

Sun Pharma Q3 2007-08 Results Conference  
Call Transcript  
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## **Corporate Participants**

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

Sudhir Valia  
Wholetime Director, Sun Pharmaceutical Industries Ltd.

**Moderator:** Good morning ladies and gentlemen. Welcome to the Sun Pharma earnings conference call. I am Rochelle, the moderator for this conference. For the duration of the presentation, all participants' lines will be in the listen-only mode. There will be a question and answer session after the presentation. Now, I would like to hand over to Sun Pharma. Thank you and over to Sun Pharma.

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

Just as a reminder, this call is being recorded and a replay of the call will be available till February 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 third quarter of 2007-08.

In the recent past we've had news flow on several of our first to file patent challenge based ANDA filings, which we have shared with you.

Yesterday, we announced the at risk launch of generic Pantoprazole in the US after the launch of authorized generic by the brand company. Exclusivity was triggered earlier by another first filer.

Earlier in the quarter we launched generic oxcarbazepine, our first launch with a shared 180 day marketing exclusivity. Sales of oxcarbazepine during this exclusivity period has led to an out-of-trend growth in our US generic business. Obviously, as all of us understand, this sale is not of a recurring nature and hence needs to be adjusted for, while making any comparisons.

Later, in the quarter, we executed a settlement over generic version of Exelon®, rivastigmine tartrate capsules. This settlement allows us to enter the market sometime prior to the patent expiry.

Now, Mr. Valia will first talk about the performance and financial highlights, and later I will come back to talk about strategy and direction.

I will now hand over to Mr. Valia.

**Sudhir Valia:** Good morning everybody. Our third quarter and nine month numbers are already with you. It has been a good quarter, with growth across all our business segments. First, we'll look at key consolidated financials for the recently concluded quarter compared to the corresponding quarter last year.

Net sales has grown by 50% to Rs 7.9 billion, while EBITDA has increased by 105% to Rs 3.5 billion. Resulting EBITDA margin has expanded to 44.9%, from 32.9% achieved same quarter last year. Net profit after minority interest at Rs 3.2 billion is an increase of 60%. Net margin at 40.3% is the highest ever achieved.

On the cost side, material cost has fallen to 22.5% of net sales. Similarly staff and other costs as a % of net sales are lower at 9.7% and 22.9% respectively. R&D expense at Rs 842 million is more or less at the same level on an absolute basis, despite the innovative R&D business moving to SPARC.

You can see a significant impact of generic oxcarbazepine sales in US during our 180 day marketing exclusivity period on the quarter sales as well as profits. Despite the repetition, it would be appropriate to mention that the sales growth, cost ratios and margins achieved in the quarter is a result of a significant non-recurring sales and profit from generic oxcarbazepine and we would advise all concerned to make suitable adjustments while making comparisons. This also applies to the nine month financials which we look at next.

Net sales increased by 33% to Rs 20.5 billion. EBITDA for the nine month period is Rs 8.1 billion, an increase of 54% resulting into an EBITDA margin of 39.5%, much higher than that achieved last year. Net profit after minority interest is at Rs 7.6 billion, an increase of 36%. Net margin is at 37.2%.

Each of material, staff, and other expenditure as a proportion of net sales is lower when compared to the numbers of corresponding period last year. R&D expense at Rs 2.2 billion on an absolute basis is higher than last year.

On a fully diluted basis, EPS for the third quarter is Rs. 15.4, up from Rs. 9.7 for the third quarter last year.

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

As a speciality pharma company, our ranking with key specialists is of the utmost priority, and we continue to build prescription share with key segments. Domestic formulation, the largest component of our business, continues to grow at a strong pace.

Domestic formulation sales for Q3 is Rs 3.7 billion and has grown 28%. Growth in the first nine months is also 28%. As per the latest MAT ORG IMS data, Sun Pharma market share continues to be 3.3%. Our five main therapy areas, cardiology, psychiatry, neurology, gastroenterology,

and diabetology accounted for 72% of our domestic formulation sales. Susten, Pantocid, Aztor, Repace group, Oxetol continued to show double digit growth rates.

Caraco recently announced its Q3 and nine month financials. Caraco reported third quarter sales of USD 81.9 million, up 162%. This comprises USD 49.6 million sales from the products it markets for Sun Pharma, which also includes sales of generic oxcarbazepine. Gross margin for Caraco's manufactured products was 49%, as against 50% for Q3 of last year. Net income was USD 10.8 million for the third quarter.

Finished dosage exports to less regulated markets has grown by 22% this quarter and by 14% in the first nine months. Though this growth is lower than that achieved in the past and partly due to the significant impact of rupee appreciation, the underlying business remains strong.

We continue to use our expertise in process chemistry to introduce new products in India, continually cut the costs on the APIs that we make, and file for interesting para 4 ANDAs in the US. In all, so far this year, we scaled up 20 APIs. As we had shared earlier, increasing API capacity is being used for internal consumption. As a result, our API sales shrunk by 18% this quarter and by 3% in the first nine month.

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

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

This has been an interesting quarter. Unprecedented news flow and action on our initial set of para 4 filings. Interestingly we've had it all: an approval and a quick launch for generic oxcarbazepine, an approval and a settlement for generic rivastigmine and an approval and an at-risk launch for generic pantoprazole. This is a clear indication of our desire to do what works best, a custom approach for maximizing each opportunity as it presents. Our business, modeled for a consistent revenue and profit stream, continued to show good growth across areas.

R&D investment for the nine month period is Rs 2.2 billion, or 10.7% of net sales. At our research labs we now have 580 scientists working on projects in generic development, with one of the strongest research productivities in the industry. As you know, these projects power our growth plans in India and in international markets. Based on their work, we have built a patent library of 206 patents filed of which 55 patents have been approved.

Momentum for select and differentiated filings across markets continues this year.

Across Sun and Caraco, ANDAs for a total of 20 products have been filed in Q3 taking the tally to 38 products for the year till date. This is significantly above the guidance of 30 product filings for the entire FY08. Of course, the number of filings in Q3 is partly on account of some bunching up of filings, and hence will not be recurring. In these nine months, a peak of 17 products have been approved by the USFDA for Sun and Caraco put together. This takes our total pipeline of products approved across Sun and Caraco, to 46 of a total of 133 filings. Of the balance 87 products represented by 98 ANDAs that await approval by the USFDA, we have

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tentative approvals for 8. This pipeline should help us continue to grow our US generic business.

Total filings across all less regulated markets now stand at over 1900, of which more than 1200 are approved.

24 important products were brought to market in India in the first nine months of the year.

On the API side, the tally for regulated market approvals is 48, out of 96 filings made for DMFs and CEP.

Now, an update on Taro. Taro recently announced its financials for the year ending Dec 2006. As per these unaudited numbers. Taro had reported sales of USD 184 million and net loss of USD 141 million. For the first nine months of 2007, Taro has reported unaudited sales of USD 232 million and an unaudited net income of USD 14 million. Taro is expected to schedule its shareholders meeting. Our holding in Taro stands at 25%, and we remain confident of closing this transaction.

In view of the current 9m performance, we are revising our sales growth guidance for the current year FY08 to 28-30% over FY07. This does not include any sales from generic pantoprazole.

The strengthened rupee continues to impact our margins, specially since our international business is growing much faster than our rupee denominated business and for the first time this quarter, our international revenues have crossed the 50% mark. Despite this, we have delivered strong operating profitability and a performance above guidance. We realize that cost competitiveness is an important component of our and the country's success in an intensely competitive industry like generic pharmaceuticals. As we begin to draw up our annual budget and operating plans for FY 2009, we will need to prepare for the current level or maybe even a stronger rupee.

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

**Moderator:** Thank you very much sir. We will now begin the Q&A interactive session. Participants who wish to ask questions, kindly press \*1 on your telephone keypad. On pressing \*1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, kindly press \*1 now.

The first question is from Mr. Neelkanth Mishra from Credit Suisse. Please go ahead Mr. Mishra.

**Neelkanth Mishra :**Yes thank you, fantastic numbers sir. On IMS we see 18% market share for Trileptal but looks like the sales recorded were in excess of \$35-40 million. Given that competition and price decline in the product now, do you foresee any charge back on this product next quarter?

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**Dilip Shanghvi** :—We are not expecting any charge back on Trileptal to affect our margins next quarter.

**Neelkanth Mishra** : -: Thank you and is the \$35-40 million sales number on target?

**Dilip Shanghvi**: We are not splitting sales by product so I can't confirm that number.

**Neelkanth Mishra**: Would it be possible to share expectations of price declines and market share targets in Pantoprazole?

**Dilip Shanghvi** : You don't expect me to answer this do you?.

**Neelkanth Mishra**: Ok I go on to the next one. The other income dropped sharply. Would it be possible to get some reasons for that?

**Sudhir Valia**: Basically we account for the exchange loss to the extent of the FCCB conversion.

**Neelkanth Mishra**: Ok thanks. I have more questions I will join back in the queue.

**Moderator**: Thank you Mr. Mishra. The next question is from Mr. Prashant M. from Lehman Brothers. Please go ahead sir.

**Saion Mukherjee**:- Hi. This is Saion from Lehman Brothers. Sir congratulations on a very good set of numbers. I just have 2 questions, first one, is about Pantoprazole, what is the status of the injectable filing that you have?

**Dilip Shanghvi**: We still don't have an approval for the product.

**Saion**: Sir when do you expect the 30 months stay on this product to get over?

**Dilip Shanghvi**: I don't have the exact date with me but I think we can give that, I am not able to respond immediately.

**Saion**: Ok that's fine sir. Sir t can you share something on Effexor XR, how is that progressing and what is your sense going forward in that product?

**Dilip Shanghvi**: We expect Effexor XR generic to get approved on expiry of the product patent date.

**Saion**: Sir have you finalised any strategy for marketing this drug, how you are going to progress with it, whether it will be branded or generic ? What is your sense on that?

**Dilip Shanghvi** : We are working towards refining that strategy I think once we start marketing we will see much more clarity about the strategy and what we wish to do.

**Saion:** Ok. Sir the last question I have is on the financials. If I look at material cost you know we have seen a decline in absolute terms. Is there an explanation to that how it is declining because your business seems to be growing at a healthy pace?

**Dilip Shanghvi:** Essentially on account of Trileptal sales which would be at significantly higher margins.

**Saion:** Sir actually if you look at absolute numbers, for instance in Q2 the material cost was Rs. 180 crores which is now at Rs. 179 crores this quarter. And in Q1 it was Rs. 192 crores so I was just wondering why this is coming down?

**Dilip Shanghvi :** But the API sales also had come down API has a much higher material impact, or material intensive sales.

**Saion:** Ok.

**Sudhir Valia:** For imports also, it helps the company to source material at a lower cost in rupee terms. So that also contributes and there are efforts to improve processes.

**Saion:** What percentage of your material is imported?

**Sudhir Valia:** It is too complex, because there are various countries from which we import, in various currencies.

**Uday Baldota:** Saion you will get a feel of this number for the standalone entity financials in the annual report.

**Saion:** Ok. Thank you.

**Moderator:** Thank you sir. The next question is from Mr. Rajesh Vora from ICICI. Please go ahead Mr. Vora.

**Rajesh Vora:** Yes good morning gentlemen and congrats on launch of Protonix and great numbers. Mr. Shanghvi sometime ago the company had announced raising funds for potential acquisitions in the US. Now where do we stand considering that the acquisition of Taro is getting delayed? Are we still looking for acquisitions in the US? And secondly the agreement between Caraco and Sun Pharma for 25 products is over, with the last product being transferred in the last quarter. Is there any new agreement being contemplated or Caraco will continue to develop with outside or third party agreements?

**Dilip Shanghvi:** You've asked many questions. I think the first question is about raising money. What we shared in the last conference call is that, at that time we had close to \$425 million, now we have close to \$500 million and till we use up the money, we don't plan to raise any more funds. Hopefully once the Taro transaction gets completed a significant part of the money will get used up.

The second question is whether we continue to look for acquisitions in the US, I think our view is that we will first like to stabilise the performance at Taro before we consider any large acquisition. This does not mean that Caraco on its own will not look for acquisitions of a size that they can manage.

What was the last question?

**Rajesh Vora:** The Caraco agreement for 25 products.

**Dilip Shanghvi:** Yes I think we would have a new agreement which will not be a product for stock kind of agreement. Caraco continues to develop their own products, they continue to license in products from others and also continue to get technology from Sun.

**Rajesh Vora:** Ok. And some thoughts on the US business dynamics, they continue to remain challenging and you expect that to continue for some time and therefore your interest in a potential acquisition?

**Dilip Shanghvi:** We continue to anticipate an increase in competition and our view is that it will get much more challenging than what it is right now.

**Rajesh Vora:** Ok. Last question on Protonix. What is the risk if the decision of the court goes against Sun Pharma?

**Dilip Shanghvi :** I think we may possibly have to wait for the court to decide what is the liability. We are clear that we have no triple damages but at the same time we believe that we will not have a significant liability considering the authorized generic has been launched before the product.

**Rajesh Vora:** Excellent. Thank you so much and all the best for Effexor XR.

**Dilip Shanghvi:** Yes thank you.

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

**Sonal Gupta:** Just a couple of questions, great set of numbers. The domestic market growth has been very strong at almost 28% year on year both for the quarter and for 9 months. Could you just give us a sense because the IMS data continues to show much lower numbers in terms of growth and if you could help us bridge that gap between what IMS is picking up and how the numbers for you are panning out?

**Dilip Shanghvi:** No I think we have no clue, why IMS does not report out numbers because at one point, one and half to two years back we used to think that the change is because of their panel for data capture but it is not getting corrected over time but what we focus on is to ensure that we have limited inventory with stockist, we have tight control on our receivables.



And I think if you look at consistency of our business, then we have consistent sales but yes this is an anomaly.

**Sonal Gupta:** A question on tax rates given that now you are getting so many first to file opportunities. potential exclusivities Do we expect the tax rates to move up or do you think it will still remain at these levels?

**Sudhir Valia:** Yes if we get any extra income because of exclusivities MAT will be is applicable on this, even if the exports are done out of EOU r.

**Sudhir Valia:** If you see the tax rates, something which is unusual has happened but we have to account for it like this. When we consolidate, there is some elimination, but so far as India is concerned we will continue to pay tax, I think you understand what I mean.

**Sonal Gupta:** Right. No my question is primarily in terms of the tax rate guidance close to 5% so...?

**Sudhir Valia:** It will go up.

**Sonal Gupta:** It will go up, right.

**Sudhir Valia:** With the increased business it will go up.

**Sonal Gupta:** And again coming back on Trileptal, I mean you are not giving any numbers and you stated you are not looking at chargebacks but is there any colour you can provide because the brand's run rate was close to \$50-55 million a month and given the sort of IMS data, would you have any comment? Do you think the IMS data is accurately reflecting this kind of volume share that you have?

**Dilip Shanghvi:** IMS seems to be missing something from our point of view, being inconsistent with our internal numbers in both the cases.

**Sonal Gupta:** Ok. Thank you so much.

**Moderator:** Thank you Mr. Gupta. The next question is from Mr. Neelkanth Mishra from Credit Suisse. Please go ahead Mr. Mishra.

**Neelkanth Mishra:** Last quarter you had explained that you had made some changes in the channel in India and that was the reason why domestic sales were growing at twice the market growth rate. Is this the last quarter that we have seen of double the market average growth as the base catches up or should we expect this growth rate to sustain?

**Dilip Shanghvi:** I mean we would like it to sustain. I did not explain about change in channels last quarter but at the end of the first quarter conference call.

**Neelkanth Mishra:** Yes.

**Dilip Shanghvi:** That reflected in our performance in the December-March quarter of the previous year. Fortunately for us this year also we have been able to keep the momentum, and that would remain the focus because we believe that the sales essentially reflects generation of prescriptions and it is not an inventory built up base.

**Neelkanth Mishra:** Ok. Thanks. And on Taro any clarity on the timing of the shareholder meeting and how long do you have to wait, how long are you prepared to wait for the acquisition to close? Now that they are free to solicit other bidders, any more clarity on strategy going forward?

**Dilip Shanghvi:** I think I also shared in my presentation that we expect them to have a shareholder meeting shortly and we expect the transaction to get completed at the end of the shareholder meeting. As to the exact timing I think I can't give you specific time but also we don't expect it to take indefinite period of time.

**Neelkanth Mishra:** Ok. Thanks very much.

**Moderator:** Thank you Mr. Mishra. The next question is from Mr. Samir Baisiwala from Morgan Stanley. Please go ahead.

**Samir Baisiwala:** Good morning everyone. A few questions. First of all on the ANDA filings If we can share that out of 87 pending approvals, how many have been filed from Cranberry facility and how many have been filed from Bryan facility?

**Dilip Shanghvi:** We actually don't give location based filing, what we can say is that Sun has filed 16 products and Caraco has filed 4 more products in this quarter. But we have internal numbers, we are not on target for anyone of our locations. We hope that we can improve the internal performance.

**Samir Baisiwala:** Ok but will it be fair to say that the ANDA filings are well underway at these 2 facilities?

**Dilip Shanghvi:** That's correct. I think if your question is whether we've filed, then we have filed many.

**Samir Baisiwala:** From both?

**Dilip Shanghvi:** Both.

**Samir Baisiwala:** Ok. And second question is how well has the integration between Cranberry and Hungary facilities?

**Dilip Shanghvi:** You mean to say from actives point of view?

**Samir Baisiwala:** Yes.

**Dilip Shanghvi:** Nothing significant.

**Samir Baisiwala:** And when do you expect this to get more integrated?

**Dilip Shanghvi:** No we actually continue to work towards finding a legal solution to that process because we can't import controlled substances specially opiates into US without for certain specific permissions.

**Samir Baisiwala** Sure. Ok. My next question is about Amifostine What's update on that as far as ANDA approval and citizen's petition is concerned?

**Dilip Shanghvi:** Our understanding and I can be inaccurate but our understanding is that there are no issues with the ANDA and it is ready to get approved i The issues with FDI is ability to decide on the citizen's petition.

**Samir Baisiwala:** And when do you expect FDA to respond to citizen's petition? May be 3 months, 9 months anything?

**Dilip Shanghvi:** No I think if you see FDA response to citizens petition historically we have seen, wide range of timing. So we are unable to comment, we continue to use whatever resources we have to communicate our point of view.

**Samir Baisiwala :** I don't know if you will respond to SPARC pipeline but just one question on that, is on your anti allergy compound. Has your Phase III commenced? I think last we discussed was Phase II was completed ?

**Dilip Shanghvi:** Actually I think we are now looking at the data, this product is being developed for multiple indications so we expect the Phase I data for one of the indications to come in shortly, one is over. So I think once we have a greater handle on the dosing that we feel is likely to work we will then have a phase III meeting with FDA.

**Samir Baisiwala:** Ok. And on Taro just hypothetically speaking if the shareholder approval does not come through, what you intend to do with the 25% holding that you have?

**Dilip Shanghvi :** If the merger does not go through we also have an option to make a tender offer and we are not sure as to whether we wish to exercise that option or not. But we have the option to acquire the current promoter's holding and that will give us 40 plus % holding of the company.

**Samir Baisiwala:** And the pricing remains the same that you have earlier bidden for?

**Dilip Shanghvi:** Yes for the making a tender offer, it remains same.

**Samir Baisiwala:** Ok. Just one question on Protonix, how much do you think is inventory filling up by Teva?

**Dilip Shanghvi:** Actually you know more than I know, but my sense is that Teva had sold around 3.5 months of inventory but I can be very wrong.

**Samir Baisiwala:** Ok. Thank you and that's all from my side.

**Moderator:** Thank you Mr. Baisiwala. The next question is from Mr. Rahul Sharma from Karvy Stockbroking. Please go ahead. Mr. Sharma. There appears to be no response from the line of this participant. Would you like to take the next question?

**Dilip Shanghvi :** Yes.

**Moderator:** Right. The next question is from Mr. Nimesh Mehta from MP Advisors. Please go ahead.

**Nimesh Mehta:** Thanks and congratulations for a good set of numbers. My question has been answered.

**Moderator:** Thank you Mr. Mehta. The next question is from Mr. Rahul Khetan from Capital Market. Please go ahead.

**Rahul Khetan:** Good morning sir. My question pertains to the employee cost which has gone substantially down in this quarter. Could you please explain what is the reason behind this?

**Sudhir Valia :** In absolute number?

**Rahul Ketan:** No sir in percentage to sales.

**Sudhir Valia:** In absolute number it has gone up but in the percentage of sales because of the significant jump of this para 4 product sales.

**Rahul Khetan:** So it is just because of increased sales?

**Sudhir Valia:** This proportion it is because of increase of sales.

**Rahul Khetan:** Sir if you could mention what is the share of revenue in Caraco?

**Dilip Shanghvi:** I think we have given a specific number.

**Uday Baldota:** USD. 49 million is the sales of Sun products distributed by Caraco.

**Rahul Khetan:** Ok. Fine. Thank you very much.

**Moderator:** Thank you Mr. Khetan. The next question is from Mr. Prakash Agarwal from Deutsche Bank. Please go ahead Mr. Agarwal.

**Abhay:** This is Abhay here. Just a follow-up question, you indicated that Teva may probably have dumped about 3.5 months of stock of Pantoprazole in the market. So do you see a significant offtake in your launch quantities now that you have just launched it yesterday.

**Dilip Shanghvi:** Yes I think we see no handicap in being able to sell the product once pricing stabilises and I don't see any handicap in achieving what we think is our rightful share.

**Abhay:** Sir you know as was discussed we don't see too much competition atleast for a year, which has just 3 players the authorised generic, Teva and yourself. So is there going to be an informal price arrangement, price doesn't really crash as had been seen in lot of other products.

**Dilip Shanghvi:** I can educate you about the kind of restrictions which our lawyers put on us for even informal discussions with competition. US is an extremely difficult market from an antitrust point of view. And we have to be highly cognizant but I think if you see historically then it seems that if you have disciplined competitors, pricing is maintained. If you have reckless competition then even with only 2 people in the market, pricing can crash. So it's a question of what kind of discipline the players exercise.

**Abhay:** Ok and typically you have always been more focussed on the bottom-line then on the market share per se ?

**Dilip Shanghvi:** Again we think we are disciplined, some of our competitors think that sometimes we crash prices but I think we are disciplined.

**Abhay:** And what sort of price levels would you be comfortable with, let's say 50-60% prices discounting is what you could go to or you wouldn't like to give any indication on that.

**Dilip Shanghvi :** I think we need to understand one issue. In any price drop in this product is potential increase in risk and viability. So that is something we need to be very cognizant of when pricing this product. We believe that we have a very strong case, however in any legal case the lawyers never give you more than 60-70% chance of a success. So in case if things don't work out then we don't want to carry unnecessarily high liability. That is why we waited till the authorised generic launch because from our point of view it has dramatically reduced our risk.

**Abhay:** And sir would you have enough finished stocks at hand to address the market requirements or can there be a constraint on that front?

**Dilip Shanghvi:** No we have adequate capacity to supply the whole US market if we want to.

**Abhay:** Ok fine. Thank you sir.

**Moderator:** Thank you Ladies and gentlemen a reminder if you would like to ask a question please press "\*" and then "1" on your phone. The next question is from Mr. Rahul Sharma from Karvy Stock Broking. Please go ahead.

**Rahul Sharma:** Sir just wanted to know what is the base revenue sales for Caraco in the quarter. We have been doing around 40-45 million per quarter so how was it in this quarter?

**Dilip Shanghvi:** I think they have given numbers.

**Uday Baldota:** I think the question is the other way, if you can't give Trileptal sales then give me the base revenue. I think they have given the Sun sales and they have given the Caraco number.

**Dilip Shanghvi:** So you arrive at Caraco sales and you have the previous quarter Caraco sales. If you see the numbers then there is no significant increase in Caraco sales last quarter.

**Rahul Sharma:** Ok sir. Thank you.

**Moderator:** Thank you Mr. Sharma. The next question is from Mr. Ranjit Kapadia from Prabhudas Lilladher. Please go ahead.

**Ranjit Kapadia:** Good morning sir and congratulations for a good set of numbers. Sir my question pertains to oxcarbazepine. How do you see the competition going ahead for this product?

**Dilip Shanghvi:** Competition will be far more intense, more people will come into market and we have no reason to believe that the product will be dramatically different from any other product that has gone off patent in past 1-2 years.

**Ranjit Kapadia:** And sir in generic Protonix how many players you are expecting after 180 days?

**Dilip Shanghvi:** We don't expect any new player upto December `08 and even in `08 I think the player who is likely to enter is Kudco but then that's a generic division of the multinational company, UCB. So I don't know whether their internal processes will permit them to do a at risk launch.

**Ranjit Kapadia:** And sir this shareholder's meeting is scheduled on this quarter, when the process is likely to complete if the shareholders' approve?

**Dilip Shanghvi :** I think once the shareholders approve then the legal time requirement i will determine the closing of transaction.

**Ranjit Kapadia:** Ok sir. Thank you very much and all the best.

**Dilip Shanghvi:** One positive note about the Taro transaction is that because of the appreciation in the value of rupee, net cost to us in terms of rupees will come down.

**Ranjit Kapadia:** Ok. Thank you.

**Moderator:** Thank you Mr. Kapadia. Ladies and gentlemen if anyone has a question please press "\*" and then "1" on your phone. The next question is from Mr. Sonal Gupta from UBS Securities. Please go ahead Mr. Gupta.

**Sonal Gupta:** Just a question on oxcarbazepine, one of your other first to file companies stated that the pricing is already down to single digit versus brand levels. Do you think that this is the accurate description of pricing at this point in time for that market?

**Dilip Shanghvi:** I don't think I can comment on that right now. Honestly I have no current price point on that product.

**Sonal Gupta:** And sir another question was regarding pantoprazole. Teva has yet not confirmed that they will be shipping anything more on Protonix or whether they will return to the market. So will that have an impact on your decision to stay on the market in case Teva was not to return?

**Dilip Shanghvi:** The decision that we have taken to launch the product is essentially based on our analysis and the risk we are comfortable with. We are not likely to be influenced negatively by Teva's decision not to launch.

**Sonal Gupta:** Thank you.

**Moderator:** Thank you Mr. Gupta. The next question is from Mr. Prashant M from Lehman Brothers. Please go ahead

**Saion:** Hi this is Saion again. Just wanted to understand whether the settlement talks between Teva, Sun Pharma, Wyeth are continuing?

**Dilip Shanghvi:** I don't think we have ever said that we are having any settlement talks with Wyeth.

**Saion:** So there are no settlement talks underway between Sun and Wyeth\_at this point for this product?

**Dilip Shanghvi:** What I am saying is we are not sharing any specific information related to any settlement issues that we may have with anybody.

**Saion:** Ok sir. On Trileptal market share do you agree with the IMS number?

**Dilip Shanghvi:** If you look at numbers then there is inconsistency, I am much more comfortable with our numbers.

**Saion:** Ok thank you sir.

**Dilip Shanghvi:** Thank you.

**Moderator:** Thank you. The next question is from Mr. Nitin Agarwal from SSKI. Please go ahead.

**Nitin Agarwal:** A couple of small questions, one is on the international formulation sales did you say it has grown 14% for 9 months?

**Sudhir Valia :** Yes

**Nitin Agarwal:** Ok and secondly on R&D. Is the run rate for the R&D cost really needs to be looked at or because of higher number of ANDA filings the cost will be higher this quarter?

**Dilip Shanghvi:** I think our overall guidance is like between 8-10%, anything in that region only.

**Nitin Agarwal :** Ok sir. Thank you.

**Moderator:** Thank you Mr. Agarwal. The next question is from Mr. Surjit Pal from UTI Securities. Please go ahead.

**Surjit Pal:** Good morning gentlemen. Actually I have three questions. First question is that what we have observed is that SG&A expenses has gone up quite significantly around 88% this quarter. Could you throw some light over there and another point is on Caraco sales what we have seen is that if you remove that one time business as well as you know marketed products, the base business of Caraco is actually grown by around 5-6% in this quarter and after having such a huge growth for the last 1.5 years, could you throw some light what is actually the growth target for you whether it will be sustained on the same base for the business? Any how many products of Sun have been marketed by Caraco in first 9 months?

**Sudhir Valia:** We will take one after the other. First you said about the...

**Surjit Pal:** -Trends in general expenses.

**Sudhir Valia :** That is what you are saying is the other expenditure which we have shown. See if you see it for the 9 months number it is about 15-17% higher than what it was there last time. And if you compare with sales you will find similar kind of, 20% growth in the sales it is reflecting almost similar in light.

**Dilip Shanghvi:** Why do you say that it is grown up by 88%?

**Surjit Pal:** Over here last year is around Rs. 60 crores in SG expenses...

**Uday Baldota:** Surjit I correct it again that in other expenditure we should not remove R&D because what everyone does is, they take the other expenditure and then deduct the R&D and then take the rest as SG expenses. Actually R&D expenditure is spread across all the heads, there is some R&D cost in materials, some R&D cost in employee cost and some R&D cost in



other expenditure as well. If you remove it straight then the comparison you will get will not be appropriate.

**Surjit Pal:** Ok. Second S question is on Caraco having a lower growth.

**Dilip Shanghvi:** I think I said that on quarter on quarter basis over the previous quarter there is no significant growth in Caraco's number.

**Surjit Pal:** Any particular reason for that?

**Dilip Shanghvi:** I think Caraco can give you a better answer but overall we expect Caraco to continue to do well, one quarter does not reflect change in the overall performance.

**Surjit Pal:** And how many products presently in Caraco in first 9 months are products in markets for Sun Pharma?

**Dilip Shanghvi:** I mean all the products that we have currently are sold and marketed by Caraco. It is not an indication that our future products also will be marketed because there is product specific marketing understanding.

**Surjit Pal:** Thanks.

**Dilip Shanghvi :** Thank you.

**Moderator:** Thank you Mr. Pal. The next question is from Mr. Prashant Nair from Citigroup. Please go ahead.

**Prashant Nair:** Good morning sir. You had mentioned earlier that Effexor XR is based on the technology that belongs to SPARC. So when you launch that how would the payment to SPARC be in the form of royalties or is there any other mechanism that you would be following?

**Dilip Shanghvi:** In the form of royalty.

**Prashant Nair:** Can you share what the percentage number would be?

**Dilip Shanghvi :** Not now.

**Prashant Nair:** And in your future products how many of your para fours would be filed using technology that belongs to SPARC?

**Dilip Shanghvi:** I mean we don't have any new products which is being filed with SPARC technology. So all new products in development are based on Sun technology. I won't have exact number of products that may be in development before this spin-off which might have SPARC technology.

**Prashant Nair:** Ok. Thanks.

**Moderator:** Thank you Mr. Nair. The next question is from Mr. Mittul Mehta from Lucky Securities. Please go ahead Mr. Mehta.

**Mittul Mehta :**Yes good morning sir. My question pertains to the opportunity in the CRAMS segment. Is that an opportunity that can be addressed by companies with deep research chemistry skills and manufacturing capabilities such as Sun or the fact that we are a generics player prevents us from addressing this opportunity?

**Dilip Shanghvi:** I think I don't understand CRAMS so I will not be able to respond.

**Mittul Mehta:** All right thank you very much.

**Moderator:** Thank you Mr. Mehta. Ladies and gentlemen that was the last question for this morning. I would now like to hand the floor over to Mr. Baldota and the Sun Pharma management for their final remarks.

**Uday Baldota:** Thank you Rochelle. Thank you everyone for joining us on this conference call. If you have any questions please do let us know and we will be happy to answer you. Thank you. Bye.

**Moderator:** Thank you Mr. Baldota, thank you Mr. Shanghvi and Mr. Valia. Thank you for your participation and you may now disconnect your lines. Thank you.