

Corporate Participants

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

Sudhir Valia
Wholetime Director, Sun Pharmaceutical Industries Ltd.



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

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

Just as a reminder, this call is being recorded and a replay of the call will be available till July 27. The call transcript will also be put on our website soon. It would be appropriate to mention that the discussions today may include certain forward-looking statements and these must be viewed in conjunction with the risks that our business faces. Also, I would like to request all of you to kindly send in your queries that remain unanswered during today's earnings call to uday.baldota@sunpharma.com or miradesai@sunpharma.com. I now hand over the call to Mr Dilip Shanghvi.

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

Before we get into a discussion of operations and strategy highlights, a quick update on the Taro acquisition. Taro Pharmaceutical Industries Ltd. yesterday rescheduled its shareholder meetings to September 25, 2007, in order to allow shareholders additional time to fully consider the proposed transaction.

Taro said it is taking this step primarily out of concern that public statements made by some large institutional Taro shareholders and their representatives, and the numerous court motions all of which were rejected on July 20, 2007 by the Tel Aviv District Court. This may have caused confusion among shareholders. Israel's Supreme Court also rejected an appeal for an injunction to prevent the shareholders meeting.

We also exercised 3mill previously issued warrants to purchase 3mill shares of Taro at an exercise price of USD 6.00 per share, for an aggregate of USD 18 million in cash. This will provide additional liquidity for Taro. With this, our holding in Taro increases to 25%.

On July 18, last step of the demerger of the innovation company was completed with the listing of Sun Pharma Advanced Research Company on the stock exchanges, the first innovative research company to be listed in India. This is on completion of all the regulatory and legal

formalities, a full one and half years after we had first announced our decision to separate out the innovative business. As the molecules and delivery systems move through research phases, SPARC will share further newsflows about their progress.

We've also proposed capital raising, which on approval by the shareholders, will equip us to raise up to Rs 35 billion. Once we raise this money it will enable us to bid for generic acquisitions, which we expect will be a real possibility in the future, as the global generic markets continue to remain extremely competitive and we visualize significant additional consolidation. This move is in line with our intent to building an integrated generic company with global operations.

This insistence on continuing to do what has worked for us, will differentiate Sun Pharma as we add size and scale.

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

I will now hand over to Mr. Valia.

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

For the first quarter, net sales is at Rs6153 million, an increase of 23% over the first quarter last year, the 51st consecutive quarter of increasing sales since we went public.

EBITDA at Rs 2148 million during the first quarter is 19% higher than that for the first quarter last year. EBITDA margin at 35% is marginally lower than 36% achieved in Q1 last year.

Net profit after minority interest for the first quarter is up 29% at Rs. 2272 million from Rs. 1767 million.

Net margin for the first quarter is at 37%, up from 35% from the same quarter last year.

For the first quarter, material cost as a % of net sales is up to 31% from 29% in the previous corresponding period.

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

R&D expense has increased from Rs421million last year to Rs 608 million this quarter. As you know, R&D costs for the innovative projects have now moved to SPARC.

On a fully diluted basis, EPS for the quarter is Rs 11, up from Rs 8.5 for the first quarter last year.

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

Domestic formulation continues to be the largest component of our business as we consolidate our position and customer ranks as India's largest speciality company.

Domestic formulation sales have grown a robust 26% in the first quarter this year over last year. As per the May 2007 MAT ORG IMS data, Sun Pharma has grown at 13% and the market share is now 3.3%. Our five core therapy areas, cardiology, psychiatry, neurology, gastroenterology, and diabetology accounted for 71% of our domestic formulation sales.

So far this quarter, 9 important products were brought to market in India. Aztor, Repace group, Oxetol continued to show double digit growth rates.

Caraco recently announced its Q1 numbers. Caraco reported sales of USD \$35 million, up 43%. Gross margin was at 45%, as against 52% for Q1 last year. Net income was USD 8.5 million for the first quarter compared to USD 5 million in the same quarter last year.

Our expertise in process chemistry has enabled more cost effective processes and introduction of several new products. This quarter we scaled up 5 APIs. The tally for regulated market approvals for APIs at the end of the first quarter is 43 regulated market approvals, of 91 filings made for DMFs and CEP. Our API business showed strength, and was up 14% as against the Q1 last year.

So far, about \$201 million FCCB of the \$350 mill issued, has been converted.

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

Dilip Shanghvi: Thank you Mr. Valia.

This has been a momentous quarter. While our business continued to show good growth across areas, a number of events that do not reflect directly in the numbers kept us busy this quarter. The first, of course was the work related to Taro merger where we believe we can add value to the business by refining the product lines and bringing in system efficiencies.

The second, of course, was SPARC listing.

As I've said earlier, the US is an important market, and we continue to seek companies that offer an increase in our generic footprint, the capital raising program prepares us for any solid opportunities that may present in the future.

Watching from a distance, it does seem that both the Republican and Democrat manifestos will feature healthcare as a top priority, especially coverage for the 45 million people who are

currently uninsured. With medical premiums up by 87% since the year 2000 according to a study, reinforcing a watch on costs and instituting a best practices policy are likely to be a priority, both moves clearly pro-generic in the long run.

The generic market continues to be competitive and we expect that it will remain competitive going ahead.

With the FDA's attention largely focused on safety issues related to product approvals and withdrawals, we have yet to see signs of moves that are clearly pro-generic.

Caraco had reported a good set of numbers for the first quarter recently. Across Sun and Caraco, 83 ANDAs for 72 products await approval. 34 approvals have been received so far out of Sun Pharma and Caraco sites. At Sun Pharma, we now hold 9 ANDA approvals and 5 tentative approvals.

R&D investment for the first quarter is Rs 608 million, or 9.9% of net sales. As you know, numbers for last year are not comparable as the costs related to innovative R&D have, as of March 1, moved to SPARC Ltd.

Despite a significant appreciation of the rupee against the dollar we have delivered strong operating profitability and a performance above the guidance. We expect that our performance in the rest of the nine months will also be in line with this guidance.

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

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

Balaji: Sir, just two questions; for this financial year how many products would you be launching in the US, both Sun and Caraco put together?

Dilip Shanghvi: It is difficult to give a specific number. We have filed different kinds of products. We have filed products which we can launch only when their patents expire in future. We have also filed products which we can file immediately on approval. So, it is difficult to give a number; however, our overall guidance includes potential new approvals, excepting any important para 4 approvals.

Balaji: Okay. There has been a lot of talk about Chinese API production facing difficulties and cost of production in China going up overall, so do you see that overall cost of these API prices on an upfront going forward?

Sudhir Valia: Yes, we appreciate what you say because China has now changed the law and export incentives have been withdrawn. On account of this the Chinese suppliers have made corrections in pricing. In addition, in China there are a lot of pollution related pressures and this has caused quite a few factories to shut down, creating some shortage in some products, so prices are going up. On the margin challenge when we talk about purchase, then imports becomes marginally cheaper because of the dollar weakening, but it affects us when we export. But there is a trend towards gradually increasing cost of material.

Balaji: Okay, thanks.

Moderator: Thank you very much sir. Next in line we have Ms. Mukti Seth from CD Equity Research. Over to you madam.

Mukti: Hello sir, good morning and congratulations for good results. Sir I would like to know what is the guideline for your top line and bottom line growth for FY08?

Uday Baldota: Top line guidance we have given is 15-18% and we don't give a bottom line guidance.

Mukti: Okay, thank you.

Moderator: Thank you very much madam. Next in line we have Mr. Nair from Citigroup. Over to you sir.

Nair: Yes, two questions; the first one was on Taro, when you announced the deal you had mentioned that it will fall within the payback period that you look for. Now, of course that the revenues for Taro have as per the recent communication, appear to be closer to the \$200 million mark, so is this in line with what you had expected and does this go into your calculation of payback?

Dilip Shanghvi: I think our payback calculation factors in synergy of a merged company and also factors in potential future filings that we would be making in this company using their existing infrastructure, so it is not payback out of existing business and the existing products, but what is possible if we run the company as a part of Sun Pharma and with future growth coming not only from existing products but also future products.

Nair: Okay, and the second question was on the R&D spend, it is quite high in the first quarter compared to what it was last year despite the fact that innovative R&D cost has moved out, would this normalize over the full year or is this the level we should look at?

Dilip Shanghvi: Our overall R&D spend guidance I think is 8-10%, and this is in line with that guidance.

Nair: Okay, fine, thanks.

Moderator: Thank you very much sir. Next in line we have Mr. Prakash Agarwal from Deutsche Bank. Over to you sir.

Abhay: Good morning, this Abhay here. Just a couple of questions; in formulation exports US has done quite well, so is there a decline in the exports to other markets?

Dilip Shanghvi: I think overall even though US has done well, if you factor this base after adjustment of currency, that growth comes down a little bit. At the same time there was certain amount of manufacturing business in the companies that we acquired in Hungary as well as in the US, which has been going down as a part of our conscious effort to reduce third party manufacturing revenue. The exports out of India I think continue to do quite well and this as I see is a short-term aberration or correction, the underlying profitable business continues to do well.

Abhay: If I have to understand it rightly when the Hungarian company manufacturing is considered, it would still be a part of formulation exports right?

Dilip Shanghvi : It will be treated as an international formulation business.

Abhay: Okay, but in the consolidated income it would be classified as formulation exports or how does one classify it?

Dilip Shanghvi: It will be classified as a formulation exports.

Uday Baldota: Whatever is manufactured as formulation will be there in formulation export, if it is API, then it will be classified as API exports.

Abhay: Okay. Secondly sir, in case of US, you know it is a 45% growth despite pricing pressures as we tend to talk about, so do we see this sort of growth continuing and are there any significant products which have really driven this growth for Caraco?

Dilip Shanghvi: I do not have exact details, but I think Caraco has not changed its overall guidance. So, I think their guidance, which is at 30% continues to hold valid. If they think that they want to revise the guidance, they will do that at some point.

Abhay: Lastly sir, on SPARC funding, if I look at the annual report, Rs. 200 crores have not really been transferred out there, so is it going to happen over a period of time?

Dilip Shanghvi: That is correct. I think they have access to this money, the money will get transferred as there is a requirement. So, they have access, it is a credit line kind of an access.

Abhay: Okay. Fine. Thank you sir.

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

Rajesh Vora: Good morning gentlemen and congrats for good numbers. Mr. Shanghvi if you could run through the thought process in terms of what changed between making Taro acquisition and deciding to raise Rs. 35 billion in terms of what has changed on the ground in the US and in terms of the opportunities that you see, and particularly leading up to the results of Caraco, where margins are under severe pressure in this quarter, and the outlook going forward.

Dilip Shanghvi: I think you are answering your own question in the sense that only when there are pressures there are opportunities and we believe that the US generic business will consolidate and our experience with the Taro acquisition makes us feel that if we have money in bank then it is much easier for us to make a transaction rather than our ability to raise money. So, that is the reason why we believe that it is necessary for us to raise the money at this point because going forward we see definite consolidation happening in the US.

Rajesh Vora: Okay, and in terms of how do you going forward continue to maintain margins in this environment when Caraco continues to outgrow overall Sun numbers in terms of top line? You expect the other parts of Sun's business to continue to do better on margins?

Dilip Shanghvi: I think on a rupee adjusted basis the growth of the rest of the business is more or less similar to Caraco's overall number.

Rajesh Vora: Sure. Okay, but in terms of....

Dilip Shanghvi: Once Taro merges with Sun, the overall US business will become a much bigger part of the company and might actually at the end of the year be bigger than the India business.

Rajesh Vora: Sure. And with this reschedulement you would expect the whole procedure to get over by this calendar year end?

Dilip Shanghvi: I think I do not know whether they have given some specific period by which it gets over, but yes hopefully it should get over by the end of this year.

Rajesh Vora: Okay. And in terms of moving on to SPARC, this is the first quarter for the numbers and you have reported about 99 million loss, 96 million of operating expenditure, compared to what we understand for the last year what you have spent on an annualized basis, this number is it likely go up and come to somewhere around Rs. 450-500 mill for the whole of the year?

Dilip Shanghvi : I think so.

Rajesh Vora: Okay. And how is the anti allergy compound progressing in clinical trials?

Dilip Shanghvi: I think we are not able to report any specific position right now. What we understand is that the phase 2 study is over. We still do not have the results as yet. So, they would be I think processing the results and hopefully we should be able to get some more guidance shortly.

Rajesh Vora: Okay. Thank you so much and all the best.

Dilip Shanghvi: Thank you.

Moderator: Thank you very much sir. Next in line we have Mr. Rajesh from HDFC Mutual Fund. Over to you sir.

Rajesh: Yes sir. In the last 3 to 4 months if you have seen the rupee has appreciated by about 10% or so and at the beginning of the year you had a guidance of 15 to 18% and you continue to maintain that guidance. So, I just wanted your thought on what is the thinking, you know has anything changed or what is the reason for the same guidance?

Sudhir Valia: The major part of our business is domestic business, if we are talking about Sun Pharma India. So if we look at this overall then the rupee appreciation is not likely to have a significant impact. I appreciate when you say it will have an impact and to some extent in the first quarter the impact is a little less than what we may see going ahead, Because of forward cover we may show better realizations for the quarter, but gradually the depreciation in the US currency is likely to have some impact.

Rajesh: No, this was more in terms of the fact that do you see the business to be much more robust compared to what you started off with the initial guidance.

Dilip Shanghvi: Actually the currency depreciation should have a negative impact isn't it?

Rajesh: No, I am talking about the underlying business. The underlying business in the US and the international market, would you see that

Dilip Shanghvi: From the US business, if lets say now \$100 million which used to be Rs. 450 crores now will become Rs. 400 crores. So, if my overall guidance included 18%, a 10% reduction in dollar value only has a negative impact on us, does not have a positive impact.

Rajesh: Yes, I agree with that and despite that you have maintained guidance.

Dilip Shanghvi: So we have to work harder, you can phone us after 9 pm.

Uday Baldota: Rajesh, also if you see the guidance that we gave was in the middle of May and by that time the reality of the rupee dollar exchange rate was more or less quite well accepted.

Rajesh: Okay.

Uday Baldota: We were quite aware of this fact when we gave the guidance. Now if it moves further I think as Mr. Shanghvi says we will have to continue to work harder.

Rajesh: Okay, and just one update on the Able Labs filings, what is the status now?

Dilip Shanghvi : I think the overall filing that we would have announced in this quarter will include the filings out of Cranbury.

Rajesh: Okay, how many would it be?

Dilip Shanghvi: We have not given specific number for the quarter but if you see the total number of products awaiting approval with the FDA and compare the numbers with last quarter, you can calculate the difference.

Rajesh: Okay, and just one more thing on the controlled substances filings, Taro would also have some portfolio of controlled substances.

Dilip Shanghvi: I do not think so, they sell some controlled substances in Israel, but I do not think they sell it outside Israel.

Rajesh: Okay, so I was just looking for any synergies between the two. Okay. Thank you so much.

Dilip Shanghvi : Thank you.

Moderator: Thank you very much sir. Next in line we have Mr. Sameer from Morgan Stanley. Over to you sir.

Sameer: Good morning. Is there any update on baclofen IND filing.

Dilip Shanghvi: No there is no update, but I think as we shared with investors when we announced the products that we have in development, we will every 6 months give an update on the status of products. So, at that time, we should be able to share specific details with you.

Sameer: Okay, and just to clarify, you mentioned about SPARC having about Rs. 200 crores. This would be seen as a loan from Sun to SPARC. Is that the way it would be?

Dilip Shanghvi: No it would be SPARC money, which will be available to SPARC.

Sameer: Okay, so at a later point they do not have to return this.

Dilip Shanghvi : No. At no point the money is to be returned.

Sameer: Okay, and is there any update on amifostine citizen's petition. When do you think this can potentially get resolved?

Dilip Shanghvi: Difficult to give specific time lines, we are in touch with the appropriate people in FDA, but I think if you see average time taken for a resolution of citizen's petition, it is not very small. So, we continue to work on our focus, but I think FDA works at its own speed. There are many ongoing efforts and initiatives to prevent misuse of the citizen's petition process. Some of them are already with the senate as well as congress. Hopefully, if they pass and if they get the presidential approval then it will definitely help, but I hope that this should get resolved shortly.

Sameer: Is there anything that is pending from Sun to revert to the FDA?

Dilip Shanghvi: I mean nothing that we are aware of.

Sameer: Okay. One final question on the quarterly numbers; what was the forex impact on the bottom line?

Sudhir Valia: The impact is around 3 to 4% of the income.

Sameer: Of the net profit?

Sudhir Valia: Yes.

Sameer: Okay. So, that is about Rs. 10 crore or something like that.

Dilip Shanghvi: I mean we do not have a separate number for this, but that is the gut feel.

Sudhir Valia: You see the imports becomes cheaper and our exports earn us less realization, so it is very difficult.

Dilip Shanghvi: And also the inventory in our international companies gets valued at a lower value of rupee, so that also has an impact.

Sameer: Sure, okay. Let me just make it more clear. It is not about export and import impact, it is more about as Dilipbhai said, A, The translational impact, and B, on the forward covers. On these two counts how much was the impact and specifically if you can quantify each of these two?

Dilip Shanghvi: I think, Sameer, we have in the past also said that we do not split the other income into forex income and the interest income. I mean it is very complex. There are large number of exchange fluctuations which we have to reflect on the books every quarter, but there are also many transactions that we do not have to reflect on the books every quarter. So, they get reflected only on the completion of transaction. But as Mr. Valia says that the

overall business impact without looking at the exchange fluctuations and age and the forward cover, the business impact would be around 4-5% of the net profit.

Sameer: Okay, on the positive side.

Dilip Shanghvi: Negative side.

Sameer: On the negative side.

Dilip Shanghvi: Yes.

Sameer: Okay. Thanks. That is all from my side.

Sudhir Valia : Here I may just give some more idea about how the forex takes place in terms of a situation where the FCCBs are there in a company. In the situation where the FCCBs are there, the liability is to be taken as a loan transaction as per the guidance of the Institute. So, for the unexercised FCCB the liability will be at a lower level if the rupee appreciates and that is reflected as an income also, but that income will get reversed when you exercise the option.

Dilip Shanghvi: I mean when FCCB converts.

Sudhir Valia: That income which is reflected will get into the loss because that FCCB is at a price which is fixed which is higher than the price which is currently prevailing. So, even current income what we declare all is after debiting the reduction in the rupee or means appreciation of the rupee, so around \$200 million, which is converted, all that has been provided for.

Sameer: Okay, that is useful. Thanks.

Moderator: Thank you very much sir. Next in line we have Mr. Anubhav Agarwal from Credit Suisse. Over to you sir.

Anubhav Agarwal: Sir, I had a question regarding Caraco. Caraco paid taxes this time, but still it has accumulated deficit on its balance sheet. What was the reason for that?

Sudhir Valia: What is the deficit you said?

Anubhav Agarwal: Accumulated deficit on its balance sheet, I mean till last year it was having accumulated deficit.

Sudhir Valia: Yes deficit will continue to be there, because of the accumulations and the provisioning there where the income tax considered the R&D expenses and the way accounting takes place, in accounting it is charged off. The accumulated deficit will continue and partial income will qualify for the deductions and partial will qualify for the tax liability.

Anubhav Agarwal: Okay. Thank you sir.

Moderator: Thank you very much sir. Next in line, we have Mr. Agarwal from JP Morgan. Over to you sir.

Jesal: Yes. Good morning. This is Jesal. I just had one question on this forex thing. Do you have idea about the net dollar exposure in terms of you know if one were to look at only PE revenues and the cost line, what would you see is your net dollar exposure for the year?

Dilip Shanghvi: I am not able to understand the question.

Jesal: The dollar revenues and the cost in dollars.

Sudhir Valia: See, all import in terms of the purchase, the actual rupee outgo is less, and all exports in terms of dollar....

Uday Baldota : I think, Jesal, you want to know what is net difference between the export and the import?

Jesal: Yes, the net dollar exposure, I mean \$100 million of lets say exports and \$50 million of imports, and our costs in dollar terms, so the net is \$50 million.

Sudhir Valia: 70% to 80% we have hedge of the export and import. That is the hedge I am talking about.

Jesal: Okay, that is over and above whatever natural hedge you may have. So natural hedge you said is 30%.

Uday Baldota : 70%.

Jesal: Natural hedge you are saying is 70%.

Sudhir Valia: Yes.

Jesal: Okay. The other question is on the longer term since Dilipbhai mentioned this business is very challenging, the generic business. So, what is your feeling regarding the US market, what kind of growth rates can Sun continue to deliver as we look for the next 2 to 3 years or may be even beyond that, what kind of growth rates do you think are really possible for Sun to deliver?

Dilip Shanghvi: I think we generally give this year's guidance, and overall indication that we give that we hope to be able to continue to grow the business with similar kind of rate going forward. So, nothing is changing as far as we are concerned, and all the numbers that we indicate are our organic growth numbers, they do not factor acquisition growth.

Jesal: Right, okay. And the third thing is on the R&D expenditure, we are seeing lot of investment in R&D and I guess some of it like you had mentioned last time is to do some more niche and difficult-to-do kind of products. The question really is on what kind of success have you seen with respect to this or you know whether you are doing some clinical studies in those generic products which is leading to cost push or is it just some bio studies which are being done at this stage, and more number of ANDAs being filed?

Dilip Shanghvi: I think a little bit of everything.

Jesal: Okay, and are you feeling encouraged about the progress on the clinical studies front if at all there is any?

Dilip Shanghvi: I mean if we do not see the encouraging signs do you think we will continue to invest? But if you want any specific products, specific situation, we will not share that. All the investments that we make is after factoring in risk outcome benefit.

Jesal: Right. Okay. Thank you so much.

Dilip Shanghvi: Thank you.

Moderator: Thank you very much sir. Next in line we have Ms. Visalakshi from DSP Merrill Lynch. Over to you madam.

Visalakshi: Yes, thank you. My question is on the gross margins for Sun Pharmaceuticals, essentially in terms of raw materials to sales ratio what do you think are the key reasons for this increase in raw materials to sales and how much of it is because of a drop in Caraco's gross margins?

Dilip Shanghvi: No, I think it will be a combination of issues. Mr. Valia can give details.

Sudhir Valia: The product mix plays very vital role. I understand and appreciate what you said about Caraco coming under pressure in margins, but in the mix of business of Caraco they purchase quite a few products from us. So effectively when we consolidate, at that time, these get nullified, so standalone Caraco may have pressure, when it is grouped it may not have. But the more important reason is the product mix taking place at a point of time, because bulk may have different contribution than formulations, and again we have a wide spectrum of business because of Hungary, Cranbury, and Caraco, so some minor variations from quarter-to-quarter is likely.

Visalakshi: So if you were to highlight this say the top two factors for increase in raw material cost to sales ratio, what would that be?

Dilip Shanghvi : Two important levers for why the material cost....

Sudhir Valia: Only one major reason, that is the product mix.

Dilip Shanghvi: I think part on it is the product mix, because the bulk business is slightly pressured this quarter, and second is that because of the dollar.

Visalakshi: Rupee appreciation, yes.

Dilip Shanghvi : When it gets converted into Indian rupee the price would have gone up.

Sudhir Valia: Even when you are asking specifics, we would like you to appreciate the situation because when the rupee is appreciating even the stock which we have in the international market, that is either Hungary or Caraco, when it is consolidated the loss we have to book. In their currency this is the same thing, but in our currency because the rupee has now appreciated the same value has become lower, and that lower value is booked by way of a difference, and that definitely again has implication on the material cost, because now inventory is lower than the rate at which it was thought. In that particular country balance sheet. it will not have an implication.

Visalakshi: Okay, and assuming say a 5% more appreciation from current levels of the rupee, what would that impact be on gross margins?

Dilip Shanghvi: It is a dynamic situation, I mean it would have impact, I think it would have impact.

Sudhir Valia: It is very difficult say which currency, because see, suppose I am taking an example of Hungary, now Hungarian currency in terms of the dollar is first relation. Dollar with Indian is the second relation.

Visalakshi: Okay.

Dilip Shanghvi: I think ultimately if you see our overall guidance is in Indian currency, and our overall guidance for maintaining margin also is in Indian currency, so generally we would not change I mean we would have factored some of these variables into our guidance.

Visalakshi: Okay, thank you, my one more question is on your 80 plus ANDAs which are pending approval, how many of them do you think would be you know, sort of subject to limited competition or very little competition, in your estimate?

Dilip Shanghvi: I think we have a fair mix of all products. We have products which may be commoditized. We will have products which will not have significant competition. Also we will have many products which are potentially going into litigation, so the approval process may get delayed. So our focus is to have a mix of product in such a way that the business continues to grow and when we get important and difficult kind of a product we then have a significant upside.

Visalakshi: Okay, thank you so much.

Moderator: Thank you very much mam. Next in line we have Mr. Mukherjee from Bric Securities. Over to you sir.

Mukherjee: Yes, hi, good morning. Sir my question is related to the domestic formulations, we have grown very strong this quarter; do you think this kind of growth is sustainable for the rest of the year?

Dilip Shanghvi: We are not changing our overall guidance but I think there will always be a certain amount of seasonality in business.

Mukherjee: Sir if we can spread this growth in terms of how much is from volume, price increase, and new product introduction, sir roughly if you can indicate?

Dilip Shanghvi: As on today we do not have that number and I think it is a dynamic number. Supposing if you increase price our sense is an increase in price will have a impact on consumption, so I do not know how to measure that dynamic relationship.

Mukherjee: Okay, but over the last one quarter or 6 months have you taken price increases in the portfolio?

Dilip Shanghvi: Net price increases would have been there I think of 1.5% or so.

Mukherjee: Okay, sir if I look at you know your top say 20 brands which probably contribute 30 to 35% of the revenues, I mean is this is what is driving the growth or it is the newer launches, how is the growth of your top brand story?

Dilip Shanghvi: I think they are doing quite well.

Mukherjee: Is it in line with the overall growth, overall domestic market growth?

Dilip Shanghvi: First of all it has grown by lets say 20 plus percent, whether all other 20 brands are growing at 20 plus percent, is that the question?

Mukherjee: Yes.

Dilip Shanghvi: I do not think so, not all the brands would be growing at 20%, some of them would be fairly old brands and they will be growing at 5 to 10%, and some will be relatively new brands and they will be growing at 30 to 40%.

Mukherjee: Okay, so sir would it be fair to assume that some of the low value brands is contributing significantly to this growth?

Dilip Shanghvi: I think on a product-on-product basis they may represent a higher number of growth on percentage basis and you consolidate everything and you look at that as a part of

the whole number, then I do not think it would have a major impact. You can have high growth only when the big products grow well and all products grow.

Mukherjee: Okay, thank you sir, and all the best.

Dilip Shanghvi: Yes thank you.

Moderator: Thank you very much sir. Next in line we have Mr. Agarwal from Deutsche Bank.

Abhay: Yes, Abhay again. Just one small question; we are now seeing rupee appreciation and we are also seeing that the price of intermediates is going up with the Chinese factor, and there is pricing pressure in the US market, in most generic markets. So does it mean that the outlook for the industry would remain very challenging going forward?

Sudhir Valia: Yes, this is definitely the scenario where cost are increasing, but since the Chinese currency is also appreciating we have been able to increase our price in dollar terms. It is not impacting the non US market as much because for them the US currency has depreciated against their currency, so overall they are comfortable with marginal increase in the prices.

Abhay: Sir, most Indian companies also source a lot of intermediates from China, would you also be sourcing heavily from China?

Sudhir Valia: Partially yes, because China does provide low cost material.

Abhay: Yes, in such a scenario the cost of material would go up, wages in India are going up, and we have the rupee also tending to be stronger, so in such a scenario do we expect this pricing pressure in US to continue or do we now see some sort of sanity in the US and European pricing?

Sudhir Valia: What I said is because of the appreciation of rupee even if the Chinese price goes up in terms of the dollar, it is marginally impacting the cost overall, because now we are paying less rupee per dollar. At the same time when we are exporting we are able to increase the price because the dollar is weaker against the country in which we are exporting, so they are able to either pay a similar value in the local currency or pay an appreciated value in terms of the dollar, so the overall impact is very marginal. Exchange fluctuation has implications in the business and now since the rupee is appreciating it definitely impacts cost and profitability.

Abhay: Sir just to get my understanding right, when you export to a third world country when the currency is dollar, does the realization change or in dollar terms does it remain the same?

Dilip Shanghvi: We are able to raise prices.

Abhay: Okay, so in the rest of the world you are able to raise prices, in the US it is a different market, so in the US, the pricing pressure continues?

Dilip Shanghvi: Yes US continues to see price erosion in quarter-on-quarter for formulation business.

Abhay: Okay, so in such a scenario US would be under pressure, but what you are saying is that in the rest of the world you are able to get some price increases to nullify the INR effect?

Dilip Shanghvi: Sure.

Abhay: Okay fine thank you.

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

Manoj: Yes, good morning sir. Recently there was a news article in the paper that the generic company in US now can challenge patent outside the court, and this can have a major benefit for Indian companies because they can reduce substantial cost on litigation. What is your view on that sir?

Dilip Shanghvi: I am not aware, where can you challenge?

Manoj: Outside the court.

Dilip Shanghvi: I mean where outside the court?

Manoj: In patent offices.

Dilip Shanghvi: Meaning PTO.

Manoj: That is right.

Dilip Shanghvi: That was always available, where is the change. We can always work towards invalidating the patent in the US PTO.

Manoj: Okay.

Dilip Shanghvi: Not a new phenomenon, I mean all patent offices including Indian patent offices have provisions for pre-grant and post-grant opposition, and I do not think there is a change in that law, but there are, I think large number of risks associated with making a post-grant opposition even for the PTO. If you want to challenge the patent you still need lawyers, because you cannot represent yourself, you require a lawyer to represent you.

Manoj: Right sir, thanks.

Moderator: Thank you very much sir. Next in line we have Mr. Kapadia from Prabhudas Lilladher. Over to you sir.

Kapadia: Good morning and hearty congratulations for a good set of numbers. Sir my first question relates to the domestic growth, we have reported 26% growth whereas IMS-ORG there is a growth of 13% as mentioned in the conference call, and there is a lot of variations, so how we are addressing this and are we taking it up with the IMS-ORG? And the second question relates to, we have this strategic investment in Taro through Alkaloida Chemicals and till the time shareholders meeting of Taro takes place are we going to acquire more shares from Taro from the market or what is the strategy sir?

Dilip Shanghvi: I think your first question was about the difference between the ORG number and the internal numbers, and we do not have any idea as to why this difference is persisting over a long period of time, because even if we see overall last year our growth was significantly higher internally compared to what ORG reflected, and our sense is that especially for us the change in the method in which they are computing sales where they are evaluating the universe from sales of wholesalers instead of looking at purchases of retailers is not a very accurate predictor of every company's sales, but we do not have more understanding of why this is continuing for extended period of time. As for Taro, our view is that the merger will get approved and there is no reason to buy the shares from the market.

Kapadia: And how about the minority shareholders, two of the minority shareholders have 20% and are the two funds roping some other minority shareholders?

Dilip Shanghvi: Yes, I think a lot of statistics can be misleading, however, on an overall basis we remain reasonably confident that the merger will go through with shareholder approval.

Kapadia: Thank you very much, and wish you all the very best sir.

Dilip Shanghvi: Yes thank you.

Moderator: Thank you very much sir. Next in line we have Ms. Gupta from UTI Mutual Fund. Over to you madam.

Gupta: Hello sir, congratulations on a good set of numbers. Sir, I would like to ask one question about the standalone versus consolidated numbers, if you could please explain me the gap because if I see in the past this gap has been much higher, but this quarter it has considerably reduced, is it on account of some kind of losses that we have been booking in some subsidiaries or how is it, just some clarity?

Sudhir Valia: I had answered a similar question in a different manner. The rupee has appreciated, and rupee appreciating means the stock of all those subsidiaries are reflected in the terms of rupee, when it is in lower number than the number which otherwise is in their books, and in that we have to account for a loss, so if we put that number-to-number tally Caraco's income itself is Rs. 33 crores, and by 2/3rd majority after providing the minority

interest Rs. 229 crores becomes Rs. 247 crores, and losses in other subsidiaries are not of that magnitude but because of currency fluctuation we need to provide for the currency impact when we consolidate.

Gupta: Okay, you said provision would only be there in this quarter and we will not expect it in the coming quarters?

Sudhir Valia: You cannot say that, because what happens with which currency in relation to the dollar, and how the rupee will behave with relation to the dollar is difficult to predict, but if the rupee will depreciate then possibly it will get reversed.

Gupta: Right, okay. Thanks a lot sir.

Moderator: Thank you very much madam. Next in line we have Mr. Rahul Sharma from Karvy Stock Broking. Over to you sir.

Rahul Sharma: Sir just wanted some time lines on how the Taro acquisition will culminate and when will we get management control and what would be the time line when we will be able to turn around operations with Taro?

Dilip Shanghvi: A small question and a long answer, but I think there are a large number of regulatory approvals in addition to the shareholder vote which we have to get through. There is a provision in the US for anti-trust called Hart-Scott-Rodino approval (HSR approval) and for that approval there is no predictable time line. So, overall guidance as we have said is that by end of this year it should happen. And I think once we have control, currently we have only done a due diligence of the company, so to take a view as to what time and what kind of time line we have for improving performance, it is difficult to give at this point of time.

Rahul Sharma: So as I understand we will have management control by the end of this year, right?

Dilip Shanghvi: The merger should happen by end of this year, yes.

Rahul Sharma: Okay sir, thank you.

Dilip Shanghvi: Thank you.

Moderator: Thank you very much sir. Next in line we have Mr. Chirag from Mehta Partners. Over to you sir.

Chirag: Yes, hi, thanks for taking my question. My question is pertaining to the Protonix litigation, recently Altana has filed a new petition alleging that Sun Pharma is already selling a generic pantoprazole in US. Can we have some update on the status of this petition and how has this come up?

Dilip Shanghvi: I think essentially this is because of internet pharmacies offering not only Sun Pharma's products but many other company products to US customers, and we have appropriately responded to the petition.

Chirag: But they have said that one of the internet pharmacies is controlled by Sun Pharma? This is that it is owned by Sun Pharma, a subsidiary of Sun Pharma?

Dilip Shanghvi: I mean we are not in distribution business.

Chirag: Okay, so then that issue is closed if I would say?

Dilip Shanghvi: Nothing is closed, the court has to decide, we have responded appropriately.

Chirag: Okay, you have responded.

Dilip Shanghvi: In any case this is not part of the para four litigation. Separate litigation, not para 4.

Chirag: Okay. That helps, thank you.

Dilip Shanghvi: Thank you.

Moderator: Thank you very much sir. Next in line we have Mr. Kartik Mehta from Man Financial. Over to you sir.

Kartik Mehta: Yes, hi. Can you please tell me what will be the cash on hand and books as on date and also what is the amount of FCCB that are yet to be converted? Thank you.

Sudhir Valia: As we said \$201 million of FCCB has been converted out of \$350 mill.

Kartik Mehta: Okay, what is the cash on hand as on date?

Sudhir Valia: We said that for current acquisitions we have adequate cash on hand.

Dilip Shanghvi: I mean for funding the acquisition, we should be able to take care of from earlier FCCB and internal resources, we do not need to raise more money.

Kartik Mehta: Okay.

Moderator: Are you done with your questions sir?

Kartik Mehta: Yes.

Moderator: Thank you very much. Next in line we have Mr. Rahul from Voyager Capital. Over to you sir.

Rahul: Yes, I had two questions. Firstly, just trying to understand the gross margin trend in Caraco better, over the last 6 months or so how many of the new product launches in Caraco would have come through purchase from Sun?

Dilip Shanghvi: I mean whatever product that we have currently launched all of them have been launched through Caraco.

Rahul: Basically, what I was trying to understand was that one of the reasons for the gross margin drop beside the pricing pressure, is that certain products are being purchased from Sun, so therefore you know it is not reflecting in Caraco's number but the profitability has been captured by consolidated numbers, so from that perspective just trying to get a sense what percentage of the launches in the last 6 months have happened of such kind of products?

Uday Baldota: I think Rahul the effect will not be just for the products that have been launched in the last 6 months, but lets say in the last year and a half Sun has received about 9 or 10 approvals and all those products have been launched in the US through Caraco. Once Caraco files its 10Q I think they will give a breakup of the distributed product and their own products, what is the sales and probably also the margins. Then it will be clear for us.

Rahul: Okay, but approximately a dominant portion of the new launches in the last say 9 months or so would have come from purchasing from Sun, would that be a fair assumption?

Uday Baldota: We have also received approvals. Yes, we do not have the exact product approval numbers in front of us, but I think that is something that is available may be we can talk later on, and see what products have been approved for Sun and what products have been approved for Caraco.

Rahul: Okay, and that is all, actually all my other questions have been answered. Thank you very much.

Dilip Shanghvi: Thank you.

Moderator: Thank you very much sir. Next in line we have Mr. Rahul Khaitan from Capital Market. Over to you sir.

Rahul Khaitan: Yes, good morning sir. I have just two questions. What will be your current holding in Taro right now?

Dilip Shanghvi: Slightly less than 25% of the enhanced capital.

Rahul Khaitan: Okay and sir like if I see your consolidated financials, the effective tax rate has gone up very high, so what will be the reason behind this?

Uday Baldota: I think our tax is in line with what we have indicated in the past.

Rahul Khaitan: And sir what would be it around?

Uday Baldota: I think we have indicated it will be about 4 to 5%.

Rahul Khaitan: Okay, fine, thank you very much.

Moderator: Thank you very much sir. Next in line we have Mr. Surya from ShareKhan. Over to you sir.

Surya: Good morning sir, I just wanted what is our current cash position and debt position, and in fact during the quarter we have paid \$40 million for Taro and another \$18 million we are paying now, so after that what would be our debt position?

Uday Baldota: I think that is what Mr. Valia mentioned that the Taro acquisition we will be able to fund out of the cash we have. In terms of debt position \$150 million of CBs remain unconverted.

Dilip Shanghvi: That is the only debt.

Surya: Okay, thank you.

Moderator: Thank you very much sir. Participants who wish to ask questions, kindly press *1 on your telephone keypad. I repeat, participants who wish to ask questions, kindly press *1 on your telephone keypad. At this moment there are no further questions from participants. I would like to hand over the floor back to Sun Pharma management for the final remarks. Over to you sir.

Uday Baldota: Yes, thank you very much all of you. Just a small correction. There is a \$20 million ECB that is also outstanding. So \$150 million of CB plus \$20 million of ECB, this is the debt on the books. Thank you very much to all of you for joining us for the conference call and do let us know if you have any further pending questions. Thank you.