Sun Pharma Q2 2012-13
Earnings Call Transcript
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Corporate Participants

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Moderator: Ladies and gentlemen, good day and welcome to the Sun Pharmaceutical Industries Limited Q2 FY13 earnings conference call. As a reminder 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 assistance during this conference call please signal an operator by pressing * and then 0 on your touch-tone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Mira Desai, thank you and over to you ma'am.

Mira Desai: Thank you Marina. Good morning and a warm welcome to our second quarter FY13 earnings call. I am Mira from the Sun Pharma investor relations team. We hope you received the Q2 financials and the press release that was sent out yesterday. These are also available on our website. We have with us this morning Mr. Dilip Shanghvi – Managing Director, Mr. Sudhir Valia – Whole Time Director, and Mr. Abhay Gandhi – President. Today they will discuss performance highlights, update on strategies and respond to any questions that you may have. As is usual, for ease of discussion we will look at the consolidated financials. Just as a reminder this call is being recorded and a replay will be available for the next few days. The call transcript will also be put on the website shortly.

The discussion today might include certain forward-looking statements and these must be viewed in conjunction with the risks that our business faces. I request you to restrict yourself to two questions. If you have more questions I request that you rejoin the queue. I also request all of you to kindly send in your questions that may remain unanswered today.

I will now hand over the call to Mr. Shanghvi.

Dilip Shanghvi: Welcome and thank you for joining us for this earnings call after the announcement of financial results of the second quarter of 2012–13. Yesterday evening we announced our intention to acquire DUSA, a specialty dermatology company with interesting products Levulan® Kerastick® and BLU-U® the light source, which have been approved by the USFDA for treating specific skin conditions. We see good potential to grow this business both in the US as well as in the other parts of the world.

The second point I would like to highlight here relates to provision of Rs. 583 crores that we have made this quarter for potential damages in the ongoing patent litigation for generic Protonix. As you know the litigation is ongoing, and we are taking this step out of abundant prudence. We continue to believe we have a strong case and intend to pursue all available legal measures to protect our interests. I will now hand over to Mr. Valia for a discussion of the quarter's performance.

Sudhir Valia: Thank you Mr. Shanghvi. Good morning everyone and welcome to all of you. Our 2nd quarter financials are already with you.

As was the case with the previous quarters there are several one-off events that are included in this quarter's number. First, sales of Lipodox in the US under special importation permission from the USFDA continued this quarter as well. This meets a shortage in the US but may slow down now, given that the innovator product Doxil is likely to return to the market.

The second one-off impact is currency related. The dollar is at a higher rate this quarter as compared to last year. The resulting growth in rupee-reported sales and profit may not be sustainable.

The third one-off is about the provision for generic Protonix which Mr. Dilip Shanghvi has just shared. We would like to request you to take care when you compare Q2 with that of the previous year. As usual, we will look at key consolidated financials.

Quarter two net sales is Rs.2657 crores an increase of 40% over last year. Material cost as a percentage of the net sales is 18% marginally lower than Q2 last year, this is primarily on account of products like Lipodox as well as Taro. Staff costs as a percentage of the sales is 13%, marginally lower than the quarter two last year. Other expenditure as a percentage of net sales is 24%, lower than that of the second quarter last year.

As a result of the above the EBITDA achieved in quarter two is Rs.1168 crores as compared to Rs. 784 crores for the second quarter of last year a growth of about 49%. Tax at 17%, PBT is higher than that of the second quarter last year, though at the same level as the immediate preceding quarter. As a result recurring net profit of Rs. 903 crores registered a growth of 51% over the same quarter last year. Owing to the provision related to generic Protonix the net profit is Rs. 320 crores, lower by 47% than that achieved in Q2 last year. On fully diluted basis EPS is Rs.3.10, which is lower than Rs.5.80 that we had earned for the second quarter last year.

Now, we will look at the half year. First half net sales is Rs.5315 crores an increase of 51% over half year last year. Material cost, as a percentage of the net sales is 19% which is much lower as compared to H1 last year again primarily on account of one of the product and Taro that we have mentioned earlier. The staff costs of the first half is 13% of the net sales significantly lower than 16% for H1 last year. Other expenditure 23% of the net sales, lower than that of the H1 last year. As a result of the above the EBITDA achieved in the first half is Rs. 2,385 crores a growth of 79% over the first half last year. Recurring net profit is Rs. 1699 crores, a growth of 55% over that recorded in the first half of last year. The net profit after provision for generic Protonix is Rs.1,115 crores. The fully diluted EPS is Rs.10.80, up from Rs.10.60 for the first half last year.

Taro recently announced its quarter two FY13 financials. Taro has reported quarter two FY13 net sales of $161 million, an increase of 16% over the same period last year. Net profit of $65 million is higher compared to the same quarter last year. Taro witnessed decline in volume both for the quarter and for the six months period.

I would now hand over to Abhay Gandhi who will share the performance of our Indian business.

Abhay Gandhi: Thank you Mr. Valia and good morning everybody. I will take you through the India formulation business.

Sales in quarter two is Rs. 810 crores reflecting growth of 15% over Q2 last year. For the first half, sales is Rs.1398 crores, a growth of 4% over first half of last year. If you adjust for the extra sales which we had done in the fourth quarter of financial year '12 then the underlying sales growth of the domestic formulation business is 19%.

According to AWACS, we have now a market share of about 4.7% for the 12 months to September 2012. In the first half we launched 15 new products. We continue to be ranked number one by share of prescriptions with six key specialties namely psychiatrists, neurologists, cardiologists, orthopedics, ophthalmologists and gastroenterologists. The Indian market remains as competitive as ever as it moves along the trajectory to a higher growth number. In this intensely competitive market we continue to

look for innovative ways to sharpen our business edge, connect with our key costumer base and add prescription share. We will continue to seek means to remain connected with the realities of the market. With this I will hand over to Dilipbhai.

Dilip Shanghvi: Thank you Abhay. I will briefly touch upon the performance of our businesses across other segments as well as our overall performance in the US. The most important highlight here is about Caraco's return to compliance announced on August 28, although we believe the return to sales would ramp up gradually. For quarter two our sales in the US increased both for Sun's products as well as for Taro. Our overall total sales in the US in this quarter is $244 million which is higher by almost 38%. For the first half US sales across the company was up 68% to $526 million.

Our API business continues to grow, these are specialty and complex-to-manufacture products which have limited competition and are mostly sold to end users in the developed markets.

Formulation sales in the rest of the world market accounted for Rs.68 million in quarter two registering a growth of 21% over the same quarter previous year. Excluding Taro sales outside the US, the underlying sales growth for Sun Pharma business in these markets was 34%. For the first half, international formulation sales were up 21% in dollar terms. And excluding Taro, rest of the world sales in the first half were up 40% in dollar terms.

R&D expenditure for the quarter was Rs.145 crores which was higher by 55% than the spend in the same quarter for the previous year. R&D expense for the first half was Rs.284 crore,s higher by 53% from that for first half financial year '12. R&D expense for first half is 5.3% of our sales, as you know this supports pipeline build up in all areas of our business, generic and branded generic business, API and differentiated dosage forms.

We filed ANDAs for five new products in this first half. We now have 259 ANDAs approved for a total of 395 products filed with US FDA and ANDAs for 136 products awaiting approval. Our patents together with the patents of Taro have now reached 645 filings with 304 granted patents.

In view of our operations so far, yesterday we shared a revised guideline. I must alert you to a typo in the shared number. I would request all of you to please read the corrected guidance at 30% to 32% revenue growth for the year ending March 31, 2013.

In all this has been a solid first half and quarter. 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 the question and answer session. Anyone who wishes to ask a question may press * and 1 on your touchtone telephone. Participants are requested to use handsets while asking a question. The first question is from Anubhav Agarwal from Credit Suisse, please go ahead.

Anubhav Agarwal: Hi, good morning sir, Just one question on DUSA, can you help us to understand how large is actinic keratosis or AKs market in the US, and what's the growth rate for this market ?

Dilip Shanghvi: Actinic Keratosis is a very large market, it is more than 5 million treatments per year. The share of DUSA product is around 5% of the market. The major share is of the drug products and

cryotherapy provided by the dermatologists in their practice. So, if we are able to take a larger share of the market then it can be a much bigger product than what it is today.

Anubhav Agarwal: I think it is about a billion dollar market, roughly.

Dilip Shanghvi: I mean I don't have the exact numbers because for cryotherapy by doctors you really don't know how many lesions they treat, and the treatment cost is a function of number of lesions treated. But the drug products and it (light therapy) would be a bigger market than billion dollars.

Anubhav Agarwal: Second question is just looking at this acquisition, essentially the company has a drug and device and does not have a pipeline beyond that, are you not worried as concentration of sales is very, very high in one product. I agree that the patent life is still seven years and difficult for generics to enter given the drug and device combination, but it is still a very high concentration, any fall back option here, if any risk.

Dilip Shanghvi: I think they have many products in development; they have many new indications for the existing products under development. So, we don't think it is kind of a one-pony trick, we think with our products which are under development using some kind of photodynamic therapy; it gives us entry into a business which should allow us to grow our business profitably.

Moderator: Thank you. The next question is from Girish Bakhru from HSBC, please go ahead.

Girish Bakhru: Yes, just following on that I mean I agree you had mentioned about there were ongoing programs on the other indications like acne, skin lesions and all that but are there currently any programs that are going on, and what would be the R&D that is there in this business and just if you could comment on the margin profile of the DUSA product.

Dilip Shanghvi: I think the first immediate indication would be Actinic Keratoses of the extremities because Actinic Keratoses is not only a facial condition, so that can give an immediate upside, but there are many other indications some of that for confidentiality reasons I will not be able to share but I agree on one issue that this is a different kind of acquisition than what we have done in the past. We are buying a business which is may be fully valued and the challenge for us would be to be able to create value to justify our historical performance return. In our own mind we feel reasonably comfortable that we should be able to execute well.

Girish Bakhru: Right and just if I can do a follow up on that, if suppose there were to be a generic filing given that there is a blue light device which also has a patent would a generic filer have to have a device also of its own or there are many devices in the market that can be coupled with this particular chemical.

Dilip Shanghvi: Well I think there is already a Galderma product approved using the same drug with red light which is in the market, so... but a combination of blue light as well as this drug is patent protected.

Moderator: Thank you. The next question is from Sameer Baisiwala from Morgan Stanley, please go ahead.

Sameer Baisiwala: Good morning everyone. Dilipbhai you have always maintained that you will strive to achieve consistent and sustainable performance which we take as probably high teen topline growth. Now, I am just seeing this in the context of Taro's proxy statement and Taro is about 30% of our overall business and their proxy statement suggests that over next three years we are actually going to see 5% to 7% sales de-growth as we go along. So, in light of this do you think you will be able to achieve consistent and sustainable performance?

Dilip Shanghvi: I think one of the reasons why we don't give out very long-term projection is because the business remains dynamic and it is very difficult to predict what will happen two– three years down the line. Our effort and focus will continue to remain that on an organic basis we should be able to grow faster than the market and hopefully we should be able to deliver that even though Taro-- I think even in case of Taro I think we have been forthright from the beginning that it's a company with a great present but may be not equally great short-term future because of very thin pipeline. So, I mean in the sense that the challenge becomes much bigger because in last few quarters Taro has become a much bigger part of our overall business and clearly a much bigger part of our US business, so to that extent there is much bigger challenge.

Sameer Baisiwala: When you say you will grow faster than the market you are referring to India or the overall business here?

Dilip Shanghvi: In each market that we are operating in, we want to grow faster than the market.

Sameer Baisiwala: Okay perfect. And just the second question is on DUSA. If suppose you are able to complete the transaction this year, when do you think would this would be earnings accretive year one– year three.

Dilip Shanghvi: I think we still have to work out the numbers which we can share more information about, but as I shared with you I think the idea is not to focus on cost reduction but the idea is to focus more on value creation, so if we need to do large investments for some studies or things like that, then it may not be able to generate significant cash flow for next one or two years.

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

Sonal Gupta: Good morning everyone, thanks for taking my question. My first question is regarding what is the next step on Taro from here, I mean the board has approved, so when do we see the shareholder voting, and what is the next step here.

Dilip Shanghvi: May be Uday you can share about the current situation.

Uday Baldota: I think based on the disclosures that Taro had made Sonal I think the meeting date has been set for 6th December.

Sonal Gupta: Ok. And 75% of non-Sun shareholders have to approve this thing right.

Uday Baldota: I would say simple majority of the shareholders present and voting have to approve this, other than Sun.

Sonal Gupta: Right. Ok. And just again coming back to DUSA, if I heard you right, you said that you also have some photodynamic products under development is that correct, and secondly, do we see this as a precursor to an overall strategy where you want to become a derma focused global specialty company and do we see more acquisitions in this space going forward, and is there any synergy with your existing Taro acquisition? And just squeezing it in can you just touch upon the $2 billion enabling capital raising as well. Thanks.

Dilip Shanghvi: For this acquisition to work there is no synergy planned with Taro. However we remained excited about our future in dermatology as a business and that's the business that we want to develop as a franchise in, as a specialty pharma company. I think capital raising is much more an enabling resolution and it is linked with any potential future acquisition that we do which will require that kind of funding. For DUSA or small acquisitions we have enough cash in house or through cash flow generation and for that we don't need to raise money.

Moderator: Thank you. The next question is from Kartik Mehta from ICICI Securities, please go ahead.

Kartik Mehta: In the opening remarks you mentioned that you may use some of the products of DUSA in other markets, can you elaborate what would be your assumption for any rough cut overall potential in the emerging markets or in the emerged markets.

Dilip Shanghvi: Actinic Keratoses is essentially a market with Caucasians, so markets would be Brazil, Australia, New Zealand, Europe, Canada, and Russia.

Kartik Mehta: In these markets would it be fair to assume that none of the rights are with any other companies so they remain with DUSA and now with you, is that the right assumption?

Dilip Shanghvi: Yes, that's the right assumption.

Kartik Mehta: And on Protonix we have made about $107 million assumption, is it fair to assume that for any amount that we will pay above this, we would be insured or what was the trigger or event to make an assumption now, is it to do with Teva actually making an assumption. Thanks.

Dilip Shanghvi: I think that we were advised that it is appropriate for us now that we know that we may have a liability, to share this with investors, so it is a provision that we have made and this is the extent of potential liability that we have been advised that we need to provide for.

Kartik Mehta: Is there any likelihood that you would have assumed this based on your assessment for the trial of these damages which is actually scheduled in June 2013. So, I just want to know from you, whether there is an amount which in your assessment could be higher, are we insured for the balance amount and hence we would have not made a larger provision.

Dilip Shanghvi: I think this is what we have been advised to provide for, I am not sure as to whether I can share anything specifically more than what I am sharing with you at this point.

Kartik Mehta: Okay sir I will join the queue, thank you.

Moderator: Thank you. The next question is from Chirag Talati from Espirito Santo, please go ahead.

Chirag Talati: Hi, thanks for taking my question**.** Firstly, when do you expect to see the Phase-2 data from the short drug incubation trials and given that these are not powered for statistical significance what's the next step in terms of timelines for potential as SNDA for label expansion and can it give you additional exclusivity?

Dilip Shanghvi: Which trial are you talking about?

Chirag Talati: The short drug incubation trial for DUSA for Kerastick®?

Dilip Shanghvi: I think till the time the company shares specific additional information we will not be able to share more than what they have shared, because it is a public company and it is not wise for us to share more information. I have shared that there are many opportunities and what you are talking about is one of them.

Chirag Talati: And secondly, I mean is there a threat of compounding pharmacies hurting sales of Kerastick® I mean and how do you see this threat and finally, what is the status of tax credit for accumulated losses and how much would be available to Sun post acquisition.

Dilip Shanghvi: Our own experience is that FDA does not look at pharmacies compounding a product if an approved product is in the market. But there is always a possibility that somebody can compound the product, but the major usage of the product is with the dermatologists who have the blue light device. Mr. Valia can may be explain about the tax credit.

Sudhir Valia: In the US there is very specific provision, of more than 5% shareholder's variation up to 50%, then the loss will be carry forward in the region of 3% to 5% per annum, so that we have to study the provisions and we have to see the shareholder's how long they are there, and whether the provisions will be applicable at a time, or it will be gradually factored, it's very complex
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Chirag Talati: And if you can just squeeze one more, I mean how do you expect to increase the placements for the blue light device and how do you see that accelerating in terms of the rollout of Kerastick® sales.

Mira Desai Thanks for the question, but perhaps you could rejoin the queue and we could take this question later.

Moderator: Thank you. The next question is from Dinesh Harchandani from JP Morgan, please go ahead.

Princy Singh: Good morning. This is Princy Singh from JP Morgan. I have two questions, first is on DUSA essentially at $8 is this a done deal. There has been some news flow overnight essentially with one some law agency essentially stating that $8 may not be the fair value, so should we assume that there could be some more to this or you think that it is a done deal at $8 that's my first question.

Dilip Shanghvi: From our understanding almost all transactions where any company tries to buy some other company, lawyers try to see whether they can make money. At the same time I think from our point of view $8 is more than fair value for what we are buying the company for.

Princy Singh: Understood thank you. Second question is on if you could share some thoughts on the upcoming regulation on the drug pricing policy in India I think there is some meeting happening towards the end of November and there have been many ups and downs on that so if you could just share what is your view and how do you see this evolving.

Dilip Shanghvi: I mean as you rightly said it's a process which will get over then only we will know finally what is happening. The cabinet meeting to consider this-- it was expected to be considered yesterday it has not been, it is expected now to be considered I think in the cabinet meeting on 22nd, so at that point of time we will have greater clarity.

Princy Singh: Okay sir I will rejoin the queue for more questions, thank you very much.

Moderator: Thank you. The next question is from Bino Pathiparampil from IIFL, please go ahead.

Bino Pathiparampil: Dilipbhai I was surprised that when you said immediately you are not looking at any synergy between Taro and DUSA because I thought it would be straight away a product that fits into Taro's sales portfolio, so is there any reason why you are not immediately considering it?

Dilip Shanghvi: Actually not because the people who sell this kind of device to doctors with consumables to be sold are very different type of people compared to the people who promote products for prescription with doctors. So, I don't see a synergy between both the sales processes.

Bino Pathiparampil: And may I know if Lipodox sales in the US was comparable in the first quarter and second quarter or was it very different.

Dilip Shanghvi: I mean we don't generally share product-by-product information, what we have shared is that Johnson & Johnson has announced that it is coming back to market so with that we expect our sales to slowdown.

Bino Pathiparampil: Yes that is true but I was wondering if there is a significant difference between 1Q sales levels and 2Q sales levels.

Dilip Shanghvi: Since we don't give product-by-product information it is difficult for me to tell you.

Moderator: Thank you. The next question is from Prakash Agarwal from CIMB, please go ahead.

Prakash Agarwal: Good morning, On the cash side if I look at the balance sheet, cash and cash equivalent current investments around a billion dollars, considering the new M&A activity, $230 million for DUSA, suppose $108 million for the provision and then you have Taro where around what $400 million are due, if you get that, can you reconfirm this?

Dilip Shanghvi: No, if Taro gets done then it will be close to $600 million.

Prakash Agarwal: So, is the cash position around a billion dollars or is it much higher or...

Uday Baldota: More a billion dollars Prakash.

Prakash Agarwal: And so basically all these three events happened around a billion dollar is getting consummated right?

Uday Baldota: For the provision there is no cash outflow-

Prakash Agarwal: Yes, I understand that there is no cash outflow for provision but if all the three events get consummated so.

Dilip Shanghvi: But we also keep on generating cash every quarter.

Prakash Agarwal: Yes, I understand that, and this Taro thing is on 6th December?

Uday Baldota: I think they have announced a date of 6th December.

Moderator: Thank you. The next question is from Ravi Aggarwal from Standard Chartered Securities, please go ahead.

Ravi Agarwal: Just on DUSA again just we were looking at some of the filing that DUSA has made, is this product which is currently clearing Phase-2 for extremities for AK does that actually require Phase-3 trials and beyond for getting final approvals, and adding to that in terms of ROW focus, would that actually include hiring field force and such kind of additional cost structures because this will require some amount of marketing I would presume.

Dilip Shanghvi: Yes, I think generally you required a Phase-3 study for getting an approval for a new indication so unless and until FDA decides that based on the Phase-2 data if it satisfies then they can approve the new indication.

Ravi Agarwal: Yes, but would this Phase-3 data, I mean what could be the kind of cost which should be attached to such Phase-3 studies is it very significant for the kind of sales which DUSA does.

Dilip Shanghvi: I think all clinical studies are very expensive, so it will clearly be an expensive study but till we understand the protocol and understand this in greater detail to give you a number would not be right.

Ravi Agarwal: And on the field forces is it possible.

Mira Desai: I think Ravi you could please rejoin the queue and then we will take your questions later.

Moderator: Thank you. The next question is from Ketan Gandhi from Gandhi Securities, please go ahead.

Ketan Gandhi: This is regarding Starhaler. Is revised Starhaler launched in India because I find it very difficult to get it in Bombay and are there any challenges to convert the existing patients from therapies to Starhaler.

Dilip Shanghvi: Yes, Abhay may be you can brief.

Abhay Gandhi: Well, we haven't really relaunched it. We are in the process of testing it out with some high-end users and heavy users of the therapy, I think that is going on fine. We expect the results to be actually known and completed by another two months so hopefully in the next quarter we should be able to come to market if everything goes as per plan.

Ketan Gandhi: Last question is what is the market share of Baclofen, Latanoprost, Octreotide and any of these products has started registration in export markets.

Dilip Shanghvi: We have started registration in export market, Abhay may be you have numbers about what share we have.

Abhay Gandhi: Country wise market share we may not be having.

Dilip Shanghvi: No he is asking for India.

Abhay Gandhi: Which are the products you are saying Octreotide, Latanoprost and Baclofen. No I would not have numbers readily available but if you could send in your question later I may be able to send it to you.

Moderator: Thank you. The next question is from Ranjit Kapadia from Centrum, please go ahead.

Ranjit Kapadia: Congratulations for a good set of numbers. My question relates to Lipodox. The US FDA has given us an approval, whether this is a blanket approval for export to the US or it is a time bound approval.

Dilip Shanghvi: I think we have repeatedly communicated that this is a temporary approval for us to export the product, unapproved product to the US market, we have to get a batch by batch approval from the FDA to be able to export that batch into the market.

Moderator: Thank you. Next question is from Krishna Prasad from Kotak Securities, please go ahead.

Krishna Prasad: Good morning everyone. My question is actually on the sequential US revenues which have actually come down. Has there been any specific charge back provisions which has been taken, and if yes do you know on account of which product has this been taken?

Dilip Shanghvi: Other than normal business charge back no specific additional charge back has been taken.

Krishna Prasad: And in which case what is leading to this sequential decline in US revenues?

Dilip Shanghvi: No I think we have many products and sometimes you sell very large amount of a product to some customer when you giet an order because he will fill the pipeline so we don't see any trend which makes us anxious we believe that our business is building gradually in the US.

Krishna Prasad: Right and my final question is on the domestic front, is the impact of the higher sales in fourth quarter (last year) is that now done or are we going to see that even in third quarter.

Abhay Gandhi: I think we can take at quarter two it comes to a close.

Moderator: Thank you. The next question is from Ravish Kumar from Narnolia Securities, please go ahead.

Ravish Kumar: Good morning sir. The part one of my question you have already answered which was related to the potential extra provisioning that you might need to incur, which I would like to confirm that you would not like to comment on at this point of time, is it correct.

Dilip Shanghvi: But why we need to take extra provisioning?

Ravish Kumar: No because this is as per certain news flow which mentioned amount as something close to $300 million or something so is that not correct?

Dilip Shanghvi: That's as you rightly said, it is news in the newspaper so it is difficult to comment on that.

Ravish Kumar: And part two of my question would relate to the fact --when do you expect a possible solution or ruling on this count on the Protonix case.

Dilip Shanghvi: The litigation is scheduled in June or July of next year so after that we don't know when the judgment will come and that will be an appealable judgment.

Ravish Kumar: Okay, I am done with my questions thank you and good luck for the future.

Moderator: Thank you. The next question is from Praful Vohra from Nirmal Bang Securities, please go ahead.

Praful Vohra: Sir my question is a follow up to the Protonix provision. I mean have we considered Teva's share of our liability while making this provision.

Dilip Shanghvi: What is that?

Praful Vohra: Sir as per Wyeth's claim I think Teva is liable to share some part of Sun's liability for Protonix so have we also considered that in our provision.

Dilip Shanghvi: No our provision is based on what we have been advised so I don't know what experts would have evaluated specifically.

Praful Vohra: And sir on Lipodox how long will we be able to continue the sales given that J&J is going to be there in the market now.

Dilip Shanghvi: I mean difficult for me to comment because approval is short-term but there is no requirement for us at the moment not to sell product in the US.

Praful Vohra: Okay so I assume you have not been given any kind of intimation from FDA to cease sales for Lipodox.

Dilip Shanghvi: I mean at the time when we need to share something we will, at this point we are not sharing any specific need for us to discontinue sales in the US.

Moderator: Thank you. The next question is from Sameer Baisiwala from Morgan Stanley, please go ahead.

Sameer Baisiwala: When should we expect the disclosures for SPARC and if you can just confirm Keppra XR ANDA filing was meant to be first quarter fiscal '13 event has that happened?

Dilip Shanghvi: Some time by December latest by early January we will have SPARC update and I don't have exact timeline about SPARC products right now but my understanding is that its continuing in line. I mean there is no delay that I am aware of.

Sameer Baisiwala: And my second question Dilipbhai is, what are your current thinking on biosimilars?

Dilip Shanghvi : Actually we've very little business in biosimilars.

Sameer Baisiwala: No in the sense that you see this to be an opportunity going forward and you want to put capital to work in this space.

Dilip Shanghvi: I think I am not currently at this point able to respond, but philosophically we have looked at biologicals as a challenging area and till the time there is regulatory clarity and we have greater understanding of returns, we have decided not to do too much in that area.

Moderator: Thank you. The next question is from Anubhav Agarwal from Credit Suisse, please go ahead.

Anubahv Agarwal: Just one question on DUSA. During your due diligence did you get an impression that DUSA is short of resources in the sense of capital let's say in R&D plus, let's say marketing resources for marketing the two products, and that with Sun taking over you could provide the resource for accelerated penetration of these products.

Dilip Shanghvi: I mean on face of it no, because they have $30 million in the bank and there is no reason for them not to be able to do what we plan to do but we are not in their position so I am not able to respond.

Anubahv Agarwal: And second question is you have been mentioning of your interest in a large acquisition in the US market but of course DUSA is appears, size of this acquisition appears smaller given at least we have the impression about it, does it mean that you still want to acquire something big in US or will it be split into two or three acquisitions similar to what your DUSA size is.

Dilip Shanghvi: No, we are very cognizant of one issue that every acquisition requires lot of time for consolidation so we don't want to do too many small acquisitions.

Moderator: Thank you. The next question is from Charulata Gaidhani from Quest Investment, please go ahead.

Charulata Gaidhani: I want to know what is the revenue from dermatology as of now?

Dilip Shanghvi: I don't have that number immediately.

Charulata Gaidhani: Or if you could give me a rough percentage of your revenues?

Mira Desai: We will take this offline Charu.

Charulata Gaidhani: And second question is why have the taxes gone up?

Sudhir Valia: Compliance is required as per the law which we are doing.

Uday Baldota: Tax rates otherwise have also gone up as per the rules that is an increase I think this is something that we had indicated in our earlier call also, the tax rates will continue to go up as we see the government increasing taxes.

Moderator: Thank you. The next question is from Nitin Agarwal from IDFC, please go ahead.

Nitin Agarwal: Just want to confirm the guidance we mentioned was up, was revised to 30% to 32% right.

Dilip Shanghvi: Correct.

Nitin Agarwal: And sir if I look at the first half it is almost similar to what you have really done, if I want to just look at 31% - 32% as a full year number second half run rate seems to be on a top line basis almost similar to what we have done in H1, so is it right to sort of assume given the size that we have had substantial so called non-sustainable or non-recurring sort of items, rather uncertain items including Taro (price increases) as well as Doxil sales, as well as high currency, so this is our view on these three factors going forward in the second half of the year also?

Uday Baldota: Nitin what is your estimate or what is your computation of growth in sales in the first half.

Nitin Agarwal: We did about 5400 crores of sales in the first half.

Uday Baldota: Which is growth of how much?

Nitin Agarwal: About 50 odd percent.

Uday Baldota: No, you said that the first half has also seen 30% growth.

Nitin Agarwal: No, what I meant is in terms of absolute amount, I said absolute amount we have Rs. 5400 crores in the first half and I take 30% - 31% for the full year I come to a number which is almost similar in the second half for the year also, is what I meant.

Uday Baldota: Yes I think that is correct. Meaning that's a mathematical computation so that is correct.

Nitin Agarwal: My only point was since we have been guiding cautiously on these two -three different variables and we are still talking about second half which is as big as first half so I just aligned that.

Uday Baldota: I think you need to factor in the first half domestic sales are much lower, the first quarter the domestic sales are much lower, to that extent there would be a return to normalcy in the full year second half. I think some of these still we need to factor in.

Moderator: Thank you. The next question is from Manish Jain from Axis Holdings, please go ahead.

Manish Jain: Congrats on a very smart acquisition in DUSA and I had two questions. First is as you mentioned on SPARC products being on track just in case Latanoprost, the NDA gets filed in US, will Sun be keen to take it up for marketing and if the answer is yes, how much time would it require to build up the field force. And the second question is if you can give an update on the Sun– Merck JV as to when do you expect the first roll out to happen.

Dilip Shanghvi: About Latanoprost I think we can share more information once we have greater clarity from the USFDA and at that point of time we will decide whether it is best for us to have it promoted with somebody or we will promote it ourselves so that's for Latanoprost. For Merck JV I think JV needs to share the information, we cannot share anything specific unless and until it is approved by the JV board. We remain excited about our working with Merck and we see a potential revenue upside coming to business once the products selected will start getting registered.

Moderator: Thank you. The next question is from Rahul Sharma from Karvy Stock, please go ahead.

Rahul Sharma: Sir just looking at DUSA's numbers the operating margins are basically fluctuating between strong double digits to single digit in the first half. Just wanted your thoughts on that, and can you please clarify.

Dilip Shanghvi: I mean what is it that you want me to say.

Rahul Sharma: In the sense that is this an aberration in the first six months numbers or is it because last year we had got almost 17 odd percent EBITDA in DUSA and now it has come down to almost 8% - 9% in first half.

Dilip Shanghvi: If you look at like-to-like you can see the difference. It is a seasonally biased procedure you have greater procedures during the winter period. So, generally they expect the last quarter to be the biggest quarter.

Moderator: Thank you. The next question is from Kartik Mehta from ICICI Securities, please go ahead.

Kartik Mehta: Just a general question. From 2005 to 2013 if I just actually look at it, Sun's sales has increased almost about 10 times and PAT has also increased by almost about the same amount. The first five years with very small acquisitions and the base business and the last three– four years have been through large acquisitions and also through some very high number of one-off. How would you see the next four years, because on the base that we are in now with our focus on overall profitability, would it be fair to assume that the India business and the Taro business continue to maintain the profitability, I am not talking about the sales over the next four– five years... if no, what are the things that can be adversely impacting that.

Dilip Shanghvi: We are actually looking for an astrologer in the room, so if we don't have one it is difficult to answer, because I think we can see only one year we cannot and will not be able to comment anything beyond what we can guide you for. We saw an opportunity to guide that we will be able to achieve 30% growth this year so we have revised our guidance, so we don't make it easier for us to meet numbers but it is difficult for me to predict how markets will behave in the future. We continue to work in such a way that we can find a way to grow our business faster than the market.

Moderator: Thank you. The next question is from Chirag Talati from Espirito Santo, please go ahead.

Chirag Talati: Just one question, in term of the placement of devices do you think that in order to accelerate growth you need to place a much larger number of devices going forward or that the current number of devices is enough to accelerate the drug product sales in next two– three years for DUSA.

Dilip Shanghvi: I think it is difficult for me to immediately respond but I think company's consistent focus has been to increase the number of devices placed with different doctors so if that's helped them to grow then we want to do that faster. We don't know what are the operating restrictions which prevent that from happening so as we take over the business and run it, we will have a better sense.

Chirag Talati: Okay and just one follow up. In terms of pricing for the drug product sales, I mean how do you see the general AK market in terms of pricing for your products, do you think there is room to consistently drive prices like other companies have been doing for their prescription products.

Dilip Shanghvi: We don't know how it is reimbursed fully as yet because theirs is a drug device combination reimbursement so there is a separate provision under which it is reimbursed, so once we have clarity about that , we will share that with you.

Moderator: Thank you. The next question is from Aditya Khemka from Nomura, please go ahead.

Aditya Khemka: The sales over the last nine months over the corresponding period last year, the growth has been 17.5% year-over-year so how do you see this going forward would we expect a similar rate going forward for the India business.

Uday Baldota: Which sales are you talking about Aditya.

Aditya Khemka : The nine months sales that is Q2 FY13, Q1 FY13 and 4Q of FY12 so if I look at this period over the similar period last year the year-over-year growth rate comes to about 17.5%.

Uday Baldota: Which entity are you talking about?

Aditya Khemka: India.

Abhay Gandhi: No I think we have always said that we will work towards growing faster than the market and that is something that we will try and achieve going forward also.

Aditya Khemka: And what would your guidance for the effective tax rate for FY13 and onwards?

Abhay Gandhi: I think we have indicated earlier that it would be higher than what it has been in the past, lower than 20% is what we are indicating.

Aditya Khemka: And if I can just squeeze in one more, what is the kind of tax rate you expect to see in the future?

Uday Baldota: I think we have said it would be higher than it has been in the past... lower that twenty percent.

Aditya Khemka: if I can squeeze in one more—about the Levulan® patent so the combination product from DUSA, that product is currently being marketed in the US largely, right and you plan to take it worldwide but if you go through the 10 K filiing of DUSA they say that some patents on the Levulan® product itself have expired worldwide would you care to comment on that.

Dilip Shanghvi: No that's correct, I think they would have expired in international markets but then a drug device combination will maintain exclusivity even if there is no patent protection.

Aditya Khemka: So, basically the drug patent has expired but the combination patent may allow you to have exclusivity in the international market so that's what you are saying.

Dilip Shanghvi: Also a drug device combination it is difficult for a generic company to copy.

Moderator: Thank you. The next question is from Kaustubh Kulkarni from Reuters, please go ahead.

Kaustubh Kulkarni: My questions have been answered, thanks.

Moderator: Thank you. The next question is from Hitesh Mahida from Fortune Equity, please go ahead.

Hitesh Mahida: Just wanted to know when can we expect our oral contraceptive launches in the US, and do we still think that it is a good opportunity considering the competitive scenario which has gone up in this particular space and secondly, how has been the initial market share gain from our nasal sprays.

Dilip Shanghvi: Oral contraceptives I think we will respond once we have an approval. About nasal spray I think we are happy with the speed with which we are able to gain market share, we have two products in the market and we are happy with our progress.

Moderator: Thank you. The next question is from Ajay Tyagi from PTI, please go ahead.

Ajay Tyagi: Congratulations on the results. I just wanted to know that after the DUSA acquisition are you planning more acquisitions in US market or in other markets in this financial year.

Dilip Shanghvi: No, we continue to look for opportunity to expand our business in all key geographies. US is an important market that we are focused on, and we are looking at buying other businesses hopefully larger than DUSA going forward.

Moderator: Thank you. Ladies and gentlemen due to time constraints we will take one last question from Ravi Agarwal from Standard Chartered Securities, please go ahead.

Ravi Agarwal: On this DUSA acquisition again once for the ROW market I was reading the 10K for DUSA and it clearly mentioned that there has been a problem in getting reimbursement on this product and the per unit prices are also roughly around $150 to $160 so both from a pricing and reimbursement perspective do you think ROW strategy is something which is feasible or workable in the short-term, it is something which is more a medium term strategy.

Dilip Shanghvi: Yes I think approval as well as reimbursement will make it a medium term strategy because there will be some time spend for both of that.

Ravi Agarwal: And final question on the domestic business, I mean was there spillover effect in this quarter as well from the inventory issues of Q4 because the growth has been around 15% on a reported basis so is that just including only sales for this quarter or this has some spillover from the last quarter here.

Abhay Gandhi: A negligible spillover in the current quarter.

Ravi Agarwal: I mean we are kind of used to actually seeing high-end number for Sun, any reason for 15% kind of growth or I mean I think it is a bit lower than what you have trended to do earlier.

Abhay Gandhi: No, we also hope to do better in the subsequent quarter, yes thanks for really challenging us and it is most welcome.

Dilip Shanghvi: No I intend to have a discussion afterwards on this.

Ravi Agarwal: Thank you so much and all the best.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference back to Ms. Mira Desai for closing comments.

Mira Desai: Thanks Marina and thank you everyone for joining us this morning. If you have any questions that have remained unanswered, or if you have new questions please feel free to get in touch with us. Thanks and have a nice day, bye.

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