just explain what is it that leads to this difference in your minority outflow and where do you see it going forward?

**Uday Baldota:** Jesal, Caraco net income is lower in this quarter compared to last year quarter. This quarter they reported USD 2.3 million net income, last quarter they reported USD 5 million.

**Jesal Shah:** Right, so I think that explains it, okay. The second thing is on the R&D bit since there will be the spinoff, can you give us an idea about how much in the first half has been spent on basic and innovative R&D, which will not be there for the full year?

**Dilip Shanghvi:** Generally, what we have shared is that around 35-40% we are spending on innovative research, as on today I am not able to give you any specific number but it will be similar to that number only.

**Jesal Shah:** Right, okay. As far as non-operating income is concerned, you know, there has been an increase on a sequential basis, significant increase at that, would you like to give us an idea about what is it that has led to that increase and where do you see, you know, in the second half what should we assume as a quarterly run rate or on a full year basis what you think we should do?

**Sudhir Valia:** If it is non-operating income, i.e., other income that we are talking about, it consists of interest and exchange fluctuation. These days interest rate is increasing and income is increasing. If it continues to do so in next 6 months the interest income will increase. About the exchange gain and loss issue is that rupee parity with the dollar plays a important role and any further strengthening of rupee will lead to an additional inflow of income what we say in terms of accounting. Actually, it is so, and if the rupee is weakened it will lead to losses or write off required, as per the accounting standards.

**Jesal Shah:** Fine, just coming back to this minority issue once again you know you have that agreement with Caraco, there were some product transfers which were happening and that was coming as a non-cash charge, how many products are still left and what do you think will be the non-cash charge going forward given that Caraco has announced that they have transferred all the products and one will be filed by the end of this year and one in first quarter next year?

**Dilip Shanghvi:** Two products are left for technology transfer to Caraco and once that is through then there will be no charge on account of stock issues to Sun for future technology that we give to them.

**Jesal Shah:** Okay. The other thing was on your ANDA filings, you know, you have ramped up in the current year versus last year, so has it happened by increasing your R&D staff strength in India or is that also kind of getting boosted by the recent acquisitions, particularly Able?

**Dilip Shanghvi:** I think currently most of the filings are not from the Able filings, that is, it is only our own internal focus.

**Jesal Shah:** Right. So, would you like to just give us an update on Able and as well as Phlox, you know, in terms of, when do you see filings from those two entities happening?

**Dilip Shanghvi:** Hopefully we should see some filings this financial year from both the sites. How many, I am not able to specifically predict.

**Jesal Shah:** Right, and the last thing is on the litigation that you are involved in, on amifostine I mean there are 3 patents there and you have said that you have filed for summary judgment on non-infringement, is that the position on all the patents or there is at least one where there is some other issue involved, I mean would that kind of clear up or is non-infringement the only thing which is being argued?



**Dilip Shanghvi:** I do not understand law as well as I should, but if I answer you from the way I understand should we get a favorable judgment in our summary judgment, then technically we can launch the product, provided we are comfortable with the risk of those launches.

**Jesal Shah:** Right, actually my question was a little different. There are 3 patents, and one of them is a method of use patent, so what I was really asking is whether you have a non-infringing position even on the method of use patent or is that involving invalidation?

**Dilip Shanghvi:** If you see our announcement then it is not in our label.

**Jesal Shah:** Okay, and as far as rivastigmine is concerned, would you just like to give us an update on where that case is currently?

**Dilip Shanghvi:** I think it is at discovery stage.

**Jesal Shah:** All right, okay. Thank you so much.

**Dilip Shanghvi:** Thank you.

**Moderator:** Thank you very much sir. Next is Ms. Rohita Sharma from Alchemy.

**Rohita Sharma:** Hi. I had two questions pertaining to your US business. A. If you could just quantify the growth for the base business in US excluding new launches. B. You just mentioned earlier that you would be focusing on improving efficiency for the US business, so if you could throw some light on that?

**Dilip Shanghvi:** Can you repeat the first question?

**Rohita Sharma:** My first question was what is the growth in the US base business excluding new launches for the last quarter?

**Dilip Shanghvi:** I do not have that specific number as to what is the growth of old products and I do not think Caraco has shared this specific information, so it is difficult for me to share it with investors in India, but I think as I said my sense is that the growth is overall for most of the products and about improving the efficiency in the US operations is that manufacturing of dosage form is a time, effort and people-intensive operation and anything which involves all three can be made more efficient and that is what must be our focus to see that how we can improve our performance on these parameters.

**Rohita Sharma:** Okay, fine. Thank you.

**Dilip Shanghvi:** Thank you.

**Moderator:** Thank you very much mam. Next is Mr. Sameer Baisiwala from JM Morgan Stanley.

**Sameer Baisiwala:** This question is about the research spend, -non-innovative research spend is about 6.5% for the first half and you have guided towards about 10-12% for the full year, so are we going to see a very sharp ramp up in the second half or would you be looking to lower the research spend guidance?

**Dilip Shanghvi:** Yes, just a moment we are clarifying something, so that we can answer. Some of these I think filing related costs and product development costs are contingent on some other events but when we guided the overall number it was based on what we were working on, so if we are able to file all those products then there will be some increase in the overall R&D spend in the last 2 quarters. How much that could be, is difficult for me to answer straight away.

**Sameer Baisiwala:** Okay. The next question is about the Sikkim facility, can you talk a little bit more about it, as in what kind of tax incentives would that enjoy and for which markets is this meant for?

**Dilip Shanghvi:** Which facility are you asking about?

**Sameer Baisiwala:** The Sikkim facility. You said it is going to come onstream by the end of this fiscal.

**Sudhir Valia:** No, the benefit which is for Sikkim region as per the regulations, is similar to those for Jammu.

**Sameer Baisiwala:** So both excise duty and income tax exemption.

**Dilip Shanghvi:** That's right.

**Sameer Baisiwala:** Okay, and this I assume would be entirely for the Indian market?

**Dilip Shanghvi/ Sudhir Valia:** That is the primary market, yes.

**Sameer Baisiwala:** On peak capacity utilization, which I think you, mentioned 3 billion tablets or so, what kind of sales are we looking at?

**Dilip Shanghvi:** I mean, if we can use the full facility then 3 billion tablets our average realization per tablet is 2.40 rupees per tablet.

**Sameer Baisiwala:** Okay, you said 3 billion, right?

**Sudhir Valia:** Yes.

**Sameer Baisiwala:** Okay, and Dilipbhai anything that you want to share on the clinical or regulatory status of the two lead NDDS compounds and one NCE compound?

**Dilip Shanghvi:** I mean, we have deferred sharing specific information for so long, so I think it is better that we share everything together, but they are progressing and we are not very happy with the rate of progress, we could have done better, but when we share I think you will see where they are, but I do not think I can tell specifically more about them right now.

**Sameer Baisiwala:** You were saying something Dilipbhai or is that all?

**Dilip Shanghvi:** Yes, I think what we also wanted to add, since we are talking to all the investors (in this forum), our phase 2 for the first NCE compound in the US has started.

**Sameer Baisiwala:** Okay, perfect, and one last question on India launches. How do you see that in fiscal 08, that is next year, I mean, not any specific number but is it going to accelerate or is it going to decelerate as you go forward?

**Dilip Shanghvi:** I think this year it will remain more or less in line with what has happened in the first 6 months.

**Sameer Baisiwala:** Okay, and anything that you can say for the next year or two?

**Dilip Shanghvi:** I mean, as on today I think we see some slowing down in the third year, but generally we do not work two years ahead of time for new products.

**Sameer Baisiwala:** Okay, you said third year which is talking about FY09 or something like that. Okay, that is all from my side. Thanks.

**Dilip Shanghvi:** Thanks.

**Moderator:** Thank you very much sir. Next is Mr. Rahul Sharma from Karvy Stock Broking.



**Rahul Sharma:** Sir, I just had a question on now that only 2 products are left whereby we will be transferring the technology to Caraco. Any update on any new fresh agreement which we are likely to do with Caraco? How is the arrangement going to go on, going ahead?

**Dilip Shanghvi:** We are discussing with Caraco about the new agreement, so that they can continue to get technology for new products. Once I think we finalize that agreement we will share the event with the investors.

**Rahul Sharma:** Sir, how many ANDAs you have planned to file from Caraco as well as from Sun Pharma individually - could you give the breakup?

**Dilip Shanghvi:** Both put together what we have shared is around 30 this year.

**Rahul Sharma:** And how many have you filed till day?

**Dilip Shanghvi:** We have filed 14

**Rahul Sharma:** And majority would be from Sun or all from Sun?

**Dilip Shanghvi:** No. I think it is from both the sides.

**Rahul Sharma:** Okay sir. Thank you.

**Moderator:** Thank you very much sir. Next in line is Mr. Agarwal from SSKI Securities.

**Agarwal:** Good morning sir, couple of questions, one is how many DMFs we have filed this year, and can you give us an update on your European plans if there is any progress on that?

**Dilip Shanghvi:** We do not have the exact number right now.

**Agarwal:** Okay.

**Uday:** Nitin this is Uday here, I will get back to you with the number.

**Agarwal:** Sure.

**Uday:** What is the second question?

**Agarwal:** Is there is any progress on the plans for Europe.

**Dilip Shanghvi:** What do you mean by plans for Europe?

**Agarwal:** In terms of your at some stage, I mean, your ties ups, -plans in Europe to enter the Europe market but through a partnership model, is there any progress on that that you would like to share?

**Dilip Shanghvi:** Yes, I think there what we have decided is that we continue to work on that strategy, however, most of our agreements with people have confidentiality clauses, so we cannot share information once we sign those agreements.

**Agarwal:** But when do you see revenues really coming in from that business, from that segment rather?

**Dilip Shanghvi:** Next 3 years I think.

**Agarwal:** Okay. Thank you sir.

**Moderator:** Thank you very much sir. Next in line is Ms. Wu- Li from Nomura.



**Wu- Li:** Hi good morning, I just want to know how do you see the API business in the future in your company, will it become smaller and smaller in terms of % will you consider ..

**Dilip Shanghvi:** Actually, the line seems to be bad, so I am not able to hear some of the words, are you referring to API business becoming smaller quarter after quarter for our business?

**Wu- Li:** Yes.

**Dilip Shanghvi:** It will be difficult to what you take a call say as a percentage of for business because API sales sometimes are lumpy, so they may take place all of a sudden in a quarter, but broadly API represents I think between 15-20% is the range of API business for us in different quarters and I think it will remain at similar level going forward.

**Wu- Li:** Okay, so, in fact because in terms of margins it is much lower then formulation and also your generic business in US, so I was just wondering why not to give it up?

**Dilip Shanghvi:** Actually I think the API business for us is not more or less same as API business for other companies, because we focus on speciality products our margins are generally better than the industry margin. At the same time, clearly our dosage form business is more profitable than our API business, but we believe that continuing both the businesses is in the long-term interest of the company and that is why we wish to continue to operate both the businesses.

**Wu- Li:** Okay. Thank you very much.

**Dilip Shanghvi:** Thank you.

**Moderator:** Thank you very much mam. Next in line is Mr. Anand Agarwal from UBS.

**Prashant:** Hi, this is Prashant here. Dilipbhai two questions, first on Caraco, if you look at the sequential gross margins at 50.3%, they have come down from 52.6% for the preceding quarter, any specific reason for this?

**Dilip Shanghvi:** We said pricing pressure, I am sure it must be but I am sure it must be something like that only I do not have specific information but it must be because of something like that

**Prashant:** Okay, and secondly, Sun's ANDAs which Caraco markets, can you tell us what is the revenue that is included in the consolidated numbers?

**Dilip Shanghvi:** It will not be significant in this quarter because we have just started selling, going forward I think we have to internally decide as to how much specific information we will share as it becomes a more meaningful part of our business.

**Prashant:** Would this be a lower margin business for Caraco, I mean purely a distribution business?

**Dilip Shanghvi:** I think that answer Caraco will be able to give because they need to share specific information with their investors before we can share with other investors, so I think it is better for me not to answer this.

**Prashant:** Okay. Thanks.

**Moderator:** Thank you very much sir. Next in line is Mr. Ravi Shenoy from Birla Sunlife.

**Ravi Shenoy:** Good morning sir. Sir, your domestic formulation sales at 15.1% growth seems to be growing slower than some of the competition, is it because of certain specific segments that we are in?

**Dilip Shanghvi:** Not that we know of, but I mean actually we believe that we should be able to continue to improve that growth going forward.



**Ravi Shenoy:** Okay, and out of this Rs.283 crore formulation sales that we have, how much would be from products that we have launched in the last 6-9 months?

**Dilip Shanghvi:** I think around 3%.

**Ravi Shenoy:** 3%?

**Dilip Shanghvi:** Yes.

**Ravi Shenoy:** Okay, and sir, out of the USD 28 million sales that Caraco has, how much of supplies would be from Sun Pharma? Would all of it be from Sun Pharma?

**Dilip Shanghvi:** No, almost all of it is Caraco's own production.

**Ravi Shenoy:** Okay, and do we run parallel sales in the US, both Sun and Caraco?

**Dilip Shanghvi:** No, as on today whatever products that we market in the US are handled by Caraco for us.

**Ravi Shenoy:** Okay, and sir, on the ANDAs and DMFs that we have approved, could we get an idea as to how many are in the market today?

**Dilip Shanghvi:** I think if you see what I have shared is that I have listed all the tentative approvals that are not in the market, so other than that all products which are approved we would be in the market.

**Ravi Shenoy:** Okay. You have 27 approvals and Caraco you have said they are selling about 23 products?

**Uday:** Caraco has 23 approvals, Sun Pharma has 4.

**Ravi Shenoy:** Okay. So, all of these would be in the market as of now?

**Dilip Shanghvi:** Yes.

**Ravi Shenoy:** Okay. Thank you sir.

**Dilip Shanghvi:** Thank you.

**Moderator:** Thank you very much sir. Next is a followup from Mr. Neelkanth Mishra of Credit Suisse.

**Neelkanth Mishra:** Yes. Thank you. This is more of a longer-term question, in the US could you provide your sales by channels type, I have seen Caraco disclosing that in some quarters. What percentage of your sales comes from the government?

**Dilip Shanghvi:** I will check with them, I am not able to answer that specifically, and if they have shared this information with investors then we will pass that on to you.

**Neelkanth Mishra:** Okay. Thank you, and in terms of strategy, you know the prevailing philosophy among the smaller Indian manufacturers seems to be that if you have a big enough portfolio then you can target a big share, but you clearly are not constrained by that I mean despite much significantly lower filings or approvals you seemed to be gaining share quite rapidly. Could you elaborate a bit on what is driving this growth?

**Dilip Shanghvi:** May be we are lucky.

**Neelkanth Mishra:** No, clearly it is not that, okay. Thank you.

**Dilip Shanghvi:** Yes. Thank you.

**Moderator:** Thank you very much sir. Participants who wish to ask questions may please press \*1. Next in line is Ms. Jyothi of Business Line.

**Jyothi:** Good morning Mr. Shanghvi, I just wanted a clarification on amifostine, you have got a tentative approval now, so would final approval from the US FDA be impacted by the way the lawsuit would proceed?

**Dilip Shanghvi:** That is correct; I think there is some provision about the status of the lawsuit which will determine the final approval.

**Jyothi:** So, if the final approval comes before the suit is concluded, what happens and would you launch a product?

**Dilip Shanghvi:** Generally, I think we will not get an approval if the lawsuit is not decided, that is my understanding.

**Jyothi:** Okay. Thank you.

**Moderator:** Thank you very much mam. Next is a followup from Mr. Ajay Sharma of AM Funds

**Ajay Sharma:** Yes. Dilipbhai, I just wanted to understand your comment on Sameer's question on this 3 billion tablet plant. This is the Sikkim plant that you are talking about right?

**Dilip Shanghvi:** That is correct.

**Ajay Sharma:** And you said what 2.4 rupees per tablet?

**Dilip Shanghvi:** It is our average realization, so if we utilize the full capacity then that is the sales potential.

**Ajay Sharma:** And for your current plant what is your capacity utilization?

**Dilip Shanghvi:** I think, technically we are able to use around 60% of our capacity. Mr. Valia can answer that question.

**Sudhir Valia:** It is more than 60% and we are using it around 85% capacity, which we have installed

**Ajay Sharma:** So, if in the next 3 years, in effect you are giving us a guidance?

**Dilip Shanghvi:** No, we are not giving you any guidance.

**Dilip Shanghvi:** You are not asking for guidance, you are asking about capacity and what is feasible for us to sell, does not mean that this is what we will sell.

**Ajay Sharma:** No, understood. Just joking. Thanks, just wanted to clarify that question. Thank you.

**Dilip Shanghvi :** Yes. Thanks.

**Moderator:** Thank you very much sir. Next is a followup from Mr. Ravi Shenoy of Birla Sunlife.

**Ravi Shenoy:** Thank you for taking my question sir. Sir, this Rs.180 crores formulation export sales that we have, could we get an understanding as to what the geographic breakup would be other than US?

**Dilip Shanghvi:** We do not give split by geography for competitive reasons.

**Ravi Shenoy:** Okay, sure..and could we understand sir after this new Sikkim plant comes in, we have certain plants that had certain benefits and have now expired, so would those plants go towards exports, can we understand some plant-specific strategies?

**Dilip Shanghvi:** No, actually you gave ideas to me to think of one, but as on today I think we have no plan for this. What we have shared is that we are now filing ANDAs from Dadra, and we have shared in the past that all our facilities when we build they are built with regulated markets in mind, so we can use any of the plants for exports to US, Europe, and other regulated countries.

**Ravi Shenoy:** Okay, and one last question sir, we had certain foreign currency convertible bonds, how much of that would be remaining to be converted and secondly what would be the currency fluctuation impact on this part during the quarter?

**Dilip Shanghvi:** Around \$25 million out of \$350 million have been converted into shares and we continue to receive new bonds for conversion on a weekly basis. There is an impact of some of the dollar, Indian rupee hedge positions that we have, but we have not decided to give specific information, should we decide then we will give that information.

**Ravi Shenoy:** Okay. Thank you.

**Dilip Shanghvi:** Thank you.

**Moderator:** Thank you very much sir. Next in line is Mr. Rajesh from HDFC Mutual Fund.

**Rajesh:** Good morning sir, I had just one question on the expenses because of acquisition. I believe you have mentioned that you would be doing about \$4 million additional expenditure per quarter due to acquisitions you made last year, so are we on track in terms of those numbers this year and this quarter?

**Dilip Shanghvi:** That is correct. I think that somewhere we said also in our initial talk that this is inspite of significantly increased overheads because of the new facilities from which we will be filing during the year.

**Rajesh:** So, how much would that be about 4 million or is it going to be ramping up to 4 million by the end of the year?

**Uday Baldota:** That is what we are indicated ramp up to 4 million by the end of the year.

**Sudhir Valia:** Yes, it will ramp up by the end of the year.

**Rajesh:** So, it would be lower than 4 million currently?

**Sudhir Valia:** It varies from period to period.

**Rajesh:** So, typically for the year we can assume an average of about less than 4 million, 3 million or so, which would come in because of acquisition.

**Dilip Shanghvi:** This is difficult to say, I mean, difficult to give specific number.

**Rajesh:** And where would that expenditure be accounted for, would it be largely a part of other expenditure?

**Sudhir Valia:** Wherever expenditure is incurred, if it is manpower then it is booked under manpower, if it is R&D then it is booked under R&D.

**Rajesh:** So it will be spread across your ...

**Sudhir Valia:** Yes, yes, yes.

**Rajesh:** Okay sir, thank you so much.

**Sudhir Valia:** Thank you.

**Moderator:** Thank you very much sir. Participants who wish to ask questions may please press \*1.



**Uday Baldota:** Monali, last couple of questions if there are any?

**Moderator:** Sure sir. Last is a followup from Mr. Rahul Sharma of Karvy Stock Broking.

**Rahul Sharma:** I just wanted to find out whether the additional expenses which were supposed to incur on account of the new acquisition, are they totally reflected in our quarterly and 6 months' figures?

**Dilip Shanghvi:** Yes.

**Rahul Sharma:** So, can we say that this is representative of the USD 15-16 billion, which is there, was expected to be incurred for the full year? Hello.

**Dilip Shanghvi:** Yes.

**Rahul Sharma:** Okay, sir. Yes, that is it.

**Dilip Shanghvi:** Yes. Thank you.

**Moderator:** Thank you very much sir. At this moment I would like to hand over the floor back to Mr. Uday Baldota for final remarks.

**Uday Baldota:** Yes. Thank you everyone for joining in the conference call. Thank you.

**Dilip Shanghvi:** Thank you.

**Moderator:** Ladies and gentlemen, this concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.