



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, good evening and welcome to the Sun Pharmaceuticals Q2 2009-10 earnings conference call. As a reminder for the duration of this conference, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call please signal an operator by pressing '*' and then '0' on your touch-tone phone. 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 your sir.

Uday Baldota: Thank you Melissa. Good morning and a warm welcome to our 2009-10 Second 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, who will discuss the performance highlights and share developments and strategies. We hope you have received our 2nd Quarter financials and press release sent out yesterday. These are also available on our website. For ease of discussion we will look at the consolidated financials.

Just as a reminder, this call is being recorded and a replay of the call will be available till November 5, 2009. The call transcript will also be put on our website soon. It would be appropriate to mention that the discussion today may include certain forward looking statements and these must be viewed in conjunction with the risk that our business faces. I would like to request all of you kindly send in your queries that remain unanswered during today's earnings call to uday.baldota@sunpharma.com or mira.desai@sunpharma.com.

I will now handover the call to Mr. Dilip Shanghvi.

Dilip Shanghvi: Welcome and thank you for joining us today for the earnings call after announcement of the financial results for the 2nd Quarter of 2009-10.

First let me talk about the issue at the top of the list, Caraco. As you know in late September, Caraco signed a Consent Decree with the US FDA, which in our view is one of the quickest signing of Consent Decrees, detailing the steps that need to be taken to resolve the concerns raised by the FDA. While the timeframe for the full resolution is not clear we believe that with this move there is more clarity on the path ahead.

Next, the developments on Taro. There is in essence no major development. Taro has filed another case in US against Sun Pharma. As per our lawyers, the Taro promoters, afraid of a judgment being pronounced by the Supreme Court of Israel upholding the Lower Court verdict, are making one more

brazen attempt to potentially create additional excuses for their dishonoring of the signed agreement. Of course as in the past, they are doing all this using Taro money, in which they hold less than 12% economic stake. Once we acquire control of Taro we will hold the Directors accountable under the provisions of applicable law for all such actions. As in the past we will keep you posted about all the material developments on this front.

We will follow our usual format where Mr. Valia will talk about performance and financial highlights and later I will come back to talk about strategy and directions.

I will now handover the call to Mr. Valia.

Sudhir Valia: Thank you Mr. Shanghvi. Good morning to everybody. Our 2nd Quarter financials are already with you. As usual we shall be looking at key consolidated financials for the 2nd Quarter and then for the first half.

For the purpose of the rest of the call, the non-recurring income of USD 20 million reported by Caraco has been added below the operating profit.

Second quarter net sales are Rs. 10,882 million, a decrease of 8% over Q2 last year, almost completely on account of the lower US sales both on account of FDA action and lower sales of the exclusivity product. EBITDA at Rs.3,504 million during Q2 is 35% lower than Rs. 5,380 million of Q2 last year. EBITDA margin at 32% is lower than 46% achieved in Q2 last year. Net profit after minority interest for Q2 is down 11% at Rs.4,538 million from Rs. 5,128 million. Net margin for Q2 is 42% which is lower than 44% achieved in Q2 last year. Material cost as a percentage of the net sales is up at 26% from 23% in Q2 last year. Staff cost for the quarter is at 11% of the net sales up from 9% in Q2 last year. Other expenditure is 30% of the net sales as against 22% of the net sales last year. On fully diluted basis EPS for Q2 is Rs.21.9 down from Rs.24.8 for Q2 last year.

For the first half, net sales is at Rs. 18,758 million, a decrease of 15% over first half last year. EBITDA for the first half is Rs. 4,790 million, a decrease of 55% over the first half last year. Resulting EBITDA margin is at 26% lower than 46% achieved in the first half last year. For the first half, net profit after minority interest is at Rs. 6,176 million, a decrease of 39% over the first half last year. Net margin for the first half is 33%, lower than the first half of the last year. Material cost as a percentage of the net sales has gone up to 29% from 21% in the previous corresponding first half. Staff cost for the half of the year is 13% of the net sales as compared to 9% in the corresponding period last year. Other expenditure as a percentage of net sales has increased from 21% for the first half last year to 32% in first half this year.



Now we shall look at each of the business segments. Domestic formulation sales at Rs. 4,710 million have grown by 5% in the 2nd quarter this year over the corresponding quarter last year. As it appears, part of the impact from the Q4 last year has also spilled over to this quarter. We continue to add market share with key specialists. As per the latest MAT IMS data, Sun Pharma market share is now 3.6%.

Our five main therapy areas, Cardiology, Psychiatry, Neurology, Gastroenterology, and Diabetology account for over 70% of our domestic formulation sales. So far in this first half, 21 products have been brought to the market in India across 18 divisions. Pantocid group, Aztor, Strocit, and Gemer continue to grow at a double digit rate in an extremely competitive market.

Caraco recently announced its Q2 and first half numbers. Caraco reported Q2 sales of USD 78 million up 62% from Q1. Net profit was USD 6.7 million for Q2 compared to the net income of USD 8.4 million in Q2 last year. For the first half year, net loss was USD 2.8 million. Earlier this year among other measures to curtail costs, Caraco had announced a reduction in the workforce subsequent to the stoppage of production.

International formulation markets which now include some sales in Europe, have grown by over 29% for Q2 over the same quarter last year. First half sales are up by 31% over first half last year. In the branded generic market we expect a slow and a steady increase in sales as we continue with product promotion and work to generate prescription pull for our brands.

We have scaled up 10 APIs in this quarter. The tally for regulated market-approved API is 84 of 144 filings made for DMF and CEP. This is after accounting for a large part of API capacity that is being used internally.

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

Dilip Shanghvi: Thank you Mr. Valia.

We understand that all of you make significant efforts to assess the core health of the business by estimating recurring net profit. In some quarters, this maybe relatively easy, while in some it may not be so. In our assessment all material one offs both above and below the line in Q2FY2010 financials add on a net basis approximately Rs. 130 crores to the net profit. We would not share any further granular details for this.



Our commitment to building a strong generic pipeline continues. R&D expense for the 2nd Quarter is Rs. 62 crores based on the work of 600 strong scientist team, our patent library now stands at 239 patents of which 76 patents have been approved. We are beginning to earn returns now on strong IP.

The flow of ANDA approvals for Sun is maintained, with six approvals in the second quarter. In the first half of the current year ANDAs were filed for 11 products and we believe that we will be able to achieve our annual objective of filing ANDAs for 30 products. Between both the companies now ANDAs for 108 products await approval including 10 tentative approvals. We have also settled a few patent litigations on the strength of our scientific capability.

By and large, the business continues to perform as expected. Caraco is working hard to resolve its current manufacturing and regulatory difficulties. The long term strategic thrust and the broad direction remain largely unchanged.

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

Moderator: Thank you sir. Ladies and gentlemen we will now begin with the question and answer session. Anyone who wishes 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 handsets while asking a question.

The first question is from the line of Balaji Prasad from Goldman Sachs. Please go ahead.

Balaji Prasad: Good morning everyone. Dilipbhai, I had a question on the staff cost, on its implications. We have seen the first half staff cost go up to 13% from 9% in the last year. Is this increase owing to any one-off payments on the layoffs?

Dilip Shanghvi: No, I think while we are scaling up operations in the US, specially our Cranbury facility the turnover is expected to keep pace as we start getting approval for new products. So there will be a certain amount of lag effect in terms of turnover catching up with the cost. There may also be some impact of last year's increment, some of which would have possibly spilled over into this quarter.

Sudhir Valia: One of the reasons is that we acquired Chattem, so that employee cost also adds to the total cost here, when we compare the last year, we did not have that facility. And maybe the consequential effect of the lower sales in the US by default shows up as higher percentage of cost.



Balaji Prasad: If we want to just understand the total amount of cost saving owing to the employee sales-force reduction, could you quantify it please?

Sudhir Valia: Are you saying because of the reduction in the Caraco workforce?

Balaji Prasad: That is right.

Sudhir Valia: Then Caraco may have some impact because that reduction has happened recently.

Balaji Prasad: Okay.

Dilip Shanghvi: But you have to factor one issue, that whatever is the reduction, Caraco still has significant staff cost, but it has no top-line to reflect that staff cost. Even if there is a reduction in staff cost the overall impact will still be high on the total cost.

Balaji Prasad: Okay. Just the same trend. Is there any risk of growth being sacrificed when the FDA issue is resolved because you do not have enough sales force to sell your product or is it something which has already been thought about, and do you have plans to address that?

Dilip Shanghvi: No, I think the approach is to structure ourselves so that we do not lose out on opportunities when they come, at the same time we do not have significant created cost in anticipation of future business, it is balanced.

Balaji Prasad: Okay. One question on Caraco's revenue numbers, IMS has shown around 65% to 70% fall in August 2009 numbers compared to May 2009. So what was the delta that happened in September which explains the quarter-on-quarter growth numbers that Caraco has posted, or Sun has posted in the US?

Dilip Shanghvi: I think most likely the inventory of the Caraco product in the pipeline would have come down and therefore that possibly was reflected as a reduction in prescriptions.

Balaji Prasad: Okay. And what was the change or the delta. Could Pantoprazole sales and the payments that you received explain the 63% growth?

Dilip Shanghvi: We do not have the quarterly and monthly IMS prescription data. So I will not be able to respond since I do not have the base data with me.

Balaji Prasad: Okay thank you, Dilipbhai.



Moderator: Thank you Mr. Prasad. The next question is from the line of Bino Pathiparampil from IIFL Capital. Please go ahead.

Bino Pathiparampil: If I heard correctly, the USD 20 million payment from Forest in your consolidated numbers has been recognized as other income below EBITDA line, is that right?

Uday Baldota: In the P&L that you received yesterday it is in the net sales. For the purpose of the ratio analysis on this call we have excluded this.

Bino Pathiparampil: Okay, I understand. In which case the other income for the quarter seemed to be almost double of what you usually report in spite of standalone showing some loss, could you give some color on that?

Dilip Shanghvi: No, I think I said that there are a large number of one-offs in this quarter and what I shared with you is that the net impact of both above and below the line, receipt as well as cost, is an increase of Rs. 130 crores in terms of profit, beyond this we will not be going into specific items.

Bino Pathiparampil: Right. One last question, which is little vague question but if you can answer, when you gave your 15% revenue growth guidance at the beginning of the year you must have assumed a certain level of Protonix sales in the US, has that level of Protonix sales changed over the last 6 months for the year?

Dilip Shanghvi: As you rightly say it is a hypothetical question so it would be difficult to respond to a hypothetical situation.

Bino Pathiparampil: No problem, thank you very much.

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

Sonal Gupta: Just a few questions. One was, has there been any restructuring cost related to the layoffs at Caraco in this quarter?

Dilip Shanghvi: I do not know. Beyond what Caraco has shared we will not have any additional information. I do not think they have shared in their disclosures, maybe some more disclosure will come with their 10Q, and if there is a detail there we can share that with you, but they have not given specific numbers related to these costs.



Sonal Gupta: Right. And Caraco recognized R&D income this quarter because of this patent settlement and refund of some of the litigation cost, will that be true for your R&D for the consolidated company as well?

Uday Baldota: R&D for the consolidated entity?

Sonal Gupta: I mean, have you taken the R&D line by line from Caraco, or will the income that you got from the patent settlement go to the net sales?

Sudhir Valia: We have said that expenses incurred for R&D is so much.

Sonal Gupta: So that is the net expense or that is the expense that you incurred?

Sudhir Valia: No the expense incurred has been incurred, it has nothing to do with income.

Sonal Gupta: Okay, one last question and I will jump back in the queue. What I wanted to understand is that you have been shipping Protonix for the last one and half years or more, and you are maintaining whatever market share you have in that market, as well as your customer relations would pretty much be sealed up so why do we have this quarterly swings on Protonix, is there any specific reason for that?

Dilip Shanghvi: These are large customers so if you sell to one of the customers, they end up buying a quantity which meets their requirement for a long period. So there would be certain swings for these kinds of products. For regular products I think business is more consistent, but there also would be swings in case if you lose a customer or if you gain a new customer.

Sonal Gupta: Right, thanks. I will get back in the queue, thank you.

Moderator: Thank you Mr. Gupta. The next question is from the line of Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: Just wanted to check, you said that the impact because of one-time items is Rs. 130 crores- this is for this quarter or the first half?

Dilip Shanghvi: It is for this quarter.

Saion Mukherjee: Okay, on the domestic market I understand that because of one-time sales which we had, or rather lumpy sales that we had in Q4, what is the kind of growth rate that you are



seeing on the ground for Sun Pharma? If you make the adjustments for these one-time, big sales that we had in Q4?

Dilip Shanghvi: ORG is reflecting around 18% growth for Sun.

Saion Mukherjee: So do you agree with that secondary sales data, do you think it reflects the kind of growth Sun is experiencing, the primary sales growth.

Dilip Shanghvi: Plus/minus few percentages.

Saion Mukherjee: Sir, can you also throw some light on the controlled substance business in the US, at what stage are we? What kind of ramp up do you see happening in that business over the next two years?

Dilip Shanghvi: We generally do not give a long term forecast, it is difficult to predict what will happen in two years, but I think it is an interesting business and we wish to stay focused till we become a meaningful player in that business. As on today, we are a marginal player.

Saion Mukherjee: How long do you think, in the next two years do you think this could be more than \$100 million business for Sun Pharma?

Dilip Shanghvi: If we knew predictably we would have answered, but because there are a large number of uncertainties including getting approvals, all these issues related to quota and how much of quota we can acquire. I wish I could give you most predictable guidance but since it is difficult, it is better for us not to be more specific.

Saion Mukherjee: Okay, sir thanks.

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

Anubhav Aggarwal: Sir, one question on Caraco's Consent Decree, if everything goes well, what is the timeline for Caraco to be back to its normal manufacturing and get FDA approval?

Dilip Shanghvi: I think if Caraco has greater clarity they will share it with their shareholders. I can only share with you what I have seen happen for other companies and we have seen in the range of companies coming back in 6 months to maybe even more than 2 years. I hope that Caraco should be able to return relatively faster, partly because it is a single facility, relatively small business.



Neelkanth Mishra: Sir this is Neelkanth here from Credit Suisse again, again following up on what Saion was asking about domestic sales growth. Now you have mentioned that there was about Rs. 200 crores of excess sales in 4th quarter. Now if you were earlier adding it back in the 1st quarter in which case your 1st quarter sales growth would have been 19% but then in this quarter it was 5%, even if it was an 80-20 split so that Rs. 160 crores went to 1st quarter and Rs. 40 crores this quarter, the sales growth comes to 14% and 10% in the two quarters. Now clearly this is below what IMS is indicating so is there some element of channel inventory correction. Earlier you also used to state that IMS is not the true indicator of your growth. So what kind of growth trend should we take going forward?

Dilip Shanghvi: Our view is that IMS is catching up. Historically it used to reflect significantly lower growth than our internal growth. And we see that recently they are showing a slightly higher growth than our internal growth, but it keeps changing month-on-month.

Sudhir Valia: They are making your job more difficult.

Neelkanth Mishra: Okay. So sir going forward is there anything that will bring down the trend growth because you were growing your revenues much above the market and much above what IMS was showing as your growth, do you think you will continue with that trend or do we think that the growth trend now should be a bit lower?

Dilip Shanghvi: In absence of our giving guidance for the whole year, and since India is a very large part of our business, we believe we should be able to grow faster than the market, that is the overall market. Now when you have a database where our growth numbers are not consistent, we do not think that the overall growth that they are reflecting for the market also is consistent, so you are comparing your performance against a reference which also is not consistent. It is very difficult to give a number in this kind of dynamic situation. We have an internal process by which we focus on growing faster than the market and gaining market share.

Neelkanth Mishra: That is it, thanks a lot.

Moderator: Thank you. The next question is from the line of Cheenu Gupta from Tata AIG Life Insurance. Please go ahead.

Cheenu Gupta: Sir, regarding the domestic sales the impact that we have seen in quarter 1 and quarter 2 because of the higher sales booked in Q4 of last year, would we expect that to be exhausted or would it be seen in the coming quarters as well?



Dilip Shanghvi: No I think it is exhausted. We have seen some impact of that in 2nd quarter not very large- I think maybe around Rs.25 crores to Rs.30 crores. In the 3rd quarter there will be no impact.

Cheenu Gupta: Okay sir. And this drop in R&D spend that we have seen, is it related to the ban on Caraco sales in US or are we going to carry on with this reduced R&D spend going ahead?

Sudhir Valia: Yes, first what you presume is because of Caraco, that is definitely the right way that you have thought of. There are other activities also where the production activity started in some of the facility where they were doing R&D historically, so that also changes, but the R&D spend in reality has not reduced, in fact it is going up.

Cheenu Gupta: Okay. So we should see slightly higher numbers in the coming quarters?

Sudhir Valia: We hope so, once we begin work at the US facilities.

Dilip Shanghvi: Actually I think it is important to clarify that, till we had facility and product approval at Cranbury, we were only doing product development, so a large part of cost was allocated to R&D. Now as we start getting approval, increasing percentage will also be allocated to manufacturing, so to some extent this reflects as a change in the R&D expenses even though there may not be an underlying change in the activity.

Cheenu Gupta: Okay. So sir should we assume that the 8% to 10% of sales that we used to state as R&D expenses, would stand slightly reduced going ahead?

Dilip Shanghvi: Generally I think after spinning off SPARC we have indicated 7%+ or 8%+ kind of percentage, 10% in some quarter but not on a consistent basis.

Cheenu Gupta: Okay sir. And sir what is our current take on hedging?

Sudhir Valia: We generally cover net exports for a few months and do not take any other major exposure in the foreign exchange market.

Cheenu Gupta: Okay. So we should assume that some exports for the next 1 or 2 quarters would be covered?

Sudhir Valia: Yes that is reasonable.



Cheenu Gupta: Okay. No big hedges that we have taken this time?

Sudhir Valia: No, it is very volatile market and we do not want to get into it.

Cheenu Gupta: Okay. And sir this last question what percentage of your international formulation non-Caraco sales would come from Europe?

Dilip Shanghvi: We are not giving any regional breakup.

Cheenu Gupta: Okay, but should we assume most of the non-Caraco international formulations primarily as coming from Europe or a substantially other geographies as well?

Dilip Shanghvi: I think for the first time, we have indicated that we have started exporting to Europe recently, so it is not an old business, our old business also continues to grow well.

Cheenu Gupta: Okay sir, thanks a lot.

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

Rahul Sharma: Sir just wanted to know the income from the generic line Inwoods from Forest Labs, where has this been booked, is it booked in revenues?

Sudhir Valia: In Caraco's result it is in other operating income, so after the sales they say other operating income, it is not other income.

Uday Baldota: Rahul, you are talking about the Caraco non-recurring income is it?

Rahul Sharma: Yes non-recurring.

Uday Baldota: That is included in our sales number, income from operation.

Rahul Sharma: Okay thanks.

Moderator: Thank you Mr. Sharma. The next question is from the line of Vihari Purshottam from Enam Securities. Please go ahead.



Vihari Purshottam: Dilipbhai, at various times in the past including your last quarterly call you mentioned that there was no plan as such to try and transfer manufacturing by filing site variation out of Caraco, is this a policy that you still hold?

Dilip Shanghvi: I do not think we said that, what I said is that this is not easy and also it involves lot of effort and cost. So if Caraco is going to become operational in a short time then we have to factor that into our thinking process. So we have actually neither said that we are transferring anything nor we have said we are not transferring anything.

Vihari Purshottam: The reason I asked is that the annual report for 2009 for Caraco has management's plan for fiscal 2010, it has a statement from Mr. Doshi saying that we may transfer certain manufactured products to an alternate manufacturing site that could allow the company to gain revenue from these products in less than 6 months.

Dilip Shanghvi: I understand, I think it is the same thing that is said in a different way. He is saying we will consider transferring, I am also saying that this is a decision we can take on a product to product basis, there are no plans to wholesale transfer all the manufacturing, we have also no plans not to transfer anything, so it is a decision which will be taken both looking at workload at different sites as well as relative attractiveness of that decision.

Vihari Purshottam: Okay. And just another question on the likelihood of the senate clearing the order banning for the pay for delay settlements while it is not exactly in the ambit of what you probably would like to comment on, do you have a view as to whether this will go through and if so what impact it could have?

Dilip Shanghvi: No, I think it is still a committee decision so it needs to go through and we are still not very sure as to the support that it will have in both the houses. It has positive features and it has features which need to be studied for its future implications. So we are in the process of evaluating all aspects, so it is difficult for me to comment at this point.

Vihari Purshottam: Okay, thanks a lot.

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

Rajesh Vora: Congrats on a good set of numbers. Dilipbhai first on the available cash on the balance sheet now what is that number. And any plan of utilization beyond the Taro on this?



Dilip Shanghvi: I think more or less the same number that we had at the end of last quarter.

Rajesh Vora: It should be higher, I am sure you are not spending so much on capex?

Dilip Shanghvi: We gave a dividend last quarter and there would be capex, increased inventory and increase in cost, so overall there is no significant addition this quarter.

Rajesh Vora: Sure Rs. 3500 crores.

Dilip Shanghvi: That is correct.

Rajesh Vora: Okay. And any utilization beyond the investments planned in Taro which you are obviously not using up right now but any plans on that, any change?

Dilip Shanghvi: No, we still continue to look at opportunities which fit into our criteria.

Rajesh Vora: Sure. So there is interest depending on whether something comes up or not?

Dilip Shanghvi: Absolutely.

Rajesh Vora: Sure. And second question, in the past your company is like Mr. Consistent and last two years there have been a lot of changes both positive as well as negative with the windfall of Pantoprazole followed by few falls, bumps along the way, do you think that is what is going to be the life at Sun Pharma? And how are you coping up with it?

Dilip Shanghvi: From our point of view we have tried to be as forthright and upfront about this kind of one-off incomes, so that is not the target against which I need to compete, so except the issue related to Caraco which has come as a negative impact, all our other businesses continue to perform consistently on a quarter-on-quarter basis.

Rajesh Vora: Sure. And lastly on Venlafaxine, Effexor XR tablets. Osmotica has filed two citizen petitions would you be able to throw some light on that?

Dilip Shanghvi: We would have responded to one of the citizen's petition or maybe both, we believe that both the citizen's petition are frivolous and essentially with a view to potentially delay entry of generic. So hopefully FDA will agree with our view and approve our product whenever it is approvable.

Rajesh Vora: Sure. We have about couple of years on our side before the patent expires on this?



Dilip Shanghvi: What I understand is that as per the settlement with Wyeth, by June-July of 2010 Teva gets into market. And then they have some subsequent settlements with Impax, with Lupin, which also specify a timeline by which they can enter the market.

Rajesh Vora: Okay. So in a sense you are saying maybe June-July 2010?

Dilip Shanghvi: That is when Teva enters the market.

Rajesh Vora: So the pricing part becomes obviously unfavorable unless you enter by then?

Dilip Shanghvi: That is correct.

Rajesh Vora: Yes, okay, thank you and all the best.

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

Nitin Agarwal: Sir just one small clarification. You said one offs are about Rs. 130 crores for the quarter, does it include the contribution from the para IV sales also?

Dilip Shanghvi: Yes it will include a significant increase in para IV sales which we have seen compared to the previous quarter.

Nitin Agarwal: Okay, thank you very much.

Moderator: Thank you Mr. Agarwal. The next question is from the line of Surajit Pal from Standard Chartered. Please go ahead.

Surajit Pal: I have only one query, that going by your Consent Decree there is one point which says that there is \$15 million of standby letter of credit, are you going to account this for Q2 or Q3?

Dilip Shanghvi: Now why do we need to account for letter of credit? It is a part of business expense, they can get covered in a period in which, since the Consent Decree is signed, they would have already on the day of Consent Decree signing before that they would have given the letter of credit to the FDA.

Surajit Pal: Okay, thanks, I am done.



Moderator: Thank you Mr. Pal. The next question is from the line of Manish Jain from Axis Holdings. Please go ahead.

Manish Jain: Yes I just wanted a quick clarification that there is a pledging of around 860,000 shares. Could you just clarify because that is a quarter where you got the dividends?

Dilip Shanghvi: No I think historical definition of promoter as defined by SEBI includes family members. Both I and Mr. Valia do not have any pledged shares.

Manish Jain: Okay, because this translates roughly to around Rs. 110 crores so this is not from your side?

Sudhir Valia: No.

Dilip Shanghvi: Both of us do not have pledged shares.

Manish Jain: Thanks.

Moderator: Thank you Mr. Jain. The next question is from the line of Monica Joshi from Avendus Capital. Please go ahead.

Monica Joshi: About the Forest agreement that was signed in October, for the Inwoods business, which Caraco would be taking as part of sales because of several products that would now come to it, was there any revenue contribution from this business in Q2?

Dilip Shanghvi: Unless and until Caraco has given clarification we will not have that level of detail.

Monica Joshi: Okay, thank you.

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

Sonal Gupta: Couple of follow up questions. One was on the statement you made in the beginning of the call on Taro-- do we expect a judgment soon from the Supreme Court. Do you have a timeline in mind, a timeframe that we can expect the judgment from the Supreme Court on Taro?

Dilip Shanghvi: I think we have very little clarity on the timeline, we are told that we should expect judgment shortly but there is no specific timeframe. Like India and also in the US, judges decide when they wish to give a judgment depending on their workload. And some of the judgments



are very considered in the sense that the judgments run into maybe 30 to 40 pages, it does take time. It will be difficult for us to give a specific timeline.

Sonal Gupta: Right. And would this net sales number also include significant additional payment from Lundbeck because you sold some patents to Lundbeck as well. So is that a significant number?

Dilip Shanghvi: At the beginning of the call I said that there are a number of one offs both below and above the line which are positive as well as negative. And the net impact is Rs. 130 crores. We are not giving granular detail including transaction details.

Sonal Gupta: Right. And could you just comment, there was a resignation by an independent Director at Caraco on unwillingness related to examining corporate governance issues, so any comments that you would like to make in that regard?

Dilip Shanghvi: No I think beyond what Caraco has expressed in its SEC filings we have no additional specific comment.

Sonal Gupta: Right. And I know you do not want to give any predictions on the controlled substance business, but what is your assessment on the total size of the generic controlled substance market in the US?

Dilip Shanghvi: I think including Oxycontin and Methylphenidate, Aderall XR and morphine sulfate products, it would be around \$4 billion.

Sonal Gupta: Okay. And one final question, we continue to see a very low interest income, given that cash has gone up significantly after you reduced your working capital-- we are not seeing any increase in interest income any reasons for that?

Sudhir Valia: Interest rate is going down.

Dilip Shanghvi: What he is saying is that even with the lowest interest rate, if you have this much money then he is expecting higher interest income than what is reflected. Sonal, that is what you are asking, correct?

Sonal Gupta: Yes partly --we are not seeing much change despite the fact that that cash has gone up significantly?



Sudhir Valia: Yes, cash has gone up and interest rate gone down so the income is almost at similar levels.

Sonal Gupta: But are we primarily investing in money market instruments?

Sudhir valia: No we have investments in fixed deposits or maybe in a liquid mutual fund, but no exposure in the money market.

Dilip Shanghvi: We may have even fixed maturity plans, but no market exposure.

Sudhir Valia: No FMP, only investments in fixed deposit or liquid mutual funds, nothing else.

Sonal Gupta: Okay, thank you. I am done, thank you.

Moderator: Thank you Mr. Gupta. The next question is from the line of Abhinav Chandak from Fort Share Stock Broking. Please go ahead.

Abhinav Chandak: Yes, most of my questions have already been answered, just had a clarification on the amount that we are earning as interest on the cash balance, do we have a view that we will continue to earn that or are we looking to deploy that cash somewhere else for something strategic?

Dilip Shanghvi: If we get a strategic investment opportunity we will deploy because the purpose is not to earn interest on the money.

Abhinav Chandak: Like in your last call you had said that there would be a significant increase and things would return to a normalcy for Para IV drug sale, do you have any such view for the next two quarters?

Uday Baldota: No, I think we said that about the domestic business.

Abhinav Chandak: Right.

Uday Baldota: That is not Para IV, Para IV is in US.

Abhinav Chandak: Right. I am talking about the US market?

Uday Baldota: We did not say anything related to normal levels of para 4 in the US.



Abhinav Chandak: Okay. And one more question there was some provisioning that we had made in Q1 of USD 84 million for the drug that was seized what is the status on the same, do we expect any writebacks on this?

Uday Baldota: See Caraco had made a provision of \$8.4 million inventory reserve; in fact they have increased that by \$7.5 million this quarter. They have already taken a charge in the P&L if you see Caraco's P&L.

Abhinav Chandak: Okay, thanks.

Moderator: Thank you Mr. Chandak. The next question is a follow up from the line of Manish Jain from Axis Holdings.

Manish Jain: Yeah I just wanted a clarification on the R&D expense given that it has gone down by more than 30%, were there any clinical trial cost last year or in last year's expense, because I know you have mentioned about Cranbury?

Dilip Shanghvi: The major reduction is on account of two things; one is that the R&D expense of Caraco has come down. And the second reason is now we have started production at Cranbury, the costs are getting distributed between R&D and operations. So the actual reduction in the expense has not happened or the level of activity related to R&D has not come down.

Manish Jain: And in terms of clinical trial cost?

Dilip Shanghvi: Clinical trial generally will not be required for ANDA.

Manish Jain: Fair enough, thanks.

Moderator: Thank you Mr. Jain. The next question is a follow up from the line of Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: Sir just on this Rs. 130 crores which you have this quarter because of one time, does this include Protonix sales also, the profits on Protonix?

Dilip Shanghvi: Yes, partly, as I said.

Saion Mukherjee: So this is a quarter-on-quarter increase, right I mean on a quarter-on-quarter we should see that 130 crores increase because of additional Protonix sales and one off?



Sudhir Valia: When we say one time, where is the question of a quarter on quarter increase.

Uday Baldota: Saion of the Rs. 454 crore profit that we have reported this quarter, when all such elements are taken together the impact is Rs.130 crore.

Dilip Shanghvi: So what I think we are saying for a consistent profitability you should reduce Rs.130 crore from this number.

Saion Mukherjee: I see, can you also share for the first half, I mean for the quarter 1?

Dilip Shanghvi: No we have not done that detailing.

Saion Mukherjee: Okay, thank you.

Moderator: Thank you Mr. Mukherjee. The next question is from the line of Deepak Sharma from PTI. Please go ahead.

Deepak Sharma: Just wanted to know one thing, you mentioned that you will hold the Taro Directors responsible for the expenses, just could you give me a brief idea that what would be the litigation cost incurred on the company's exchequer?

Dilip Shanghvi: No, we will not know how much money Taro is spending.

Deepak Sharma: No but how much money Sun Pharma is spending on litigations all put together?

Dilip Shanghvi: No we have I think large number of litigations but a significant part of the litigations relate to para IV filings. And we do not give sub details for litigation cost.

Deepak Sharma: Okay thank you sir.

Moderator: Thank you Mr. Sharma. The next question is from the line of Girish Bakhru from JM Financial. Please go ahead.

Jesal Shah: Yes this is Jesal, just a question on the para IV pipeline, I understand that you do not give an idea about how many para-IV you have filed, but can you tell us if there are any first to file opportunities on which you have not been sued at all?

Dilip Shanghvi: No, I think it is the same issue, we do not give details and you are asking for a sub detail that we will not share specifically right now.



Mr. Jesal: Okay. And the second thing was when should we expect to see guidance from your side given that you are also seeing some clarity emerge on the Caraco part of the business?

Dilip Shanghvi: Hopefully next year we will have guidance, I wish to structure such that we have guidance for the next year.

Mr. Jesal: Okay, thank you so much.

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

Uday Baldota: Thank you everybody for joining us on this call today. If you have any further questions unanswered please let us know we would be happy to help you, thank you.

Moderator: Thank you gentlemen of the management. Thank you Mr. Baldota. Ladies and gentlemen on behalf of Sun Pharmaceuticals that concludes this conference call. Thank you for joining us and you may now disconnect your lines.