Sun Pharma Q3 2005-06 Results Conference
Call Transcript
9 am January 31,2006

Corporate Participants

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

Sudhir Valia
Wholetime Director, Sun Pharmaceutical Industries Ltd.

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Moderator:

Good morning ladies and gentlemen. Welcome to the Sun Pharma earnings conference call. I am Monali, 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 third quarter earnings conference 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 discuss the performance and developments on strategy. We hope you have received the third quarter and nine months financials and press release, sent out yesterday evening. These are also available on our website. Our third quarter numbers are unaudited numbers and for Sun Pharma, limited review has been done by our statutory auditor. For ease of discussion, we shall look at consolidated numbers for the quarter and nine months. 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 corpcomm@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 third quarter and nine-month period. 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, two special mentions. Last call, I had spoken about Caraco's first para 4 win . Subsequently, Caraco received an FDA approval for generic Ultracet in December and has launched the product. We are quite positive on its potential.

On the manufacturing front, our Indian site at Halol received USFDA approval for injectables and nasal sprays areas; this should hopefully translate into some product approvals over the next few months.

I will now hand over to Mr. Valia.

Sudhir Valia:

Good morning everybody. Our Q3 and nine month numbers are with you - 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 period also include the recent acquisitions, which of course are not included in the previous period. There will be regrouping of some figures to align with current period numbers.

For the current quarter, net income from operations is at Rs 4343 million, an increase of 33% over the corresponding quarter last year. For the nine months, net income from operations grew to Rs12542 million from 9147 million, up by 37 % over the corresponding period last year. This reconfirms the strength of the underlying business.

Net profit after minority interest for the quarter is up 37% at Rs. 1464 million from Rs. 1070 million. For the nine months to December, net profit margin is 32.9 % against 30.4% for the same period last year, even after completing some acquisitions.

The net interest income was Rs.185 million for the period against net interest expense of Rs.45 million last year, on account of the FCCB funds parked with the banks.

Our recent acquisitions contribute some sales to the consolidated numbers but have near matching costs thus not contributing to the bottom-line in the near term. Similarly, we will continue to incur operational costs including staff and overheads at our New Jersey site till revenues build from product launches. These investments and the consequent costs in the interim are part of our strategy of entering new businesses. 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 quarter, material cost as a % of net income from operations is up to 25.3% from 21.7%. As we've said earlier, this is primarily on account of the different cost structure at the acquired sites and pricing pressure in the US market. Caraco is integrated for 6 of its key products and to that extent it is better placed to tackle pricing erosion.

Staff costs are up from 9.3 % to 10.8%. of net income from operations in the same 3 months period.

Indirect taxes, excluding excise duty, as a % of net income are down from 3.7% in the earlier 3 months to 2.4% in the current 3 months.

In the third quarter, R&D expense increased 67%, from Rs 386 mill to Rs 645 mill.

Provision for taxes for the quarter is at 4.5% of profit before tax, marginally higher than 4.2% in the earlier period. Here I'd like to mention that for standalone, the tax provision is higher because of deferred tax reversal in one of our associate companies.

On a fully diluted basis, EPS for the first nine months is Rs 20.8, up from Rs 16.0 the same period last year.

Now for a closer look at the operations.

Domestic formulations continues to show good momentum. Domestic formulation sales for the period have grown 34% this quarter over same quarter last year, while 38 % over corresponding 9 month period. As per the November 2005 ORG IMS MAT data from the Secondary Stockist Audit, Sun Pharma is growing at 13% and the market share is now 3.27%. Our five core therapy areas, cardiology, psychiatry, neurology, gastroenterology, and diabetology accounted for 70 % of our domestic formulation sales. The latest specialist prescription data from CMARC, places us at top rank with psychiatrists, neurologists, cardiologists and ophthalmologists.

So far this year, 28 important products were brought to market across 17 divisions. 8 new products used bulk active that had been developed in-house. We continue to actively develop technically complex products - Cernos – testosterone gel, Thymoliv - Thymosin alpha for injection, Terliz- Terlipressin and a range of tablets based on mouth dissolving formulation. We will continue to bring in interesting new products for the rest of the year. Among our leading products, Pantocid, Susten, Repace group, Oxetol, Gabantin continued to register healthy double-digit growth.

Caraco's results for their quarter ending December 31, 2005 have been recently shared. For the third quarter, ie the quarter ending 31st December 2005, Caraco reported sales of USD 20.7 million up 24%, a net loss of USD 0.7 million after product transfers and net cash from operations of USD 4.6 million. US markets continue to be extremely competitive, have witnessed interesting consolidation while Caraco continues to report good numbers. This pressure on margins both on account of increasing consolidation and new entrants 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. Of the markets in which we have recently established a presence- Mexico, Columbia, South Africa and Nigeria continue to grow well. .

As we continue to sell greater proportions of speciality bulk actives to regulated markets, the consistency of customer orders flows to the bottomline. In the first nine months we worked on 18 drug master files, and scaled up

technically complex products like pregabalin, testosterone,gemcitabine , After the acquisition in Hungary, we added 21 bulk actives to our product list, eight of which hold approvals for regulated markets. In addition, at Sun Pharma we now have 8 DMFs approved, 10 CEP approved, and 24 DMF plus 6 CEP awaiting approval. The ability to source key bulks like metoprolol and metformin has helped Caraco compete better in an intensely competitive market.

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

Dilip Shanghvi:

Thank you Mr. Valia.

As you know, this quarter saw the completion of the acquisition of Able Labs assets and intellectual property for USD 23 million, adding to the two acquisitions that we had completed in the half year. As Mr Valia has mentioned, these add to the topline, and have a different level of profitability. We have also seen solid growth across all four parts of our business. Quarter after quarter of strong revenues and a tight handle on costs do seem a result of staying speciality focused.

With the Able lab assets, we added capacity for controlled substance manufacturing which would have cost about USD 45 million if we began from scratch, not counting the time requirement. The facilities at ICN Hungary, have enabled us to enter a closely held market of controlled substances at a reasonable investment, and with significant bulk capacity for world markets, including the US. At the Ohio facility for liquid , ointment and cream manufacturing we will shortly begin to file new products where filing from India would be uncompetitive.

We are in line with our intent of becoming more international and an increasingly formulations driven company. In the first nine months, our international business has grown 41% and now comprises 38% of sales, up from 36% in the same period last year. Our total formulation sales grew at 36% and now constitutes 84% of sales marginally up from last year.

Investments in R&D continue to increase as we create intellectual property for the long term. At the two new research centers, we continue to add lab areas as we commission newly constructed space and add people, particularly in new chemical discovery and novel drug delivery systems. You would have noticed R&D spend in excess of 10% for the nine month period in line with 10-11% for the year as shared with you earlier. It is important to note that we have maintained margins while increasing R&D investment.

Caraco has reported its numbers recently, and exceeded its guidance of 15-20% revenue growth for calendar 2005 as they had projected. Caraco has raised the guidance for year ending March 2006 to 25 – 30% growth on calendar 2004 thus reflecting a strong confidence in the quality of revenue stream. Across Sun and Caraco, we have been aggressive in filing ANDAs. Till June between Sun and Caraco, 26 ANDAs were awaiting approval. The number cumulative to December for both the companies is 38. This includes a mix of products, para 3s, some para 4's and some difficult dosage forms. So we are building for a dependable revenue stream as well as a likely upside.

With our own NCE which has completed phase 1 study, we expect to open the IND number in the next quarter, most likely in the next 1-2 months. We are also on track to file IND for 2 NDDS in the next few months, most likely 1 next quarter and one more after that. As I have said earlier, we expect to share specifics of R&D projects once these clear phase 2 or thereafter.

At Sun Pharma we have tried to blend strategy and opportunity, while protecting and growing shareholders money. The recent Able Labs asset acquisition was an example of this amalgam. Entry into the controlled substance business will be facilitated by this acquisition made at a very sensible investment. As we have stated in the past, we continue to look for more opportunities in the US.

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…

Q&A

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 your first-in-line basis. Participants are requested to use only handsets while asking questions. To ask a question, please press *1. First in line, we have Mr. Ajay Sharma from CLSA.

Ajay Sharma:

Good morning. For a fantastic set of numbers congratulations. Two questions, first is on the nasal approval and injectables, what is the timeline for the approval from FDA and more importantly will these products be launched in FY 07?

Dilip Shanghvi:

Inspection was a pre-approval inspection, which means that as the facility has been cleared for GMP, now depending on the chemistry as well as the biology review, the products will get approval. I expect approval within the next few months, but it is difficult to predict a specific timeline.

Ajay Sharma:

What I wanted to ask was whether the product was under litigation or you would be able to launch on approval?

Dilip Shanghvi:

Yes, we would be able to launch at least one product on approval.

Ajay Sharma:

And is that an injectable?

Dilip Shanghvi:

Yes, we have actually got preapproval for injectable and nasal spray area, so there are injectables and nasal spray products for which the facility was pre-inspected.

Ajay Sharma:

And one small question on the two acquisitions you have made. Mr. Valia was mentioning that there is some cost increase despite that margins have been maintained. Could you give an estimate of how much is the cost increase, in say how many crores per quarter and when does the revenue benefit start kicking in from these?

Sudhir Valia:

See for the current quarter, we having done acquisitions in 3-4 countries - if I put it in words…Phlox is one, MJ Pharma which we acquired is 2, which is in India, and outside India there is the Hungary site, then the Ohio facility as well as now the Able factory in New Jersey.

Considering all these facilities will take time to turn around and get operational and show profit for the current year, for whole of this year, the expenditure is expected to the extent of $4-5 million which is a hit we have to take before we see some gain coming from these operations.

Ajay Sharma:

$4-5 million is for the year?

Sudhir Valia:

Yes.

Ajay Sharma:

Okay, thanks a lot.

Moderator:

Thank you very much sir. Next in line is Mr. Madhusudan of Citigroup.

Madhusudan:

Just continuing on the question, could you give some timelines on when these facilities will start to actually produce- both the Able Pharma site and the Hungary acquisition.

Sudhir Valia:

For the Hungary acquisition we aspire to be cost neutral in about one to one and a half years from now.

Madhusudan:

So, what you are saying is that it will be in full operation by that time?

Sudhir Valia:

No, it is operational, it is very well under control, but for a turnaround we should not have any losses. We still have to work and take necessary approvals from the regulated market where we can sell the product with higher value addition. So those locations will require at least a year to be earning positive.

Madhusudan:

Okay and what about Able Pharma?

Sudhir Valia:

The Able facility will take about 18 months minimum because we have to start filing products from now and maybe for some of the site changes or something which we are able to get ,then I guess it is 12 months, but 18 months from now would be more practical.

Madhusudan:

Okay, sir question on your domestic market. What is the realistic growth that you have done in this quarter?

Dilip Shanghvi:

I think we are in line with projections, and as we have shared earlier our topline includes a 10-15% increase in topline without any bottom line on account of distribution readjustment, but underlying business is growing in line with our projection of between 15-20%.

Madhusudan:

Okay, it is more like you have done 20-25% this quarter end?

Sudhir Valia:

Slightly more than 23.

Madhusudan:

Okay and sir could you give, when you say R&D expenditure for the full year will be 10-11%, should we expect a bit of a jump in the last quarter then?

Dilip Shanghvi:

I think last quarter our R&D spend actually was more than 11% because in the earlier quarter, our overall R&D spend was around 7% which cumulatively because of the increase has reached 11%; actually it was around 14.5%. So it may not be the same or but may be also same, it is very difficult to predict, but we are in line with the overall guidance that we have shared with you, 10-11% R&D spend.

Madhusudan:

Okay, and sir can you talk about the two NDDS products that you had actually disclosed in the annual report last year, where they are in terms of the regulatory markets?

Dilip Shanghvi:

Progress you mean.

Madhusudan:

Yes.

Dilip Shanghvi:

Actually those are not NDDS projects. Those are different from what we call NDDS projects. Our NDDS products are innovative products, which are different from any product available internationally. Whereas these two products that we have shared in our annual report last year are equivalent to some products marketed internationally. We plan to file this product as a generic product and plan is to file within I think 12 to 15 months, but it is difficult because as we learn more and more, the complexity makes it difficult to give a specific timeline, but we are working towards filing them internationally.

Madhusudan:

Sir, one final question. What is the total cash that you have on books now after concluding this acquisition and this result?

Dilip Shanghvi:

US Dollars 425 mill or some such number.

Madhusudan:

Thanks a lot and all the best sir.

Dilip Shanghvi:

Thank you.

Moderator:

Thank you very much sir. Next is Mr. Rajesh from ICICI Securities.

Rajesh:

Good morning, Mr. Shanghvi and Mr. Valia. Congratulations for very good set of results. Quite impressive in terms of your stepping up of investments in R&D, it is quite heartening. Would you be able to throw some light on the split between what you have spent on generic and NCE, may not be on quarter, but otherwise on nine months also should be okay.

Dilip Shanghvi;

We actually do not have specific numbers that we can share with people right now, but we are in the process of compiling that number, so maybe we will be able to share it with you in the next conference call.

Rajesh:

Sure. In terms of what is the single most factor for sharp increase in R&D expenditure which I think considering your very solid discipline on investment and return on capital employed is obviously positive, so what is the single factor that is driving the R&D, is it the clinical trial cost related to NC and NDDS program, or is it something else.

Dilip Shanghvi:

I think it is the NCE and NDDS program, which would be growing faster than the generic filings, but we also we have stepped our filing significantly, so that also would be contributing to increasing spend.

Rajesh:

Okay, and any color on any guidance for next fiscal year as of now?

Dilip Shanghvi:

No, I think we will share it at the beginning of next year.

Rajesh:

Okay, and a last question for Mr. Valia. Under the head of the other operational income, you have a item called Others which shot up from Rs. 4.4 crores to about Rs. 12.6 crores, any particular reason?

Sudhir Valia:

Basically this is in international business, that is, in the Sun Pharma Global. We have income on account of activity being carried out there, because it is mainly an investment activity that they are doing, and that is not the sale purchases we account for and that income is this.

Rajesh:

So it is more like financial income.

Sudhir Valia:

Yes, the FCCB money has been parked some of it directly and some of through a vehicle so that we minimize our tax liability.

Rajesh:

Sure, so it would be fair to combine that into maybe interest income or something like that.

Sudhir Valia:

It is of the same nature , in another way.

Rajesh:

Sure, thank you so much and all the best.

Dilip Shanghvi:

Thank you.

Moderator:

Thank you very much sir. Next in line is Mr. Pawan from Kotak.

Pawan:

Congratulations for the great numbers. Sir I have a question. I am sorry if I missed this earlier. On your two NDDS projects that you have spoken, you hope to file in the US in Q2, I mean earlier you were responding, can you please explain what is it?

Dilip Shanghvi:

Actually what I was trying to explain was that in our annual report last year, we have talked about two products involving complex technology that we have used for developing generic equivalents of international products.

Pawan:

That you launched in India?

Dilip Shanghvi:

That we have launched in India and in some other unregulated markets, and we are planning to file as generic with US and Europe within a short period. The NDDS program is different from those products and those products as I talked in my presentation, we will be filing some time in next two quarters.

Pawan:

And then you directly move to Phase 2 trial?

Dilip Shanghvi:

We might actually move into Phase 3 directly.

Pawan:

Okay and when do you think you would be able to launch it in the US market? Give a range, bullish case and conservative case or something like that?

Dilip Shanghvi:

Earliest we can project.. if we put some..

Pawan:

Okay, earliest is what -that is fine.

Dilip Shanghvi:

It may take us let us say one and half year to finish the trials and maybe six months to compile the results and then we file and it will take one year for approval.

Pawan:

So basically three years is the earliest that you reach there.

Dilip Shanghvi:

Three and half years I think.

Pawan:

And what do you anticipate would be the cost of this filings, I mean is it going to be big or is it going to be factored into our normal growth for R&D expenses?

Dilip Shanghvi:

I think it is an important question. The overall spend for clinical trials for the products as they go into clinical development is going to be significant and it would not be in line with our growth in the underlying business, so for a short period of time, it could have an impact.

Pawan:

Sure, and the other thing I wanted to understand , more in a qualitative term, you have made so many acquisitions mostly plants, facilities, and if I were to look at the capacity which is still idle, the Hungary plant still needs to add to our top line, I do not know whether it is fully utilized or not, now we have acquired also in the US, so broadly if I were to just now take the total consolidated capacity of the company, how much is utilized and how much is still not utilized, broad number or is it a difficult number?

Sudhir Valia:

No, it is not an issue because when we say utilization, it could mean different things. Suppose we file all the products for US out of MJ facility, the plant is extremely underused and they have been inspected and the site approval is there, but it will not go into commercial production till I get the product approval. I understand you appreciate what I mean that the utilization in terms of the capacity if you see then it is marginal, but yes it is definitely regular because the new products are still coming up continuously. So in fact there is a situation where we have to line up that this product is under process, then we cannot do other one at that time because of the occupancy of the equipments, so we are looking at the occupancy as the criteria, then new acquisitions like occupancy is more than 50% and existing old facilities it is as high as 85 to 95%.

Pawan:

Okay sir, finally on very broad basis are you comfortable on outlook of let's say 20-25% top line growth of next two to three years?

Sudhir Valia:

Now we know which target number you are now talking about, but we cannot discuss on those at the moment.

Dilip Shanghvi:

We will give our guidance for next year and our outlook when we have that clarity, but we are quite excited about the future. We feel that we have put in place organizational capacity and structure to fully exploit future opportunities and that should make Sun Pharma a much bigger company going forward.

Sudhir Valia:

I can only comment that capacity will become a constraint for the growth at the company.

Pawan:

No, I was looking at it as an opportunity.

Sudhir Valia:

I understand because the Hungary acquisition itself has such a large reaction capacity that if you add up all four of our domestic bulk locations and the fifth one Phlox, it equals that.

Pawan:

Okay, thank you so much and very best wishes for the future.

Moderator:

Thank you very much sir. Participants who wish to ask the questions may please press *1. Next in line is Mr. Jesal Shah from JP Morgan.

Jesal Shah:

Yes, good morning everybody. My first question actually is on the numbers front. If you can just explain the effect of Phlox acquisition in last year's numbers, how it is affecting the numbers and how the numbers have been changed from what you had reported last time?

Sudhir Valia:

Phlox was merged from 1st March 2004, as it is retrospective in terms of the order given by the court which was July 2005. All the expenses incurred in that location were regrouped accordingly and if you see the profitability it went down by about Rs. 2-3 crores on this account.

Jesal Shah:

Right, if I look at that turnover in fact has actually decreased, isn't that from Rs. 336 crores to about Rs. 335 crores.

Sudhir Valia:

There is a marginal change because of inter unit sales which we have knocked off, earlier these were accounted for as a sale. Intercompany sales we used to knock off as per the guidance or as per the standards for consolidation, but inter unit bulk drug supplies to the formulation units,now that sale also has been knocked off.

Jesal Shah:

So, wasn't that knocked off in the third quarter of the last year when you were reporting?

Sudhir Valia:

No, at that time we were not doing that.

Dilip Shanghvi:

Jesal, if you remember we did share in one of the conference calls that we had started doing this.

Jesal Shah:

Right, I agree, but so if you can just give some idea about how much would be the Phlox turnover in the last year third quarter?

Sudhir Valia:

At Phlox there is hardly any sale because it is yet to turnaround. We have to complete all the regulated market compliance and redevelop some products. At Phlox, currently the development work of the sterile facility is going on , so Phlox will be ready in anything like 6 months from now.

Jesal Shah:

Fine, so you saying Phlox didn't have much turnover to add in the last year third quarter?

Sudhir Valia:

No, not at all.

Jesal Shah:

Okay, then what about the other items which have also changed like the staff cost has increased or the excise duties have increased?

Sudhir Valia:

These are all the expenses which they are incurring for refurbishing , running expenses; because to put into place a plant which has not been used for more than two and a half to three years, a lot of revenue expenses which in nature is like capital have to be incurred, also costs related to repair, so expenses have been heavy during this period.

Jesal Shah:

Right, but the excise duty has also gone up, like from Rs. 22 to Rs. 33 crores.

Sudhir Valia:

No- there is something we need to look at, we cannot have this much of excise duty reduction.

Jesal Shah:

So maybe I have got the numbers wrong?

Sudhir Valia:

No, I don't think you have any wrong numbers, but where are you reading that number? I would like to see if you are looking at this standalone as a company or looking at consolidated numbers

Jesal Shah:

No, I am just looking at consolidated numbers, this time the excise duty burden is Rs. 33 crores, is that right?

Sudhir Valia:

We have never had a burden of excise duty like Rs. 33 crores.

Jesal Shah:

Okay.

Sudhir Valia:

Are you talking of Rs. 33 crores decrease in stock?

Jesal Shah:

Okay, no this is including the other indirect taxes.

Sudhir Valia:

Sales tax and all indirect taxes when you talk about, then indirect taxes of Rs. 22 crores is the last we have reported.

Jesal Shah:

Right, and this time it is Rs. 33 crores or Rs. 34 crores. Last time, you had reported Rs. 22 crores; this time, it is 20.7 plus 12.2 crores

Sudhir Valia:

One more thing- excise duty has never been taken as a part of sales in the past and since now we have taken it as a part of sales in the inter unit, the same is taken as the cost.

Jesal Shah:

Right, so from when did you change that policy?

Sudhir Valia:

We changed this after March 2005.

Jesal Shah:

From March 2005?

Sudhir Valia:

Yes.

Jesal Shah:

Okay, so meaning the turnover numbers that we are seeing now…

Sudhir Valia:

If you see the profit, except the Rs. 2-3 crores which was incurred because of Phlox, there is nothing different.

Jesal Shah:

Right okay, so what about the other acquisitions which you made, particularly the Hungarian one and the Able one. Hungarian I am sure is fully consolidated and you were reporting some Rs. 10 crores per quarter turnover the last time.

Sudhir Valia:

See- for the Hungarian acquisition there is nothing that is retrospective, from 9th August onwards it became a part of Sun and as per accounting standards, it has to be merged in the operations from that date. Before that date, we have to put costs as the cost of acquisition. Whatever is the profit or loss that is incurred from the 1st of January (because they had December ending) up to August 8th is accounted for as cost of purchase. And after that operational expenses or income whatever are part of the numbers that they report for this December ending and thereafter it will be having quarter ending in March and from then onwards it will coincide with our accounting.

Jesal Shah:

So, in the second quarter, you had booked about Rs. 10 crores of revenues, so I guess that would entail also the expenditures pertaining to the previous period starting from December.

Sudhir Valia:

No, that expenditure of the previous period before we bought the company is not at all a part.

Jesal Shah:

Okay.

Dilip Shanghvi:

The reason why we have to restate the numbers is because the court order says that the merger of Phlox is effective from retrospective effect, so we have to restate the previous year's numbers. Post acquisition of the Hungarian operations we only have to plan and integrate into the future numbers. It does not change the previous number.

Jesal Shah:

No, I was just trying to get some idea from the current quarter what has been the effect of the acquisitions, not so much for the last year, but for the current quarter like Hungarian acquisition and Able, I was not very clear. Hungarian obviously was getting consolidated even in the preceding quarter which was the second quarter of the current year, but Able I am not very clear from which date it is getting consolidated.

Sudhir Valia:

If you look at the date of the Able acquisition then it got completed only in the end of December. Somewhere like 23rd or some such date or 22nd so whatever is the preoperative things before we do acquisition in terms of legality and all, it has been accounted. There is no business at all there. We started recruiting the people. So it is only 7-8 days transactions which is accounted for.

Jesal Shah:

Right, basically you would have some expenditure and which is what to an earlier question you said $4-5 million of expenditure?

Sudhir Valia:

Which we will incur as a matter of investment before we see some turnaround.

Dilip Shanghvi:

But that's for all facilities combined together.

Jesal Shah:
Fine,
The Hungarian, Ohio, and Able one.

Dilip Shanghvi:

Yes, and also Phlox and MJ

Sudhir Valia:

In MJ we will see a faster turnaround now because the USFDA approval is there.

Jesal Shah:

Right, but obviously you also have the turnover coming in from Hungarian business, right?

Dilip Shanghvi:

Yes, but no profits.

Jesal Shah:

Okay, just moving to this approval of and launch of Ultracet generic product, if you can give some idea about what kind of market share you are seeing and what kind of price erosion you are seeing?

Dilip Shanghvi:

I think what Caraco has shared with investors is that in the first few days that they got to sell the product, they have done something $0.8 million and they hope to get some respectable market share, but I have no additional information which I can share.

Jesal Shah:

So, this $0.8 million sales that they have reported, I guess that it would represent certain months' sale or would it be.

Dilip Shanghvi:

Difficult for me to answer I think but it will not represent certain months sale. I mean I will not know the answer.

Jesal Shah:

Do you have any sense on what the pricing is like in that product now or you say respectable market share, does that mean 20% is that respectable.

Dilip Shanghvi:

It is difficult I think I cannot share anything more than what Caraco has shared.

Jesal Shah:

Okay, sir just moving to the ANDA number that you have talked about, you said 26 ANDAs sometime last year and when you said 38 how is that not very clear about how many ANDAs you have filed in this quarter for both the companies and year-to-date for both the companies.

Dilip Shanghvi:

We have filed between June and December 14 ANDAs, 38 because we got two approvals in Caraco in the meantime. Last quarter, I think we filed between Sun and Caraco something like three or four ANDAs.

Jesal Shah:

So this is June 2004 you are saying?

Dilip Shanghvi:

June 2005. So we filed many products between June and September.

Jesal Shah:

Okay, so I guess that mathematically gives me about 10 products which you filed in June to September.

Dilip Shanghvi:

Absolutely.

Jesal Shah:

Okay, and for these products which you talked about, the injectables and the nasal sprays, are you like integrated fully with the bulk on those products?

Dilip Shanghvi:

We may or may not be. I am not very sure because there are many products and I remember that we are definitively not integrated for some products.

Jesal Shah:

For the products that you hope to get approval?

Dilip Shanghvi:

So I think what you are trying to do is identify which product that we have filed, but that is not easy.

Jesal Shah:

Okay, so I guess that you do not have the bulk for the products which you expect to get the approval this year.

Dilip Shanghvi:

Yes.

Jesal Shah:

Okay, Yes that's about it, thanks so much.

Dilip Shanghvi:

Thank you.

Moderator:

Thank you very much sir. Next is Mr. Manish from ING.

Manish:

Just wanted to get two numbers; one is for the Caraco sales and net profit for three months and nine months.

Sudhir Valia:

Caraco sales was $20.7 million for the quarter ending December.

Sudhir Valia:

And 0.7 million is the loss for the quarter end.

Manish:

And for nine months.

Sudhir Valia:

58 million is the revenue and the loss is 4 million.

Manish:

And how much is the cash position now on the books, just want to get that number.

Dilip Shanghvi:

You mean for the group?

Manish:

Yes, for the group.

Sudhir Valia:

For Caraco or for Sun?

Manish:

Consolidated.

Sudhir Valia:

Around 425 million as Dilip Shanghvi as stated now.

Manish:

Thanks a lot.

Moderator:

Thank you very much sir. Next is Mr. Anshu Govil from CLSA.

Ajay:

Good morning Dilipbhai this is Ajay. A more industry question is, suppose a formulation is being withdrawn from the market and a big pharma introduces something new instead of that, can you ask for an ANDA for the old formulation, and if yes, how do you market that product.

Dilip Shanghvi:

I think there are some historical examples. I do not have any. Can you give me specific names?

Ajay:

No, I am just trying to figure out there have been products in the past and I am working on some of those where you said injectables, nasal sprays and all, but technically is it possible to get approvals for the older formulation which has been withdrawn from the market.

Dilip Shanghvi:

If the product was marketed for extended period of time, we can establish equivalent to that product then you can market that product.

Ajay:

And in terms of distribution how would you do it because the formulation in the market place that the brand product would be something different.

Dilip Shanghvi:

I think some of the buying groups and HMOs may have their own policy of establishing equivalence, so you can possibly sell to those customers. What I recall from long back is that there was a product called selegeline tablet and closer to the patent expiry the innovator which in this case was the joint venture called Somerset between Watson and Mylan, they introduced a capsule, so I will need to find out as to how the overall generic business in selegeline emerged.

Ajay:

Because even Abbot has done that with TriCor.

Dilip Shanghvi:

That is different, that is clearly different. Because the new product is clearly different from the old product, so they have actively withdrawn the old product and they have a new product in market, so the generic cannot get equivalence to the new TriCor, but some HMO or buying group may still decide that they can substitute the generic with the TriCor prescription or they may force their doctors to prescribe generic fenofibrate.

Ajay:

Okay understood, actually that answers my question. Thanks.

Moderator:

Thank you very much sir. Next is Ms. Jyothi from Hindu Business Line.

Jyothi:

Good morning Mr. Shanghvi. Just wanted to find out, recently the patent office has rejected the patent on Gleevec and there were generic companies including Sun with an equivalent on the drug, so how do you see this development would you look at launching or will you wait for the litigation process to sort of play itself out.

Dilip Shanghvi:

I mean it is not actually related to the conference call. I might as well answer because we already have a product in market which is a different polymorph. So we have a non-infringing polymorph in the market, but I think what is necessary legally now is to use the rejection of the patent to go to the court and set aside the stay order against sale of the product in the market place to complete the legal formality, but Sun Pharma is already marketing a product in spite of the stay order.

Jyothi:

That is through the non-infringing polymorph…

Dilip Shanghvi:

That's correct.

Jyothi:

Okay, thank you.

Moderator:

Thank you very much madam. Next is Mr. Sameer from JM Morgan Stanley.

Sameer:

Going back on the topic of nasal spray and injectable products, would you say that the filings that you have done are mostly for the matured generics and a few for the new patent expiries, is that a correct way to put it?

Dilip Shanghvi:

That's correct. I think philosophically we are filing what you call it basket of products which are Para 1, Para 3, and Para 4.

Sameer:

Okay, and the second question is, is the injectable market any two different from the oral market in terms of pricing environment?

Dilip Shanghvi:

I would like to answer you from a position of knowledge, but I cannot. We haven't sold any injectable as yet, so maybe sometime subsequently in the conference call I can answer. What I understand and this you will know may be more than what I know is that pricing erosion for some of the older products has not been very serious but recently patent expired on carboplatin and the pricing erosion in the that injectable has been severe. So I think ultimately pricing will be a function of competition.

Sameer:

Okay, and the second question, there have been some talks earlier in the call on the two products specifically on the Liposomal doxorubicin and Lupron Depot, what are the timelines for registering them in US and Europe?

Dilip Shanghvi:

Honestly I do not know because I would like to register them as early as possible, but there are large numbers of technical issues which we have to address before we can file. We have a team working only on these two products.

Sameer:

Okay, would you say sometime in the course of the calendar year 2006?

Dilip Shanghvi:

Hopefully yes, but I mean it is not easy to answer. Hopefully yes, but may not be, may be not this year then beginning of next year.

Sameer:

Okay, and the last question is you have already done few acquisitions in the recent past but you are sitting on a very big cash tranche, so going forward what would you be looking for in a target company.

Dilip Shanghvi:

We would actually look for now a relatively larger acquisition and where I think we can create value and by which we can recover our investments within four or five years.

Sameer:

And specifically on functionality would you be looking for a marketing or intellectual property, product pipeline or manufacturing assets, what exactly would interest you?

Dilip Shanghvi:

I think the product pipeline, existing business, and relationship with customers.

Sameer:

Need it necessarily be in the generic space?

Dilip Shanghvi:

I mean that is what we are currently looking at.

Sameer:

Any specific geography that you have got in mind?

Dilip Shanghvi:

US.

Sameer:

Okay, thank you very much.

Dilip Shanghvi:

Thank you.

Moderator:

Thank you very much sir. Participants who wish to ask questions may please press *1. Next in line is Mr. Nimish Mehta from Edelweiss.

Nimish Mehta:

Good morning to everybody. I joined in late so excuse me if this has already been addressed. May I know the quantum of sales that has been added to the domestic formulation because of the restructuring of the trade channels?

Dilip Shanghvi:

10-15%.

Nimish Mehta:

Okay, 10-15% and this is without any resulting impact on the bottom line right.

Dilip Shanghvi:

Right.

Nimish Mehta:

Sir, then in that case how has the margin being impacted because we see 10-15% addition in sales without any profit, so if you were to take away this, the margin improvement over what we are seeing right now can be another 10%?

Sudhir Valia:

See when you see the margins, there are two levels at margins. One is the cost of materials, it is the raw material level and second is the net-net level is the net profit. There will be impact in terms of the reduction in net profits if you see has to take place because this has nothing to do with the cost of material. Cost of material marginally as we explained has gone up on account of various price erosions at Caraco. An impact of 10-15% we have expressed and there are various elements of the mix which make a difference, but the bottom line get impacted and you will be able to see the margin pressure, but overall performance of the company been able to maintain profitability.

Nimish Mehta:

True, all I wanted to know is purely because of this accounting treatment, meaning having 10-15% additional sales without any result on impact in the margins, if you were to take out that, what could be the addition to the current margin that we are seeing in the quarter?

Dilip Shanghvi:

It is a mathematical question, so you can do the calculation.

Nimish Mehta:

Okay, so that is roughly

Dilip Shanghvi:

It will be around 2%

Nimish Mehta:

Okay, thank you.

Moderator:

Thank you very much sir. 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 the Sun Pharma management for final remarks.

Uday:

Thank you to all the participants of this earnings conference call from all of us.

Moderator:

Thank you sir. Ladies and gentlemen, thank you. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice day.