Sun Pharma Q4 2005-06 Results Conference
Call Transcript
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Corporate Participants

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

Sudhir Valia
Wholetime Director, Sun Pharmaceutical Industries Ltd.

SUN PHARMACEUTICAL INDUSTRIES LTD.

Moderator: Good morning ladies and gentlemen. Welcome to the Sun Pharma earnings conference call. I am ***, 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 the Sun Pharma management. Thank you and over to the management.

Uday Baldota: Thank you, Monali, Good morning and a warm welcome to our 2005-06 fourth quarter and annual earnings conference call. I am Uday from the Sun Pharrma 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 and developments on strategy. We hope you have received the fourth quarter and annual financials and press release, sent out yesterday evening. These are also available on our website. Our fourth quarter and annual numbers are unaudited. For ease of discussion, we shall look at consolidated numbers for the quarter and year. Just as a reminder, this call is being recorded and a replay of the call will be available for the next 3 days. The call transcript shall also be available on our website soon. It would be appropriate to mention that the discussions today may include certain forward-looking statements and these must be viewed in conjunction with the risks that our business faces. Also, I would like to request all of you to kindly send in your queries that remain unanswered during today's earnings call to uday.baldota@sunpharma.com or mira.desai@sunpharma.com. I now hand over the call to Mr Dilip Shanghvi.

Dilip Shanghvi: Once again, welcome and thank you for joining us today for the conference call after announcement of the financial results for the fourth quarter and the year. As always, in this call we will discuss operations and developments on strategy. Mr. Valia will first share the performance and financial highlights, and later I will talk about strategy and direction.

Before I hand over to Mr Valia, a few special mentions. As you know, Caraco has reported that Ultracet, its first para 4 launch in December 2005, has done well despite now 3 companies vying for the product.

On the manufacturing front, our Indian site at Halol that had received USFDA approval for injectables and nasal sprays areas; has received 2 approvals and 5 tentative approvals from the plant till date.

Earlier this year, we had announced our intention to demerge innovative R&D so as to allow these new to the world projects the right resources and focus to bring them to global markets. The process of demerger is on track, and necessary stakeholder permissions have being taken.

I will now hand over to Mr. Valia.

Sudhir Valia: Good morning everybody. Our Q4 and annual numbers are with you – like every year, and in line with the performance that we've shown in the previous quarters , we have good growth to report across our business. First, we'll look at the financials. Before I begin, I would like to point out that the numbers for this year also include the recent acquisitions, which are not included in the numbers of the previous year. There is a regrouping of some figures so that we compare likes. .

For the fourth quarter, net income from operations is at Rs 4054 million, an increase of 41% over last year. For the year, net income from operations grew to Rs 16355 million from Rs 11853 million, up by 38% over the last year. We are in a business that offers predictable growth and largely unchanged margins from quarter to quarter for most of our business.

Net profit after minority interest for the fourth quarter is up 38% at Rs. 1429 million from Rs. 1034 million. For the year, net profit margin is maintained at 32%, even after completing 3 acquisitions that brought different margins to the business.

Interest and other income has some one-time components of around Rs 250 million. As we've shared earlier, our acquisitions this year contribute some sales to the consolidated numbers but have near matching costs thus they do not contribute to the bottom-line. As we equip these sites, add people and prepare these sites for filing and regulatory submission, we will incur operational costs and overheads till such time revenues build from new product launches. These investments and the consequent costs in the interim are part of our strategy of entering new businesses. The impact of these costs is visible in the quarter and annual numbers. Margins are lower at all levels compared with the previous period. As with our acquisitions in the past, we expect to generate adequate returns over the medium to long term and thus have a potential upside to our performance.

For the fourth quarter, material cost as a % of net income from operations is up to 31% from 29%. Both, the different cost structure at the acquired sites and pricing pressure in the US market were contributing reasons for these. Caraco is well integrated for its key products, which would work to Caraco's advantage as we expect the US generic market to remain price competitive.

We would like to highlight non recurring costs of Rs 150 million related to integration of accounting for one of our acquisition.

Staff costs are up from 10.2% to 12.7%. of net income from operations in the fourth quarter.

Indirect taxes, excluding excise duty, as a % of net income are down from 2.5% in the fourth quarter last year to 2.2% in the current period.

In the fourth quarter, R&D expense increased from Rs 440 mill to Rs 692 mill.

Provision for taxes for the quarter is at 7.7% of profit before tax, marginally lower than 8.4% in the earlier period.

On a fully diluted basis, EPS for the year is Rs 27.7, up from Rs 20.8 for the last year.

Now for a closer look at the operations.

Domestic formulations continues to be the backbone of our business with heartening growth.

Domestic formulation sales the fourth quarter have grown 52% this fourth quarter over same quarter last year. If you remember, the last quarter last year was on a low base on account of VAT introduction in a few states. Growth for the year has been 41%. This year too, VAT was introduced in a few states like MP, Rajasthan and Gujarat and this had had some impact on the sales. As per the March 2006 ORG IMS MAT data from the Secondary Stockist Audit, Sun Pharma is growing at 21% and the market share is now 3.28%. Our five core therapy areas, cardiology, psychiatry, neurology, gastroenterology, and diabetology accounted for 71 % of our domestic formulation sales. We added one more therapy area where we top the list of rankings - Diabetology. The latest specialist prescription data from CMARC, places us at number one rank with psychiatrists, neurologists, cardiologists and ophthalmologists, and diabetologists.

This year, over 30 important products were brought to market across 17 divisions. 9 new products used bulk active that had been developed in-house and taken to production at our sites. We continue to actively develop technically complex products - Cernos – testosterone gel, Thymoliv - Thymosin alpha for injection, Terliz- Terlipressin and Ostospray-calcitonin nasal spray, Panlipase- Pancreatin delayed release, and a range of tablets based on mouth dissolving formulation. Among our leading products, Glucored, Pantocid, Susten, Repace group, Oxetol, Gabantin continued to register healthy double-digit growth.

Caraco's results for the year ending March 31, 2006 have been recently shared. For the fourth quarter, Caraco reported sales of USD 24.7 million up 43% and a net loss of USD 6.5 million after product transfers. Non-cash R&D charge for the quarter is at USD 14 million. US markets continue to be extremely competitive, with a large number of filings from new entrants and even complex products attracting multiple filings. This pressure on margins will likely continue, in our opinion.

Export formulations from Sun Pharma to 26 markets where we sell speciality prescription brands continue to do well. The neighboring country markets continue to report good growth for us. The neighboring countries and those in South East Asia continue to be our largest markets. Amongst important products, Lupride Depot is now being marketed in 3 important countries to a good response.

Our skills in API development and manufacture continue to add strength to our formulations business. This year, we submitted important drug master files, and scaled up technically complex products like bivalirudin, pregabalin, thymosin alpha. As we shared earlier, the acquisition in Hungary added 21 bulk actives to our product list, eight of which hold approvals for regulated markets. The tally for regulated market approvals for APIs at the end of the year at Sun Pharma is 12 DMFs approved, 12 CEP approved, and 31 DMF plus 4 CEP awaiting approval.

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

Dilip Shanghvi: Thank you Mr. Valia.

This year there are several firsts to report. We announced the demerger of the innovative part of our R&D business, which will help us focus better on world-class projects. We won our first summary judgment on a para 4 filing with Ultracet, and this was successfully launched. We completed the acquisition of Able Labs assets and intellectual property and a site manufacturing controlled substances in Hungary and creams and lotions manufacturing site in Ohio from Valeant for less than $10mill.

As Mr Valia has mentioned, these acquisitions have a different level of profitability. We have also seen solid growth across all four parts of our business. Quarter after quarter of sustainable revenues and a watch on costs seem a result of staying speciality focused and building for the long term.

As you know, this year we began with a few acquisitions and acquired the facilities of Able labs and two sites from Valeant, including the ICN Hungary plant. The facilities at ICN Hungary equip us to enter a closely held market of controlled substances with significant bulk capacity for world markets, including the US. The Ohio facility for liquid and ointments manufacturing will allow us to file new products where filing from India would be uncompetitive.

Investments in R&D continue to increase, and at the end of the year number is Rs 2029 mill, or 12.4% of net income from operations. As one of the larger spenders for R&D in the Indian pharma industry, and with progressively larger investments planned, we took the pioneering step of demerging the innovative part of our research into a separate company where we can bring in focus, resources and the flexibility for doing world class work. The demerged company, which will mirror the shareholding pattern of Sun Pharma, will have current projects in new chemical discovery and novel drug delivery systems. Worldover, it is the smaller companies that do innovative research, so size is not a constraint. I am excited about the opportunities ahead.

Caraco had reported its numbers recently, and it comfortably exceeded its revised guidance of 25-30% revenue growth for March 2006 over the year ended Dec 2004. Across Sun and Caraco, we have been aggressive in filing ANDAs, and between the two companies 44 ANDAs await approval - 7 approvals, excluding tentative approvals were received out of both Sun Pharma and Caraco sites.

Our own NCE has completed phase 1 study, and we are on track, We are also on track to file IND for 2 NDDS in the next few months, most likely 1 this quarter and one more by September. As I have said earlier, we will share more information about the R&D projects a month or so prior to listing the new company so that our shareholders can take a informed decision.

Outlook This year we made several beginnings that would give Sun Pharma a different shape in the years to come- R&D, US generics, Manufacturing. Clearly, the next year will be another year of innovating towards these goals. Broadly, we feel we are on track for sales growth of 18-20%. International business should, in our estimate reach a larger proportion of sales next year. After demerging innovative R&D, we expect generic R&D spends at 10-12% of sales, driven by increasing costs for generics filings and the filings that we will begin from the newly acquired sites without matching cash flow. Capex across all sites including R&D would be about Rs 1000 mill. Between Sun and Caraco, we expect to target 30 ANDA filings. US generics will likely remain competitive with margins under pressure for new and existing products.

I think we are quite excited about the future as we see it. 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, please press *1 on your touchtone enabled service telephone keypad. On pressing *1, participants will get a chance to present their questions on a first in-line basis. To ask questions, please press *1 now. First in line, we have…

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 may please 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 handsets while asking questions. To ask a question please press *1. First in line we have Mr. Pavan from Kotak.

Pavan : Good morning. Sir, I have a few questions, first on your guidance you said that for FY08, 18 to 20% sales growth, can you just highlight what kind of growth you are expecting in the domestic business, in formulations?

Dilip Shanghvi: I think looking at the complexity of all the businesses we have felt that it is easier for us to give the overall guidance for the business, but conceptually I think all our businesses remain in line with what we have done last year.

Pavan: So the 15 to 20% band would hold for the domestic business?

Dilip Shanghvi: Yes.

Pavan : Okay, fine. Second, this is on the generic R&D spend you said there will be 10 to 12% of sales, this includes Capex or this is just on the revenue side of R&D?

Dilip Shanghvi: That would include limited amount of Capex.

Pavan: So basically on the higher side it would still be, if the R&D spend is 10% of sales?

Dilip Shanghvi: Approximately similar to what it was this year.

Pavan: And this is after hiving off innovative R&D.

Dilip Shanghvi: That is correct.

Pavan: So you are seeing this huge jump because of these 30 ANDAs that you are talking about?

Dilip Shanghvi: Yes, we now have actually 5 new sites out of which we are now filing ANDAs.

Pavan: Okay, and on the margin front would you like to give any guidance for 2007?

Dilip Shanghvi: Generally we are not seeing any major changes in the pricing right now. Of course one is listening and seeing what government wants to do for drug pricing in India, of course the view is that it is not likely to happen because it is inconsistent with stated government policy, and also otherwise US generic business will continue to be under pressure, but we will maintain overall margins across all our businesses.

Pavan: Okay, so you will maintain the 31% number that you have for this year. Okay, then on the Q4 numbers I have few questions, I will just list them. One, if you could explain what is the breakup of financial income which you said had a one-time component of 250 million. Second, if you could explain what is this, you said, there is a non-recurring cost of 150 million in Q4, also if you could explain where exactly has it been reported, I mean, which line item. Third, if you could tell us what are the regulatory costs associated with lets us say Able and Phlox, you know, the acquisitions that you made and which would have come into Q4? And the fourth question is, you have lower API sales in Q4, I mean, if were to just look at the trend, I mean, despite the addition of the Hungary unit it seems that API sales in Q4 are low, if you could just explain these four things?

Dilip Shanghvi: I will repeat the questions so that we are clear. First you said that one-time component of income.

Pavan: Right.

Dilip Shanghvi: Second is one-time cost.

Pavan: Yes.

Dilip Shanghvi: Third you said is how much would be the Able and other facilities overheads which are not there in the previous year.

Pavan: Yes.

Dilip Shanghvi: And the fourth is.

Pavan: Lower API sales.

Sudhir Valia: One-time income is on account of various reasons. We are highlighting this one-time income with the objective that in the future you will factor these things. As for Hungary consolidation, when we talk about the costs , the way they apportion the cost overhead to the stock which they have differs from the way we do. So we have to align costs with the way we account for them do and that requires booking incurred cost which is higher which otherwise Hungary would not account for. Coming to Able as well as Phlox and other overheads which we talked about, we had earlier given certain guidance, annually around 5 to 6 million we will be incurring the losses. If we talk about lower API sales, APIs is a chunky business, and if you see the growth in the last year for first quarter as compared to the previous year, it was significantly high, and this time it is matching. But if you see this business overall on a yearly basis it is growing, and growing at around 20+ percentage, and we expect that the growth will continue.

Pavan: Okay fine, I am still not clear on this non-recurring cost and this Hungary thing that you are trying to explain?

Dilip Shanghvi: Pavan, what Mr Valia is saying is that the reason why we have said it is a one-time income is that we don't want people to start factoring this income continuing for future in their projection. And the same reason why we are giving one-time cost is because some of the line item costs this time include costs which we are not likely to see in future. Without going into too much of specific details because it will be consisting of a large number of items. As to the specific cost related to the sites which are currently operational but not contributing to current profit, I believe that last quarter our cost would be around 4 million and continuing this year at a similar rate, and that as Mr. Valia indicated in his presentation is the cost of entering new business.

Pavan: Sure. So 4 million dollars was the cost in the fourth quarter and annualized will be around what, I mean, you will continue at the current rate per quarter?

Dilip Shanghvi: I mean, we are not giving specific guidance on that.

Pavan: Okay. Thank you.

Moderator: Thank you very much sir. Next is Ms. Visalakshi from Merrill Lynch.

Visalakshi: Hi, thank you for taking my question. My question is essentially on the paragraph IV filings that Caraco has made, firstly on Exelon, you know, based on the recent filing it appears that there could be a development over the next couple of months, could you comment on that, could there be a possibility of a settlement with Novartis?

Dilip Shanghvi: I mean, that is a very speculative question and difficult to answer, but as on today we are in no active negotiation with Novartis related to Exelon.

Visalakshi: You are saying you are in active or not active.

Dilip Shanghvi: We are not in active negotiation.

Visalakshi: What is the likely development on Exelon going forward?

Dilip Shanghvi: We expect to win, that is why we filed, that is our expectation. I think we have to allow the courts to decide.

Visalakshi: Okay, and could you also give us an update on Ethyol and Protonix patent litigation, any developments going forward?

Dilip Shanghvi: We as a policy are not generally discussing litigation and the status of litigation, and none of the para IV potential revenues are part of our projections to investors.

Visalakshi: No, I was asking in terms of what are the various litigation related milestones that one should see on these 2 products?

Dilip Shanghvi: Visalakshi, what I explained is that para IV challenges have a high element of uncertainty and risk, and unpredictability. So we do not give any detailed information related to para IV and it is not part of our projections. The costs related to all the para IV challenges are part of our guidance. The revenue of potential para IV successes are not part of our guidance, and the reason is we ourselves have very little certainty of the outcome.

Visalakshi: Okay, could you highlight what has been the total litigation related spend for the last year, full year fiscal 2006, and what is the likely spend going forward?

Dilip Shanghvi: We do not break up and give separate litigation costs, but it is part of the cost that you already see in our books.

Visalakshi: Okay. On Ultracet, when is the earliest that you expect competition, now that the 30-month stay is due to expire shortly, do you see competition coming over the next 1 quarter?

Dilip Shanghvi: I think so because the 30-month stay should expire in June.

Visalakshi: In July, yes. Okay, what is the current price discount in Ultracet right now?

Dilip Shanghvi: I don't have detailed information but from what I understand Caraco has given some overall information related to the performance of Ultracet, beyond which I also don't have detailed information, but I think pricing is quite stable.

Visalakshi: Okay. I also had a question on your Q4 consolidated numbers, on the total other income of 330 million I did not get the answer that you gave earlier, what are the broad components of this 330 million other income?

Dilip Shanghvi: Visalakshi, we did not understand your question.

Visalakshi: Okay, there is an other income component of 330 million for the quarter and there is also a net interest income.Out of the other income component what are the key parts of this other income?

Dilip Shanghvi: I think what Mr. Valia indicated is that both of these put together, 330, and 366 have a component of 250 million which is non-recurring. Others you can presume to be recurring income.

Visalakshi: Okay, and this non-recurring relates to what exactly?

Dilip Shanghvi: Business related income but it is not recurring.

Visalakshi: Okay, is it a one-time income that you have received, I am still not clear, what is this..

Dilip Shanghvi: It is a one-time income that we have received as a part of business, but it is reflected as other and interest income.

Visalakshi: Okay, thank you, that answers my question.

Dilip Shanghvi: Thank you.

Moderator: Thank you mam. Next is Mr. Nimish Mehta from Edelweiss.

Nimish Mehta: Hi, good morning everybody. Can you let us know what would be the normalized growth on the domestic formulation business after taking away the VAT related issues as well as some growth due to channel restructuring?

Dilip Shanghvi: I think our overall guidance for next year for the whole company including all business is 18 to 20%, that will include domestic business.

Nimish Mehta: Yes, but for the quarter what would be the normalized growth that you must have reported?

Dilip Shanghvi: I think we had some 50%...

Nimish Mehta: 52% is the number

Dilip Shanghvi: Correct. So what you are asking is that if last year there was no VAT and then on that what would have been the growth, is what is the question?

Nimish Mehta: Yes, and I assume there is some trade related restructuring that you have done because of which also there is some growth.

Uday Baldota: That is 10 to 15% Nimish, that I think we have already shared.

Nimish Mehta: Okay, and if you were to take out the VAT related component then?

Uday Baldota: We had said last time that VAT related sales that could have got impacted would be about 30 to 40 crores.

Dilip Shanghvi: 30 crores.

Nimish Mehta: 30 crores so…

Sudhir Valia: That pertains to last quarter last year.

Nimish Mehta: Okay, so we basically add 30 crores to last quarter and find out growth?

Dilip Shanghvi: Also what we have said is that there would have been some impact because of the new VAT introduction in some states this year.

Nimish Mehta: Okay. My other question is related to the US market, how many products roughly do you expect this year to be launched between Sun and Caraco both?

Dilip Shanghvi: Difficult to answer that question about likely launches, what we have said is we have 44 products awaiting approval, and this year we plan to file around 30 new products.

Nimish Mehta: But no guidance on the number of products to be launched?

Dilip Shanghvi: No.

Nimish Mehta: Okay, and finally on the Able Laboratories, you mentioned that annually it incurs a loss of about 5 to 6 million dollars, will you be expecting this to turnaround in this year or how is that going to be moving forward?

Dilip Shanghvi: Once we start getting approvals for products.

Nimish Mehta: Approvals of products from that facility?

Dilip Shanghvi: Right.

Nimish Mehta: And when do you expect the product approvals to happen roughly?

Dilip Shanghvi: Within 18 months.

Nimish Mehta: Pardon?

Dilip Shanghvi: 18 months.

Nimish Mehta: 18 months.

Dilip Shanghvi: Right.

Nimish Mehta: Okay, and you are not sharing the litigation cost but whatever it is, do we expect that to go up significantly for FY07 because of the enhanced number of para 4s now?

Dilip Shanghvi: I think it is part of our guidance for overall margins and overall costs.

Nimish Mehta: Your guidance is related to sales sir.

Dilip Shanghvi: It is also related to net margin.

Nimish Mehta: Net margin guidance, can you repeat that, I am sorry if I have missed that.

Dilip Shanghvi: We feel that we will be able to maintain margins.

Nimish Mehta: Maintain EBITDA margins or net margins?

Dilip Shanghvi: EBITDA margins.

Nimish Mehta: Okay. And in this guidance of margin you expect the domestic market to remain stabilized in terms of margins, so you don't expect any pricing pressure coming in domestic market, right?

Dilip Shanghvi: That is correct. As of now we don't expect any pressure.

Nimish Mehta: Okay. Thank you very much.

Moderator Thank you very much sir. Next is Mr. Jesal Shah from JP Morgan.

Jesal Shah: Hi. The first question actually is on the fourth quarter domestic business, I was still not very clear in terms of what is the underlying growth, because there are two things that we need to exclude, right, one is the VAT effect and the other is the effect of the change in the distribution channel. So if you do both these then what would be the underlying growth in the fourth quarter in the domestic formulation business?

Dilip Shanghvi: I think our overall guidance is domestic business will grow at around 15 to 20% for the year and we are in line with that guidance.

Sudhir Valia 21% growth has been shown as per data from the ORG for March 2006.

Jesal Shah: Right. But the question was actually on the fourth quarter, not so much on the guidance. The growth which you have reported is 52%, so if I were to take that because it is very difficult for us when we make the adjustment, you know, because of variety of reasons.

Sudhir Valia: Jesal, that is why I replied that 21% for the quarter only, ORG has shown the growth.

Dilip Shanghvi: There are too many one-time events.

Jesal Shah: Okay.

Dilip Shanghvi : Because you have to take out last year's number then you have to normalize for this and again you have to take out this year's VAT impact because there are 3 to 4 large states which have introduced VAT this year.

Jesal Shah: Right.

Dilip Shanghvi : So that also would have some impact.

Jesal Shah: Right, okay.

Dilip Shanghvi: But I think our business continues to grow at a more or less consistent rate.

Jesal Shah: Right, and when you say the next year 18 to 20% growth, which are the, drivers I mean, from your business perspective which are the main things that will really drive the growth for the entire company next year, what is that you are looking forward to for the next year or so?

Dilip Shanghvi: I think across all parts of our business we expect to do well, domestic formulations business, US generic business, exports out of India and bulk active business. All businesses will contribute to the growth and we are not seeing any dramatic or any significant change in any of those businesses. Exports this year in this quarter appear to be low but underlying business growth of formulation in export also is doing quite well.

Jesal Shah: Right, the other thing is if your underlying growth in the domestic business is going to be, between 15 to 20% , even for next year, but the reported growth may not appear that high simply because of the base effect for the current year because of both the VAT of the last year as well as the accounting changes, isn't it?

Dilip Shanghvi: I did not understand the question.

Jesal Shah: No, no, the question was that when you talk about 15 to 20% growth in the domestic formulation business I guess that pertains to the underlying momentum rather than the accounting thing because 15% on a large fiscal 2006 base which itself has been so high because of the fiscal 2005 being so low because of negative effect of VAT. So that is helping the fiscal 2006 number as well as the accounting change or the distribution change which has led to additional 10 to 15% growth in fiscal 2006.

Dilip Shanghvi: Right.

Jesal Shah:So when you say 15 to 20, does that take into account the higher base because of these two...

Dilip Shanghvi: No, I think, when we are saying 15 to 20% growth we are talking of 15 to 20% growth over normalized business.

Jesal Shah: Right, understood okay.

Dilip Shanghvi: I think because of all of these one-time effects or the aberrations in the numbers what we are saying is that this year we are giving an overall guidance on the sales, 18-20% is what we are expecting for the next year.

Jesal Shah: Right, right. Just moving to US market you said the US business margins to remain under pressure, is that right?

Dilip Shanghvi: That is correct.

Jesal Shah: Right, so you are not seeing any specific product approval really coming through from your injectables or nasal sprays which can actually help improve margins in the US rather than putting it under pressure.

Sudhir Valia: To maintain the overall margins all this will be a part of the game**,** and in the US business the competition is increasing, that still does not mean that company cannot perform better. It is the overall scenario that one has to factor in and pricing is under pressure.

Jesal Shah: Right. Well, I am not sure if you have given any specific guidance for the US sales, have you given any?

Dilip Shanghvi: No.

Jesal Shah: Okay. Would you like to give anything now?

Dilip Shanghvi: No.

Jesal Shah: Okay. Just a last thing on the US business was, for the fourth quarter which has just ended in Caraco, could you give us some idea about what is the debtors position as on date?

Dilip Shanghvi: I think we will get those details once 10K filings are done.

Jesal Shah: Right.

Dilip Shanghvi: I mean, we don't think that there is any major change.

Jesal Shah: Right. No, the reason I was asking was, you know, also connected to that is the other question on the gross profit for Caraco on a sequential basis has increased by 2 million, whereas the turnover has increased by about 4.5 million, so the incremental gross margin, I know, this is not the right way of looking at it, but you know if you look at the incremental sales and the incremental gross profits it indicates incremental gross margins of 50%. So I guess given that Tramadol has had decent pricing scenario, and therefore should enjoy higher margins do you think there has been some additional pressure that you are seeing in your base products in the US?

Sudhir Valia: That has already been indicated by Caraco in the press release in terms of pricing pressure.

Dilip Shanghvi: No, I think overall margin is ultimately a function of profitability of different components.

Jesal Shah: Right.

Dilip Shanghvi: So if the assumption is that if there is a growth of a high margin product, and the overall margin has come down then mathematically margins on other product should have come down and that is logic and mathematics.

Jesal Shah: Right, okay. So just on DPCO front, again I understand what you said that it is not yet a done thing and you know it will not be passed in its present form, but have you kind of, I am sure you must have done some analysis on if it were to be passed in this present form what kind of impact do you think it could have?

Dilip Shanghvi: We have not actually done detailed analysis of the impact, but it will not be something that we cannot live with.

Jesal Shah: Okay, even if it is passed in the current form. Okay, and of the 155 crores that has been spent on your revenue R&D spends in fiscal 2006, how much would have been spent on the innovative R&D?

Dilip Shanghvi:I think in general, my sense is around 35 to 40%.

Jesal Shah: So 35% of 155.

Dilip Shanghvi: Yes.

Jesal Shah: So about 50 odd crores.

Dilip Shanghvi: Yes, correct.

Jesal Shah: And that would have been spent on essentially clinical studies?

Dilip Shanghvi: Also for all the groups supporting those work.

Jesal Shah: Right. Okay. Thanks so much.

Dilip Shanghvi: Thank you.

Moderator: Thank you very much sir. Next is Mr. Prashant Nair from Citigroup.

Prashant Nair: Hello.

Dilip Shanghvi : Yes.

Prashant Nair: Just 2 very brief questions, what is the cash on your books at the end of the financial year? Hello.

Dilip Shanghvi: Yes, just a moment. Around 450 million dollars.

Prashant Nair: Yes. Okay, the other question was related to the 150 million one-time expenditure that you booked in the fourth quarter, booked under a particular head or is it spread across various expense heads?

Sudhir Valia: Basically it is valuation of the inventory because of the difference in the way they do accounts and we do it, because of the differences in allocation of overheads.

Prashant Nair: All right.

Dilip Shanghvi: Yes.

Prashant Nair: That answers my questions. Thanks.

Moderator: Thank you very much sir. Participants who wish to ask questions may please press *1. Next is Mr. Ravi Shenoy from Birla Sunlife.

Ravi Shenoy: Good morning sir.

Dilip Shanghvi: Yes, good morning.

Ravi Shenoy: Sir, some basic questions regarding your US business, how many molecules would you have as of now in the market?

Dilip Shanghvi: 20 plus.

Ravi Shenoy:20 plus.

Dilip Shanghvi: I mean, we need to wait for Caraco to give the numbers but we have I think 20 plus approvals.

Ravi Shenoy: All of these would be in the market as of now?

Dilip Shanghvi: That is correct, yes.

Ravi Shenoy : Okay. These 44 products for which we are awaiting approval, any indication of market size there sir?

Dilip Shanghvi: Currently we have not given those details.

Ravi Shenoy: Okay, any injectables in these sir?

Dilip Shanghvi: There are.

Ravi Shenoy: Any specific proportion there?

Dilip Shanghvi: No.

Ravi Shenoy: Okay. Thank you sir.

Dilip Shanghvi: Thank you.

Moderator: Thank you very much sir. Participants who wish to ask questions may please press *1. Next in line is Ms. Jyothi from Hindu Business Line.

Jyothi: Yes, good morning Mr. Shanghvi. Just wanted to know, you have said that the de-merger process is on track and you have also indicated research spend for the generic side, just wanted to know what is the research spend for the innovative side that you see, and in terms of listing you had indicated that you would go for listing, just wanted to know any projections, that is one part? And the second part is, you have got the clearance in the US for gabapentin, when do you see yourself launching and what is the competition like there?

Dilip Shanghvi: We will share the details related to the R&D spend of the innovative part once we give details of products and the status of different projects, but that is a cost related to a different company so we are not giving that guidance right now. As to gabapentin, I think, we hope to be able to launch that in near future.

Jyothi: You don't want to give a specific timeframe?

Dilip Shanghvi: No.

Jyothi : Okay. Thank you.

Dilip Shanghvi: Thank you.

Moderator: Thank you very much mam. Participants who wish to ask questions may please press *1.
Participants who wish to ask questions may please press *1. At this moment there are no further questions from participants. I would like to hand over the floor back to Mr. Uday Baldota for final remarks.

Uday Baldota: Thank you very much everyone for all your questions and for joining us on this call. Thank you and have a good day.