

Sun Pharma Q4 2007-08 Results Conference
Call Transcript
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Corporate Participants

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Chairman and Managing Director, Sun Pharmaceutical Industries Ltd.

Sudhir Valia
Wholetime Director, Sun Pharmaceutical Industries Ltd.

Moderator: Ladies and gentlemen, good morning and good evening. I am Rochelle, the moderator for this conference call. Welcome to the Q4 earnings call with the management of Sun Pharmaceutical Industries Ltd. Please note that for the duration of the presentation, all participants will be in listen-only mode and the conference is being recorded. After the presentation, there will be an opportunity to ask questions. Should anyone need assistance during the Conference Call, they may signal an operator by pressing * and 0 on their telephone.

At this time, I would like to turn the Conference over to Uday Baldota. Please go ahead Sir.

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

Just as a reminder, this call is being recorded and a replay of the call will be available till June 4, 2008. The call transcript will also be put on our website soon. It would be appropriate to mention that the discussions today may include certain forward-looking statements and these must be viewed in conjunction with the risks that our business faces. Also, I would like to request all of you to kindly send in your queries that remain unanswered during today's earnings call to uday.baldota@sunpharma.com or mira.desai@sunpharma.com. I now hand over the call to Mr. Dilip Shanghvi.

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

First of all, I'd like to say a few words about the recent news on Taro Pharmaceutical's purported termination of merger agreement day before yesterday. Taro sent us a notice, and simultaneously put out a press release stating its reasons. Amongst several reasons it has stated, was the fact that \$10.25 per share, the price Sun Pharma would have offered after due board clearance, was too low in view of the dramatic turnaround at Taro, its future business plans, its pipeline and advice from its advisors.

Yesterday we have responded to this letter, stating that Taro is not entitled to terminate the merger as per the terms of the agreement. We remain skeptical of Taro's claims of a turnaround. Taro has only \$47 million in cash as of March 31, 2008. In our opinion, if not for Sun's cash injections of approx \$60 million last year, Taro would have virtually negative cash - hardly the "dramatic" improvement of which Taro has boasted.

I have always looked at cash flow as a critical parameter of a company's health. Perhaps it is the entrepreneur in me that is trained to look at the cash surplus at the end of the year and we

believe it is a much more important yardstick and criteria than EBITDA that only measures profit but does not generate cash.

Our definition of a good, performing business is one that generates adequate cash on a consistent basis, which supports investments for business expansion without a need for diluting existing shareholders. I think you've seen this at Sun Pharma and at Caraco.

While Sun has made every effort to fulfill its obligations under the Merger Agreement, Taro has failed to honor its side of the bargain and take all necessary actions to consummate the merger. Further, Taro has ignored all attempts to discuss, and put forward to Taro's shareholders, an increase in the merger consideration to \$10.25 after due clearances, in order to complete the transaction.

We will now consider all of our options, and believe that a merger at \$10.25 per share after our board recommends it, is in the best interests of all Taro shareholders.

This, more or less, sums up our current status. I am sure all of you must be curious as to what the next steps are, what are the alternatives we are looking at, the time frame and efforts required. Some of you have also queried if this takes away focus and time from the core business.

I understand all these concerns. You have been patient over the last year. I am asking you to be patient a little longer. Based on our understanding and our lawyers advice, we have many options. I can only state that we believe we are on a strong ground to complete the acquisition.

We will not be able to take any questions related to this development at this juncture. This we believe is in the best interest of the shareholders.

At Sun Pharma, we have been rather upfront about sharing news on all material developments, regardless of whether these were negative or positive. Those of you who have followed the company for a long time have seen this.

We will continue to keep you posted of material developments on this issue as and when they occur.

Now, back to the core business.

As you must have seen from the numbers, this year we've strong impact from the first-to-file patent challenges and exclusivities on ANDA filings.

We've significantly exceeded our guidance as all our businesses have done very well and also on account of both launch of para 4 exclusivities and at risk launch of Protonox and Ethyol. This makes our US sales grow significantly out of trend. This sale is not of a recurring nature and hence needs to be adjusted for, while making any comparisons.

Now, Mr. Valia will first talk about our performance and financial highlights, and later I will outline strategy and direction. I will now hand over to Mr. Valia.

Sudhir Valia: Thank you, Mr Shanghvi Good evening everybody. Our fourth quarter and full year numbers were sent out this evening, and are already with you. We've seen good growth across all our business segments, and we've seen significantly higher than expected sales in the US.

First, we'll take a look at key consolidated financials for the fourth quarter compared to the corresponding quarter last year.

Net sales has grown by 133% to Rs 13 billion, while EBITDA has increased by 404% to Rs 7 billion. Resulting EBITDA margin has expanded to 60%, from 28% achieved same quarter last year. Net profit after minority interest is Rs 7 billion, which is an increase of 225%. Net margin at 58% is the highest ever achieved in the company's listed history.

On the cost side, material cost has fallen to 14% of net sales. Similarly staff and other costs as a % of net sales are lower at 6% and 20% respectively. R&D expense for the generic business at Rs.826 million. This is more or less at the same level as last year on an absolute basis, as you know, the costs of the innovative R&D are booked in the research company, SPARC.

We've had three exclusivities in the US this quarter- generic Protonix, generic Ethyol and generic Trileptal. You can see a significant impact of these on the quarter sales as well as profits. It would be appropriate to mention that the sales growth, cost ratios and margins achieved you see for the fourth quarter and year is a result of a significant non-recurring sales and profit from these generic launches and we would advise all concerned to make suitable adjustments while making comparisons.

Now for the annual numbers.

Net sales increased by 58% to Rs 33 billion. EBITDA for the year is Rs 16 billion, an increase of 131% resulting into an EBITDA margin of 47%, which is much higher than the numbers for last year. Net profit after minority interest is at Rs 15 billion, an increase of 90%. Net margin is at 45%.

Each of material, staff, and other expenditure as a proportion of net sales is substantially lower when compared to the numbers of corresponding period last year. R&D expense is Rs 3 billion, almost the same as last year.

On a fully diluted basis, EPS for the fourth quarter is Rs. 35, up from Rs. 10 for the fourth quarter last year.

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

First, a look at the Indian business, which for the first time is lower than 50% of our turnover. As a speciality pharma company, our ranking with key specialists holds the utmost priority, and

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we've continued to build prescription share with key segments. We've launched new products, built existing brands and explored new marketing initiatives to strengthen customer relationships Domestic formulation, an important part of our business, continues to grow at a steady pace.

Domestic formulation sales for Q4 is Rs 4 billion, and has grown 16%. Growth for the year is 25%. As per the latest MAT ORG IMS data, Sun Pharma market share continues to be 3.3%. Our six main therapy areas, cardiology, psychiatry, neurology, gastroenterology, diabetology and gynecology accounted for 78.5% of our domestic formulation sales. Among the top brands, Susten, Pantocid group, Aztor, Repace group, Gemer and Oxetol continued to show double-digit growth rates.

Caraco recently announced its Q4 and full year financials. Caraco reported fourth quarter sales of USD 192 million, up 486%. Full year sales were USD 350 million, up 200%. Profit for the financial year was USD 35 million, up 32%. The sales number comprises USD 225 million sales from the distributed products, products it markets for Sun Pharma, which included sales of generic Protonix, Ethyol and Trileptal. Gross margin for Caraco's manufactured products was 49%, as against 50% for last year. Net income was USD 11.5 million for the fourth quarter.

Finished dosage exports to ex US international markets has grown by 10% for the year. As you know, this is prescription-pull based trade sales of brands, very similar to our Indian business, we expect a slow and steady increase in sales. For much of the fourth quarter and the full year, we've seen significant rupee appreciation, despite which we've posted double digit growth and good numbers.

API integration and the capability to compete with competitive costs is a very important part of our business. This capability enables us to introduce interesting new products in India and similar markets, as well as file for interesting para 4 ANDAs in the US. In all, we scaled up 31 APIs. A large part of API capacity is being used for internal consumption. Our API sales was up by 50% for the fourth quarter and by 7% for the year.

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

Dilip Shanghvi: Thank you Mr. Valia.

This has been an interesting year, higher numbers on sales and profit and we've still getting used to the magnitude and size. Three exclusivities, for generic Protonix, Ethyol and Trileptal. Of this , two at risk launches, and one settlement, for generic Exelon.

The approval from the USFDA for Effexor XR is on track, and we are likely to receive it later this year. As you know, our product is a tablet formulation hence we are likely to receive a non AB rated approval. We expect a gradual pick up of sales, and continue to explore avenues such as mail order or PBM to promote our generic Effexor XR equivalent. Since there are no precedents for a non AB rated product of this size and magnitude, it is difficult to state a target market share number, but in our opinion it would likely be a slow and steady increase.

Osmotica's formulation has also recently received approval, and it is possible that they may be in the market in the next few months.

We're learning as we go along, and the challenge for us to continue with our focus on costs and efficiencies despite these higher than ever before numbers. Going ahead, we expect to retain this sensible approach to opportunities, making the best of each opportunity, doing what is best for the long term.

R&D investment for the year is Rs 3 billion, or 9% of net sales. At our research labs we now have 473 scientists working on generic development, as you know, the team has one of the strongest research productivities in the industry. These projects ensure a pipeline and momentum for the base business in India and international markets. Our patent library is now at 215 patents filed, with 59 patents approved.

We continue to build a strong pipeline with interesting filings across markets.

At both Sun and Caraco, ANDAs for 14 products have been filed in Q4 taking the total number to 48 filings for the year. This is significantly above the guidance of 30 product filings for FY08. 24 products have been approved by the USFDA across Sun and Caraco. This takes our total pipeline of products approved to 53, from a total of 142 filings. Of the balance 89 products represented by 104 ANDAs that await approval at the USFDA, we have tentative approvals for 8. This pipeline will power our US generic business out of Sun Pharma's plants in India and the US, and from Caraco.

Total filings across all less regulated markets now stand at over 1973, of which more than 1262 are approved.

37 important products were brought to market in India.

For API's, the total number for regulated market approvals is 51, out of 101 filings made for DMFs and CEP.

The volatile rupee continues to impact our margins, specially since our international business is now well above the 50% mark. Despite the somewhat superlative numbers we've delivered, we shall try and remain focused on efficiencies and costs.

Now for the guidance for next year. Outside of the US, we expect our business to grow 18-20%. In the US, the business will likely grow by 25% as Caraco has shared. We estimate generic R&D spend at 7-8% of sales, to cover generic development including complex generics for the developed markets and API. Between Sun Pharma, SPI Inc and Caraco, we intend to file ANDAs for 30 products. Across sites, we estimate a capex of Rs.1500 mill.

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

Moderator :Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. At this time any one who wishes to ask a question may press * and 1 on their touchtone telephone. The first question is from the line of Bino Pathiparampil from IIFL. Please go ahead.

Bino Pathiparampil: Hullo and Congrats on a wonderful quarter. Just can we get a little more color about Protonix, the dynamics of the Protonix market, what led to such a huge growth in the first quarter itself? How are the competitors, the authorized generic and Teva's product doing, etc?

Dilip Shanghvi: No, I think it is a very large product, and we were able to place the product with some of the important customers. The numbers that we have achieved are not very dramatic from our point of view. You have to realize one issue, that this is an at-risk launch. And we have a reasonable amount of risk appetite. We are unable to share specific numbers going forward, but I think we should be able to at least maintain a similar level of sales this quarter.

Bino Pathiparampil: Okay, right. So which means you do not think that your dealers have filled up their pipeline, so that towards the later part it would be a much slower sale, that is unlikely to happen?

Dilip Shanghvi: There could be, but we may get some new customers also.

Bino Pathiparampil: Okay, right. Could you just touch upon the legal side. What is the latest legal development and how do you view the risk for this product?

Dilip Shanghvi: Can I suggest something? I think there are many people in the queue, so maybe I will answer this question at a subsequent point. I request you to maybe let somebody else ask a question.

Bino Pathiparampil:Sure. Thanks.

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

Neelkanth Mishra: Yes, thanks. This again is linked to Pantoprazole. The US guidance is talking about 25% revenue growth if I was to just annualize the sales for the fourth quarter that would be significantly higher than that number, and based on the answer to the previous question it seems there is a chance you may stop selling after a quarter. Is that a correct assessment?

Dilip Shanghvi: I do not think I said that we will stop selling after the quarter. What I said is that we have a risk appetite. And this is an at-risk launch. I am not sharing the appetite; neither am I saying that we are going to stop after the next quarter.

Neelkanth Mishra: Okay. And the other expenses grew 83% year-on-year, is this because of any insurance taken on Protonix, have you taken any insurance?

Dilip Shanghvi: These are strategic issues. I do not know, whether year on year increase will be 83%.

Neelkanth Mishra: Other expenses went up 83%.

Dilip Shanghvi :For?

Neelkanth Mishra: In the fourth quarter.

Dilip Shanghvi: We will find out and maybe we will write, but I do not think I can share specific business-related information about insurance or things which could be critical for us to keep within the company.

Neelkanth Mishra : Thank you. I will join back in the queue.

Dilip Shanghvi: Yes, thanks.

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

Sonal Gupta: Yes, sir, if you leave aside the exclusivity sales and if you look, obviously you have not given the numbers, but if I assess the base business growth in the US market, it feels just in line with the guidance that Caraco gave, 30% last year, and given the approval flow that you have seen this year, do you think base business growth is matching up to expectations?

Dilip Shanghvi: Yes, I think considering the competitive environment under which we are currently operating, I think the base business is doing reasonably well.

Sonal Gupta: But given the sort of approvals- you got almost 24 products approved this year,-given that, you had a much smaller base, on which you got these approvals, shouldn't it be slightly higher than that?

Dilip Shanghvi : I think we have to factor in the fact that for many products that we got approvals for, many companies got approval along with us. And I think we are very comfortable walking away from business when that does not meet what we think a reasonable profitability for each business.

Sonal Gupta: Right. Thank you very much, sir

Dilip Shanghvi: Thank you.

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

Pinakin Parekh: Good evening, sir. Just two questions. Can you give us what is the current cash balance?

Dilip Shanghvi: Cash would be 600 million dollars.

Pinakin Parekh: Just another question. With the FTF driven revenues that you will continue to see in Q1, and this cash balance should grow from here, will the company pursue another M&A opportunity concurrently with Taro or it will be Taro to close right now?

Dilip Shanghvi: Yes, I think, when we acquire Taro, it will be a large acquisition, and we want to execute it properly rather than trying to become big immediately.

Pinakin Parekh: Last question, sir. The Indian growth rate declined to 16%, do you think as the base to keeps growing further, is this what one should assume going forward or do you believe it will again pickup in FY 2009?

Dilip Shanghvi: Earlier also I had shared with you that the number of 25 plus percent kind of growth that we were experiencing is possibly inventory adjustment or market dynamics. On an annualized basis, we were not expecting 25% growth. India business continues to be a very large part of our non-US business and our overall guidance this year includes the India business.

Pinakin Parekh : Okay, thank you, sir.

Moderator: Thank you, Mr. Parekh. The next question is from the line of Mr. Rajesh Vora from ICICI. Please go ahead.

Rajesh Vora: Good evening, gentlemen. Very big congrats for best-ever result. Mr. Shanghvi, you mentioned about cash, how critical it is for any business, and in that context you said just now \$600 million is already with the company and you will reap a bounty from these two, three big products over the next two or three years, so, any thoughts on how you plan to utilize this money beyond what is known, which is Taro, where you will spend some money out of this?

Dilip Shanghvi: We wish to remain disciplined about using cash and we do not wish to change our investment philosophy and approach of making acquisitions based on our comfort from the kind of return that we can get. Beyond that I am neither commenting on the bounty or other things, because those are not our position. Our position is that we have a limited opportunity for some at-risk launches, and we wish to be disciplined about those at-risk launches. At the same time Effexor XR is a generic for which we will not be AB-rated, we are not familiar with that market and how the pickup will be, so I think we will cross the bridge when we reach it. But no sense in trying to spend all the money before we make the money.

Rajesh Vora: Sure. And Osmotica, you mentioned that they have got an approval and they will be in market soon, as you mentioned in your call, they have a settlement with Wyeth, so do you still believe they will launch?

Dilip Shanghvi: That is what their last public statement says, that they will get into market in next few months, they are tying up their marketing partners and other things.

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

Dilip Shanghvi : Thank you.

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

Prashant Nair: Yes, hi, this relates to Caraco's press release. Caraco has basically broken up their sales as manufactured products and distributed products, plus they talk about different margins for non-para IV distribution and Para IV, I just wanted to understand how this classification is? Would oxcarbazepine for instance, move from para IV to non-para IV from 3Q to 4Q because there is more competition now, or how does it generally get classified?

Dilip Shanghvi : Yes, it will move from para IV to non-para IV.

Prashant Nair Okay, so would it be accurate to say that in the third quarter oxcarba would have figured in the para IV basket, and in the fourth quarter it moved?

Dilip Shanghvi: Whenever exclusivity gets over if they move to the other basket.

Prashant Nair :Okay, fine. And even if it is shared exclusivity between large numbers of players, it would still remain in the para IV basket, as long as exclusivity exists?

Dilip Shanghvi : That is correct.

Prashant Nair: Okay. And once again, clarify the 25% growth guidance in Caraco, that is on this year's base, not on any stripped out numbers?

Dilip Shanghvi:That is our understanding, but I think we will need to still get confirmation about what Caraco says, from Caraco.

Prashant Nair: All right. Thanks a lot.

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

Sameer Baisiwala: Hi, good evening, everyone. For Effexor XR you mentioned that you expect approval later this year, so is this in stone or do you think you can get it earlier as well?

Dilip Shanghvi: Pardon.

Sameer Baisiwala Is it fixed that you think it is going to be towards the end of the year or is there a chance it can get approved a little earlier? What's your thinking related to this approval time line?

Dilip Shanghvi: Honestly, I think FDA hasn't given specific dates by which they will be approving the product, so, we do not wish to create expectations and then fail.

Sameer Baisiwala: Okay, but there is every chance it can happen any time after 13th June ?

Dilip Shanghvi :There is a fair chance that it can happen any time after 13th June, as long as I do not define what is that after.

Sameer Baisiwala: And the second question is about Protonix sales that you booked in the March quarter, what would be your assessment of how much is inventory fill up ?

Dilip Shanghvi: I honestly have no clear understanding, but my sense is that it is getting consumed, it is not something that it is sitting on somebody's shelves because we are also concerned about potential returns.

Sameer Baisiwala :In that case, would you not say that 25% sales guidance for Caraco, either is very conservative, or it assumes that you are going to stop the sales of Protonix in a quarter or two?

Dilip Shanghvi :No, what you are not factoring in, is potential price competition.

Sameer Baisiwala :Okay. And you think it can be so substantial without any new player getting in, at least until the early next year?

Dilip Shanghvi: I do not know if you know that Teva is not coming back, I do not know that. If you know this then I would like to know.

Sameer Baisiwala: The status is that so far they have not reentered the market

Dilip Shanghvi :Can you give a projection based on that? We will not.

Sameer Baisiwala :Yes, but then even if they were to get into the market, it does not necessarily mean that they will go for a price cut.

Dilip Shanghvi :There are so many variables.

Sameer Baisiwala: Yes, will start with new competition coming in.

Dilip Shanghvi:It is new competition. Today, Teva is not selling in the market. We, authorized generic and to some extent the innovator. These are the only three players. Then it will become a four player market.

Sameer Baisiwala :Okay. Just one last point on SPARC's pipeline. Is there any update that you would like to share, specifically for Tobradex and Baclofen GRS?

Dilip Shanghvi: No, we will, I think at some point, organize a separate conference call only for SPARC, but I think we know that we have been busy doing things in SPARC, and we have not been able to share too much information, that's some thing that we need to find a way to correct. However, internally, we are very happy with the way in which some of the products that we have big hopes for, are progressing. We could have done better in some of the other products, but I think we are very excited about the future of these products.

Sameer Baisiwala: Okay, that is all. Thanks.

Dilip Shanghvi: Thank you.

Moderator: Thank you, Mr. Baisiwala. The next question is from the line of Mr. Ranjit Kapadia from Prabhudas Liladhar. Please go ahead.

Ranjit Kapadia: Good evening and hearty congratulations for good set of numbers. Would you be able to give us the formulation exports into regulated and non-regulated market?

Dilip Shanghvi : I think there are certain details that we have already shared and Caraco numbers are already there with you. So, basically you have more or less this breakup even though we are not giving them specifically, by elimination you can achieve the numbers.

Ranjit Kapadia : Sir, this is regarding the less regulated market filings number of 1973, you said that we have 1260 awaiting approval?

Dilip Shanghvi : No, we have 1260 approved products.

Ranjit Kapadia : Ok, Approved products. So what is the strategy going forward?

Dilip Shanghvi: We continue to file specialized products in specific therapy areas, in different markets, and going forward, that will continue.

Ranjit Kapadia: Okay, thank you very much. And all the best sir.

Dilip Shanghvi: Thank you.

Moderator: Thank you, Mr. Kapadia. The next question is from the line of Mr. Rahul Sharma from Karvy Stock Broking. Please go ahead.

Rahul Sharma: Sir, just wanted to enquire, could you share Protonix market share which we are currently enjoying, and in case of Ethyol also?

Dilip Shanghvi: We will not know the market share in terms of the actual market. The IMS does not reflect a very large number.

Rahul Sharma: Thank you, sir.

Moderator: Thank you, Mr. Sharma. The next question is from the line of Mr. Nimesh Mehta from MP Advisors. Please go ahead.

Nimesh Mehta Yes, thanks for taking my question. I just have one question. Do you think that Teva will be able to launch generic Effexor XR after Sun is able to launch because they have some agreement with Wyeth?

Dilip Shanghvi : I do not know whether they can launch or not launch. What I know from public statements the Wyeth CEO made in some investor meet- he has indicated that they may not be able to come to market; he does not expect Teva to be able to come to market before June of 2010.

Nimesh Mehta: In your plans and strategy that you are building for Effexor XR, are you not foreseeing any generic launch from Teva, is that a safe statement sir?

Dilip Shanghvi: In the generic business you do not look at a five year program , you make a week by week program. So we are not giving any projection. I think we try and do best for the products. And while we do our best for the product, we design the structure in such a way that we have flexibility built into our relationships.

Nimesh Mehta: Okay, thanks a lot.

Dilip Shanghvi : Thank you.

Moderator: Thank you, Mr. Mehta. The next question is from the line of Parag Thakkar from GE Shipping. Please go ahead.

Parag Thakkar: Yes, congratulations for excellent set of numbers. I would like to just ask that to make things simple for me, as I am not a pharma analyst, what out of the Rs. 15 billion has come out of this

exclusivity and that type of volatile earnings, and what is earning on which we can expect 25% growth CAGR?

Sudhir Valia: You have to go to the last year's number, put that 25% into the figure and then eliminate what is the difference, and then take up the base onwards?

Parag Thakkar : So the remaining part is according to you volatile earnings?

Dilip Shanghvi: That you will have to work out because for competitive reasons we are unable to share specific information. Unfortunately this is the nature of the business.

Parag Thakkar : But for this exclusivity earnings which are going to be as you said, volatile, and you have to have a week-by-week plan and all that, can that kind of earning become continuous in the business or you have that sort of pipeline?

Dilip Shanghvi: We are not claiming that at all. It will not be continuous.

Parag Thakkar : Okay, but you are building a pipeline so that you can maximize your earnings that way, so it is a very big focus area for you, right?

Dilip Shanghvi : Yes, it is an important opportunity for us to grow our business.

Parag Thakkar: Correct. Exclusivity is generally for 180 days or it varies from product to product?

Dilip Shanghvi: No, you have 180 days exclusivity.

Parag Thakkar : Okay.

Dilip Shanghvi : Thank you.

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

Pinakin Parekh: Sir, two questions. (A), What's your assumption for tax rate going forward?

Sudhir Valia : In fact, generally we have observed between 3 to 4% and we see a similar range, marginally the rate may go up.

Pinakin Parekh : Okay. Second question is contrary to last year at least, in April the Rupee seems to be more in favor of export-driven companies, so can you update us on your hedging policies I mean should it flow through to your earnings, a depreciating rupee?

Dilip Shanghvi :Yes, we hedge only our normal exports, and we do not have any derivatives or those kind of instruments.

Pinakin Parekh :Normal exports would mean that whatever you ship for para IV sales, would not be hedged, can be there some potential gain over there?

Dilip Shanghvi :Pardon.

Pinakin Parekh: Basically normal exports means that whatever you ship next quarter for your para IV exclusivity sale is not hedged, there the rupee depreciation can help?

Dilip Shanghvi: It is continually reviewed. If we think that the Rupee is going to depreciate then we may hedge. If we think that the Rupee not going to depreciate, then we do not hedge. That is, we stay open.

Pinakin Parekh : Okay, thank you, sir.

Moderator:Thank you, Mr. Parekh. The next question comes from the line of Neelkanth Mishra from Credit Suisse. Please go ahead.

Neelkanth Mishra: Yes, Ethyol was launched only on 31st March, should we assume there were significant sales in the last quarter?

Dilip Shanghvi: No, it would not be significant.

Neelkanth Mishra :Okay. The status of the declaratory judgment filed by Taro, do we have any further updates, do we expect the courts to decide any time soon?

Dilip Shanghvi :I said we will not respond to it.

Neelkanth Mishra: I am sorry. Okay. Then I have no more questions. Now that period of exceptional growth in the domestic sales is past, if you could provide some more color on what exactly was happening, where you were growing at more than two times the market rate?

Dilip Shanghvi : I do not know it was our view that our growth rate is past the exceptional or we were growing exceptionally, but we hope to be able to continue to build, we do not think that the IMS reflects our growth as well as the market growth, correctly. And we are doing much better than what we see most of the companies with their current business size are doing in our business areas. And we hope to be able to continue to do this, going forward.

Neelkanth Mishra: Okay, thanks very much.

Dilip Shanghvi :Thanks.

Moderator:Thank you Mr. Mishra. The next question is from the line of Saion Mukherjee from Lehman Brothers. Please go ahead.

Saion Mukherjee:Yes, hi, congrats on an excellent quarter. Sir, can you give a breakup of the other income for the full year?

Dilip Shanghvi: The other income includes exchange difference as well as interest. We do not give the breakup of both these income.

Uday Baldota: Saion, you will get the breakup in the annual report.

Saion Mukherjee Okay, is there any Forex exchange related item in the other expense line item?

Dilip Shanghvi: We have a separate line item called exchange fluctuation in the annual report.

Saion Mukherjee: Is this part of other expense?

Uday Baldota: Saion, it is in the other income and other expenditure.

Saion Mukherjee: Other expenditure, Okay. Amifostine you launched in late March what's your sense on the market share for this product?

Dilip Shanghvi: It is a hospital product, very difficult to predict. We believe we have reasonable market share.

Saion Mukherjee:Okay. Sir, in Protonix, what's the time line for litigation now, is the trial date already fixed, when do you expect verdict on Protonix?

Dilip Shanghvi: I think I do not have any specific time lines for this, but we will give that separately.

Uday Baldota: Wyeth has indicated a trial in 2009.

Dilip Shanghvi: Trial possibly in 2009, but I think some of the specific things at discovery stage are happening right now.

Saion Mukherjee : Okay. And sir, on Effexor XR can you share the royalty arrangement that you have with SPARC, so as to understand how much value will be captured in Sun Pharma?

Dilip Shanghvi: I think we will share at an appropriate point of time what is the royalty for SPARC and Sun, but generally this is a stepped royalty based on the sales.

Saion Mukherjee : Sir, can you give a range or anything?

Dilip Shanghvi: Not in this call.

Saion Mukherjee: Okay. And the last question I have, is any other product likely to be an exclusive product that can get launched next year, in FY 2009?

Dilip Shanghvi: We do not give news on future products. We have as a company decided that it is better to focus on products that we have currently selling, rather than forecasting future sales of products. It unnecessarily create expectations. It sometimes creates pressure on the management.

Saion Mukherjee : Sir, any possibility of launching Protonix injections? And when is the 30 months stay getting over?

Dilip Shanghvi: We have not taken any decision on Protonix injection right now. And I do not have the exact dates for 30 months.

Saion Mukherjee : Okay, sir, thanks.

Dilip Shanghvi: Thank you.

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

Sameer Baisiwala: There is a question on Oxcarbazepine. Between the early part of this March quarter, that is in January versus in March, I mean what would be your assessment of how the pricing moved? And that continues to be a meaningful opportunity?

Dilip Shanghvi: My sense is the pricing has come down dramatically after other people have come to market. But I think it continues to be an important product for Caraco.

Sameer Baisiwala: Okay, and my second question is on Protonix, I mean not a quantitative answer, but a qualitative answer just as a measure of a risk appetite, if your competitor were to vacate some market share, would you be interested to take it up to much higher than where you are right now?

Dilip Shanghvi: We might.

Sameer Baisiwala :Okay. Is the absolute dollar sales exposure the best way to look at the risk appetite?

Dilip Shanghvi: Our ability to absorb cost is a better way to look at it.

Sameer Baisiwala: What do you mean when you say absorb cost?

Dilip Shanghvi: Supposing we are extremely successful in other parts of business, that will increase our ability to sustain higher risk.

Sameer Baisiwala: Okay. Thank you very much.

Dilip Shanghvi: Thank you.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from IDFC. Please go ahead.

Nitin Agarwal:Hi, good evening. I just want to check, you mentioned the sales in the rest of the world market with 10% growth- was it for the full year or the quarter?

Uday Baldota: That is for the full year.

Nitin Agarwal: Okay. And secondly on the R&D expenses. The generics R&D expenditure is clearly amongst the highest in the industry, clearly, it should go on. In terms of kind of efforts being put, one is

obviously getting the result in the number of ANDAs filed, but can you help us get some more sense on the kind of R&D efforts underway as far as generic R&D is concerned?

Dilip Shanghvi: I'm not clear.

Nitin Agarwal : In terms of kind of opportunity is this for complex products, do you spend more because a lot of your products require clinical trials as part of the whole process?

Dilip Shanghvi: That also would be partly correct, we have a mix of complex, difficult, as also easy products in the basket that we file every year. And we are reasonably comfortable with the R&D productivity.

Nitin Agarwal :Yes. Thank you, sir.

Dilip Shanghvi: Thank you.

Moderator: Thank you, Mr. Agarwal. The next question is from the line of Nitin Churturvedi from Mirae Asset Management. Please go ahead.

Nitin Churturvedi: Hello

Dilip Shanghvi: Yes.

Nitin Churturvedi : Good evening, sir. This is Nitin from Mirae Asset. Basically my question is regarding Effexor XR. What are the options available for the company in terms of marketing that product ? And second question would be- in case you need to spend some money on the marketing of that product, what kind of threshold level of spending are you looking at ?

Dilip Shanghvi: At this stage we are unable to share specific information for competitive reasons. However, it is not a standard generic AB-rated product, so it will be a different kind of sales and marketing effort than what we have for our existing products.

Nitin Churturvedi: Right, sir. I understand that. But what I am trying to understand is, what are the options, you might be going for a hired sales force or similar, you must be having two or three options, that must be a general industry practice probably, so if you can just share these options?

Dilip Shanghvi: We have many options. Actually we cannot do option analysis on a conference call. What I said is that for competitive reasons, it is good for us to act and then talk, rather than talk and then act.

Nitin Churturvedi: Okay, thank you.

Dilip Shanghvi: Thank you.

Moderator: Thank you, Mr. Churturvedi. The next question is from the line of Jyoti Dutta from Hindu Business Line. Please go ahead.

Jyoti Dutta: Good evening, Mr. Shanghvi. You have indicated you do not want to talk on Taro, but if I got you right, you said we are on a strong wicket to complete the acquisition?

Dilip Shanghvi: That is correct.

Jyoti Dutta: Okay. Is arbitration something that would also be on the cards?

Dilip Sanghvi: No, what I said is that we have many options.

Jyoti Dutta :Okay, sir.

Dilip Shanghvi:Thank you.

Moderator:Thank you Ms. Dutta. The next question is from the line of C. H. Unnikrishnan from MINT. Please go ahead.

C. H. Unnikrishnan:Mr. Shanghvi, this is Uni here.

Dilip Shanghvi:How are you?

C. H. Unnikrishinan :Good, thank you. Since you have already mentioned, though you are not answering any questions on the Taro development, since you already have indicated \$10.25 will be approved by your board, that will be the offer price you will be giving to Taro, so how much more money, what will be the additional investment you require as per this calculation?

Dilip Shanghvi: I think it is a mathematical calculation. What I have said is that I will recommend to our board to approve. And I cannot presume board's approval if it is not proper. That is the first point.

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Second is that Taro has close to 30 million shares, that is 30 million multiplied with the increase in the price, that is the additional outgo we will have.

C. H. Unnikrishnan: Okay, if suppose your option is to make an open offer for public as well as other institutional investors, will you go beyond that? Will you go beyond \$10.25?

Dilip Shanghvi: We said there is no question related to Taro.

C. H. Unnikrishnan :Okay. Thank you.

Dilip Shanghvi:Thank you.

Moderator:Thank you, Mr. Unnikrishnan. The next question is from the line of Sangam Iyer from India Independent. Please go ahead.

Sangam Iyer:Thank you. Thanks a lot for this. My questions are answered.

Moderator:Thank you. If any one has a question they may press * and then 1 now. We have a question from the line of Alok Dalal from Religare. Please go ahead.

Alok Dalal:Yes, sir, can you tell us the Capex figure for FY 2009?

Dilip Shanghvi: Rs. 150 Crores.

Alok Dalal :And how much did we do for 2008?

Uday Baldota: We will give that number in the annual report.

Dilip Shanghvi: We do not have the specific number right now with us, it is in line with our last year's guidance.

Alok Dalal:Okay, thank you, sir.

Dilip Shanghvi:Thank you.

Moderator:Thank you, Mr. Dalal.

Uday Baldota: I think Rochelle we are done.

Moderator: Sure, at this time there are no further questions so would you like to add any closing comments?

Uday Baldota: I thank everyone who joined the conference call and if there are any questions balance, please let me or Mira know and we will be happy to answer your question. Thank you.

Moderator: Thank you Mr. Baldota, thank you gentlemen of the Sun Pharma Management. Thank you for participation and you may now disconnect your lines. Thank you.