



Corporate Participants

Dilip Shanghvi

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Kal Sundaram

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Moderator: Ladies and gentlemen, good morning and welcome to Sun Pharmaceuticals Q3 FY11 Earnings Conference Call. As a reminder for the duration of this conference, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need any assistance during this conference, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Uday Baldota of Sun Pharmaceuticals, thank you and over to you sir.

Uday Baldota: Thank you Farah. Good morning and a warm welcome to our third quarter 2010-11 earnings call. Apologies for the late start. I am Uday from the Sun Pharma Investor Relations team. We hope you have received our Q3 FY11 financials and press release that we sent out yesterday. These are also available on our website. Today, we have Mr. Dilip Shanghvi, Chairman & Managing Director; Mr. Kal Sundaram, CEO; and Mr. Sudhir Valia, Wholetime Director for this interactive session. Together they will discuss and respond to queries on performance highlights as well as updates on strategy.

As is usual, for ease of discussion we will look at the consolidated financials. Just as a reminder, this session is being recorded and the replay will be available on our website. This session 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. I would like to request all of you to kindly send in your queries that remain unanswered today to me or to Mira. I will now hand over to Mr. Dilip Shanghvi.

Dilip Shanghvi: Welcome and thank you for joining us today on this earnings call after announcement of financial results for the third quarter of 2011.

First a few specific mentions. Caraco has disclosed that it would not be in a position to commence manufacturing of products by the end of FY11. This delay in return to normalcy which as per Caraco's disclosure is going to take significant time.

Sun Pharma received a favorable ruling in its appeal in Eloxatin generic case. The litigation has been remanded back to district courts. We continue to evaluate all our options.

In a parallel development Caraco received a favorable ruling from the court in the generic Prandin case invalidating a key patent of the innovator. This ruling can be appealed though it certainly once again highlights our strength in challenging validity of patents around innovative products. The product is awaiting approval from the FDA.

Now as usual Mr. Valia will outline the financial highlights and Mr. Sundaram will cover some of the operational performance highlights. I will then talk about R&D and some other developments. I will now hand over to Mr. Valia.

Sudhir Valia: Thank you Mr. Shanghvi. Good morning to everybody. Our third quarter and first nine months financials are already with you. As usual we will look at the key consolidated financials.

Before I begin to give you financial highlights, a couple of notes would be appropriate. As you are aware in July-September 2010 quarter Taro's Financials were included for 10 days in Sun Pharma consolidated financials. Please note that October-December 2010 is the first quarter of the consolidated financials for the entire quarter. Also, as has been consistently highlighted by us in the past there have been significant non recurring sale and the resulting profit in the first half of 2011, and of varying amounts in all quarters of 2010. To that extent we request all of you to exercise care

while comparing the financials for this third quarter and first nine months for 2011 with those for same period last year.

Now for the financial highlights, first for the quarter and then for the nine months. Q3 net sales are Rs. 1601 crores, an increase of 57% over quarter three last year. This high growth is largely on account of Taro sales included in this quarter's number but not appearing in the corresponding quarter last year. Rest of the business has performed in line with our expectations.

Material cost as a percentage of net sales is 27%, marginally lower than that achieved in the same quarter last year.

Staff cost for the quarter is 17% of net sales, significantly higher than 11% in Q3 last year, this is essentially due to the staff cost being increased at Taro.

Other expenditure is 28% of the net sales, higher than 25% in Q3 last year largely on account of certain price changes, variations for the shelf stock in the US generic business recorded during the period for the sales in the US.

As a result operating margin achieved during Q3 equals to 22.5% significantly lower than that of Q3 last year. Similarly net margin is at 22%, significantly lower than that achieved in the same quarter last year. On fully diluted business EPS is Rs. 3.40, up from Rs. 3.30 for the same quarter last year.

Net sales in the first nine months is Rs.4371 crores, an increase of 46% over the same period last year. This high growth is the result of combination of several factors, low sales in the first half of the last year, significant non-recurring sales in the first half of this year, and Taro sales being included this quarter. As mentioned earlier the performance of the recurring business remains in line.

Material cost as a percentage of the net sale is 26%, marginally lower than that achieved in the same nine months last year.

Staff cost for the first nine months is 12% of the sales, largely at the same level at the last year.

While the other expenditure in the nine months has grown by 36% in absolute terms it is 26% of the net sales, lower compared to the last year. This is partly on account of significant non-recurring sales in the first half of 2011.

As a result operating margin achieved during the first nine months equals 31%, higher than 28% in the first nine months last year.

Net margin at 32% is more or less at the same level achieved in the same nine months last year.

On a fully diluted basis EPS is Rs. 13.70, significantly up from Rs. 9.20 for the first nine months last year.

Now we will talk about our subsidiaries, Caraco recently announced Q3 numbers. Caraco reported Q3 net sales of \$40.3 million, lower by 22% from the quarter last year due to reduction in the sales of distributed products. Earlier in the year Caraco had indicated that the sales of such products were not expected to continue at the level achieved in the past. The net loss USD 3 million for Q3 was the same as for Q3 last year.



Taro recently announced its October-December results. Taro reported October-December net sales of \$102 million, an increase of 23% over the same quarter last year. Net profit is \$4.4 million for the quarter, significantly lower compared to the last year, essentially due to the tax provision made.

A brief mention about the API business. The overall API sales registered a decrease of 18% this quarter. We scaled up 8 API this quarter including Taro filings we now have 127 DMF and CEP approved out of 201 filings.

Now I will hand over to Mr. Sundaram who will share operating highlights.

Kal Sundaram: Thank you Mr. Valia and good morning to everybody. Now I will take you through our formulation business for India and other emerging markets.

Starting with the Indian formulation business, sales in Q3 is Rs. 640 crores reflecting a growth of 20% over the corresponding quarter last year. For the nine months sales are Rs. 1880 crores, showing a growth of 43%. Adjusting for the lower base in the first half of last year, the underlying growth is 22% and is in line with our expectations.

According to AWACS a report similar to the one generated by IMS-ORG, we hold market share of 4.4% in the domestic market and we are growing at 23% against the market growth of 17%.

During the course of the third quarter we launched nine products, taking the total to 30 for the first nine months. We are ranked number one on share of prescriptions with six doctor specialties, namely psychiatrists, neurologists, cardiologists, orthopedics, ophthalmologists, and gastroenterologists.

Now coming to the emerging market branded business, sales for this segment in this quarter is 6% lower at constant dollar compared to the same quarter last year. First nine months sales have grown by about 7% at constant dollar, when compared to last year same period. In market sales across emerging markets have shown growth in excess of 20%. Part of this disparity is on account of planned inventory destocking that we carried out in a few markets. In the rest of the world, for the branded generic business, we expect a steady increase in our sales as we build our brand presence, generate prescriptions, and expand our portfolio. Now I will hand it over to Mr. Shanghvi. Thank you.

Dilip Shanghvi: Thank you Mr. Sundaram. R&D expense for the quarter is Rs. 99 crores, equivalent to 6.2% of net sales based on the efforts of Sun and Taro scientific team.

During the October-December quarter, ANDAs for five products were filed from Sun Pharma taking total of ANDAs filed from Sun Pharma and Caraco in first nine months to 13. At the start of the year we had indicated that we would be filing ANDAs for 30 products. Largely on account of cGMP related problems at Cranbury we are now likely to file ANDAs for 20 to 22 products during the full year FY 2011. Taro filed ANDAs for two products during October-December quarter.

Counting this together with ANDAs for 12 products that were approved during the first nine months and reducing three filings that were withdrawn during this period, we now have a total of 369 products filed with the FDA of which 149 are awaiting approval.

Sun's patent library now stands at 257 patents with 85 patents being granted.

Remediation efforts are ongoing at two sites, one in Canada that belongs to Taro, and one at New Jersey owned by a subsidiary of Sun Pharma. At the moment there is no specific timeline available for completion of these efforts.



During the quarter Sun Pharma had expressed an interest in taking Caraco private. A committee of independent directors of Caraco has been formed for this purpose. The committee has retained its own financial and legal advisors to help them evaluate the Sun Pharma proposal. As things progress on this front we will keep you updated.

Now with nine months of financials available we revise our 2010-11 sales growth guidance to 42% over the reported sales of 2009-10.

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

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin with the question and answer session. At this time if you wish to ask a question, you may please press star and one on your touchtone telephone. If you decide you wish to withdraw your question, you may please press star followed by 2. Participants are requested to use only handsets while asking a question.

Our first question is from the line of Nimish Mehta from MP Advisors. Please go ahead.

Nimish Mehta: Thanks for taking my question. I understood from your initial commentary that there was an increase in staff cost at Taro, so can you just elaborate on that, as to whether this increase has happened this quarter and what is it aimed at?

Dilip Shanghvi: No, it is not an increase at Taro; it is an increase on account of Taro. Taro has a staff cost I think of approximately 30%, so the average goes up.

Nimish Mehta: So, there is no change?

Dilip Shanghvi: There is no change in Taro's number, no.

Nimish Mehta: Okay, and can you also guide us through the tax rate for Sun Pharma in general as we have seen Taro's tax rate go up.

Sudhir Valia: It remains the same; all other things remain the same.

Nimish Mehta: Sir, this quarter's tax rate is what we can take for the year, 13% odd or so?

Sudhir Valia: It includes Taro primarily, so that is why it has significantly gone up.

Dilip Shanghvi: In Taro's case they have made some specific provisions also. So I think we still do not have a handle on Taro's tax rate because of lack of completion of the audit of earlier period, so hopefully next year we should be able to guide you for overall tax rate properly.

Nimish Mehta: Okay and finally can you throw some light on the Taxotere launch that you have made in Europe as to how much competition it has seen and how is it faring overall?

Dilip Shanghvi: I think in Europe there is significant competition for Taxotere and we have a reasonable market share, but it is not a very large market share.

Nimish Mehta: Okay. The last question on Prandin, now that you have a ruling in your favor although it can be appealed further, can we assume a launch soon after the FDA approval or you will wait for a final ruling?

Dilip Shanghvi: Yes I think we will await the approval of the product from the FDA and Novo has indicated that they will appeal. There is no current update on whether they have actually appealed and what the status is.

Nimish Mehta: Okay, thank you very much.

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

Manoj Garg: Good morning to all of you and thanks for taking my question. My questions are related to depreciation line, again there is a significant increase in depreciation, is it primarily pertaining to only Taro?

Sudhir Valia: The increase that you are talking about is primarily on account of Taro.

Manoj Garg: Yes. And second thing we just wanted to understand in terms of Capex guidance for Taro, what kind of Capex we are looking at going forward on Taro, if you can give some color on that?

Dilip Shanghvi: No I think till Taro gives specific guidance about their Capex we will not be able to give you specific guidance, but if you see in the last few years there has not been any significant Capex at Taro, and we have not seen any material change.

Manoj Garg: Okay, and the last question before I get into the queue, I just wanted to get an update on the market share on Effexor XR and Rivastigamine

Dilip Shanghvi: I do not have current numbers but I think we have some 30-40% market share of the Effexor XR tablet market and rivastigamine also I think we have a fair market share.

Manoj Garg: Okay, that is all from my side. Thank you. All the best.

Moderator: Thank you. Our next question is from the line of Chirag Dagli from ICICI Securities. Please go ahead.

Chirag Dagli: Good morning, sir. Sir is this quarter the new base post the Taro consolidation, etc., outside of the one off tax adjustment, at the PBT level at least is it just like the new base of how Sun consolidated financials will move in terms of the base business?

Dilip Shanghvi: If your question is, does this become the base for the future? Then yes, I think we have now the first full quarter of Taro numbers, so to that extent it will form the new base but as we have explained in both Sun as well as in Taro performance, there are certain one-offs, which to that extent distort the overall numbers but other than that I think the base would be established based on this.

Chirag Dagli: Okay, and sir in terms of your comfort on the Taro financials now that the audited numbers are available for until December 2008, your comfort in terms of how the financials have panned out versus your own expectations, etc., if you can add some color on that?

Dilip Shanghvi: I think if you see the audited financials of 2008 then those numbers were a little bit different from the unaudited number which the company had previously shared, so to that extent there is a likelihood- and till the audit for 2009 is complete we cannot give you what is the current status, but the underlying topline sales and basic numbers will not change dramatically.

Chirag Dagli: Okay, and sir one last thing from my side, one suggestion in terms of our disclosures now that our business is far more complex and our disclosures have not changed over the last five years, at least if you can give more color in terms of the sales breakup of exports, etc., it would be really helpful and will go a long way in terms of us being able to analyze Sun Pharma more meaningfully.

Dilip Shanghvi: I think we always have to factor a trade-off between how analysts can track us and how our competitors can track us, so sometimes I think we have to disappoint analysts with a view to protect our business.

Chirag Dagli: Sure, all right sir, all the best.

Moderator: Thank you. Our next question is from the line of Bino Pathiparampil from IIFL. Please go ahead.

Bino Pathiparampil: I was looking for an update on Taxotere in the US, what is happening with the FDA approval, its getting a bit delayed?

Dilip Shanghvi: We have not given any specific guidance. I think Hospira gave some specific guidance, and I think they would have a better handle on what is happening.

Bino Pathiparampil: Right, but is our approval tied to Hospira's approval or is there a totally different reason why our approval is held up?

Dilip Shanghvi: No, we have no idea.

Bino Pathiparampil: Right, and Eloxatin got a favorable verdict, are you planning to relaunch it anytime soon?

Dilip Shanghvi: We are evaluating various options in the sense that we have to trade-off risks, the judgment lifts the injunction but it does not mean that there is no risk.

Bino Pathiparampil: Right, and finally on Taro's tax there were some major provisions in this quarter, so if I work out from the full year numbers, the tax rate comes to about 75% of PBT, so it looks like a big provision out there, what is that related to and how big is that so that we can get a better idea about what could be the tax rate there?

Sudhir Valia: No, tax provided for is always for the quarter, but earlier they had not provided for the whole year. So the difference has come up. These were unaudited numbers, but we have to look at the year, and considering the year whatever provision was to be taken we have taken. Whatever was the short provision as compared to what they have shown in nine months, balance we have taken in this quarter.

Bino Pathiparampil: Okay, perfect, so the full year is more reflective?

Sudhir Valia: Yes, correct.

Bino Pathiparampil: Okay, perfect. Thank you very much. I will join the queue.

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

Kartik Mehta: Hi. You said that you have revised the guidance to 42% for FY11, is the revision on the lower side on account of some inventory that you just mentioned in your opening remarks about the other markets, or is it that there could be some lower sales expected in Taro in this quarter?

Dilip Shanghvi: There are certain potential risks against which we have no anticipation of risks, but at the same time we are not sure as to how and what kind of exposure we have, and that is the reason. Otherwise I think we expect all underlying businesses to perform in line with whatever we are expecting. The business on which we have had inventory adjustment, these are ROW markets where we have destocked the inventory in some of the markets with a conscious decision, the underlying prescription growth in these markets also continues to be in excess of 20%.

Kartik Mehta: Yes, then precisely because of that reason, if we have grown by about 46% in the first nine months then are we missing something. or is it that you have been extremely conservative on the topline?

Dilip Shanghvi: No, I think it is the lack of certainty because we would have certain inventory of pantoprazole in the market and we do not know finally what kind of adjustment we might have to make. And also possibly there would be certain extra sales in Caraco in the last quarter which we may or may not get this year, so that is also with a view to take a conservative position.

Kartik Mehta: Yes, and for the stock adjustment that we mentioned in the opening remark, that has do with Eloxatin and pantoprazole, or is it to do with any other product, because now pantoprazole has gone off patent so I would believe that we would have taken all the hits in this quarter's number, is my assessment right?

Dilip Shanghvi: Yes, partly right, because actually the product went off patent in this quarter. This result is up to December. Patent went off on 19th Jan, but I think major part of provisioning has already been done.

Kartik Mehta: Sir and the last question from my side. In the case of Eloxatin you mentioned about your risk-reward in the case of a relaunch, is settlement an option here, or is it not an option?

Dilip Shanghvi: No, we are saying we will evaluate all options; we will evaluate settlement also as an option.

Kartik Mehta: And could you please share the net cash on 31st of December on a consolidated basis?

Dilip Shanghvi: Yes, Rs. 3800 crores net of loan funds.

Kartik Mehta: Thank you.

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

Sameer Baisiwala: Good morning. We saw the recent litigation on Yaz for Sun Pharma, so is it possible to talk about your broader plan on oral contraceptives?

Dilip Shanghvi: Yes Sameer, we do not talk about future products.

Sameer Baisiwala: Okay if you can just narrow it down whether it is just a one-product specific opportunity, or would you have a therapeutic approach towards OC's?

Dilip Shanghvi: You need a very specific manufacturing infrastructure for sex hormones and contraceptive products, so making one product alone would not make business sense.

Sameer Baisiwala: Okay, wonderful, and on Caraco, if one goes through the PR it does suggest that there is a chance that the transition plan that Sun is trying to discuss may not fructify, the question here is what are the key elements of transition plan and what if it does not come through?

Dilip Shanghvi: I think ultimately the Going Private transaction is linked with the votes of the independent shareholders. Our hope is that the advice which the directors will give, and their view would be factored seriously by the shareholders before they decide to vote for or against the transaction. From our point of view I think one of the important concerns we have is continued period of consistent losses in Caraco, which as a part of Sun will allow us to present a more balanced picture to Sun shareholders.

Sameer Baisiwala: My question was referring to the transition plan of the marketing of the products, what could be the essential ingredient of this transition plan, and what if it does not come through by the time the contract is terminated in January 2012?

Dilip Shanghvi: I think the transition plan would basically involve Sun setting up its own sales and marketing organization and transitioning the relationship from the current sales group to the new group. The idea would essentially be with a view that we have no disruption in the marketplace.

Sameer Baisiwala: Okay and just related to this, every incremental new approval here on including say products like Taxotere, would this necessarily be marketed through Caraco till January 2012?

Dilip Shanghvi: Yes, we have a product by product relationship, but till the Sun sales organization is in place the products will be marketed by Caraco.

Sameer Baisiwala: Okay, just one final question on Prandin, is it fair to assume that the company had filed for site switch and generally speaking how long does it take for site transfer?

Dilip Shanghvi: No, I think in absence of Caraco sharing specific information we will not be able to give details, it's a Caraco product.

Sameer Baisiwala: Okay, thank you.

Moderator: Thank you. Our next question is from the line of Sonal Gupta from UBS. Please go ahead.

Sonal Gupta: Sir just a couple of questions. One in terms of the Caraco revenues for this quarter-- you mentioned that there is some amount of adjustment related to pantoprazole inventory, so how much of Caraco's revenues is reflective of your base business? Or do we see still a lot of revenues are coming from Effexor XR, so I am just trying to understand one-offs versus base for US sales ex-Taro.

Dilip Shanghvi: No, I think there is no single huge product in the current sales.

Sonal Gupta: Okay, and any reason why you guided pretty high on the R&D investments or R&D spends in the beginning of the year, and they seem to be coming down very significantly quarter on quarter if I take out Taro, what are the plans on the R&D side, are we pulling back?

Dilip Shanghvi: I think part of the reduction is on account of current focus with compliance at both the sites, Caraco as well as Cranbury. There is no reduction in the investment in India.

Sonal Gupta: There is no reduction in investment in India but most of the filings are being done from India, right?

Dilip Shanghvi: Yes. The planned investments from the US have not taken place this year.

Sonal Gupta: Okay, and anything on the tax rate ex-Taro? I understand for Taro you may not have a handle on the business, but given the DTC how do you see things changing for your domestic business, anything on the standalone front?

Sudhir Valia: No, tax rate is going up even the MAT is increasing.

Sonal Gupta: So, from next year will you move to MAT or something just below MAT like other companies do?

Sudhir Valia: No, we currently pay as per MAT.

Sonal Gupta: It seems that you acquired additional stake in Taro, your stake has gone up other than the warrant issue, from my calculation roughly about 5 million shares from the market, the amount of investment that you have done to take that?

Uday Baldota: That was Templeton's stake.

Dilip Shanghvi: So we have not bought anything other than exercising the options as well as the shares from Templeton.

Sonal Gupta: Okay, and have you disclosed the value?

Uday Baldota: Templeton stake was bought in early November, \$82 million was paid for that.

Sonal Gupta: Okay, great and just one final thing on the non-US market, I do not know from my calculation it seems there is a big growth, how much of that is because of Taxotere?

Dilip Shanghvi: No I think growth is on account of Taro sales.

Sonal Gupta: No, ex of US, ex Taro and Caraco.

Uday Baldota: I think Kal in his opening comments mentioned that the growth is 7% for the nine months at constant dollar.

Dilip Shanghvi: Yes Kal, I think may be you can...

Kal: For the rest of the world as we mentioned the primary sales is for nine months in total is showing a growth of 7%.

Sonal Gupta: Sorry just for this quarter to be specific--there does seem to be a big jump?

Kal: How are you talking about growth in the rest of the world? Actually this quarter there is degrowth.

Uday Baldota: Sonal, lets take the maths off-line.

Sonal Gupta: Okay, sure.

Moderator: Thank you. Our next question is from the line of Ranjit Kapadia from HDFC Securities. Please go ahead.

Ranjit Kapadia: Sir my question relates to new product introductions, we have introduced 30 new products during the current year nine months, out of which 21 was in the first half, if you can throw some light on the performance of these 21 products? My second question relates to the three ANDAs which were withdrawn during the year, if you can give some details of this, and the third question refers to 149 ANDA which are pending approval, if you can share some information on how many are FTF and Para-IV opportunities out of this?

Kal: The presentation online will provide you details on new product performance, I do not have the details offhand with me.

Dilip Shanghvi: No but generally I think you can give your view how are they doing.

Kal: Sure, that is fine. All these products are launched in the area of our focus. Every year anywhere between 2 to 3% of our total sales comes from new products. In terms of performance for these 30 products that we have launched so far, they have been tracking our expectations in totality, some up and some down but in total we are tracking our forecast for these products. Till the end of the year I would say probably anywhere between 2 to 3% of the sales will be generated from these products. Dilip anything else you want me to add on?

Uday Baldota: Ranjit is that okay?

Ranjit Kapadia: Yes, sure. Thank you.

Uday Baldota: We will take the other two questions. One question was about the three products that were withdrawn....

Ranjit Kapadia: Yes, please.

Dilip Shanghvi: I think sometimes FDA has some major deficiency with a product filing and to respond to that it makes sense sometimes to either withdraw the ANDA with a view to refile, or withdraw and not even refile. So these three would be withdrawn on account of some of these deficiencies and since we have not shared which products they were even when they were filed, we will not be giving specific information about which are these withdrawn ANDAs. The reason why we have clarified this is because otherwise the maths of number of products filed as well as awaiting approval, the total will not add up. So this is so that there is no confusion.

Uday Baldota: On the Para-IV and FTF we generally do not give a specific explanation of the pipeline.

Ranjit Kapadia: No, I just wanted a number, I do not want the specific details, but out of 149 if you can share how many are FTF and Para-IV?

Dilip Shanghvi: We have not given that information till now. If we decide that we will share this information, we will share it with you in the next quarter call.

Ranjit Kapadia: Okay, thank you very much and wish you all the very best.

Moderator: Thank you. Our next question is from the line of Sriram Rathi of Anand Rathi Securities. Please go ahead.

Sriram Rathi: The one thing I want to know is the staff cost, is there any one-off item this particular quarter regarding Taro?

Sudhir Valia: No.

Sriram Rathi: Nothing, but I think for the depreciation side there will be an impediment charge of around \$4.5 million regarding Taro so that particular item is one-off?

Sudhir Valia: No, that is also not one-off, it is a routine thing. There is some small portion of employee cost where we paid one time, those are the marginal things, it is not anything significant.

Sriram Rathi: Okay fine, thank you.

Moderator: Thank you. Our next question is from the line of Krishnendu Saha from Quantum AMC. Please go ahead.

Krishnendu Saha: I have a small question on Taro's topline, I am seeing the audited numbers to 08-09, and the top line is increasing. What I am trying to understand is, there has been no filing, there is not much approval since the last two-three years, is there any one-off or two-three products which are contributing heavily to this topline of Taro, just want some clarity on that?

Dilip Shanghvi: I think the company has been able to improve market share for some of their products, there is no specific one-off.

Krishnendu Saha: Okay, there is nothing like five products have contributed around 50% of the revenue, nothing like that?

Dilip Shanghvi: No that maybe, but nothing which is very specific at this point.

Krishnendu Saha: Okay and one question in the other markets beside US, exports of Taro in Israel and Canada as well is included in that, right?

Dilip Shanghvi: Yes.

Krishnendu Saha: Okay, thank you very much.

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

Rahul Sharma: Just wanted to know the Ireland impairment charge which is there, is it over for Taro's facility or will it be a recurring thing year on year?

Dilip Shanghvi: No, it will not be a recurring cost.

Rahul Sharma: Okay, and could you share the non-US non-Taro formulations revenue for the quarter and for the nine months in rupee terms?

Dilip Shanghvi: No, we do not give subset of numbers, we will give overall international business of formulations. We split the business into domestic and international, and bulk and formulations.

Rahul Sharma: Okay, what type of rupee rate should be taken for the quarter and for the nine months?

Sudhir Valia: Bank rate. I think we would have some forward bookings.

Dilip Shanghvi: Rahul, it is not something which is material.

Uday Baldota: Let's take it off line.

Rahul Sharma: Okay, thank you.

Moderator: Thank you. Our next question is from the line of Sangam Iyer from ALF Accurate Advisors. Please go ahead.

Sangam Iyer: In terms of the run rate for Taro's revenue you indicated that in Q4 there was some one-off revenue, one-time revenue, which would not be recurring in the coming quarters; could you give some more clarity on that?

Dilip Shanghvi: I think that was not about Taro, it was about Caraco.

Sangam Iyer: So would it be fair to assume that current base revenue of Taro that we are looking at is something that would be steady state base, going forward for Taro?

Dilip Shanghvi: No I think till Taro gives specific guidance related to their numbers it is not wise for us to give on their behalf, but I think once they give their guidance you will have clarity.

Sangam Iyer: Okay, and sir on the margin front going forward how could we be looking at margins from Taro's perspective, could you give us some more clarity in terms of how the margin expansion could happen going forward?

Dilip Shanghvi: No I think there would be no dramatic expansion in the margins of Taro, it will happen over a period of time.

Sangam Iyer: Okay, thanks a lot sir.

Moderator: Thank you. The next question is from the line of Prashant Poddar from Invesco. Please go ahead.

Prashant Poddar: Good morning, sir. Just one thing on the sales force that you said you will have to set up in US as a transition from the current form over next one year till the contract becomes due, would it mean that Caraco would continue to have its own size of sales force at least closer to what they have today, and Sun Pharma will have to put up a similar force therefore doubling the cost for you because for all practical purposes Caraco is still a subsidiary of Sun Pharma.

Dilip Shanghvi: Yes, there would be a certain amount of duplication.

Prashant Poddar: Okay, just to understand, as far as Caraco is concerned we own around 75% of the company so is it unfair to assume that you have a strong hold on the decision-making that would go on in the company in the future?

Dilip Shanghvi: Yes, but it is still an independent company with its own CEO and its own independent board, so we have ability to influence some decisions, but it will always as a company evaluate the business in the context of their best interest.

Prashant Poddar: All right, thank you very much sir.

Moderator: Thank you. Our next question is from the line of Prakash Agarwal from RBS. Please go ahead.

Prakash Agarwal: I just want to ask on the net cash that you have and the couple of press reports that we heard that you might be looking aggressively at the US markets to strengthen and add more distribution companies, so could you give some color there please?

Dilip Shanghvi: I think Uday clarified that we have some Rs. 3800 crores.

Prakash Agarwal: Yes, so are you aggressively looking at acquiring US companies with strong distribution channels or you would be developing your own distribution channel with sales force as you just mentioned?

Dilip Shanghvi: No, we will do both, we will look at the option to invest in the opportunity in the US; we will also create our own sales and marketing organization.

Prakash Agarwal: And in terms of acquiring companies are we seeing anything in the near term or it is a wait and watch?

Dilip Shanghvi: We are not looking at anything in the near term right now.

Prakash Agarwal: Okay, got it. And next question is on the cost base, we have seen several questions on Taro consolidation, the cost base has actually increased too much, so this cost base should be the new base we should look at going look forward and the margins?

Dilip Shanghvi: Yes I think so.

Prakash Agarwal: Okay, and lastly on the outlook for Taro, because you are now on the board and you understand the business much better, and with the kind of product portfolio Taro has, what kind of growth plans do you have for Taro?

Dilip Shanghvi: I think I have shared my concern about the need for increasing investment in R&D so that the future product pipeline of Taro can be strengthened. Other than that I think we find its business very interesting and it can help us strengthen our presence in the US.

Prakash Agarwal: And sir last question on Taro's USFDA issue in one of its facilities, any update there?

Dilip Shanghvi: No, there is no update.

Prakash Agarwal: Okay, thank you sir.

Moderator: Thank you. Our next question is from the line of Suryadeep Das from Centrum Broking, please go ahead.

Suryadeep Das: Good afternoon. Just a pair of quick questions on Taro. Firstly we see the EBITDA margin of Taro, it had been around 21 to 22% for the first nine months and it has again dropped to sub-20 levels and considering that it was around 25%-odd during its prime, where do we see it going from now on, now that Sun is taking control and we know that sun operates in very high margins, any color on that?

Dilip Shanghvi: Yes I think the profitability in the last quarter is affected on account of tax rate, is that the question?

Suryadeep Das: No, I am talking about EBITDA levels, EBITDA margin, the operational margins before the tax rate comes into the picture.

Uday Baldota: I think Mr. Shanghvi said earlier in response to some question that there will be only gradual improvement in the performance at Taro.

Suryadeep Das: Okay, and just one quick question, last quarter there had been a tax credit of around \$76 million which is not there, because of which the tax rate actually went up so was it Sun's subsidiary at that point in time, any part of that tax credit was reflected in Sun's books?

Uday Baldota: It was not a subsidiary at that point in time. We had just about 36% stake in the company.

Suryadeep Das: Okay, that looks good, thanks a lot.

Moderator: Thank you. Our next question is from the line of Krishna Prasad from JM Financial. Please go ahead.

Krishna Prasad: Good morning and thanks for taking my question. My question is relating to SPARC, you have spoken about launching an inhaler in India and also about launching Latanoprost, so I want to understand if these products have been launched?

Dilip Shanghvi: Yes, Latanoprost has been launched; the DPI is likely to be launched in the next financial year. There is some delay in terms of launching that product.

Krishna Prasad: Okay, just a quick follow-up on that, another product Baclofen GRS capsule where you have talked about CT study in the US, if you could just update us on that, if that study has been completed and what have been the study details?

Dilip Shanghvi: I think you can check with Uday, he will brief you.

Krishna Prasad: Sure, okay, thanks for taking my question.

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

Nimish Mehta: Thanks again. I am a little unclear about Caraco's performance, if you can just throw some light, because we have seen a decline and the reason mentioned is that there were one-offs last year, actually I see no one-off last year and there are many one-offs this year, so why this decline exactly I understand there was no Protonix last year but this time we have Exelon and Effexor XR both in Caraco's number as well.

Uday Baldota: Nimish why would you think there was no Protonix generic last year?

Nimish Mehta: Okay, I stand corrected but can you just tell us, was Protonix so large that it has not just compensated for Exelon and Effexor XR but there was a decline?

Uday Baldota: No, first of all generic Protonix was being sold till April of 2010, that I think you are aware, right? So there was generic Protonix in the whole of last year in varying amounts in different quarters, but it was there.

Nimish Mehta: Okay, sir largely the difference is because of that one-off Protonix, is that a fair understanding or is there something that I am missing here?

Uday Baldota: Partly attributable to that.

Nimish Mehta: And partly to?

Dilip Shanghvi: Partly maybe because of pricing for some of the products or some specific product that we would have sold extra. If your idea is to try and understand the base rate of Sun's performance in the US then it is difficult and a moving status, in the sense as we get new product approval it will keep on changing.

Nimish Mehta: Okay, fine. Like last year I understand there was Eloxatin I am talking about second quarter '11, but the sales that we have seen in Caraco for the quarter has been kind of leashed in the last two plus years if I am not wrong, and although we have some sales from own products rising that is what I am trying to understand. Thank you very much.

Moderator: Thank you. Our next question is from the line of Bino Pathiparampil from IIFL. Please go ahead.

Bino Pathiparampil: I was following up on the question earlier raised by Sonal. If we subtract the Caraco and Taro revenues from your total international, then non US formulations comes to a jump over the prior year quarter, so is it like that in the first quarter there is a differential provisioning of sales made in Caraco versus Taro?

Dilip Shanghvi: No I think there are some calculation differences that we are seeing here and I do not think we would be able to clarify this on the phone, so best is that you check with Uday and if necessary he will be able to give you the information.

Bino Pathiparampil: Great, thanks very much.

Moderator: Thank you. Our next question is from the line of Nitin Agrawal from IDFC Securities. Please go ahead.

Nitin Agrawal: I just wanted to check on Taxotere, I guess once Hospira and Sanofi would shift the market to a single vial market, how should we look at the product and since ours is even a double vial product how should we look at our ability to capture market in this product going forward, as and when we get approval?

Dilip Shanghvi: We will get some market clearly where we would have a product with some handicap.

Nitin Agrawal: Okay, and secondly on this question about the fact that this quarter, after essentially adjusting for the profit in Taro represents some sort of a base quarter, and without that there are no major material one-offs in the current quarter, is that a fair comment to make or there

are charge backs that you have taken in Pantoprazole, there are material charge offs related to Pantoprazole in the current quarter, or this is like a normal quarter that we can look at in terms of a base to go with?

Dilip Shanghvi: Yes there would be certain impact of Pantoprazole charge back on the overall cost but there is no significant one-off sales in the quarter.

Nitin Agrawal: And these Pantoprazole costs would be reflected in other expenses or it is netted off against sales in Caraco only?

Sudhir Valia: It is not related to this quarter's sales, it is included in the other expense.

Nitin Agrawal: Okay fine, thank you very much.

Moderator: Thank you. Our next question is from the line of Ashish Thavakar from Emkay Global. Please go ahead.

Ashish Thavakar: What is your take on raising the equity stake in Taro?

Dilip Shanghvi: I think first we have to complete the audited financials and achieve compliance and then only we can consider whatever we wish to consider.

Ashish Thavakar: Okay, but you are looking forward to this?

Dilip Shanghvi: We have not taken any decision yet.

Ashish Thavakar: Okay and my second question relates to the European markets, are you willing to enter the tender business in the European markets as such?

Dilip Shanghvi: It has to meet our business criteria and then we will look at it.

Ashish Thavakar: Okay, that is it from my side, thanks a lot sir.

Moderator: Thank you. Our next question is from the line of Sonal Gupta from UBS. Please go ahead.

Sonal Gupta: On the Rs. 3800 crores, can you tell me how much is outside India and how much is in India?

Dilip Shanghvi: We do not have that breakup here.

Sonal Gupta: No what I am saying is that your interest income seems to be very stable quarter on quarter and the domestic interest rates have moved up, so if you had it in money market I guess as was previously suggested, it should start moving up.

Sudhir Valia: You know interest rates have gone up and definitely the returns will go up.

Sonal Gupta: Okay, but is there a broad split of how much you have offshore versus in India?

Dilip Shanghvi: Currently I do not think we can give you this detail immediately with any level of accuracy so may be in the next conference call we will give a more specific split.

Sonal Gupta: Okay great, thank you so much.

Moderator: Thank you. Our next question is from the line of Surjit Pal from Elara Capital. Please go ahead.

Surjit Pal: What I have seen is that if I go sequentially by numbers every year in FY11, 10, 09, then your third quarter is always lesser than other quarters, or the first two quarters, is it because of the December phenomena or clearing of stock or that kind of effect? In spite of Pantoprazole last year you have total distribution business \$ 48.7 million, or FY'09 it was just \$27 million, when you are getting \$100 to more than \$100 million in Caraco in every quarter before that?

Dilip Shanghvi: I think it is a good observation but I think from our point of view it is coincidental, the base business continues to grow year after year and quarter, on an ongoing basis. There may be certain amount of seasonality in the Indian market, but Kal that would be generally the last quarter correct, so the last quarter would have a seasonality impact in the Indian market rather than that the base business actually does not change much.

Surjit Pal: In Caraco?

Dilip Shanghvi: Everywhere. It's coincidental that we would have launched some product either in Q2 or Q4 which would have impacted the performance but underlying business actually does not change much.

Surjit Pal: All right. Another thing is that this time if I go by your statement is that base business in other non Para-IV distributed products in Caraco has been growing, my estimation is that this time your Para-IV sales has not yet crossed the double digit number, am I in the right direction?

Dilip Shanghvi: What you are saying is that for one-off products like rivastigmine and others, we are not selling more than \$10 million. We do not actually have that split yet with us.

Surjit Pal: As far as Taro is concerned, if I remove for Taro which is roughly around \$13.2 million that you have paid in Q4 as tax and if I convert around Rs. 46 for \$1, what I am seeing is that your tax payment which I am getting, is some negative tax rate, it roughly comes to 607 million and you have provision of around 544 million, am I on the right track?

Uday Baldota: Yes, all these subsidiaries added up would be this number that you have seen in the consolidated, if you see Sun standalone there is still a positive number. Some other subsidiary would have probably come up with a negative number and that is the reason you have seen the total that you are talking about.

Surjit Pal: That is why I said, I just removed Taro from that part because Taro you do not have yet...

Dilip Shanghvi: What Uday is saying is that you have one number which is for Taro and you have another number which is for Sun standalone, now if the total is less than Taro alone and Sun's tax stream is positive, there would be certain tax set off in some of the other subsidiaries but those numbers we do not have.

Surjit Pal: What could be the rate other than Taro if I see Sun Pharma consolidated excluding Taro?

Uday Baldota: Sun Pharma standalone is with you. I think Caraco number also you have \$1.7 million tax credit is what they have taken, and there are different subsidiaries that would have different tax credits.

Surjit Pal: Okay, what is the current status for pantoprazole post exclusivity genericisation? What is the kind of competition presently or kind of erosion that has happened presently?

Dilip Shanghvi: Well, I think there is significant competition. I do not have any specific input as to the erosion number.

Surjit Pal: Okay. What is the current economic stake in Taro presently?

Sudhir Valia: 66%.

Surjit Pal: 66%. Thank you.

Moderator: Thank you, our next question is from the line of Kartik Mehta from Daiwa Capital Markets. Please go ahead.

Kartik Mehta: The filing for Caraco for September, their 10 Q shows a distributed inventory at about \$60 odd million, would it be fair to assume that that would have some generic Eloxatin, Protonix, etc., which would be with some of the distributors, and we had indicated that we had stopped selling Protonix in early June, then why should we assume that there would still be charge backs of Protonix in particular that would have to be taken in this quarter?

Dilip Shanghvi: If your question is whether the inventory will include Protonix then it will.

Kartik Mehta: No, the Protonix inventory would be there but then that charge back should have been completed in this quarter ended 31st December, right, because this is the first full quarter when I feel we would not have sold any Protonix, so was there a view to resell it and hence not take the charge back, or we should have taken all the charge back for Protonix in this quarter, and I understand that you mentioned that we would still be having some more charge backs in Q4 on Protonix also.

Dilip Shanghvi: I think it is fairly complicated. I do not think it is possible to explain on a conference call. What we are taking is a conservative view that there maybe certain amount of charge back, either charge back or you can call it shelf stock adjustment, on account of pantoprazole in the last quarter.

Kartik Mehta: Okay.

Moderator: Thank you, our next question is from the line of Ashish Thavakar from Emkay Global. Please go ahead.

Ashish Thavakar: Some of our competitors in the US are of the view that traders in the US have been reducing their inventory levels from two to three weeks to just one week because of some cost pressures, so what is your take on this?

Dilip Shanghvi: No, I have no immediate response because my sense is that there is no dramatic reduction in inventory, everybody is trying to find a way to manage their costs more effectively but if they reduce the inventory then they insist that their primary source needs to carry that inventory for them.



Ashish Thavakar: Okay, that answers my question, thanks a lot.

Moderator: Thank you. As there are no further questions I would like to hand the floor back to Mr. Uday Baldota for closing comments.

Uday Baldota: Thank you everybody for joining us on this call today. If you have any questions and answers please let me or Mira know and we will happy to help you, thank you.

Moderator: Thank you. On behalf of Sun Pharmaceuticals that concludes this conference call. Thank you for joining us and you may now disconnect your lines.