

SUN PHARMA Q4 EARNINGS CALL APRIL 26, 2002

Moderator: Good afternoon Ladies and Gentlemen. I am Mrinalini, the moderator for this conference. Welcome to the Sun Pharma Annual fourth quarter unaudited earnings conference call. For the duration of the presentation, all participant lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted for international participants connected to Singtel. After that the question and answer session will be conducted for participants in India. I would like to hand over to Mr. Sudhir Valia. Thank you and over to Mr. Valia.

Sudhir: Welcome. I am Sudhir Valia, Director looking after operations of Sun Pharmaceutical, and I am very happy to announce this quarter results. The quarter ended 31st March 2002.

The total sales has increased by 10%, and the net profit after tax and deferred tax has been increased by 29%. The sales for the full year increased by 22% and the net profit increased by 27% after the tax. The lower growth rate in top line in last quarter is on account of two main reasons. Last year in October, the company has decided to exit the low margin cephalosporin bulk business. The impact of this is about Rs. 174 million. Eliminating the cephalosporin business in both year and the growth in the top line, which will be 27% in the current year. Secondly, the international formulation business continues to be an attention area. Mr. Shanghvi would outline the strategy and restructuring and revitalizing the international formulation business.

The performance of the new product introduced by the company in last two years has been extremely encouraging. Some of the products are market leaders in their respective category in the relative short span on time. I may touch upon few product, Edegra, Clopilete, Mosax, Mirtaz, have been very well accepted by the specialists. We expect the product and the products to be introduced over next few quarters to sustain the growth rate of the company. Similarly, the specialty new bulk drug like letrozole, clopidogrel, mirtazapine, has been doing very well in both domestic as well as international market. The ratio of formulation business to bulk is 66:33. Export contributes about 19% of the total business.

In the just concluded year, we have used information technology extensively to streamline the operations. All the manufacturing locations and the depots has totally been connected and the flow of information is continuous. The corporate office has updates with the information of sales and production on hourly basis. This has improved our response time to the customer, lowered stock outs, and improved the working capital. The inventory which were about 88 days sales last year has been reduced to 64 days in spite of the increased sales. In the absolute terms also inventory have been brought down from 1.48 billion to 1.31 billion, and at the same time 20% is rise in the business. Similarly, debtors has been contained at 1.09 billion, which is representing 53 days of sales, against 56 days sales in the previous year. Considering the fact that Sun Pharma handles very large number of small products both in formulation and bulk drug business this is a significant achievement, which would not have been possible without effective use of information technology. A state of art ERP system has been implemented across the company, corporate office, manufacturing locations, and marketing locations. This will further improve the MIS and decision making process for operating margins in the coming years. The company expects overall growth rate during the current year, that is, 2002-2003, between 15% to 20%, after considering the impact of Rs. 300 million due to exit of cephalosporin business, the international formulation business on which we are putting special focus is expected to grow by about 40%. I would now hand over to Mr. R. K. Baheti for sharing details on some of the financial numbers.

Mr. Baheti: Thank you Mr Valia. Thank you all participants. I would like to share some of the financial highlights with you. Results for the quarter and for the full year include the numbers of Pradeep Drug Company Limited, whose amalgamation has now been completed. You would be aware that Pradeep Drug was incurring a loss of about Rs. 10 million per quarter due to high overheads on account of lower capacity utilization and limited margins. We are addressing the operations of Pradeep Drug by replacing its pipeline with better margin newer products. You are also aware that long term objective of acquiring Pradeep Drug facility was to provide a bulk active manufacturing base for domestic and unregulated market once Panoli and Ahmednagar begins to concentrate exclusively on regulated markets. While other expenditures have been tightly monitored and controlled, we have consciously stepped up investments on international marketing, product promotion, and registration expenses. The expenditure on these items have been increased from about Rs. 136 million last year to about Rs. 175 million this year. We expect the increased investment to start delivering results from 2002-2003. The operating margin, that is EBITDA, has been maintained at 26% for the year despite Pradeep

Drugs consolidation. As per the new accounting standard 22, the company has provided Rs. 35 million towards deferred taxation, which was not there earlier. Therefore on a like to like basis, the net profit for the full year would have been higher by 30% but for this provision. You are aware that this is a non-cash item. The EPS for the year is 36.5, a growth of 31% from the previous year. The other income of 68 million is essentially business income only. It mainly consist of foreign exchange gains on debtors and EFC balances and dividend income from Sun Pharma Global, a 100% subsidiary. We expect this income to be stable. The company has redeemed the entire preference share capital during the year, and there is no long-term debt in the books. Working capital financing by bankers have also come down from about Rs. 334 million in the last year to only about Rs. 80 million as on 31st March 2002. This has resulted in higher net interest income of 54 million against only about 10 million last year. The company continues to get highest rating from the credit rating agencies as well as bankers for it's working capital finance, and is able to procure the finance at the most competitive rates. During the year, the capital expenditure has been over Rs. 500 million. The major investments have been on research and development about Rs. 140 million, and on new Dadra project about Rs. 210 million. The total expenditure on research for the year was about Rs. 322 million, which is 4.3% of sales as against Rs. 245 million last year which was 4% of the sales. The expenditure on research is likely to be stepped up further to about 5% of sales in coming years. We have already started work on new 15 acre site at Baroda, and a new premises is also being acquired at Mumbai for expanding the current formulation development lab for North American and European market. As a result of containment of cost and improvement in working capital cycle, as outlined by Mr. Valia, the return on capital employed has improved from 26% to 29%. Before ending my presentation, I would like to remind the participants that the results would be finalized and audited only after approval of scheme of rehabilitation of M J Pharmaceutical by BIFR. However, I believe it would not have any major impact on the performance of the company. I would now hand over the mike to Dilip Shanghvi for outlining the future strategy and business outlook.

Dilip Shanghvi: Thank you Mr. Baheti and thanks all the participants in the conference. One of the attention area that as a company we are focussing on, because it represents a major opportunity is the international business, and I would share with you going forward what are the changes that we are planning to make in our international business focus which should help grow that business rapidly in future. We are focussing on 30 key products in all the market wherever they are registered with a view to develop a international business focussed on specific therapy area and specific products. We have transferred and recruited very successful managers in our international business, which should form a nucleus of future international business team for Sun Pharma. With this restructuring last year, we have started investing in creating infrastructure for international business, and international business expenses have gone up as a result of this last year, but that should start producing better results from this year. We expect at least a 40% growth on international formulation business this year , which on a relatively very small base does not represent any significant number, but from my point of view it could be beginning of developing a international business focussed business organization at Sun Pharma.

Caraco has just announced their results, which are with you, so I will not dwell on that, however Caraco remains confident of meeting their shared objective of achieving \$16-18 million turnover this year and make profits this year. They plan to file for at least 4 or 5 new registrations this year. Since we are now reasonably confident about our success in the US market, we also plan to strengthen our US operations by filing out of India from M J facility at least 4 to 5 products this year. We will also be filing 6 formulation products for European registration this year.

While we are strengthening our operations in international business in markets where we are already present, we are also making serious effort to enter the South American market and South African market, result of which may not come this year, but we are reasonably confident of producing substantial future increase in business out of this market in subsequent years.

There is a corresponding matching activity for filing drug master files for all the new products that we are filing either out of Caraco or out of MJ. Most of our new filing would be based on bulk active supply, preferably by Sun Pharma.

As Mr. Baheti shared with you, we are making substantial investments in research and development by increasing our capacity in research both at Baroda and at Bombay. The key issue here is that majority of this investment is in the process of strengthening our innovative research area either in drug delivery system platforms or in the area of new chemical entities, and which should take up our overall investment in innovation based research from 30% to 35% today to around 65% over next 18 months. While both these facilities will become operational in a period of 18 months, we would be recruiting people and commissioning new equipment, which are for research and housing them in temporary facilities. So what I think I am trying to share with you is that while these expansion will get operationalized over next 18 months, the process of increased investment and hiring of scientists would continue during this entire period. The confidence that we have based on our learning curve on research and the successes that we are getting makes us feel confident to commit

anywhere from \$15 to 20 million in research within a period of 3 years. So in a way if I look at managing the business at Sun Pharma, while managing the growth momentum at the domestic business where competition is increasing, invest in developing international business and rapidly learn the opportunities in US and Europe, and maintain overall margin and sales and profit growth momentum on one side. On the other side, make long term investment in research and commit large resources is a very interesting and challenging assignment. The entire team at Sun is geared to manage this transition of the company from a process driven to a innovation driven organization over next 3 to 5 years.

Now if you have any questions, we would be very happy to answer them.

Male speaker: Mini, you can open the conference for question and answer session.

Moderator: Thank you very much Sir. At this moment I would like to hand over the proceedings to Ameena to conduct the Q&A for international participants. After this we will have a question and answer session for India participants. Thank you and over to Ameena.

Moderator: Thank you Mini. We will now begin Q&A session for participants connected to Singtel bridge. Please press *0 or \$0 to ask a question. Thank you.

Mini, at this moment there are no further questions from participants at Singtel.

Moderator: Thank you Ameena. We will now begin a Q&A interactive session for India participants. Participants who wish to ask questions, please press *7 on your touchtone enabled telephone keypad. On pressing *7 participants will get a chance to present their question on a first in line basis. To ask a question please press *7 now.

First in line is Mr. Satish Bhat of Daulat Capital.

Satish: Good afternoon Sir, you declared a very good result for the year ended. Sir, I just wanted to know what is going wrong in strategy regarding formulation exports, can you please throw some light on that.

Male speaker: Yeah, I think, if we look at the constitution of our international business historically then it was more a sales driven business, and by a conscious decision we decided that we would reduce the sales focussed business to prescription product and brand building business. In the process of making this shift in the business, we have registered new products, which we wish to promote across all the international markets where we have been able to register them. And the increased investment represents increased investment in promoting those brands. However, as all of you are aware, brand creation and creating business based on brands is a slow process, and we expect results out of this investment last year to start producing result. The other key change we have made is, we have restructured our international business organization. Transferred quite a few successful managers out of our domestic business who are very familiar with brand building process into this business, and we have also hired people with international business experience. So we are reasonably comfortable that that turnaround in our international business should start happening from second quarter next year or may be this year.

Satish: Sir can you tell me how long it will take for us to reach a Rs. 1 billion sales in export formulations.

Male speaker: I think, I mean, looking at our current business I think anywhere from 2 to 3 years we should be able to reach the number that you are discussing.

Satish: Okay thanks.

Moderator: Thank you very much. Next in line is Mr. Jayaraj of Cholamandalam.

Jayaraj: Good afternoon Mr. Baheti. My question is relating to Caraco Pharmaceuticals. Is there any agreement to supply the bulk drug quantity required by Caraco Pharmaceuticals or they file ANDA approvals they get.

Baheti: No, there is no formal agreement. It is sourced to Caraco on a hands off basis, from India on a hands off basis.

Jayaraj: Can you give me a rough estimate as to what percentage of the requirement is to be supplied.

Baheti: As of now it would be difficult for me to give numbers because Sun Pharma is still in process of getting DMF approval. Once we get the approval then only the question of exporting to Caraco would arise.

Jayaraj: My one more question is, when do we expect the international formulation restructuring to bear fruit.

Male speaker: The restructuring process is over as Mr. Shanghvi said. I think, we should start seeing the results by second quarter this year.

Jayaraj: Okay. Thank you.

Moderator: Thank you very much. Next in line is Ms. Preethi Gopal of Birla Sunlife Securities.

Preethi: Hello, I had the same question, I mean, if there was a confirmed agreement. My question has been answered. Thanks.

Moderator: Thank you very much. Next in line is Mr. Ravi Shankar of Alchemy.

Ravi: Hello Mr. Shanghvi. I should congratulate on fairly good results. I just wanted to know more on the export side, I mean, which are the areas or countries you are trying to export, and where is the main growth coming from firstly. And secondly, in the domestic market, what kind of growth do you see and how much the trend is on the profit margins in the domestic market.

Shanghvi: Our current exports are mainly to CIS, China, South East Asia, and some countries in Africa. We have products under registration in South Africa and South America. We are registering additional products in other key markets. The focus that we have is in increasing our business in Russia and China as well as South Africa and South America. Some of this should start producing result this year, but since these are quasi regulated markets, registration process is slightly slow. Hopefully, we may get some business by the end of this quarter, but some of the other markets like neighboring countries of Sri Lanka, Burma, South East Asia, would produce faster results at the beginning of the improvement in the international business.

Your second question is related to domestic formulation business. I think, we expect to grow by anywhere from 15% to 20% in domestic business this year. This would be essentially based on organic growth out of existing products as well as the new products that we plan to introduce during the year. And we are reasonably confident of maintaining the overall margin for the product.

Ravi: Splitting the margins, can I assume that export margins are better.

Male speaker: Export margins on formulations are higher.

Ravi: On annualized basis, how are the margins in the domestic market.

Baheti: I think we are more or less maintaining our profitability in the domestic market.

Ravi: Right. Okay Sir, thank you.

Moderator: Thank you very much. Next in line is Ms. Shilpa Gupta of ICICI Securities.

Shilpa: Good afternoon Sir. Congratulations on very good results for both Sun Pharma and Caraco. Sir, my query is more on the Caraco side. Caraco has reported very good results for the first quarter, but I wanted to understand Sir, if we look at the gross profit margin, it has declined on a QOQ basis, like last quarter was 49.7% and it has come down to 44% despite launch of some very higher profitable product. Sir, I wanted to understand the reason for that, and second, Sir, the R&D expense in Caraco has also declined on a QOQ basis from \$1.1 million to \$0.85 million. My third question on Caraco is that, what we have seen as a sales increase of 0.8 million on a QOQ basis, where as there were three products launched in the first quarter, including metformin which alone clocked in \$1 million sales. Sir, has there been a decline in sales of older products or is it a component of seasonality. Thank you Sir.

Male speaker: Shilpa, cost of sales, and R&D; lower R&D in the March quarter as compared to the December

01 quarter, are both factor of allocation of cost between production and research. See, when we say cost of goods produced, it has certain overheads also included in that, and because of higher level of production activity the ratio of allocation to production has gone up. That has increased the cost of production and that has marginally reduced the R&D allocation.

As regards to sales, I think, Mr. Borkar clarified yesterday that the \$1 million sales of metformin which he announced is for the period upto the date of announcement, that is, I think 21st April or so. So, that was not for the quarter only.

As regards to the newer products, I think, we are selling them well, and we are also gearing up..., we have geared up inventory for the approved products so that we can achieve better sales in this quarter.

Shilpa: Thank you Sir.

Moderator: Thank you very much. Next in line is Mr. Jesal Shah of SG Asia.

Jesal: Good afternoon everybody. I just wanted to understand the export formulation business in FY01 and FY02, the formulation exports has fallen from about Rs. 340 million to Rs. 284 million. If you can just explain which are the market to which these were exported and which markets have actually seen a dip, and if there are any markets where there are no problems.

Male speaker: Jesal, thank you for asking a question which helps me clarify. The markets actually which have not done well are the markets in CIS and in China. China, our business was slow essentially because for a period of 4 or 5 months during the last year our product which was under re-registration did not get the re-registration. So, now, we have received the re-registration by the end of last year, so that business should recommence. We have restructured CIS operations totally and last year I think the CIS operation was the single largest reason for reduction in overall exports. The performance of exports in all other markets, I think, has been more or less in line with their original projection. So this reduction in exports is not what I would call a problem effecting all the countries and all the markets, but it is more specific to two markets. Unfortunately, those two are the markets which are the largest. So as we put in place the corrective measures we hope to see significant improvement in the overall performance in these two markets also. I hope that this answers your query. In case if you need any further clarification, I would be very happy to clarify.

Jesal: Yes, just to continue on that, what would be the proportion of CIS and China put together in FY01 export formulation.

Male speaker: I don't have that specific detail here with me, but...

Jesal: Approximately?

Male speaker: I think it would be in the region of around 40% plus, but I can be off, so I wouldn't like you to..., but it is not a small business in the earlier year, but it is a much smaller business last year.

Jesal: So is it that your CIS and China business has seen a major degrowth and your other markets have actually grown.

Male speaker: I think so. Arithmetically, you should be right. Broadly, yes, I think the business in other markets has grown. It is only the business in these two-three markets which have gone down.

Jesal: So what is your entry strategy for CIS market now, I mean, are you gonna be using your own field force or you gonna be using distributors, field force, and I mean, how will you penetrate CIS market now.

Male speaker: We have actually..., we are expecting some new approvals immediately, which would help us focussing on marketing while we would be using a mix of both our own field force as well as the distributors field force.

Jesal: Can I ask you one question on which distributors are you using for the CIS market, are these big ones or..., and also what is the size of your own field force.

Male speaker: I think we deal with 3 or 4, I mean, I don't like to be caught off balance, but unfortunately I may

not know specifically the name of the distributors who handle our products, but I believe we have products available with 2 of the largest wholesalers in Russia. I will not be able to give you the names. And, we would have I think something like 20 people working for us or 25 people working for us, but even that number, I don't have exactly.

Jesal: Okay, no problems. You seem to be more confident on the choice of products now, which you keep talking about time and again that you have registered, what is it about these products that gives you so much confidence that now you will be able to deliver growth on exports.

Male speaker: See historically our product basket in Russia was composed of products which had mainly tender business, because at that point in time the market was mainly centralized. While the markets changed in last 4 or 5 years, we did not register any significant new products. So, the competition intensity on other products that we had in our product basket went up during this intervening period, and we did not register any new product. We started registering products only since last year. And, since these are contemporary products, we don't expect any significant competition on these products, and we should then be able to market and promote them scientifically which would help us create prescription demand and realize sensible valuation.

Jesal: So, will I be right in concluding at least for the current year and may be for the next 18 months, CIS and Chinese market will be the two markets which will drive your export formulation growth and beyond that may be the European markets.

Male speaker: Yeah, I think we can see some improvement in CIS during this year, but as I explained the other markets will respond immediately to additional efforts, markets like Sri Lanka, Burma, Malaysia, Thailand. We also expect significant improvement in China. Russia may not be significant improvement over last year this year, but in the coming years it is also an important market. And in subsequent year, I think we expect business to come from Mexico, Brazil, South Africa. And I think looking at the European registration time lines, since we would be filing this year, even next year, in most of the market, we would not be registered. So in the subsequent year, we would see European business.

Jesal: Just one question on your Latin American initiative. There, would you also agree that Brazil is the main focus there or is it some other region, some other country.

Male speaker: Yeah I think Brazil is one of the largest market. Also, I think they have initiatives in place to contain cost in the health care sector. So in a way it is favorably disposed towards looking at generics and specialty products coming out of other markets. But other markets in South America also represent interesting opportunity.

Jesal: So out there also you would be basically going with your own field force or you are looking at tying up with existing players and supplying formulations from here.

Male speaker: I think we would be looking at tying up with people in key markets. We don't plan to create a field force of our own immediately.

Jesal: Okay. One question was on Pradeep Drugs consolidation this quarter and for this year, Mr. Baheti said, losses were about Rs. 10 million in this quarter, what about the annual loss, how much was that.

Male speaker: About 40 million for the year.

Jesal: Okay. And what about the effect on sales, how much has that changed your sales growth.

Male speaker: The incremental sales growth for the year is about 100 million.

Jesal: And for the quarter.

Male speaker: For the quarter would be about 25 million.

Jesal: If I remember correctly you had mentioned earlier that it is basically Sun Pharma purchasing products from Pradeep Drugs, and despite that there is a 10 million, or whatever, Rs. 100 million in sales for the full year. Is that correct?

Male speaker: No. Actually, when we were reporting the numbers separately, pending the merger approval, we were showing it as outsourcing. Now that it has become a unit from last year, I mean it is a unit's production and sales.

Male speaker: I think what he is trying to understand is that since you were using it as a outsourcing base, why does it add to your turnover if it is only a third party manufacturer. Is that what you want to understand Jesal?

Jesal: Yes, that is right.

Male speaker: Jesal, we were outsourcing, Sun was outsourcing earlier only for the export market. So the domestic business was being done by Pradeep directly, whatever small was that business.

Jesal: So, what is the overall sales of Pradeep Drugs on a standalone basis.

Male speaker: On a standalone basis, including exports?

Jesal: Including exports, yes.

Male speaker: Would be about Rs. 250 million.

Jesal: Okay. In regards to your cephalosporin business, which you have discontinued, you said the overall size of that business was Rs. 300 million, is that right? For the full year.

Male speaker: The overall size of the business was about Rs. 500 million. Out of which we have already effected a cut to the extent of about Rs. 175 million. What we said is, what Mr. Valia said is that, another 300 million impact would be on account of cephalosporin business in the current year, that is, 2002-2003.

Jesal: So, what is being done with the plant which was there in Gujarat Lyka.

Male speaker: We are revamping the plant. Mr. Valia would you respond.

Mr. Valia: Yeah, the plant is now being producing intermediate and few fine drugs which are also being used for ultimate drug at some other locations. So, the plant is already decontaminated, and now we started producing intermediates in this plant.

Jesal: But are these cephalosporin intermediates or are these some other group of molecules.

Male speaker: Jesal, what we have done is, we have validated a technique for decontaminating the equipment and we spent almost Rs. 20 million or may be around Rs. 30 million only on decontamination. So, we don't handle cephalosporin and penicillin or beta lactam material there at all, and we are only manufacturing intermediates there.

Jesal: Right. So basically...

Male speaker: These are not cephalosporin intermediates.

Jesal: Okay. So basically if you were to adjust for the discontinuation of cephalosporins, you said was from October of last year, then your bulk business would have shown a high growth than what it has apparently been reported.

Male speaker: Sure, if we had not discontinued. Yes.

Jesal: Okay. So, what's really driving this phenomenal growth in bulk business then.

Male speaker: We have introduced quite a few new specialty, small volume specialty products.

Male speaker: No, but also where is the phenomenal, even if you add the number to the cephalosporin, I mean, Rs. 180 million to the overall bulk business, what is the impact on the total bulk business.

Jesal: But the cephalosporin was mainly getting exported, or was it for the domestic market, this Rs. 180

million which has been discontinued...

Male speaker: Both.

Jesal: Okay.

Male speaker: See, if you see, the bulk business overall for the whole year if I look at that is.....

Male speaker: 600 million as against 630 million last year, this is for the quarter.

Jesal: For the quarter.

Male speaker: Even if we have to look at the year, and the overall year, we have grown by around 20%, and if we had let's say Rs. 180 million extra here, that would have added another 5% or 6%. So, it would still be 25%. So that is not phenomenal.

Jesal: Right.

Male speaker: But, yes, I think as I think I have always explained to people that even though we wish to grow the formulation business faster than the bulk business, sometimes bulk business grows much faster on its own. I think what we are happy about is that we have been able to maintain the ratio of bulk to formulation at around 65% consistently over last few years.

Jesal: Okay. Just moving on to Caraco, just one question I had there was, you talked about filing 4 or 5 products there, and 4 or 5 additional products from MJ, is that right? Is it additional products?

Male speaker: Yes.

Jesal: So what is the overall R&D spend that you are targeting this year for just the US market.

Male speaker: Actually we don't compute the R&D spend specifically for separate markets, but we have shared with people that we would be investing around Rs. 35 crores in setting up the research facility at Baroda, and may be around Rs. 10 to 11 crores for setting up the facility in Bombay. But, that is one time investment. On revenue cost, I think we are expecting another 25% to 30% overall increase this year or may be slightly higher. That would be both in innovation as well as in process development.

Baheti: I am sure just as well there will be other people in queue?

Jesal: Yeah. Okay.

Shanghvi: If you have something important I think in a way it would be useful for others to participate. Okay may be in the second round or so.

Jesal: May be. I can wait a while.

Shanghvi: Okay, thank you.

Moderator: Thank you very much. Next in line is Mr. Sameer Narayanan of Enam Securities.

Sameer: Congratulations Sir for the fantastic results, once again from our group. Sir I had one question regarding the working capital. You said the ROC has gone up from 26% to 29%. Sir, could you elaborate on how is the working capital moved?

Male Speaker: Before Baheti answers, I think we are none of us is very happy in this room, not on fantastic results, I am sure we have done much better in the past and we look forward to doing that again. But I think Mr. Baheti will answer.

Baheti: Yeah Sameer, I think Mr. Valia gave the presentation on the working capital cycle where we have improved the inventory turnover and I think we have also reduced the debtors level marginally.

Sameer: Sir, could you give us number of days figure?

Baheti: Shall I repeat the number?

Sameer: Yes Sir.

Baheti: By inventories as on 31st March, 2001, were approximately 88 days of sales which has been reduced to 64 days of sales as on 31st March, 2002. In absolute terms the numbers have gone down from 1.48 billion to 1.31 billion in March 2002. With an increase of business by about 20% the effective reduction in inventory is about 35%-40%. The debtors are now 53 days of sales as against 56 days of sales last year.

Sameer: Okay Sir. Thank you Sir.

Moderator: thank you very much. Next in line is Mr. Sandeep Kothari of CLSA.

Sandeep: Hi, my questions have been answered.

Male Speaker: Thank you Sandeep.

Moderator: Thank you very much. Next in line is Mr. Pawan Nahar of Prabhudas Leeladhar.

Pawan: Yeah good afternoon. I have question for Mr. Shanghvi. Are we sharing any plans for Caraco say 2003?

Shanghvi: We are not sharing because Caraco has not shared this numbers with their shareholders yet. However, Caraco, when it achieves the projections that they have shared with investors this year, still would have a very very small business in the US. And it should be possible to look to a significant growth in percentage terms on a small base. I am not able to share specific numbers with you, but I think it would be definitely substantial growth over whatever they achieve this year.

Pawan: Okay personally when are you expecting Caraco to cross \$50 million mark of turnover?

Baheti: You are asking the same question in a different way.

Pawan: Sir did you expect anything out there?

Shanghvi: Pardon!

Pawan: Did you expect any comments?

Shanghvi: From me?

Pawan: Yeah.

Shanghvi: No I think it's a difficult question. The only choice I have is not to answer.

Pawan: Okay fair enough. Now that we have another 300 billion of discontinued sales this year, what should be the growth or you know the impact on the bulk's business?

Shanghvi: I think we are talking about 15% to 20% overall growth, in spite of these discontinued business of 300 million commodity bulk this year.

Pawan: 15% to 20% for the bulk's you are saying?

Shanghvi: Overall.

Pawan: Overall. And bulk specific?

Shanghvi: I think around 15% to 20%.

Pawan: Despite the, I mean the same number for bulks and formulations?

Shanghvi: Yes.

Pawan: Okay. And are you sharing any plans for Europe, I mean when you talked about Latin and South Africa you said that you would be looking at tie ups. What about Europe? Are you looking at any acquisitions out there like in the US?

Shanghvi: No acquisitions in Europe immediately, but we are looking at the European market much more carefully than we use to, because now that the US operation is likely to be self sustaining from this year we have to find investment opportunities in Europe. And we have been doing that since the last 18 months and our understanding is improving significantly, but we don't plan to invest in any manufacturing facility in Europe this year.

Pawan: Okay. No I was talking about, what about your marketing plans?

Shanghvi: We would tie up on a product specific basis with different companies in different countries. We may tie up with one company even far across the markets.

Pawan: Okay Sir, fair enough. So should we expect 2004 revenues, I mean from Europe?

Shanghvi: Yes, 2004 revenues out of Europe, yes.

Pawan: And 2003 would be Latin and South Africa?

Shanghvi: I mean we are talking about financial year 2003-2004 for Latin and South Africa and 2004 beyond for Europe.

Pawan: Fine thank you and best wishes.

Shanghvi: Yeah thank you.

Moderator: Thank you very much. Participants who wish to ask questions please press *7. Next in line is Ms. Shilpa Gupta of ICICI Securities for the follow up question.

Shilpa: Sir just wanted to understand for my clarification only Sir, the export growth of 40% as we have been talking about, is growth is for formulation exports or exports overall Sir?

Shanghvi: Formulation exports.

Shilpa: Formulations exports?

Shanghvi: Yeah.

Shilpa: Thank you Sir.

Moderator: Thank you very much. Next in line is Mr. Manish Jain of DSP Merrill Lynch.

Manish: Good afternoon everybody. My question is primarily on R&D. Given that we are expanding our facilities both in Baroda and Mumbai, what is the likely increase in R&D expenditure side on the revenue front and for the current fiscal year and the next year?

Shanghvi: Mr. Baheti talked about increasing the R&D spend from 4 to 5% this year, and I am visualizing that in the next three year our R&D spend should go up anywhere from US \$15 to 20 million equivalent, because we expect some products to get into human studies in next two years, and that would involve substantial investments. And we would also be increasing the investment on innovation base research in India, which is also quite resource intensive.

Manish: Okay, thanks.

Moderator: Thank you very much. Our next question comes from Mr. Sameer Baisiwala of JM Morgan Stanley.

Sameer: Good afternoon to all. How is the pricing environment in domestic market for both bulk and dosage form business? And how much of a total growth is lead by pricing?

Shanghvi: Yeah, I think..., thank you for asking a difficult question. The market remains tough for pricing specially for bulk in India, and they drop very rapidly even for speciality bulk. The formulation market is reasonably okay, and we are looking at maintaining our current margins overall, including new products, at least for this year and the next year. I am not able to project beyond two years.

Sameer: Thanks. How about the second part of the question? How much of the total growth is price led?

Shanghvi: I think around..., I don't have exact number, but I think it is around 2%.

Sameer: Thank you very much.

Shanghvi: Just a moment. What Mr. Valia was trying to say, in fact the overall bulk pricing during the year has gone down by almost 15% overall. So, whatever growths that you see is after making up for that 15% reduction in overall pricing during the year.

Sameer: Okay. And for the dosage form business?

Shanghvi: Dosage form I think we have increased the overall pricing by around 1%. That's a net result of price reduction and price increase.

Sameer: Which I believe is perhaps lower than a run rate for the previous two years?

Shanghvi: Yeah, it is slightly lower than previous two years. Earlier it used to be 2-3%, now it is 1%. Hopefully, we should be able to reach 3% this year again.

Sameer: Okay, thank you very much.

Shanghvi: Thank you.

Moderator: Thank you very much. Next in line we have Mr. Sandeep Kothari of CLSA with the follow up question?

Sandeep: Mr. Shanghvi just one question on the new drug delivery technologies, which you have been working on. Do we expect any filing based on NDDS based products for the international markets specially Europe and US? This year.

Shanghvi: I think not this year, next year.

Sandeep: Thank you very much.

Moderator: Thank you very much. At this moment there are no other participants in the question queue. I would like to hand over the floor back to Mr. Shanghvi for final remarks.

Shanghvi: Thanks all of you for participating in the conference call and then asking some interesting questions which helped us clarify our position and share with you our plans and thoughts on strategy and future of Sun Pharma. Thanks.

Baheti: If any of you have any more questions, you can contact either me or Mira at any convenient times and we will be happy to respond to that. Thank you very much for being with us.

Moderator: Ladies and Gentlemen, that concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice evening.