Sun Pharma Q4 2009-10
Management Presentation Transcript
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Corporate Participants

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Uday Baldota: A warm welcome to people in the room here, and those who joined us on the audio call as well as on the web cast. We hope you have received our Q4 and full year 2009-10 financials and press release sent out earlier in the day. These are now also available on our website.

Today, we have Mr. Dilip Shanghvi, our Chairman and Managing Director, Mr. Sudhir Valia, Whole time Director, Mr. Sailesh Desai, Whole time Director; Mr. Kal Sundaram, CEO; and Mr. Abhay Gandhi, Executive Vice President – International, for this interactive session.

Together they will discuss and respond to queries on performance highlights as well as updates on strategy. As is usual, for ease of discussion, we will look at the consolidated financials.

Just as a reminder, this session is being recorded and the replay will be available. This session transcript will also be put on our website soon.

It would be appropriate to mention that the discussion today may include certain forward-looking statements and this must be viewed in conjunction with the risks that our business faces. I would like to request all of you to kindly send in your queries that remain unanswered today to either me or to Mira. I will now hand over to Mr. Dilip Shanghvi.

Dilip Shanghvi: Welcome and thank you for joining us today for this session after announcement of the financial results of FY09-10. Two questions before we dwell deeper into the performance highlights.

First, let me talk about Caraco and the progress made in returning to full GMP compliance.

Caraco has received an approval from USFDA for its remediation work plan submitted earlier to the agency. Prior to the submission to the USFDA, consultants engaged by Caraco had approved this work plan. Currently, remediation activities are ongoing with the full knowledge of the FDA.

Overall, Caraco continues to work with the FDA to effectively resolve the cGMP compliance concerns, though has not disclosed any specific timeline for this. We are supportive of these efforts being made by Caraco.

Secondly, as you are aware, we recently stopped further shipments of Pantoprazole generic. We took this decision even though we remain as convinced about the strength of our litigation, out of abundant caution.

Now, Mr. Valia will outline the financial highlights and then Mr. Sundaram will cover the operational performance highlights. I will then talk about R&D investments as well as the broad direction for 2010-11. I will now hand over to Mr. Valia.

Sudhir Valia: Hello. Thank you, Mr. Shanghvi. Good evening to everybody. Our 4th quarter and financial year 2009-10 financials are already with you. As usual, we shall be looking at key consolidated financials for Q 4 and then for FY 2009-10.

You will recall that in the fourth quarter of the last year, we had witnessed additional onetime sales in the Indian branded generic business, of approximately Rs. 200 crores. The current quarter's and annual sales should be compared with the suitably adjusted sales of the corresponding period of the last year.

Q4 net sales and the income from the operations are Rs. 1109 crores, an increase of 19% over adjusted Q4 last year, though a loss of revenue from Caraco manufactured product and the erratic nature of the Pantoprazole sales have had an impact on the quarterly sales. Formulation sales excluding Caraco, now accounting for 60% of the total revenue, are up 15% excluding one-time sales achieved in Q4 last year.

Material cost as a percentage of the net sales and the income from the operation is at 27%, is more or less at the same level as in the immediate preceding quarters, though significantly up from 19% in Q4 last year. This increase in the percentage of material cost from last year is primarily on account of change in the product mix and difference arising on account of the exchange rate. The staff cost for the quarter is at 12% of the net sales, marginally higher than Q 4 last year, though on absolute basis, it is marginally lower.

Other expenditure is 32% of the net sales, much lower compared to 37% of the net sales last year on account of the absence of significant one-time cost that were present in the last year, as well as much lower R&D cost in the current year. As a result, EBITDA margin achieved during Q4 equals to 30% margin, lower compared to that achieved in Q4 last year. This has been achieved in face of a loss of revenue, additional cost being borne by Caraco, as well as without kind of one-off revenue this year in Q4 of the last year. It demonstrates the profitability of the core business.

Similarly, net margin at 39% has shown significant improvement over the level for the last year due to significant other operating income and other incomes. From fully diluted basis, EPS in Q4 is Rs. 19 marginally down from Rs. 19.10 paisa for Q4 last year.

For the year, net sales and the income from the operation is Rs. 4103 crores lower by 4% when compared to that of the last year. Adjusting for the one-time sale of Rs. 200 crore. From the last year financials, the net sales and the income from the operations have increased by 6% excluding Caraco, sales has increased by 17% with ex-Caraco formulation business growing at 18%.

Material cost is 28% of the net sales compared to 20% for the last year. Higher material cost is in the year largely on account of inventory reverse created by the Caraco, change in the sales mix, impacted by the one-time event and the exchange rate fluctuation. The staff cost has increased by 10% and other expenditure has gone up by 5% in absolute terms. However, because of the marginal decline in the sales and the percentage of the sales, both staff costs and other expenditure have gone up.

Despite absence of manufactured product revenue from Caraco for over 9 months and significant unplanned regulatory compliance cost, EBITDA margin is at 31% broadly in the historical range. Similarly, the net margin is at 34%.

Caraco recently announced Q4 number. In absence of revenue from manufactured products, Caraco reported Q4 net sales of USD 55 million, up by 8% from Q4 last year. Despite efforts for reducing the cost, the net loss is USD 3 million for the Q4. For the full year, net sales is at USD 234 million with a net loss of USD 9 million. Caraco generated USD 6 million cash loss from operation during the year.

For the consolidated entity, at the end of the year, inventory increased to Rs. 1018 crores equivalent to 90 average days' sales compared to 80 days' sales at the end of the last year. This is on account of increased number of factory locations. Receivables at the end of the year stands to Rs. 1214 crores equivalent to 109 days' sales which is significantly higher than the 74 days' sales at the end of the last year. This increase has been a result of increase in receivables at Caraco even when the receivables ex-

Caraco have remained largely stable. Cash and bank and investment now added up to Rs. 3700 crores at the end of the year.

A brief mention about the API business. This registered a growth of 13% this year. We scaled up 27 APIs this year. Thus, tally of the registered market API, that is the filing of DMF and CEP, is 89 out of 155 filings.

I will now hand over to Mr. Sundaram who will share the operational highlights.

Kal Sundaram: Thank you Mr. Valia. Now, I will take you through different segments of the business starting with domestic formulation.

Domestic formulation is the largest business segment in our company accounting for something like 45% of total sales. Sales in the last quarter were Rs. 514 crores which registered a growth of about 14%, adjusted for the extra Rs. 200 crores, which Mr. Valia mentioned. On a full year basis with similar adjustment, our total domestic formulation sales grew by 15%. It is heartening to note the sales growth came from both new products and also older products. Something like 70% of our total sales growth came from products launched prior to 2006. According to IMS ORG data at the end of March, we had a market share of about 3.7% compared to 3.5% for the same period last year, so we have acquired something like 0.2% market share during the course of the year.

Five main therapeutic areas for us are cardiology, psychiatry, neurology, gastroenterology, and diabetology. These five segments account for over 70% of our sales.

During the course of the year, we launched something like 49 products across 18 divisions. We continued to add market shares with key doctor specialties. Pantocid**,** which is a proton pump inhibitor, for the first time crossed Rs. 100 crores mark within the company, the first ever brand within the company to do so. In addition to that we have 5 or 6 major brands in excess of Rs. 50 crores, I would say progressively these brands would be getting to cross the Rs. 100 crores mark as we go forward.

Now, talking about international formulation, sales excluding Caraco grew by 21% in Q4 and for whole year, it showed a growth of 29%. On a constant dollar basis, annual sales of this formulation business grew by 25%. In the rest of the world, branded generic markets, we expect steady increase in our sales as we build brand presence and also generate prescriptions as we expand our portfolio and now with this, I will hand it over to Mr. Shanghvi. Thank you.

Dilip Shanghvi: Thank you Mr. Sundaram.

Year 2009-10 has been a significant year in our history. While our US subsidiary faced unprecedented challenges on the manufacturing compliance front and there has been a significant loss of revenue on account of this, rest of our business continued to perform in line with expectations.

We continued to receive tentative and final approvals for ANDAs filed from other Sun Pharma factories. In the fourth quarter, we received approval for ANDA representing 1 product. Simultaneously, ANDAs for 15 products were filed. Thus this year, ANDAs for 30 products have been filed while ANDAs for 15 products were approved. Counting this, now between Sun and Caraco, ANDAs for 123 products await approval from USFDA, including 12 tentative approvals.

Similarly, we are working to deepen our product pipeline for each of our other markets of interest too. This is essential as we expand our presence across markets worldwide.

R&D expense for the year is Rs. 247 crores based on the work of a 600-strong scientist team. Our patent library now stands at 245 patents with 79 patents, which are approved.

An update on Taro. In March 2010, Taro completed a second restatement of 2004 and 2005 audited financials and published the 2006 results for the first time. We still await Taro's 2007, 2008, and 2009 audited financials. After having changed its CFO twice, Taro recently changed its auditors. As communicated to Taro shareholders, Audit committee and Board of Directors had various concerns with respect to overall audit experience with the member firm of Ernst & Young Global who has served as Taro auditors since 1993. On the appeal filed by Taro and its directors, we still await a decision from Supreme Court of Israel.

Now for the much-awaited guidance for 2010-11, we expect our sales to grow by 18 to 20% in 2010-11 over 2009-10. This is after adjusting for the sales of the last quarter of the previous year, R&D Spend is estimated to be in the range of 7 to 8% of net sales. We expect to file ANDA for 30 products with USFDA this year. Overall capital expenditure is estimated at Rs. 200 crores.

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

Uday Baldota: Thank you. We will now begin the interactive session. We will first take questions from participants here in the room. After this, we will take questions from participants connected on the audio call and finally from webcast participants.

Participant: Good evening. Could you throw more light on the qualification you made for the revenue guidance for the next year in terms of sales to happen in the first quarter?

Dilip Shanghvi: What I am saying is that if you look at our stated numbers last year, then they don't include sales of some Rs. 200 crores which came in the previous year. So, when you factor for these sales, the sale of last year is understated by Rs.200 crores. So, on that we will grow by 18 to 20%.

Participant: Thank you.

Uday Baldota: Before asking the question, can you identify yourself and your organization please? Now Nimish, over to you.

Nimish Mehta: This is Nimish Mehta from MP Advisors. I have couple of questions. First, one more time I would like to understand the guidance that you have given, 18 to 20% sales growth over last year which also includes Protonix and Eloxatin that we had launched. So, is that correct? We are talking about sales over and above this one-time opportunity, if we call it that?

Dilip Shanghvi: What we have said is we will not be selling Protonix this year, so the guidance includes the lack of sales of Protonix/Eloxatin. So, it is a total sales guidance.

Nimish Mehta: Yes. So last year we had these products.

Dilip Shanghvi: Right.

Nimish Mehta: So, over that you talked about 18 to 20% growth.

Dilip Shanghvi: Yes. It is an unconditional, unqualified guidance.

Nimish Mehta: Okay. I have few questions on some of the products, the Para-IVs that we have. First of all, can you throw some light on Eloxatin, as of now we understand that there is a ruling which mandates Sun Pharma to withdraw the product after June 2010 and the matter is still subjudice, so what is the likelihood that you will have to stop sales, or what is the next update on that?

Dilip Shanghvi: If I understand your question is on Eloxatin, the matter is subjudice, you want me to talk about it, so I am still not clear.

Nimish Mehta: I want to know what is the next legal step in that as in what next can we expect, is there anything between June and now that will come in from the courts or we have to obey the order which is there right now?

Dilip Shanghvi: There is a judgment which we have appealed, and we wait for the legal response to whatever that we are trying to do. We believe we have to wait till we get any clarification from the courts.

Nimish Mehta: And it is unlikely to be had before June 2010?

Dilip Shanghvi: Pardon.

Nimish Mehta: Are you unlikely to get the guidance from the court before June 2010?

Dilip Shanghvi: It is difficult for us to respond because courts everywhere work by their own pace, they don't work at our pace.

Nimish Mehta: Right. Another question is on Prandin and we understand again it is a product which is filed under Para-IV by Caraco. We have heard in Novo Nordisk conference call that they are expecting generics to enter, as far as I know Sun Pharma or Caraco is the only company to have a Para-IV, but do you think because of the challenges faced by Caraco, will you be able to launch the product even if things are in your favor on a legal spectrum?

Dilip Shanghvi: No, I am aware that Novo Nordisk says that there is an approval expected for a generic, and they expect launch and Caraco has a tentative approval. There are some litigation issues, and there is an issue for Caraco to get final approval. So, launch of Prandin would be communicated as to what is the strategy of the company, by Caraco. We would not be able to give greater details than what they have shared with their investors.

Nimish Mehta: Okay. Fair enough**.**

Dilip Shanghvi: Thank you.

Nimish Mehta: I will join the queue.

Nikhil Mehta: I am Nikhil from Zee Business. You spoke about your patent library. You said that you have 245 patents with 79 patents approved. So, this is 245 plus 79 or is 79 included in 245. Can you just clarify?

Kal Sundaram: 79 is included in 245.

Nikhil Mehta: It is included. Okay. Thank you.

Neelkanth: This is Neelkanth from Credit Suisse. Question on Caraco. On calculating the 4th quarter COGS, we find that the COGS comes out to be higher than net sales. Is there any reversal or any extra chargeback booked this quarter or is there something wrong in the maths that I am doing?

Sudhir Valia: No such inventory where the chargeback is required to be provided. We have taken that care in advance.

Neelkanth: Thanks but then, why is it that the COGS if you just take from the full year reported number, if you take out the 3 quarters, then the 4th quarter COGS is higher than net sales?

Dilip Shanghvi: They have a manufacturing facility which has cost, but which is not producing anything and they would be calculating the operating cost of the factory as part of COGS.

Neelkanth: Understood. Okay, thanks.

Bino: Hi. This is Bino from IIFL. Just two questions; one-- the sales from international geography other than US seemed to have taken a sharp jump in the 4th quarter. Is that right and if that is the case, is it time for you to divulge some more details about the non US geographies, how much they are contributing, what kind of growth we can expect going forward.

Kal Sundaram: At this stage, we do not provide country wise details on our international sales. All I can say is, we market our products in 40 countries, it is a sort of spread out sales and the big markets are in the countries like Mexico, South Africa, Brazil, Russia, the usual suspects. Did I answer what you are asking?

Bino: Yes. Well, a little bit. Just one more quick question about Caraco, you have been filing these supplemental ANDAs to shift manufacturing facilities. So, I know you don't want to give any solid guidance as to when we can expect some revenues from there, but on a general guideline, usually how soon do such filings get approved by the FDA, is it like 3 months, 6 months, etc.?

Dilip Shanghvi: Your question about timeline for Caraco to get GMP approval?

Bino: No, no. It is not about GMP approval. You have filed for site transfers of some of the key products. So, have we started seeing revenues from there, if not, when can we expect that and in case you cannot give us specifics, at least a guideline, generally for such filings, how long do they take before the FDA approves them?

Dilip Shanghvi: The expected sale for Caraco and non-Caraco products is included in our overall guidance. At this point of time, I do not think we can share specific details about site transfer products how much they will be contributing, but generally I would expect that post approval from the site transfers, there will be a gradual increase in business. We will not get immediate market share back.

Bino: Okay, thanks.

Dilip Shanghvi: Thank you.

Manoj : Hello, Manoj from Emkay. I just wanted to understand about your domestic market in particular, (a) in terms of strategy towards expanding the field force and the second if you see most of the companies in this quarter have reported robust growth which is in the range of 18 to 20%, while for the quarter if we even adjust for last year's bunch up kind of sales also, our growth has been around 14 to 15%. So do we take this as a base growth or we expect growth to get momentum going forward?

Kal Sundaram: You have two questions, one relating to expansion of the field force. Stating our company has some of the best productivity in the industry as far as field force is concerned, but the rate at which the business is growing certainly warrants expansion so during the course of 2010-11, we will be expanding the field force. And then coming down to sales growth. Our overall growth is something like 15%. I would not put too much of emphasis on a single quarter being 14% etc. All I say will be as a company we have been gaining market share, but we are fairly confident, we will continue to focus and gain market share as we go forward.

Manoj: How many total representatives we have as of now, and what kind of expansion are we looking forward to may be in the next two years?

Kal Sundaram: We have about 2500 sales headcount in the company and overall we will not dilute our productivity so, the headcount increase will be less than the rate at which sales will be growing into the next year. I will say probably about single digit increase over the baseline.

Manoj: Okay and secondly looking at this Piramal acquisition, since it is a changing landscape in the domestic market, where we have seen that this is the second company post Ranbaxy that has been taken over or acquired by an MNC. So, may be from a broader perspective, how do you see the industry going forward? Do you expect some more consolidations down the line?

Dilip Shanghvi: No, there would be consolidation in the industry, and in a way that would be good for us because we then compete with companies from marketing ethics as well as business policy point of view that would be line with what we are doing. This is a process of transition, as international companies realize that growth will come from emerging markets. India being an important component of emerging market, they are looking at consolidating their presence in India, and they would look at investing or tying up with companies who from their point of view or who from the company's point of view, would find it more attractive to work with somebody.

Manoj: This is my last question before I get into the queue. Again, in terms of getting newer molecule or newer products, particularly when we are talking about the IPR regime, how do you see the Sun pipeline and then the impact of selective launches going forward?

Kal Sundaram: I will probably take things into short term, medium term, long term-- like I mentioned 70% of our sales growth came from product launched 3 to 4 years ago though we will certainly what we say one of the efforts will be to continue to build brands from our existing molecules, where we are doing a reasonable job. So that will continue to give us the momentum. In addition, also every year ranging from 20, 30, 40, 50 products we launch that also will continue. As a company in our next stage of evolution, we ourselves are now coming out with differentiated products, already 2 or 3 products have been launched, and they received very good support from the doctors. As a company on a 3-5

year timeframe, you will see more of those new products coming. Beyond the five-year timeframe, we also have access to products from SPARC's pipeline of NCEs. In addition, any MNC looking for out-licensing products in India- in number of therapy areas, we are the market leaders and I would think will eminently qualify to be their partner. So, through a combination of current products, new product launches, differentiated products, NCEs, and in-licensed products, we will continue to grow our sales and market share.

Manoj : Thank you.

Manish Jain: Hi, this is Manish Jain from Axis Holdings. My question pertains to the R&D expense, it was around Rs. 247 crores for year ended March 2010 and you are guiding to 7 to 8% sales R&D expense for March 2011 which effectively translates to something like Rs.350 to 400 crores of R&D expense, a sharp increase. Any clinical trials cost included, budgeted?

Dilip Shanghvi A significant drop in the R&D this year is because of the reduced R&D spent both at our Cranbury site as well as at Caraco. We hope that some of these expenses will start reappearing during this year and we will go back to our original 7 to 8% overall increase in R&D expenses. Sun would not be doing any significant clinical studies because most of the products that Sun is handling are generic products, so some of them will require clinical trial, but not very large costs.

Manish Jain: Second question pertains to the settlement money which we would have received in March 2010. We have got $20 million in Caraco, but leaving that out what was the total settlement money received in March 2010?

Dilip Shanghvi: They have not disclosed the amount of money that Sun has received. Correct.

Manish Jain: Sir, will it be disclosed when we get the balanced sheet, in the annual accounts?

Dilip Shanghvi: It will not be disclosed. We have to factor one issue of materiality, so from our point of view that is factored.

Priyanka: Sir, this is Priyanka from CNBC. Just a question on Protonix, you have halted sales for the time being, but other than that is there any other assessment or contingency plan because of course we don't know whether the court will uphold the verdict of the jury or not and to that extent, we are unclear about whether there will be any kind of loss of sales or litigation charges, but would you make a contingency plan for that. Is that something that you are evaluating at all?

Dilip Shanghvi: I am still not clear about the question. What is it that you want?

Priyanka: Apart from halting sales as far as Protonix is concerned, would you be building a contingency fund in case there is loss of sales claim, or if at all a legal cost that you might have to bear?

Dilip Shanghvi: Legal costs are part of our regular business expense. If your question is, are we creating any reserve against potential liability, answer is no.

Priyanka: You also envisaged a capacity expansion of Rs. 200 crore, would you give some details as to how you would want to spend that kind of money? I mean for what reason?

Dilip Shanghvi: That is in line with what we spend typically every year, every year we spent 150 to 200 crores for capacity expansion. It is for upgradation, capacity expansion in existing facilities, and new facilities which are being put up both for bulk active as well as for dosage form.

Ekta: Hi sir, Ekta from CNBC. Just a quick question. When do you see the resolution of Caraco, would you hopefully see it in FY11?

Dilip Shanghvi: We always remain hopeful, but definitely we will work for trying to resolve this as early as possible.

Ekta: Okay and just a last question from my side. What sort of FTF Para IV pipeline are you working with in terms of FY11, what are the key products we could watch out for in terms of FY11?

Dilip Shanghvi: You don't expect me to answer this.

Ekta: Thanks.

Rajesh Vora: Rajesh Vora from ICICI Securities. Dilipbhai, is it possible to qualitatively give some idea as to your guidance which you are saying turns out to be about Rs.5200 crores of revenues for FY11 if we add up the Rs.200 crores number onto the FY10, where does the confidence come from, in terms which are the areas which will be critical in terms of this growth because that sounds pretty impressive given the fact that there are lot of ifs and buts in terms of certain products, and Protonix is not there any more. Is it possible to give some color on the key drivers of growth behind this guidance?

Dilip Shanghvi: No, I think there is some error. I am not able to effectively communicate. What I am saying is that our business this year-- what is the total sales?

Rajesh Vora: Rs.4100 crores.

Dilip Shanghvi: Okay, then actually it is Rs. 200 crores more than that.

Rajesh Vora: Yes, so Rs. 4300 crores.

Dilip Shanghvi: You have to add 18 to 20% on current sales. Presuming that actual sales were this, so guidance is not 18 to 20%, but you have to reduce the guidance over also. What you are doing is you are adding Rs.200 crores to current sales and on top of that you are growing, so 20% includes this Rs. 200 crores.

Rajesh Vora: Okay, so on Rs. 4100 crores you are saying 18 to 20%. So there is no adjustment required per se?

Dilip Shanghvi: There is no adjustment required per se, otherwise a lot of people will add this Rs. 200 crores to this year sale, so we want to clarify this.

Rajesh Vora: Sure that is useful. So, even assuming that it is a pretty strong number considering that Protonix is no more there, and there are questions regarding Eloxatin and whether Venlafaxine XR will come some day. So, where does the confidence come from, some color on that, no numbers?

Dilip Shanghvi: All our businesses continue to do well and it is based on our assessment about potential of each of these businesses.

Rajesh Vora: Okay and on cash any updated view in terms of acquisition, utilization of cash of Rs. 3700 crores.

Dilip Shanghvi: We continue to look for opportunity to invest in businesses which we will find attractive, and if there is some update that we need to share with you, we will. However, we have consistently taken a position, we will be very disciplined in our investment decision.

Rajesh Vora: Okay all the best.

Sameer Baisiwala: This is Sameer Baisiwala from Morgan Stanley. Since a lot of our happiness is tied with the local market, just wondering if you have started feeling the impact of the new patent regime and more specifically what was the total number of launches in the domestic market over last three years, and how would that compare three years forward.

Kal Sundaram: Sameer in terms of launch of protected products I don't have the precise number but compared to the total market in terms of size and number of molecules that existed in market, etc., the numbers of new patented launches are far and few between-- probably 3, 4, 5, 6 sizable molecules I would say will get launched. They may make a difference to the individual companies but in terms of how much they will impact the total market, if you ask me my feeling is that its not be significant even in the medium term. I will say for the foreseeable future the market will continue to be substantially dominated by branded generics, that's the nature of the market and that is why those who have not been in branded generics before, are planning to enter that space. Did I answer what you asked?

Sameer Baisiwala: Yes sure. But are you seeing qualitatively that new launches are declining year-on-year for the domestic market for Sun Pharma in particular?

Kal Sundaram: Certainly, what you are saying on two counts. The patent law by itself will have limitations to what can be launched and also world wide there is a paucity of new products. So I would expect over all there will be deceleration in the number of new molecules that can be launched .But the existing products will continue to grow. So again I go back to what I said, about 75% of our sales come from products launched four- five years ago and that's a very good sign. On one thing when you are focusing on launching more and more differentiated products, you also have to make sure that we continue to strengthen our existing brands. So answering what you are asking—yes, there will be a deceleration in the number of new molecule being launched, but will it have any significant impact on total sales? Probably not.

Sameer Baisiwala: And you don't give any guidance for the margins, but just qualitatively would you be able to maintain it in fiscal 2011 versus what was there in fiscal 2010, specifically because your R&D cost is going up, and may be high margin products like Protonix would not be contributing in fiscal 2011, any qualitatively color on the margins for the current year?

Dilip Shanghvi: We will be able to maintain our historical sales margins overall, and also to the issue of new product if you look at over last may be 10 years, for us new products have represented anywhere between 4% to 6-6.5% of our sale in any year. So in the environment where we may not be able to introduce too many new products, the total impact may be a few percentages. So our over all guidance factors all of these into consideration. We seen that in divisions where we haven't launched

any major product in a particular year, the overall growth does not go down, the sale of the existing product goes up and we end up getting up a bigger market share because it allows field force to focus on existing brands, helping them make them bigger. Since a large part of our current product pipeline is very young, in disease areas which are very high growth and expanding, so we should able to grow these products and businesses for long period on their own momentum.

Sameer Baisiwala: Thank you.

Abhay : This is Abhay from Deutsche Bank. For two of the large MNCs in India, the global parent has announced that they would take aggressive price cuts to grown revenues in these markets. Do you see Glaxo and Sanofi do that in India, and if that happens for the large companies like yours, would it impact domestic sales growth going forward?

Dilip Shanghvi: Abhay I am not aware of this, most likely they will be reducing the very high prices of branded products to high prices.

Abhay: So the gap between the product made by Indian companies and MNCs will not really come down significantly. Because they are talking of price cuts even to the range of 50-60% so would that not narrow the gap between local and MNCs companies in India?

Dilip Shanghvi: To respond to this question without having specific product and price in mind is not appropriate, but if they have a product which is they are selling at Rs. 250 a tablet and if they reduce by 50% it would becomes Rs.125 and the Indian products are available at Rs. 30-35, then it will not need any adjustment by Indian companies. But that is say like Pfizer has been selling Viagra in India at a very high price and if they reduce the Viagra price to 50% of current price and still be four times–five times higher than Indian product prices. But if they reduce price of some of the products which are reasonably priced compared to Indian products, then it will have an impact.

Abhay: But you will not see competition increasing or price cuts being forced on other companies also going forward? By this very aggressive stance taken by some of the leading MNC companies?

Dilip Shanghvi: May be Kal can give a better input on multinational thinking, but the bigger issue is how will they handle so many new products because they want to get into branded generics and how will we respond to those issues? Pricing I do not think is a critical issue.

Abhay: The other question is on M&A, with the type of deals happening, valuations have really gone up and sellers expectations have gone up-- would you be able to invest your war chest or you have clearly been saying that you will not do a transaction which is not value accretive so have you changed your norms to a large extent to reflect the market changes, or you would prefer to keep your norms and then probably keep your cash for much longer timeframe?

Dilip Shanghvi: Valuation impact is much bigger in emerging markets especially two transactions that we have seen in India. We do not see a similar level of major impact in the area that we are focusing on, which is the US.

Abhay: Thank you.

Neelkanth: Again this is Neelkanth from Credit Suisse. Two questions, first is on Taro, when you signed a deal Taro had certain advantages that it gave you certain product technologies which were

pretty niche at that time, but now with three years having passed, do you think Taro still adds something to the portfolio that Sun does not have, and what are the reasons if you can share, holding back the Supreme Court for almost one and a half years from making a judgment?

Dilip Shanghvi: Your question is relevance of Taro technology and whether we have similar technology? Answer is we don't have those technologies which Taro has, and the technologies that SPARC has focused on are very different from what Taro has focused on.

Neelkanth: Actually it was a bit more than that. The acquisition at that time would have given you access to technologies and would have added to your competitive strengths, but now with three years passed of course that has allowed competition to catch up as well, stuff like patches now some Hyderabad-based companies are also delivering, does Taro still make sense for you as an acquisition?

Dilip Shanghvi: It does, but Taro never had patches. That was not a product or technology that we were after. The only thing which has changed is that three years back we were a much smaller company and an acquisition of Taro's size would have dramatically shifted our business size and dimension. To that extent Taro's ability to impact our overall size has changed, because in last three years we have become a much bigger company. Other than that I do not think from relevance point of view there is a material shift.

Neelkanth: Thanks. And there is a second question on the Indian market, the stress can build up from a totally different angle. Some of the new entrants on the block, the Mankinds and the Emcure Pharmas, the sense I get is they are changing the channel structure by promoting products via distribution and some products I hear their realizations are 10% of MRP and they give a lots of channel discounts, do you think threat can come from the smaller players, very regional city based players who can operate that way, and is that a reasonable threat at all?

Kal Sundaram: What I will say is that long terms success will depend on your ability to develop sustainable competitive advantage. Putting more money into the channel again I will go back to my previous stint in India, there was for a time a generic-generic and everybody went into it, and at that time the worry was that what is it going to do to the industry? I am sure that there will be companies, there will be pharmacies, there will be channels who will benefit from this type of business model. All in all, from our point of view we are a very focused company both in terms of portfolio and doctor specialties in which we work on, and I strongly believe that long term competitive advantage will come from your ability to build a brand-- to build the loyalties at the doctor level and at the patient level. Beyond that if somebody is putting more money into the channel, I do not think it is going to fundamentally affect the way a company like Sun Pharma will operate in the market.

Neelkanth: Thank you.

Saion Mukherjee: Hi this is Saion Mukherjee from Nomura. It will be great if you can throw some light on the rest of the world market which is gaining traction, what are the key markets that you are operating in, nature of the business and if you can share something on the key field force strength that you have, and do you think it makes sense to tie up or partner with some of the big pharma companies to scale up that business quickly--if you can share your thoughts on that?

Abhay Gandhi: You asked three questions essentially, the way I understand. One is which are the big markets for us, Mr. Kal Sundaram has already answered that question earlier If I look at the Tier-1 markets and the markets which he has mentioned Mexico, Brazil, South Africa, Russia, and China would

be the Tier-1 markets, which are the usual suspects and everybody focuses on them anyway. There are also some 2nd Tier interesting markets which we focus on, which can give the company good value and returns. We also look at Venezuela, we look at Algeria, we look at Vietnam as some of the markets in Tier-2. These essentially will be the focus markets for the company in the near-to-mid term. The second part of your question is field force, today we are looking at something like a 600 strong field force across markets and depending on our ambition and product filings as and when the need demands, we would be ramping it up. What was the third part of your question?

Saion Mukherjee: Tying up with big pharma to scale up the business in these markets?

Abhay Gandhi: I really don't think we have looked at that actively, but our logic would be if working with somebody can give us better share than what we can do on our own, then we could look at it but as of now I do not think we have looked at that seriously as a strategy.

Saion Mukherjee: Okay, thank you.

Nimish Mehta Hi this is Nimish again, from MP Advisor. Can you throw some light on the strategy for the European market now that we are looking at few launches, as also in the near-to-mid term what are the number of launches that you are looking at? And broadly as to where do you see the European market share among your own business, from whatever it is now?

Dilip Shanghvi: We have a relatively small business in six of the largest European markets where we have direct presence. The business is currently very small and we have some three or four products that we are selling. Hopefully over next may be 24 to 36 months, we should get new approvals helping us to become a player in some of the products that we think will help us in gaining market share for those products. We do not have any specific plan for getting into the pharmacy business in Europe, which is the largest market, and the idea would be to organically grow our existing business. We do not expect it to become anywhere close to our US business within a short period of time.

Nimish Mehta: When you say pharmacy business you are talking about which kind of….

Dilip Shanghvi: Tablets, capsules products which sell in pharmacy. So our focus is on hospital and institutional products.

Nimish Mehta: And you will be selling it on your own?

Dilip Shanghvi: We are selling it on our own, yes.

Nimish Mehta: Thank you.

Bino: Sir, again Bino from IIFL. Just to push Saion's question a little bit-- In those markets, other emerging markets so the current US, non-US, international sales is that almost entirely coming, from what is pushed by the 600 strong field force or do you have already have marketing arrangements with local companies in these markets?

Abhay Gandhi: Essentially whatever business we are doing in emerging markets is through our own teams. We do not give the product to somebody else to market on our behalf, so we try to create value within the organization and for the organization.

Bino: And this 600 strong field force you said, is over and above the 2500 which you mentioned for India?

Abhay Gandhi: Yes.

Bino: Okay. Thanks.

Nitin: Hi this is Nitin from IDFC. I just wanted to check on the US business, has there been any impact of the Caraco ban on the non-Caraco part of the business, in terms of market share losses and some impact or collateral damage coming through?

Dilip Shanghvi: I think for some period we had impact on sales and on our ability to gain market share for new approvals that we had received. Our US marketing people tell us that over a period of time they expect that to change, so that there would be no significant negative impact.

Nitin: Okay and sir on the controlled substance portfolio how has that really shaped? We did get a few approvals during the first half of the year so in terms of the market share gain, is it shaping up as per your expectation?

Dilip Shanghvi: Yes it is a function of our ability to obtain quota-- as we obtain quota for our products, we will be able to gain market share.

Nitin: And what really drives your ability to get quota in these markets?

Dilip Shanghvi: We have to apply, it is given by DEA.

Nitin: Okay, thank you.

Dilip Shanghvi: So there is an overall quota. It is an international process, there is an overall quota for each product in each country and that quota is distributed to different players. So depending on what you are able to sell this year you can ask for a larger quantity next year. So it is an incremental process of your ability to gain share of extra quota.

Nitin: Okay and does the ability to get a larger number of products under approval does it influence the amount of quota you are able to secure going forward?

Dilip Shanghvi: Your existing sale has a bigger impact than number of products. You may have 10 approvals but if you are not selling anything, you cannot get bigger quota. You have one product but you have significant sales, then it will help you increase quota.

Nitin: Okay, thank you sir.

Uday Baldota: May be we will move to the audio call participants--if you have any questions?

Moderator: Thank you. Participants who have a question, may press * and 1 on your touchtone telephones. The first question is from the line of Prakash Agarwal from RBS, please go ahead.

Prakash Agarwal: Good evening sir. Just a question on your guidance again, 18-20% on top-line. Your domestic sales seems to be really growing well and your international sales are also doing well, on

the US front have you factored in Caraco recovery or with Protonix not being there-- I know I am repeating the question but not able to get my maths. Could you please help a little bit more qualitatively on the same please? Thanks.

Dilip Shanghvi: What we have said is 18-20% over this year sales. So say Rs. 4100 crores so 825 crores at 20%.

Prakash Agarwal: Sir that does not build-in any of Caraco's own manufactured products, that is not built-in, or is it over and above that if that USFDA comes. You have already built that in?

Dilip Shanghvi: This is after evaluating what we will be doing, including sales of Caraco products, including transfer of Caraco products to other facilities and if they get approval. It also factors the loss of sale of the Protonix during the period, so everything is factored in this guidance.

Prakash Agarwal: Okay so definitely there are couple of products, which you expect to come in US in a big way, would that be fair to assume?

Dilip Shanghvi: I do not think that it is easy for me to respond but clearly we must be expecting overall business to achieve the growth that we are targeting.

Prakash Agarwal: Perfect, sir last question on this non-Caraco export formulation. We are seeing solid growth coming out of it, do we expect this momentum or now seeing a little high base, still a small increase, but do we see the growth momentum tapering off or do we still see 30% plus kind of growth going forward?

Dilip Shanghvi: In fact we stopped giving business specific guidance three-four years back, so overall guidance for growth includes growth from all businesses.

Prakash Agarwal: Perfect, thank you sir.

Moderator: Thank you. The next question is from the line of Sonal Gupta from UBS, please go ahead.

Sonal Gupta: Hi. Just one question. I just wanted to understand on Effexor XR what is our expectation, as we were fairly bullish on the approval last time, and if you could share any light on that as to why despite the CPs being done away with, we have not gotten any approvals? Thanks a lot.

Dilip Shanghvi: No we expect to get the generic Venlafaxine tablet to get approved, but it is difficult for us to predict timeline.

Sonal Gupta: Okay sir. Thank you.

Moderator: Thank you.

Uday Baldota: Yes if there are no further questions we move on to the webcast. There is one question from a web cast participant, if I got it right-- We are expecting some launches from SPARC pipeline in next three years. What kind of ramp up are we expecting post such launches? What kind of opportunity do you see in NDDS pipeline from SPARC for Sun Pharmaceuticals?

Dilip Shanghvi: In Sun we gave guidance only for a year. In the SPARC conference we indicated that we are quite excited and happy about the potential of products, however, the approval and registration of product would take time in international market so it is difficult for us to predict the impact of these products in international market, which will happen beyond this year.

Uday Baldota: Okay. We have no further questions from the web cast. Coming back to the audience if there are any balance questions we can take them.

Okay thank you very much for joining us in this interactive session. If you have any questions unanswered, please send it to me Mira or me. Thank you very much.

I now invite all of you to join us for dinner.