

**Corporate Participants**

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

Sudhir Valia  
Wholetime Director, Sun Pharmaceutical Industries Ltd.

**Moderator:** Ladies and gentlemen, good morning. I am Rochelle, the moderator for this conference call. Welcome to the Q1 post results conference call with the management of Sun Pharmaceutical Industries Ltd. Please note that for the duration of the presentation, all participants will be in listen-only mode and the conference is being recorded. After the presentation, there will be an opportunity for you to ask questions. Should anyone need assistance during the Conference Call, they may signal an operator by pressing \* and 0 on their touch tone telephone.

At this time, I would like to turn the Conference over to Mr. Uday Baldota. Thank you and over to you, Mr. Baldota.

**Uday Baldota:** Thank you, Rochelle. Good morning and a warm welcome to our 2008-09 first quarter earnings call. Sincere apologies for the delay in starting the conference call. I am Uday from the Sun Pharma Investor Relations team. Today, our hosts are Mr. Dilip Shanghvi, Chairman and Managing Director and Mr. Sudhir Valia, Wholetime Director and they will discuss the performance highlights and share developments on strategy. We hope you have received our first quarter financials and press release, sent out yesterday, which are also available on our website. For the ease of discussion, we will look at the consolidated numbers. For the purpose of this discussion, net sales is taken net of excise duty and indirect taxes.

Just as a reminder, this call is being recorded and a replay of the call will be available till August 5, 2008. The call transcript will also be put on our website soon. It would be appropriate to mention that the discussions today may include certain forward-looking statements and these must be viewed in conjunction with the risks that our business faces. Also, I would like to request all of you to kindly send in your queries that remain unanswered during today's earnings call to [uday.baldota@sunpharma.com](mailto:uday.baldota@sunpharma.com) or [mira.desai@sunpharma.com](mailto:mira.desai@sunpharma.com). I now hand over the call to Mr. Dilip Shanghvi.

**Dilip Shanghvi:** Welcome and thank you for joining us today for the conference call after announcement of the financial results for the first quarter of 2008-09.

First of all, I'd like to say a few words about the developments at Taro. In the last earnings call, I had requested for patience on your part in forcing us to reveal our options. I sincerely appreciate the restraint that has been displayed. Since then, as all of you are aware, we have moved decisively to preserve our interests.

While strongly challenging the validity of the purported termination by Taro in the New York Supreme Court, we have exercised our option to buy out all shares owned by current Taro promoters. Fulfilling our obligation under the Option Agreement, we also commenced a tender offer for all ordinary shares of Taro, which now will expire on 2 Sep, an extension of 35 days from the original expiry date, abiding by the recommendation of the Honourable Judge in Israel.

Going by the behaviour displayed by Taro, its Directors and the Levitt family and their penchant for filing court cases, it appears that the ultimate resolution of all issues involved is likely to take quite a bit of time. Without going into the details at this juncture and forum, it would suffice to state that several options exist for us to secure and protect our long term interest and we remain committed to completing this transaction. We will keep you informed about the developments.

Now, about the core business.

This quarter too, we've grown our business quite well, we've had some effect of the first-to-file patent challenges and exclusivities on ANDA filings.

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We continue to market generics for Protonix and Ethyol, which are our first to file exclusivities and launched at risk. This quarter too, our US sales have grown out of trend, as expected. This sale is not of a recurring nature and hence needs to be adjusted for, while making any comparisons.

Osmotica has filed a Citizens Petition related to approval of tablet formulations of generic Effexor XR, which has the potential to delay a final approval for our ANDA. We have filed our response to their Citizens Petition and await further development on this.

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

**Sudhir Valia:** Thank you, Mr Shanghvi. Good Morning everybody. Our first quarter numbers were sent out yesterday evening, and are already with you. We've seen good growth across all our business segments.

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

Net sales has grown by 66% to Rs 10239 million, while EBITDA has increased by 150% to Rs 5379 million. Resulting EBITDA margin has expanded to 53%, from 35% achieved same quarter last year. Net profit after minority interest is Rs 5015 million, which is an increase of 121%. Net margin at 49% is significantly higher than 37% achieved during the same period last year largely on account of the non-recurring sales and profit from the exclusivity product sales in the US.

On the cost side, material cost has fallen to 19% of net sales. Similarly staff and other costs as a % of net sales are lower at 9% and 20% respectively. R&D expense for the generic business is Rs.742 million.

We've had impact of continuing exclusivities in the US this quarter- generic Protonix, and generic Ethyol. You can see an impact of these on the quarter sales as well as profits. The sales growth, cost ratios and margins achieved you see for the first quarter are affected by significant non-recurring sales and profit from these generics.

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

First, a look at the Indian business, which, for the quarter is 43% of our turnover.

India branded generic sales for Q1 is Rs 4296 million, and has grown 17%. As per the latest MAT ORG IMS data, Sun Pharma market share is now 3.4%. Our six main therapy areas, cardiology, psychiatry, neurology, gastroenterology, diabetology and gynecology accounted for over 70% of our domestic formulation sales. Several of our top brands continue to show double-digit growth rates.

Caraco recently announced its Q1 financials. Caraco reported first quarter sales of USD 108 million, up 206%. The sales number comprises USD 76 million sales from the distributed products, products it markets for Sun Pharma, which included sales of 22 products, including generic Protonix and Ethyol. Gross margin for Caraco's manufactured products was 51%, as against 50% for the same quarter last year. Net income was USD 9 million for the first quarter.

International branded generic exports has grown by 69% for the first quarter. We expect a slow and steady increase in sales, as we build brands and initiate product promotion activities. For much of the first quarter, we've seen significant volatility in the rupee, despite which, dosage form exports have shown a good growth.

API integration and the capability to compete with in house sourced API for tightly held formulation markets is an important part of our business. This capability strengthens our Indian and developing markets business, and our ability to take on challenges in the US generic market. This quarter we scaled up 9 APIs. As you know, a large part of API capacity is being used for internal consumption. Our API sales, i.e. sales to customers outside the company, has grown 9% for the first quarter.

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

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

This has been an interesting quarter and a good start to the year. R&D investment for the quarter is Rs 742 million, or 7% of net sales. At our research facilities we now have over 500 scientists working on generic development on projects that ensure a pipeline for our base business in India and international markets. At the end of the first quarter, our patent library with 225 patents filed has 68 patents approved so far.

At both Sun and Caraco, ANDAs for 5 products have been filed in Q1 taking the total number pending approval to 88 filings. We are on track for our guidance of 30 product filings for financial year 2008-2009. 6 products have been approved by the USFDA across Sun and Caraco. This takes our total pipeline of products approved to 58, from a total of 146 filings. Of the balance products represented by 95 ANDAs that await approval at the USFDA, we have tentative approvals for 8 products. This pipeline will power our US generic business, which has been an increasingly larger part of our business in the last few years and is expected to be even larger in the years ahead.

Total filings across all less regulated markets at the end of the first quarter stand at over 1280, of which more than 790 are approved, a good portfolio of market- specific brands to build on.

7 important products were brought to market in India in the quarter.

For API's, the total cumulative number for regulated market approvals is 52, out of 102 filings made for DMFs and CEP.

As a company, we shall remain focused on efficiencies and costs, and building a company that delivers consistent revenues across businesses. We're learning as we go along, and the challenge for us is to continue with our focus on costs and efficiencies despite these higher than ever before numbers. Going ahead, we expect to retain this sensible approach to opportunities, making the best of each opportunity, doing what is best for the long term.

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

**Rochelle:** Thank you very much sir. Ladies and gentlemen, we will now open the call for questions. At this time participants who wish to ask a question may press "\*" and "1" on their touch-tone telephone.

If you wish to remove yourself from the question queue you may press "\*" and "2". Participants are

requested to use only handsets while asking question. Anyone who has a question may press "\*" and "1" now. The first question is from the line of Mr. Sonal Gupta from UBS Securities. Please go ahead.

**Sonal Gupta:** Thank you. Sir, a great set of numbers but I just wanted to understand in the last quarter you had said that the Protonix sales for this quarter will be at a similar level to last quarter, but clearly that has not been the case. I just wanted to understand on that market and what is the thinking on Protonix at this point in time?

**Dilip Shanghvi:** I think even in the last quarter we had indicated that we have a certain amount of risk appetite and risk is a function of both volume and price. So we remain cautious and we will continue to focus on business in view of our risk appetite for the product, at prices which are sensible. As I see the market progressing we remain reasonably comfortable that we will be able to achieve the same. What I'm trying to say is that we walk away from business where prices are very low.

**Sonal Gupta:** Right sir. Are you seeing any deterioration in pricing for Protonix or do you think that it is still stable given that there are two generics and one authorized generic?

**Dilip Shanghvi:** I do not have any specific confirmation but I know that there would be business, which we will not take simply because we feel the price does not justify the risk that we potentially would then take with the product.

**Sonal Gupta:** Great, thank you sir.

**Rochelle:** Thank you Mr. Gupta. The next question is from the line of Mr. Rajesh Vora from ICICI Securities. Please go ahead.

**Rajesh Vora:** Good morning gentlemen and congrats for a good set of numbers. Mr. Shanghvi, Caraco has filed one NDA, which is what their press release mentions. I do not know whether you can disclose anything. Is it at least fair to assume that it will be more like a 505 (b) (2) kind of opportunity?

**Dilip Shanghvi:** I think you need to look at their filing because beyond what they have filed, we will not be able to disclose any information.

**Rajesh Vora:** Sure. For Taro you mentioned in your opening remarks that the legal battle could take quite a bit of time, so in that sense is there anything that has changed because it is happening on two

different territories. Is this why it will take longer, or is there any more color would you like to give on that?

**Dilip Shanghvi:** I think with litigation of any kind, if people wish to find a way to structure their strategy in such a way that it will take time, then that is what we see (going ahead). That is why I wanted to caution everybody that it is not something that will get over very soon.

**Rajesh Vora:** Without getting into the specific timelines, if the legal battle were to take longer, since you are sitting on huge cash, would you be open to looking at something else in the frame, if the Taro resolution does not come through say in the next one year, one-and-a-half year, or whatever?

**Dilip Shanghvi:** We do not have such a long timeline in mind, but we continue to look at opportunities.

**Rajesh Vora:** Okay sure, all the best, thank you.

**Dilip Shanghvi:** Thank you.

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

**Sameer Baisiwala:** Hi good morning everyone. Just on your comment on Protonix, when you are alluding to pricing that is not acceptable to you in the context of risk that you are taking, are you referring to the incremental new customers or you are referring to the existing customers?

**Dilip Shanghvi:** I think it is basically new customers and new pricing.

**Sameer Baisiwala:** As far as the existing customers are concerned, there isn't any change sequentially speaking?

**Dilip Shanghvi:** No.

**Sameer Baisiwala:** In the same context what is the inventory, which is right now in the channel for Protonix?

**Dilip Shanghvi:** I do not think we have access to that information in Sun Pharma, maybe Caraco has this information, but I do not think we have the information.

**Sameer Baisiwala:** You would know how much you have sold and you would know the market share on prescription trend I know it is not an exact match, but any rough indication that you can give, whether it is two months, four months or more.

**Dilip Shanghvi:** I think Sameer if you see on oxcarbazepine, Trileptal, if you looked at the IMS numbers that would have never reflected the kind of sales that we achieved, so IMS is not an indicator of sales based on which you can structure any clear plan, it is an indicative number. I believe that we have fair bit of liquidation in whatever we are selling, and that's our conscious focus -we do not sell in such a way that the customer ends up holding inventory for a long time.

**Sameer Baisiwala:** Second point is on Amifostine, what kind of pricing are you seeing in the market, and what market share, if you can share some details?

**Dilip Shanghvi:** I think in Amifostine we are seeing pricing that we had anticipated. It is not behaving out of trend (when compared to) a product with an authorized generic and a single generic in market place.

**Sameer Baisiwala:** What is your market share right now?

**Dilip Shanghvi:** Difficult for me to answer because hospital products are even more difficult to visualize market share for.

**Sameer Baisiwala:** Okay, perfect. Just one last question on Effexor XR what is the time frame that you are looking at for the resolution of the Citizen's Petition by FDA?

**Dilip Shanghvi:** FDA has 180 days to respond to a Citizen's Petition. As per the new guidance, there is now a time limit for the FDA to respond.

**Sameer Baisiwala:** Do you think it is going to go all the way to 180 days, or do you think it could be a little earlier than that?

**Dilip Shanghvi:** What I think, and what I share are two different things. It is better for us to take a consciously conservative position, and say that we do not think that FDA is likely to take a decision in a period less than 180 days.

**Sameer Baisiwala:** Okay, thanks, that is all from my side.

**Rochelle:** Thank you Mr. Baisiwala. The next question is from the line of Mr. Nimish Mehta from Mehta Partners. Please go ahead.

**Nimish Mehta:** Good morning everybody. My question again refers to Effexor XR in relation to the timeline. Last quarter you mention Effexor XR could be launched in the year-end CY 08. The revised timeline is after that, or do you still maintain that?

**Dilip Shanghvi:** I think it is a difficult question. If it is something that we could have controlled ourselves, we can give a timeline, but it is not something, which is in our hands right now. We believe that we have a fair position for Effexor XR to be approved and that is something that we continue to communicate with FDA, so that they can approve the product- but ultimately it is up to the FDA to take a decision both for time and approval.

**Nimish Mehta:** Last time when you mentioned about Effexor XR likely to be launched in the year-end, was this case Citizen's Petition already known to you ?

**Dilip Shanghvi:** No that was not known to us, but we always felt that Wyeth will find some technical method by which they will work towards delaying our approval.

**Nimish Mehta:** Another question on Protonix. Do you see any impact of Teva still not resuming the shipment? And second we have seen litigation on rabeprazole, Aciphex, between the innovator and Teva, Dr. Reddy going in favor of the innovator company, do you see any kind of parallels that you can draw into the Protonix case, just your opinion?

**Dilip Shanghvi:** I think for your context the district code judgment about rabeprazole in the case for both Dr. Reddy and Teva was already there with Teva before Teva decided to launch rabeprazole at risk. What you are seeing is now the federal court has also confirmed the district court judgment.

**Nimish Mehta:** Any impact of Teva not resuming the shipment on Protonix?

**Dilip Shanghvi:** No, I do not think we have any impact

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

**Dilip Shanghvi:** Thank you.



**Rochelle:** Thank you Mr. Mehta. The next question is from the line of Mr. Ranjit Kapadia from Prabhudas Lilladher. Please go ahead.

**Ranjit Kapadia:** Good morning sir and hearty congratulations for a good set of numbers. My question relates to the domestic formulation business. Do you witness a slowdown in the business or how do read the current trend of the business ?

**Dilip Shanghvi:** I think we see fairly consistent demand growth. What we are seeing on a quarter-on-quarter basis is impact based on certain first line sales, impact which possibly would have changed some of the growth number but for underlying secondary sales and prescription generation, we are not seeing any significant impact.

**Ranjit Kapadia:** Sir, about the material cost do you see a pressure on the margins?

**Dilip Shanghvi:** I think this quarter our material cost has gone down but that is partly because of significant sales of exclusivity products, which have a higher margin. There is pressure on pricing, we have some amount of pricing flexibility and ability to share this cost increase through price increases but we also have to absorb part of the increase, but since our business continues to grow at the pace at which it is growing, it is easier for us to absorb these cost increases.

**Ranjit Kapadia:** Sir we had reported a loss on the forex position, it is not clear from the press release.

**Sudhir Valia :** There is no forex loss because we do not have any derivative transactions, and all our exports are uncovered, so we in fact have realizations at a higher price, which is a better price compared to what it would have been, if these were covered.

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

**Dilip Shanghvi:** Thank you.

**Rochelle:** Thank you Mr. Kapadia. The next question is from the line of Mr. Deepak Sharma from PTI. Please go ahead.

**Deepak Sharma:** Mr. Shanghvi, I would like to ask you - Taro Pharmaceutical has repeatedly said that the offer given by Sun Pharmaceuticals is undervaluing the financial turnaround-so what do you have to say on that, do you have any plans of settling or will you be making any out of court settlement?

**Dilip Shanghvi:** Both the issues are not related. What we have said, is that the tender offer is to preserve our rights under the option agreement, which specifically requires us to launch a tender offer at \$ 7.75, and this is what we have done. As to out of court settlement if there was a possibility of settlement from our point of view, then I do not think this would have gone into litigation.

**Deepak Sharma:** There will be no chance of any out of court settlement because the cases for litigation are there both in New York court as well as Israeli court, so would not it be feasible for the company, is any talk going on or there any chance of doing this?

**Dilip Shanghvi:** In business one learns to never say no for anything or say it is not possible, because anything is possible. But if you look at probabilities then I will not say there is very high probability of any settlement. At the same time we have a very strong legal position and we think that we will be able to enforce the rights that we have under the agreement to consummate the transaction.

**Deepak Sharma:** Yesterday Taro Pharmaceutical made a statement saying that they are confident of winning the legal case and asked their shareholders not to participate in the tender offer. What do you have to say on that, they are repeatedly saying they are confident of winning the case?

**Dilip Shanghvi:** I think you need to understand one issue - those who are confident do not need to make out press releases.

**Deepak Sharma:** Thank you very much sir.

**Rochelle:** Thank you Mr. Sharma. The next question is from the line of Mr. Jesal Shah from JM Financial. Please go ahead.

**Jesal Shah:** I have a few questions, to start off, on your pantoprazole launch. Sequentially we have seen that the number is down and you said that you are not seeing any incremental pricing pressure in your existing customers and basically it is only the new customers, which you might be walking away from, so in that case what is the kind of run rate that we should look at because we have seen significantly different number this quarter versus the previous quarter?

**Dilip Shanghvi:** I think Jesal our view is that you should factor one-off kind of business very differently from our regular business. So I do not think we want and expect multiples of one-off kind of sales, it is not really a material issue for us to share specific information at this point.

**Jesal Shah:** Certainly, we are also treating this as a one-off, we have fully recognized this is not recurring in the future, but to the extent that we have built in some revenues, there is cash flow which is impacted and therefore the interest income, which kind of comes in, so from that point of view. If the run rate was not materially different then the question would not have risen, but this significantly lower number is the reason for the question. Should we see it pickup going forward or do you think the current run rate will continue?

**Dilip Shanghvi:** It is better for us to presume that current run rate will continue or may also come down- because I think our market cap is close to 6 billion and if we sell 50 million or 75 million or 35 million, the impact is very small compared to the total valuation- if we are not giving multiples to this income.

**Jesal Shah:** Okay. Can you give us some update on the litigation on this product?

**Dilip Shanghvi:** Litigation is continuing and we have some kind of settlement discussion, which is a requirement as per the US court with the Judge, which should happen over the next two to three months. The deposition of the experts and discovery are continuing, and hopefully some time by the middle of next year, litigation should start.

**Jesal Shah:** You talked about some requirement from the judge; I am not very clear what that means?

**Dilip Shanghvi:** I think the US law generally prefers that both the parties, or all the parties try to find a mediated settlement, and that process is supervised by a judge. He tries to help people find a mediated solution. If the people have very large differences then the settlement does not work.

**Jesal Shah:** That process can take about three months?

**Dilip Shanghvi:** No there is a date, which has to be finalized, which is convenient to all the people.

**Jesal Shah:** By when should we expect either a positive or no development on mediation?

**Dilip Shanghvi:** I do not expect this case to be settled, and that is why I said that the case should go for litigation some time by the middle of next year, but these are all approximate numbers.

**Jesal Shah:** Right. The other issue was on Taro. There are two parallel things one is the sale of the promoters' holding, and the other is the tender offer. In your view, is the one contingent on the other, meaning is promoter's sale in any way is contingent on the tender offer?

**Dilip Shanghvi:** I think they are, because once the tender offer is over, the promoters have to sell their shares to us.

**Jesal Shah:** But there is no requirement that unless you get certain percentage from that tender offer, only then they have to surrender?

**Dilip Shanghvi:** There is no such requirement.

**Jesal Shah:** That is not the matter under dispute at all?

**Dilip Shanghvi:** That is not a matter under dispute. The matter under dispute is whether a tender offer needs to be launched or a special tender offer has to be launched.

**Jesal Shah:** Okay. And what is the difference?

**Dilip Shanghvi:** It is a very complicated thing; I think we cannot handle this in a conference call.

**Jesal Shah:** Okay. Just moving to finance related questions. One is that raw material costs has declined as a percentage of sales, but what I am not clear about, is that it has also declined on an absolute level from last year's first quarter, even though there has been a 17% formulation growth and there is so much additional sales growth in the formulation export business. If you can just explain how this happened?

**Sudhir Valia:** If you see the absolute number, that definitely varies, but if you are talking about the comparable quarter then ideally this quarter should be compared to the January to March quarter.

**Jesal Shah:** I'm looking at April to June versus last year's April to June. Last year if you **see** last year raw material cost was Rs. 192 crores, this year it is Rs.189 crores?

**Dilip Shanghvi:** Jesal this is kind of marginal. We have products with varying degree of costs and we also need to factor in different exchange rates in the international market. We have a facility in Hungary, we have facilities in US, and ultimately the cost of material is adjusted in rupee level, so this is not a material difference.

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**Jesal Shah:** On US business basically Oxcarbazapine would it still be under the distribution agreement, which entails only 8% margins for Caraco or would it have gone back to the normal margins for them?

**Dilip Shanghvi:** It would have gone back to normal margins.

**Jesal Shah:** Okay, thank you so much.

**Rochelle:** Thank you Mr. Shah. The next question is from the line of Mr. Prashant Nair from Citigroup. Please go ahead.

**Prashant Nair:** On Caraco, for the last quarter we had shared the gross margin for distributed Caraco products and distributed non-Caraco products as 8% and 14%. Is that a number we can take as a regular thing or the percentages will change depending on the product?

**Dilip Shanghvi:** Yes, the percentages will keep changing based on the product.

**Prashant Nair:** So, new para 4 products at Caraco could be anything other than 8%?

**Dilip Shanghvi:** Right, it is a product-to-product understanding.

**Prashant Nair:** For this quarter it could still remain the same because the products are still the same?

**Dilip Shanghvi:** Once it is decided it will remain the same

**Prashant Nair:** The other question was to just get a sense on how your non-first to file business had moved. Without giving any specific numbers can you just give a sense of whether the profitability of the base business has improved YOY or has it been largely in line?

**Dilip Shanghvi:** Yes, the base business has improved because for some of the new products and some of the existing products, with our efforts to improve, market share has gone up.

**Prashant Nair:** Okay, thanks a lot.

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

**Sonal Gupta:** Just further on the question of material cost decline in absolute terms clearly it would not have been a material difference if the sales level was the same, but even excluding the exclusivity related sales you have seen growth in other markets. Are you saying the product mix is improving which is leading to a decline in material cost, because I do not think year-on-year currency would be a very significant factor?

**Sudhir Valia:** We appreciate what you say. Overall if you see the business mix, then API business is reducing and the formulation business is going up. Secondly the kind of product is important, because for products for which we have exclusivity, we have higher margins and their material cost is significantly lower than that for general products. So all that has an impact. Also, as a company, we make efforts to improve our cost. To give any guidance on this is very complex. You can see the trend comparable to the first quarter of the year, that is January to March 2008. Caraco has said that margin is on the same level for the product which they manufacture.

**Sonal Gupta:** Right. I understand that the exclusivity sales are sort of on top of it, but even the base business has grown 18%-20% and you have seen a decline in absolute terms year-on-year, which is difficult.

**Sudhir Valia:** Exactly, the formulation business and API business are two different kind of businesses, and now the contribution from the formulation business is increasing as compared to API business. In the API business, margins are very limited whereas for the branded business you have a margin advantage.

**Sonal Gupta:** Year-on-year the API business is also similar; it has actually grown if you look at it?

**Dilip Shanghvi:** Yes Sonal that is what I said. If we have inventory in Hungary and the Hungarian currency has appreciated significantly, when we convert all of this inventory in Indian rupee, the inventory value of Hungary will go up, and that will reduce the Hungarian material cost, so that will also have some small impact. So to try and reconstruct cost of goods based on this multi-currency operation and see any kind of trend is very difficult. What we can share with you is that we feel that we have been able to maintain current cost of goods once the one-off kind of sale that we are seeing for a short period is taken out, but we are not seeing any dramatic increase or decrease in cost of goods.

**Sonal Gupta:** Okay sir, thank you very much.

**Rochelle:** Thank you Mr. Gupta. The next question is from the line of Dr. Pritpal Thakur from JP Morgan. Please go ahead.

**Pinakin Parekh:** My first question is on Taro. Is the decision of the Israeli court binding on both the parties or is there any other court of appeal that the losing party can go to?

**Dilip Shanghvi:** The role of the Israeli court is to decide whether a tender offer is required or a special tender offer is required and that decision is final from Israeli court point of view. This decision can be challenged again in the Israeli Supreme Court, but the decision related to whether a tender offer or special tender offer is called for, will be decided only in Israel. As to the New York court- our agreement is governed by the New York court, so once the Israeli court decides what is required, New York has to decide on the validity of our arguments for enforcing the agreement.

**Pinakin Parekh:** So basically it is likely that the Israeli court may deliver the judgment in September, then the whole legal battle shifts to the US. Would that be a correct assumption?

**Dilip Shanghvi:** Yes, our hope is that it will come in our favor, and they will likely appeal the judgment, but yes, it will then shift to the US.

**Pinakin Parekh:** Okay. Second question is on Effexor where you said FDA has 180 days to respond. When did the clock start ticking on these 180 days?

**Dilip Shanghvi:** When Osmotica filed.

**Pinakin Parekh:** So that would be sometime in June when it was made public?

**Dilip Shanghvi:** Yes, I think some time early June.

**Pinakin Parekh:** Okay, thank you very much.

**Rochelle:** Thank you Dr. Thakur. The next question is from the line of Mr. Manish Jain from Axis Holdings. Please go ahead.

**Manish Jain:** Good morning everyone I have three questions. One is pertaining to the fees that you are paying to SPARC. When you had done the demerger you were talking of roughly giving around 200 crores to SPARC. As per March '08 numbers we have given 35 crores, so is it fair to assume that over next two years we will pay the balance 165 crores?

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**Sudhir Valia:** Yes, over time, depending on the milestones and the way it is structured, this is expected.

**Manish Jain:** Fair enough. The second and third is primarily related to the US market. We have 88 ANDAs pending approval. Can you just give us some color as to how many have litigation involved, where you have not been sued?

**Dilip Shanghvi:** We do not specifically share litigation related numbers, so we will not be able to share this, but there would be a few products where we have not been sued.

**Manish Jain:** Dilip this is the last one for you.- your view on the US Generics market now, post Teva-Barr. You have always been mentioning about the market deteriorating further before improving. What is your call on the market overall?

**Dilip Shanghvi:** I think the Teva-Barr deal does not do anything material in terms of consolidation from that perspective because the degree of overlap between both the companies is very limited, so it gives Teva a high quality, high margin business with increasingly large number of para 4 for which Barr would have been the first to file. I expect the underlying business margins to continue to stay under pressure.

**Manish Jain:** Fair enough. One last small question - what is the net cash that you have on a consolidated basis?

**Dilip Shanghvi:** \$600 million.

**Manish Jain:** Thanks.

**Rochelle:** Thank you Mr. Jain. The next question is from the line of Mr. Sumit Chatterjee from Reuters News. Please go ahead.

**Sumit Chatterjee:** Mr. Shanghvi good morning, this is Sumit here, Reuters news. In very simple terms if you could explain to me what are your plans to boost your competitiveness and profitability in the US market moving away from Protonix, which is as you say is an at risk launch, and what is your outlook on normal exports of non US formulations?



**Dilip Shanghvi:** I think we have followed a disciplined, cost-contained business model for the US and we expect our US business even though in a competitive and price-erosion environment to continue to generate reasonable profits for us, and non-US branded formulation export business I think will continue to grow at 40% this year.

**Sumit Chatterjee:** So that would be 40% sales growth in non-US formulation exports?

**Dilip Shanghvi:** Right.

**Sumit Chatterjee:** You talked about pricing erosion, how significant is the pricing pressure in US now?

**Dilip Shanghvi:** The pricing pressure is significant and maybe 10%-15% annually.

**Sumit Chatterjee:** Okay, thanks very much.

**Rochelle:** Thank you Mr. Chatterjee. Ladies and gentlemen, participants who have questions at this time may press "\*" and "1". The next question is from the line of Mr. Binu Pathiparampil from IIFL Capital. Please go ahead.

**Binu Pathiparampil :** Just a quick followup question on Taro. Recently one of the major investors quoted a price of \$20 per share, so how do you look at this, and in case of a settlement would you be looking at paying higher price than your original offer?

**Dilip Shanghvi:** We have no clarity and understanding as to how that \$20 price was arrived at, because we have no access to information, which will allow us to value the company at \$20. Whatever numbers that we have seen are unaudited and do not reflect any basis on which we can arrive at valuation.

**Binu Pathiparampil:** Okay thank you.

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

**Sameer Baisiwala:** Just follow up on NDA filed by Caraco. Is it possible for you to confirm whether it is originating from SPARC or from Sun Pharma? Who is the third party?

**Dilip Shanghvi:** It is a Caraco product.

**Sameer Baisiwala:** The second question is about the net Forex impact for the quarter. I do not want you to give line items, but is it possible to tell us how much would be the loss or gains putting all factors into account?

**Sudhir Valia:** We have no position and all the sales, was open; we have more exports than imports.

**Sameer Baisiwala:** Okay fair point, but that talks about the business side and hedging, but on the balance sheet side where you have asset and liability, the net impact would have been what?

**Sudhir Valia:** It is a margin issue, because of the number of currencies involved. For the quarter we do not see any significant impact because on one hand, in terms of currency we have to change our sales for translation. At the same time the market value of the stocks and inventories quoted in dollar also changes, this again changes the status.

**Sameer Baisiwala:** I understand that you do not have any forward cover so that part is out. Operationally you have gained whatever you have gained on sales?

**Sudhir Valia:** It is a complex thing. See the stock, which we have in international market, is finally reflected in dollars. If the currency in that country has appreciated against dollar, so when they have to evaluate either at a cost or market value, whichever is lower, they have to re-value the stock in terms of dollar and they have to take the hit on that parts. On the contrary when our currency appreciates, when I take the same stock into to the consolidated balance sheet of Sun Pharma, we have to again take the currency gain because ultimately the value of that asset has gone up in terms of currency or any outstanding liability. In terms of their loans, effectively they have to pay less than what they should have paid because of the appreciation in currency. But ultimately when we put everything together, and we have done this exercise for more than three hours to find out if there is really any impact or not. In compliance with the applicable standards, as a company we are trying to create a balance sheet gain by putting in the balance sheet and not bringing it into profit and loss account.

**Sameer Baisiwala:** Okay, net you would say on translational account, for current assets the impact is almost marginally zero.

**Dilip Shanghvi:** Sameer I think philosophically our approach is to be able to consistently grow the business, topline and bottom-line. So we try and avoid any (unnecessary) translational impact coming to the profit and loss account because that is not consistent. So as far as possible (in compliance with

applicable accounting standards) we take some impact directly to balance sheet because every country has a different accounting norm.

**Sameer Baisiwala:** Your net cash position \$600 million, what is the final return that you are making on this?

**Sudhir Valia:** The return is similar to the market because most of the money is either in liquid or fixed deposit.

**Sameer Baisiwala:** In India or out side India?

**Sudhir Valia:** Most of it is in India; say 75%-80% money is in India.

**Dilip Shanghvi:** But also some of the money would be in fixed maturity plan, so that would come not as interest income, but it would come as...

**Sameer Baisiwala:** I do not know how?

**Dilip Shanghvi:** On a yearly level income it will get accounted from those deposits.

**Sameer Baisiwala:** Okay, but what would you say on an average how much is you earning on this 7% or 8%?

**Uday Baldota:** Risk free rate of interest,

**Sudhir Valia:** We are hoping that in the current environment, when the government is trying to control. Inflation, the interest rates will go up and our earnings should go up- if you do not utilize these deposits for meeting business objectives.

**Sameer Baisiwala:** Okay thanks.

**Rochelle:** Thank you Mr. Baisiwala. The next question is from the line of Minar Majumdar from Kotak PMS. Please go ahead.

**Minar Majumdar:** Good morning to the management, just wanted to confirm whether I understand this right. On the Caraco revenues of 108 million, around 76 million comes from the non-recurring side, am I right on that part?

**Uday Baldota:** No The non-recurring part is only for the exclusivity products. Caraco also sells other products for Sun Pharma and that I think should be treated as recurring business.

**Minar Majumdar:** Can you give us a breakup of what are the revenues from the at risk launch of Protonix and Ethyol?

**Uday Baldota:** I think Caraco has not disclosed the breakup.

**Minar Majumdar** Secondly I had a question on the Pantoprazole revenues; can you give us a feel of how has been the revenues this quarter?

**Uday Baldota:** Caraco has not given a breakup of the revenue.

**Minar Majumdar:** Fair enough. Lastly on the guidance of around 30 products for ANDA approval

**Uday Baldota:** These are filings not approval.

**Minar Majumdar:** Yes, ANDA filings for 30 product. Can you give us a feel of what kind of market opportunity are you looking at?

**Sudhir Valia :** We will continue to grow (ANDA filings) as we used to in the past.

**Uday Baldota:** Very difficult to predict, the market continues to evolve; it is very difficult to say.

**Minar Majumdar:** But if we were to get an approval today itself what could be the market opportunity, if you can just quantify?

**Dilip Shanghvi:** No, I think what you are asking is the value of the branded product when we are filing the product, is that your question?

**Minar Majumdar:** Yes.

**Dilip Shanghvi:** But that will not help you understand anything. If there is a \$5 billion product with 30 people filing I do not know what will be market size, when we get the approval. And if there is a \$30 million product for which there is no competition then maybe that product becomes more attractive. We have a mix of large volume, small volume and specialized products that we are filing.

**Minar Majumdar:** The competition- is it very high on the large products and low on the mid size and the lower products or something like that?

**Dilip Shanghvi:** Very difficult because we do not know what everybody else is filing, but we hope that some of these products will have relatively low competition.

**Minar Majumdar:** All right, thanks a lot

**Dilip Shanghvi:** Thank you.

**Rochelle:** Thank you Mr. Majumdar. The next question is from the line of Mr. Anubhav Agarwal from Credit Suisse. Please go ahead.

**Anubhav Agarwal:** Sir, can you just provide some update on price erosion of oxcarbazepine. It appears that sequentially the sales of oxcarbazepine is down 40%-50%?

**Dilip Shanghvi:** We do not give any product specific pricing if Caraco has not shared the pricing, but there would clearly be a shift from a product with two competitors or as many as maybe six or seven people in the market. And that would have impact on pricing. That is the general answer. I am not giving any specific response to the pricing for oxcarbazepine.

**Anubhav Agarwal:** Okay, thank you sir.

**Rochelle:** Thank you Mr. Agarwal. The next question is from the line of Mr. Surjit Pal from Standard Chartered STCI Capital Market. Please go ahead.

**Surjit Pal:** Good morning everybody. I want the breakup of US business and Caraco's business breakup of the revenues by therapeutic area?

**Dilip Shanghvi:** We cannot disclose beyond what Caraco has disclosed. We will ask Caraco to answer this, but I do not know whether beyond what they have disclosed in 10 K they can disclose anything.

**Surjit Pal:** In the last quarter when they had announced fourth quarter as well as the full year numbers, they had given therapeutic wise breakup, but this time they have not, so could you provide that?

**Uday Baldota:** Normally Caraco has done this in their annual filing and not in the quarterly filing.



**Surjit Pal:** Okay, thanks.

**Rochelle:** Thank you Mr. Pal. Ladies and gentlemen that was the last question. I would now like to hand the floor over to Mr. Uday Baldota and the management for their closing comments.

**Uday Baldota:** Thank you everybody for joining the call. If you still have any questions pending do let us know and we will be happy to answer your questions. Thank you.