Sun Pharma Q1 2010-11
Earnings Call Transcript
10 am, July 29, 2010

Corporate Participants

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

Kal Sundaram
CEO, Sun Pharmaceutical Industries Ltd

Sudhir Valia
Whole time Director, Sun Pharmaceutical Industries Ltd

Moderator: Ladies and gentlemen, good morning, good evening and welcome to the Sun Pharmaceuticals Q1 FY'11 Earnings Conference Call. As a reminder, for the duration of the conference, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need any assistance during this conference call please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Uday Baldota of Sun Pharmaceuticals. Thank you, and over to you, Sir.

Uday Baldota: Thank you. Good morning and a warm welcome to our first quarter 2010-2011 earnings call. I am Uday from the Sun Pharma Investor Relation team. We hope you have received our Q1 FY11 financials and press release that we sent out yesterday. These are also available on our website. Today we have Mr. Dilip Shanghvi, Chairman & Managing Director, Mr. Kal Sundaram CEO, and Mr. Sudhir Valia, Whole time Director for this interactive session. Together they will discuss and respond to queries on performance highlights as well as updates on strategy. As is usual, for ease of discussion we will look at the consolidated financials. Just as a reminder, this session is being recorded and the replay will be available. This session transcript will also be put on our website soon. It would be appropriate to mention that the discussion today may include certain forward-looking statements and these must be viewed in conjunction with the risks that our business faces. I would like to request all of you to kindly send in your queries that remain unanswered today. I will now hand over to Mr. Dilip Shanghvi.

Dilip Shanghvi: Welcome and thank you for joining us today for this earnings call after announcement of financial results for the first quarter of 2010-2011.

First as usual, a few key mentions. I would like to begin with a recent development on gemcitabine, our filing for generic Gemzar. Last night India time, the US Court Of Appeal for the Federal Circuit affirmed the judgment of the US District Court for the Eastern District of Michigan against Eli Lily and Company. This finding reaffirms that certain claims of US patent 826 are invalid. Earlier the Michigan Court had ruled against Eli Lily stating that the asserted claims of the 826 patent are invalid for obviousness type double patenting over US patent 614. The Appeals Court agreed with the ruling of the District Court.

Moving on to pantoprazole, as you were aware, the US District Court recently rejected our motion for judgment as a matter of law in the pantoprazole patent litigation, which means that the jury verdict was upheld. Earlier the jury had ruled not invalid for the Nycomed patent. We had stopped further shipments of pantoprazole generic in April 2010 around the time of the jury verdict. We remain as convinced about the strength of our litigation and will evaluate all available options including an appeal.

In another case regarding generic oxaliplatin, we had stopped selling the product on June 30, 2010 in compliance with the District Court ruling; however, we continue to appeal this decision.

Now Mr. Valia will outline the financial highlights and then Mr. Sundaram will cover the operational performance highlights. I will then talk about R&D investments and an update on Taro. I will now hand over to Mr. Valia.

Sudhir Valia: Thank you Mr. Shanghvi. Good morning everybody. Our first quarter financials are already with you. As usual you should look at the key consolidated financials for Q1 FY 2010-2011. You may recall that in fourth quarter 2008-2009 we had witnessed one time sales in the Indian branded generic business of approximately Rs. 200 Crores. As result, Q1 2009-10 witnessed significantly lower sales hence the current quarter sales should be compared with the suitably adjusted sales of the

corresponding quarter of the last year. Q1 net sales is Rs. 1400 crores is an increase of 78% over Q1 last year, adjusted for the above-mentioned lower sales in Q1 of the last year the growth is 42%. This growth has been significantly supported by one-time sales from the generic oxaliplatin.

Material cost as a percentage of the net sales is 24% significantly lower than 33%, achieved in the same quarter last year. This is contributed by the change in the product mix.

Staff cost for the quarter is at 9% of the net sales, significantly lower than 16% witnessed in Q1 last year, though on an absolute basis it has remained the same.

Other expenditure is 23% of the net sales much lower compared to 35% of the net sales last year. This reduction is largely on the account of higher sales this quarter. The absolute amount has grown by 18% over the same quarter last year. As a result EBITDA margin achieved during Q1 equals 44%, substantially higher than 16% in Q1 last year. Similarly the net margin at 40% has shown significant improvement over 21% for the same quarter last year. On the fully diluted basis the EPS is Rs. 27.20, significantly up from Rs. 7.90 for the same quarter last year.

Caraco recently announced its Q1 numbers. Caraco reported Q1 net sales of USD $130 million up by 171% from the quarter last year. The net profit is USD $1.2 million for Q1 compared to the loss of USD $9.4 million in the first quarter last year. A brief mention about API business, while the domestic API business had grown by 20% the overall API sale registered a fall of 2% this quarter, primarily on account of a lower sale in international market and unfavorable exchange rate movement. We scaled up 16 APIs this quarter. Tally for the approvals of API filing in the regulated market that is filing of the DMF and CEP is 90 out of 157 filings.

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

Kal Sundaram: Thank you Mr. Valia and good morning to everybody. I will now take you through the Indian Formulation business and the rest of the world branded prescription business.

Starting with Indian Formulation business, sales in Q1 2010-11 is Rs. 598 crores reflecting a growth of 17% adjusted for the lower sales in the first quarter of last year which Mr. Valia mentioned. According to IMS ORG data we hold a market share of about 3.7% at the end of June this year. Five therapeutic areas namely cardiology, psychiatry, neurology, gastroenterology and diabetology are our focus areas, these segments account for 70% of our total sales.

During the course of the first quarter we launched 10 products. We continued to add market shares with key doctor specialities.

Now, coming to international formulation, sales excluding Caraco grew by 23%; however, on constant dollar basis, the annual sales of this formulation business grew by 32%. In the rest of the world, the branded generic markets, we expect steady increase in our sales as we build brand presence and also generate prescriptions and as we expand our portfolio and now with this, I will hand it over to Mr. Shanghvi. Thank you.

Dilip Shanghvi: Thank you, Mr. Sundaram. First quarter performance has been in line with our expectations. We continue to receive tentative and final approvals for ANDAs filed from Sun Pharma factories. In the first quarter we received approval for ANDAs representing seven products, simultaneously ANDAs for four products were filed including two by Caraco, counting this now between Sun and Caraco ANDAs for 120 products await approval from USFDA including eleven tentative approvals.

R&D expense for the quarter is Rs. 58 crore based on the work of 600-strong scientific team. Our patent library now stands at 251 patents, with 83 patents, which are granted. Caraco has been actively working

with CGMP consultants towards the resumption of manufacturing activities at its Michigan facility. It is in the process of implementing corrective action and remedial measures as stipulated in the remedial work plan earlier approved by the USFDA. Recently USFDA notified Caraco that its protocol third party CGMP certification detailing the activities to be conducted by the GMP experts, was acceptable. The FDA also released certain previously seized raw material, which had been opened for the purpose of sampling. Overall Caraco continues to work with the FDA to effectively resolve the CGMP compliance concerns, though it has not disclosed any specific timelines for this. We are supportive of these efforts being made by Caraco.

An update on Taro. Taro board continued its brazen attempts at peddling only solutions favoring the Levitt's, completely violating the interest of minority shareholders. Taro claims to have appointed Guggenheim Securities to review strategic alternatives that might be available to resolve all pending issues between Sun Pharma and Taro, not surprisingly the only solution Guggenheim proposed and which was found acceptable by the Taro board is that of finding buyers for Sun Pharma's stake in Taro. Interestingly, investors that Guggenheim contacted and who it claimed were interested in buying a stake in Taro post due diligence were for some strange reason not interested in making as similar offer to Templeton, the largest institutional shareholder of Taro. Once again for the same odd reason Guggenheim who was retained by Taro to find a solution for Taro and not solely for the Levitts , did not advise Taro to stop all litigation and let the tender offer proceed as a way of resolving the current statement. As was appropriate we promptly rejected the Guggenheim proposal, we also believe that this appointment of Guggenheim by Taro to solely benefit Levitts is in contravention of the Israeli laws governing related-party transaction. Accordingly we have commenced litigation against Taro in this connection. In another legal victory for Sun, the United States District Court for Southern district of New York rejected Taro's alleged claim that Sun Pharma and Alkaloida had failed to make adequate disclosure concerning the ongoing tender offer to purchase all outstanding ordinary shares of Taro. The court also rejected Taro's request for discovery remarking that Taro had not explained any purpose that discovery could serve. On the appeal filed by Taro and its directors we still await the decision from Supreme Court of Israel.

Before I close let me talk about guidance of 2010-11. Let me restate that the growth guidance of 18% to 20% over the reported sale of 2009-10 included all developments in business including known and anticipated one-time opportunities in the current year. The asking rate for growth for the balance nine months appears to be mid single digit for us to achieve our annual guidance. While this may be mathematically accurate, let us not ignore the fact that one-time sales from products in the balance nine months of last year, that is July 2009 to March 2010 were certainly not insubstantial. You are aware that we are no more selling those products. In absence of such sales in the coming three quarters all business segments will need to demonstrate continued recurring growth for us to be able achieve the annual guidance. We expect our business segments to deliver on this, and hence do not see need to revise our annual growth guidance at the moment. With this I would like to leave the floor open for questions. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen we will now begin with the question and answer session. Our first question comes from line of Nimish Mehta from MP Advisors. Please go ahead.

Nimish Mehta: Thanks for taking my question and congrats for a great set of numbers as well as Gemzar ruling. My first question is obviously on Gemzar itself. Can you let us know whether this can be appealed further or this is a final decision that you would have before launching this product and second what does this mean in the sense that Sun Pharma does not hold an FTF on this product?

Dilip Shanghvi: I understand there is a statement by Lilly. They said that they plan to appeal the judgment and as our press release states we are not first to file for it, so we will be introducing the product once exclusivity to first filer is used up and then we will come to market, with other generics.

Nimish Mehta: The exclusivity gets triggered upon this court ruling or it will get triggered only upon Sun asking for the exclusivity to get triggered?

Dilip Shanghvi: The exclusivity will get triggered after the patent expiry, which has been held valid.

Nimish Mehta: That is in November 2010.

Dilip Shanghvi: Yes. With pediatric exclusivity it is November 2010.

Nimish Mehta: This court ruling has already triggered the exclusivity starting November 2010, is that correct?

Dilip Shanghvi: I don't think I understand the question fully but may be we can respond once I have better understanding of our legal status.

Nimish Mehta: Second question is actually on the personnel expenses I am a little surprised because as I understand in the last conference call you mentioned that Caraco has been rehiring people, which they earlier had retrenched but expenses on the personnel side it is still kind of same, flat YOY as well as even sequentially so will it go up further substantially or what would be?

Dilip Shanghvi: I think some of this could definitely go up because the full impact of the increments and annual raises in all the markets are not fully factored in the current personnel cost and additional hiring done during the year will also increase this number.

Nimish Mehta: The last question is also on the Caraco Prandin, if you can just give us an update on the status of that case and what do we expect and when do we expect anything?

Dilip Shanghvi: I think this is being argued in the US and till Caraco gives an update on Prandin specific issue, we do not have any additional information to share at this moment.

Nimish Mehta: Okay fine. One more question sir, Mr. Sundaram if you can run us through the therapy market growth of the key therapies that Sun is present in, broadly, I would like to understand how much are we growing above the market growth as far as the relevant therapies are concerned.

Kal Sundaram: Shall we take it offline, as I do not have the data in front of me now?

Nimish Mehta: Ok, Thank you.

Moderator: Thank you Mr. Mehta. Our next question comes from line of Saion Mukherjee form Nomura Securities. Please go ahead.

Saion Mukherjee: Thanks for taking my question. Just two clarifications you know, can you let us know for last year how much is the absolute impact because of excess sales that happened in Q4. Is it that the Rs. 200 crore all came in Q1, or there was some impact in Q2 as well?

Dilip Shanghvi: A very small component I think we have explained in the conference call that maximum of around 15-25 crore was spillover in the subsequent quarter.

Saion Mukherjee: Secondly, if you can give us the non-Caraco sales number for this quarter and that of the same quarter last year, for the formulations?

Dilip Shanghvi: We do not actually share...

Uday Baldota: That is not visible. Saion, shall we take it offline?

Saion Mukherjee: Okay and is it possible to give some sense of Eloxatin sales that might have been booked in this quarter, will it be possible for you to share that?

Dilip Shanghvi: We actually do not share product specific numbers.

Saion Mukherjee: Okay. That is all from my side.

Moderator: Thank you. Our next question comes from line of Jesal Shah from JM Financial. Please go ahead.

Jesal Shah: Thank you for taking my question. Just one thing on venlafaxine XR, if you can you give me some idea about how do you feel the launch of the generic, and how is that impacting Osmotica's product?

Dilip Shanghvi: You are asking about Teva's launching generic, how is it affecting Osmotica's product. What I understand is that Osmotica also has a generic of its own tablet branded product, and because of the introduction of the generic of the branded tablet between both of them it has a reached around $300 million sales approximately, this is what I have understood. However, the larger sale will be of the capsule and in a situation where the generic for the AB rated product is available, it will retain the largest part of that business.

Jesal Shah: Thank you so much.

Moderator: Thank you. Our next question comes from line of Bino Pathiparampil from IIFL Capital. Please go ahead.

Bino Pathiparampil: Emerging market sales, when we try figure that out the export formulation seems to have taken a dip in the quarter, is that a trend, because we saw that in case of other companies as well, was there a restocking, which has now been already done, and is that a base that we are looking forward to?

Uday Baldota: Bino can you repeat please?

Bino Pathiparampil: I am talking about export formulation, from that if we try to adjust the Caraco sales, which is US sales, basically the remaining part of export formulation seem to have a take a dip over the last year quarters. Is there a trend or reversal of something we are seeing there?

Uday Baldota There is no dip, actually the business has grown between 23%-32% depending on whether you measure it on a rupee growth or dollar growth.

Bino Pathiparampil: Okay, right. And domestic sales seem to be a big high even considering that the prior quarter was too low. Is this a new base or is there is a little exceptionally high?

Kal Sundaram : There is nothing unusual in the domestic business apart from the need to adjust the Rs.200 crore of last year, and we also have said that the business has grown by something like a 17% over last year and we will expect the momentum to continue.

Bino Pathiparampil: Caraco was trying to file site transfer for some of its key products. Given that taking so much time, was there any use of trying that at all. What is the latest view on that?

Sudhir Valia: All the products will not get transferred, not those with low sales or margins. Selected products only will get transferred.

Bino Pathiparampil: But so far almost a year later, we have not seen anything coming from that. So are we expecting that to happen anytime soon?

Sudhir Valia: I do not know how you read that because a product wise bifurcation is not given.

Uday Baldota: Bino, I think the first time that Caraco announced that it was considering shifting was in the October-December quarter. So when they announce the numbers in January that is the time they announced it, also I think we have indicated that transferring a product takes a reasonably long time. We need to wait and see what Caraco announces in its 10Q. Thank you.

Bino Pathiparampil: Thank you sir. I will return to the queue.

Moderator: Thank you. Our next question comes from line of Abhay Shanbhag from Deutsche Bank. Please go ahead.

Abhay Shanbhag: For Caraco, when you talked about the USFDA accepting that protocol that you're doing for CGMP certification, now what does it mean in terms of timeline, do you mean the plant will be completely ready for FDA inspection in about six months time or in the next few months or will it take longer or what is the sort of timeline that we could look at?

Dilip Shanghvi: I think Caraco needs to share the specific timeline, which they have not shared. I can only explain the process, explaining the timeline. The process is that Caraco has to decide whichever product it wants to revalidate and take the revalidation batches in presence of the CGMP experts, and once the experts are satisfied, a separate team of these experts is satisfied that the facility is in compliance, then they have to inform the FDA that they can come for inspection. We expect that FDA will come for inspection after this is communicated, and if the product and the facility are found to be compliant after the FDA audit then these two products will be permitted, so this will be a product-by-product re-certification process.

Abhay Shanbhag: Since Caraco had a reasonably large formulation capacity, so it would have a reasonably large product basket. So do we expect that probably you will wait for at least 5 or 10 products, or you would only do it one or two as a start and then over a period of time take it up or how does that happen?

Dilip Shanghvi: I think in absence of what Caraco has shared as a specific information we cannot give specific answers, but the normal process that I have seen in other companies is that they generally take up product one after another.

Abhay Shanbhag: On the other hand, if they are satisfied with a couple of them, meaning five or ten of them, and then they go and inform USFDA, or after every product itself they will go and inform, I mean how does it happen?

Dilip Shanghvi: I think it is all a question of the process, once your FDA consultants are satisfied they inform the FDA for every product. So it is a product-by-product recertification, but at some point if the FDA feels satisfied then they may waive that as a requirement. But that is not a given. So in the same way as preapproval inspection. Legally every product before it is approved, will require a preapproval inspection from FDA. But many products are approved without a preapproval inspection because in the previous inspection, if FDA is satisfied that the facility is in compliance then they don't come for every product for a preapproval inspection.

Abhay Shanbhag: Just one last question. For one or a couple of products if your consultants are happy, would you then have to go and request FDA for an inspection or is it automatically triggered because FDA also being short staffed, even if they want to inspect it may take another couple of months. So how does it happen?

Dilip Shanghvi: We have to inform FDA that the facility is ready for the inspection.

Abhay Shanbhag: After which they may, depending on the manpower and logistics, they would take their time to come and inspect your facility?

Dilip Shanghvi: It is up to FDA to decide the time to reinspect.

Abhay Shanbhag: The other thing was on Eloxatin, looking at the product size $1.4 billion and given that there were 6-7 fairly large players in the market and everybody knew that they had to supply only till June 30. So what was the sort of pricing, which was seen in the market? If you could just throw some light on the price discounts, etc?

Dilip Shanghvi: I think that you are seeking very specific information….

Abhay Shanbhag: Order of magnitude because there were seven players was it like 60% plus, or was it much less than 50% because it is an injectable at least the magnitude just to work out some number?

Dilip Shanghvi: I don't think that we can be very specific about pricing at this point.

Abhay Shanbhag: You have always been very conservative in doing chargebacks. A lot of revenues seem to have been booked from Eloxatin so in the future quarters there should not be any chargebacks or anything coming in for this product from sales that was done in the first quarter, right?

Dilip Shanghvi: We definitely do not want to have a negative sale in any quarter. That would be the result, if you have chargeback and no sales.

Abhay Shanbhag: Fine, thank you sir. Thanks a lot.

Moderator: Thank you. Our next question comes from line of Neelkanth Mishra from Credit Suisse. Please go ahead.

Neelkanth Mishra: A quick question on the US sales. How much of the sales have we already booked from the products from Inwood and how much do we expect to do in the rest of this year?

Dilip Shanghvi: Caraco will need to give this detail, we have to see their filing to see whether they are giving the details of how much is Inwood sales and how much is from distributed products.

Neelkanth Mishra: Understood, thanks for the details you gave on Taro, what can be the catalyst for the Supreme Court to finally give a judgment in Israel because from what has been disclosed since December'08, there is been no progress, there has not even been any suggestion for arbitration or some new developments that have come out. Any color you can throw on what is pending now and how long it can take or can it be like some of those land disputes in India that drag on for 30 years?

Dilip Shanghvi: I do not think there is an issue of dispute anymore and there is no mediation or settlement required because the case as it was to be argued, has been argued in front of the entire bench and the court needs to announce a judgment, and we have seen that even in the US many times it takes a long time for the judge to give a judgment on complex issues involving matter of law. Ours is a fairly complex litigation and once the judgment on this is announced, it will then become a potential reference case. So I think also what I understand from our lawyers, is the judges were on the bench are known to give considered and fairly exhaustive judgment, which can then be used as a reference. So that possibly is one of the reasons why it is taking time.

Neelkanth Mishra: Uday would it be possible to give the same old excel sheet that you had circulated some time back on the calculation for the ex US international formulations, that would be very helpful. We also have the same confusion that we are getting an 18% year-on-year and 38% quarter-on-quarter decline but you have 23% growth so just wanted to clarify that?

Uday Baldota: We will take that offline.

Neelkanth Mishra: Thanks.

Moderator: Thank you. Our next question comes from line of Rahul Sharma from Karvy Stock Broking. Please go ahead.

Rahul Sharma: Just wanted clarity where you have mentioned that you have done two filings from Caraco. Just wanted to know what is the status on that front, and secondly the same thing is that we wanted the excel breakup on ex US formulation sale, and third was on stock returned by USFDA. Have we accounted for it in our revenues or what is the treatment that we are giving for that?

Sudhir Valia: Just a moment. For the products, which we believe we would not be able to market we have taken a charge. And for the products, which are seized but are usable we have not taken a charge.

Dilip Shanghvi: So there is no treatment in accounts.

Rahul Sharma: You are not reselling it or anything in US?

Sudhir Valia: This is the API, raw material that can be used.

Rahul Sharma: And is it substantial? Could you quantify it?

Sudhir Valia: Not so substantial but yes, because we have to do sampling as a procedure so that much API is there.

Dilip Shanghvi: I think they may give some information in their filing.

Rahul Sharma: And what about the Caraco filing, which has been done in this quarter, two ANDAs have been filed. So just wanted to know how is it possible with you yet to undergo the USFDA inspection remedial measure?

Dilip Shanghvi: I understand. I think we have to wait for Caraco to clarify how they have done the filing.

Rahul Sharma: Sir, sales breakup if we could share in case?

Uday Baldota: Rahul we will talk on this.

Rahul Sharma: Thank you.

Moderator: Thank you. Our next question comes from line of Chirag Dagli from PINC Research. Please go ahead.

Chirag Dagli: Good morning sir. On Caraco, does that product-by-product recertification apply to new filings also?

Dilip Shanghvi: In any case that has always applied to all new filings. All new filings have to have preapproval inspection. So that is not only true for Caraco but for every company.

Chirag Dagli: Just an observation Dilipbhai, I do not know what we can do about this, but just an observation. This will now be the eleventh quarter where numbers have been skewed because of one time product opportunities. If we can, in some manner discuss the profitability of the base business and I know we have shared this in the past that you do not expects analysts to give a multiple to these earnings, but since there is not enough data around I do not know, we are all sort of grappling in the dark I do not know what we can do, but over the past twelve quarters the business model has substantially changed, so….

Dilip Shanghvi: I hear you, let us internally reflect and then if there is a need for us to change our disclosure process we will.

Sudhir Valia: But analysts are being kept busy.

Moderator: Our next question comes from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: Wanted to check on Gemzar. Once Teva's six-month exclusivity runs out, is it going to be a situation where all the other players who have got tentative approvals can enter the market or is it going to be a limited competition opportunity after that?

Dilip Shanghvi: All the players who have tentative approvals can come to market once Teva comes to market.

Nitin Agarwal: Okay Sir, we do not stand to get anything material apart from the advance of launch from this decision.

Dilip Shanghvi: Yes, there is no material specific benefit that we can share with you right now.

Nitin Agarwal: Okay Sir, thanks very much.

Moderator: Our next question comes from the line of Manoj Garg from Emkay Global. Please go ahead.

Manoj Garg: Hi, thanks for taking my question, just since the last analyst meet you had indicated that you would be launching a new device, DPI, dry powder inhaler in the domestic market, have you launched that product?

Dilip Shanghvi: It is not yet launched, hopefully may be end of this quarter or beginning of next quarter we should launch.

Manoj Garg: What would be the plan for rest of the world, particularly the emerging market?

Dilip Shanghvi: The idea would be to find a way to register it in as many markets as possible.

Moderator: Our next question comes from the line of Kartik Mehta from Daiwa Capital Markets, please go ahead.

Kartik Mehta: I have two things to ask, one is if you can share the net cash in the books as of now, and on Protonix what is your assessment of the situation from the time you launched and from the time you actually stopped selling, is it that there is a certain level of risk that you would have anticipated, has that been reached or is it that the jury and judge actually ruling against the generic made you stop the production and sales?

Dilip Shanghvi: Well, I think we have explained in the past that we launched the product only after the innovator launched the authorized generic, so we have relatively very low liability from the risk point of view.

Kartik Mehta: If I ask you Sir, if the judge and the jury would not have ruled against the generic, would you have still sold the product or would your appetite of your level of risk would have been already reached?

Dilip Shanghvi: That is a very hypothetical question, it is difficult to respond, however even in the last judgment, there is no order which is preventing us from continuing to sell the product, so from that point of view the relative level of risk, we don't assess it to be as high as what I feel you are evaluating it to be. You asked about net cash, it is around Rs. 4000 crores.

Kartik Mehta: Sir, one last thing on Protonix if I may, you said in your opening remarks that you are evaluating all options. Would you rule out settlement?

Dilip Shanghvi: I think in all patent litigation and Para IV litigations you cannot rule out anything including settlement.

Moderator: Our next question comes from the line of Ranjit Kapadia from HDFC Securities. Please go ahead.

Ranjit Kapadia: Sir, this relates to the domestic market. You have seen that the domestic market in the last few months has grown almost about 19-20% whereas our growth was slightly lower, so any specific reason for that, and are we planning to enter new therapeutic segments, and are we envisaging entering the rural market in the near future?

Kal Sundaram: We are measuring our own performance compared to the domestic market on a monthly basis and if you go back to the same reports of ORG that you are quoting, for the whole quarter we are still continuing to outperform the market. There are two sources we are comparing which are not directly comparable, one is IMS ORG and the other one is financial, it is worth comparing not only for Sun even for other companies, the growth shown by ORG in their report vis-a-vis the growth shown in their annual accounts, or quarterly accounts, there could be a mismatch. So if you summarize, in ORG IMS you continue to gain market share and in our own business we have shown 17% growth which we believe will be in line with the market growth if not ahead of it.

Ranjit Kapadia: Any possibility of entering new therapeutic segments or a thrust in rural marketing?

Kal Sundaram: Pretty much on chronic care we are very focused, we have covered all the therapy areas that we need to, even in the last call I think we spoke about it, we continue to expand but not necessarily going towards rural market, going below metro cities, other sort of population mix say like 3 to 5 million type of population, they are expanding, so all in all, the way I will summarize that depending on the rate at which the markets are expanding in these places, we are also expanding at the same rate.

Ranjit Kapadia: How many MRs we have currently?

Kal Sundaram: 2600.

Ranjit Kapadia: Any possibility of addition in the near future?

Kal Sundaram: I think we have added something like 5-6% during the course of the year and for the rest of the year we expect to maintain that.

Moderator: Our next question comes from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: I just have a clarification on the two ANDA's filed by CPD, is it necessarily from the Detroit facility or from the other two, Bryan or Cranbury?

Dilip Shanghvi: Caraco has only one facility, Bryan and Cranbury are Sun facilities.

Sameer Baisiwala: So, it is filed from the Detroit facility?

Dilip Shanghvi: No, I do not think they said this; they said that they filed two ANDA.

Sameer Baisiwala: This could have been third party.

Dilip Shanghvi: Yes, this could have been third party.

Sameer Baisiwala: The second question for the ANDA approved for Sun for the US market, is this something that you are seeing a negative impact, because CPD and lower market share, certain customer resistance, this is for the base business excluding the one off?

Dilip Shanghvi: There is some impact of the continued issue that Caraco has with FDA, however what I understand is that over a period of time, that is getting addressed.

Sameer Baisiwala: One final question on Taro, given the way this acquisition has turned out, bitter in that sense, is there a risk even if we were to finally get the asset and the company, Levitts may actually hurt the company before leaving and may actually impair the value and is this a serious risk and is there anything that we can do about it?

Dilip Shanghvi: I hope that for their own good, they don't do this.

Sameer Baisiwala: Which means?

Dilip Shanghvi: Which means that when you are running a public company, with 10% equity, you cannot hurt the company consciously by act of commission, you can potentially hurt by act of omission. But I personally don't think this will happen because it has very competent managers and good infrastructure, and we do not see that as a risk, otherwise what we are currently pursuing has the risk that you are talking about.

Sameer Baisiwala: This is for Kal, just from the emerging markets there are some head winds in Eastern Europe pricing or Russia for example the regulatory changes, is it something that can really impede growth going forward and specifically this is for market such as South Africa and Latin America.

Kal Sundaram: To a good degree of our business is fairly well spread between Russia, Eastern Europe, Latin America, South Africa and even other parts of Asia, so any adverse effect or positive effect in one territory or one major country will not have substantial effect in our business.

Sameer Baisiwala: Sure, but at the margin are you seeing anything that is negative on the regulatory side or market dynamics in Latin America and South Africa?

Kal Sundaram: As we explained last time, regulatory timelines are increasing almost across the world in emerging markets, in more and more countries regulatory demands are increasing, and as such I would anticipate increase in timelines for registration possibly even the cost of registration in some countries, but that is sort of much more going forward, it does not affect the current business, so far in terms of margins we have not seen any erosion to our business.

Sameer Baisiwala: Any impending government reforms over there, any pricing risks, price controls?

Kal Sundaram: Nothing that I can think of on top of my head Sameer.

Moderator: Our next question comes from the line of Manish Jain from Axis Holdings. Please go ahead.

Manish Jain: I had two questions, one pertaining to the DPI launch, what is the royalty that you will pay on this, and just extending this on a philosophy, will you restrict licensing of products only from SPARC or you are open to licensing products from other areas, and what will be the royalty payment basis, that is the first question. And second question is primarily for Sudhir. You have mentioned Rs.4000 crores of cash is there but the other income which you are showing is only Rs. 20 crores in the quarter, so return comes to only annualized basis Rs. 80 crores, can you explain that?

Sudhir Valia: I will answer you first on that one and Mr. Shanghvi can answer the other one. The other income has several components including all exchange-related transactions, and notional exchange transactions also take place when you do consolidation.

Manish Jain: So, any forex losses or anything, everything is accounted for in this?

Sudhir Valia: For any change in forex exchange rates when you do the consolidation notionally either you have to take the gain or a loss.

Manish Jain: Fair enough and just how much of this Rs. 4000 crores would be in Indian currency?

Sudhir Valia: About 60% plus.

Moderator: Our next question comes from the line of Sonal Gupta from UBS Securities. Please go ahead.

Sonal Gupta: Hi, just wanted to understand the reason why R&D spend is declining year on year, your guidance for the year was for 7-8% as a percentage of sales, any thoughts on that?

Dilip Shanghvi: A part of it is because Caraco expenses are significantly less for R&D and we expect increased R&D spend during the rest of the year, also I should tell since you are looking at percentage on a significantly high sales base which is not a recurrent basis. But if you see the number of filings it is a correct guidance, money spent is associated to the number of filings, but it also depends on the product and complexity of the product.

Sonal Gupta: So we would expect R&D to ramp up over the rest of the year?

Dilip Shanghvi: Yes.

Moderator: Thank you. Our next question comes from the line of Rajkumar Leishemba from PTI, please go ahead.

R. Leishemba: I just wanted to get a clarification from you. You mentioned about guidance for the year is about 18-20% but in the remaining nine months, you said that if you grow at about single digits then you would be meeting the annual guidance. Are you saying that in the rest of the year you will be growing in single digits?

Dilip Shanghvi: I explained that last year, three quarter includes sales of product which are substantial and that will not recur this year, because last year for a significant period of three quarters we used to sell pantoprazole which we have now stopped selling. We will not have that as part of sales this year, so we have to make up and grow the business.

R. Leishemba: Out of the 120 ANDA that you are awaiting how many of them do you expect to get an approval?

Dilip Shanghvi: I think it is very difficult to guide with a specific number, but as I see we were happy with getting seven products approved in the fourth quarter, and for the first time we saw that the number of filings was less than the number of new product approvals, so hopefully we should continue to see continued approval.

Moderator: Our next question comes from the line of Ranvir Singh from BRICS Securities.

Ranvir Singh: My question is answered, thanks.

Moderator: Our next question comes from the line of Neelkanth Mishra from Credit Suisse.

Neelkanth Mishra: Just a quick follow up, would it be possible to give some more color on the balance sheet, the receivables that you have and how they moved quarter on quarter?

Sudhir Valia: More or less in line with quarter-on-quarter.

Neelkanth Mishra: On absolute terms or on number of days?

Sudhir Valia: Number of days, because saleshas jumped, so along with that way the receivables will also go up.

Dilip Shanghvi: Also I think if you have the sales at a particular point in time and then the payment of terms of 60 days or 45 days last of sale then in that intervening period the sale is significant and it will have a slightly higher number in terms of outstanding number of days, but otherwise we do not see a specific trend indicating increased payment delays or anything like that.

Moderator: Our next question comes from the line of Nimesh Mehta from MP Advisors. Please go ahead.

Nimish Mehta: Just wanted some color on the Europe sales, if we are unable to give any break up just how many products have you launched this quarter and what is the growth that we have seen, in local currency if possible?

Dilip Shanghvi: Actually our European business is very limited, so we do not have specific numbers that we need to share. At some point when the size becomes bigger we will give numbers.

Nimish Mehta: How many products would you have launched this quarter, any idea on that?

Dilip Shanghvi: I do not know how many products in this quarter but I think we are selling four or five products on an ongoing basis.

Nimish Mehta: Finally Mr. Sundaram, if you can just let us know what is the doctor coverage that you have for your domestic formulation, the number of doctors that you cover or is there any target going forward to increase or so?

Kal Sundaram: The estimated population of doctors in the country varies between half a million to 600,000, the vast majority of that will be GPs and pediatricians where our coverage is almost insignificant, but across the specialties we cover, neuropsychiatry, cardiology, endocrinology, gynecology, gastroenterology, any sort of speciality, we will have close to 100% coverage and as the market expands we will continue to expand the coverage to specialities.

Nimish Mehta: Any ballpark numbers that you can give?

Kal Sundaram: I think in our own website we have put down nearly around something like 130,000 doctors covered at any given point of time.

Moderator: Our next question comes from the line of Prakash Agarwal from RBS. Please go ahead.

Prakash Agarwal: My first question is on the non-Caraco export formulations. If we take 32% constant currency which actually comes to 24% rupee terms growth, we're not able to adjust that US business. I mean if we adjust we get a $10.5 million separate item, is that additional provision that you have created for one-off sales you made, how to read this number?

Dilip Shanghvi: I think once Uday is able to share some additional information in terms of the excel sheet, you should get greater clarity.

Prakash Agarwal: But is there a possibility of additional provision made in terms of your US sales?

Dilip Shanghvi: It is possible.

Prakash Agarwal: Okay and my second question is on the rest of the world business, we have been hearing a lot on the price cuts by several countries in the European region, so just a little color. We have been growing continuously at 25% plus, any outlook in terms of whether we continue especially when we see the second quarter to be very high last year and the outlook for the year?

Dilip Shanghvi: We do not have a significant presence in Europe so that is possibly an advantage, but I think as our international business expands, changes will start impacting us.

Prakash Agarwal: But your view on the pricing cuts, I mean is that going to be more aggressive going forward or how do you look at it?

Dilip Shanghvi: I think when you talk of price cuts generally you are talking about patent-protected product price cuts. The generic products are generally at a discount to branded products and in countries where there is a shift in distribution from promotion to tendering, there because of pricing competition in generic there is huge erosion in terms of pricing. We have no presence in both of this business in Europe right now.

Prakash Agarwal: Okay. How do we take care of the currency impact, do we have these hedges against these European exposures, or do we have dollar exposure as of now?

Sudhir Valia: We take both kinds of forward cover for sales.

Prakash Agarwal: How much is the hedge cover in US dollars or may be in different currencies?

Sudhir Valia: Basically based on the future sales. We generally try to cover one-year sales.

Prakash Agarwal: So as of now it has covered export sales of say one year.

Sudhir Valia: Approximately.

Moderator: Our next question comes from the line of Adi Narayan from Bloomberg News. Please go ahead.

Adi Narayan: Hello sir, I just wanted to clarify something, you mentioned that you are looking to hire between 500 to 600 medical representatives in India, is that going to be for the calendar year or for the financial year?

Kal Sundaram: We said 5 to 6%

Dilip Shanghvi: also what we said is we have already hired. We actually have no plan to expand that in this year.

Moderator: Our next question comes from the line of Manish Jain from Axis Holdings. Please go ahead

Manish Jain: Yes I had my unanswered question, on the royalty side.

Dilip Shanghvi: I think it is layered, sales achievement-based double-digit royalty for SPARC.

Manish Jain: The fundamental question, Dilip first let us say how do you determine a royalty, because it is an arms-length relationship basis, let us say if you were to hire the same technology from Glaxo or some other company, what would it have been, how do you determine an arms-length relationship where you are giving an arms-length relationship royalty?

Sudhir Valia: There are a number of methods and the valuers are also there. Generally, it depends on the market size and various factors taken to account to determine it. It is definitely an arms-length transaction, two independent organizations; you have to deal with in that way only.

Dilip Shanghvi: I think your question is theoretically we are giving 14%, then why 14 and not 17, or why not 14 and why not 11 is the question. I think the point is, that there is certain information about the kind of royalty that is paid for product sales in rest of the world market which is a part of the larger transaction involving regulated markets. So these royalties are based on those terms.

Sudhir Valia: 1:06:38- unsure of voice Even in our finance systems the RBI rules that beyond 8% you cannot trade a royalty for the foreign technology. You appreciate what I mean, every percentage that the two parties decide cannot be viewed every time, but ultimately to make the regulations and systems to work somewhere reasonability has to come.

Moderator: Our next question comes from the line of Saion Mukherjee from Nomura Securities. Please go ahead.

Saion Mukherjee: Just one question on cash. You have Rs. 4000 crores and all your businesses are cash throwing so this number would keep increasing, so is it a right assessment that even after

considering all M&A possibilities this is quite a large sum, so what is the thought process that the management has currently, to return it back to the shareholders, any thoughts on that?

Dilip Shanghvi: I think we continue to look for opportunity to expand the business so that the cash can be used profitably.

Saion Mukherjee: Do you have a visibility to use it over the next two years?

Sudhir Valia : See, if Taro acquisition happens then it will take away significant part of that.

Saion Mukherjee: How much you have to pay approximately?

Sudhir Valia: That is already a public figure, more than $ 40 million.(corrected)

Saion Mukherjee: You would be left with quite a substantial amount of cash.

Dilip Shanghvi: Yes, we will still be left with significant amount of money and we are looking at options by which we can use this money profitably by looking at what are the other options available to us, so that we can expand our business in key geographies of our interest.

Moderator: Our next question comes from the line of Bino Pathiparampil from IIFL Capital. Please go ahead.

Bino Pathiparampil: Dilipbhai, from the way you talked about the required rate of growth and how you would achieve for the rest of the year, can we assume that there is no other major one-off product that you are expecting for the rest of the year?

Dilip Shanghvi: What I said is that everything is factored in that statement given about our meeting this 18 to 20% growth number. I do not know whether you recall it further. Currently selling rivastigmine during the exclusivity period where only from Sun and Watson are generics, and our guidance would factor the sales coming from these products.

Moderator: As there are no further questions, I would like to hand the floor back to Mr. Uday Baldota for closing comments.

Uday Baldota: Thank you very much to all of you for joining us on this call. If you have any questions on this please let us know and we will help you. Thank you.

Moderator: Thank you very much. On behalf of Sun Pharmaceuticals that concludes this conference call. Thank you for joining us and you may now disconnect your line.