

SUN PHARMA
Q2 RESULTS CONFERENCE CALL
28 OCTOBER 2002

Moderator: Good afternoon Ladies and Gentleman, I am Prathiba, the moderator for this conference. Welcome to the Sun Pharmaceuticals Q2 results conference call. For the duration of the presentation all participant's 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. Baheti of Sun Pharma. Thank you and over to Mr. Baheti.

Baheti: Thank you all participants for joining us at this conference call. I would like to share with you a few financial highlights. Results for the quarter half-year ended September 13, 2002, include the numbers of PDCL and MJPL, which were not included in the corresponding quarter and the half-year of the previous year. To recap, the mergers were completed and consolidated results were published for the full year ending 31st March, 2002. In spite of the mergers of two erstwhile loss making companies, there is an improvement in operating profit margins to 29% from 27.5% in the previous corresponding half year and 26% for the whole of the last year. The improvement in operating margin is in spite of steep increase in R&D spend including revenue expenditure and appreciation of rupee vis a vis dollar. The improvement in operating margin is on account of improvement in operational efficiency and a better product mix including elimination of cephalosporin business. You would also have observed that the total R&D expenditure has steeply increased from Rs. 132 million representing 3.6% of sales in the last year to Rs. 341 million representing almost 8.4% of sales in the current half year. This is an increase of 250% over the previous period. The revenue expenditure has also increased by over 56% to Rs. 136 million from Rs. 87 million. The domestic formulation business continues to grow at a healthy 14.3% for the half-year. The formulation exports was up by 19.3%. We are confident of meeting the 40% growth target for the full year. The bulk exports was flat again on account of cephalosporin business not being there in the current year. The ratio of business for formulation and bulk is currently 71:29. The ratio of exports to total business fell from about 18% in the last year to about 16.5% in the current year. The other income is primarily down because of adverse foreign exchange rate between rupee and dollar. While in the previous half year, the income on account of exchange rate fluctuation was Rs. 13 million. This year there is a slight loss in the current half year. The tax provision is up by 35% and the deferred tax provision is up by 53%. As a result, at the net profit level the increase is up to Rs. 1.013 billion for the half year. The EPS is marginally up by 15.5% due to redemption of preferential capital during the last year. I would request now Mr. Sudhir Valia to share with you some of the operational highlights.

Sudhir Valia: I am happy to share with you that all our major business are showing strong growth. The board has cleared a buy back proposal subject to approval of shareholders in the EGM through stock exchange route. The maximum shares, which can be bought back has been fixed to 2 million and the maximum price is Rs. 750 per share. The maximum amount spent on buy back will be Rs. 120 crores. The primary object of buy back plan is to return surplus cash to shareholders and improve return on net worth. Post split, the number will undergo corresponding change. We continue to be ranked 5th by ORG in domestic formulation business in all MAT, cumulative, and month. We continue to be amongst the fastest growing company in the industry. What is more satisfying is that we have 6.22% share of business of new introductions, which is highest amongst prescription business. You would have seen that Caraco's financial results for the 3rd quarter. They have done sales over 5.5 million per quarter in the last two quarters. We are happy to report profits at net level for the first time during the

quarter. With this we feel we have met our commitment of breaking even at Caraco ahead of schedule. Caraco has also announced upper revision in earning guidance to about 21 million from earlier announcement of 16 to 18 million. The bulk active export business continue to be strong with growth of around 30% for the first half if we exclude cephalosporin business from our last half results. All our bulk manufacturing facilities now confirms to international standards. Ahmednagar is approved by US FDA and has also obtained ISO 9000 and ISO 14001. Panoli has received ISO 9002 and approval of US FDA is in process. The factory at Chennai at Madurandagam of erstwhile Pradeep Drug, which was acquired last year, has also received ISO 9002 and preparation for ISO 14001 is on. The Ankleshwar, the erstwhile Gujarat Lyka also received ISO 9002. Both the Chennai and Ankleshwar bulk drug facility have started making positive contribution in a relatively short span of time. We have received one drug master file and are awaiting approval for six more, which is already filed. We also plan to file another 6 to 8 DMF in the next 12 months. Out of 4 applications for Certification of Suitability we have received approval for 2. The work at both R&D sites that is Baroda and Mumbai are progressing fast. Both are likely to be partially operational by June 2003. Now I will give mike to the participants for the question and answer session.

Moderator: Thank you very much Sir. At this moment, I would like to hand over the proceedings to Ameena at Singtel 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.

Ameena: Thank you Prathiba. We will now begin the Q&A session for participants connected to the Singtel Bridge. Please press *0 to ask a question. For participants connected to the Singtel bridge please press *0 to ask a question. At this moment there are no further questions from participants at Singtel. I would like to hand over the proceedings back to Prathiba.

Prathiba: Thank you Ameena. We will now begin the Q&A interactive session for India participants. Participants who wish to ask questions, please press *1 on your touchtone enabled telephone keypad. On pressing *1, participants will get a chance to present their questions on a first in line basis. To ask a question please press *1 now. Participants who wish to ask questions, please press *1 now. First in line we have Ms. Preethi from Edelweiss Capital.

Preethi: Yes, good afternoon. My first question is on the domestic formulations market. I would like to have your outlook. How do you see things going forward, especially in light of your earlier guidance that you are comfortable with the 15% to 20% growth rate? Can I have your outlook on the same?

Company: I think even though the overall number is on the lower band of the guidance for 15% to 20%, we believe that these are inventory adjustments, which are continuing beyond the period that we had anticipated. And we expect that we should be able to meet the 15% to 20% top line growth for domestic formulation business in the year.

Preethi: So you don't see any issue even in light of continuing price erosions in a lot of new molecules that are being introduced?

Company: No, we see all of that, but I think the guidance is factoring all those changes.

Preethi: Okay. The company has expressed an intention that by March 2003 you would be increasing your stake in Caraco to 51%. Could we have an indication on how the working capital cycle would be impacted? I mean at what level are we right now and how do you see it going forward?

Company: Preethi are you asking on the consolidated balance sheet?

Preethi: Right I mean yes. Assuming that by March you would be consolidating.... Caraco would be a 51% subsidiary.

Company: No I think it would not change the basic number. I mean Sun will continue to operate as independent company with the existing working capital cycle and their needs. Caraco's current working capital needs are adequately met. I don't expect them to be dependent on external borrowings either from Sun or from other banking institutions. What would probably change is the number of debtors, the number of, I mean debtors as number of days of sales, or stock as number of days of sales will undergo a change, but which would really, I mean, I think it would not have any bearing on the operational efficiency of the company.

Preethi: Okay. Finally Sir last question is on what is the proposed Capex for the current year?

Company: We propose to spend about Rs. 70 crores including on research during the year.

Preethi: Okay. Including research?

Company: Including research. Yes

Preethi: Okay. Fine. I am done. Thank you.

Moderator: Thank you very much Mam. Our next question comes from Nikunj Doshi of Kotak Securities.

Nikunj: Yes. Good afternoon to everyone. My question is on R&D front. We have been spending like Rs. 34 crores every half-year that is around 8.5%. I believe its highest in the industry also. So what's our plan in R&D because there has been no announcement till now on R&D front as to what the company is doing or what are the achievements on R&D front. So can you please give us some sense of what's happening in R&D?

Company: Nikunj I will take the first question and Mr. Shanghvi will respond to the second part of the question. Conventionally, historically, we have been spending 4% to 4.5% of our sales on R&D. The last three quarters I think the spend has gone up primarily because we are commissioning two new facilities for R&D, one at Baroda and one at Mumbai. So the capital expenditure part is significantly higher than what we used to spend in the previous period. But that's essentially one of nonrecurring expense, which will happen over next three or four quarters, but not in the same ratio subsequently. Also, I think products of more technical complexities are now coming to the market and new people are joining in and that explains the increase in revenue part of the R&D. I think the other part Mr. Shanghvi will take up.

Company: I think we continue to spend 4% to 5% on recurring expenses on R&D, which puts us amongst the top percentile of pharma companies in the country. However, if we look at this expense in context of the international spend then it is quite low. We have also shared with investors that we will be raising our research spend in the next three years to close to 15 million dollars annually and we expect this because we will be spending greater sums of money for doing clinical work for one or two products, which may be in human study by that time. As to I think the return on investment in R&D, I believe that we are more than 50% of our current profits come out of products that we have introduced in last three years and most of them have been developed at our process development group at R&D. We don't announce future products, products which possibly would add to cash flow in next three to five years, as a part of conscious company policy So I am unable to share any specific information with you. However, we have shared with investors that in next three years we should have at least two novel

delivery system in human study and one new chemical entity in human study based on our own research. I am unable to share any further specific information with you.

Nikunj: Okay.

Company: We feel very confident of our investment in research and that gives us greater confidence to increase this investment.

Nikunj: Okay. And can you elaborate on our plans of synergizing operations with Caraco. I mean how far we have reached and what we see going forward? Sun Pharma with Caraco...

Company: Caraco is currently not using any material out of Sun. Going forward we expect them to start using Sun material giving integrated manufacturing operation benefit to Caraco in terms of cost advantage, which would help them gain greater market share. Some of the new filings out of Caraco also use Sun bulk active as one of the source of material. So when those approvals come we should see some significant benefit accruing both to Sun and to Caraco and also help Caraco create better market share.

Nikunj: Can we expect that over next twelve months or it will take longer than that?

Company: They should start within three months buying material from Sun because we have already replied all the questions related to the approval with FDA.

Nikunj: Okay. Thank you very much.

Moderator: Thank you very much Sir. Next in line we have Mr. Rajesh Vora from ICICI Securities. Mr. Vora please goes ahead with your question Sir.

Rajesh Vora: Yes. Hello. Good afternoon everybody. I wanted to know about exports a little bit more. I think exports have declined about 7% even after adjusting for cephalosporin bulk drug exports. I wanted to understand how the dosage form is looking over the next two to three quarters and what is the strategy that Sun is trying to followup. And in terms of the inventory adjustment for the domestic business what is exactly happening? Is it because of the poor monsoon that is impacting everybody or is it something else?

Company: I think I will answer the first question related to export. If we look at formulation exports last quarter then it's around 10% compared to close to 35% we had in the first quarter. This is as I see not an issue of order, but we had delayed execution of one or two orders leading to this difference. But year-on-year I think we feel comfortable with meeting 40% growth on formulation business. In spite of the 40% growth, it will still remain to be a very small part of our business and going forward in next three to four years, our challenge is how do we exploit the potential that our products reflect by gaining bigger share of international market for these products. The domestic formulation business, if we look at our growth numbers internally compared to the external numbers, then they are coming consistently 3% to 4% for the last two quarters less than the external numbers. We have significantly tightened our credit limits to customers and we believe that this is leading to some reduced operating inventory at locations. We are also studying as to whether there are any other reasons, but inherently we believe that at the generation of prescription, we continue to do better than the industry overall and both in terms of new products as well as existing products. So I don't believe a relationship to be monsoon per se in the sense that would be a industry specific impact and not a company specific impact.

Rajesh Vora: And in terms of the bulk drug exports, what is the scenario and do you expect because

growth rates have been quite lackluster. Do you think that will revive going forward because that consumes over 2/3rd of your total export basket?

Company: Yes. The bulk drug scenario looks very bright in terms of regulated market because that number of applications has been filed and product are under usage with applications in a short while. We will have reasonable amount of business coming out of this market, and mainly because of the cephalosporin, which is a commodity business which consciously we put efforts to come out. The real growth is not visible though I claimed in my statement that it is 30%. This will continue to be. So with regulated market this will be definitely good scenario for the company.

Rajesh Vora: So going forward over the next two to three years do you expect regulated market exports of bulk drugs to account for roughly half of your overall exports of bulk drugs for the company?

Company: Yes very hopeful because in regulated market it is a long time waiting to enter, but once we enter even the competition is very least and the reasonable amount of predictability is there in the business.

Rajesh Vora: Sure. Thanks.

Moderator: Thank you very much Sir. Our next question comes from Mr. Sandeep Kothari of CLSA.

Sandeep: Good afternoon. Just a few questions. First of all can you give us the like-to-like numbers because this quarter includes all the merged entities and last years numbers don't? If it could be possible to share with us the like-to-like numbers for the quarter and for the half.

Company: Actually Sandeep both MJPL and Pradeep Drug didn't have a major top line impact. I mean on a like-to-like basis, but we were incurring, I mean in the sense Pradeep Drug's major sales during the last year was to Sun, which got eliminated on merger. But the operating margins from Pradeep Drug were in negative and MJ was incurring losses and MJ's what we call the non-formulation business, which got merged with Sun. There is no really addition to the top line in the current year on account of these two mergers. But we have inherited the cost of it and what I meant when I made a statement that operating margins improved in spite of those mergers.

Company: What I think Mr. Baheti is saying is that independently these companies have shown losses in the previous equivalent quarter. Now since those companies don't operate independently, whatever is the cost of operation is already factored into or consolidated in our books. And this profit is after providing for those costs of operation.

Sandeep: And could you tell us for this first half what was the impact on the quantum of cephalosporin just in numbers 30% is the growth for bulk. So how much was the cephalosporin, which is discontinued?

Company: I think the whole of last year we did about 35 crores that is 2001-2002. I don't have right now the numbers up to September, but I think it would be because the bulk of it was in the first half. So it would be in the region of 20 to 25 crores.

Company: See basically Cephalosporin business, which we were doing, was about 5.5 crores per month when we were doing full-fledged sales.

Company: That was in 2000-2001.

Company: That is about 65 crores business (for 2000-2001) and last August consciously we have decided to exit. And thereafter we started closing down the operations. So hardly much impact in the initial first half was there in the last year, but now onwards that will not be so significant because it is gradually reduced down from there till now.

Sandeep: The next question is for domestic formulation business. If you could give us a flavor as to which therapy areas are doing well especially how is the performance for respiratory, gynecology, oncology, and the new initiatives of Sun.

Company: Respiratory I think we are doing quite well. I mean quite well in context of what we were doing earlier, not in context of our position in the market. We have reached number 4th position in terms of prescription, but the number 1 company is very large and we have a very long way to go. I can only tell you one thing, which is also not a comparative number, but we have a product called Combicide, which is a combination of fluticasone with salmeterol and there are two Indian players, Sun and Cipla, and we have approximately 25% to 30% share of Cipla, which I think considering the recent entry of Sun in this therapy area is a reasonably satisfactory achievement. I mean this is not what I tell my marketing people, but if I realistically look, that is what is happening. In gynecology, I think we continue to improve our prescription ranking. We would have improved even last quarter, but we are still not amongst the top five and we wish to reach there, but some of the products that we have introduced in the last may be a year or so have succeeded in becoming brand leaders and which is a matter of satisfaction, but we have a long way to go before we can reach the kind of market presence we have in other businesses. Oncology, I think we still continue to be a relatively small player, but in the next two years we hope to significantly improve our performance there.

Sandeep: And for the cardiovascular and the CNS therapy areas how is the performance vis a vis the market growth?

Company: I think we have improved our market share in CNS in the ORG. Also, I think we have improved our market share in both cardiology and diabetology not at the rate at which we would like to, but we rate our performance in terms of participated markets. Last quarterly review I saw that quarterly share of the participated market has gone up for both of these businesses, but not at the same rate at which we would like it to grow.

Sandeep: Sir related question is what would drive the growth for second half like 15% to 20%. Is it just the inventory correction or these new therapies will start kicking in.

Company: I think we should be hopefully, the inventory correction cannot continue significantly and we hope to actually grow across businesses. Its not, I don't see any specific, since we have therapy area focused divisions, I don't expect any one or two or three divisions to drive the growth of the business. We expect all of them to grow reasonably well.

Sandeep: The last question is regarding Caraco. I understand you hold 49% of Caraco now and there is a new agreement, which has been sort of discussed or signed with Caraco regarding product transfer. So by when should we expect Caraco to become a 51% subsidiary and start getting consolidated with Sun's numbers?

Company: We expect this to happen in this financial year for Sun, before March 2003, and March 2003 results we will be presenting consolidated results also along with our independent company results.

Sandeep: Thank you very much.

Company: Thank you Sandeep.

Moderator: Thank you very much Sir. Our next question comes from Mr. Ashit Kothari of ASK Raymond James.

Ashit Kothari: Yes good afternoon Sir. Just two to three questions. Last time in the current year second quarter Caraco performance there was a non -cash R&D expenditure of \$1.2 million. Have you accounted this \$1.2 million in Sun Pharma in the 3rd quarter?

Company: No.

Ashit Kothari: Is it accounted anywhere else?

Company: No it has not been accounted in Sun. if that's your question.

Ashit Kothari: When are you going to account this in Sun Pharma as an income.

Company: No I think in consolidated results the impact will be neutralized.

Ashit Kothari: Okay. So it is not accounted in the 2nd quarter numbers of Sun Pharma?

Company: That's right. The number, which we have presented today does not include income from Caraco on account of issue of share.

Ashit Kothari: And second is the indirect tax up by 25%. Any specific reason for that?

Company: No there is no reason. I mean it depends on the sourcing pattern of the company. If you are doing more of in house manufacturing the indirect taxes comes directly in my books. If I am sourcing more from outside then it comes as part of the material cost.

Ashit Kothari: Yes, but does it continue going forward- the same number for third and the fourth quarter?

Company: No I did not get your question.

Ashit Kothari: Like its generally 20 to 22 crores indirect taxes for the Sun Pharma. It shot up to 27 crores in the second quarter.

Company: No I have not looked at the numbers from that point of view.

Company: Basically rise in business turnover is the major contributor and that mix between formulation and bulk. So this is mainly on account of excise and sales tax.

Ashit Kothari: Yes. But there is no change in the excise or sales tax structure anywhere.

Company: Ashit do you see a change in percentage because we have not looked at it that way. But what is your point?

Ashit Kothari: Only thing is there is a quite improvement compared to the turnover because the turnover is up by 10% and the indirect tax up by 25%.

Company: See what happens many times when the product is purchased finished then it does not go into indirect taxes for the excise payment, but it goes into the material cost. But if the product is manufactured in the factory belongs to Sun Pharma then it will qualify for indirect tax and this will go little more because we are now concentrating more and more at manufacturing the product at our own locations.

Company: No actually I think it also reflects reduced sourcing out of MJ facility, which we are assigning for international regulatory filing.

Ashit Kothari: Okay, and any update on the metformin approval?

Company: For Sun source?

Ashit Kothari: Yes US FDA

Company: We haven't heard any specific approval news.

Ashit Kothari: Okay when you are expecting?

Company: I think we don't understand the way the FDA works the way they would approve the source, so I think it is difficult for me to take a prediction. But I think Mr. Valia has already shared with investors that we will be supplying bulk active to Caraco hopefully by next quarter.

Ashit Kothari: Okay. Thanks a lot.

Company: Thank you.

Moderator: Thank you very much Sir. Next in line we have Mr. Sameer Narayan from Enam Securities.

Sameer: Good afternoon Sir. In fact most of my questions have been answered, just regarding this domestic formulation. We had this 14.4% growth. Sir out of this is any percentage due to price hikes, if yes, what could be the percentage like?

Company: Actually we have not done any impact on account of pricing this time. Next quarter I think we will come prepared with that working. But we expect an overall increase on account of price changes of 1.5% to 1.75% for the entire year.

Sameer: Okay. So that means the domestic growth to that extent would be about 12-12.7% then?

Company: Underlying unit growth you mean?

Sameer: Yes. Volume growth.

Company: Actually if you see Mr. Baheti's statement saying that we have got some business out of new products. So if you deduct that then underlined growth will be around 7% to 8%.

Sameer: Okay. Sir regarding Caraco has a statement about there being a non-cash charge in the last quarter of current calendar year. So does that mean that our holding in Caraco would go up to probably 51% by the end of the December quarter itself?

Company: This has been factored while calculating 49% of our holding.

Sameer: Okay. Okay Sir. Right Sir. Thank you.

Moderator: Thank you very much Sir. Our next question comes from Mr. Satish Bhat of Dolat Capital.

Satish: Hello Sir. I have just one question. Sir what is the rationale behind having buy back 35% above the market price?

Company: That is the cap.

Satish: Any idea why such high premium to the market?

Company: We are not buying at this price. It's the maximum price up to which we can buy.

Satish: And Sir we are already have 75% holding. Then why there's need to do buy back?

Company: No. Satish even after the buy back the promoters holding will not cross 75%.

Satish: Okay.

Moderator: Thank you very much Sir. Next in line we have Mr. Manish Jain from DSP Merrill Lynch.

Manish: Yes. Good afternoon everybody. I had two questions. One is if you could give an insight as to what is the planned ANDA filing from Caraco over the next six months, and secondly from Sun what is the planned DMF filing over the next six months?

Company: I think Caraco should be able to file two ANDAs in next six months and we will be filing four DMFs out of India.

Manish: And no ANDAs on Sun's own right? Every ANDA filing will be from Caraco?

Company: In next six months what you say is true.

Baheti: Yes. I think sure definitely.

Manish: But going forward there could be situations where Sun could file an ANDA on its own?

Company: We will yes. Not could do, we will.

Manish: Okay. Thanks.

Moderator: Thank you very much Sir. Our next question comes from Mr. Madhusudan Bagri of SSB. Mr. Bagri is you with us Sir? Next in line we have Ms. Visalakshi from Kotak Securities.

Visalakshi: Good afternoon. This is Vishalakshi here. I had a couple of questions. Number one is on Caraco nine-month revenue. Could you give us a broad outline as to what has been the contribution from individual products?

Company: I do not think Visalakshi Caraco has shared the product wise earnings.

Company: They have actually I think in their last quarterly announcement said that which were the major contributors to the overall business which is metformin, tramadol and amongst the old products carbamazepine and metoprolol tartrate. These were the major products that I think they have shared. But they have not shared specific financial numbers.

Company: Okay. Sir also can you talk about the geographical split of exports for the first nine months for Sun Pharmaceuticals?

Company: Six months.

Visalakshi: Yes. First six months.

Company: I do not have the numbers here with me, but I think on an annual basis we share these numbers with investors. We will have it sent to you.

Company: Okay. Another thing is on the domestic formulations. If I am looking at the market share trend for some of your key products especially Glucored, Monotrate and Alzolam. Over the last eight or nine quarters there has been a decline in market share. Is there any comment on this, especially for these three products as per ORG.

Company: No. I understand. I think this is what I would call a trade off in the sense that when you use the same field force to promote existing large product and also large number of new products, some of the existing products do not get the same amount of attention and focus that they deserve. If I look at our internal numbers then we are growing at around 8% or 9% on Alzolam compared to may be around 12% of the overall industry Alprazolam growth. But, in last six months we have actually started growing Alzolam, where as last year we were not growing. If we look at Monotrate, Monotrate OD, as well as Monosprin, all the three products together rather than looking at Monotrate as a single product because they are interchangeable and promoted to same customers. They seem to overall reflect a growth, but if we look at the growth of Imdur, which is a slow-release mononitrate compared to Monotrate OD, then they are growing much faster than us and we wish to correct this situation. Glucored continues to be a reasonably high growth product on its own. However, what I think you must be doing is you must be looking at the combination product as a whole. Is that correct.

Visalakshi: No it is only Glucored?

Company: Glucored. I mean what actually do you mean.

Visalakshi: This is the one, which ORG gives you the data on a quarterly basis?

Company: If I look at my internal numbers Glucored continues to grow. I don't know the ORG number, but I believe ORG also will reflect this. What has happened is that in that combination with metformin there are number of other combinations which have come after Glucored and they have also achieved significant share of the overall business and because of which the share of Glucored may have gone down.

Visalakshi: In fact, you know the data that I have is, you know, as of first quarter say 10 to 12 quarters back about Q1 2000, the market share would have been a little higher than say 5%.

Company: Five percent of the oral anti-diabetic market.

Visalakshi: Out of the total oral anti-diabetic market.

Company: Okay. I think if you see in two years three products pioglitazone, rosiglitazone, and glimepiride, which are three major new anti-diabetic introductions, which have been introduced in the market. So the overall market has grown significantly. Sun has a presence in all the three products that I listed. So in the combination of sulfonylurea with biguanide market, Glucored on its own continues to grow quite well. But the overall market because of introduction of number of new products has grown very rapidly.

Visalakshi: Okay. Sir what are your outlook on says products like Syndopa, and Repace, which is doing extremely well. You know, how do you see the market share trend there. Do you see them sustaining in terms of increase in market share?

Company: I think so. Because I mean we should be able to grow both these products.

Company: Just a correction Visalakshi. Caraco has given the broad break up of its product sales. I mean it is on the page #10 of their notes to financial results.

Visalakshi: Okay.

Company: If you still have difficulty I think you can check with Mira.

Visalakshi: Okay. Coming back to the domestic formulations, you know, the key question is how is Sun likely to maintain its 15% to 20% growth target. What is going to be the key drivers? Is it going to be increase in prescription productivity or increase in prescription base, you know what is it -that's what is the key question?

Company: Actually four key components of growth; price changes, new products, organic growth of existing products, and markets that we are currently not covering, and customers we are not currently covering. So I think these are the four key drivers to our growth of prescription product business. More efficient operation as well as more focused operation.

Visalakshi: Thanks Sir. That is all. Thanks.

Moderator: Thank you very much Mam. Our next question comes from Mr. Madhusudan Bagri of SSB.

Bagri: Two questions on the international market as far as the dosage forms is concerned. What's the kind of outlook for that business because that seems to be a focus point for you, but it has been showing any big growth numbers per se. Second question is, if I take the numbers as they stand now you not setting down in this buy back of shares your stake would probably go up to about 77% to 78% if you manage to buy back 2 million shares from the market. So if you had any comment on that?

Company: Mr. Bagri I will answer the second question first. Even if theoretically if we get all the shares for which we are going to seek shareholders approval for buys back the promoters stake would still be below 75%. So we do not, I mean, with the numbers or with the objective we do not wish to increase the promoters stake to more than 75%. Mr. Shanghvi will respond to your first question.

Company: Yes. I think the formulation export business, our guideline number is around 40% growth and we should be able to achieve that growth from 20% that we have in the second quarter. We expect

the third and fourth quarter to do much better. Actually we would have done much better even in this quarter, but I think we could not execute one or two orders which impacted the overall sales. But I see that our formulation business in international market seems to be qualitatively improving and becoming much more consistent and predictable. And even if we grow at 40% this year, it will still represent a relatively small part of our overall business. I think the challenge is how do we grow this business to become more meaningful for the company because it is a much more consistent and profitable business.

Bagri: Thank Sir.

Moderator: Thank you very much Sir. Next in line we have Mr. Kirit from Prabhudas Leeladhar. Mr. Kirit.

Kirit: Hello.

Moderator: Yes Sir.

Kirit: Good afternoon. I think my question has been already been asked.

Moderator: Thank you very much Sir. Next in line we have Mr. Gala from Quest Securities.

Gala: Hi I am Gala here from Quest. My question pertains to a newspaper item which appeared a few days back regarding Elli Lilly impact with Sun Pharma. Can you give us some flavor as to how much business are we anticipating from supplying different products to Elli Lilly?

Company: It is not going to be an issue material to the overall size of business. As a matter of fact, we have been having a relationship with Lilly through MJ now for almost five years and they have added one or two products that they wish to source from us. But they are not materially significant and that is the reason why we have not shared this information with the investors till now.

Gala: Okay. My second question pertains to the non-cash R&D cost of \$. 1.25 million, which was booked in the second quarter in Caraco's books, and in Caraco's guidance they say that in, quarter four there will be a further charge. So can you tell us how much roughly will be the total amount which ultimately may be converted into equity in favor of Sun Pharma?

Company: We would not know what would be the new issue of shares in quarter four. That's not something, which we can share right now.

Gala: Okay.

Company: What I have shared earlier in my answer to a query is that before March 2003, we expect Caraco to be our subsidiary.

Gala: Yes. No, but there will be some further charge, which Caraco will book in their books on account of the R&D inputs that we are giving them.

Company: That is right. That will be a noncash charge.

Gala: Yes. What will be the roughly magnitude of that?

Company: That I would not know right now.

Gala: Okay.

Company: It would depend on signing of a new agreement and also depends on the products transferred by us passing certain milestones.

Gala: Okay. Thank you.

Moderator: Thank you very much Sir. Our next question comes from Shaheena of Motilal Oswal.

Shaheena: My question has been answered. Thanks.

Moderator: Thank you very much. We have a followup question from Mr. Sameer Narayan of Enam Securities.

Sameer: Sir it is just a quick followup regarding the DMF file. As far as the June end was concerned also our filing stood at 6 DMFs? So is it right to understand that this quarter there have been no further filings?

Company: There has been one more. The total filings are seven.

Sameer: Okay.

Company: We have got one approval. Six are pending approvals.

Sameer: Okay. Okay. Sir, and the other thing is could you give us a flavor of the working capital as of September end for Sun?

Company: No I think both our inventories and receivables are broadly in line with the in terms of number of days of sales with our March number. The inventories are roughly about 62-64 days of sales and the receivables are 55-56 days of sales. And there are no bad credits.

Sameer: Okay Sir. Sir other thing was in as regard the June quarter we had margin expansion was also attributed to some percentage to the ERP implementation, which was the source of cost cutting. Sir, how far do you see this contributing further because the margins are already at 29% - 28.5% where we already included the loss making units of MJ and Pradeep. So where, up to what extent do you see there is a further upside on the margin?

Company: No what I think we had shared last time is that in spite of increased research expense on the revenue side also we will be able to maintain margins around these levels 28.5% to 29% and I think in spite of 150 basis points increase in revenue expense on R&D we have been able to keep the margins intact.

Sameer: Okay.

Company: I mean of course the ERP has I mean has helped us in achieving greater efficiencies in inventory management in our operations even in the way we do our sales and the followup.

Sameer: Okay. Sir regarding the third quarter results of Caraco now we see that the SG&A expenses for Caraco in the third quarter are, I mean, they have been normally in the range of about \$700,000, but this quarter there has been about close to a million dollars. So any particular reason for this sudden jump or is it a generally the sales ramp up?

Company: No. I think there are larger discounts. Probably when they introduce a product in June quarter and the discount would have been factored into the current quarter post multiple entry of generic players and price erosion. There is also some cost related to their legal charges..

Sameer: Sir could you tell us a number to that as to how much could it be for this quarter?

Company: Actually on a small base every expense counts you know!

Sameer: Okay.

Company: No I do not think I have specific number. I also asked, the same query I checked with Caraco and this is the response I got.

Sameer: Okay. Thank you Sir.

Company: Thank you.

Moderator: Thank you very much Sir. Next in line we have Mr. Jairaj from Cholamandalam Securities.

Jairaj: Good evening everybody. I have a couple of questions. Can you hear me?

Company: Yes Jairaj. Go ahead.

Jairaj: First question is on the DMF Sir. You said you have filed 7 DMFs and you have received approval for one. Can you tell me which drug did you receive the approval for and when? That will be the first question.

Company: It is the pentoxifylline, which we have received approval in last June 2001.

Jairaj: June 2001? And second question relating to the loan that you extend to Caraco. You have around \$9.7 million, which is expiring in October 2003. Now do you plan to extend that loan further or will you be getting that amount at that time?

Company: No I think partially the loan will get paid I mean it would depend on obviously Caraco's working in the next year. But I believe that the part of the loan will be redeemed and part of the loan will be extended.

Jairaj: Okay. Can you tell me how much part like 50-48%?

Company: Jairaj also all of this is not due in October 2003. Part of it is due in October 2003 and part in August 2005.

Jairaj: Okay. Fine. Thank you Sir.

Moderator: Thank you very much Sir. Our next question comes from Mr. Sanjiv Chiniwar of Anand Rathi Securities.

Sanjiv: Hello. My question has been answered. Thank you.

Company: Thank you.

Moderator: Thank you very much Sir. Next in line we have Mr. Amit Puri from Morgan Stanley.

Sameer: Hi. Good afternoon to all. This is Sameer from JM Morgan Stanley.

Company: Yes.

Sameer: My first question is according to the ORG for the past about 12 months or so on an average the volume growth for the company has been higher about 6% to 7% points than the value growth. Whereas according to Mr. Shanghvi who has just now said that probably the price led growth is about 1.5%-1.75 % increase for the entire portfolio on an average, I mean is that dichotomy over there?

Company: Actually Sameer what you are saying is that because of the reduction in the price of some of the new products. If you look at the overall growth and look at the overall turnover as the price at which the product was introduced then it's a kind of numbers that you are saying is that overall price has come down rather than going up. But what we are able to sell is a function of the price at which what we sell. I will give you an example, the overall volume for the whole industry for atorvastatin has gone up by almost 400% with a price reduction, which was 50%. Now if the price was not reduced then this kind of volume growth would not have been feasible. So we can take a position that price has gone down by 50% and impact that on the total sale of the company and on the total volume, but that's not what we do. What we do is we do basketing of new products as well as the old products separately and when I am saying 2% overall growth or 1.75% overall growth then it is product introduced up to previous 12 months and we do not look at products on which pricing has not been stabilized. Am I clear on this?

Sameer: Yes. Sure. I have understood your point. Is it just that the magnitude so remains that this 7% lower value growth versus 2% price increase for the entire basket then even if I were to separate out the new product introduction in terms of...

Company: Actually if you remove four or five products, clopidogrel, atorvastatin, then pioglitazone, then I do not remember the other product, but four or five key products on which, venlafaxine, these products if we remove then it will take away significant part of the price erosion that you see. You have the working in front of you?

Sameer: No actually I am calling from outside.

Company: Okay. But if you look at your working then you will get these as the key products responsible for the reduction in the pricing. And these are all products that are relatively new. But if you look at the old established product separately then what I am saying around 2% overall increase in price would be happening.

Sameer: Okay. Fine and this is what we expect to continue for next year or so?

Company: Yes.

Sameer: Okay. My last question is on the two NDDS drugs, which you mentioned could be in the human trials in the next couple of years. What kind of development-time that you are looking at? Any tentative time limit for the market launch?

Company: I think if it gets into the phase I human within two years, then depending on the type of studies which regulatory agencies will ask us to do and that's a function of the degree of difference and

what is their comfort. It can take anywhere from two to three years.

Sameer: Right. So it is about 5 years from now that you are looking at?

Company: Yes. Four to five years minimum cash flow.

Sameer: Okay. Thanks.

Company: Thank you.

Moderator: Thank you very much Sir. Next in line we have Mr. Kandaswamy from Capital Market.

Kandaswamy: Good afternoon Sir. Can you tell me the turnover from nimesulide-based products?

Company: Nimesulide based products?.

Kandaswamy: Yes.

Company: We have actually no business from nimesulide-based products.

Kandaswamy: Going forward. How do you feel the DGCA's position will be in this regard?

Company: I am unable to comment on this. Because actually I think I also read about the product from the same newspapers that you read. Since we do not market the product ourselves I don't actually have a handle on the technical and the clinical issues involved. So I do not think I can comment on that.

Kandaswamy: In export market Sir, which are the countries would you like to focus more apart from the developed markets?

Company: I think we will focus on South America, China, South Africa, and CIS.

Kandaswamy: Fine Sir. Thank you very much.

Moderator: Thank you very much Sir. Participants who wish to ask questions please press *1 now. At this moment there are no further questions from participants. I would like to hand over the floor back to Mr. Baheti for final remarks.

Company: It has been an interesting interactive session. Thank you all participants. We look forward to talk to you in future. Thank you. Thank you very much.

Company: Thank you.

Moderator: Ladies and gentleman thank you for being with us on this conference call. This concludes the conference call. You may now disconnect your lines. Thank you and have a nice a day!