



**Corporate Participants**

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Chairman and Managing Director, Sun Pharmaceutical Industries Ltd.

Sudhir Valia  
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**Moderator:** Ladies and Gentlemen good evening, this is Rochelle the moderator for your conference call. Welcome to the Sun Pharmaceuticals Q2H12009 earnings conference. As a reminder for the duration of this presentation all participants' lines are in the listen-only mode. And there will be an opportunity for you to ask questions at the end of today's presentation. Should anyone need assistance during this conference call, please signal an operator by pressing \* and 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Uday Baldota of Sun Pharma. Thank you and over to you Mr. Baldota.

**Uday Baldota:** Thank you Rochelle. Good evening and a warm welcome to our 2008-09 2<sup>nd</sup> 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, Whole time Director. And they will discuss the performance highlights and share developments on strategy. We hope you have received our 2<sup>nd</sup> Quarter financials and press releases sent out this afternoon and these are also available on our website. For the ease of discussion we will look at the consolidated numbers.

Just as a reminder this call is being recorded and replay of the call will be available till November 6, 2008. The call transcript will also be put on our website too. It will be appropriate to mention that the discussion today may include certain forward looking statements and this must be viewed in conjunction with the risk 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](mailto:uday.baldota@sunpharma.com) or [mira.desai@sunpharma.com](mailto:mira.desai@sunpharma.com). I now handover the call to Mr. Dilip Shanghvi.

**Dilip Shanghvi:** Welcome and thank you for joining us today for the conference call after announcement of the financial results for the 2<sup>nd</sup> Quarter and first half of 2008-09. First let me update you with the developments on the Taro front. In August Tel-Aviv district court rejected the claim of Taro and some of its Directors that Sun or Alkaloida need to make a special tender offer. The decision was immediately appealed by Taro in the Supreme Court of Israel. The Supreme Court has scheduled a hearing on this appeal on 8<sup>th</sup> December, 2008 and has prohibited closing of the tender till it delivers a decision on the appeal. In compliance with this, the tender offer closing date has been extended twice by us and it will be extended further as required. As far as the litigation in the US is concerned there is no further update.

On a completely different and a much more pleasant note I am glad to share that our business has performed reasonably well despite that rapidly shifting economic fundamentals globally as well as locally. And despite the time that we have devoted to our takeover attempts for Taro. The recent meltdown in stock market worldwide has had its effect on pharma company valuations as well. Within the generic companies evaluations have come off quite significantly and some have lost over 50% of their value as it was at the beginning of 2008. As we run a disciplined pharma business looking to add value assets this change offers us an opportunity to evaluate many more pharma businesses. In fact on a preliminary scanning it appears that there exist quite a few generic businesses that can potentially offer much superior returns compared to what we can earn via Taro.

Now as usual Mr. Valia will first talk about the performance and financial highlights and later I will come back to talk about strategy and direction. I will now handover to Mr. Valia.

**Sudhir Valia:** Thank you, Mr. Shanghvi. Welcome to all of you. Our first half and second quarter numbers are already with you. It has been a strong half-year, with good growth across all our business segments, some in the face of tough competition and ongoing pricing pressure. Once again this quarter we have had an impact of generic Protonix, and generic Ethyol. The sales growth, cost ratios and margins you see for the second quarter are affected by significant non-recurring sales and profit from these generics.

First, we'll look at key consolidated financials for the quarter and then for the first half.

For the second quarter, net sales is at Rs 11,778 million, an increase of 76% over the second quarter last year. EBITDA at Rs.5,380 million during the second quarter is 145% higher than that for the second quarter last year. Resulting EBITDA margin at 46% is significantly higher than 33% achieved in Q2 last year. Net profit after minority interest for the second quarter is up 135% at Rs. 5,128 million from Rs. 2,185 million achieved in same quarter last year. Net margin for the second quarter is 44%, significantly higher than 33% in second quarter of last year.

Material cost as a % of net sales is down to 23% from 27% in the previous corresponding period. Staff costs for the quarter are at 9% of net sales, as compared to 11% in the corresponding period last year. Other expenditure is 22% of net sales compared to 29% for the same quarter last year.

On a fully diluted basis, EPS for the second quarter is Rs. 25, up from Rs. 11 for the second quarter last year.

For the first half, net sales is at Rs 22,196 million, an increase of 71% over the first half last year. EBITDA for the half year is Rs. 10,759 million, an increase of 148% over the first half last year. Resulting EBITDA margin is at 49%, significantly higher than 34% achieved in the first half last year. For the first half, net profit after minority interest is at Rs. 10,142 million, an increase of 128% over the first half last year. Net margin for the first half is 46%, significantly higher than the first half of last year.

Material cost as a % of net sales is down to 21% from 29% in the previous corresponding first half. Staff costs for the half are at 9% of net sales, as compared to 11% in the corresponding period last year. Other expenditure as a % of net sales has reduced from 25% for the first half last year to 21% this first half.

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

We continue to add to market share with key specialists. Domestic formulation, the largest component of our business, continues to grow and gain profit.

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For further updates and specific queries, please visit [www.sunpharma.com](http://www.sunpharma.com) or feel free to contact

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Domestic formulation sales at Rs 4,473 million have grown 20% in the second quarter this year over corresponding quarter last year. For the entire first half, growth has been 19%. As per the latest MAT ORG IMS data, Sun Pharma market share is now 3.4%. Our five main therapy areas, cardiology, psychiatry, neurology, gastroenterology, and diabetology accounted for over 72% of our domestic formulation sales.

So far this first half, 16 products were brought to market in India, across our 18 marketing divisions. Pantocid group, Aztor, Repace group, Susten continued to show double digit growth.

Caraco recently announced its second quarter and first half numbers, which continue to reflect the effect of the generic Protonix and Ethyol. Caraco reported second quarter sales of USD 122 million, up 195%. Gross margin was 18%, as against 44% for Q2 of last year, largely on account of increase of revenue share of distributed products. Gross margin for the first half on manufactured products was at 48%. Net income was USD 8.4 million for the second quarter compared to USD 4.6 million in the same quarter last year.

International branded generic exports has grown by over 40% for the second quarter, as well as for the first half. In these markets, we expect a gradual increase in sales, as we continue brand rollout and building.

This half we scaled up 16 APIs. The tally for regulated market approvals for APIs at the end of the first half is 64 regulated market approvals, of 117 filings made for DMFs and CEP. As you know, a large part of API capacity is being used for internal consumption. Our API sales has grown 44% for the second quarter and 27% for the first half.

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

**Dilip Shanghvi:** Thank you Mr. Valia.

It has been a very interesting first half for us, good sales performance all around including sales of products we market at risk and continuing approvals from around the globe. In difficult markets such as these we do see the benefit of a conservative business model like ours which is designed for consistent revenues and profits.

Unlike expectations, economics has overtaken healthcare as the top priority in the US elections. Regardless of which of the Republican and Democrat manifestos is implemented, we expect the trend to continue to favor generics.

Caraco has recently reported a good set of numbers for the first half. Across Sun and Caraco, ANDAs were filed for 10 products during this quarter and 15 products during the first half. Between both the companies, ANDAs for 96 products now await approval with the USFDA, including 7 tentative approvals.

R&D investment continues apace. For the second quarter, R&D investment is Rs 884 million, 7.5% of net sales, while for the first half it is Rs.1,626 million, 7.3% of net sales.

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For further updates and specific queries, please visit [www.sunpharma.com](http://www.sunpharma.com) or feel free to contact

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At our research labs we have over 500 scientists working on projects in generic development, with a strong pipeline and a focus on technology for differentiation. These projects typically work with a lead time of a few years, and power our growth plans across the world. Based on their work, we have built a patent library of 228 patents filed of which 72 patents have been approved.

It would not be out of place to point out that the recent developments in the global financial markets and the resulting economic stress is yet to show its impact on the pharma markets and in particular the generic businesses. Due to the inherent difficulty in predicting such impact and its precise timing, at the moment we are maintaining our annual guidance. We will keep you informed of developments on this front. In the meantime, we continue to focus on performance, on watching costs and building efficiencies. It makes more sense than ever to pursue a sensible approach to opportunities, making the best of each opportunity, doing what is best for the long term.

With 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 your question on a first-in-line basis. Participants are requested to use only handsets while asking questions. If you want to ask a question kindly press \*1 now. First in line we have Neelkanth Mishra from CSFB, over to you, sir.

**Neelkanth Mishra:** Thank you. My first question is actually in response to your opening remarks on acquisitions. Any further color on what would be the focus of these acquisitions, would you be looking at new geographies or just new formulation areas?

**Dilip Shanghvi:** I think our focus continues to be the US as an opportunity; we will not look at any new geographies, but we will look at businesses both from the point of view of our ability to create business that can offer significant additional value or helping us address new businesses where we are not currently present.

**Neelkanth Mishra:** And any limits on size?

**Dilip Shanghvi:** No I think it is difficult to define a specific number, but clearly higher the size of the investment, higher is the risk. And we continue to remain conservative and risk-averse based on our ability to execute. So I think that is something that we will always factor in, before taking a decision.

**Neelkanth Mishra:** And are you evaluating anything specific, or this is just a generic remark.

**Dilip Shanghvi:** No it is a generic remark, we are not considering anything specific nor are we in negotiation with any company.

**Neelkanth Mishra:** Got it. My next question is very specific to Pantoprazole, two things there, did we see a very sharp increase in quarter-on-quarter sales. And a follow up to that- the inventory at Caraco halved quarter-on-quarter from about \$230 million at the end of the 2<sup>nd</sup> Quarter is \$115, do we take that to mean that Pantoprazole sales will drop off next quarter?

**Dilip Shanghvi:** We are not taking any specific position on Pantoprazole sales right now, but we continue to remain committed to our previous statement that we have a internal number related to our ability, or our desire to take risk, and once we cross that number we will seriously reevaluate our options. I dont have specific details as to the reason why the inventory of Caraco would have gone down significantly, but obviously one of the reason would be a reduction in the value of Pantoprazole that they would have subsequently sold, but in addition to that they would have also sold other products.

**Neelkanth Mishra:** Thanks, and did we see a decline in Pantoprazole pricing this quarter.

**Dilip Shanghvi:** Honestly I do not have an immediate response because I do not know whether there is a significant price impact, that is current or recent in nature.

**Neelkanth Mishra:** Okay I will return to the queue. Thank you.

**Dilip Shanghvi:** Thank you.

**Moderator:** Thank you very much Mr. Mishra. The next question is from the line of Minar Majumdar from Kotak Portfolio Management Services. Please go ahead.

**Minar Mujumdar:** Hi good evening to the management, congrats on a good set of numbers. Just a few quick data points that I wanted clarity on, do you have revenues from any products with 180-days exclusivity in this quarter?

**Dilip Shanghvi:** There are two products that we are selling, Amifostine and Pantoprazole, and even though for Pantoprazole the exclusivity period is over, we are the only generic. There is an authorized generic along with us in the market.

**Minar Mujumdar:** Okay, but apart from these two, there have not been any more products with 180-days exclusivity this quarter.

**Dilip Shanghvi:** That's right, we do not even have as many filings that we can bring to market one exclusivity-based product every quarter.

**Minar Mujumdar:** Sure and apart from Protonix and Ethyol any at-risk launches that we have done this quarter.

**Dilip Shanghvi:** No.

**Minar Mujumdar:** None of them. Okay just a data point around Caraco, how much of the \$122 million was due to one-time revenues?

**Dilip Shanghvi:** Unless Caraco shares this specific information, we cannot give these details.

**Minar Mujumdar:** But just a rough idea about the percentage of regular income that Caraco gets.

**Dilip Shanghvi:** I think I cannot give specific information.

**Minar Mujumdar:** Okay fair enough. Can you repeat the guidance for the year, are you maintaining the previous guidance?

**Dilip Shanghvi:** Yes. Sales growth of 18% to 20% for the rest of the world and 25% for the US business.

**Minar Mujumdar:** Okay and have you indicated any margin guidance on the EBITDA or PAT.

**Dilip Shanghvi:** No.

**Minar Mujumdar:** All right thanks a lot. I might have questions for follow up later, thank you.

**Dilip Shanghvi:** Thank you.

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

**Sonal Gupta:** Thank you, just a couple of questions. One was- is there any renegotiation of the distribution arrangement with Caraco, in terms of the commissions we are paying them.

**Dilip Shanghvi:** No, I do not think so.

**Sonal Gupta:** Just trying to understand Caraco's gross margins, I believe earlier Sun was paying Caraco around 8% on Para IV launches and this quarter the gross margins are only 7% so just wondering if there has been a renegotiation on that front.

**Dilip Shanghvi:** No, there has been no renegotiation.

**Sonal Gupta:** Okay, and could you shed some light on the reasons for significant sequential increase in staff cost.

**Sudhir Valia :** I think it is partly because some of the increments would have been impacted, in the 2<sup>nd</sup> Quarter. And under AS 15 the way gratuity has to be accounted for, also increases the staff cost.

**Sonal Gupta:** Year-on-year obviously there is a large increase, plus sequentially also, there is a increase.

**Dilip Shanghvi:** So part of that is what Mr. Valia said, there is a new guidance about how to provide for gratuity.

**Sonal Gupta:** Okay fine, thanks a lot I will get back in the queue.

**Dilip Shanghvi:** Thank you.

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

**Pinakin Parekh:** Good evening sir. Just a few quick questions, sir, what is the current cash balance on the books.

**Sudhir Valia:** Should be around USD 500 to 550 million.

**Pinakin Parekh:** USD 550 million.

**Dilip Shanghvi:** Yes.

**Pinakin Parekh:** Okay, the second question is Mr. Shanghvi, in your opening remark, other than saying that asset prices have come down, you also mentioned that some of them might potentially offer higher value than Taro, are we moving towards a possible disengagement from Taro or do we remain committed to the acquisition?

**Dilip Shanghvi:** No. We remain committed to the acquisitions, but broadly we also remain concerned about the financial risk of Taro in view of its continuing default on debt. And we remain overall engaged and fully committed but our view is that given the uncertainties and delay in Taro, our management time is committed to Taro significantly. The biggest concern we have, is that with the recent financial or market corrections in the credit markets all over the world, we would not be surprised if banks either recall their debts which are in default or insist on a much higher rate of interest for continuing the debt. So that will also make the business that much less attractive.

**Pinakin Parekh:** Okay, second question is that all things being equal, the very sharp Rupee depreciation should that result in margin expansion or do we have hedges at lower INR levels.

**Dilip Shanghvi:** No we do not have any significant hedge.

**Pinakin Parekh:** Okay, lastly sir, any update on Effexor XR?

**Dilip Shanghvi:** No we have no update beyond I believe what Wyeth shared with its investors.

**Pinakin Parekh:** Okay, thank you sir.

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

**Anmol Ganjoo:** Congratulations on a good set of numbers. I have two follow-up questions on what has been asked before in the call. My first question is on your opening remarks. You said that there are relative superior returns to be offered by other businesses. So basically in case of an acquisition strategy, would there be enough room for doing an acquisition along with Taro, or should you disengage with Taro, only in that case you will be looking at other assets? So is it an either-or situation, or will the company still go ahead and could do both?

**Dilip Shanghvi:** We might do more than one transaction. However the size and the nature of the transaction will ultimately get impacted based on the progress with the Taro transaction.

**Anmol Ganjoo:** Okay so it is not incumbent on Taro succeeding or failing, right.

**Dilip Shanghvi:** No, it is not.

**Anmol Ganjoo:** Okay. My second question is that, given the sharp Rupee increase, and the fact that you are not hedged, and you know there is no upward increase in guidance, are you just being conservative or you foresee pricing or any other dynamic to deteriorate to offset the impact of that kind of currency gain?

**Sudhir Valia:** No, along with the currency you also have to factor in the negative impact on the economy. The appreciation in the Dollar offers a benefit in terms of achieving higher numbers.

**Anmol Ganjoo:** So basically could I take that as meaning that in volume terms you see a potential 10% to 15% risk for the headline US number, the US generic number.

**Dilip Shanghvi:** No I do not think you should read anything. If you recall what I said is that we continue to monitor the international situation. And if there is a need for revising the guidance, then we will revise the guidance. So that is potentially factoring in the dollar value, because whatever has gone up can also correct, and we do not understand enough of the exchange markets to take any position in such a short period.

**Anmol Ganjoo:** Okay thank you, but in your opinion the risk could be on the upside?

**Dilip Shanghvi:** No there is also a negative risk, so you have to assess the complete impact, and for that we have to wait to assess the complete impact, not enough time has passed yet.

**Anmol Ganjoo:** Okay thank you so much. I will get back later.

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

**Sameer Baisiwala:** Good evening everyone. Dilipbhai couple of questions on the quarterly numbers. The material cost seems to have moved up quite sharply sequentially from 190 Crores to 273 crores, on what account is this?

**Sudhir Valia:** See basically because of the exclusivity, and the specific generic product the numbers get distorted. So if you put like this then definitely there is significant difference, because at a point of time what you are selling and subsequently with the pressure of the margins what your sell all matter when we evaluate on a percentage terms.

**Dilip Shanghvi:** But Sameer, broadly I think our internal costs are not changing dramatically.

**Sudhir Valia:** The costs seem higher if you see them sequentially but if you see the same period last year then you will see significant improvement.

**Dilip Shanghvi:** I do not think it is possible to compare our actual cost on quarter-on-quarter basis, but underlying cost of goods has not changed dramatically. Even the reductions in what you see as a percentage is essentially because of sales of the Para IV products in an exclusivity period.

**Sameer Baisiwala:** Okay would this cost not be related entirely to the sales that you have done in this quarter.

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

**Sudhir Valia:** What you are saying is right. Question which you are raising is that when you are seeing costs sequentially then they are increasing. And if you see the same period comparison then you will see a reduction, but you are comparing a period in which we have products with exclusivity or limited competition for few products.

**Sameer Baisiwala:** So therefore sequential comparison is very valid because of identical portfolio products, especially the exclusivity products.

**Dilip Shanghvi:** No it is not, in the last quarter we had Oxcarbamazepine, this was without competition.

**Sameer Baisiwala:** I thought a lot of competition actually moved in, in the fourth quarter of the last fiscal ?

**Dilip Shanghvi:** Pricing for the product was significantly higher in more or less the whole of last quarter than what it is this quarter. So, I think broadly what we are guiding, is that there is no major impact in our cost of goods currently. There would be impact in terms of petroleum price increase and all of that, but that's not huge and that is something that we will be able to manage. So, we are not guiding for increase in inventory cost or cost of goods, neither are we saying that the cost of goods will come down.

**Sameer Baisiwala:** Okay, Dilipbhai, my second question is on generic Protonix. Based on your comfort level and the risk that you want to take, how many more quarters of sales can we expect at the current rate?

**Dilip Shanghvi:** I think this is a very loaded question, so it is better for me not to answer, and Sameer philosophically we have always taken a view that the value of the company is our ability to grow the base business on a consistent basis. So, one off kind of income, a generic Protonix-kind of income has a relatively smaller impact on the total valuation, even though that money is very useful.

**Sameer Baisiwala:** Sure, let me put it this way-so that if Effexor XR just hypothetically speaking comes maybe by the end of this calendar year. Would that increase your ability to take more risk in generic Protonix or now that generic Effexor XR would be on board, then you actually would like to sell less of generic Protonix?

**Dilip Shanghvi:** I think we would look at both of these as separate events.

**Sameer Baisiwala:** Okay and separately on Effexor XR, what would be your take that based on Wyeth's call, based on probably that Osmotica is in the market, even if IMS numbers doesn't reflect so, how soon do you think can you get the approval?

**Dilip Shanghvi:** Yes, in limited sense we have read only about Osmotica's product, generic Effexor, in their response to the FDA. We haven't yet seen their product in the market. That doesn't mean that they are not selling, but we don't know where they are selling.

**Sameer Baisiwala:** Okay.

**Dilip Shanghvi:** And also, I think till the time FDA decides on the Citizen's Petition, it's difficult for us to predict when they will take a decision. We feel reasonably comfortable that we have a fairly strong basis to presume that we should get an approval.

**Sameer Baisiwala:** Okay, at this time on generic Ethylol, I mean anything that you can share about how is the pricing, the market share?

**Dilip Shanghvi:** Nothing specific that I can share, but I think we have a decent market share. We are there and innovator is there and we can continue to sell the product.

**Sameer Baisiwala:** And pricing is as one would expect for 180-day exclusivity products?

**Dilip Shanghvi:** Yes that kind of pricing, but you also have to factor in that major customers are hospitals.

**Sameer Baisiwala:** Yes.

**Dilip Shanghvi:** So we don't deal with a large number of pharmacists, we deal with a limited number of buyers.

**Sameer Baisiwala:** Okay and just a last question on Taro, why not simply walk away from this deal?

**Dilip Shanghvi:** You know we can, but I don't think that we have as yet concluded that we wish to walk away. Earlier also I had explained that we remain seriously concerned about the ongoing attractiveness of the company, and we hope that company for sake of clarity to its investors, gives a clarification as to how banks are treating the debts to which they remain in default.

**Sameer Baisiwala:** Just two points on this, is it public information that they have defaulted on interest payments?

**Dilip Shanghvi:** If you see their original proxy statement, which they filed for the merger proposal, what they had said is that they remain in default or they are at default at large or practically all their debt, and they had also stated in that proxy statement, that if the Sun merger does not go through, then they see a serious risk of company going bankrupt. After that, neither have they communicated to investors that their loans have come out of default, nor have they generated or given any information about the company's financial performance, which will permit them to repay or to come in compliance with all the covenants. Typically, covenants for debt would be that company will remain listed on the stock exchange, and they will continue to file audited statements, which I don't think they have done till now.

**Sameer Baisiwala:** That brings me to the obvious question, is there a risk to the capital that Sun has already invested in Taro, that's A; and B- what could be the cost of disengagement if you so do at a later time?

**Dilip Shanghvi:** Yes one positive for us is that our cost for acquisition of shares is significantly lower than the current price, though it doesn't mean anything because it is not a heavily traded stock. But as on today, we are not worried about the current investment per se, what we remain concerned about is managing our internal discipline on acquisitions and insisting on a certain kind of return on capital employed for all acquisitions that we make.

**Sameer Baisiwala:** Okay, just one last question I thought you said that the net cash is about \$550 million, in the last quarter it was \$600 million, if I remember correctly?

**Dilip Shanghvi:** Yes, after that the dollar rate has moved down.

**Sameer Baisiwala:** Okay but still ...

**Sudhir Valia:** See, most of our money is in India.

**Sameer Baisiwala:** That's right.

**Dilip Shanghvi:** And then if we give a dollar cash balance, then that balance will change, you know.

**Sameer Baisiwala:** True and yes there is a 20% change in the currency.

**Dilip Shanghvi:** That way our market cap also in dollar terms also went down, isn't it?

**Sameer Baisiwala:** Yes that's right, that's all from my side thanks.

**Moderator:** Thank you Mr. Baisiwala. Ladies and gentlemen before we take the next question, we would like to remind participants who joined late that they may press \* and 1 to ask a question. The next question is from the line of Mr. Ranjeet Kapadia of Prabhudas Lilladhar, please go ahead.

**Ranjeet Kapadia:** Good evening and hearty congratulations for a good set of numbers, my question relates to the acquisitions, while you have said that we are looking at acquisitions. Are we looking at biotech companies, is there any possibility or only pharma companies?

**Dilip Shanghvi:** We are not looking at biotech companies.

**Ranjeet Kapadia:** And my second question, sir, is related to API business, we have shown an excellent growth of 44%, I just want to know whether the margins in API and formulations are similar, or there is a significantly lower margin for API?

**Sudhir Valia:** Margins in API are lower than formulation margins.

**Ranjeet Kapadia:** Okay thank you very much, and all the best.

**Moderator:** Thank you Mr. Kapadia. The next question is from the line of Mr. Prashant Nair of Citigroup, please go ahead.

**Prashant Nair:** Yes sir, I had another question on the cost side, for the other expenditure line also there seems to be big jump on a sequential basis, is there any specific reason for this?

**Dilip Shanghvi:** You know, I am seeing significantly high costs, petrol price, energy cost, and all costs have gone up.

**Prashant Nair:** All right, the next question is again on Caraco. If the gross profit margins of the manufactured products for Caraco is lower is around 48% in Q2 over 51% in the first quarter, is this because of pricing pressure or an increase in cost?

**Dilip Shanghvi:** Caraco will give some clarification on this or they already may have, they have already filed their 10Q, so they may have indicated this.

**Prashant Nair:** All right, okay thanks a lot.

**Dilip Shanghvi:** Thank you.

**Moderator:** Thank you Mr. Nair. The next question is from the line of Nimish Mehta of MP Advisors, please go ahead.

**Nimish Mehta:** Yes, good evening everybody. My first question is related to the growth in sales, especially in the core business, if we adjust the foreign exchange improvement that we have seen, what would it be roughly?

**Sudhir Valia:** See, there is a currency gain which affects purchase costs, but yes whatever this 10%-15% impact is, it gets offset by translation difference in sales.

**Nimish Mehta:** Okay so, to the extent that Caraco has its sales in the US, translation will see 10%-15% impact; is that correct?

**Sudhir Valia:** And on consolidation, yes it could have some implications because now we have to consolidate at higher value, as compared to the rate last quarter.

**Nimish Mehta:** Right and because you have expenses in dollar, it will not flow through, so roughly how much gets knocked off, I mean just a rough-cut number would be okay.

**Sudhir Valia:** No, what did you say?

**Nimish Mehta:** Because we have expenses in US dollar as well.

**Sudhir Valia :** Expenses?

**Nimish Mehta:** Yes.

**Sudhir Valia :** Sales is directly consolidated. When we consider expenses, when we merge the balance sheet, then line by line, assets and liabilities are merged. Only the net capital actually gains on the merging. Otherwise there is an asset which is valued at a higher rate after the currency change, but I also have a liability which also has to be valued at a higher rate. So, only the net capital value will show a gain when we merge the balance sheets.

**Nimish Mehta:** Okay, so in the quarterly P&L that you have published, what could be the loss, I mean will there be a loss in foreign exchange to the extent of translation, or will there be a gain?

**Dilip Shanghvi:** It depends on the time horizon, but generally if we have investments in assets abroad, then there is a gain, if we don't have investments outside India, but we have supposed liability then there is a loss.

**Nimish Mehta:** What would it be for this quarter?

**Dilip Shanghvi:** So, for us, we have more investment than the liability we hardly have any liability.

**Nimish Mehta:** So, you are saying that we have registered a loss, right, on a net basis?

**Sudhir Valia:** No, we have hardly any liability, I said, through we have assets.

**Nimish Mehta:** Okay, sorry.

**Sudhir Valia:** So assets appreciated.

**Nimish Mehta:** Yes I understand. My next question is related to Effexor XR, you said last time that you are likely to see an approval by the year end, do you still maintain that?

**Dilip Shanghvi:** Yes, hopefully we should see some clarification from the FDA, then an approval by end of this year.

**Nimish Mehta:** Okay, thanks a lot.

**Dilip Shanghvi:** Thank you.

**Moderator:** Thank you Mr. Mehta. The next question is from the line of Mr. Rajesh Vora of ICICI Securities, please go ahead.

**Rajesh Vora:** Good evening gentlemen, and congrats for pretty good set of numbers. Dilipbhai, I have two questions, in terms of what you have discussed so far on the call regarding the environment getting changed and your M&A strategy. First is would you be able to comment on, with the reduced attractiveness of Taro, whether your 10 and a quarter dollar per share offer is in danger or would you sort of be seeing that?

**Dilip Shanghvi:** We have no offer for 10.25, we have a tender offer at 7.75 right now, which will remain committed to fulfill.

**Rajesh Vora:** For the remaining shareholders?

**Dilip Shanghvi:** There is no remaining shareholder, this is the only tender offer that we have made, and for all shareholders the tender offer applies at 7.75.

**Rajesh Vora:** No, I am actually asking after the open offer is over, is there any offer at 10.25, I mean at the New York meeting, 10.25 was discussed?

**Dilip Shanghvi:** That is what we had offered to the Taro Management at that point of time, for modifying and changing the merger offer would have to be cleared by our board, and it was indicated so that we could have pursued the merger agreement.

**Rajesh Vora:** Okay .You have been sitting on large cash, which is obviously not earning a great return. Are you looking at acquiring the remaining 24% in Caraco?

**Dilip Shanghvi:** Buying that stake wouldn't actually meet our investment criteria.

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

**Moderator:** Thank you Mr. Vora. The next question is from the line of Mr. Neelkanth Mishra of Credit Suisse, please go ahead.

**Neelkanth Mishra:** Yes thanks. You did mention the disruption in the economy due to the financial crisis. Are we fearing that there could be a decline in pharma consumption as well in some of the markets you operate in? The New York Times has been talking about how people are cutting back even on pharma consumption in the US. And do we see any disruption in the supply chain in India, and are distributors able to function properly? Are you also using the cash to help them to meet their working capital requirements?

**Dilip Shanghvi:** I think you have asked two broad questions, one is our take on what's going to happen in the US and our sense is that the financial crisis will lead to increased utilization of generic. Clearly, I am unable to comment on whether the overall consumption of drugs will be go down or not, because that's linked with large number of initiatives that both the US presidential candidates have, of providing healthcare for all. So, if they are able to provide all of that then instead of going down the consumption may actually go up. But so, we are not in a position to comment specifically on this. But our sense is that at least for the business that we are in, we should not see a reduction in consumption. Your second question is the about wholesaler's ability to fund their cash flow in India. We haven't seen anything by which we feel that they need to be helped at this point of time. Our outstanding continues to remain under control and they are able to buy products that they have been buying contractually based on their sales history.

**Neelkanth Mishra:** Got it. In your sales ex-US and ex-India, would receivables and sales growth be an issue if this continued for a while?

**Dilip Shanghvi:** These are macroeconomic issues and I don't think that as of today we have a feel of the impact in the actual marketplace. But maybe two-three months down the line, we will get greater clarity on the kind of impact that this will generate in the actual market. And that's exactly the reason why, we are not able to give any clarification on the guidance because on positive side a more valuable dollar helps us increase top line faster. On the negative side, if there is an impact on consumption then we don't know what that impact would be.

**Neelkanth Mishra:** Okay the last question is to add what Sameer asked and I think in last quarter you mentioned that 80% of your cash was in India. So, is it still 80% or is it now lower or higher?

**Dilip Shanghvi:** Yes, there is no material change.

**Neelkanth Mishra:** Okay, thanks.

**Dilip Shanghvi:** There is no material change. There is 70% odd here- these numbers are moving.

**Sudhir Valia:** Yes, it is dynamic but there is no huge difference.

**Neelkanth Mishra:** Okay thanks.

**Moderator:** Thank you Mr. Mishra. Our next question is from the line of Mr. Nimish Mehta of MP Advisors, please go ahead.

**Nimish Mehta:** Yes sir, thanks for taking my question. My follow-up question is related to the US sales reported by Caraco, and I am looking at the manufactured product sales assuming that the distributed product sales would include generic Protonix, so on a YOY basis non-generic Protonix sales seems to have not grown, I mean the growth would seem to be flat- any particular reasons for that?

**Dilip Shanghvi:** No, I don't know a specific reason, but your observation is valid.

**Nimish Mehta:** I see, but this is on account of of lower number of products, or value erosion, or anything that you can throw some light on?

**Dilip Shanghvi:** Yes, we can pass this question on to Caraco and check whether Caraco would like to share this specific information.

**Nimish Mehta:** Okay, thank you.

**Moderator:** Thank you Mr. Mehta. Ladies and gentlemen participants who have questions may press \* and 1 at this time. Our next question is from the line of Mr. Saion Mukherjee of Nomura Securities, please go ahead.

**Saion Mukherjee:** Yes thanks for taking my question. Sir, what is the kind of volume growth you are seeing in the US markets, excluding the Para IV or exclusive launches, if you can share some light on that?

**Dilip Shanghvi:** I don't think we have specific information at this point of time.

**Saion Mukherjee:** As someone checked, we have seen some flatness in the manufactured product sales and for the IMS prescriptions also, we don't see an increasing trend. So, that's the reason you know I wanted to know what's the kind of growth you are seeing in volumes?

**Dilip Shanghvi:** My suggestion would be that you send us the specific questions that you would like us to pass to Caraco and see whether they would like to share any specific information.

**Saion Mukherjee:** Okay and my next question is related to the India sales. Do you think this 20% growth would be maintained for this full year for the Indian market?

**Dilip Shanghvi:** I would like to answer you honestly, but I have no clue as to what will be the impact of the international financial crisis on India consumption.

**Saion Mukherjee:** But for the first half, you know do you think the growth in the Indian market has been better than the expectations?

**Dilip Shanghvi:** I think we are in line with what we wanted to do.

**Saion Mukherjee:** Okay thanks a lot.

**Moderator:** Thank you Mr. Mukherjee. The next question is from the line of Mr. Sonal Gupta of UBS, please go ahead.

**Sonal Gupta:** Yes, just a follow up question Dilipbhai, in last quarter you mentioned that you had seen significant pressure from new customers for Protonix and that in terms of your pricing, you wanted to keep a sense of discipline in terms of your shipments. So, have we seen that deteriorate a little bit?

**Dilip Shanghvi:** You mean, we have become indisciplined.

**Sonal Gupta:** No, I mean obviously the business pressures are always there, so to that extent you might have to make a compromise.

**Dilip Shanghvi:** No, I think whatever we would do, we would do what we think is appropriate in the interest of business, and this is not based on any pressure. But to answer whether there is a reducing trend in pricing for products in the US, I can tell you that we will generally not be the lowest priced product in the market.

**Sonal Gupta:** Right, okay thank you.

**Moderator:** Thank you Mr. Gupta. The next question is from the line of Jesal Shah of JM Financial, please go ahead.

**Jesal Shah:** Yes, I just have a few questions on the numbers- there has been a sharp increase in other income, if you can just throw some light on what is really driving it, and do you see it sustaining at the current levels?

**Sudhir Valia:** Jesal we discussed that primarily other income includes interest and forex gains; and interest rates had gone up, so that worked to our advantage. The second relates to currencies investments, it will qualify into those gains also. So, this is more an exchange related issue.

**Jesal Shah:** Right, so basically it's pertaining to the cash that you have cash /investments that you have?

**Dilip Shanghvi:** Correct.

**Jesal Shah:** Okay, the other question was on the other cost, sir you were explaining that it is because of general increase in cost in the economy. Is there any exceptional item here that we could possibly exclude from analysis?

**Dilip Shanghvi:** You are asking whether they are any one off, one time costs?

**Jesal Shah:** Yes.

**Sudhir Valia:** We have to work towards reducing or finding ways to reduce the cost, specifically energy cost, manpower costs, these are the things that contribute to other costs, people generally find solutions to lower these costs.

**Jesal Shah:** So, there is nothing exceptional?

**Dilip Shanghvi:** Right, there is no one time.

**Jesal Shah:** Okay the other thing was that even for API business, there has been a good jump; is it from bunching up or should we look at the current quarter?

**Sudhir Valia:** Marginally API business has a bunching of orders, at the same time, the gain in currency also helps.

**Jesal Shah:** I see; would you have the receivables numbers as on the quarter end?

**Dilip Shanghvi:** Not immediately; no.

**Jesal Shah:** Okay, the other question was on pantoprazole. There are a lot of questions on this product, quite obviously because it contributes so much. You have talked about your risk assessment, so two questions on that. Basically, as you look at your provision on the case, and obviously you are quite confident that's why you launched the product. How do you kind of assess the risk in this product and what is your assessment of the kind of damages that would be payable in case the court gives verdict in favor of the innovator.

**Dilip Shanghvi:** I think I had answered this question in one of the previous calls, that our sense that the worst risk we expose ourselves, is what we have sold that's our assessment, that's what we are advised. However, as you have rightly said, we are reasonable confident that we have a fairly strong case.

**Jesal Shah:** Right so it won't be the case of paying damages based on loss to the innovator?

**Dilip Shanghvi:** Ask again?

**Jesal Shah:** The other assessment that some people have is that damages are calculated based on the lost profit for the innovator?

**Dilip Shanghvi:** Well, even that can happen; our sense is our maximum exposure is what we have sold.

**Jesal Shah:** Right, so given that you have sold may be about \$50-\$60 million dollars per quarter, one can presume that at least there is potential for this thing to continue at least for two-three more quarters, and one can probably guess this number even from Caraco's guidance, which is 25% growth, which would therefore also necessitate at least \$200 million turnover in the balance half. Is it fair to assume this?

**Dilip Shanghvi:** Well, I think all of these are your presumptions, we have not actually said any of this, so as you said these are your analysis and we are not in a position to comment or respond.

**Jesal Shah:** Okay and on Venlafaxine XR, if and when Osmotica launches, do you think it would significantly impact or enhance your potential for this product for the company or do you think the market is large enough to accommodate two players easily?

**Dilip Shanghvi:** I think we are not very ambitious, whatever that we have shared with people about what can be done with our generic for Effexor XR should not materially change with the Osmotica product, also being in the market.

**Jesal Shah:** Okay and the last question is how much of the R&D expenditure is paid to SPARC Ltd.?

**Dilip Shanghvi:** Very little, I don't think it would be material number.

**Jesal Shah:** Okay, thank you sir.

**Moderator:** Thank you Mr. Shah. There are no further questions from participants in the conference call. I would now like to hand the conference over to Mr. Baldota and the management for closing comments.

**Uday Baldota:** Thank you Rochelle. Thank you all of you on joining this conference call on Saturday evening, on a Diwali weekend. If you still have any balance questions, please do let us know and we will make an attempt to answer all your questions. Thank you and wish all of you a very Happy Diwali.

**Moderator:** Thank you gentlemen of the management. Ladies and gentlemen on behalf of Sun Pharmaceutical that concludes today's conference call, thank you for joining us , and you may now disconnect your lines, thank you.