

SUN PHARMA Q3 EARNINGS CALL

JANUARY 30, 2003

Moderator: Good evening Ladies and Gentlemen. I am Prathiba, the moderator for this conference. Welcome to the Sun Pharmaceuticals Q3 results conference call. For the duration of the presentation, all participant's lines will be in the listen-only mode. I will be standing by for the question and answer session. I would like to hand over to Mr. Sudhir Valia of Sun Pharmaceuticals. Thank you and over to Mr. Valia.

Sudhir Valia: Thank you Prathiba. Thank you all the participants for joining us at 3rd quarter post results conference call. The way we will handle this call is I will share the financial highlights and operational issues and Mr. Sanghvi will fill you in on the strategic aspects. After that we will open for questions.

Our total turnover grew by 10.7% over last year same quarter and 0.6% over the immediate previous quarter. The net profit increased by 20.4% over the last year same quarter and 4.8% over the immediate previous quarter. The increase in the net profit on quarter-on-quarter basis despite increasing R&D expenses is reflective of the increasing international formulation sales.

Formulations accounted for 71% of the sales and bulk actives for 29%.
Exports, both formulations and bulk accounted for 17% of the sales.

The domestic formulation sales grew by 18.5% for the December quarter of the year. The year to the date domestic formulations have grown 15.8%. As per the December ORG data the growth for the company is 18.4% as against 21.7% last December. The core therapy areas, psychiatry, neurology, cardiology, diabetology, and gastroenterology accounted for 71% of the domestic formulation sales, and in these segments the growth is in excess of 20%. Among the newer therapy areas, we have begun to make inroads with chest physicians, oncology, and dermatology in terms of the rank increase with specialties as per the C-MARC for July to October 2002.

Export formulations which is as you know is a very important area in terms of value added opportunities for us, has started to show sign of good work. Growth for this December quarter over last was 77.8%, growth over the immediate preceding quarter is 13.4%, the growth rate for the year to December was 37.1%.

International marketing related expenses are up for the previous nine months period 1348 Lakhs to 1430 Lakhs and we continue to heavily invest in international market both for registration and brand building promotional activities.

Operating margins for December was 29.1% for the year to the date period is 29%. In the immediate preceding September quarter it was 28.5%, last year in December it was 26.5%. Some of this is on account of the better bulk active sourcing, some is on account of new product introduction based on our own bulk, some of this on account of way we are structured around the specialty customer with comprehensive disease management offerings which offers us leeway in the way we load cost into divisions. While we continue to focus on bottom line, we feel we should be able to maintain margins at around 26% for the year.

Now, for the closer look at the working capital cycle, where I shall take a similar period comparison, this is one area which requires working on and in priority area within the company. Inventories are at 74 days sales from 58 last year same period. Domestic collection is at 58 days. Export formulation is 164 days, export bulk is 129 days, part of the reason for this slippage is on account of working on new products, part of this is loss of discipline, which we are working to correct at the earliest. Work in progress is at 15 days from 12 days last year.

The tax is Rs. 54 million for the December quarter, Rs. 162 million will be for the nine months period to December. Last year nine months period December it was Rs. 116 million.

The net interest income is Rs. 22.3 million for the December quarter as against Rs. 12.7 million for the last quarter.

We have increased R&D focus in the year to date period and the numbers reflect this. Margins have been maintained at the net level after these increased R&D expenses. R&D total expenditure for the nine months period is Rs.436 million versus Rs. 205 million, of this R&D capex is Rs. 233 million for the nine months to December 2002, as against Rs. 70 million last year upto December, a significant increase. R&D revenue expenses is Rs. 204 million versus Rs. 136 million for a similar nine months comparison. As you know we are also building two new research sites, which will be partially operational by the middle of 2003.

EPS is Rs. 11.9, up from Rs. 9.9 last December quarter, from the nine months December it is Rs. 33.6, which compares well with Rs. 35.7 posted for full year to March 2002.

We have also obtained the necessary shareholders approval for buy back program and this will be initiated depending on the advice from the managers to the issue.

During the course of the period a number of interesting new products were introduced across 11 marketing divisions. You may have already observed that several products introduced within last three years have emerged as top 15 products for your company's Pantocid, Clopilet , Rezult, and they continue to be growing at healthy rates.

Interesting bulk activity were introduced so far this year some of this have found buyer interest in Latam and Europe, and for some of the interesting products, we would be filing DMF.

With this summing up of the performance, I will now ask Mr. Shanghvi to outline the strategy

Dilip Shanghvi: I welcome all of you to the 3rd quarterend result conference call and I thank Mr. Valia for his dissection of numbers. I will share some of my strategy going forward with you. As I have shared with you in the past research as well as international markets continue to be two major focus areas for the company and I will take your permission to update you on these two issues.

If you look at the numbers this quarter in the international formulation market our strategy of concentrating on 30 key products for our core market seems to be working and we are confident of posting a 40% growth for this part of the business for the year. Of course all of you are aware that Caraco numbers will be consolidated with our numbers from March 2003. Caraco is on track to post sales of \$21 million for calendar year 2002 and a net profit. They should be announcing numbers in next few days, this time this will be audited numbers. Given the current market cap at Caraco of close to \$80 million, our initial investments even after providing for the guarantees as well as the loan that we have given, will produce a reasonable return on capital employed, which we know going forward will become substantially more attractive in line with the return on capital employed that we have for Sun Pharma, for rest of the other businesses.

We continue to file Drug Master File as well as ANDA applications for the regulated markets and that continues to be a focus for us going forward. We have obtained during this quarter some certificate of feasibility for supplies to Europe and Drug Master File approval for metformin. I am also pleased to share with you that we are now supplying metformin to Caraco for supplying their ANDA products in the US market.

In research the construction at two R&D sites, one at Bombay and one at Baroda, is continuing on schedule and we hope to have part of this facility commissioned by this year and we are continuing to recruit people for expanding both our new chemical entity and novel delivery system R&D so that we can focus on three key therapy segments that we are working on at the same point of time we are quite happy with the progress that we are making on delivery system based products, which are progressing quite satisfactorily.

In the domestic market, we are growing at close to 15% to 16% and there is a significant increasing competitive pressure in the domestic market, however, we remain reasonably comfortable that we will maintain 15% to 20% overall growth in domestic formulation business as shared with you for this year and next year.

If you look at our numbers on inventory I think it is important for us to remain focussed on all the parts of our business and ensure that we operate with tight controls. If you take your eyes off the ball even for a short time, it is easy to slip. We have been focussing on operations and we will see that we regain the kind of controls that we had earlier and may be even improve on that going forward.

Now that our US operation has been streamlined, we are working in a more focussed way for the European business and going forward I should be able to share our strategy for the European business maybe in the subsequent conference call.

With this I would now like to leave the floor open for questions in case I can clarify any of your doubts. Thank you.

Moderator: Thank you very much Sir. We will now begin the Q&A interactive session. Participants who wish to ask questions, please press *1 on your touch-tone enabled telephone keypad. On pressing *1, participants will get a chance to present their question on a first-in-line basis. To ask a question, please press *1 now. Our first question comes from Mr. Satish Bhat of Doulat Capital. Mr. Satish Bhat, hello sir?

Satish Bhat: Hello, can you hear me.

Moderator: Yes sir, please go ahead with your question.

Satish Bhat: Sir, I wanted to know that why there is a decline in the bulk export in the current quarter, because I think we are seeing the same trend for the last two quarters, any specific reasons for that?

Shanghvi: I think as we have shared with you we are exiting the cephalixin business. So, I think there is no cephalixin and commodity product business this year, however, if you look at our overall profitability that is going up and part of that reason is that we are exiting this low-margin businesses.

Satish Bhat: And sir, you see your export formulation has just started picking up, may be you have just shown a growth of 77% though the base is quite small, can you give some overview how you are going to go forward on the next quarter formulation business?

Shanghvi: I think we have shared that we would achieve an overall international business growth of 40% this year and we feel reasonably confident that we will achieve that growth, and it is a small base, so we hope to be able to do and improve on that going forward in subsequent years.

Satish Bhat: Okay. Thank you sir.

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

Ashit Kothari: Hello. Good evening to everybody. One question, Sun Pharma has started supplying metformin to Caraco. Do you need US FDA approval for this?

Shanghvi: Yeah I think during this quarter, yes Mr. Valia can tell you.

Valia: We received approval in middle of November.

Ashit Kothari: And can you throw some light about more DMFs you are expecting in the next two quarters?

Valia: The approvals if you are talking, then we are expecting approvals for metoprolol tartarate and tramadol in the next quarter.

Ashit Kothari: And both could be used as a raw material for Caraco?

Valia: Yes, both these Caraco can use.

Ashit Kothari: And till date how many DMFs has been filed by Sun Pharma.

Shanghvi: Ashit, we have shared this information with you I think we will give you specific information, but nine DMF I think we have filed totally till now, and we plan to file at least five or six DMFs every 12 months for the next two years.

Ashit Kothari: Okay, thank you very much.

Moderator: Thank you very much sir. Participants who wish to ask questions please press *1 now. Next in line we have Mr. Anoop Bhaskar from Franklin Templeton.

Anoop Bhaskar: Hi. I had a few questions, one is about the domestic business, could you give some comments on how do you see the market and there in terms of price decline have you faced any pressure on pricing?

Shanghvi: I shared with you the domestic market is becoming increasingly competitive, and that competition does lead to a certain kind of price competition by a few people. By and large I think the kind of products that we are marketing, our old products do not have any significant pressure on price, some of the new products see rapid price erosion, but because we are integrated as a company, we produce the bulk active, we still maintain a reasonably healthy margin on all products.

Anoop Bhaskar: And could you say in terms of sales growth we are seeing that for the whole industry there seems to be a slow down, and it does you know, also seem to have some impact on Sun Pharma, so could you give some kind of guidance for next year, what kind of sales growth you seeing in the domestic market, a for the industry, and b for Sun Pharma?

Shanghvi: Industry, I will not know.

Anoop Bhaskar: Okay, for Sun Pharma what is the kind of target you have for the next year?

Shanghvi: I think we are looking at, as I shared with you, 15% to 20% growth in domestic formulations business next year.

Anoop Bhaskar: And sir, if you had to go to a policy where you were just giving no credit, sales just on cash basis, then could it have an impact on your sales?

Shanghvi: Come again, I did not understand the question?

Anoop Bhaskar: You know that now it seems that you have some kind of receivables and those are close to 58 days and if you were to sell just on cash basis, would it have any impact on sales for you?

Shanghvi: There are certain relationships that we have with the wholesalers, which are governed by agreements that we have with associations, and they provide for a certain period of credit. So, if we manage our outstanding efficiently we should still be able to manage it within 30 days. And at 30 days we don't expect any significant impact on our sales, at the same point of time for new products I think we receive payments slightly later, so that also is governed by certain relationships that manufacturer's association have with stockist's association.

Anoop Bhaskar: So sir if you look at the working capital cycle there in the domestic market for the nine month period, do you see that this also shows that there is a slowdown and therefore if you look at your receivables are actually higher than the 30 day figure you are at, you know they are closer to 58 days.

Shanghvi: That is correct, I think it has gone up significantly over the last numbers that we have shared with you and that is what I said is a issue that we need to bring about discipline and control in terms of our receivables from field.

Anoop Bhaskar: And sir, that in terms of chest that seems to be the new area where you wanted to focus on could you tell us what has been your sales out there, and if you could tell what is plan out there in the chest segment?

Shanghvi: I think in respiratory area there are three key segments; one is asthma, the second is TB, and the third segment is infection. We have a presence in the asthma part of the respiratory business, and if we look at our overall share of prescription then in respiratory we are I think fourth or fifth in terms of the number of prescriptions that we get, but I think the number one and number two companies Cipla and Glaxo between both of them I think have close to 70% market. So even though we may be number four, we are still very far away from number one, and we have very long road ahead, but just for context I think two three years back we were not even a player in this business, so we have moved up very rapidly to this fourth position and going forward we hope to improve it.

Anoop Bhaskar: And you know that will also depend on the kind of product profile you have in terms of the devices, there have you been able to have the full range and how has that been received in the market?

Sanghvi: We have now a very comprehensive range, I mean -I will not say full range, but a good range, and it is relatively well accepted in terms of the initial launch.

Anoop Bhaskar: Sir, just one last question, is that in terms of US FDA you know their approval for your bulk plant, could you tell us what is the kind of number in terms of product that you plan to supply in the next one year to Caraco, and will you then also supply to other manufacturers, and will it be only to Caraco or would you also supply to others?

Shanghvi: We supply to others in the US market, and we hope to continue to supply to others, and I think as Mr. Valia shared, we expect to have two more approvals but only a point of caution is that this is what we expect, we don't control what FDA does, so we think from our point of view all pending issues related to these two products that we shared about have been addressed, and we hope to get approval shortly, and we continue to file new products and we hope that we will continue to get new bulk active approvals from the US FDA.

Anoop Bhaskar: And when will you have the first filing for your own formulation filings?

Shanghvi: We will file, I think sometimes by first quarter of next year or latest by second quarter of next year.

Anoop Bhaskar: Okay sir, thank you very much.

Shanghvi: Thank you.

Moderator: Thank you very much Sir. Next we have Mr. Madhusudan Bagri from SSB.

Madhusudhan Bagri: Good evening Sir, just a couple of questions if you could tell us something about what progress you have made on the gynecological segment and secondly in the results what is the reason for the big jump in indirect taxes, if you could explain that a little bit.

Shanghvi: I think, we have moved up in terms of prescriptions that we are getting for very highly specialized gynecologic products that we have launched. See, if you have really seen gynecology, there are three parts of products, one is the nutritional products like iron as well as the other products, which the gynecologists prescribe for pregnancy, then there are hormonal products, and there are other products that gynecologist prescribe to their female patients for related diseases. We have major presence in the hormonal products and one of the products that we have introduced last year, I think, has already crossed Rs. 1.5 crores in terms of monthly sales. Even though in terms of total share of prescription it may not represent a very large number, but we are quite happy with our progress in gynecology, and we hope to continue to do much better as time progresses. Now, as far as the indirect taxes, one is I think, if you see the cost of material that has come down, which means that some of the products that we were producing at MJ Pharma and which were brought by Sun as a finished product are now produced by us, so we pay excise duty and that has increased the excise duty component. The second is that the overall share of the formulation business has gone up, which has a higher component of taxes, so that is also one of the reason why overall indirect expense have gone up.

Madhusudhan Bagri: And, do you have anymore update on the research side or still it is going by those milestones that you have set for yourself?

Shanghvi: Yeah, I think, we hope to definitely meet the milestones that we have set. I am not sharing any specific information, but as I have shared I think, we hope to spend at least \$15 million annually in R&D expenses in next two years, and that I think is a function of our comfort about making major return on that investment going forward.

Madhusudhan Bagri: Right, thanks Sir.

Shanghvi: Thank you.

Moderator: Thank you very much sir. We have the next question from Ms. Shilpa Gupta of ICICI Securities.

Shilpa Gupta: Good evening sir. I really have two questions. The export formulations have done very well in this quarter with 78% growth. Could you throw some light as to which markets have done very well in this quarter, and my second question is really on Caraco, could you give us some kind of estimates as to the sales growth we can look over there in the coming years.

Shanghvi: I think, we have done more or less well with most of the markets that we are exporting our products to. There is no specific country that has done exceptionally well. And, it is on a very small base, so till the time we reach a much higher number it does not become meaningful. Caraco, I think, will be announcing its last quarter or the annual results shortly. They have not yet announced the date, and at that point of time I think they will give some guidance about the growth that they expect for the next year, which we will immediately mail to all of you. One thing is that they have a very small base and in a very large market where you have such a small base you have significant opportunity to grow for at least few years, and I am sure that the same will also possibly hold true for Caraco. I don't visualize them tripling or increasing their sales by 300% to 400%, which they have done this year, but it would be a significant growth.

Shilpa Gupta: Right sir. Thank you sir.

Moderator: Thank you very much madam. Next in line, we have Ms. Preeti from Edelweiss.

Preeti: Yeah, good afternoon. My questions are on Caraco, it primarily revolves around the losses accumulated, losses of Caraco as well as the debt component. Now, what is the stand given that the merger is expected by March 31, what is the stand on this accumulated losses at least Sun's share, and second with respect to debt, if

you exclude the debt that Caraco owes to Sun Pharma, I think, the balance debt is to the tune of \$24 million to \$26 million, and the repayment starts sometime in the second quarter of the next fiscal. So, what are the company's plans in this respect and could you explain this in the light of the investments and the capital expenditure that the company proposes over the next one to two years, because I think the quarterly outflow would be close to \$3 to \$4 million for debt repayment.

Shanghvi: Now, I think you have asked a large number of questions, so let me try and clarify one after another. The first is about merger; I don't think there is any merger as such. We will be I think consolidating Caraco performances and balance sheet this year. I think, Mr. Valia will explain the treatment for the losses.

Valia: Our holding being near 50%, once it crosses, we have to merge the balance sheet. With relation to the consolidated balance sheet, we have to account for the 50% of the accumulated losses with our results. Coming to the current year's profit, once their results are in positive then these positives will get added to our positives. So, this is line with line consolidation. So far as the outstandings are concerned, when we are taking up merger consideration line by line, in the same manner 50% of the outstandings will get knocked off. Balance 50%, we still have to account for. As regards Caraco's ability to repay, as we have seen there is a significant improvement in the performance at Caraco.

Shanghvi: Can I intervene. How have you arrived at this number of \$3 million?

Preeti: If I go by the debt repayment schedules, which is available with what ever filings which Caraco has done with SEC, the repayments are starting sometime in November or December, with ICICI Bank as well as Nova Scotia, it works out to approximately \$3 million per quarter. So, I wanted to understand how would the company be managing the cash flow given the investments in your export markets as well as the likely capex

Shanghvi: Caraco does not have significant capex. Are you factoring in any repayment on account of EDC?

Preeti: Yeah, in fact, that was my next question. Given the fact that one of EDC's debt is termed as current, what is the status on that too? This \$26 million, of course, including EDC debt.

Shanghvi: Okay, I think about the EDC debt restructuring I think Caraco has announced and we have sent that copy of that press release to you, if you wish, we will send it again to you. It is being restructured and the repayment is over a much longer period of time. So, that is going to go down significantly. It is also at a different rate of interest beneficial to Caraco. So, that's one issue. The second issue is the issue of the repayment to Nova scotia as well as ICICI Bank. I think, part of the loan will be rolled over and part of that will be repaid out of the cash flow that Caraco would be generating, they also have an option to raise additional funds from the stock market for which we have board approval. And, currently, I think market for their share is reasonably positive and there is a demand for improving liquidity. They may also decide to issue some additional equity to payoff the loan.

Preeti: Okay, final question sir, what is the capex for the next year?

Shanghvi: For Sun?

Preeti: For Sun, yes sir.

Shanghvi: I think, Rs. 50 crores to Rs. 60 crores, which is what we spend, I mean invest typically every year.

Preeti: Okay, nothing one or one time kind of high expenditure expected.

Shanghvi: I mean, not very high. I mean, 60 crores may go up to 75 crores. Nothing very large.

Preeti: Okay, fine. Thank you sir.

Moderator: Thank you very much madam. Next we have Mr. Rahul Sharma from Tata TD Waterhouse.

Rahul Sharma: Part of my questions have been answered, but could you give me some details, I missed out on the working capital numbers that you all had given. Could you please run me through that?

Valia: Inventories have gone up at 74 days sales from 58, outstanding has gone up at 72 days from 49, and work in progress has gone up to 15 days from 12 days.

Rahul Sharma: Thank you sir.

Moderator: Thank you very much sir. Our next question comes from Mr. Bhavin Chedda of Pioneer Intermediaries.

Bhavin Chedda: Good afternoon sir. Congratulations on excellent result. Sir you are talking about around \$15 million annually on R&D you will be spending it. Will this also include two new research site, which you are building and can you give some update on what this research site will be like, for what purposes or can you give some update on the therapeutic segment as well as your plan?

Shanghvi: I think, they will not include major investments in infrastructure. It could be more or less the operating expenses. See, in first nine months that is around Rs. 25 crores approximately. I think, by the end of this year, we will go up to something like Rs. 30 crores plus. Next two years we expect that to go up to around Rs. 70 crores plus. The research site, there is one site in Baroda, which we hope that partially will become operational by July or August this year. It is a close to 200,000 sq.ft. facility on a 17 acre plot of land, and it is not very far from our current R&D, it is around 2.5 km to 3 km away from our current R&D. It is in the city. The second site is in Bombay where we are building something close to 50,000 sq.ft., and that is around five minutes drive from our office in Mahakali Caves Road. This facility will be operationalised in middle of or may be closer to the second quarter of next financial year.

Bhavin Chedda: Okay, and Sir another question is regarding the introduction of VAT from 1st April 2003, can you just give a brief outlook of how it can impact the pharmaceutical industry as well as if you can give an impact on MNC and domestic companies separate and Sun Pharma as such. Will they benefit or will they have any major positive or negative impact, if you have studied it.

Shanghvi: We have not actually studied because we keep on getting different versions of finally what will be happening. We are not clear as to what will happen for tax-free factory, where we have sales tax exemption, but I think we are waiting for greater clarity because we don't know what will happen to CST, we don't know what will happen to turnover tax and octroi. There is a lot of ambiguity about how every state is going to handle this issue.

Bhavin Chedda: So, still you also don't know how the impact will be on the industry as such.

Shanghvi: We don't know how the impact would be on industry. And, I think in our case there is also one major issue is that there is also a proposal that they may include MRP inclusive of sales tax, inclusive of all taxes at all locations. That also is a big uncertainty that we are not sure as to when it will happen and what will be the impact.

Bhavin Chedda: Sir, how many new products you have launched in domestic market and what are the plans for next two years?

Shanghvi: I think, typically we launch three or four products every year in each of our division, since we have 11 division, we launch around 35 to 40 products every year.

Bhavin Chedda: Okay, but this aggressive new products will continue for next two to three years or

Shanghvi: At least for next two years. We have products under development for next two years.

Bhavin Chedda: Okay, Sir next two years you will be in similar lines to what you have done for last two years? Okay, thank you sir.

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

Manish Jain: Hi, good evening everybody. First of all congratulations on such a good performance in very tough market conditions. I have two questions pertaining to the US business, is how many ANDAs are likely to be filed in the current quarter and what is your target for next year. And, of the target for next year, how many will be patent challenges?

Shanghvi: I don't know about it exactly. We are working on number of products whether any of them will be filed in this quarter or not, I do not know, but I think we have shared with investors that next year we will file in Caraco as well as in India, at least, five products, and that I think we feel is fairly comfortable. About, para 4, we are working on a few products not too many, but I don't know finally when we will file. Hopefully, we can file one or two of them during next year.

Manish Jain: Thank you.

Moderator: Thank you very much sir. Participants who wish to ask to questions, please press*1 now. Our next question comes from Mr. Dharendra Tiwari of Fortis Securities.

Dharendra Tiwari: Hello. This question is about export of metformin. This metformin is only to Caraco or do you plan to export it to other parties also?

Shanghvi: Yes. We will export it to other parties also.

Dharendra Tiwari: And, what would be the approximate size of export to the US market from this drug.

Shanghvi: We generally don't share product specific and country specific information, but it is going to be an important product, both as a bulk active for us in India, as well as a formulation of Caraco.

Dharendra Tiwari: Right, last time around, you also mentioned about pentoxifylline that the company was expected to get DMF for that and start exporting to Caraco, what is the status on that please sir.

Shanghvi: I don't think we were expected to export to Caraco. We were expected to export it to the US, which we are doing now. So, whatever numbers that you see in our exports also include exports of pentoxifylline to the US, which is what we have shared with people is that we are replacing our current unregulated market, low-margin business with high-margin, consistent, regulated market business in bulk active. So, there is an improvement in the quality of our business while there is an increase in overall turnover for the company.

Dharendra Tiwari: Right sir. Thirdly, will you share with us the total market size of the drugs for which Caraco is expecting approval?

Shanghvi: Can I ask someone to send you specific information because I don't have this, but I think we have shared this with investors because I cannot share more than what Caraco has shared.

Dharendra Tiwari: Finally, about margins sir. Earlier in the presentation, it was mentioned that the company will be able to maintain operating margin of about 26%. For the first three quarters, you have seen margins of much more than that. So do we see reduction in margins during the fourth quarter this year?

Shanghvi: I don't want people to expect that every quarter we will be able to increase margins. I think, that statement is only a caution because people ask that whether we will continue to increase margins, but we are not expecting any significant change in business by which the margin will shrink. But, if everybody starts projecting increasing margins then this builds unnecessary expectations we wish to avoid.

Male participant: Yeah, finally Sir, can you tell us in the domestic formulation market, what was the growth in the therapeutic segment that Sun Pharma is operating into.

Shanghvi: You mean the ORG growth rate of the therapeutic areas.....?

Male participant: Yeah, what the growth rate of Sun Pharma's key operating segments.

Shanghvi: I think, it is around 11% to 12%.

Male participant: And, over that Sun Pharma has grown by 18.

Shanghvi: Yeah, that is correct. So, we have done slightly better than the industry.

Male participant: How do you see this particular segment of Sun Pharma's operations going forward? Do you see shrinkage in growth rates here also?

Shanghvi: I did not understand you. Can you come again?

Male participant: Can you tell us about the segments that Sun Pharma is operating into, how the market is going to unfold going ahead, say two or three quarters from here, like do you see a shrinkage in the rate of growth here?

Sanghvi: It is a macroeconomic issue, how the markets will behave. I don't think I have the capacity to project for the whole country. What we are able to project is that as a company we will grow at 15% to 20%.

Male participant: Thank you sir.

Moderator: Thank you very much sir. Next in line we have Ms. Shaheena from Motilal Oswal Securities.

Shaheena: Hi, actually this is a continuation of the previous question. Basically, I am impressed with the 18.5% growth in domestic formulations, which is much better than what I have seen from most other companies. Could you please tell me which are the products that have really done well for you, maybe 20% plus growth rate or 25% plus growth rates.

Shanghvi: I would not be able to answer because it will mean a large number of products, but broadly, all the key therapy segments in CNS, in CVS, in diabetology, in gynecology, in oncology, and in ophthalmology, overall all our businesses are doing well in terms of both prescription as well as top line growth. Most of the new products that we have introduced have done quite well and I think what we are quite happy about is that in spite of introducing a large number of new products, most of these products achieved reasonable market share. At the same point of time, we continue to grow on our old products.

Shaheena: You mentioned, new products, what would be the contribution of new product growth to this 18.5%.

Shanghvi: I think, around 5.5% to 6%.

Shaheena: And, which has been the best performing new product launch?

Shanghvi: Actually, I don't look at business that way, so I am not able to straight away tell you that.

Shaheena: Okay, any exciting new product that you believe has a potential to be maybe be a15 crores or 20 crores product in the next maybe year or year and half.

Shanghvi: We have introduced a product called Lupride Depot, which is a LH/RH antagonist and we believe that there may not be more than one or two people worldwide in addition to the originator, who are selling this product. We are confident that this product will become very large in India, but much more than the Indian market, we are very excited about its potential in both international regulated and unregulated markets where this product is close to a billion dollar product.

Shaheena: To get regulatory approvals have you started the mechanism?

Shanghvi: That's correct.

Shaheena: Okay, another question was on your material cost that has come down substantially for the quarter. You did give us some broad reasons as to why, but is this something we can extrapolate into the future.

Shanghvi: No, that is why I told you that you should not expect significant improvement in margins.

Shaheena: But, this material cost is because of some features like exporting to Caraco bulk and those are I guess continuing.....

Shanghvi: No, I think, it is because we have reduced commodity business. So, we are left with profitable bulk active business. Second is that we have reduced sourcing of formulations from MJ, so we produce all the products. So, indirect taxes have gone up and material cost has come down, and most of the new products that we have introduced continue to be as profitable as old product. Moreover, I think, if you see the overall contribution of bulk this time is lower than earlier. Formulation business is definitely more profitable. So, all of this has improved the margin and reduced material cost.

Shaheena: Okay, thank you sir.

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

Sanjeev Chiniwar: Good evening sir, I just wanted to know about the export formulations, which is currently contributing about little over 4%, where do you see this going ahead?

Shanghvi: We hope to be able to grow at 40% to 50% in next few years, year after year.

Sanjeev Chiniwar: Okay, thank you sir.

Moderator: Thank you very much sir. Next, we have Mr. Nirijar Handa from Parag Patil Finance.

Nirijar Handa: Hello, good evening sir. I have a couple of questions. My first question is how do you see the domestic formulations market changing from what it is currently after 2005, once India accepts the product patents.

Shanghvi: Can we meet for this. I don't expect any major change in next two, three, or four years. I don't think I can answer this question on a conference call.

Nirijar Handa: Okay. And, secondly have you started your buyback of shares?

Shanghvi: We have an enabling resolution, but we have not basically started the buy back of shares.

Nirijar Handa: Okay, any particular reason for that.

Shanghvi: One reason, I think is we expect that in this budget there may be some changes in the tax structure and which would make it easier for investors.

Nirijar Handa: Okay, fair enough. Thank you sir.

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. Valia for final remarks.

Sudhir Valia: Thank you very much.

Dilip Sanghvi: We are grateful to all the investors and analysts for attending this conference call, and we look forward to an exciting quarter. Thank you.

Moderator: Ladies and gentlemen, thank you for choosing this conferencing service. That concludes this conference call, you may now disconnect your lines. Thank you and have a nice evening.