



## **Corporate Participants**

### **Dilip Shanghvi**

Chairman & Managing Director, Sun Pharmaceutical Industries Ltd.

### **Kal Sundaram**

CEO, Sun Pharmaceutical Industries Ltd

### **Sudhir Valia**

Whole time Director, Sun Pharmaceutical Industries Ltd



**Moderator:** Ladies and gentlemen good day and welcome to the Sun Pharmaceutical Industries Limited Q3FY12 results conference call. As a reminder for the duration of the conference, all participant 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 you need assistance during the conference call, please signal an operator by pressing \* and then 0 on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Uday Baldota, thank you and over to you sir.

**Uday Baldota:** Thank you, Lavina. Good morning and a warm welcome to our third quarter 2011-12 earnings call. I am Uday from the Sun Pharma Investor Relations team. We hope you have received our Q3 financials and press release that we sent out earlier today. These are also available on our website. Today, we have Mr. Dilip Shanghvi, Chairman & Managing Director, Mr. Kal Sundaram, CEO, and Mr. Sudhir Valia, Whole time Director for this interactive call. Together they will discuss and respond to queries on performance highlights as well as on updates on strategy. As is usual, for ease of discussion we will look at the consolidated financials. Just as a reminder, this call is being recorded and the replay will be available for the next few days. The call transcript will also be put on our website shortly. It will be appropriate to mention that the discussion today may include certain forward-looking statements and these must be viewed in conjunction with the risks that our business faces. I request all of you to kindly send in your queries that remain unanswered today. I will now hand over to Mr. Sudhir Valia.

**Sudhir Valia:** Welcome and thank you for joining us today on this earnings call after announcement of financial results for the third quarter 2011-12. I will outline the financial highlights, then Mr. Sundaram will cover some of the operational performance highlights and finally we will hand over to Mr. Shanghvi for his overall comments.

Our quarter 3 and 9 months financials are already with you. Before I begin with the financial highlights, a couple of notes would be appropriate. Also as has been consistently highlighted by us, in 2010-11, there has been significant nonrecurring sales and resulting into profit related to the generic Eloxatin which was not sold this year.

As you are aware, Taro consolidated financials had been included from 20th September 2010 for 2010-11, that is a quarter and 10 days last year and are reflected in the entire 9 months period this year. Taro has shared in its recent press release that a significant portion of its quarter's growth in the net sales and profit was on part of a price increase on select products in the US and may not be sustainable. In view of all this as above, we request you to exercise care when comparing financials for this third quarter and 9 months with those for the same period last year, as well as when building future projections for the consolidated entity.

As usual, we will look at our key consolidated financials first for the quarter, and then for the 9 months.

A Q3 net sale is Rs.2145 crores, an increase of 37% over Q3 last year. This also includes the impact of weaker rupee and increase in Taro sales. The impact of both of this may not be sustained. Material cost as a percentage of the net sales is 18%, much lower as compared to Q3 last year. This is primarily on account of the higher closing stock valuation resulting from the exchange rate as well as the impact of lower Taro cost of goods resulting from the select price increase. Material cost excluding this impact is in line with historical trend.



Staff cost for the quarter is up by 5% in absolute term at 13% of the net sales, significantly lower than 18% Q3 last year. Other expenditure has grown 25% over last year Q3, though lower at 24% of the net sales compared to the last year.

As a result of the above, EBITDA margin achieved during Q3 equals 45%, significantly higher than the third quarter of the last year, and higher than Q2 of the current year also.

Net margin at 31% is slightly higher than that achieved in Q3 last year, and more or less as the same level in Q2 this year. On fully diluted basis, EPS is Rs. 6.50, up from Rs. 3.40 for the same quarter last year.

For the first 9 months, net sales are Rs.5675 crores, an increase of 33% over corresponding period last year. This is partly on account of weaker rupee as well as Taro sales not being included in the earlier part of the last year.

Material cost as a percentage of the net sales is 20%, much lower as compared to the same period last year. Staff cost for the 9 months is 15% of the net sales, higher than 13% in corresponding period last year partly because Taro is now reflected fully in the 9 months for 2011-12, which was not in last year's case. Other expenditure is 24% of the net sales at the same level as of the last year.

As a result of this above, EBITDA margin achieved during 9 months period equals to 40%, higher than that achieved in the corresponding period of last year. EBITDA this quarter and this 9 months have been impacted by the weaker rupee and high margin in Taro which may not sustain. As a result, this level of EBITDA margins may not remain sustainable. Net margin of 31% is lower than that achieved in the corresponding period last year on account of higher tax and minority interest. On fully diluted basis, EPS is Rs. 17.10, up from Rs. 13.70 for the corresponding period last year.

Taro recently announced its October-December and full year financials. Taro reported FY 2011 net sales of USD 506 million, an increase of 29% over last year. Net profit of USD 183 million is significantly higher compared to that of last year. As mentioned earlier, Taro had indicated that the growth in sales and profit in the quarter was derived from price increase on select products in the US and may not be sustainable.

A brief mention about API business. The overall API sales registered a growth of 14% for the 9 months period. We scaled up 7 API in this quarter. Now we have 150 DMF and CEP approved out of 222 filings.

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

**Kal Sundaram:** Thank you Mr. Valia and good evening everybody. I will first take you through the India formulation business.

A sale in the quarter is Rs. 695 crores reflecting a growth of 14% over corresponding quarter earlier year. Growth for the first 9 months is also at 14%. Excluding discontinued contract manufacturing business and some other sales, core growth in the Indian formulation business was 22% for quarter 3 and 20% for the first 9 months which is in line with our expectations.

According to AWACS, we hold the market share of about 4.5% for the 12 months to December 2011. During the course of third quarter, we launched six products. We continue to be ranked number one by



share of prescriptions with seven doctor specialties namely psychiatrists, neurologists, cardiologists, orthopedics, ophthalmologists, gastroenterologists, and nephrologists.

For the first of our in-licensed products, Istavel and Istamet, the growth has been in line with our expectation. In December 2011, these products have achieved a 10% market share in sitagliptin or little over 4% market share in broader DPP-4 market and the share is continuing to grow.

Now about the rest of the world business. The ROW sales growth excluding Taro sales in markets other than US is 44% for the quarter and 36% for the 9 months period. At constant dollars, our growth is 30% for quarter 3 and 32% for 9 months. With this, now I will hand it over to Mr. Shanghvi, and thank you.

**Dilip Shanghvi:** Thank you, Kal. R&D expenditure for the quarter is Rs. 124 crores equivalent to 5.8% of sales and this expense includes R&D both at Sun and Taro. For the 9 months, R&D expenditure was Rs. 310 crores which is 5.5% of sales. This is slightly below our guidance of 6% primarily on account of slower pickup of R&D at Taro, and also on account of sales tracking marginally ahead of guidance.

During the October-December quarter, ANDA for one product was filed. Counting this together with ANDAs for three products that were approved during the quarter, we now has ANDAs for a total of 389 products filed with FDA, of which 148 are awaiting approvals.

In first 9 months, performance is in line with our expectations. The currency movement has had a favorable impact on our EBITDA. As it is evident from the financials, other income includes a significant element of mark-to-market loss. Incidentally, both these largely cancel out each other and hence at the net profit level the overall impact is not significant.

Considering that the change in the average currency exchange rate between FY 11 and FY 12 has been 3% in the favorable direction with the resultant impact on sales reported in rupees, we are revising upward our sales growth guidance for FY 2012 to 32 - 34% from our current guidance of 28 -30%.

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

**Moderator:** Thank you very much sir. We will now begin the question and answer session. Our first question is from the line of Ravi Agarwal from Standard Chartered. Please go ahead sir.

**Ravi Agarwal:** Congrats on a great set of numbers. Just couple of housekeeping questions, and Kal you have mentioned that domestic growth is 22%. The press release indicates 17% on a like-to-like basis. So is there some other adjustment which we need to do?

**Kal Sundaram:** What I mentioned was the underlying growth of the domestic business is 22%. Financially you got to knock out the last year contract manufacturing business and also some minor insignificant sales which may have been included in the last year numbers. So the 22% for the quarter certainly reflects our in-market growth in the Indian market.

**Ravi Agarwal:** If I do that number, there is roughly a difference of 140 crores in last year's number, so is that a quarterly run rate which I need to now reduce from the base in terms of adjustment, the incremental demand?



**Uday Baldota:** Probably it will be in that range, but we can discuss the exact numbers post the call.

**Ravi Agarwal:** Sure. Similar questions also for your ROW because in the press release you talk of a 20% dollar growth whereas....

**Uday Baldota:** 20% plus, which is in excess of 20%.

**Ravi Agarwal:** So that number now crystallizes to 30%, is it?

**Uday Baldota:** Correct.

**Ravi Agarwal:** And 44% in rupee terms?

**Uday Baldota:** Correct.

**Ravi Agarwal:** You talking of MTM losses offsetting gains in the overall forex on the operational side. Just wanted to understand-- we have almost more than a billion dollars of cash with us. How much of MTM or how much of forward contracts are we carrying to take such a large impact on our overall P&L side on income side?

**Uday Baldota:** Ravi can you ask the question again?

**Ravi Agarwal:** The question being that the Rs. 86 crores loss is a net number after presumably mark-to-market gain on some of your forex assets in terms of cash. So just wanted to understand what is the overall forex hedging which we have, and why is this such a large number?

**Sudhir Valia:** Part of our investments is hedged, so that is as a system by which we do, which is a moving number.

**Ravi Agarwal:** With the rupee appreciating in the next quarter, if some of this gets reversed?

**Sudhir Valia:** Yes, what you see is the correct thing.

**Moderator:** Our next question is from the line of Mr. Bino from IIFL. Please go ahead.

**Bino Pathiparampil:** Just to follow up that we were talking about the domestic market growth and emerging market growth, the underlying growth. Do you refer to the growth as recorded in your books or is it third party secondary market data that you are referring to?

**Kal Sundaram:** This we are referring to sales recorded in our books which will be broadly in line with the demand into the wholesalers.

**Bino Pathiparampil:** Second again on forex hedging, is there any forex loss or gain or a particular rate which is not the market rate that is accounted for in the revenue line, or the entire impact of forex hedge comes in that MTM loss?

**Sudhir Valia:** No, it is all at market rate only.



**Dilip Shanghvi:** That is what we indicated. It is a mark-to-market loss. So what you see as a negative other income, it is a difference between the other income and the mark-to-market loss.

**Sudhir Valia:** It is mark-to-market loss, actual loss may be not there.

**Dilip Shanghvi:** Or it may be different from the exact number, so that is one issue.

**Sudhir Valia:** But it is accounted for loss because of the rupee very weak during that time.

**Bino Pathiparampil:** My question was the revenue, your dollar revenues as reported in the revenue breakup; it is recorded at the market rate of US dollar rupee right?

**Sudhir Valia:** Average rate we take it as a revenue.

**Dilip Shanghvi:** What I have indicated is that on one side we have a mark-to-market loss. On the other side, we have inventory that is reflected in our books this quarter at a higher value than what it was earlier. So more or less both these numbers balance out.

**Moderator:** Our next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

**Sameer Baisiwala:** Hi thanks , Good evening everyone. If I just plug back your revised guidance between 30 to 35, I am just saying mid-point 33, it works out roughly Rs. 19.3 billion for the fourth quarter which actually means about 10% decline from third quarter to fourth quarter, just wanted to be sure that this is correct?

**Dilip Shanghvi:** Mathematically you are correct and it is in line with what Taro has indicated and we have also indicated, is that we have no clue about how the exchange is going to behave. So I do not want to come next quarter and explain everybody that we can't meet the number because now the dollar has changed.

**Sameer Baisiwala:** And the other question is one pending NDA filing from Taro, if I am not wrong this has been there since the time we started the acquisition process, any thoughts on this, what are the timelines for approval and is this going to be a substantive product?

**Dilip Shanghvi:** Taro needs to give more details about these numbers, but in the past I have expressed my concerns about shallowness of the pipeline. So that reflects my overall concern.

**Sameer Baisiwala:** Just one final question is on the Sumatriptan autoinjector, how they are doing in the market if you can share some details and also side point--on IMS it does not seem to be reflecting, so it has been launched?

**Dilip Shanghvi:** No, we should possibly be around 10-12% of the market.

**Moderator:** Our next question is from the line of Girish Bakhru from HSBC. Please go ahead.

**Girish Bakhru:** Hi. Actually you just recently you have received the approval for Allegra OTC, so just wanted some clarity on strategy on the OTC side of products in the US market?

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**Dilip Shanghvi:** No, we have in our filings quite a few products which have potential for store-brand product as an OTC product. So we are in the process of launching these Products one after another. Along with Allegra, we also have Cetrizine ODT which also is an OTC product. They still do not get reflected in our sales, but they will, over a period of time.

**Girish Bakhru:** Just on the assumption that Taro would also have a high distribution network for store-brand market, would these products be distributed through that kind of distribution channel, or how will they be?

**Dilip Shanghvi:** Our sense is that typical store-brand products have essentially 10 to 15 key customers. So having a bigger basket is always useful, but it is not something which with a few interesting products, you cannot create.

**Girish Bakhru:** And any color on controlled substances portfolio, where has it moved since the clearance of the warning letter from the facility?

**Dilip Shanghvi:** In controlled substances, it is a gradual process because it is controlled by quotas. So I believe that as we continue to sell into market, we can apply for larger quota.

**Girish Bakhru:** But on the sales size, has it reached the same \$10 million sales or is it still small?

**Dilip Shanghvi:** It is still small.

**Girish Bakhru:** And lastly on Prandin, there have been the argument in the case in December, the government was also kind of asking FDA to rule in favor of the generic manufacturer. Has there been any update on that if you see the case coming to close in the near term?

**Dilip Shanghvi:** It is likely to be linked more with the compliance of Caraco and also the open issue related to the unresolved litigation which is there at the Supreme Court. So both these things will have an impact on the launch of the product.

**Moderator:** Our next question is from the line of Gagan Borana from ICICI Securities. Please go ahead.

**Chirag Dagli:** Sir in your press release, you have indicated that reported EBITDA and net margins at the consolidated level may not be sustainable and this is in the context of the stellar topline growth that you have seen in the first 9 months. When you look at FY13 on the top of this high base of margins as well as topline, is it difficult to imagine a situation where your topline may be soft and possibly for FY13 net income could actually see a dip?

**Dilip Shanghvi:** We have not given guidance for next year. You are slightly ahead.

**Chirag Dagli:** No, I understand that sir and I am sure over the next 3 months, you will issue guidance, but does this seem like a base case or do you think because we do not have too much clarity on the pipeline in the US which is why, any color that you can throw for FY13?

**Dilip Shanghvi:** I feel very uncomfortable reporting a dip in profit and dip in topline increase. This is a personal discomfort, so I work to avoid that. Beyond that, I do not think I can share anything right now.

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**Chirag Dagli:** And secondly sir in terms of the sustainable margins, have we seen a shift with whatever has happened in Taro, but when you exclude that, I am sure internally you must have done some working in terms of excluding the incremental profits that you are making, but when you look at the base business, do you see any dramatic change in profitability of the business per se?

**Dilip Shanghvi:** We see improvement in the business and improvement is a process. So it can continue. The significant jump is on account of some price increases in limited number of products.

**Chirag Dagli:** So your comment that the margin may not be sustainable, should we read it as that these price hikes taken could actually unwind over a period of time, is that how we should read because price hikes in my view should be sustainable. There is no element of one-off in the sales per se?

**Dilip Shanghvi:** The fact is I cannot tell you anything beyond, but if you do more detailed analysis of IMS numbers of products on which there have been price increases and other things, you will get greater clarity.

**Moderator:** Our next question is from the line of Rahul Sharma from Karvy Stock Broking. Please go ahead.

**Rahul Sharma:** There has been slight disconnect in terms of we have increase in our inventory levels at Rs. 138 crores for the quarter and similarly there is huge amount of it in the 9 months period also, how much of it would attribute to your exchange rate and how much would be due to business?

**Dilip Shanghvi:** There has been an actual increase in inventory at our US business. So you can attribute part of that increase on account of actual increase. Part of it will also be on account of exchange rate.

**Rahul Sharma:** How much would it be on account of exchange?

**Dilip Shanghvi:** That would be to the extent of depreciation of the rupee.

**Rahul Sharma:** Would it be fair enough as you had assumed that MTM loss which is there in the books and your inventory cancels out each other, the amount is similar?

**Sudhir Valia:** These are very complex situations. So one side when the rupee depreciates, the inventory whatever we have, will have higher value, and whatever is the forward which we have, we have impact on that. And if it goes reverse, things will happen reverse. This is what Dilipbhai says.

**Rahul Sharma:** Sir on the Taro numbers, does our revenues hold good for US and non-US at what we had previously 80-20 or is it more vitiated towards US, is it 85-90% constituting US numbers now?

**Dilip Shanghvi:** We cannot give information beyond what Taro has shared. What Taro has shared is that the growth is predominantly driven by US. That is what they have indicated.

**Rahul Sharma:** Is it limited to single products or are there couples of products which are....



**Uday Baldota:** They said select products. Now if you see their press release, they said price increases taken across select products.

**Rahul Sharma:** What about current year tax rate, how should it look like for the year?

**Sudhir Valia:** It is increasing.

**Rahul Sharma:** 9-10% would be a fair estimate on effective tax rate from current....

**Sudhir Valia:** It is very complex, but it is increasing that much we can say.

**Moderator:** Our next question is from the line of Manoj Garg from Edelweiss. Please go ahead.

**Manoj Garg:** Good evening and congrats on a good set of numbers. If we look at the US sales ex Taro, it seems that there is marked improvement sequentially; the revenue has gone up from Rs.250 crores to around Rs.400 crores. Are we reading the numbers correct or anything we would like to highlight out here?

**Dilip Shanghvi:** There will be some impact of the exchange rate fluctuation. Other than that, you are reading it correctly.

**Manoj Garg:** So is it because of some incremental new products which we have launched during the quarter or we have been able to gain the shares for other products also?

**Dilip Shanghvi:** It will be a mix of all those things.

**Manoj Garg:** Fair enough sirs. And the second thing like when we look at net interest income, for the last 2 quarters sequentially we have been seeing incremental interest income going up by 120 million INR, that means effectively are we generating around 5 billion INR kind of net cash inflow quarterly which will results into the increase in interest income?

**Uday Baldota:** The interest income is going up about Rs. 11-12 crores in the last 2-3 quarters, so is it related to the cash generated in that quarter that is being deployed...

**Dilip Shanghvi:** The interest rate also is valid. It is not only new money being put to interest, it is also increasing rates.

**Manoj Garg:** Sir like whatever the rate which we have seen in Q3, can this be considered as a base rate or you see further increase going forward?

**Dilip Shanghvi:** I do not think we should actually focus too much on other income. That is not something which we want to do; our objective is to increase business income.

**Manoj Garg:** Sir earlier you have guided about higher R&D spending and SG&A spending on Taro account, but we have been seeing last 2-3 quarters, numbers are more or less remain at the same.

**Dilip Shanghvi:** That the issue of disconnect between desire and ability.



**Manoj Garg:** So how do you see going forward, you see substantially increase or you will see them remaining at the similar kind of rate?

**Dilip Shanghvi:** We will guide overall R&D expense when we guide for next year. This year, our guidance is 6%.

**Moderator:** Our next question is from the line of Manish Jain from Axis. Please go ahead.

**Manish Jain:** I had two questions. One is if you could give insight on the performance of novel products such as dry powder inhaler, Latanoprost ophthalmic solution and whether these have been launched in any non-Indian market and second is on any progress on the Merck JV because it has been 10 months since you signed the JV?

**Kal Sundaram:** Manish, both the products have been launched in India. In the last update also, we told you about Latoprost RT it is continuing to gain share. It is pretty much in line with our expectation and budget, and as far as the launch of these products are concerned outside India, the regulatory data requirements outside India we need to do little bit more work and depending upon the market, the level of work that we need to do will differ and as such product launches have been only in India at this stage.

**Manish Jain:** Just wanted an insight on dry powder inhaler as well?

**Kal Sundaram:** Dry powder inhaler, we have been selling it to the doctors. Good news is that on efficacy front-- even at half the dose, the product seems to do what we believe that it should do. There has been some sort of feedback from the medical community which we have taken into account. So all in all, the launch has gone satisfactory and we are still continuing to work on it.

**Manish Jain:** And Dilip on the second part of the question?

**Dilip Shanghvi:** The Merck JV, at some point we should be able to define and share specific progress with you, but in absence of Merck sharing, we can only share progress as a joint group. In Sun meeting, I cannot share specific information without consulting them, but we continue to work diligently and identify products, focus on the products with a view to bring them to market as early as possible, and the focus is on differentiated products.

**Moderator:** Our next question is from the line of Kartik Mehta from Daiwa Capital. Please go ahead.

**Kartik Mehta:** Can you update on your launch of sitagliptin, and another is on the MTM loss, why do we not do a capitalization when the accounting standard allows that?

**Sudhir Valia:** It is MTM not for the liabilities, it is the ODI and this is not allowed to be capitalized. We have to do mark-to-market. It is not a monetary item.

**Kartik Mehta:** And on the sitagliptin?

**Dilip Shanghvi:** What about sitagliptin?



**Kartik Mehta:** So we have about 10% market share in terms of pricing, acceptance new MR, etc., if you can throw any highlight?

**Kal Sundaram:** The pricing compared to other DPP-4's available in the market; we are pretty much within the range. So as much as the doctors have accepted the price of other DPP-4's, they have accepted our price also, and what is your question Kartik?

**Kartik Mehta:** So from the launch, would there be an aspirational market share, are we at that number, or do we need to do something on the pricing front or increase coverage?

**Kal Sundaram:** The launch has again gone up pretty much to our expectations. Almost on a monthly basis, the product is gaining sales and share and accelerating this on a standalone basis may not be appropriate.

**Moderator:** Our next question is from the line of Nimish Mehta from MP Advisors. Please go ahead.

**Nimish Mehta:** Sir Can you tell us which are the products in Taro where we have seen price increases?

**Dilip Shanghvi:** You have to see the IMS numbers. Taro has not guided, we also cannot guide.

**Nimish Mehta:** I am not asking for any guidance. IMS numbers are not available to us and if it is in public domain?

**Dilip Shanghvi:** I know, but in absence of Taro giving specific disclosures, we will not be able to give additional information.

**Nimish Mehta:** And the second question is related to forex. In the numbers that have been sent over e-mail, I see a forex rate of Rs. 47.08, so can you explain what is this, is this the rate at which we have translated the numbers?

**Uday Baldota:** That is the average rate for the 9 months.

**Nimish Mehta:** So what could it be for this quarter?

**Uday Baldota:** Again we will take this offline. If you remember last year, we had explained how we do the conversion every quarter. So first quarter we do, then for first 6 months and for 9 months and then for the full year. That procedure we can discuss offline, but that is the way it is.

**Dilip Shanghvi:** So currently all the dollar transactions are valued at the number that is indicated. So depending on the rate of dollar at the end of the fourth quarter, average rate for the whole year will get changed.

**Nimish Mehta:** So do we then realize benefit of the INR depreciation for the unhedged part, I am still not able to understand that.

**Sudhir Valia:** What happens ultimately translation will be done at the value at the end of the period. That is on end of the day whatever is the rate at which balance sheet gets translated. So the difference goes into translation transactions.

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**Nimish Mehta:** And sales will take it at an average rate?

**Sudhir Valia:** Sales purchase all are taken on average.

**Moderator:** Our next question is from the line of Ranvir Singh from Sharekhan. Please go ahead.

**Ranvir Singh:** My question relates to Taro, just wanted to have breakup for how much sales of that \$ 158 million has been in US and how much is from outside?

**Dilip Shanghvi:** Beyond what they have indicated, we will not give specific breakup.

**Ranvir Singh:** Management has given a guidance indicating that the same growth rate may not sustain so apart from exchange rate, what may be the other factors which we can look at, that can restrict growth in next quarter because already we have seen increase in prices. So what may be the other factors?

**Dilip Shanghvi:** What we have said is we are revising upward our overall guidance from 28 to 30% to 32 to 34% and that is on account of increasing the business as well as on account of exchange fluctuation.

**Ranvir Singh:** And another thing, what would be the capex so far in 9 months and overall guidance for FY12?

**Dilip Shanghvi:** Our overall guidance for capex for the year was around Rs. 400 crores. So I think that continues to be our guidance.

**Moderator:** Our next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

**Nitin Agarwal:** On the forex loss, the Rs. 83-84 crores number that we mentioned, loss which is there in the other operating income, this is the amount of forex loss, the forex loss is over and above this amount, and there were something which have nullified there?

**Sudhir Valia:** It is a net off forex loss. Definitely the losses may be there, it is net.

**Nitin Agarwal:** And on inorganic growth, where do we see opportunity for us going forward, what would be the target areas for pursuing any sort of inorganic growth opportunity considering the cash that we have?

**Dilip Shanghvi:** We continue to look at opportunities to acquire businesses in the US. We have also said that in ROW market, we have been looking at relatively small-sized transactions. So I think that focus continues to be more or less these geographies.

**Moderator:** Next question from the line of Ranjit Kapadia from Centrum Broking. Please go ahead.

**Ranjit Kapadia:** Hearty congratulations on a good set of numbers. My question relates to what is the current cash on books and any possibility of entering to biotech area in the near future?



**Sudhir Valia:** The cash is around USD 1 billion and there is no idea on biotech as on today.

**Moderator:** Next question from the line of Dhires Pathak from Goldman Sachs. Please go ahead.

**Dhires Pathak:** Good evening. Can you just talk about the proposal to buy the minority stake in Taro given that the share price has appreciated from \$24.5 to \$34 now and also in the light that Taro is cash rich?

**Dilip Shanghvi:** You also have to factor some of the issues related ,the process and that process is determined and controlled by guidance from SEC and various US and Israeli regulations. So company will follow those processes to achieve privatization proposal that we have shared with them. Now as to the pricing for the shares in the market, we also have to keep one issue in mind that it is not the listed security and the valuation changes in terms of pricing is also a function of transactions which are relatively small. So other than that we continue to pursue our proposal with the company for buying out the minority shareholders.

**Dhires Pathak:** And just in terms of better understanding the other income, so my understanding is that this also includes dividend income and profit from sale of mutual fund and other investments, is it right. There is an element of mark-to-market forex loss and there are some dividend....

**Dilip Shanghvi:** There would be some income which is reduced by the mark-to-market loss.

**Dhires Pathak:** Is it possible to give the mark-to-mark loss number alone stripping out the gain?

**Dilip Shanghvi:** We have not internally discussed, I do not think I can answer that question. If we decide to, then we will share this number, but as on today what we are saying is it is a net off number.

**Dhires Pathak:** Within this line item only unrealized losses are included or also there would be some realized losses as well?

**Sudhir Valia, Dilip Shanghvi:** No, it is only mark-to-market.

**Sudhir Valia:** Mark-to-market, otherwise no.

**Dilip Shanghvi:** There is no unrealized loss.

**Sudhir Valia:** Nothing has been booked as transactions, but it is something valued because of the AS standards. It will get reversed once the rupee appreciates.

**Dhires Pathak:** Understood, so whatever is realized loss on....

**Sudhir Valia:** Everything is accounted for. We did not have any realized loss.

**Dhires Pathak:** There will be certain forward contracts which would have expired in line of the underlying cash flow that would have received from the business?



**Sudhir Valia:** When we have forward towards sales and sales is booked, then there are no loss to be booked for that, and there is forward for the investment which continues onwards and it is not realized, but accounted for mark-to-market.

**Dhires Pathak:** No, if you are booking the revenue at the exchange rate at which the transaction happened, and the forward cover is taken at a different exchange rate?

**Sudhir Valia:** The transaction has not happened, but whatever sales happened booked at a rate.

**Dhires Pathak:** I will take this offline, I am still confused.

**Dilip Shanghvi:** You will get clarity from Uday, but what Mr. Valia is trying to tell you is that these are mark-to-market losses, there is no actual realized or crystallized loss.

**Dhires Pathak:** But even then that there are crystallized losses, they will be taken in which line item is my question?

**Sudhir Valia:** No, it will come here, but here the loss which you are seeing is not realized loss, that is only that we are trying to tell. Everything will come in this category only.

**Dhires Pathak:** I will take offline. Thanks.

**Moderator:** Our next question is from the line of Abhinav Chandra from Baljit Securities. Please go ahead.

**Abhinav Chandra:** Congratulations on a good set of numbers. I just wanted to know that last quarter also we had 7 classes of specialties in which we were ranked number one and there was a consulting physician category there, and this time there is a new category like nephrologists. So why is it that all of a sudden consulting physician, we entered into consulting physician number one last quarter itself and this quarter it has gone off and nephrologists thing has come in. So why this number from 7, it did not move to 8?

**Dilip Shanghvi:** When you move from 1 to 2 is not that you have a dramatic loss. When you get number one in any new therapy area, it is with marginal increase. So it will fluctuate for some time.

**Abhinav Chandra:** So you mean to say that it is quite possible that from 7, we may even dip to 6 at times?

**Dilip Shanghvi:** Yes, possible.

**Abhinav Chandra:** And another question was that you were saying that we have had some forex cover, can you just mention the rate at which and the quantum of cover that we are carrying on books?

**Sudhir Valia:** Because we have investment abroad, some amount of the investment is protected for the future prices.

**Abhinav Chandra:** What is the amount of cover that we are carrying on books?



**Sudhir Valia:** We are not able to tell at this point of time, but very marginal amount of the money has been protected because we are not likely to sell out all the investments. Considering that whatever is, then this is all forward related ODI investments cover and that will have implications on account of only mark-to-market, it is not the loss realized in the books, not the transactions concluded where company had any losses.

**Abhinav Chandra:** One last question from my side. I just wanted to know one more thing, what is the interest income that we are generating on the cash balance that we have right now?

**Dilip Shanghvi:** I think it will not be dramatically different, but I do not have the number here in front of me.

**Abhinav Chandra:** Right, I will take this number later. Thank you and all the best.

**Moderator:** Our next question is from the line of Jyoti Datta from Business Line. Please go ahead.

**Jyoti Datta:** Good evening Mr. Shanghvi. Just wanted some more clarity on an earlier question regarding Taro's minority shareholders. So wanted to understand what you said it would you be open to revising the price or I did not get that very clearly?

**Dilip Shanghvi:** I did not say anything, so you did not get it. So what I said was that there is a process defined by the US and Israeli regulations and we will follow and pursue that process. We continue to be interested in acquiring 100% of the company through buying out the minority shareholders. Now there is a very rigidly followed process in the US and in Israel to protect the interest of the minority and that is something that we will follow fully.

**Moderator:** Next question from the line of Asthika from Bloomberg. Please go ahead.

**Asthika Goonewardene:** Just a couple of questions on your DPI products if I may. You mentioned that you are targeting other regions other than India and I was wondering could you may be give us little bit of color as to where you are developing the DPI products outside of India, so for example are you looking at Europe or other parts in Asia and you have any timeline for this? Secondly, on the Indian market, I was very keen to hear little bit more about what physician feedback has been, and you mentioned that they were happy with the efficacy and with safety and as a matter of fact what has other branded competitors such as GSK done since we launched in India, how are they responded in terms of price and their marketing efforts and then lastly can I confirm if the phase III data for the DPI has been published?

**Dilip Shanghvi:** Phase III data -- what has been published is your question.

**Asthika Goonewardene:** For the DPI, the Indian studies that was done.

**Kal Sundaram:** DPI on a worldwide basis is quite an attractive market and on a progressive basis our intention will be to develop this for emerging markets as well as for western markets. We do not have any specific timeline here with us. Then going to your question on feedback from the doctors, what I emphasized was our product is half the dose of Advair as well as Seretide. Even at half the dose in terms of efficacy and safety, the product does what is meant to do. So to that extent, the doctors are quite happy here and going to your last question relating to phase III data, we have sent some trial in

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India which has been published in the Indian journal. So first we have not done any clinical trial outside India which will be part of our future development program.

**Asthika Goonewardene:** And gentlemen if I may, what has been GSK's response in India competitively, how are they competing in the market since you launched your product?

**Dilip Shanghvi:** In India if you look at it, substantial market is for the unit dose devices such as Rotacap, Rotahaler and all multi-dose devices have got lower market share and as such, if there is any competition for GSK or for us, it will be much more expanding the market towards multi-doses, than us competing with each other on a very small base. So I think all our efforts are going towards convincing and converting the market more into multi-dose device. If you ask me, it is a short, medium and long-term, the shift is not going to occur overnight.

**Moderator:** Our next question is from the line of Jay Tyagi from PTI. Please go ahead.

**Jay Tyagi:** This question is for Mr. Shanghvi. This is about the inorganic growth which you talked about. Which other countries are you targeting apart from US, and number two is what amount have you earmarked for this acquisition?

**Dilip Shanghvi:** No, I think I said that we are predominantly focusing on the US for our growing the business there, and we are looking at other emerging markets. Now we have a finite capacity to manage the number of acquisitions at any given point of time. So depending on how successful we would be in acquiring companies in different geographies, we will decide on the number of transactions. We as a company never set aside any specific amount of money for acquisition because it creates pressure on the whole system and you then end up buying something which you need to buy because you have a sum assigned for acquisition rather than whether that investment is justified from a strategic long-term business point of view or not.

**Moderator:** Our next question is from the line of Sameer from Morgan Stanley. Please go ahead.

**Sameer Baisiwala:** Just thoughts on the new pharma pricing policy. I know it is in the works, but any timelines and the probability of the draft going through?

**Dilip Shanghvi:** What I understand is that the Ministry of Pharmaceuticals has given certain undertaking in Supreme Court, and that is with a view to send a proposal to the GOM which will look at the new policy.

**Sameer Baisiwala:** And does this look any too different from the draft that we have seen?

**Dilip Shanghvi:** The process which the ministry has followed is that the ministry published the draft of the policy and invited comments from all the interested parties. So, all the interested parties, which will include consumers, which will include doctors of various public institutes, pharmaceutical manufacturers, and pharmacists. So all of them have given their input. My sense is that based on this, they will finally send a policy to the ministry and then to the GOM.

**Sameer Baisiwala:** Do you think this policy whatever form it does come, do you think it is a chance that it gets implemented sometime next fiscal, or do you think it will take some time?



**Dilip Shanghvi:** I think there is some sense of urgency for implementing. So there is a fair chance that it will get implemented even in this year, but it is difficult to predict. I do not think it is feasible for us to predict how Government will work.

**Sameer Baisiwala:** And just one final question -- I do not know if you are taking questions on SPARC. Just based on the last disclosure, it seems like the second and third product which is Baclofen GRS and Latanoprost BAK-free, we seem to have entered the phase III clinicals, patient enrollment, etc. So from this step, when you think the phase III gets over and the ANDA filing happens, just ballpark a year, two year?

**Dilip Shanghvi:** I think we should presume 2 years because Baclofen patients are not very easy to recruit.

**Sameer Baisiwala:** Okay, so 2 years to file and then another year for the approval, all going well?

**Dilip Shanghvi:** Yes.

**Moderator:** Our next question is from the line of Ravi Agarwal from Standard Chartered. Please go ahead.

**Ravi Agarwal:** Just looking at the capex numbers of Rs. 400-450 crores, looking at base this year of Rs. 7500 odd crores, I was wondering on an organic basis, is this a sufficient amount of capex to be carrying for projected kind of growth, is possible looking at on an organic basis?

**Dilip Shanghvi:** Your question is we are spending less money.

**Ravi Agarwal:** I just think that with typical gross fixed asset turnover ratio has been 1.8 to 2x, it roughly supports around Rs. 800 to 1000 crores of sales, we already have rs. 7500 odd crores of turnover, so just wondering....

**Dilip Shanghvi:** If you look at our turnover to our asset ratio, then that ratio is not what you are talking about. We do not have a gross base of Rs. 4000 crores to take care of Rs.8000 crores turnover. Actually if you take away the Taro numbers, then our ratio is very different. I think it is almost 1:4.

**Ravi Agarwal:** But you think Rs. 400-500 odd crores of capex would be sufficient for you to look at your projected, whatever your internal targets or revenues are in the next couple of years?

**Dilip Shanghvi:** I think so.

**Ravi Agarwal:** The second question is on the dollar number for your ROW markets and that has been a pretty constant \$ 56 million for the last 3 quarters. Just wondering is there something which sequentially should not one be expecting some amount of traction in these businesses as a something which will see a step-up in the next couple of quarters?

**Dilip Shanghvi:** You are talking of export in ROW?

**Ravi Agarwal:** Yes, it has been around \$56 million in the last 3 quarters.



**Uday Baldota:** The thing that the number has been constant for 2-3 quarters?

**Ravi Agarwal:** Yes, if I see the last 3 quarters, it has been \$56 mill in each of the quarter. I was just wondering because I guess at some level, one must expect some growth to come in, because otherwise from next year on YoY basis, the 20-30% could look a bit difficult?

**Dilip Shanghvi:** I think we see underlying growth in the business, but I do not know how finally the business is consolidated and it is a fairly complex thing for me also to understand, but I think underlying business will continue to grow.

**Kal Sundaram:** What we classified is ROW traditional emerging markets, certainly there is a growth which is what we have indicated the sales were growing in the region of about 30%. We will expect the momentum to continue.

**Dilip Shanghvi:** Also the Taro part of the ROW market is also growing for us?

**Dilip Shanghvi:** The Taro part of the ROW market, I do not have specific numbers but what I think they have said is that this growth is essentially on account of the US growth.

**Moderator:** Our next question is from the line of Rahul Sharma from Karvy. Please go ahead.

**Rahul Sharma:** Just wanted to know the excess funds that we have, are we putting it entirely it is put on in Indian rupees or is it on overseas deposits, and what rate of interest? Money. Sun overall on consolidated basis?

**Dilip Shanghvi:** Some money in dollars, significant amount of money also will be in Indian rupees.

**Rahul Sharma:** And average interest rate would be what around 8% odd or what should be....

**Sudhir Valia:** Which may come near to that, but it is difficult.

**Dilip Shanghvi:** That also quarter-on-quarter is difficult to quantify because some money will be in FMP, so that will not come in many quarters. I think we try and keep money to the best available rate at the same point of time not creating any risk profile.

**Rahul Sharma:** And on the MTM part, if you see quarter 2 to quarter 3 and the rates now, I think it reversed quite a bit. So would you say that the majority of the reversal will come in this quarter?

**Dilip Shanghvi:** Yes, but also we do not know in March what will be the exchange rate..... because if you see dollar tightened by almost 2% last week. So it is a very volatile market. Current rate the significant reversal will take place.

**Moderator:** Our next question is from the line of Mr. Nimish Mehta from MP Advisors. Please go ahead.

**Nimish Mehta:** If I were to connect the two things that we have a desire of making a large acquisition in US and on the other hand, we are seeing a patent cliff arising wherein on the face of it, it looks that the opportunity in US might be dwindling. So is it fair to assume that we are still very optimistic about



the US market and if yes, then how if you can give some broad color as to how we are wanting to grow there?

**Dilip Shanghvi:** I think our growth in US will be both based on organic as well as inorganic route and our view is that rather than trying to spread to large number of geographies, it is better to achieve a certain amount of critical size in the US before we start looking at other geographies.

**Nimish Mehta:** Right, but do not you see increase in competition after 2013-14 and because of which a large acquisition may not be as remunerative as we have seen it in the past?

**Dilip Shanghvi:** No, I think all of this we have to factor while we value the business.

**Moderator:** Our next question is from the line of Manish Jain from Axis Holdings. Please go ahead.

**Manish Jain:** Just a follow-up question on the NDA filing for Latanoprost, given that the patient filing is already done, does it still take 2 years for you to file the NDA?

**Dilip Shanghvi:** I was talking about Baclofen. Latanoprost will may be take a year.

**Manish Jain:** And secondly will Sun get to market these products in the US?

**Dilip Shanghvi:** No, Sun has an option, but there is no infrastructure to market these today.

**Manish Jain:** So the initial products will be done by non-Sun companies?

**Dilip Shanghvi:** Yes, that is a distinct possibility.

**Moderator:** Our next question is from the line of Manoj Garg from Edelweiss. Please go ahead.

**Manoj Garg:** Dilipbhai you have acquired minority stakes in few of the pharma entities both listed and unlisted in India and outside India, is it more of a financial investment or you see some strategic route going forward?

**Dilip Shanghvi:** No, it is a financial investment. I think I have clarified this in the past. It is a financial investment and the investments are relatively small both from my portfolio or in investment capacity point of view and also from company's percentage of equity point of view.

**Moderator:** Next question from the line of Abhinav Chandra from Baljit Securities. Please go ahead sir.

**Abhinav Chandra:** You all said that you are all looking at acquisition again in US market and rest of the world. I just wanted to know can you give the ballpark size of acquisition that we are looking at?

**Dilip Shanghvi:** What I said is that for other markets...

**Abhinav Chandra:** No, is there any active talks that are already on, how soon can we hear from you.

**Dilip Shanghvi:** I do not think we have any specific guidance that we can give you.



**Abhinav Chandra:** Any plan of any stock dividends because last we gave a stock dividend was in 2004.

**Dilip Shanghvi:** You are talking of bonus.

**Abhinav Chandra:** Correct.

**Dilip Shanghvi:** I do not think we can discuss that on this call.

**Moderator:** Participants that was the last question. I would now like to hand the conference over to the management for closing comments.

**Uday Baldota:** Thank you everybody for joining us on this call today. If you have any questions unanswered, please get in touch with us. Thank you.

**Moderator:** On behalf of Sun Pharmaceutical Industries Limited, that concludes this conference. Thank you for joining us.