Sun Pharma Q1 2006-07 Results Conference
Call Transcript
9 am July 27, 2006

Corporate Participants

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

Sudhir Valia
Wholetime Director, Sun Pharmaceutical Industries Ltd.

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Moderator: Good morning, ladies and gentlemen. I am Parimala, the moderator, for this conference. Welcome to Sun Pharma Q&A Conference Call. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would now like to hand over to the Sun Pharma management. Thank you and over to the management.

Uday: Thank you Parimala. Good morning and a warm welcome to our 2006-07 first quarter conference call. I am Uday from the Sun Pharma Investors Relations Team. Today, our hosts are Mr. Dilip Shanghvi, Chairman and Managing Director, and Mr. Sudhir Valia, Wholetime Director, and they will as usual discuss the performance and developments on strategy. We hope you have received the first quarter financials and press release sent out yesterday afternoon. These are also available on our website. Our first quarter numbers are unaudited. For ease of discussion, we shall look at consolidated numbers for the quarter. Just as a reminder, this call is being recorded and a replay of the call will be available for the next three days. The call transcript will also be put on our website soon. It would 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. 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 will now hand over the call to Mr. Dilip Shanghvi.

Dilip Shanghvi: Once again, welcome and thank you for joining us today for the conference call after announcement of the financial results for the first quarter. As always, in this call we will discuss operations and developments on strategy. Mr. Valia will first share the performance and financial highlights, and later I will talk about strategy and direction.

We had earlier announced our intention to demerge innovative R&D. I am glad to share with you that the process of demerger is progressing well and should be completed in the next few months. This will allow us to focus on innovative products with right resources and time so that we can bring these products to international markets. Thank you. I will now handover to Mr. Valia.

Sudhir Valia: Good morning everybody. Our first quarter numbers are with you and we have good growth to report across our businesses. As you know most part of our businesses offers predictable growth and steady margins from quarter to quarter. First, we shall look at the financials which would also include the numbers for the acquired companies.

In the consolidated financials circulated yesterday. R&D revenue expenditure included in the profit and loss account is shown as 600 MILL. The R&D revenue expenditure is a pure line-by-line addition for R&D expenditure of all the companies. However, on consolidated basis the next R&D expenditure should be considered at 401 MILL. As you would realize, this change does not in any manner impact the bottom line numbers shared yesterday.

For the first quarter, net sales is 5116 MILL, an increase of 31% over the same quarter last year. Net profit after the minority interest for the quarter is 30% up at Rs.1767 MILL from Rs.1361 MILL. Net profit as a percentage of net sales is 34.5%. For the first quarter material cost as a percentage of net sales is down to 27.8% from 32% in the previous corresponding period. Excise duty as a percentage of the gross domestic sales is now at 7.4% as compared to 8.7% for the corresponding period. Staff costs are up from 9.4% to 12.1% of the net sales in the first quarter over corresponding period last year. Indirect taxes excluding excise duty as a percentage of gross domestic sales is constant at 4.1% in the first quarter almost in line with the last year. R&D expenditure has gone up from Rs.313 MILL to Rs.421 MILL. This includes R&D cost for the innovative projects which would form a part of the demerged company once the process is completed. On fully diluted basis, EPS is Rs.8.5 up from Rs.6.6 for the last year. Now, we shall take a closer look at each of our business segments.

Domestic formulation continues to offer us a strong base on which we can layer the rest of the businesses. Domestic formulation sales have grown 16% in the first quarter over first quarter last year. As per the May 2006 ORG-IMS data Sun Pharma is growing at the rate of 22% and the market share is now 3.31%. Our 5-core therapy areas, cardiology, psychiatry, neurology, gastroenterology, and diabetology accounted for over 71% of our domestic formulation sales. As we had shared earlier, specialist prescription data from CMARC ranked us No. 1

with psychiatry, neurology, cardiology, ophthalmology, as well as diabetology. This quarter over 16 important products were brought to the market across 17 divisions. 7 new API were scaled up. The new products feature a few those are difficult to make such as Xelflo – alfurozin ER and Bivalflo – bivaliridin, a lyphoilised protein injection. Glucored, Pantocid, Susten Repace group, Oxetol and Gabantin continued to gain market share and speciality prescriptions.

Caraco recently announced its Q1 numbers. Caraco reported sales of USD 24.8 MILL up 41% and the profit of USD 5.1 MILL after product transfers. Non-cash R&D charges for the quarter is USD 4.3 MILL. To say that US market continues to extremely competitive is an understatement and recently we have seen unexpected moves from large innovator companies such as authorized generics or cannibalising price to hold on to market share. As new entrants continue to be attracted to the US market, we expect the competitive landscape to become increasingly challenging.

Export formulations from Sun Pharma to 26 markets where we sell speciality prescription brands showed 70% growth. As neighboring countries market evolves from the therapy area typical to emerging markets to those significant to developed world markets with increasing trends in areas such as diabetology, cholesterol reducers, antihypertensives, and antidepressants the outlook for our specialty products will continue to be good.

API export sales has grown by 57%. Our skill in API development and manufacturing continues to strengthen our formulation business. This quarter we scaled up API like Ranolazin, Atomoxetine and Ibandronate sodium. The tally for the regulated market approvals for the API at the end of the first quarter is 14 DMFs approved, 12 CEP approved, and 32 DMF plus 4 CEP awaiting approvals. We have begun the process of reactivating some of the DMFs that ICN Hungary holds, of the 21 processes for API it has. As you know, this is a time intensive process. With this I will now handover to Mr. Shanghvi.

Dilip Shanghvi: Thank you Mr. Valia. We continue to invest in generic R&D. The number for the first quarter including capital investment is Rs.421 MILL or 8.2% of net sales. Of this the cost related to innovative R&D would eventually go to the demerged company. The demerger is expected to bring in focus, resources and flexibility for innovate research in NCE and NDDS. Last year we had in a short span completed three acquisitions : the facilities of Able Labs and two sites from Valeant including ICN and Hungary plant. We continue with the task for streamlining operations and integrating them into Sun Pharma. With current minimum operations these acquisitions have very different profitability compared to rest of our business. We are working to accelerate development work so that filing can quickly be made out of these sites.

Caraco has reported its number for first quarter recently and they have done well despite the pricing pressure we have witnessed. Across Sun Pharma and Caraco we now have 24 approvals, 50 ANDA awaiting approval, including 10 tentative approvals. At Sun Pharma we now hold ANDA approvals for Metformin ER and Zonisamite as well as tentative approvals for Rivastigmine, Gabapentin, Ondensetron Injection, tablets and ODT and Pantoprazole.

Our own NCE and NDDS projects are on track. We expect to share more information about the R&D projects a month or so prior to listing the new company to enable our shareholders to take an informed decision. I think we have begun the year well and made most of opportunities despite challenges from the environment. With this I would like to leave this floor open for questions. Thank you.

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

Balaji: Sir, can you kindly elaborate on this current new drug policy which is being proposed by the ministry. If you could throw some light on how that will affect the industry and Sun Pharma in particular and what is the industry doing to actually counter this measure.

Dilip Shanghvi: The new policy plans to add something like 450 products in addition to all the existing products in price control to a cost-based pricing system, and it is likely to significantly and adversely impact the industry. We continue to explain this to all the parts of government as well as our own ministry which is proposing this policy.

This policy in the long term, is likely to hurt the interest of the country as well as all the consumers adversely, even though it may appear to be attractive financially in the short term for consumers, and I would like to add that we see a lot of positive response from all the concerned and we believe that at some point in time we would be able to rationalize the policy so that pharmaceutical industry continues to remain in line with the liberalized part of the rest of the economy.

Balaji: Sir, currently, what percentage of your domestic sales are under price control and if the new policy is implemented in the current form, then what percentage of your domestic sales will then be under price control.

Dilip Shanghvi: I think the current turnover would be around 15% or may be 12%. We have not done an estimate of the extent our turnover would be under price turnover under the new policy but that is not likely to be very large because unlike the existing pharmacy which talks of the drugs going into price control the new policy talks about specific formulations going into price control.

Balaji: What is the kind of timeline that you envisage by when this entire issue will be resolved.

Dilip Shanghvi: I think your guess is as good as mine because all of us are aware as to how decision making process in some of the parts of our government works.

Balaji: Sir, this is a question on Caraco with sales of around $21 MILL and $9.5 MILL of profit. How sustainable are these margins going forward.

Dilip Shanghvi: I think we have shared that the US generic industry continues to be price competitive, and we have to remain an efficient and low cost producer. It is difficult for me to take a view. However, we have given an overall guidance for the company and we believe that we shouuld be able to maintain our performance as per the guidance.

Balaji: Okay Sir. Thank you.

Moderator: Thank you Mr. Balaji. Next we have Mr. Kesvinder Suri from Span Capital Over to you sir.

Kesvinder Suri: Good morning. I just wanted to have clarity in terms of the R&D expenditure mentioned. I mean the press release mentioned about Rs 600 mill and there was a mention of about Rs, 400 mill above. Can I get some clarity on that. Thanks.

Sudhir Valia: A line by line consolidation will be a total of all the company's R&D expenditure, which is this Rs. 600 mill, as we have an agreement between companies, one company provides R&D to other company and other company will book as a R&D but when consolidation is done it just gets eliminated.

Kesvinder Suri: Okay. So this basically relates to the $5 odd million non-cash R&D in Caraco.

Sudhir Valia Correct, you are right .

Kesvinder Suri: Okay sir. Thank you so much.

Moderator: Thank you Mr. Suri. Next we have Mr. Abhay Shanbag from Deutsche Bank. Over to you.

Abhay Shanbag: Congratulations on the good set of numbers. Just a couple of questions. Number one is on material cost. There is a sudden dip in material cost vis-à-vis last year. So, is there a significant improvement in product mix or is there any accounting change again which will happen as happened last year. Hello.

Dilip Shanghvi: Yes, I think there is no significant change in the product mix. However, we believe that increasing amount of use of material produced within the company. At the same time I think some positive impact of the appreciation of dollars in terms of value in the inventory would have reduced the material cost.

Abhay Shanbag: And sir the other thing was in terms of labor cost, I mean, it is you know with all the integrations in the inclusion has that been done? So do we take those 36-37 crores for the other three quarters also. Would that be sort of a decent number in terms of you know growth in terms of staff cost, 62 crores sorry.

Dilip Shanghvi: Yes, I think we would as we have shared with you in the past continued to add to our research staff, but the current numbers will not change dramatically, and go off a little bit.

Abhay Shanbag: So the thing was you know you talked about the drugs waiting approvals of the US FDA, you talked about the number of 50, and you said this also includes the tentative approvals, is that right?

Dilip Shanghvi: Yes, the number of 50 products that we have shared includes the 10 tentative approvals which we already have.

Abhay Shanbag: Is there any reason why gabapentin is there, because gaba has been off patent, I mean, we have seen most generic companies launch. So, why is it a tentative approval, why not a final one for you sir.

Dilip Shanghvi: Gabapentin, there are some OB patents, and when you file a para four against any such patent then there is an automatic 30 month stay.

Abhay Shanbag: Okay. So, though a lot of other generic companies have launched the product, in your case you cannot launch until that is vacated, is it?

Dilip Shanghvi: Yes, until FDA gives us a final approval.

Abhay Shanbag: And would that be a sort of a problem for ondansetron also, or what is your, I mean do you think there would be a delay?

Dilip Shanghvi: I think the 180 day exclusivity for ondensetron is not an issue that I am qualified to speak on because it is fairly complex. However, when every other company will get their tentative approval converted to final approval, we will be able to. If somebody gets an exclusivity then it will be 180 days after their exclusivity expires.

Abhay Shanbag: Fine, one last question sir. On those R&D costs when you talked about, it was 60 crores on the consolidated basis which has been reported. Post the demerger how much would remain with you – as in almost two-third would remain with you at about 40 crores or would it be a lower number.

Dilip Shanghvi: Actually, Mr Valia explained that the R&D after eliminating intercompany transaction for the non-cash R&D for Caraco is actually 40 crores or 400 million but we will be sharing the specific split between Sun and the Sun Research Innovative Company when we demerge. However, in the past we have given an overall guidance that the R&D investment for innovative research is around 30% to 35% of total spend.

Abhay Shanbag: Okay, so then this 30% or 35% would be 30% to 35% of 42 crores or 60 crores.

Dilip Shanghvi: 42 crores.

Abhay Shanbag: Okay fine. Thanks a lot sir.

Moderator: Thank you Mr Shanbag. Next we have Mr. Pawan Nahar from Kotak. Over to you, Sir.

Pawan Nahar: Good morning and congratulations on these results. I have a few questions, one is the date of the demerger and by when do you think this can happen. Two is outlook on formulation exports you have done extremely well, doubled that. If you can just talk a bit on that what would it be, what kind of a number you can keep. Third is on the R&D cost. For the full year, do you think 10% of sales of generics alone of this company would be a correct number which is about 200 crores? Yes, these are the three questions.

Dilip Shanghvi: Mr Valia will brief you about the current status of the demerger and creation of the innovative R&D company.

Sudhir Valia: Demerger process requires shareholders approval which we have received. As for the submission to the courts, the reply from the Registrar of Companies is to be submitted. Once that is over, then the court will grant us the approval and it will again go to Registrar of Companies to effect that. And subsequently, it will go to the stock exchange where we have to list the new company as both the companies will be listed. We hope it will get soon.

Dilip Shanghvi: I think as we have shared, we remain comfortable with our overall guidance that it should happen in next few months.

Pawan Nahar: The next few months would mean may be something like September.

Sudhir Valia: Yes, September-October. October I think is more realistic.

Pawan Nahar: Fine.

Dilip Shanghvi: And what were the other two questions.

Pawan Nahar: Outlook on the formulation exports business, can it get doubled and they are really doing well though it is still a low base business.

Dilip Shanghvi: I think if you actually eliminate some of the exports which get listed here because of Hungary, the underlying growth is around 70% and it is a very low base business. So, it is actually not very sensible to look at this business in percentage terms. Even internally we do not look at in percentage terms. But it is a business which is likely to become a bigger part of company, than what it is right now. And, third question I think is related to R&D for generic business. I think guidance is around 10% to 11% of the overall turnover for generic R&D.

Pawan Nahar: Okay and thank you.

Dilip Shanghvi: Thank you.

Moderator: Thank you sir. Next, we have Mr. Rahul from Voyager. Over to you sir.

Rahul: Yes, congratulations to the team on the good set of numbers. Hello. Yes I had a question on the recent acquisition. Just wanted to understand, as far as I can remember you spent around $7 to 8 mill on acquisition expenses in the last quarter on Valeant Pharma and Able Labs. So just wanted to understand what is the strategy and the outlook for expenses this year and when can we see meaningful contribution to the top line in EBITDA from the acquisitions.

Dilip Shanghvi: The acquisitions you are talking about were done in earlier year not in the last quarter. And, the impact of the acquisition has been shared I think, we expect that it will add around $4 mill in terms of cost to our business on a quarterly basis.

Rahul: Okay, so, in this quarter results also will be fair to assume, that around $4 mill is acquisition related expenses.

Dilip Shanghvi: Yes, I think there is a ramp up period for the cost to move up. I think first quarter may not be actually 4 mill but maybe by end of the year, it will reach an average of 4 mill.

Rahul: Okay. Thank you very much.

Moderator: Thank you Rahul. Next we have Mr. Rajesh Vora from ICICI Securities. Over to you sir.

Rajesh Vora: Good morning and congratulations for pretty good set of numbers. I had one question for Mr. Shanghvi. You mention in your comment in the results that continuing growth and other things should transform the sales mix at Sun Pharma in light of obviously, acquired assets and aggressive product pipeline building that company has been investing in. Could you give some color on how do you see this sales mix transforming over

the next three to four years from where we are today where 40% of revenue is international business and within that Caraco is obviously a big chunk. In terms of you know how qualitatively and quantitatively, may be qualitatively if you could give some color on that, would it transform over the next three to four years.

Dilip Shanghvi: We expect our international business to become increasingly larger part of the company and what we have shared with investors is that in the next three years, we expect international business to go up to around or may be exceed 50% of our turnover. And the way things are progressing, we believe that we are in line to achieve that objective.

Rajesh Vora: Probably much sooner than that.

Dilip Shanghvi: Yes, I think, but as on today, we have not changed our guidance.

Rajesh Vora: And in terms of qualitatively I mean you seem to be focusing more on the US than other parts of the world. Will US and developed market in that sense, continue to remain the core focus area and larger portion of this international pie?

Dilip Shanghvi: Yes, I think, our focus is more or essentially on the US right now, not in other developed markets like Europe and Japan.

Rajesh Vora: Sure.

Dilip Shanghvi: We continue to focus equally on exports out of India to other unregulated markets and that business also is an important component of our strategy for execution. And as we have shared we will participate in Europe through partnership and registering products in European market.

Rajesh Vora: And that should start in terms of really making some reasonable contribution. Will it take a couple of years at least?

Dilip Shanghvi: Yes, it would take at least a couple of years.

Rajesh Vora: Okay, okay. And last question in terms of Caraco where despite having largely basket of pure commodity generics products, no sort of exclusive products, no authorized generics, no so called practical exclusivity products despite that your margins are stupendous. In light of pricing pressure environment that Mr Valia and you discussed, with your product pipeline sort of now slowly and steadily maturing towards some of those niche opportunities over the next few years, logically that should help you make more margins unless you think that pricing environment can worsen significantly from where we are today. Any thoughts on that.

Dilip Shanghvi: Yes, I think when we are giving guidance, we are visualizing that pricing environment for all products will continue to tighten as we move forward. However, as we see sales from some of the new products that we are likely to get approval going forward will help us maintain the overall phase of growth and margin.

Rajesh Vora: Well, thank you so much and good luck.

Moderator: Thank you sir. Next, we have Mr. Nimish Mehta from Edelweiss. Over to you, sir.

Nimish Mehta: Yes, good morning. I just would like to know a few things. First of all can you let me know what was the underlying domestic growth. You have mentioned you have registered a growth 15.6% YOY but I assume this is on a higher base because of two reasons; one was the VAT- related issue which spilled over Q1FY06 and second was the trade channel adjustments that you were doing which had also increased the sales by about 15% to 20%. Second question is basically if you can let me know what are the litigation costs that you have incurred in this quarter or as a percentage of sales will be great. Another thing I would like to know the losses of the subsidiary that you have booked and finally has anything changed greatly from the last quarter because the EBITDA margin I think has been higher by about 900 to 1000 basis points. So, what is that that has made this change in terms of the overall margin.

Dilip Shanghvi: You have many questions. Quickly, I think the domestic sales we have not done an estimate of the higher base on account of VAT and what will be the impact. But I think as per ORG we continue to grow at 22% and it may be that it is in line with what may be our last quarter's growth, but we have not done the estimation. About the, what were the other questions.

Nimish Mehta: Litigation cost.

Dilip Shanghvi: We do not give separate litigation costs.

Nimish Mehta: Okay. Third one was losses of subsidiary that you might have booked in this quarter.

Dilip Shanghvi : I think that is included in the overall costs and at the end of the year, I think we have been giving in our annual report, detailed costs and operating performance of subsidiary- but on a quarter on quarter basis we are not splitting up the numbers. But what we have shared is that overall costs for new acquisition will be around $4 mill per quarter and we expect that to be the situation end at of the year. The margins I think Mr. Valia will explain.

Sudhir Valia: Margin has improved as we shared that more in-house material has been used across companies. At the same time, it has also been shared that because of exchange fluctuations when we take the valuations at the higher rate with inventories, the impact would be that the inventories are valued at a higher value and even the reduction in excise duty. All this combined to improve margin across the company as a whole.

Nimish Mehta: What would be the impact of exchange fluctuations, roughly.

Sudhir Valia: You can say in reasonable terms 1% to 1.5%.

Nimish Mehta: 1% to 1.5% of the cost or of the sale.

Sudhir Valia: Of the sales.

Nimish Mehta : And, would you like to revise your guidance based on this.

Sudhir Valia: Fluctuations and all is very temporary. We cannot decide on that part and the margin leap, because this is one part of the activity where we may have gained, but there is a loss on account of liabilities which has been booked So, there are accounting standards we have to follow. So this kind of impact sometimes gets nullified.

Nimish Mehta: So, you mean to say, this quarterly growth that we have seen may get evened out going forward in the entire year.

Sudhir Valia: Yes.

Dilip Shanghvi We maintain our guidance.

Nimish Mehta: Okay. And one more question if it is okay. I would like to know what is the rate of FCCB conversion that has happened until now.

Sudhir Valia:10 million, approximately 8 to 10 mill.

Nimish Mehta: Pardon.

Dilip Shanghvi: Around 8 to $10 mill dollars.

Nimish Mehta: Rest of the FCCB has not been converted.

Sudhir Valia: Yes.

Nimish Mehta: $11 MILL. Okay thanks.

Moderator: Thank you sir. Next we have Mr. Anshu Govil from CLSA. Over to you sir.

Anshu Govil: Hello, Yes, good morning. My first question is on the domestic conversion sales across industry this quarter despite high base in Q1 of last year. We have seen a robust growth. Do you see this sustaining in the coming quarters on a sequential basis? And the second question will be on the other income. The other income is like flat while down significantly on the Q on Q basis. Now, what is the impact of forex losses in this?

Dilip Shanghvi: I think the domestic business is covered in our overall guidance and we are not revising our guidance. However, we also observe as you have observed that most of the companies are reporting robust growth in domestic considering ORG is showing a significantly higher overall growth for the industry. About the other income Mr. Valia will tell.

Sudhir Valia: As we discussed other income is not the main source, interest is anyway continued to be earned by company on the FCCB money which is raised, yet to be deployed and hence parked. On FCCB, exchange fluctuation gain or loss has been booked in the other income.

Anshu Govil: You know just to normalize it for exchange losses, what would be the quantum on that.

Sudhir Valia: It is very complex. But we have not shared any part of that, but we definitely confirm that we have followed all the accounting standards as required.

Anshu Govil: No, what I wanted to understand was, if you were to add that exchange losses, the other income would be high. So, what should be the quantum of that number.

Sudhir Valia: We try to look at one part of the activity that income would have been higher, but as I shared with you earlier that higher income booked on account of exchange fluctuation due to inventory valuation. So, this will be evened out as I said earlier.

Dilip Shanghvi: I think we are not sharing specific information because from our point of view, I think all the FCCB money is going to get converted into shares. So, all of this as I see, is an accounting requirement that we have to follow, but has no actual impact on the performance of the company or business.

Anshu Govil: Just one clarification, hello. For whatever forex translation losses on the FCCB outstanding you have booked this quarter, eventually when the FCCB gets converted, will all the charges be reversed, according to the accounting standards.

Sudhir Valia: No. You need to understand that as per the accounting standards you have to book liability at the closing rate. At the same time, when we convert, actually when we physically receive the money, at that time it may be the same rate, more or less. We have already committed at a price at which shares will get allocated.

Anshu Govil: Yes, that is in rupee term fixed.

Sudhir Valia: I understand. So, anything which is received extra will again go into the accounts of profit. If anything comes less than that then it will come a loss.

Anshu Govil: So, there is a possibility of reversal of the current losses, moving forward.

Sudhir Valia: What you anticipate may happen. If at the time of conversion the rupee remains at the same price.

Anshu Govil: Okay, thanks a lot.

Moderator: Thank you sir. Next we have Ms. Visalakshi from DSP Merrill Lynch. Over to you mam.

Visalakshi: Yes, thank you. My question is on the 50 ANDAs that are pending approval between both Caraco and Sun. I would like to know how many of these are paragraph four and over the next 12 months how many launches that Sun anticipates which could have limited or near no competition.

Dilip Shanghvi: I think we are not sharing information related to para four's that we have filed. However, some of the litigations related to para four may be in public domain. So, I think some people have an idea of the litigation and which products we have a probability of success. The reason why we do not share is all of this is unpredictable and at the same time from our point of view our guidance does not include any potential success with the para fours. But of the 50 products awaiting approval we have tentative approvals for ten products which we can bring to market when either we win the litigation or when the patent expires. So, there is a fair mix of products which will come to market immediately on approval or products that we can launch over next one or two or three years.

Visalakshi: Actually, I would like to put this question little differently. Over the next 12 months, out of non-paragraph four launches, you anticipate any launches which could have very limited competition.

Dilip Shanghvi: I think you can tell me because nobody announces which product they have filed. So, we do not really know for which product what is the likely competition.

Visalakshi: Okay, my second question is on the impact of the acquisitions done last year. How much is the revenue contribution from all the three acquisitions if at all?

Sudhir Valia: There are no significant contributions, it is very marginal.

Visalakshi: And finally on the very negligible tax rate for the quarter. Could you throw some light on that?

Sudhir Valia: Because of the subsidiaries having losses, they have a deferred tax credit. So, if you see the standalone there is marginal increase or very small increase of tax. But when it comes to the consolidated position, because of the deferred tax credit, it gets nullified.

Visalakshi: So, what is the effective tax rate likely to be for the full year.

Sudhir Valia: Current estimate is reflected in the results. Because as per the progress only we see part of a year, so we have to pay as per that only. So, we see that similar trend will continue.

Dilip Shanghvi: I think we will remain in line with what was the overall tax rate last year.

Visalaksi: Thank you.

Sudhir Valia: Thank you.

Moderator: Thank you mam. Next we have Mr. Harshad from ABN Amro. Over to you sir.

Moderator: Hello. Hello.

Giri: Hello, hello, this is Giri here. I just wanted to check one thing. Regarding the bulk exports, it has shown a sharp rise sequentially on year over year. Any particular new launches or is it because of the consolidation that you did.

Sudhir Valia: Bulk business itself is a lumpy business. You see the quarter last year when the growth was not as generally it has to be. It is very unpredictable , we try to maintain and introduce newer products where the patent has expired in regulated markets, and in non-regulated market most of the products can be sold.

Giri: So, any specific launch happened, any new launch happened in this particular quarter.

Sudhir Valia: You must have heard the names of so many products which we are developing in API. So, all these products reach this market. So, there is no specific product launch which contributed.

Giri: Okay, Okay, fine. Thanks.

Moderator: Thank you sir. Next, we have Mr. Gala from Quest Investment. Over to you sir.

Gala: Yes, congratulations for good set of numbers. For our benefit, can you repeat what guidance Caraco and Sun Pharma have given for FY2007?

Dilip Shanghvi: Yes Uday will give this.

Uday: For the sales on a consolidated basis, we have shared 18% to 20% growth.

Gala: 18% to 20% growth, and any guidance on the profit side?

Uday: We have not given any guidance on the profit side.

Gala: Okay. And, the second question is this $5 mill US profit that Caraco you said has made, that is after booking the non-cash R&D cost of 4.3 million.

Uday: Yes.

Gala: Okay. Thank you very much.

Moderator: Thank you sir. Next we have Mr. Sameer Baisiwala from JM Morgan Stanley. Over to you sir.

Sameer Baisiwala: Could you all elaborate on your NCE project. It is mentioned in press release it is on track for US filing.

Dilip Shanghvi: I think we have shared with investors is that we are shortly looking at commencing phase two clinical trial and we remain on track with that information that is shared with investors. More details related to both the NCE and NDDS projects we will be sharing with you closer to the demerger of both the companies.

Sameer Baisiwala: You mentioned that phase 2 would begin shortly which means IND has been filed which was planned for the June quarter, or may be a little earlier, so that has been completed.

Dilip Shanghvi: Yes I think, by and large we are on track with what we have shared.

Sameer Baisiwala: Okay. And, I am sure you want to take this up later, but again you mentioned about taking NDDS projects to the next phase soon. This is for the US trials you are talking about?

Dilip Shanghvi: That is correct.

Sameer Baisiwala: Okay.

Dilip Shanghvi: But at the same time what we have shared with all the investors is that we are doing a large number of things for the first time, and if we miss some of the things then it cannot be done immediately. So, sometimes giving specific time-line guidance is not the most appropriate strategy because if you miss let us say one toxicity study and FDA asks you to do that before they give you the permission, it may take anywhere from three months to one year.

Sameer Baisiwala: Okay, this is understandable. The second question is related to the complex technology products, Lupride in particular. Have you filed this in any country outside of India?

Dilip Shanghvi: Yes, we have actually some exports coming from some of the South American markets. We should see getting approvals in China or some of the other markets. I do not have the exact details, but we find this in quite a few markets.

Sameer Baisiwala: Okay, and then you are already selling them. Any number if you can share how much are these two products on a company-wide basis contributing as of now.

Dilip Shanghvi: I do not have the numbers here with me, but I think in next conference call I will give specific details. It is not a very large number, but it is growing definitely. I mean, it is definitely in excess of $2.5 to $3 mill on an annual basis.

Sameer Baisiwala: Okay. The other question if you can share experience about meloxicam launch which happened very recently in US?

Dilip Shanghvi: What would you like me to tell.

Sameer Baisiwala: I mean what we know is that it was a very competitive market. So, how were the prices in particular?

Dilip Shanghvi: Pricing you know as much as I know. I do not have exact details, but it has been a very very competitive launch. And possibly, as I see it is an indicator of how future launches will take place.

Sameer Baisiwala: Okay.

Dilip Shanghvi::What I understand, I do not have exact numbers, but I think it is selling at 98% discount to the innovative product.

Sameer Baisiwala: I see, which looks very very harsh. Would you be making money at this kind of a price erosion.

Dilip Shanghvi: Yes, I think we will make money, but not great money.

Sameer Baisiwala: If I do the number work- a billion dollar product after 98% erosion, at 2%, it becomes $20 mill market . At 10% market share $2 MILL in top line. Your ANDA filing cost could be anywhere from $0.5 mill to a $1 mill. I will be hard placed to find that you make money for at least two years. Okay, just one last questions. Anything that you can share about the Ultracet current price level?

Dilip Shanghvi: But I think, let me clarify. Meloxicam is less than 6000 kilo market. So, if you took $2 mill even at 2%, you still recover from my point of view recover my development cost in less than seven to eight months. So, it is not very bad, but yes it is not something that you can retire on.

Sameer Baisiwala: No, but if this is the state of affairs for probably the most cost competitive producers, I wonder, and there were just four of them, four or five. So, what is the incentive for those companies to be there in the market?

Dilip Shanghvi: Yes, I think people have to bring their costs in line with the industry.

Sameer Baisiwala: Okay. The final questions . . .

Dilip Shanghvi: Let me also tell you, this is an outsourced product for me and we have a Indian supplier and a European supplier, and European supplier is cheaper. So things are changing.

Sameer Baisiwala: This is quite revealing. The last point as I was saying on Ultracet pricing, anything you have to say about what are current price levels, are you seeing quarter to quarter decline. So there have been no additional competition so far.

Dilip Shanghvi: I have actually no idea, but I think we have sensible kind of market share.

Uday Baldota : Need to wait for the 10Q.

Dilip Shanghvi: Yes, I think 10Q numbers may give more data

Sameer Baisiwala: Okay. Thank you very much.

Moderator: Thank you sir. Next, we have Chirag from Citigroup. Over to you, sir.

Chirag: Yes, good morning sir. I wanted to understand out of the original agreements with Caraco for supplying 25 products, how many products has Caraco already launched?

Dilip Shanghvi: We do not have that number. What I understand is that technology for three products is yet to be given.

Chirag: Okay. Thank you sir.

Moderator: Thank you sir. Next we have Rahul Sharma from Karvy Stockbroking. Over to you, sir.

Rahul Sharma: I wanted to know what is Sun's stake in Caraco as of now, as of March 2006 , June 2006? Hello. Just wanted to know what is the stake of Sun in Caraco as of June 2006?

Dilip Shanghvi: On a fully diluted basis.

Uday Baldota: We have the number as of March because Caraco is yet to file its 10Q for June. For March 2006 it is 75% on a diluted basis.

Rahul Sharma: Okay. And, sir could you give the break up of net interest and your other income component and how much is due to FCCB interest also.

Dilip Shanghvi: I think we are not sharing splits of the interest and the other income, but it obviously includes the FCCB and the interest on other money that we have with us.

Rahul Sharma: Okay sir. Thank you.

Moderator : Thank you sir. Next we have Saion from Brick Securities. Over to you, sir.

Saion: Thanks for taking my question. I just wanted to understand this growth in the domestic formulation business. Can you just split it between volume growth and growth because of new product introductions.

Dilip Shanghvi: I do not have these details with me, but obviously the growth includes introduction of new products, volume growth, and price increase.

Saion: Has there been any price increase from the year ago period?.

Sudhir Valia: I think around 2% to 2.5%

Saion: Okay. In terms of your sales force at MR level, how many people you have today and what was it a year back?

Dilip Shanghvi: Around 2000 medical representatives and it would have may be gone up by around 5% to 6% last year.

Saion: Okay. So do you plan to make any substantial increase in the sales force front over the next one or two years.

Dilip Shanghvi: It is not our current plan.

Saion: The other question I have is on the US generic product pipeline, you have currently 50 products awaiting approval and I guess you are planning to file as many as 30 ANDAs this year. So by the end of this year you

would have possibly around 70 products pending approval. Can you just share you know over the next two years, how many of these you expect to be in the market?

Dilip Shanghvi: I think, hopefully we will have less than 70 products awaiting approval because some of them will get approved and will be in market. We cannot give a specific number.

Saion: Okay, but what is the kind of product basket that you are looking at, say by the end of next fiscal.

Dilip Shanghvi: I think what we have shared with people, we will have a fair mix of products including some products going off patent in future, some of the existing products, and some para four products.

Saion: Okay, okay. No, in terms of numbers, I mean how many products. I think you currently have around 24 in the market including Caraco. So, in terms of numbers to what would be the level you would be looking at by the end of next fiscal.

Dilip Shanghvi: We have not actually done that kind of detailed anticipation and planning because sometimes products get approved in a year, sometimes it may take longer.

Saion: Okay, okay, fair enough. And in terms of R&D expenses, the generic R&D expenses will go up significantly this year, you will have 30 filings for the US. As far as the rest of the world is concerned, are we going to see a significant increase in filings.

Dilip Shanghvi: We are currently not giving details of our filings for any other country. So, but yes we will be filing products across all major markets.

Saion: But will there be a significant increase over the last year.

Dilip Shanghvi: I think there would be an increase, because they are increasing focus on filings internationally.

Saion: Okay, okay. Thanks a lot.

Dilip Shanghvi: Thank you.

Moderator: Thank you sir. Next we have Jinesh Gandhi from Motilal Oswal Securities. Over to you, sir.

Jinesh Gandhi: Good morning to everybody. I have question on whether you have taken any chargeback on target plus due to target plus scheme? Hello.

Sudhir Valia: Approximately, we have about a percent or some such value, they would charge to the books of accounts.

Jinesh Gandhi: Okay. Sir, can you quantify it.

Sudhir Valia: Books of our earlier year, has been completed and audited.

Jinesh Gandhi: Okay, but can you quantify the charge in current quarter.

Dilip Shanghvi: We will not give details of the target plus amount that we claimed earlier factored in this quarter.

Jinesh Gandhi: Okay, but there is some hit due to that.

Dilip Shanghvi: Yes, it is.

Jinesh Gandhi: And sir, secondly, would there by net forex loss in this quarter, or any other income.

Dilip Shanghvi: There is, Yes, Yes, but it is charged off.

Jinesh Gandhi: Okay, okay. Thanks a lot sir.

Moderator: Thank you Mr Gandhi. Next we have Ravi Shenoy from Birla Sunlife. Over to you sir.

Ravi Shenoy: Good morning sir.

Dilip Shanghvi: Yes, good morning.

Ravi Shenoy: Sir, I wanted to understand how many products would be in the market in the US from Caraco.

Dilip Shanghvi: I think we just explained that it is difficult to predict as to .which

Ravi Shenoy: No, no. The current products, sir.

Uday Baldota: Current products, we have already given.

Dilip Shanghvi: We have given around 21 products or so in the market for Caraco. There are also two or three products from Sun, I think two products.

Ravi Shenoy: So, a total of 21 products, phase 2 would be Sun products.

Uday Baldota: I think 22 plus 2.

Dilip Shanghvi: 24 products in market, two Sun products.

Ravi Shenoy: Secondly sir, on the FCCB part, would the funds be parked in India or would they be parked abroad currently.

Dilip Shanghvi: Most of the funds are parked abroad.

Ravi Shenoy: Sir, I wanted to understand something on the accounting side. If these funds are parked abroad, would that lead to a loss in your accounts, should they lead to a loss in your accounts.

Dilip Shanghvi: I think if it structured whereby we have negative impact of exchange rate fluctuation, then there will be a loss which will travel to us through the subsidiary.

Ravi Shenoy: Okay. And, for this quarter sir, would it be possible to get a breakup between other income and interest income.

Dilip Shanghvi: We are not giving specific break ups.

Ravi Shenoy: Okay, sure. Thank you sir.

Dilip Shanghvi: Okay.

Moderator: Thank you sir. Next is a follow up question from Jinesh Gandhi of Motilal Oswal Securities. Over to you, sir.

Jinesh Gandhi: Yes, I believe only three products are left for which technology is to be transferred to Caraco. After that what kind of, can you throw some light on what kind of R&D expense would Caraco incur or what kind of deal would Caraco have in terms of product transfer?

Dilip Shanghvi: I think we cannot answer this question on behalf of Caraco. At some point in time, they will give guidance.

Jinesh Gandhi: Okay, sir. Thanks sir.

Sudhir Valia: I think we will take maximum of two more questions if that is okay with all of you.

Moderator: Sure sir. Next, we have Chirag Talati from Mehta Partners. Over to you, sir.

Chirag Talati: Hi, good morning everybody. You just, you mentioned in your previous questions that in this quarter 11 mill worth of FCCB have been converted. Press Release shows $5.5 MILL of FCCB converted

Uday Baldota: $11 mill until now.

Chirag Talati: $11 mill until now. Okay I guess I wanted that number only. Thank you.

Moderator: Thank you sir. Option for one final question. Participants can please press *1. Next is the final question for the day, Ravi Agarwal from JP Morgan. Over to you, sir.

Ravi Agarwal: Yes it is me, Jesal here. I just wanted to know this generic ultracet you have any sense when you expect competition to come or do you think the current situation will continue.

Uday Baldota: Well, technically there can be a launch. However, the patent for Ultracet has been reissued. So, we do not know whether the other company feels comfortable with launching Ultracet with new claims listed for Johnson & Johnson. There could be I mean this approval has been acquired by Bar so they maybe able to or they maybe bringing this product to market.

Ravi Agarwal: Thanks. And the last thing was on the foreign exchange, you know, I was a little confused about the thing about you know the previous speaker asked about the foreign exchange deposits, would there be in your books any translation gains on account of that or how does it work.

Sudhir Valia: There is gain on account of assets and loss on account of a liability.

Ravi Agarwal: Thanks. Okay. Thank you so much.

Sudhir Valia: Thank you.

Moderator: Thank you sir. At this moment, I would like to hand over the floor back to the Sun Pharma management for final remarks. Over to you, sir.

Uday: Thank you very much to all of you for joining the conference. If you have any questions, please you can call me or send me an email. Thank you, bye.

Moderator: Thank you sir. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice day.