Sun Pharma Q4 2006-07 Results Conference
Call Transcript
9.30 am 21 May 2007

Corporate Participants

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

Sudhir Valia
Wholetime Director, Sun Pharmaceutical Industries Ltd.

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

Uday Baldota: Thank you, Rita, Good morning and a warm welcome to our 2006-07 fourth quarter and full year earnings call. I am Uday from the Sun Pharma Investor Relations team. Today, our hosts are Mr Dilip Shanghvi, Chairman and Managing Director and Mr Sudhir Valia, Wholetime Director and they will, as usual, discuss the performance highlights and share some developments on strategy. We hope you have received the fourth quarter and annual financials and press release, sent out yesterday. We hope you have also received our press release on Taro acquisition sent out earlier today. These are also available on our website. These financial numbers are audited and for ease of discussion, we shall look at consolidated numbers. For the purpose of the analysis that follows, net sales is taken net of excise duty and indirect taxes. Just as a reminder, this call is being recorded and a replay of the call will be available till May 24. 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. We will first take questions on the financials and then on the acquisition. Also, I would like to request all of you to contact kindly send in your queries that remain unanswered during today's earnings call to uday.baldota@sunpharma.com or miradesai@sunpharma.com. I now hand over the call to Mr Dilip Shanghvi.

Dilip Shanghvi: Welcome and thank you for joining us today for this conference call. We are excited to announce that Sun Pharma is acquiring Taro Israel and its subsidiaries, in a $ 454 mill deal, consisting of $230 mill equity and $224 mill of assumed debt. This transaction allows us to scale up our US generic business with over 100 ANDAs, manufacturing across two continents, and very bright scientific talent, creating a truly multinational generic company. Taro had recently reported 2005 sales of USD 298 million. We believe it is possible for both organizations to develop synergies for both, and create a truly multinational company.

Now back to the financial results for the fourth quarter and full year 2006-07. As always, in this call we will discuss operations and strategy highlights. Mr. Valia will first share the performance and financial highlights, and later I will talk about strategy and direction.

We have had a good quarter.Finally, the process of demerger of the research company SPARC, which we had begun in February of 2006, was successfully completed. As all of you know, Sun Pharma now lists on the exchanges without the component of innovative R&D. SPARC Ltd, the resulting company which features the NCE and NDDS projects, is likely to list shortly on completion of regulatory procedures. We have already shared with all of you some details of the current NCE and NDDS research projects our team is working on.

I will now hand over to Mr. Valia.

Sudhir Valia: Good morning everybody. Our fourth quarter and annual numbers are already with you, with growth across all our business segments. As you know, most parts of our business offer predictable growth and steady margins. Let us look at key consolidated financials.

For the fourth quarter, net sales is at Rs 5313 million, an increase of 34% over the fourth quarter last year. Similarly, for the year, net sales increased by 30% to Rs 20792 million over the last year.

EBITDA at Rs 1545 million during the fourth quarter is 70% higher than that for the fourth quarter last year. EBITDA margin at 29% is higher than 23% achieved in Q4 last year.

EBITDA for the year is Rs 6798 million, an increase of 38% over the last year. Resulting EBITDA margin is 32.7%, up from 30.8% achieved last year.

Net profit after minority interest for the fourth quarter is up 48% at Rs. 2121 million from Rs. 1429 million. For the year, net profit after minority interest is Rs 7741 million, an increase of 35% over the last year

Net margin for the fourth quarter is at 40%. For the year net margin at 37%, is higher than last year.

For the fourth quarter, material cost as a % of net sales is at 26% down from 30% in the previous corresponding period. For the year, material cost is 28% of net sales, lower than 31% of last year.

Staff costs for the quarter are up to 13% from 11% of net sales over corresponding period last year.

R&D expense has increased from Rs 2014 million last year to Rs 2924 million this year. This includes the R&D costs for the innovative projects, which from March 1, move to the resulting company.

For the quarter, total expenditure without counting the revenue R&D expenditure has reduced to 16% of net sales from 18%. Similarly for the year, this is down to 14% of net sales.

On a fully diluted basis, EPS for the year is Rs 38.4, up from Rs 27.7 for last year.

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

Domestic formulation continues to be an important opportunity as we add ranks with even more speciality segments. We continue to build a consistent business based on prescription pull in India.

Domestic formulation sales have grown a robust 46% in the fourth quarter this year over last year, even after the base effect of the leadership position that we enjoy across therapy areas. As per the March 2007 MAT ORG IMS data, Sun Pharma is growing at 13% and the market share is now 3.2%. Our five core therapy areas, cardiology, psychiatry, neurology, gastroenterology, and diabetology accounted for 71% of our domestic formulation sales.

So far this year, 36 important products were brought to market in India. Aztor, Gemer group, Repace group, continued to show double digit growth rates.

Caraco recently announced its Q4 and full year numbers. Caraco reported record sales of USD 117 million, up 41% and a profit of USD 26.9 million in the year. Gross margin was at 49%, the same levels as for the last year. Net income was USD 26.9 million compared to a loss of USD 10.4 million last year.

International formulations outside of the US from Sun Pharma continued to show strong growth for the year, at 50%. This is largely driven by our exports to 26 markets where we sell speciality prescription brands. As you know, our specialty brands in these markets address chronic ailments and lifestyle diseases, and are often the only brand other than the innovator company brand in that market.

We use our expertise in process chemistry and ability to scale up many different types of API to our advantage in our formulations business. This year we scaled up 29 APIs. The tally for regulated market approvals for APIs at the end of the fourth quarter is 43 regulated market approvals, of 86 filings made for DMFs and CEP.

With this, I will now hand over to Mr. Shanghvi.

Dilip Shanghvi: Thank you Mr. Valia.

If you look at the turnover breakup now as versus five years ago, it becomes obvious we are moving towards becoming more of an international company, with international markets accounting for 43% of turnover. We also remain a strong formulations company, with formulations accounting for 85% of turnover, up from 66% five years ago.

The US is, and will continue to be an important opportunity, given the sheer size of the market and the need for an understanding of science as well as patents.

While we've not yet witnessed healthcare becoming a major election platform, there have been legislative moves such as the recent one on authorized generics that could have a major implication on the market. Of course, it could be years before these are made into law, if at all, but in our view these are a step in the right direction. The "Preserve Access to Affordable Generics Act," S.316, explicitly prohibits brand manufacturers from paying generic companies to delay launching generic versions of their drugs. Fair Prescription Drug Competition Act of 2007 -S.438, will make it illegal to introduce Authorised Generics during the 180 days exclusivity period enjoyed by the generic company. Both these would help restore the potential that para 4 filings offer and defray some of the risk that a patent challenger usually faces. The recent US Supreme Court judgment on obviousness is a clear pro-generic move, in our view.

The generic market continues to be competitive with a flood of approvals on patent expiry, even for products that were once thought to be complex, such as ondansetron injection. We expect this trend of many approvals even for complex products, to continue.

We firmly believe that while the competitive landscape will likely remain as unpredictable, the larger picture will be pro-consumer and pro-generics.

Caraco had reported a good set of numbers for the financial year recently. Across Sun and Caraco, 77 ANDAs await approval, of which 7 tentative approvals have been received, in all 34 approvals have been received from Sun Pharma and Caraco sites. At Sun Pharma, we now hold 10 ANDA approvals and 6 tentative approvals. We became the first company to market generic nimodipine, which was the first ANDA approved by the FDA out of our Cranbury, New Jersey site.

This pipeline of 111 ANDAs filings is an immensely strong pipeline, which will allow us to scale up our generic business.

We continue to ramp up R&D investments, the spend for the twelve months is Rs 2924 million, or 14% of net sales. Of this, the costs related to innovative R&D have, as of March 1, moved to SPARC Ltd.

We began this year guiding for an 18-20% growth in consolidated sales. If you look at the numbers, we have comfortably crossed this mark, without much of a stretch. The two largest markets we operate in-India and the US, continued to be fairly intensely competitive markets for all of the year. We had 3 new manufacturing sites to integrate into our operations, and bring in the same eye for efficiency and lean costs.

Now for the guidance for next year. In our view, a consolidated sales growth of 15-18% seems reasonable, even on a considerably larger base, as we try and integrate Taro into our operations. We estimate generic R&D spend at 8-10% of sales, to cover generic development including complex generics for the developed markets and API. Between Sun Pharma,SPI Inc and Caraco, we intend to file 30 ANDAs. Across sites, we estimate a capex of Rs.1250 mill.

On the profitability front, we had said that we will work towards maintaining margins. Which we have done as well, at the end of the year we have improved profitability at all levels : EBITDA, EBIT and Net Profit when compared to last year.

Our underlying commitment to building an integrated generic company with global operations and speed of delivery remains unchanged.This insistence on continuing to do what has worked for us, will help differentiate Sun Pharma as we add size and scale.

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

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

Nandita: Thank you. Congratulations Mr. Shanghvi, very very well done. I wanted to talk to you about Taro Pharma, a very very interesting company, and has grown rapidly over the years, the profitability though has come down substantially in the last 5 years, and my question relates to what are your plans for integration, how do you think you can do in terms of profitability and what does it do for you strategically?

Uday Baldota: Nandita, just a request, can we just take questions on the financials before we start talking of the deal that we just announced?

Nandita: Okay. Do you want to come back to me then?

Uday Baldota: Yes I think that is what we will do.

Nandita: Okay.

Uday Baldota: My request to all the participants, can we have the first round of questions on the financials please?

Moderator: Thank you very much. Next in line we have Mr. Neelkanth from Credit Suisse. Over to you sir.

Neelkanth: Hi, again congratulations on a great acquisition and on the numbers. My first question is on Caraco, the chargeback balance this year is much higher than that last year; in fact the ratio of ending balance versus gross sales has almost doubled to about 11%. How should one read this? Are you being conservative?

Dilip Shanghvi: I think the accounting practices at Caraco basically would reflect the sale to different class of trade.

Sudhir Valia: Even the pricing mechanism, once you change the price or when new products are priced different, actually what is realizable is to be accounted for. So sometimes the invoicing remains at higher level, but receivable is less, and that is the reason for this kind of to anomaly arise. It is really a very tricky and technical process and we have a system through which we evaluate it, ensuring that we come very close to the actual numbers.

Neelkanth: Okay, so you are just not being conservative, what you are saying is that because you are now selling a lot more into retail that you are just realizing a difference between, okay. Secondly, on the fourth quarter, EBITDA margins for the last quarter consistently over the last 3 years have been lower than that for the previous quarters. Is there any special charge that you take in the fourth quarter?

Dilip Shanghvi: The nature of business actually doesn't change, but what you say is correct, if you see this year, of course it has been significantly higher than what it was last year.

Neelkanth: Right, but you know, compared to the previous three quarters there is a decline. So just understanding whether going forward as well we should budget for some extra costs in the fourth quarter?

Dilip Shanghvi: I don't think we will be able to guide on this.

Neelkanth: Okay, thank you. I will join the queue again.

Dilip Shanghvi: Thank you.

Moderator: Thank you very much sir. Next in line we have Mr. Ranjit from Prabhudas Lilladhar. Over to you sir.

Ranjit: Good morning and congratulations for a good set of numbers. Sir this is regarding the demerger of SPARC. What would be the savings in expenses for Sun Pharma?

Dilip Shanghvi: Generally, our R&D expense was around 30-35% for innovative R&D, and if you see this year we have guidance of around 8-10% for R&D expense compared to 14% that we had for the last year. So, that can be the potential saving, but the idea for us as a company is to continue to invest for future. So, going forward, we will try to see if we can continue to ramp up our future investment in R&D.

Ranjit: Can you give some guideline for '09 for the Sun Pharma, for '08 you have said 8-10%, are you going to substantially ramp up in '09 sir?

Dilip Shanghvi: We will possibly be able to give '09 projections by end of '08. We don't give two-year guidance.

Ranjit: Okay, thank you so much and all the best.

Dilip Shanghvi: Thank you.

Moderator: Thank you very much sir. Next in line we have Mr. Pawan from Kotak. Over to you sir.

Pawan: Hi! Congratulations to the management both on the numbers and the acquisition. Sir, my question is on the domestic formulations business, fourth quarter typically we have known that it is relatively weak versus the first three quarters, but this year I see that the fourth quarter is extremely strong. Second if you could just link that with margin, really then ideally margin should be very strong.

Dilip Shanghvi: I think the fourth quarter number is also partly the result of some changes that we have made in the way we are incentivising the field force, so it is more evenly distributed across the year. For margins, generally I think, Mr. Valia was explaining that we have large amounts of marketing expenses related to domestic market in the last quarter, generally that is the period during which most of the conferences and other activities are there for all the various specialities that we market our products to, so that affects the margin for us in the last quarter.

Pawan: Sure, so basically from now on this 300 crores is quarterly run rate and we will kind of improve on that, and from next year we will probably see a more even distribution of quarterly growth.

Dilip Shanghvi: Yeah I think overall we will meet our guidance, we are not now giving specific guidance related to different segments, but focus is on formulation business.

Pawan: So overall is 18-20%, because once you said 15-18, and at that time you said 18-20%

Dilip Shanghvi: Because we have now to focus on integration, and when we focus on integration some of the existing operations will suffer.

Pawan: Sure, second Mr. Valia it will be very helpful if you could just give us the breakup of your other income. What is interest income? And actually even interest income will be good enough or whatever you can share.

Dilip Shanghvi : No, I think we are currently not giving split up between the interest and the other income; however, with this acquisition that problem for you would get solved.

Pawan: Okay, fine. Third was that you said that 10% would be R&D cost, lets just take it at higher number, I mean typically your capex would be what percentage of this number?

Dilip Shanghvi: We have said Rs. 1250 million.

Pawan: For R&D alone?

Dilip Shanghvi: No, that is overall capex.

Pawan: You are talking of …..

Dilip Shanghvi: R&D, say around 15-20%.

Pawan: Okay, of this 8-10% right?

Dilip Shanghvi : Right.

Pawan: Okay, fine, thank you sir. I will be back in the queue.

Moderator: Thank you very much sir. Next in line we have Mr. Rajesh from HDFC Mutual Fund. Over to you sir.

Rajesh: Good morning sir. Just wanted the status on the filings from Able Labs, you have got one approval I believe, I just wanted to check what is the status on that?

Dilip Shanghvi: Currently, we are not giving split up in terms of filings from different Sun locations. Whereas we give differences between Sun Pharma and Caraco filings. We are not giving locationwise, but I think we have started filing products from Able and hopefully during the year that would get accelerated.

Sudhir Valia: You are right that we have received one approval and we have just started distributing the product in the market.

Rajesh: When do you see a significant contribution from there, by FY09 or so?

Sudhir Valia: This year also we will have sales starting to come from that product.

Rajesh: What in terms of the significant ramp up of …..

Sudhir Valia: 09 is the correct time

Rajesh: FY09.

Sudhir Valia: Yes

Rajesh: Okay, thank you sir.

Moderator: Thank you very much sir. Next in line we have Mr. Sameer from JM Morgan. Over to you sir.

Sameer: Good morning. First question is related to amifostine, hypothetically if you were to get the ANDA approval during the course of the year, would you be launching at risk ?

Dilip Shanghvi: I think we continue to evaluate all possibilities including launching at risk, but that is not a decision that we have yet taken.

Sameer: But that is a credible option?

Dilip Shanghvi: That is a probable option.

Sameer: Okay. Any update on IND filing for baclofen?

Dilip Shanghvi: I don't have exact update, but I think it is progressing quite well.

Sameer: Okay, and just a quick clarification on filing cycle having started, you meant both Able as well as Bryan?

Dilip Shanghvi: Yes.

Sameer: Okay, quick couple of questions on Caraco, if we see the sequential progression of sale, (a) I mean how much is the base business getting impacted by the ongoing pricing pressure, and (b) Why are we not seeing any major QoQ growth despite the fact that you have got few substantive product approvals such as phenytoin, specially, can you just clarify on that? 3Q we had 31 million sales.

Dilip Shanghvi: I mean more or less same numbers in the last quarter.

Sameer: How much is the base business getting impacted by the ongoing pricing pressure?

Dilip Shanghvi: I think what I understand is that overall pricing impact for the entire product range is around 17%.

Sameer: This is from third quarter to fourth quarter or YOY?

Dilip Shanghvi: This is the YOY impact.

Sameer: Fine thanks.

Dilip Shanghvi: So, effectively some of the product would have seen significantly more price erosion than the other products.

Sameer: Okay, but if I look at it sequentially, we are not seeing any major kick up in the sales despite new and niche opportunities that the company has been getting.

Dilip Shanghvi: I agree with you that there are opportunities that can help company grow better and more effectively in future.

Sameer: Okay, there was just one question on your FY08 guidance, should we read that whatever savings you get by R&D, roughly about 4% or 5% as a percentage of sales, it is translated into margin expansion or would there eanything that we should look at in gross margin and SG&A?

Dilip Shanghvi: Yes, part of it is likely to go down to improvement in margins, but as I explained in my earlier answer is that investment in R&D is ultimately investment for future, and to ensure a equally robust future that we have had in the past, we will continue to find ways by which we will increase this investment.

Sameer: Okay fine, thanks.

Moderator: Thank you very much sir. Next in line we have Mr. Govil from CLSA. Over to you sir.

Govil: Good morning. My question is on ICN Hungary. Last year Sun had closed Hungary with an inventory of close to $21 million. Now if I look at your export bulk drugs the growth especially in the current quarter have been flattish. Now what is the status of that acquisition and when do we see it turning around?

Sudhir Valia: Hungary is a controlled substance product business and it takes time because of various regulatory control activities there. Till the sales takes place inventory will go up as the plant has to get utilized otherwise absorption of overheads will not be done. Coming to this quarter's sale, which is almost flat or may be less than the Q4 last year. This bulk business is a lumpy kind of activity. There are orders which suddenly come up, and supply takes place, and there are situations in some of the quarters where things may not take shape. But overall if you see we can simply continue to grow and we believe that we will be able to keep the same pace.

Govil: What can be the like normalized run rate for the Hungary operations once they stabilize, because in 2003 the operations if I am right used to do around $38 million in revenues?

Sudhir Valia: Currently it is about $30 million. On a yearly basis we are at the same level, last year this year also, there is no significant variations.

Govil: You are doing around $30 million.

Sudhir Valia: Yes.

Govil: Thank you.

Moderator: Thank you very much sir. Next in line we have Mr. Ranjit from Prabhudas Lilladher. Over to you sir.

Ranjit: This is related to R&D expenditure after the demerger of SPARC. What will be the effect on taxation for the Sun Pharma?

Sudhir Valia: Overall the tax rate for the company is significantly lower, so the R&D expenditure is not really influencing but at the same time the expenditure on R&D continues to go up and up even if we say that reverse engineering R&D what we do. So there will be marginal impact on taxation.

Ranjit: Sir, can you quantify?

Sudhir Valia: Very complex, because there are sales coming from a zone which is tax free, so overall impact is very difficult to quantify. But yes what you say is right that the expenditure otherwise could qualify for more than 100% deductions will now not be qualified for.

Ranjit: Thank you very much sir.

Moderator: Thank you very much sir. Next in line we have Mr. Rahul from Voyager Capital. Over to you sir.

Rahul: I had one question on the expenses which we were doing on site related cost and other costs that Able and Hungary and Phlox, we are talking about around $15-16 million for FY07, so just wanted to get a sense on how much you have spent in FY07 and what kind of expenses are we targeting on these three in FY08.

Dilip Shanghvi: You are asking about filing from these locations?

Rahul: Yeah, basically filing related costs, and site related cost and overall budgeted cost, expenditure for these three sites.

Dilip Shanghvi: I think broadly your number overall that you said is around $4 million per quarter is in line with our overall guidance, I do not think we currently gave out site specific expenses. So what we would like everybody to factor is that these sites we are sustaining with $16 million cost, which are currently not generating significant upside and revenue in the short term, but when the product approvals start coming they will start generating cash flow.

Rahul: Right. So in FY08 we can expect similar amount of budgeting in terms of expenses?

Dilip Shanghvi: Yes.

Rahul: Okay. Thank you very much.

Moderator: Thank you very much sir. Next in line we have Mr. Sharma from Karvy Stockbroking. Over to you sir.

Sharma: I just wanted more clarity on the nimodipine opportunity which we have in the US, could you throw some light on it?

Dilip Shanghvi: It is not a very large product and currently of course Barr has not come to market, but there is an approval, so I think we expect them to come to market shortly. Since there are not many people we are not expecting much pricing competition, but it is not a big product.

Sharma: What are the revenues sir?

Dilip Shanghvi: We do not give product wise revenue guidance.

Sharma: Okay and how many players are there currently in the market sir?

Dilip Shanghvi: That is what I said we were the first generic, Barr has recently got an approval after we got the approval, but I do not think they have yet come to market.

Sharma: Okay sir, thank you.

Dilip Shanghvi: Thank you.

Moderator: Thank you very much sir. Participants who wish to ask questions, kindly press *1 on your telephone keypad. Next in line we have Mr. Neelkanth from Credit Suisse. Over to you sir.

Neelkanth: Yeah hi, can we start questions on Taro now?

Dilip Shanghvi: Yes, if there are no questions for financials.

Neelkanth: Great, thanks. There are several questions; one, was it a competitive deal, when do we expect to close it, what is the expected downside due to the lawsuit and lastly you know the number of DMFs that the kind of DMFs Taro seems to have are mostly limited to steroids, so what is the level of vertical integration and how much synergies do we plan to generate in the first two years?

Dilip Shanghvi: I think large number of questions that you have asked, their press release already answers those questions. In the litigation I think they have a court case today and we should hopefully get to know by evening today what is the status on the litigation, but from whatever that we have understood and what company believes, I am talking of Taro, the litigation does not have any major merit and should not create any kind of hurdle to the transaction. As per the overall timeline I think it should close within three to four months depending on the various regulatory and other approvals.

Neelkanth: Okay, so what are the synergies that we expect in the first two years?

Dilip Shanghvi: There will be synergies in terms of marketing to different set of clients, they have their strength with customers where we can find a way to sell existing Sun products and Caraco products, and we can sell Taro products with customers where we have strength. We can significantly enhance the overall investment in R&D so that we can file as a group many more products than what we are currently filing. They have very high capability in certain kinds of product development that we can leverage and develop leadership position on all of those products, which are relatively low competition and higher margin business. I think we are looking at this to help Sun become a much more credible competitor in the US markets.

Neelkanth: Yes, that is it. Thanks.

Dilip Shanghvi: Thank you.

Moderator: Thank you very much sir. Next in line we have Mr. Agarwal from JP Morgan. Over to you sir.

Jesal: Yes, hi. This is Jesal. Just actually one question on Caraco. Caraco has given I think guidance of some 30% growth for next year. I just wanted to get your sense on if you think this kind of includes any of the upsides from the patent litigation that Sun is currently involved in including amifostine?

Dilip Shanghvi: No, this will not include potential litigation upsides.

Jesal: Okay, the second thing on Taro is there is this $454 million acquisition deal, how much is the cash outflow that you imagine from Sun? Will this entire amount be the cash outflow immediately because this also includes some debt component, which you are assuming?

Dilip Shanghvi: I think what we have agreed to and that is what is there in our press release also, is that we have agreed to refinance the debt. So we are presuming that we may have to refinance the entire debt, in which case the entire $454 million becomes the out go. If we do not have to refinance any part of the debt and if we are able to continue with the existing debt holder then we might help reduce cash outflow.

Jesal: Right, and there is no minority pay out here, I mean this entire 100% stake you are acquiring in the company?

Dilip Shanghvi: That is correct.

Jesal: Okay, and if you have any idea about the 2006 numbers in terms of sales and EBITDA for Taro?

Dilip Shanghvi: We have an idea; only thing is we cannot share it because the company has not shared it. What the company has announced is that it has a significant loss in 2006.

Jesal: Sorry, significant losses in 2006.

Dilip Shanghvi: That is what they have announced.

Jesal: Right, but in terms of turnover would you like to throw some light on that? No?

Dilip Shanghvi: (laughs)You never give up. I cannot give you. We have the numbers. We have done complete diligence, but hopefully I think we should see the number when they announce it.

Jesal: Right and just a last thing, you know if you consider the entire amount as the cash outflow would you like to give us some idea about what is the payback period here?

Dilip Shanghvi: I think it is all dependent on what kind of product approvals we get, at what time, what kind of increased revenue we are able to generate, what kind of synergy we are able to generate, but broadly it is in line with the overall internal transaction discipline that we have in place. So within maximum five and half years we should be able to recover investment, that is the broad thinking, but it is all dependent on execution.

Jesal: Right, okay, thank you so much.

Dilip Shanghvi: Thank you.

Moderator: Thank you very much sir. Next in line we have Mr. Jain from Axis. Over to you sir.

Manish Jain: Yes, hi, this is Manish Jain from Axis. I had a question primarily on the R&D investment of Sun. How much of the Rs. 257 odd crores for full year was on clinical research? And secondly, you have actually filed many ANDAs in '07, whereas you said only 30 for '08, just want your comment on that.

Dilip Shanghvi: I think the overall numbers spent for innovative research is around 35% of the total sales, I mean total spent, part of that will be in clinical studies. I do not have exact numbers for clinical study. Actually I think we will make this change from next quarter is that currently when we say an ANDA, basically it means each strength is treated as a separate ANDA.

Manish Jain: Okay.

Dilip Shanghvi: So we will now be giving both detail number of ANDA and number of products, because sometimes if we have three strength of a particular product then it adds to the number of ANDAs.

Manish Jain: Sure.

Dilip Shanghvi: So, overall guidance I think is easier for us to, see 30 is a big number, if we are able to do better I think it is good for everybody, but I do not want to be put in a position where we say that we wanted to do 30 and we could do only 25.

Manish Jain: Fair enough. Fine.

Moderator: Thank you very much sir. Next in line we have Mr. Prakash from Deutsche Bank. Over to you sir.

Abhay: Good morning. This is Abhay from Deutsche Bank. Just a couple of questions. #1. As far as Taro's operations go, because it is based out of niche products, what sort of broad margins can we look from that business going forward?

Dilip Shanghvi: The focus I think would be to try and bring the same cost discipline and the efficiency focus that we have in all parts of our business to improve the margins and we believe that going forward in next 3-4 years we should be able to achieve much better performance from that business than what is there today.

Abhay: Okay, sir being a vertically integrated company like Taro, is there any scope for significant reduction in costs?

Dilip Shanghvi: We have not done the kind of diligence which will allow me to answer that question because we do not have access to very confidential information, but if I look at operations of any business those kind of efficiencies are always feasible to achieve in terms of buying of product more cost effectively, managing energy cost, managing operations cost, all of that should be feasible.

Abhay: Sir, the other thing is in terms of capex, now with having acquired a lot of manufacturing companies across Hungary, US, and now with Taro, would the capex going forward come down or do we see much faster revenue growth with much higher volume throughput possible?

Sudhir Valia: Capex in India will continue to be in same pace which we have been doing and definitely the acquisitions is helping us in asset growth, but at same time we are investing further for the development activities there. We will generate sales out of it over a period of time as we discussed.

Abhay: Okay fine. Thank you.

Moderator: Thank you very much sir. Next is a follow up question from Mr. Ranjit from Prabhudas Lilladher. Over to you sir.

Ranjit: Sir this is regarding one NDA which has been filed by Taro, if you can give the opportunity for that?

Dilip Shanghvi: What is that?

Ranjit: In the press release you have said that Taro has filed one NDA.

Dilip Shanghvi : Okay, they have a product called T2000, which is used for treatment of essential tremor. It is a condition for which currently there are no approved drug treatment available in the US and it affects a large number of people in the age group of 40+. It is not Parkinson's disease, but some of the symptoms are very similar to Parkinson's disease, and the product I think is entering phase II, but they still do not have a full response from FDA to initiate phase II, that is the understanding that we have.

Ranjit: Sir can you just repeat the name of the substance?

Dilip Shanghvi: T2000.

Ranjit: Okay, T2000, and this is for essential tremor?

Dilip Shanghvi: Yes

Uday Baldota: Just a minute. Nandita, are you on the call? Can we ask you to please ask your next question?

Moderator: Sir, Ms. Nandita is not lined up in the question queue sir.

Uday Baldota: Okay.

Moderator: Can we take up the next question sir?

Uday Baldota: We will take the next question.

Moderator: Yeah. Next in line we have Mr. Pawan from Kotak. Over to you sir.

Pawan: Yeah thanks, most of my questions have been answered, just one clarification on ANDAs. 30+ ANDAs for this year, it is molecules or it is the same plain reporting format?

Dilip Shanghvi : It will be 30 molecules, and also we are focusing on filing more complex products. So ANDA to ANDA is a numerical comparison, quality of ANDA is very different.

Pawan: Asololutely. And this 77 ANDAs that you have given for you know outstanding number, how many molecules would that be?

Dilip Shanghvi: That is what I said, in the next quarter we will give clarification.

Pawan: Fine, and Taro has about 1100 people, and you also have a $100 million business in the US, I mean what is the kind of size you think is optimal for, I mean, in terms of people that are needed do a $300 million business?

Dilip Shanghvi: I think if you see their $300 million business, so by the number of people for $100 million we have around 400 people in Caraco, so it is not a very different number.

Pawan: So it is rightly staffed. Second would be on the research, you said that you know very good research capabilities, all of that is in Israel?

Dilip Shanghvi: It is both in Israel as well as in Canada. They also have a few people in US, but those are mainly regulatory and senior people based in the US.

Pawan: What is the kind of R&D spend these guys have?

Dilip Shanghvi: I think in excess of 10-12%.

Pawan: Right, and you will perhaps increase that.

Dilip Shanghvi: First rationalize and then increase. The idea would be to try and get more effectiveness from the same expense.

Pawan: Okay, thank you so much.

Dilip Shanghvi: Thank you.

Moderator: Thank you very much sir. Next in line we have Mr. Govil from CLSA. Over to you sir.

Govil: Can you share the amount of working capital which we get along with Taro?

Uday Baldota : Sorry, you are not clear.

Govil: The amount of working capital which Taro has currently.

Uday Baldota: I think 2005 numbers have come, so they are till December 2005, so the current number would be changed, but we are not able to give any current numbers.

Govil: Okay, thank you.

Moderator: Thank you very much sir. Next in line we have Mr. Ashi Anand from Prudential ICICI. Over to you sir.

Ashi Anand: Sir, Taro has 100 ANDA approvals, I just wanted to understand the extent of product overlap between their approvals and ours.

Dilip Shanghvi: There are a few overlaps, I think, not significant.

Ashi Anand: Okay, so the bulk of the products have been different, okay, fine. Sir just secondly, in terms of, would it be possible to share the EBITDA margin for 2005?

Uday Baldota :2005 numbers are published.

Ashi Anand: Okay, because I just wanted to understand with them making a profit of $5.7 million in 2005, losses in 2006, you mentioned you hope to recover investments in 5 years, I just wanted to understand if you could just elaborate a bit more in terms of how you are planning to get cost savings out of the company or is it primarily going to be kind of revenue growth coming in and operating leverage because of that?

Dilip Shanghvi: Many things, I think, when you run a business with focus on cost, with focus on efficiency, maximizing potential for all businesses, so it is increased upside for sales, it is improved margin in terms of product, efficiency on purchase, efficiency on production; all these issues.

Ashi Anand: Sir would you be able to give some kind of target in terms of over 3 years we are hoping to see EBITDA margin by so much, would that be possible at this stage?

Dilip Shanghvi: No, difficult.

Ashi Anand: Okay, thank you sir.

Dilip Shanghvi: Thank you.

Moderator: Thank you very much sir. Next in line we have Mr. Nair from Citigroup. Over to you sir.

Nair: Yes hi, I just wanted to clarify on Taro's innovative R&D spend or R&D effort. What would your stance be on that now that within India you have decided to separate generic business from the innovative business, would that remain a part of the business or would you look for a similar separation there?

Dilip Shanghvi: It is a valid question. I don't have an immediate answer, because we will need to study the way the intellectual property is structured and finally how we would like to leverage that asset - whether we want to keep, whether we want to license out, how much additional money we wish to invest. These are all questions we have to answer first and then we can arrive at how and what to do with it.

Nair: Okay, fair enough. The other question was on Taro's statement that there would be significant losses in 2006, does this relate to chargebacks which were not estimated in line with what they had to be in the previous 2 years or does this related to anything operational within the business for 2006?

Dilip Shanghvi: Difficult for us to give you an answer, because to answer I have to use non-public information.

Nair: Okay, fair enough. I am done with my questions, thanks.

Dilip Shanghvi: Thank you.

Moderator: Thank you very much sir. Next in line we have Mr. Sameer Baisiwala from JM Morgan. Over to you sir.

Sameer Baisiwala: On Taro, if I compare this with all your past acquisitions, generally you buy impaired assets and turn them around in 3 years and the shareholder gets a tremendous value appreciation. Taro does not seem to be falling in that bracket and it looks like more incremental effort in terms of just knocking out some cost efficiencies. Am I correct in my understanding and what has been your thinking behind this acquisition?

Dilip Shanghvi: I think our earlier acquisitions were relatively simple, easy to understand, objective kind of acquisitions. This is a complex acquisition and to fully leverage will require that we execute properly and on large number of difficult-to-achieve objectives. Both in terms of size as well as in terms of complexity I think this will challenge us, and our ability to generate the kind of potential savings and share holders in Sun Pharma are accustomed to have will require us to perform well consistently over large number of parameters. If you ask me personally, I believe that from a feasibility point of view, we should be able to achieve the kind of return that we have achieved in the previous acquisitions on a much larger acquisition, but ultimately that is not in our guidance, that is not in our numbers that we share with shareholders. So to that extent I think it would be incremental.

Sameer Baisiwala: Most of the time your focus has been really on the cost side and not so much on the sales, sales growth, future pipeline. Is that something that we should also not focus on when we look at Taro?

Dilip Shanghvi:I think there are opportunities on both, and it is easier to develop a synergy on a large business, much more than on a relatively smaller business. All our previous acquisitions have been relatively small acquisitions. It is possibly 10 times larger than the largest acquisition that we would have done in the past.

Sameer Baisiwala: Some indicative figure that you may want to give on sales growth that we should expect, not one year but may be 3 year, 5 years, coming specifically from Taro's present pipeline?

Dilip Shanghvi: Difficult to give 5 year number in a market in which dynamics continue to change everyday, but we feel that the expertise and the capability in the company that we see should allow us to do really well going forward.

Sameer Baisiwala: It should be not less than what Sun as it stands today, it is growing at. Is that the way we should look at it?

Dilip Shanghvi: That should be the objective.

Sameer Baisiwala: Okay, just on what you mentioned that the payback period is going to be five to five and half years, that roughly translates in to $80-90 million net cash flows every year, just on an aggregate basis. Is this the way we should look at it 20% ROI acquisition?

Dilip Shanghvi: We actually don't expect, and that is it. It is difficult to take a view on bondholders, but we don't expect all of it we will have to repay. So we don't expect the total transaction to be worth $450 million in terms of cash flow, but if we have to return the money when clearly in the first year we will not make 70 million. So at the end of fifth year money will be more than what we were talking about in terms of potential revenue upside or profit upside.

Sameer Baisiwala: If I have understood correctly, you said that the price side may not be $454 million.

Dilip Shanghvi: Cash out go may not be $454 million.

Sameer Baisiwala: No but that is okay, if you replace your cash with the debt that they already have that still comes to the same thing.

Dilip Shanghvi: That is how you look at it.

Sameer Baisiwala: So would it be earnings accretive in year one, i.e. FY08?

Sudhir Valia: It is long way to say anything on that, but definitely we have to put efforts. Here only I will say that when you started with saying that we are more focused on cost than the sales, which is not overt. I will rephrase the same things what you are saying. We are more focused on bottom line, sales is always our objective. Fortunately, we are one of the fastest growing companies in most of the past years.

Sameer Baisiwala: Okay that is very heartening to hear. Just one final point, where is Taro in terms of Ovide, the new innovative formulation development? Has IND been filed or where do we stand?

Dilip Shanghvi: I don't have the exact detail about what is public on Ovide , but we will come back to you with specific information on Ovide gel.

Sameer Baisiwala: Okay and just one last question. Were there other bidder for this deal, if you could talk a little bit about the process?

Dilip Shanghvi: I think if you have seen the Taro press release there is some overall guidance related to how the process was conducted.

Sameer Baisiwala: Okay fine.

Dilip Shanghvi : Thank you.

Moderator: Thank you very much sir. Next in line we have Mr. Nimesh Mehta from Edelweiss. Over to you sir.

Nimesh Mehta: Good morning everybody and congratulations for a great result. I just wanted to know are you guiding to maintain the margins going forward on an aggregate basis?

Dilip Shanghvi: Let me understand. I did not understand.

Nimesh Mehta: No, I am just asking are we looking to maintain margins going forward let us say in FY08 for the consolidated company?

Dilip Shanghvi: On a consolidated company means with Taro?

Nimesh Mehta: Yes, with Taro.

Sudhir Valia: It is very difficult to maintain, but we will work for that.

Nimesh Mehta: Okay, so any guidance that you can give based on range?

Dilip Shanghvi: That is what we have clarified we are not giving any guidance for merged company. Because that kind of working, we are giving only guidance for Sun Pharma, and for Sun Pharma our guidance is we will maintain margins.

Nimesh Mehta: Okay, thanks a lot.

Dilip Shanghvi: Thank you.

Moderator: Thank you very much sir. Next in line we have Ms. Visalakshi from DSP Merrill Lynch. Over to you mam.

Visalakshi: Yes thanks. I had this one question. It is probably been asked in a different way earlier. In which year you think you can comfortably be EPS accretive and ROC accretive from this Taro deal?

Dilip Shanghvi: We have not done detailed working, but it is a valid question, we will answer that. But I think since there is no overall dilution in terms of additional shares, I think we should be able to generate additional EPS shortly.

Visalakshi: Should I assume in fiscal 08 itself or should we model in from fiscal 09?

Dilip Shanghvi: To answer you I have to use some information which is not public, so can we then answer this question when those information will become public?

Visalakshi: Okay, thank you.

Dilip Shanghvi: Thank you.

Moderator: Thank you very much mam. Next in line we have Ms. Monica from Quantum Securities. Over to you mam.

Monica: Good morning, I just missed the earlier part of your presentation, I don't know if this point was done with, earlier. There is some sort of litigation from Franklin Templeton on Taro. If you could give us some idea on what this is? And secondly, if you were to lose the case, I think the hearing is today, if Taro were to lose the case, would Sun be liable then, to bear any damages on this particular thing?

Dilip Shanghvi: Not that we know of, I don't think we have any damages.

Monica: Okay but what was this about, I mean would you then be over paying in the sense that because they own 9% of that company, so if you could just give us a background of what this is about?

Dilip Shanghvi: I do not know how much of the information is public, but what I understand is that they believe that the company is being sold for a price which is lower than what they think it is worth, and minority shareholders are being treated differently from the controlling family, these are the two broad points in the litigation.

Monica: Okay, so if they think that you are underpaying them, then would Sun in any case want to increase the price of their bid by a marginal amount, is that something that you have thought about?

Dilip Shanghvi: No.

Monica: Thank you so much sir.

Moderator: Thank you very much mam. Next in line we have Mr. Gupta from Venus Capital. Over to you sir.

Gupta: Hello, good morning sir. My question is regarding the demerged R&D entity and regarding the NDDS and NCE which have been filed, and if you would be able to throw some light on that.

Uday Baldota: I think may be we can talk separately on this and we will send you all the details that we have made public on this earlier.

Gupta: Okay, thank you.

Moderator: Thank you very much sir. Next in line we have Mr. Agrawal from JP Morgan. Over to you sir.

Jesal: Just one or two things more on Taro. One is in your assessment clearly that Taro has as I see two pipelines, one is the ANDAs and the other one is the innovative pipeline. In your assessment, what kind of value is really ascribed to the innovative pipeline? Do you think it is significant? Do you think the value is still significantly towards the generic pipeline?

Dilip Shanghvi: I think it is factored in our overall assessment, but essentially we have acquired the company for its generic business. Hypothetically, the answer to your question is that, if they had only the innovative business whether we would have bought it? Then the answer is no.

Jesal: Okay, and the second thing is on their generic pipeline, they have several ANDAs pending approval, would you like to kind of share what is the brand value of those products and what is the overall nature of these products, are these like oral solids or what is the nature of those products, or would it be fair to assume that these products are typically in the same segment that they operate, which is topical and things like those?

Dilip Shanghvi: I think that would be a fair mix of all the products, but beyond which I don't think I can share specifics.

Jesal: Okay and given that they have some presence in Canada, do you see that as a thing which opens up the market for you in terms of your filings also?

Dilip Shanghvi: Yes clearly that is an additional upside, their presence in Canada, their presence in Europe, and their presence in Israel, and all of these are opportunities that we have to assess how much we wish to continue to focus and invest so that we can become meaningful players in those markets.

Jesal: Okay, I mean the same kind of filings that they have for US, can we presume to have even for Canada, and would like to share how many filing you have made in Canada, if you think this is a big opportunity?

Dilip Shanghvi: If you are asking about Sun, we have not done any filing yet in Canada, or may be 1-2 filings, I don't have exact numbers, I am not very familiar, but if there is an existing base business and I think that their Canadian business is around $25-30 million, it gives a platform from which it would be easier to build.

Jesal: Okay, and just a last thing, which is actually just a small clarification. Earlier you had clarified that there is this NDA filed which is the T2000, but the press release says that the NDA is awaiting approval, whereas the T2000 seems to be about to enter phase II.

Dilip Shanghvi: Yes that is correct, it is about to enter phase II. So what is the question?

Jesal: No the question is therefore this NDA which is awaiting approval is that pertaining to that T2000 or is it something else?

Dilip Shanghvi: I would not be able to answer that, I don't know what NDA they are specifically referring, may be it is Ovide gel or I do not know.

Jesal: Okay fine. Okay, thank you so much.

Dilip Shanghvi: Thank you.

Moderator: Thank you very much sir. Next in line we have Ms. Nandita from Karma Capital. Over to you mam.

Nandita: Okay, I am going to try this another way. Just in terms of profitability of Taro, what you think happened, a very very fast growing company, very profitable company completely lost all of that over the past 3 years. What do you think are the causes of that, other than the product which I can understand, you know you have very high periods of profitability for short periods of time, other that that, how would you attribute it?

Dilip Shanghvi: I think if you really understand they were not very profitable when you thought they were profitable, and they had to take charges for those periods, because they estimated their sales at much higher price than finally what they realized, and that was the historical chargeback problem for the company. But it is good business. It is a relatively low competition specialized business, and it is a business in which because of both the complexity in development and difficulty in registering products not many people find it very attractive and interesting. So it is easier to build on this and also we think we can use this expertise for developing many more very interesting products. So lets see how we are able to execute on what we think is interesting.

Nandita: Is it that their product portfolio is so topical, is that part interesting to you going forward, is it about dermatology?

Dilip Shanghvi: It is about dermatology, it is about the ability to develop both controlled release products, taste masked products, complex chemistry capability, so I think their skill sets which can be significantly used for developing a significant and stable business.

Nandita: You are not really talking about sort of rationalizing a product portfolio and all that, I mean that is not part of the plan, right?

Dilip Shanghvi: No that would not be part. Building on top of what they have, making it more efficient, focusing on cost, focusing on improving purchasing efficiency as a bigger company, using existing distribution channel of Caraco and Taro to enhance our overall revenue would be the objective.

Nandita: So there would not be any shutting down of any manufacturing facilities?

Dilip Shanghvi: It is not planned.

Nandita: Okay, and lastly what would you think would, if they had not over estimated their sales, what would have been their normalized profitability?

Dilip Shanghvi: It is difficult to answer because I have not studied all their previous year's financials, but I think overall net margin for the company would have been around 10-12%.

Nandita: Okay, thank you so much.

Dilip Shanghvi: Thank you.

Moderator: Thank you, mam.

Uday Baldota: Can we have the last 2-3 questions please?

Moderator: Sure sir. Next question comes from the line of Mr. Singh from Goldman Sachs. Over to you sir.

Singh: Yes hi sir. I just wanted to know like you mentioned Franklin has filed a case against Taro saying that the controlling family has been treated differently as compared to the minority shareholders. Can you just tell us how the deal has been structured for the controlling family and for the minority shareholders?

Dilip Shanghvi: I think if you see the Taro press release it is fairly clear on the structure of the transaction. We haven't given too much detail because it is not material, but we have been very careful in ensuring that the deal is structured in a very very clean as well as transparent way so that it is visible to everybody that is there is no differential dealing between the controlling shareholder and the ordinary shareholders.

Singh: So what exactly is the difference then? Like what is Franklin seeing which you are saying is actually not the case?

Dilip Shanghvi: I think I said two things, one is that they said that they believe the company is being sold for significantly lower value than what it is worth.

Singh: That is fine, like that is value, so it can be different for different people the way they see it, but regarding this controlling family and the minority shareholders because at times this can lead to a protracted legal battle, which is something which is slightly dangerous.

Dilip Shanghvi: Let me explain, I think it is also there in the press release. They have this controlling voting shares or founder shares, which are only voting share, they are not financial shares, they don't represent any financial value, any equity value, and that represents 1/3rd of the vote, and the family is transferring all those shares without any cost to us. So they get paid nothing for that, and whatever their ordinary shares are, they get paid exactly the same as ordinary shareholders and also get paid at the same time at which the ordinary shareholders get paid, so there is no basis for that presumption, but that is what the suit is alleging and that is why both Sun as well as Taro strongly believe that this suit has not merit.

Singh: Okay, thanks a lot sir.

Dilip Shanghvi: Thank you.

Moderator: Thank you very much sir. Next in line we have Mr. Govil from CLSA. Over to you sir.

Govil: My question is regarding Taro's press release, they mentioned that Taro and Sun have entered a separate agreement for you to provide them a $45 million of interim equity financing. Now is that in additional to $454 million or is it part of the $454 million?

Dilip Shanghvi: It is in addition to $454 million, if you look on the face of it, but it will be used for repaying some of the debt. So in a way it is included in the transaction. So the debt will get reduced to that extend.

Govil: So it is just bridge financing which you are giving to them?

Dilip Shanghvi: That is correct.

Govil: Thank you.

Moderator: Thank you very much sir. Next in line we have Ms. Hiral from Reuters. Over to you mam.

Hiral: Hi sir, Hiral from Reuters. Sorry for this last minute question. Just two questions we need is that one is what is your rationale, and I missed the conference, so I am sorry if I am repeating myself. What is the rationale for Sun Pharma to buy this company, which apparently says that it is loss making? And second is that how confident are you to kind of, from this legal tangle which has been mentioned in the press release? Thank you.

Dilip Shanghvi: I think what the company has said is that it is in substantial losses in 2006. It does not mean that it is a loss making business, it is a business which has made loss in one year. We believe that the business has upside and it can be made profitable going forward. The second question is, as I just explained, we believe that the litigation of Franklin Templeton does not have any merit, so the company should be able to get judgment in its favor.

Hiral: Okay, and you said earlier that you were interested in the generics business of it. Is that right?

Dilip Shanghvi: That is correct.

Hiral: Okay, thank you so much.

Dilip Shanghvi: Thank you.

Moderator: Thank you very much mam. At this moment I would like to hand over the floor back to the Mr. Uday for the final remarks. Over to you sir.

Uday Baldota: Thank you very much for all of you joining us in the conference call. If you have any questions please don't hesitate to call me or Mira. Thank you very much.