

**Corporate Participants:**

Mr. Dilip Shanghvi  
Chairman and Managing Director, Sun Pharmaceutical Industries Limited.

Mr. Sudhir Valia  
Whole Time Director, Sun Pharmaceutical Industries Limited.

**Moderator:** Ladies and gentlemen, good morning and welcome to the Sun Pharmaceuticals first quarter Earnings Conference Call. As a reminder for the duration of this conference, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call, please signal an operator by pressing "\*" and then "0" on your touchtone 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 you, Sir.

**Uday Baldota:** Thank you, Melissa. Good morning and a warm welcome to our 2009-2010 First 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, Whole Time Director and they will discuss the performance highlights and share developments and strategies. We hope you have received our First Quarter financials and press release sent out yesterday and these are also available on our website. For ease of discussion we will look at the consolidated financial numbers. Just as a reminder, this call is being recorded and a replay of the call will be available till August 5, 2009. 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. 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 earnings call after the announcement of the financial results for the first quarter of 2009-2010. First let me address the issue that is at the top of the list; the continuing quality problems at Caraco, the warning letter and the subsequent seizure of drugs by the US FDA. Not a happy state of affairs and certainly unprecedented. As we had shared in our previous investor call right after the FDA action, Caraco is working with lawyers and FDA consultants who are working with FDA, so that it can implement the required changes. It would not be possible to indicate a timeframe for this resolution. Linked to this, you would have also seen another announcement from Caraco about a reduction in workforce to align expenses while there is no manufacturing activity.

There has been another development which is in a way related; two purported Federal security class action lawsuits have been filed in the United States District Court of Eastern District of Michigan against Caraco and certain of its executive officers. Plaintiffs have alleged that defendants violated federal security laws primarily related to public statements on FDA compliance. Caraco believes the plaintiffs allegations are without merit and intends to vigorously contest the action.

Earlier this month Sun and Caraco signed an agreement with Forest Labs and Lundbeck to settle the legal proceedings related to Lexapro. Simultaneously, Lundbeck has also licensed certain patent applications on citalopram and escitalopram on a worldwide basis paying us an upfront amount and royalty on use. This is an important validation of our intellectual property and chemistry skills. Caraco will also takeover the commercialization and sale of several products from Forest's Inwood Business thus adding to its pipeline. Of course, all of this is subject to review by US FTC.

Before I hand over the call to Mr. Valia for a discussion on the financial highlights, a few words on the factors affecting our current quarter performance. While comparing the performance this quarter with that of the past periods and also to use it as a basis for projecting our future performance, we would like you to keep in mind the key elements that impacted our current quarter numbers.

If you recollect, we had significantly high sales in India Formulation Business in Q4 of last year due to a change in our distribution policy. We had also indicated in our last Earnings Call that on account of this, the sale in this business during the first quarter of this year will be correspondingly lower. The numbers in Q1 reflect this impact. Incidentally this is a limited duration impact and sales will return to the normalized level from next quarter.

In the past few quarters, as you are aware, our performance has been additionally boosted by sales of some Para IV products in the US. We have consistently communicated about such sales being non-recurring and volatile in nature and suggesting not to ascribe a large part of business value to such revenues and profits. In fact, the number in Q1 has significantly lower sales of this Para IV products compared to Q1 of last year and we would expect revenues from such Para IV products to remain variable in future.

As an outcome of the recent FDA action at Caraco, Caraco has created a partial reserve of USD 8.4 million out of a total inventory worth USD 22.9 million seized by the FDA. These have inflated our material cost in the current quarter to the extent it was not there in any of the preceding quarters. Material cost also has an impact of product recall during the quarter.

Once again if you recollect, when the rupee was depreciating in the past, we informed you that the profits are boosted in part on account of favorable translation impact related to current assets mainly for inventory held in our subsidiaries internationally. Movement in the foreign exchange rate in the current quarter has been in the other direction and hence has caused an adverse translation impact on our profits.

I hope you look at the performance numbers keeping the above in mind.

For the rest of the call, we will follow the same format where Mr. Valia will talk about performance and financial highlights and later I will come back to talk about strategy and direction. I will now hand over the call to Mr. Valia.

**Sudhir Valia:** Thank you, Mr. Shanghvi. Good morning everybody. Our first quarter financials are with you. Mr. Shanghvi has already outlined the key factors that impacted our current quarter performance. In light of the factors, let us begin with the key consolidated financials for the first quarter.

First quarter net sales are at Rs. 7,876 million, a decrease of 24% over Q1 last year. EBITDA at Rs. 1,286 million during Q1 is 76% lower than Rs. 5,379 in Q1 last year. EBITDA margin at 16% is substantially lower than 52% achieved in Q1 last year. Net profit after minority interest for Q1 is down 67% at 1,638 million from Rs. 5,015 million for Q1 last year. Net margin for Q1 is 21%, much lower than 48% achieved in Q1 last year.

Material cost as percentage of the net sales has jumped to 33% from 18% in Q1 last year. Staff cost for the quarter is at 16% of net sales, up from 9% in Q1 last year. Other expenditure is at 35% of net sales as against 21% of net sales last year. On a fully diluted basis, EPS for Q1 is Rs. 7.9, down from Rs. 24.2 for Q1 last year.

Now we shall look at each of the business segments.

Our total Indian business for the quarter was 43% of the total turnover.

In domestic formulation, the largest component of our business, the underlying business continues to grow profitably. Domestic formulation sales at Rs. 3,129 million has gone down by 27% in Q1 this year over Q1 last year. As per the last ORG IMS data, Sun Pharma market share is now 3.5%. We continue to add market share with key specialties. Our five main therapy areas, Cardiology, Psychiatry, Neurology, Gastroenterology, and Diabetology accounts for over 70% of our domestic formulation sales.

So far this year 12 new products have been brought to market in India, across 18 marketing divisions. Pantocid group, Aztor, Strocit, Gemer, and Glucored continue to grow at double-digit growth rates in an extremely competitive market.

Caraco recently announced its Q1 numbers, which was impacted among other things by continued FDA action and lower sales of Para IV product. Caraco had reported Q1 sales of USD 48 million, down 56%. Gross margin was negative 7.5%, as against 21.7% for Q1 of last year. Net loss was USD 9.4 million for the Q1 compared to net income of USD 9.4 million in Q1 last year. As mentioned earlier by

Mr. Shanghvi, a reserve of USD 8.4 million representing partial value of the seized inventory is included in this number. Caraco also announced a reduction of about 350 from its workforce subsequent to the stoppage of production.

International formulation market including some based in Europe has grown over 33% for Q1 last year.

We have scaled up 2 API in this quarter. The tally for the regulated market approval of API is 83 of 141 filings made for DMF and CEP. Our API sales have grown 43% for Q1. 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.

Across Sun and Caraco, ANDAs were filed for 8 products during this quarter. Between both the companies, ANDAs for 111 products await approval including 10 tentative approvals.

Our commitment to product development continues. R&D expenses for the first quarter have increased from Rs. 742 million for Q1 of FY2009 to Rs. 771 million for Q1 for FY2010. Based on the work of almost 600-strong scientist team, we have now a patent library of 238 patents filed of which 76 patents have been approved. The recent agreement with Forest and Lundbeck is an indicator of the quality of our patent applications.

The current quarter performance has been quite poor when compared to our performance over our listed history. There are events that have shaped this performance and I have earlier listed the main contributing factors.

As we see our business and its different segments, we see overall longer term growth and relative consistency in our India business, ex-US international formulation as well as API businesses. The key element of uncertainty comes from our US business essentially centered around Caraco. Caraco is working with the FDA to regain full cGMP compliance and restart manufacturing activity. Till this happens, it is indeed very difficult for us to guide for the growth or performance of the overall business.

Importantly, none of these developments will alter our operating philosophy and approach to business. A focused, productivity oriented and disciplined approach has been critical for our success in the past. We believe this will also help us overcome the current challenge that our business faces.

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 & answer session. Anyone who wishes to ask a question may press "\*" and "1" on their touchtone 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 Mr. Akshat Vyas from Emkay Global. Please go ahead.

**Manoj:** This is Manoj from Emkay. Sir, you have given an indication that there was an 8.5 million impact because of partial reserves which has been done for the products being seized, what could be the impact because of the product recall in raw material on Caraco Sir?

**Sudhir Valia :** There would not be any sales, but the material consumed is written off, so to that extent the material cost will go up.

**Manoj:** Okay. Can you give some number for that?

**Sudhir Valia :** No such specific number.

**Dilip Shanghvi:** We have not done the calculation.

**Manoj:** Okay. Second thing, in the last Quarter call, you indicated that there was a one-time sale of around Rs. 200 crores in the domestic market. Was it a normal trade sale or was it some supply to Government institute or some one off order?

**Dilip Shanghvi:** No, what we had said is that because of change in distribution policy, there was an increased sale of Rs. 200 crore in the last quarter and that extra sale will impact our sales in this year.

**Manoj:** Can you elaborate, because 200 crores is quite a large number, it is equivalent to almost one and one-and-half months of sales.

**Dilip Shanghvi:** We understand that whatever the impact of the extra sale is, it is completed in this quarter. Any impact is already reflected in our current quarter sales. We do not expect going forward any impact of that extra sale in the subsequent quarter.

**Manoj:** Okay what I want to understand is that this sale was basically normal sale to the channel distributor?

**Dilip Shanghvi:** Yes. This is normal prescription product business sale.

**Manoj:** Okay, another thing. Caraco has initiated action with reduction of production force.

**Dilip Shanghvi:** Can we have somebody else ask questions because you have already asked three questions?

**Manoj:** Sure, so nice of you. Thank you very much.

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

**Prashant Nair:** Sir, just to get a better understanding of how core business profitability has moved, I know you do not breakup between the Para IV products, etc., but broadly before you started selling Protonix and oxcarbazepine, your margins were roughly in the 33% to 35% range. Has that changed materially in either direction or is it largely the same?

**Sudhir Valia :** Material cost as we discussed has number of reasons, which we have shared. Going forward this kind of impact may not be so large, but definitely the exchange rates etc will have an influence.

**Prashant Nair:** Yes, I was just trying to see on a more normalized basis. Is that the kind of margin that you would expect in your core business, if one ignores the impact of forex in one quarter or any exclusivity?

**Sudhir Valia :** More or less you will correlate that our material cost is ranging in a narrow margin, There is no significant change in the business, barring that if the bulk business increases, then definitely there is some impact on margins, but we are not going out of the margin range, because we are growing bulk as well as formulation.

**Prashant Nair:** Okay, fair enough. My second question was on the settlement with Forest. Can you throw some more color on the products that you would be commercializing either in terms of number of products or value of sales?

**Dilip Shanghvi:** I think beyond what we have shared with you in terms of signing this agreement and this being subject to FTC approval, at this point, we are unable to share any additional specific information.

**Prashant Nair:** Okay, in terms of timing would this have already started or will it start shortly?

**Dilip Shanghvi:** I think it was announced, when it was signed, and there is a customary FTC wait period. The agreement becomes effective only after the wait period and response from FTC are received.

**Prashant Nair:** Okay, I understood. Thanks a lot.

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

**Neelkanth Mishra:** Sir, I was trying to assess, taking off the impact of lost sales, you had earlier guided to 10% revenue growth, so I take off all of my Caraco manufacture product sales, and I also put in a small decline to the distributed product sales because you said, there would be some initial impact, but after that I am assuming there would be no other impact. Using those numbers it would seem that there should be a great acceleration in revenue rate in the next few quarters. Is there something wrong in what I am assuming or has something else changed as well after the FDA seizure at Caraco?

**Dilip Shanghvi:** No, I think your presumption or assumption is not very different from what I said. I said that all our businesses continue to perform reasonably well and the only business for which we currently have a limited handle is the issue related to compliance of FDA requirements at Caraco, so that is a number that we are unable to predict with any degree of certainty.

**Neelkanth Mishra:** Understood sir. So then if I were to just take your earlier 10% revenue growth guidance and take off the numbers that I said I would, I get a fairly large revenue number in the next three quarters. Was this in some way driven by Pantoprazole and should we expect more of Protonix sales in the coming quarters?

**Dilip Shanghvi:** I think, like all products, Protonix also will contribute a certain amount of sales, but we would also possibly be expecting new approvals for Sun Pharma products, that could possibly be factored in the sales that we would have projected.

**Neelkanth Mishra:** Understood sir. One more question and I will be done with you. The impact of Forex on foreign assets and the negative impact in material cost above the EBITDA line, how much would it have contributed to margin decline. Would it be really possible to quantify that?

**Sudhir Valia:** Mainly the margin decline is contributed by these two or three factors, which Mr. Shanghvi has expressed. One is the write off at Caraco. Next translation losses. Marginally one may say that currency exchange rates, if the rupee is weaker then some domestic sales input, which is very insignificant, remains at a higher cost, because it will not get immediately corrected in the domestic market, but only over a period of time, it gets corrected.

**Dilip Shanghvi:** Yes, I think Neelkanth, to answer the question in simpler terms, had these events not occurred, then we do not see anything which would have materially impacted our normal material



cost. If you compare it with the previous year same quarter material cost then it is significantly lower on account of large pantoprazole sales, so that is something you need to factor in.

**Sudhir Valia:** Even if the formulation business proportion in total changes, which, as Mr. Shanghvi has discussed, if there is a change in the mix of bulk and formulations then there is a margin impact.

**Neelkanth Mishra:** Understood Sir. Thanks so much.

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

**Sameer Baisiwala:** Just a question on other expenditure, which was about 273 crores, is there any one-offs there?

**Sudhir Valia:** Again the same translation issue comes in the other expenditure. Last year Rupee rate was different and this year it has gone up, so all the international expense, which is incurred in dollar terms, when we translate we put into rupee terms, we see about 15% rise only on account of translation.

**Dilip Shanghvi:** We now have large number of litigations for Para IV products, and the litigation costs are captured in other expenses. Apart from these two major line items, I do not see any material change in other expenses.

**Sameer Baisiwala:** Okay and the second question is about the sale of Para IV products, i.e. in large part they are disputed products, if you compare from Q4 of previous fiscal versus Q1 this fiscal, has there been any material change, sequentially?

**Dilip Shanghvi:** Yes, I think so. If I understand what you say is that in the same quarter last year....

**Sameer Baisiwala:** The fourth quarter. Overall Caraco sales were about USD 50 million and it is now going down to USD 48 million, obviously there has been some changes here or there, but broadly speaking between these two numbers, have the Para IV sales altered too much?

**Dilip Shanghvi:** We have not actually looked at over the preceding quarter, but maybe we can look at the numbers and then give you specific answers.

**Sameer Baisiwala:** Okay. This will be the final question. A month or so has passed since the seizure, now do we have a fair idea whether for the distributed sales for the US market, would there be a meaningful dent to that, based on your discussions with your customers?

**Dilip Shanghvi:** We have yet to get a complete sense, but there may be a short-term impact; however, over a longer-term period I do not visualize any major impact.

**Sameer Baisiwala:** Okay, thanks.

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

**B. Pathiparampil:** Would you be able to give the exact loss from translation in balance sheet items? You said that the other expenses have gone up because of rupee appreciating, which is fine, but....

**Sudhir Valia:** Rupees depreciating.

**B. Pathiparampil:** Sorry.

**Sudhir Valia:** Rupee was 41 for last year average and today it is about 47-48.

**B. Pathiparampil:** Right. What I was asking is, there would be some assets and liabilities on your balance sheet on which you might have recorded some translational loss or gain right?

**Sudhir Valia:** Correct.

**B. Pathiparampil:** Can I get exactly how much that would be?

**Sudhir Valia:** No. For that you can read the balance sheet and find the foreign currency item, you will get that figure.

**Dilip Shanghvi:** I mean, we have not done the total calculation.

**Sudhir Valia:** See. It is a quarter-to-quarter issue and our accounting standards are clear that all the foreign currency assets are to be valued at the quarter end.

**B. Pathiparampil:** Right. So, you do not really have that exact figure.

**Sudhir Valia:** No. It is a routine activity, so it is very difficult. It is not an activity actually one can compare with last year same quarter. If at all to be seen in the last quarter because exchange rate in the last quarter is 51 or 52 or something like that and the exchange rate in this quarter has depreciated and we need to value at the stock again. The same stock which was valued at 52 or 51 is now valued at 47 or 48. So by default, it reflects some reduction or a loss.

**B. Pathiparampil:** Right, that quantum was what I was asking for.

**Sudhir Valia:** I will appreciate if you go through the balance sheet, because it appears in so many areas

**Dilip Shanghvi:** We do not have the exact number, but that is one of the reasons for increase in our material cost.

**B. Pathiparampil:** No problem. Second question, just I want to confirm that all the impact of inventories as well as the product recall comes on the COGS line and there is no impact on the sales line item.

**Dilip Shanghvi:** The impact on inventory comes in the material cost.

**B. Pathiparampil:** In case of product recalls have you adjusted sales for the quarter?

**Sudhir Valia:** Suppose there is a product recall of Rs 3 crores and the material cost of that may be 20%, so it is Rs 60 Lakhs. Now material is consumed, but my sale is to be reduced by Rs. 3 crores, so effectively, my average material cost will go up to that level. That is what we are saying.

**B. Pathiparampil:** So, my question is for the previous quarter, if you have recorded a sale, do you write back that sale in this quarter?

**Sudhir Valia:** Whenever you receive return material that is the only time you account for it because you cannot restate the last period to account for sales return.

**Dilip Shanghvi:** So if we have recalled in this quarter, then this quarter's sales will be understated to the extent of the recall.

**B. Pathiparampil:** Right. Okay, that is excellent. Also, would you give some idea about the lay off in Caraco. Is there any one-time cost associated with that, is that already in this quarter or will it come next quarter?

**Dilip Shanghvi:** My sense is that Caraco's number announced for this quarter (Jul – Sep) would reflect that cost whatever was associated with that.

**Sudhir Valia:** This is an ongoing activity. Whenever they find that they have people they may not require any more, they cut numbers..

**B. Pathiparampil:** Okay. Thank you very much.

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

**Rajesh Vora:** Dilipbhai on the Caraco issue, the CEO change has been effected and the workers are being retrenched, on the worst case scenario, is it fair to assume a couple of years for it to get fully resolved or it is too difficult to predict?

**Dilip Shanghvi:** I think it is not wise to predict. I do not think it would last a few years; hopefully we should be able to comply with whatever FDA is expecting in a much shorter period. It is difficult to estimate that time in very specific terms.

**Rajesh Vora:** Sure. And in terms of the last post seizure call you had mentioned about consent decree, so is that on track, the work on that side.

**Dilip Shanghvi:** Yes, that is the process that companies which face this issue will have to go through, so that is something which Caraco would be pursuing.

**Rajesh Vora:** And you had mentioned on the last earnings call when you gave the guidance about Effexor XR tablet launch, Venlafaxine XR in this fiscal year, so does that still hold good?

**Dilip Shanghvi:** What we said is hopefully.

**Rajesh Vora:** Yes, so that holds good.

**Dilip Shanghvi:** Yes, I think with this kind of results, one holds on to hope much more tightly than what would be if we were doing well in other functions, but now I think hopefully it should happen.

**Rajesh Vora:** Okay, that is great and last thing, non-US, you have been only giving sales guidance, sales revenue growth guidance in the past, would it not be appropriate to give non-US side of revenue growth guidance considering what is happening in the US side, for the benefit of investors?

**Dilip Shanghvi:** No. I hear what you are saying. Let us reflect on what you are saying and then if we feel that is appropriate, we will give a non US guidance, but I think if we see last year a significant part of our overall business came from the US, so I do not know whether a non-US guidance will help anybody in terms of overall analysis.

**Rajesh Vora:** Sure, but I think this year considering what is happening in the US, your non-US business becomes obviously far more critical and relevant.

**Dilip Shanghvi:** I think these are various issues that we are internally debating. We have not come to any conclusion.

**Rajesh Vora:** Sure.All the best. Thank you so much.

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

**Sonal Gupta:** Just a couple of questions, one was just follow-up on Bino's question that the retrenchment cost has already been taken in this quarter?

**Sudhir Valia:** Caraco had recently announced and only after they cut numbers the retrenchment cost will be incurred and employee cost will go down.

**Uday Baldota:** I think it was announced in early July, so what Mr. Shanghvi said is whatever is the impact will be accounted for in the relevant quarter.

**Sonal Gupta:** Okay. Thanks. The other thing was on R&D at Caraco, is there any retrenchment on the R&D side as well?

**Dilip Shanghvi:** We do not have actual details related to which function retrenched how many, but my sense is- that is not a function which would see significant head count reduction.

**Sonal Gupta:** And this again on Caraco itself, any reason why Caraco's provisioning is only 8.4 million for the inventory versus inventory seized of little more than 22 million, so any reason why we have chosen just for almost one third instead of taking the full amount.

**Sudhir Valia:** No. It is determined by the time period, somebody will see a provision for 25%. Now the issue which is more important to understand is that the provisioning, is not written off. Now it does not mean that nothing can be recovered even from out of this 8 million. At the same time, for the balance portion also, how much they will be able to recover will be determined by interaction with the FDA and any understanding that is developed, so it is very difficult to establish at this point of time. There may be more write-offs or there will be some recovery.

**Dilip Shanghvi:** Our sense is that the management of Caraco would have factored from their point of view, on a safe basis, what they will be able to recover and that is how they would have evaluated this. The inventory, which they cannot recover or have less chance of recovery, would have been provisioned for.

**Sonal Gupta:** Okay. So, effectively that means that some material that has been seized by the FDA may at some point of time come back.

**Dilip Shanghvi:** It might, yes.

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

**Moderator:** Thank you, Mr. Gupta. The next question is from the line of Girish Bhakru from JM Financial. Please go ahead.

**Jesal:** Yes. If I look at the other expenditure sequentially, there has been some kind of a fluctuation on a quarter-on-quarter basis in last few quarters, so it will be very helpful if you can give us some sense on what we should look at as the normalized other expenditure? For example, if I look at fourth quarter of last year, the other expenditure is very high at about 420 crores, whereas this quarter it is just about 260 crores, so what should be the normalized other expenditure that we should be looking at?

**Dilip Shanghvi:** I think in other expense there is the impact on account of exchange difference also, so it is difficult to predict finally how much the underlying expense is. There is also this other element of legal cost, which is also difficult to predict. We can have an overall sense as to what would be the annual cost on other expenses and in legal cost, but what would be the specific quarter legal cost is difficult to predict with any degree of accuracy. However, we understand your point and if we can come up with some numbers that people can use as a basis, we will try to do that.

**Jesal:** Okay and the second question is on your formulation export business, ex-US. Last year it was about, for the full year, 450 crores. It has reached a fairly decent size now, so it will be very helpful to us if you could give us some idea about which are the key markets and overall where do you see growth rates in this region?

**Dilip Shanghvi:** I understand, I think either for competitive reasons or sharing confidential information potentially also with competitors, we have consciously avoided giving detailed breakup of country specific details and our sense is even now we felt is not wise for us to give very detailed country specific information at this point of time, may be at sometime in future, we would start sharing more detailed information, but not immediately.

**Jesal:** Okay. Thank you so much.

**Moderator:** Thank you, Mr. Shah. The next question is from the line of Sangam Iyer from Alfa Advisors. Please go ahead.

**Sangam Iyer:** Sir, couple of clarifications, one on the guidance that you have given of 10% to 15% growth over the last year, is it adjusted to one-off that we saw in the Q4 numbers?

**Dilip Shanghvi:** One clarification is that our original guidance was 13% to 15% and that, subsequent to this seizure of inventory at Caraco, we have withdrawn and we have not yet come up with a new guidance.

**Sangam Iyer:** Okay, but would you like to share something on that or is it still in a very early stage that you would not want to get into.

**Dilip Shanghvi:** In my opening comments, I shared that we will not be giving guidance at least for sometime.

**Sangam Iyer:** Okay. On the second part, this quarter we saw for the domestic business, the impact of the last quarter's push through of inventory, how is the de-stocking taking place and are we going to see the normalized level of sales that we saw last year, similar quarters coming back to the domestic formulation business?

**Dilip Shanghvi:** Yes, that is what I shared.

**Sangam Iyer:** I missed the early part, so I am extremely sorry for asking the question.

**Dilip Shanghvi:** I think what I said is that whatever impact was there is already complete and we will see normalized business from next quarter.

**Sangam Iyer:** Okay. Thanks a lot.

**Moderator:** Thank you, Mr. Iyer. The next question is from the line of Ravi Agarwal from Edelweiss Securities. Please go ahead.

**Ravi Agarwal:** Again coming back on your raw material cost, if you exclude that 8.4 million charge, which I presume from your COGS for the quarter is around 28%, on a constant currency basis of around Rs. 48, which is where the rupee dollar is just now, is this a fair run rate to take for at least the next two to three quarters?

**Sudhir Valia:** We have given four reasons. If you go through them, you will get a better idea.

**Ravi Agarwal:** No. I understand, but just from the currency?

**Sudhir Valia:** You are talking about only two of the parts of the business, balance two you will also have to take into account, because you have to take into account the mix of bulk and formulations. Formulation is affected because of change in distribution previous quarter. Once this extra sales is normalized, this will return to its usual position. So there are a number of things which we discussed. I'd appreciate if you go through them.

**Ravi Agarwal:** Okay, fair enough. The second question is on Taro and one of the large institutional investors has actually filed a letter with Taro about the audit being delayed for their numbers, kind of

validates your position, I was wondering if you have any more updates on that and when do see the EGM actually taking place and do you see any resolution because of that?

**Dilip Shanghvi:** No. I think beyond what you have seen, we also have not seen anything, which means that they have filed with SEC their intention to address the concern of the institutional shareholder by organizing and addressing concerns related to audited numbers.

**Ravi Agarwal:** Has the New York Supreme Court case started on Taro?

**Dilip Shanghvi:** No. Not yet.

**Ravi Agarwal:** Okay. Thanks a lot.

**Moderator:** Thank you, Mr. Agarwal. The next question is from the line of Ranjit Kapadia from HDFC Securities. Please go ahead.

**Ranjit Kapadia:** My question relates to the domestic market. We have got data from ORG and for the month of June, it is stating Rs. 120 crore sales for the company and a growth rate of 30%, whereas for the quarter, it is stating 664 crores and a growth rate of 17.7%. Whereas the actual sales reported by the company is about 312 crores with a decline of 27% year-on-year basis and excluding the one time sales of 200 crores from the last quarter that is Q4, it comes to around 30% decline. So there is a lot of variation in this data, can you throw some light on this?

**Uday Baldota:** I think the two sets of numbers that you are comparing are not strictly comparable. In fact, even in a normal quarter there has been a quite a bit of divergence between the numbers reported by IMS and our internal audited numbers, so I think what Mr. Shanghvi had said in the call is that most of the impact of Q4 has already been taken in Q1, it is already reflected in the numbers, so going forward the numbers would normalize. I think it would be more appropriate if you compare probably a couple of quarters down the line and we may be able to reach some explanation on that.

**Dilip Shanghvi:** And also for the first time, we are seeing ORG showing actually higher growth than our internal growth, so maybe they want to make up for their previous mistakes.

**Ranjit Kapadia:** Okay. Thank you and all the best, Sir.

**Moderator:** Thank you, Mr. Kapadia. The next question is from the line of Surajit Pal from Standard Chartered Capital Market. Please go ahead.

**Surajit Pal:** I have a couple of questions. Firstly, what is your break up of your international sales between API and formulation?



**Uday Baldota:** Surajit, that is given in the sheet that we have sent you.

**Surajit Pal:** I wanted a break up between API formulations in the export business.

**Uday Baldota:** It is given in the reported numbers. Those numbers are also given separately.

**Surajit Pal:** Okay. Another point is your recall at Caraco, for the second product, which happened on April 1 or April 2, how much would have been the impact of the recall which has been done from wholesaler's level?

**Uday Baldota:** Caraco has not given specific numbers. Whatever they have given and beyond that it is difficult for us to share.

**Surajit Pal:** Could you explain that your interest income on your cash for this quarter. I believe this time it is roughly around 7.9% on the basis of Rs. 3500 crore. Vis-à-vis Q4 of last year, there is a stark difference. It was earlier 3.5%. Why there is such a huge fluctuation in your interest income on cash?

**Dilip Shanghvi:** What are comparing with as previous quarter?

**Surajit Pal:** Q4 FY09.

**Dilip Shanghvi:** We do not have the numbers here to give you a specific response, but I have also in the past shared with you.

**Uday Baldota:** In Q4 also it is similar; I do not know what number you are referring to.

**Surajit Pal:** See Q4 of FY09 what is your total interest income.

**Uday Baldota:** I think Surajit, let us take this off line because I think numbers will become confusing on the call.

**Dilip Shanghvi:** Also I think another issue, which sometimes impacts interest income is that if some money is invested in Fixed Maturity Plan then the income we will get listed or registered only on maturity. So it may not even get reflected on quarter on quarter basis.

**Surajit Pal:** Okay. Thank you. What is your latest cash position?

**Dilip Shanghvi:** It has not changed materially.

**Surajit Pal:** Okay. Thanks.

**Moderator:** Thank you Mr. Pal. The next question is from the line of Mr. Minar Mujumdar of Kotak Securities. Please go ahead.

**Minar Mujumdar:** Most of my questions have been answered, just a quick question on the EBITDA margins from a standalone basis. We see it has decreased to around 24% versus 40% Q1 FY09, so is the dip in sales the prime reason for the dip in EBITDA margin?

**Dilip Shanghvi:** Yes, essentially there would be the expense and cost, but there would be no sales.

**Minar Mujumdar:** Okay so are you expecting them to go back to the 32-33% on a standalone basis in the next few quarters or would it be a slow movement towards that.

**Dilip Shanghvi:** What we have said is that the impact on that extra inventory is already complete in this quarter, so we should go back to the previous performance.

**Minar Mujumdar:** All right, right from the next quarter you expect that.

**Dilip Shanghvi:** That is correct.

**Minar Mujumdar:** All right thank you.

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

**Rahul Sharma:** I just wanted to know how much product recalls have been factored in the current quarter in the results.

**Uday Baldota:** Rahul, beyond what Caraco has shared numbers we are not giving anything specific. We do not have those numbers.

**Dilip Shanghvi:** What we have also shared is for 8.4 million dollar worth of inventory, a reserve has been created.

**Rahul Sharma:** So that is basically has been written off from materials right?

**Uday Baldota:** Added to materials.

**Rahul Sharma:** No impact on the revenue part.

**Sudhir Valia:** Closing stock has been reduced to that effect.

**Rahul Sharma:** Okay, no impact has been given for product recalls which have happened.

**Sudhir Valia:** That would reduce our sales.

**Dilip Shanghvi:** That also must have been factored in by Caraco.

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

**Moderator:** Thank you Mr. Sharma. The next question is from the line of Alok Dalal from MF Global. Please go ahead.

**Alok Dalal:** Yes, sir what has been the capex incurred in the first quarter?

**Dilip Shanghvi:** We do not have details here with me, but it is in line with what numbers we would have shared at the beginning of the year.

**Alok Dalal:** Okay and what is the inventory and receivable situation at the end of the quarter?

**Dilip Shanghvi:** Not materially different.

**Alok Dalal:** Okay. Thank you so much.

**Moderator:** Thank you Mr. Dalal. The next question is a follow-up from the line of Mr. Sameer Baisiwala from Morgan Stanley. Please go ahead.

**Sameer Baisiwala:** Yes, the question is what could be the cost of getting CPD back on its feet. Now, this is just consultants, lawyers, etc., all the ongoing costs and not the loss of business that we are going through. Any ballpark number, could it be 50 million or 100 million or much lower?

**Dilip Shanghvi:** Nothing beyond what Caraco has shared- they say that they have a certain amount of money with them and they think that is adequate to bring them back to operation so that they do not have exposure as a going concern. I think we also share that point of view from our basis that they should be able to resolve their issues and the money that they have with them should be adequate to get them out of their difficulties.

**Sameer Baisiwala:** This is very useful. Second point is just a clarification. I think you mentioned two- three times on the call that domestic business would be back to normal sales from next quarter which means the December quarter?

**Sudhir Valia:** July to September.

**Sameer Baisiwala:** I am done. Thank you.

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

**Neelkanth Mishra:** My questions have been answered. Thank you.

**Moderator:** Thank you. The next question is from the line of Mr. Kartik Mehta from Daiwa Securities. Please go ahead.

**Kartik Mehta:** Yes, my questions also have been answered. Thanks.

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

**Abhinav Chandak:** Yeah, I just have two clarifications. Firstly was on the margin front, by when do we expect the old margin trajectory to return for the company and the second was that we have gone for demerger of our R&D business, so what about the benefits, are they kicking in properly, is the status like what we had expected?

**Dilip Shanghvi:** Two answers. First answer is that margin. I think our margins used to contain some significant sales of Para IV products, which as we have shared is not predictable and consistent, apart from that underlying margins of rest of the business will remain the same. Our margins also included both costs as well as top line of Caraco; even after the reduction in overheads of Caraco it will still have significant operating overheads. At the same time it will not have any significant top line. So to that extent margins will get affected.

**Abhinav Chandak:** Okay. What about the R&D cost- benefit?

**Dilip Shanghvi:** I think we never talked of R&D cost benefits. We said our R&D cost will remain in line with what it used to be, 8-10% and it continues to be similar.

**Abhinav Chandak:** Okay that is it from my part.

**Dilip Shanghvi:** Yes, Thank you.

**Moderator:** Thank you Mr. Chandak. The next question is from the line of Ms. Madhuchandra Dey from Kotak Securities. Please go ahead.

**Madhuchandra Dey:** Sir, if you could help me understand the domestic formulation because sales was 652 crore in the forth quarter. You said that there was one-off of 200 crores, but your first

quarter last year sale was 420-430 crore and there is a decline from that level also. So if you could just help me understand, was that a one-off, or what is it or what is the normalized sale that you are indicating, is it the ballpark of 400 crore plus, wanted some clarity on that?

**Uday Baldota:** I think the extra sales that we had in Q4 that is one of the most important reasons.

**Madhuchandra Dey:** I am asking y-o-y sir.

**Uday Baldota:** It cannot be, currently the number is 313 Crores, if you add 200 Crore to that it will go beyond 500, which is a growth over the Q1 number of last year.

**Madhuchandra Dey:** Okay, I got your point. I mean rather than doing that way we should be reducing 200 from 652, right?

**Uday Baldota:** Yes, but 200 from 650 or whatever are the numbers, you reduce and add to Q1 of this year. Let us take that offline, because I think we will need to go into some calculation details and I will explain it you.

**Madhuchandra Dey:** My question is some of our colleagues were asking about a 10% kind of sales growth and to some other caller you said that we are not giving guidance ....

**Sudhir Valia:** We are not giving a guidance.

**Dilip Shanghvi** In the last call post the seizure of inventory at Caraco we said that we are withdrawing our guidance and we have not changed that position yet.

**Madhuchandra Dey:** Okay, thank you.

**Moderator:** Thank you Ms. Dey. The next question is from the line of Mr. Sanjeev Joshi from UBS. Please go ahead.

**Sanjeev Joshi:** I also had a question along the lines of guidance. You know, you mentioned in the beginning that most or rest of the businesses except Caraco are doing well and these are the dominant parts of the business. I wanted to understand what is the reason for not issuing guidance now, and when would you be reinstating the sales guidance?

**Dilip Shanghvi:** I think our sense is that, even if we give guidance without Caraco it will not help investors clearly understand the underlying expected performance. Because there would be a certain amount of cost in Caraco which will impact to the extent of after deducting minority interest the cost that we will have to take in our books, so even if we give a top line guidance for the rest of the

business, the overall profitability guidance which is easier to calculate if all parts of businesses are normal, will not be feasible. However, we will evaluate if giving a guidance will help analysts as well as investors take a more appropriate view of business and if it does help them I think there is no other reason for us not to share guidance.

**Sanjeev Joshi:** Okay, secondly I wanted to know if there are any plans to transfer any products out of Caraco facilities into any of your other facilities. Have you made any decisions regarding that?

**Dilip Shanghvi:** Caraco is a public company, so our ability to share information beyond what they have shared with their investors is very limited. So at some point when Caraco shares the information as to what is their plan about coming back to business you will have greater clarity. Also, let me explain the way the process works if you wish to transfer a product to any other site then a typical lead time of six months is required before you can even apply to the FDA for transferring the product. Because you have to make the batch, complete stability studies and then file with the FDA and then there is certain time before you can start selling the product. Also it does take away significant resources, which could have been used for filing new products. It is more or less equal to filing a new product.

**Sanjeev Joshi:** Okay, it sounds good. Thank you, so much.

**Moderator:** Thank you Mr. Joshi. The next question is from the line of Mr. Basavraj Shetty of Techno Shares & Securities. Please go ahead.

**Basavraj Shetty:** Actually, I wanted to understand this FDA issues little broadly. Basically, the issue will largely arise from process and sourcing. So, actually I wanted to understand, how much on overall basis is the sourcing from China.

**Dilip Shanghvi:** I do not know where you got this issue about sourcing. Because in none of the deficiencies that FDA has raised with Caraco, sourcing has been highlighted as the issue. If you are linking up what you have read in the past about some problems that some companies had with sourcing from China it does not apply to us.

**Basavraj Shetty:** Not only China, but you know, the complexity in sourcing could impact.

**Dilip Shanghvi:** That is not the issue for Caraco.

**Basavraj Shetty:** And second, it is actually premature to talk, but if you were to settle these class action lawsuits, what amount could it be?

**Dilip Shanghvi:** I think you have answered your question. You said it is premature. So I agree with that. We will not be able to give any specific response because I do not even know whether these lawsuits will stand.

**Basavraj Shetty:** When is it expected to start, sir

**Dilip Shanghvi:** It is difficult to give a specific timelines.

**Basavraj Shetty:** Thank you. I am done.

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

**Uday Baldota:** Thank you everyone for joining us on the call today morning. If you have any balance questions please send it to us and we will help you understand. Thank you.

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