

Speech delivered by  
**Mr. Dilip Shanghvi** ,  
Chairman and Managing Director of the company,  
**at the 9th Annual General Meeting,**

held on November 28, 2001, at Vadodara

Ladies & Gentlemen

On behalf of the board of directors, I am glad to welcome you to the 9th Annual General Meeting of your company.

Before I begin, I should like to share with you an important landmark your company has reached. The prestigious international business magazine Forbes Global recently ranked Sun Pharma in its list of the best 200 small companies. More than 20,000 companies met their definition of "small", that is, turnover less than \$500mill. From this list 200 companies were further shortlisted based on market capitalisation, growth and inputs from the financial and business community. Hence fairly stringent qualitative and quantitative criteria were applied to arrive at a shortlist of companies rated among the best in the world. 10 other Indian companies feature in this list, of which only 3 belong to the pharma industry, including Sun Pharma. The credit for this position goes to the team at Sun Pharma - and all of us, I am sure, will continue to work by these values.

We closed the year ended March 2001 at 5th rank based on domestic prescription sales (ORG Retail Chemist Audit, March 2001), that we retained despite several mergers and alliances in our industry. We continue to grow at more than twice the rate of growth for the industry. In key therapy areas we continue to be ranked among the top 3 by speciality consultants, despite increasing competitive interest in these areas.

I generally use the opportunity that the AGM offers, to share with you some of my thoughts on important changes that are occurring in the market place. The idea is to see how these changes impact brand building and research, the two factors that the pharma industry derives its momentum from.

For the pharma industry the world over, value is built with strong brands that meet patient needs and robust research pipelines that can readily replenish the current product basket. While evaluating a pharma company otherwise one would apply the same set of parameters that one would apply to any other business. The extent of the value addition. Whether the growth and revenue streams it generates are sustainable or whether it is subject to a fickle volatility.

I should like to take a moment to outline the Sun Pharma model on these parameters. We are, and shall strive to remain, a speciality pharma company. We have a strong record of new product introduction and new product successes- more than 30 new products are introduced every year, and about 40% of turnover is from products that have been introduced in the last 4 years. In the key therapy areas of our interest we have worked hard to earn the trust of customers- this is the reason why we hold on to our ranking with speciality customer groups and why we have been able to add on to prescription share year after year. As we strengthen relationships we've also continuously replenished our product offering - this is the reason we expect to continue growing at a "faster than industry" growth rate. Our business model qualifies on all three counts- Value addition. Growth. Sustainable revenue streams.

When I spoke to you earlier, I had said that the Indian pharma industry was at a threshold of exciting change, change that would be based on the making the most of intellectual capital and that this offered tremendous opportunity. In the year just passed investors have benefited as balance sheets and result tables begin to show up the first of these revenue streams. In concrete, accountancy terms we've seen how value has been unlocked- with simpler innovative dosage forms, with generic market sales, with research tie ups and with the co-licensing of interesting molecules.

As an industry, we have begun to take the first few steps up the value chain. We have begun to compete on a scale that is more global, with likely returns that are on a different scale. A natural corollary of competing in these markets is being prone to the pulls and pressures of these markets. Opening up is both an opportunity and a challenge.

For instance, consider the issue of quality. A few years ago markets could be defined as less regulated markets or more stringent markets. With countries all over the world adopting the same kind of standards, quality is moving towards a mean. Quality is no longer a variable- it is increasingly becoming a given, a prerequisite.

The second area this "opening up" affects is that of skillsets or expertise within the country. As an industry we have demonstrated our skills in chemistry and product development. But taking a share of international markets will demand an equally competent understanding of new expertise areas such as regulatory filings and compliance, patents, quality and international business. Companies like Sun Pharma that are actively investing in innovation will have to quickly find ways of learning new research related skills-bioinformatics, combinatorial chemistry, high throughput screening, to name a few. We'll

also have to find ways to find a foothold in new fields that are quickly evolving-protein metabolism. Gene expression. Recombinant DNA technology. Antisense technology. Cell fusion. Novel bio-processing methods that can be effectively scaled up.

This opening up will require a change in the manner in which we are structured, and the way our companies work. Most of our companies are individual based, and individual effort is recognised and rewarded. A mindset shift will be required to a way of working which is team based- and recognises team contributions.

Hence I foresee a vast change in the way companies function.

At Sun Pharma we will continue to build on the dual platforms of strong brands and innovation as we take a share of the international marketplace.

Now allow me a moment to update you on research.

Research is an important priority area at Sun Pharma, and the largest single user of management time . Last year alone, we invested close to Rs18 cr at the projects in at R &D centre SPARC, taking investments made so far to over Rs80cr. This is the eighth year, since 1993 that we have made serious investments in research at about 4% of turnover. Over the next two years we intend to invest Rs35cr in the innovation-based projects at SPARC, depending on the manner projects progress.

Such staggered investments allow us to reinvest revenue streams from simpler projects, into areas that have longer time to maturity and a greater degree of uncertainty. For the last two years, we have been committing increasing resources to 3 specific therapy areas of our interest. With additional labs in organic and analytical development, wet chemistry, toxicology, pharmacokinetics, biochemistry and invitro/ invivo screening up and running, we have all the infrastructure that we require at the current stage of our projects. The number of scientists across all our labs now exceeds 240. You would perhaps agree with me that it would be prudent to share achievements related to our research programs only once we own the intellectual property for our work.

As we move towards becoming a research led international pharma company and continue to balance investments in innovation and brand building, I look forward to your continued support.

Thank you  
**Dilip Shanghvi**, Vadodara  
Chairman and Managing Director  
November 28, 2001

**Note** : This does not purport to be a record of the proceedings of the Annual General Meeting of the Company.