

SUN PHARMA EARNINGS CONFERENCE CALL October 22, 2003

Moderator: Good afternoon Ladies and Gentlemen. I am Monali, the moderator for this conference. Welcome to the Sun Pharma's first half post results conference call. Mr. Sudhir Valia of Sun Pharma is your call leader today. For the duration of the presentation, all participants' lines will be in the listen-only mode. After the presentation, a question and answer session will be conducted for international participants connected to SingTel. After that, the question and answer session will be conducted for participants in India. I would like to hand over to Mr. Sudhir Valia of Sun Pharma. Thank you and over to Mr. Valia.

Sudhir Valia: Thank you Monali. I welcome all the participants joining us at the 1st half post results conference call. I will share the financial highlights and operational issues and Mr. Shanghvi will share the strategic aspect. After that, we will open for questions. The numbers are already with you and to quickly sum up, for the first half our turnover grew by 13% over the first half last year. Net profit increased by 19% over first half last year. Exports are growing quickly on the back of regulated market approvals for bulk and increasing sales formulations. We continue to post increase in net profit quarter after quarter despite higher R&D expenses as two new sites are nearing commissioning. Exports, both formulation and bulk, accounted for 21% of the sales. Formulation accounted for 68% sales and the bulk active 32%. Domestic formulation sales grew by 2.3% on similar half comparison. As per the August 2003 ORG data, the growth of the company is 14.8% as against 4.4% of the market. Our market share has moved up from 2.93% last September to over 3% now. Our domestic formulation business after factoring the earlier period sales in line with these reported numbers. Our core therapy areas, psychiatry, neurology, cardiology, diabetology, and gastroenterology, accounted 72% of the domestic formulations and in these segments growth is in the range of 14%. Among the newer therapy areas, we have made significant inroad in ranks with chest physicians, oncology, and dermatology. Ranks are continually improving and some of our brands are reaching brand leader status. Export formulation continue to do very well, continuing the turnaround we had in last quarter. Growth for the first half was 71% over similar half last year, which means that the pace of the formulation exports growth, should build as new markets and new registrations being revenues. We have also continued to invest seriously in international markets. Net margins for the first half was 26%, last year 24%. We are confident, looking at the performance in the first half, of posting margins about 26% for the year, which we have shared with you earlier. Inventory and debtors outside of the area, which becomes a business requirement or the prerequisite are attention area and we continue to focus on improving these numbers. The tax including the deferred tax is 103 million for the first half against 108 million last year. The net interest income is 30 million for the first half as against 24 million last year. Going ahead I should expect deferred tax and net interest income to remain roughly at the same level. R&D focus continued in the first half. The revenue R&D expenses increased from 135 million to 230 million. Margins were maintained at the net level even after increased R&D expenses. R&D total expenditure for the first half was 515 million versus 341 million. Two new research sites with 250,000 square feet of floor area and the working space for 275 more scientists is being readied with the equipment being installed shortly prior to being commissioned. EPS is Rs. 13 up from 10.8 first half last year, well within the exceptional Rs. 7.90 posted for the fourth quarter of March 03.

A number of interesting new products were introduced across the marketing divisions. Products like Imalek, imatinib, and Aprizole, aripiprazole, offers a differentiating edge in the new therapy areas. Pantocid, Susten, Repace, Aztor, and Clopilet, of the products we launched in the last few years have reached a position among the top products of the company. Interesting bulk active was brought to the market this year. Filings for the US market, from the both the plants, will accelerate the pace of filing and allow us to file for more difficult products like steroids and peptides. With summing up of the performance I will now ask Mr. Shanghvi to talk about our strategies.

Dilip Shanghvi: I welcome all of you to the first half post result conference call, and I thank Mr. Valia

for his dissection of numbers. I will share some of my strategy going forward with you and this is in line with what I have shared with you in the past. Before I share our performance, I wish to share an important news that I have received recently, that Forbes Global has selected Sun Pharma for their prestigious list of 200 companies across the world for the year 2003. These companies have been selected out of a list of 19,000 companies based on both their performance as well as the perception. This is the second time that we feature in this list and I am proud of team Sun Pharma for making the grade and making this possible.

Research and international market are two primary focus areas and I will take your permission to update you on these two issues. If you look at the numbers this half in the international formulation market, our strategy for concentrating on 30 key products and key markets seems to be working. We have posted 70% growth this half over last year, and for the rest of the year, we are confident of maintaining our projection of 40% growth in the next six months. Caraco has posted 9-month sales of close to \$33 million, and profit after tax of \$11 million. They have also upgraded their annual guidance of sales up from \$43 million to \$45 million. These are good numbers and we continue to be optimistic about opportunities in the US generic market. At Sun Pharma we are on track with our filing for the US market out of India with 5 filings to be made in this financial year. Caraco has shared in its communication with investors that 4 or 5 filings that it has planned to do this year, it has not made any and does not intend to file any product this year. As the press release states they are working on 6 products for which technology has been transferred to them, and if Caraco decides not to select any of these products, then Sun will file for these products and reimburse Caraco for the all the operating expenses. Caraco will manufacture these products as a contract manufacturer and subsequently distribute this product as per terms in line with normal distribution agreement within the industry. We continue to file drug master files for bulk active as well as certificate of suitability for European market. Four drug master files have been filed as well as approved, and for this Caraco has started sourcing bulk. This gives them a competitive price advantage, and as time progresses, it will give them ability to enter market earlier than the competition, which is a significant advantage in generic business. In research, we continue to progress on two new research sites, one at Baroda and one at Bombay. Both this sites are close to being commissioned. We hope to be able to commission them by this year, and we continue to recruit people for expanding both our new chemical entity and novel drug delivery system research group, so that we can increase our investment on innovative new products going forward. I am also happy to share with you that we are making significant progress on novel drug delivery system based products, and we are on line with meeting our objectives of getting into human studies for these products in next year. We are also progressing quite satisfactorily with our new chemical entity and as we have shared earlier we should be in human study by the year 2005. In the domestic market, we have grown at close to 7%. We see increasing competition in the market place, but we remain reasonably comfortable with our objective of growing our domestic formulation business by 10% to 15% this year. I also wish to share with you that we have discontinued marketing of a product called Tidigesic. This product contributed Rs. 150 million to our last year's sales. However, we will be able to maintain our overall margins as well as projected growth in spite of this discontinuation. Our focus on improving our operations and maintaining tight controls on execution and speed to market continue to be a major advantage, and we hope to further strengthen these issues as time progresses. Now that our US operations have been streamlined, we are focusing for developing a strategic business plan for Europe, and we will be able to share with you the progress on this as we take some specific action. With this I would like to leave the floor open for questions in case if 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. Pawan of SSKI.

Pawan: Hi, I have a few questions actually. First is for Mr. Shanghvi, you said that you have discontinued this product, sorry I could not get the name. But, can you please explain what is the reason for this, any particular problem.

Dilip Shanghvi: No, there is no problem as such. The name of the product is Tidigesic. It is a painkiller, and there are better painkillers in the market and this painkiller also has certain amount of misuse potential.

Pawan: Okay, which is the active ingredient in this.

Dilip Shanghvi: Buprenorphine.

Pawan: Okay. Then the second question was that this quarter, I mean, I look at local API sales, if I were to, I mean, they are significantly higher than the trend for the last few quarters. Any particular reason or should we assume that this is what it is going to be going forward.

Sudhir Valia: Yeah, we shared our views in line with regulated market. The API business will continue to do better and this is what has started.

Pawan: Is this because of what, better realization because you have better facilities, I mean, that too for the local market.

Sudhir Valia: No, we have increased sales on an account of actual volumes gone up and supply to regulated market also.

Pawan: Okay. I am talking about local API sales.

Dilip Shanghvi: I think two issues are happening here, one is that quite a few of the new products that, we have introduced (recently) we also supply to the domestic market and there are not many competitors. These are attractive products with reasonably good margin. Also, I think there is a certain amount of seasonality component in sourcing of active for the Indian market.

Pawan: Okay. Sir, if I were to look, like again coming to, now coming to formulation exports, if I were to begin from Q1 last year, I mean, I think, sequentially, other than the Q1 of this year, you have been growing sequentially. Now, you have reached about in excess of 170 million. Should we think that this kind of, I mean, I talking about a sequential growth, is possible. I mean, of course, because the base is not.....

Dilip Shanghvi: Come again.

Pawan: Look, what I am saying is sequentially from Q1 last year, your formulation exports have been growing barring Q1 this year, where it was kind of flat. This quarter it has reached 18 crores, and can we expect this kind of a number to continue say for the next few quarters at least.

Dilip Shanghvi: I mean, you want me to actually upgrade growth projections for exports.

Pawan: Yeah.

Dilip Shanghvi: No, I think, that is what we have shared that we feel that reasonably confident of maintaining 40% growth for the rest of the six months. We will, of course, try to do well, but it has not yet reached a size where we get consistency as a part of the business, as I think we will when we reach Rs. 150 crore plus. As time progresses, we will be able to have a far higher level of consistency in this business.

Pawan: When do you think we can reach Rs. 150 crores, the number you have just said.

Dilip Shanghvi: I wish to reach there faster than what we can, but I can't give you a number.

Pawan: Okay, and sir, then coming to the cost heads, there seems to be quite a bit of variation this

time. Again if I were to look at the trend line, R&D costs have moved up sharply. Should we assume that this is increased level of activity and would remain at these levels or higher.

Dilip Shanghvi: I think I have shared with you in the past that we will be trying to reach around \$15 million annual spend on R&D on revenue expenses. So, I think, this is a move towards reaching higher level of sales. Part of this is also because we are doing ANDA filing out of India. So, even that is increasing our R&D spend.

Pawan: So, I should assume it is not going to drop from these levels.

Dilip Shanghvi: No, it will not drop from this number, actually it may even go up further.

Pawan: Okay, fine. And, the last is that. Mr. Valia said that he expects deferred tax and net interest income to remain at these levels. I just wanted to understand, you mean to say that the deferred tax above 30 million per quarter is what it is going to remain.

Sudhir Valia: Yes, it is. Whatever we are currently paying, in spite of increase in the income, there won't be a change in the tax liability.

Pawan: Okay, then if you look at net interest income it is only a million this quarter, you mean to say it will be a million going forward as well.

Sudhir Valia: See, investments, which we had earlier with the bank, which was bank deposits, has been moved to debt mutual funds. So the category of interest income has gone down and the other income has gone up.

Pawan: Okay. Fine thanks.

Moderator: Thank you very much sir. Our next question comes from Mr. Madhusudhan of Citigroup.

Madhusudhan: Good morning sir. Just a couple of questions. Firstly, on the margin side. Your domestic business seems to be recovering. The inventories that you pushed in the fourth quarter seems to be getting absorbed. If this is a trend do you think the margin in the third and the fourth quarter could be better because you will have to absorb lesser variable costs for sales done earlier.

Dilip Shanghvi: I think, we have seen overall growth of 7% and our projection is to do around 10% to 15%. We also have to factor absorbing the discontinuation of Tidigesic. So, I think our overall projection of 26% for this year, as overall margin will stand.

Madhusudhan: Okay, and sir the inventories that you had like, excess in the last six odd months, has that been fully absorbed now.

Dilip Shanghvi: It is very difficult to quantify, but yes, I think it is absorbed....

Madhusudhan: No, I am mainly referring to that exceptional sale.

Dilip Shanghvi: Yeah, I understand. I think it is, that is why in spite of growing at 7% for the first six months, we are projecting 10% to 15% overall growth for the whole year.

Madhusudhan: And, sir in terms of your own ANDA filings, when do they start and what is the kind of number that you are looking at for at least let us say the current year.

Dilip Shanghvi: I think we have shared that we will file four or five this financial year, and I expect the filings to be in the last quarter.

Madhusudhan: Okay, and sir do you have any sense of the consolidated profits for the company in let us say first half of this year.

Sudhir Valia: Currently, we have not done consolidation for first half.

Dilip Shanghvi: But the numbers are easy, I mean, Caraco has made in the first half a certain amount of money and of that 49% is...

Madhusudhan: So, you are saying basically to add about 4 odd million dollars from Caraco.

Dilip Shanghvi: That is correct.

Madhusudhan: Okay, And, could you also give a bit of information on your export formulations, which are the key countries that you are targeting over here, which have kind of you know led to this good growth that we are seeing.

Dilip Shanghvi: I think, broadly we have grown in most of the markets, and countries that we are targeting are CIS, China, Southeast Asia, and Middle East. Our business in South America is yet to start, but we expect some business to start in this financial year.

Madhusudhan: The point that I am trying to make is that you know, you are doing about 18 crores of let us say on a current run rate per quarter and CIS, China, Southeast Asia, and Middle east, these are all like big geographies. I am just trying to get a sense as to which are your three key biggest markets currently.

Dilip Shanghvi: I don't have the number here with me, and also I don't think we share very detailed information, but I think we will give some geographical detail to you.

Madhusudhan: Thanks sir.

Dilip Shanghvi: Thank you.

Moderator: Thank you very much sir. Next, we have a question from Mr. Nikunj Doshi of Kotak Securities.

Nikunj Doshi: Yeah, good morning everyone. I just wanted to have a clarity on this bulk exports. We have exported 343 million in the current quarter. So, how much of that is to the Caraco and how it has moved over the Q1.

Sudhir Valia: We do not have bifurcations about Caraco because it is one of the customers along with the other customers.

Nikunj Doshi: Okay.

Nikunj Doshi: Okay. And, what percentage of these bulk sales would be to the regulated markets out of this total.

Sudhir Valia: Regulated markets, still I say that we have not classified, but increasing trend is there towards regulated market.

Nikunj Doshi: Okay, fine. Thank you very much sir.

Moderator: Thank you very much sir. Next question is from Mr. Sashikant of Templeton.

Sashikant: Hello. Can you hear me sir.

Dilip Shanghvi: Yeah I can.

Sashikant: Yeah, I just wanted to understand in terms of the domestic formulation sales, do you think now the effect of that early sale in March is already completely off? There is no impact now going forward that you would see in the second quarter, or do you think it still has had an impact on your second quarter.

Dilip Shanghvi: I think most of the stock is absorbed. There may be still some amount of residual excess inventory still in the pipeline, but it is not significant. So, which means that for rest of the six months, we should be able to do better than what we have done in first six months.

Sashikant: Okay, and secondly you mentioned about some of the DMF filings and approvals. Now, if you see July, September, there has been nothing from Sun Pharma.

Dilip Shanghvi: We are talking about the FDA site.

Sashikant: Yeah.

Dilip Shanghvi: We have filed some, I think with FDA there is a certain amount of lead-time difference, but there must have been a period of three months in which there is no filing.

Sashikant: Okay, so you mentioned five products by March 2004 in terms of ANDA. Now, if Caraco does not do it, you will look to do it, and you are confident to meeting that target by March 2004.

Dilip Shanghvi: No, I think, let me clarify. We will be filing four or five products out of India. It has nothing to do with what has being filed out of Caraco. Caraco is working currently on six technologies, which have been transferred out of India, and if we do not resolve the issue of technology transfer in next few months, then Sun will file out of Caraco instead of Caraco filing.

Sashikant: Okay, so then this number could actually change if Caraco does not file and then you decide to file.

Dilip Shanghvi: That is correct.

Sashikant: Okay, and in that case then this whole thing about R&D expenditure how you book. So, that something that would come as an expense. You were saying, you know, Caraco would be reimbursed at a later date.

Dilip Shanghvi: Caraco getting reimbursed will be in this way, in case if Sun files, and if let us say X amount of dollars have been spent by Caraco for the validation batches, which would include cost of material, use of their facility and all of that, then that will be paid by Sun and that will be booked this year in Sun's book.

Saashikant: Okay. I think I got the point sir. Thank you.

Dilip Shanghvi: Welcome.

Moderator: Thank you very much sir. Next, we have a question from Ms. Preethi of Edelweiss.

Preethi: My question is on the other income. Is it possible to give a breakup of this 8 crores.

Sudhir Valia: This 8 crores is basically mainly coming from two particular things. One is on an account of exchange difference on exports, and the second is that the excess liquidity which we have, which earlier was lying with the bank has been transferred to mutual funds.

Preethi: Okay, fine. The other thing was, I wanted to understand on the domestic market, if Mr. Shanghvi could you just give us some insight about growth, I am just trying to get a feel of how margins are moving for the domestic market. We keep hearing of falling prices, very rapidly falling prices, but it does not seem to reflect at least in Sun's operating margins. So, could you give us some clarity on which are the segments where you see a faster price erosion segments or products in which the company is managing to sustain prices.

Dilip Shanghvi: I think we feel, I mean if you see other companies in the industry, more or less everybody is maintaining margins. So, I am not thinking that we are very different here, but we feel reasonably comfortable that we will be able to maintain overall margins.

Preethi: But any segments that you can throw more light sir, specifically speaking I mean, where you feel the price erosion is faster and you are seeing some kind of a volume growth but not necessarily on the price front.

Dilip Shanghvi: I mean, generally, we have seen that sensitivity to pricing is there in acute therapy market far higher than chronic therapy market. But even in chronic therapy market for hypertension and other diseases, we see increasing pressure on pricing. So, I mean, I don't think there is any specific therapy segment, which is experiencing significantly higher pricing pressure than the other sectors.

Preethi: Okay, I just wanted to understand if you could share something on the product front, fair enough. The last question, I had was on this bulk exports, how do you see the growth coming in the next two quarters, very roughly any guidance that you can give for the full year.

Sudhir Valia: We will maintain.

Dilip Shanghvi: We have shared with you that overall we will grow by around 20% to 25% in bulk as a business, which includes both domestic as well as exports, which we should be able to maintain.

Preethi: Okay fine. Thank you sir. I am done.

Moderator: Thank you very much madam. Next is a question from Mr. Rajesh Vora of ICICI Securities.

Rajesh Vora: Good morning and congratulations for pretty good set of results. I had two questions, first and foremost on contribution from this partnership firm. This time all the numbers you have given includes the numbers of the partnership firms. Could you throw some light on what is the profit contribution from this firm?

Dilip Shanghvi: I think Mr. Valia is calculating.

Rajesh Vora: Okay, and the second question meanwhile I can shoot which is I wanted the breakup of your research investments, with continued step up in the R&D investments, could you give some light on how much you are spending on US in terms of ANDA filing, I mean, I want the R&D cost breakup on reverse engineering and on drug discovery research.

Dilip Shanghvi: We do not share this detailed information, I think broadly I have shared with the investors that we expect our innovative product spend to go up from current 35% to 65%. Now, as I think we are progressing with the filing for the US and realizing that our ANDA cost also will go up significantly. So, I think we should possibly reach \$15 million investment in R&D faster than what I had originally thought that we would reach.

Rajesh Vora: Okay. And, you said in the call that you maintain your guidance of EBIDTA margin of

26, 26 or 28 you said?

Sudhir Valia: 26 to 27 I had said.

Rajesh Vora: Okay, and this partnership contribution.

Sudhir Valia: Yeah that will be about 30 crores for the first half. It is there in the newspaper ad.

Dilip Shanghvi: It is there in the information that was sent to you.

Rajesh Vora: Okay.

Dilip Shanghvi: Actually, if you see below the line reading exports, there is a line reading share of income from firm.

Sudhir Valia: It is in the newspaper ad, it is okay, it is 30 crores.

Rajesh Vora: Okay, any idea on the outlook. I am sure as we move along into the future this is going to go up.

Dilip Shanghvi: Yes.

Rajesh Vora: Okay. Thanks gentlemen.

Dilip Shanghvi: Thank you.

Moderator: Thank you very much sir. Next is a question from Mr. Prashant of UBS.

Prashant: Yeah, hi, can you hear me.

Dilip Shanghvi: Yes.

Prashant: My question is on Caraco; I am trying to understand more about this R&D agreement, as this is sort of modified now. Am I correct in assuming that de facto Caraco will not be filing ANDAs going forward, it really will become just a contract manufacturing and contract marketing outfit, and if that is, yes, does Sun Pharma's stake remain at 49% because then there is no need to do any further equity issuance.

Dilip Shanghvi: No, I think Prashant, there is no change in the agreement that we have to announce, and that is not also done. What has happened is because the value of Caraco share has moved up significantly, the total value for technology transfer for every product has gone close to \$4.5 million to \$5 million, and since it has significant impact on their overall profitability, we have an ongoing discussion with the independent committee of directors about the products to be chosen for filing. While all of this is going on and it has a potential to affect the business of the company, what has been agreed is that in the meanwhile while we finalize this agreement, we continue to work on these six products for which technology is transferred, and if we cannot come to a conclusion about the agreement then we will file this from Sun. My personal view is that it is not in Caraco shareholder's interest that Caraco becomes a contract manufacturer, and that is not planned. And, we expect that at some point in time there will be realization that as time progresses valuation of generic companies is linked with the new filing and Caraco will start filing new products for technology, which is transferred out of India, and we will achieve 62% equity in Caraco as we have shared with Sun investors.

Prashant: So, should it be assumed to be a sort of an interim arrangement where over a period of time eventually as I would see it there would be a dollar-linked agreement rather than a share-linked, which is creating all these problems? I don't know how much time it is going to take, but is that what will be

the final arrangement.

Dilip Shanghvi: I don't think the discussion is around a dollar-linked final agreement because it will not be in Sun shareholders' interest to convert the technology agreement into a dollar-linked agreement. But, we are working on many options, which should help materially for Sun investors to achieve the kind of equity it will reach in Caraco.

Prashant: Okay.

Dilip Shanghvi: Right. Thank you.

Moderator: Thank you very much sir. Our next question comes from Mr. Sameer Narayan of Enam Securities.

Sameer Narayan: Good afternoon sir. Congratulations on a good set of numbers. Sir, I had two questions. You mentioned that Caraco is currently working on six products.

Dilip Shanghvi: Yes.

Sameer Narayan: Sun's target is about four or five filings for the current year.

Dilip Shanghvi: That is correct.

Sameer Narayan: You mean that in a hypothetical situation in case Caraco decides to forgo any filing as it has tentatively guided as well. So, Sun should be filing almost about 11 products out of India in the current year.

Dilip Shanghvi: Not out of India. Out of India, four or five products, and six products which Caraco is working on. All of them are not likely to be filed in this financial year for Sun. Some of them will be filed during this financial year. In case if we are not able to finalize the agreement, then it will be filed out of Sun. If it is finalized during this period of time then it will be filed out of Caraco.

Sameer Narayan: I mean, are the products close to a stage whereby they could be sent for filings may be in the last quarter of the current year.

Dilip Shanghvi: Not in this year for Caraco as it has already shared with investors, current financial year for Sun, yes. Caraco financial year closes in December, so they will not be filing till December of this year. The technology is transferred and bio-batches have been made for some products, which mean that these products are almost ready for filing, and some of the products will be filed in the beginning of next year.

Sameer Narayan: It means that typically the R&D expense for Q4 could be probably taking the target of \$15 million much higher than that.

Dilip Shanghvi: Let me see. What he is saying is that if Sun files for all the products out of Caraco. We spent in terms of revenue expenses if I see for R&D. I think 23 Crores is the money that we have spent in first six months, now if this continues in the second half then it will be 45 Crores in terms of revenue expenses then even if let us say, and that factors that calculation, the ANDA filings part of it is out of India.

Sameer Narayan: Okay.

Dilip Shanghvi: That's already there, so that still leaves us with around 30 Crores rupees to reach 15 million, so I do not think we will reach 15 million this year.

Sameer Narayan: Other question was pertaining to the share of income from firm, so could you just clarify that, I could not catch that on the question that was asked pertaining to that.

Sudhir Valia: It was the quantum that was asked, and it is 30 Crores, unfortunately I now realize that advertisement that we released for newspaper has not appeared today so you will see tomorrow.

Sameer Narayan: So that share of income is 30 Crores.

Sudhir Valia: Yes.

Sameer Narayan: Which was about 4.5 Crores for last quarter?

Sudhir Valia: Yes, it was only part of the months in the quarter that the factory was run.

Dilip Shanghvi: Actually operation supply out of that factory was only for one to one and half months and not for all the products.

Sameer Narayan: When we say that sales for the quarter includes 12.6 Crores of inter-unit sales, so is this inter-unit sales the same with respect to this firm itself?

Sudhir Valia: No, the sales for Sun Pharma Industries is not included.

Dilip Shanghvi: Inter-unit would be I think active supply of intermediate from one location to another location.

Sameer Narayan: And not to this firm?

Sudhir Valia: No, no it is not to this firm.

Dilip Shanghvi: It is a different firm so it is not interunit.

Sameer Narayan: Okay sir, thank you Sir.

Moderator: Thank you very much Sir. Next we have a question from Mr. Ashit Kothari of ASK Raymond.

Ashit Kothari: Yeah hello, I think my query has been answered regarding Sun Pharma Industries. Thank you.

Dilip Shanghvi: Okay.

Moderator: Thank you very much Sir. Next is a question from Mr. Manish Jain of DSP Merrill Lynch.

Manish Jain: Yeah, congratulations to the team on the best quarter in terms of profitability on consolidated basis for the company, and I had three questions, first is on your ANDA filings, is there any para 4 likely to be in the Caraco filing of the six products which are under development, that is the first thing, second is, how is our performance on clozapine and digoxin in the US, and lastly in terms of metformin bulk outlook for US your views on that?

Dilip Shanghvi: There will be possibly one para 4 filing out of the Caraco products, but that will not be first to file. We have shared with investors that we will be filing para 4 potentially with an opportunity to first to file next year. The second question I think is about the specific detail about digoxin and the clozapine business. In the last quarter I do not think Caraco has shared specific numbers, so I cannot share this, but I broadly can share this, these are important products and going forward they will become important source of both top line as well as bottom line for the company, and the initial

acceptance has been very good. Metformin, I think surprisingly for most of the products when they go off patent the volume of business goes down, but for metformin I think the volume seems to continue to expand in spite of it becoming a generic now for almost one year, and it will be an important active export for Sun and it will be an important formulation for Caraco.

Manish Jain: Thank you, but just one thing on clozapine and digoxin, any initial prescription trends which could be seen on these two?

Dilip Shanghvi: I will not have those details.

Manish Jain: Fine Sir no problem. Thank you very much.

Dilip Shanghvi: Yeah, thanks.

Moderator: Thank you very much Sir. Next we have a question from Mr. Sanjay Chawla of IDBI Capital.

Sanjay Chawla: Good morning, Sir this is Sanjay Chawla from IDBI Capital. My question is on the domestic formulation business, if you see the last two years your rate of growth in domestic formulation business seems to be slowing down and in fact the first two quarters of the current year where we have seen a single digit growth happening, are we seeing this slow down continuing in future, I mean, we are seeing a trend of 25% going down to about 20% for last year and this year you are talking about a guidance of about 10 to 12% in the second half that too, so effectively we are going to see about 10% growth in the full year for the domestic side.

Dilip Shanghvi: No the guidance is 10 to 15% for the whole year.

Sanjay Chawla: Okay.

Dilip Shanghvi: And as I think we have shared with you the reduced initial growth number in the first half is because of the 350 million rupees sales out of the facility last year, which effectively is for sale during the year.

Sanjay Chawla: Sir, even if you adjust for that this would mean that your effective growth in the first half assuming that the entire 350 is taken care of in this year, first half is about 17% which is still lower than what you have done in terms of full year last year of 20% adjusting for the 350 million sales?

Dilip Shanghvi: No but last year 20% included this 35 Crores rupees.

Sanjay Chawla: No Sir if you include that it is 23.7%, if you knock that off it will come to about 20%, and the year before that it was 25%, so even assuming a base effect are we seeing that we are not doing enough in the domestic side or it is the increased competition or what is exactly happening out there.

Sudhir Valia: Sanjay see there is some mathematical issue here, in the last quarter of September the sales is about 145 Crores, which is now 157 Crores but we take it that there is depletion because of this 35 Crores sales.

Sanjay Chawla: Okay.

Sudhir Valia: And for the half yearly it will be 286 Crores in place of 272 Crores.

Sanjay Chawla: That is right.

Dilip Shanghvi: His calculation is correct, I think Sanjay if your question is are we doing as well as we

were doing earlier in terms of overall growth, then the answer is, no. The reason I think is two, one is increased competition and second is relatively larger base, and also what you call a certain number of products that have started de-growing because of introduction of new products.

Sanjay Chawla: Okay that actually brings me to the second question, the competition was there earlier also, has the rate of new product introduction from Sun Pharma actually slowed down in the domestic side?

Dilip Shanghvi: No I think we continue to introduce new products. I think, and for the most of the product that we have introduced we seem to be doing well in the market place, I think we are working towards finding a way to grow faster than industry but I think we are part of the industry so overall if you see the industry growth two years back used to be in region of around 10 to 12%.

Sanjay Chawla: Sure.

Dilip Shanghvi: And at that time we were growing at around 25%. We hope to be able to grow at twice the industry rate of growth.

Sanjay Chawla: Okay, one more follow up this thing, it is more of a detailing, the staff cost seems to have gone up very significantly, both on a sequential basis first quarter and the second quarter as well as on a YOY basis, has the number of people gone up?

Dilip Shanghvi: The cost per person also would have gone up.

Sanjay Chawla: Okay thank you.

Moderator: Thank you very much Sir. Next we have a question from Mr. Giridhar Iyengar of ABN Amro.

Giridhar: Hi, could you tell me approximately what percentage of your total bulk exports would be to Caraco, just an approximate number, either for this quarter or for the half year, whatever?

Dilip Shanghvi: We do not have a number here, so I do not think it is wise to give you a offhand number, which can be incorrect, but may be Mira can send this number to you.

Giridhar: Okay, fine thanks.

Moderator: Thank you very much Sir. Next is a followup question from Mr. Sashikant of Templeton.

Sashikant: The R&D expenditure related to may be new products filings that could happen from you instead of Caraco, I was just trying to understand now Caraco has booked R&D expenditure of about 2 million dollars in the first nine months and would you think, you know, its related to products which, you know, these are things that you have done only in the last nine months or it could be more, you know, last year again you look at it apart from the share issue related, which probably are already filed, so there are some more R&D expenses, so you know, just trying to understand what kind of and when is reimbursement done by Sun Pharma to Caraco?

Dilip Shanghvi: The R&D expenses also include cost of validation when product is approved, also for increasing the batch sizes of products, so what I think, if your question is whether this 2 million dollar is spent for the products, which Caraco is currently working on?

Sashikant: Yeah, that's right, that is exactly what I am trying to get sir, is it what is in the nine months, last year they have also spent that...

Dilip Shanghvi: Full amounts if not for new products.

Sashikant: Okay Sir thank you.

Dilip Shanghvi: Thank you.

Moderator: Thank you very much Sir. Next question comes from Ms. Rohita from Way-2-Wealth.

Rohita: Hi, you have given a guidance of full year margins of around 26%, Sun has already done margins of around more than 28% for the first half, so should one assume that there would be an drop in margin for the second half.

Dilip Shanghvi: I think you are trying to ask me to upgrade the overall margins, we feel comfortable with a year on year margin of 26% to 27%, and we will meet that number.

Rohita: Okay, fine thanks.

Dilip Shanghvi: Thank you.

Moderator: Thank you very much. Next is a question from Mr. Rahul Sharma of Karvy Stocks.

Rahul Sharma: Hello Sir, thank you, my queries have been answered, thank you.

Dilip Shanghvi: Thank you.

Moderator: Thank you very much Sir. Next comes a question from Mr. Sameer from JM Morgan Stanley.

Hi good afternoon everyone, my question is about the European business, you said you will be sharing the details a little later, just curious that how many dosage form filings are pending and when do you see the approvals follow through.

Dilip Shanghvi: We have I think filed one product for Europe as yet, and I think as we have shared with investors that during the year at least three to four products will be filed for Europe, but we expect cash flow from all of this to start only after 18 months minimum.

Sameer: Okay, the second question, what's the sales outlook for Caraco for calendar 04.

Dilip Shanghvi: They have not shared this with investors.

Sameer: 04?

Dilip Shanghvi: No, I cannot give you Caraco numbers since they have not shared with their shareholders.

Sameer: Okay, and the next question is about, I think the Caraco is very likely to end the year with a net profit close to 15 million dollars, what's the deployment plan for this.

Dilip Shanghvi: I think they have some debt to repay, plus I think they have some capacity expansion, de-bottlenecking and all of that, but possibly at the end of the year, if they do not file ANDA then they will be having significant un-utilized cash.

Sameer: Okay.

Dilip Shanghvi: If they file ANDAs then may be part of it will be used.

Sameer: Okay, and my last question is about your NDDS, two of which are going to go into human studies next year, could you share some details for which therapy area or which technology platform?

Dilip Shanghvi: We will possibly be sharing this may be in next few months, more specific detail, the initial expectations as well as the kind of potential that we see for the product. I am not able to answer this question immediately.

Sameer: Okay fine, thank you very much.

Dilip Shanghvi: They are interesting niche products, which essentially says that they will not become 500 million, or a billion-dollar product.

Sameer: Okay, thank you very much.

Dilip Shanghvi: Thank you.

Moderator: Thank you very much Sir. Next is a followup question from Mr. Sameer Narayan of Enam.

Sameer Narayan: Sir I just wanted a clarification on the share of income from firms, if it is 30 Crores for this quarter, would the total income figures be revised?

Sudhir Valia: No, see total income of Sun Pharma which we have now shared with you is on a comparable basis, so there is nothing which is a significant difference arising because the products mix, the new products are also similar which otherwise would have come either side.

Sameer Narayan: If you add that so then you know the total is like total sales is 253 Crores other income is 8.8 Crores, net interest income is about 1 million, so therefore where will this 30 Crores go?

Sudhir Valia: Yes, now see that 252 which you are now talking about is the sales which includes Sun Pharma industries as well as Sun Pharma Industries Private Limited, means industry limited and industries both together, so this is we have shared where you can compare with the last year.

Dilip Shanghvi: Are you clear?

Sameer Narayan: That means the last year 216 Crores of total sales.

Sudhir Valia: Yeah, which has gone up from 216 to 252, and 252 are sales, which are done by SPI that is Sun Pharmaceutical Industries and SPIL both together.

Sameer Narayan: ...when you are saying for the full year guidance of 10 to 15%.

Dilip Shanghvi: Yes.

Sameer Narayan: that includes the cumulative sales of SPIL also.

Dilip Shanghvi: That is correct.

Moderator: Hello Mr. Sameer?

Sameer Narayan: Yeah.

Moderator: Sir are you there with us?

Ameen: Yes Mam this is Sameer that is fine. The query has been answered Mam thank you.

Dilip Shanghvi: Thank you.

Moderator: Thank you very much Sir. Participants who wish to ask question, please press *1 now. There is a followup question from Mr. Rahul Sharma of Karvy Stock Broking.

Rahul Sharma: Sir what type of guidance would you give for the overall growth in revenues for the firm for the next two years?

Dilip Shanghvi: Typically I think we give firm guidance only for this year, but going forward we expect the same level of growth to continue next year also. We are unable to share guidance or guide for period beyond.

Rahul Sharma: Okay so that will be around 10 to 15% for the entire of firm Sir.

Dilip Shanghvi: Not 10 to 15, I mean, we have separate guidance for all the three parts of our business.

Rahul Sharma: Okay.

Dilip Shanghvi: Domestic, bulk, as well as the export formulation.

Rahul Sharma: Okay Sir thank you.

Dilip Shanghvi: Thank you.

Moderator: Thank you very much Sir. Participants who wish to ask questions please press *1 now. 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. Sudhir Valia for final remarks.

Sudhir Valia: Thank you very much.

Dilip Shanghvi: Yeah, I think we wish to thank all the participants for attending today's conference call and we hope that we have been able to answer all the questions as well as issues that you had related to the results. Thank you.

Moderator: Ladies and gentleman, thank you for choosing this conferencing service that concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice day.