

**SUN PHARMA**  
**Q3 RESULTS CONFERENCE CALL**  
**JANUARY 28, 2004**

**Moderator:** Good evening ladies and gentlemen, I am Parul, the moderator for this conference. Welcome to the Sun Pharma's post quarter 3 results conference call. Mr. Sudhir Valia of Sun Pharma is your call leader for today. For the duration of presentation all participants' lines will be in the listen-only mode. After the presentation the Q&A session will be conducted for the international participants connected to SingTel. After that the Q&A sessions will be conducted for participants connected to India. I would like to hand over the floor to Mr. Sudhir Valia of Sun Pharma. Thank you and over Mr. Valia.

**Sudhir Valia:** Thank you Parul, I welcome all the participants joining us at the third quarter 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 take questions. Since the numbers have been already with you for a while I shall quickly sum up. Net profit increased by 21.6% over the same period for the first nine months till December and the turnover has grown by 12% over the same period. Exports are growing quickly, as regulated market approvals we have received so far for the bulk active shows an increase in sales as well as continuing up trend in dosage form exports. We continue to post increase in the net profit quarter after quarter, this is after factoring in R&D expense, as two new sites are almost ready. Exports, both formulation and bulk, accounted 22.4% of the sales, formulation accounted 66.9% of the sales, and specialty bulk accounted 32%. Domestic formulation sales grew by 6.1% on similar timeframe comparison. Here I would request you to consider the correction factor on account of the extra sales in March 2003, last quarter of the last year. As per the November ORG data, the growth of the company is 11.3% against 5.1% for the market. Our market share has increased to 3.08% up from 2.93% last year. Our domestic formulation business after factoring the earlier period sales are in line with the reported numbers. Our core therapy areas, psychiatry, neurology, cardiology, diabetology, and gastroenterology accounted 70% of the domestic formulations. In these segments growth is in the range of 8% to 17% while the growth of the participated market is between 9% and 25%. Among the newer therapy areas, this quarter we have significantly rank increases to report with ophthalmology and orthopedics. Export formulation continue to report very good performance demonstrating the confidence we have in this part of our business and the growth we have shown last quarter. Growth for the first nine months till December was 60% over the similar period last year. New registrations will add to the revenue. We also continue to invest seriously in building brands in the market. Net margins were 27.3% as versus last year 25.2%. With most of the year behind us we remain confident of posting margins about 26% for the year, which we have shared with you earlier. Inventory and debtors are an attention area and as we have always tried to balance the demand of running a specialty business with that of a lean business we continue to work on improving these numbers. Tax including the deferred tax is 148 million for the period December against 162 million last year. The net interest income is 41.7 million as against 46.6 million last year. I have shared with you earlier going ahead I should expect deferred tax and net interest income to remain roughly at a same level or even go down slightly. R&D continue to be high priority area as we continue investing effort, time, expense in this area, which will drive growth ahead. The R&D expenses incurred

increased from 204 million to 328 million. Margins were maintained at the net level even after increased R&D expenses. R&D total expenditure for the first nine months was 733 million versus 436 million. Two new research sites with 250,000 square feet area of floor area and about 275 more scientist is being readied with equipment being installed shortly prior to begin commission.

EPS is 20.5 up from 16.8 last year, well beyond the exceptional Rs. 7.9 posted for the fourth quarter in March last year. A number of interesting new products were introduced across the marketing divisions. Some of these products not only meet patient needs but since they use a difficult to replicate technology also offer a entry barrier. Our list of 10 products include several introduced in the last few years, Pantocid, Susten, Repace, Aztor, Clopilet, Cardivas, indicative of the success we have had in this area. Interesting bulk actives were brought to the market this year too, and in last two years more than 20 products have been launched in the domestic market based on our captive bulk. 14 DMF and 6 EDMF await approval. We expect to increase the pace of filing for the US and Europe market from both plants, Ahmednagar and Panoli. With this 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 third quarter post results conference call, and I thank Mr. Valia for his explanation of numbers. I will share some of my ideas with you and this is in line with what I have shared with you in the past. Research and international markets are key focus areas for us, and I will update you on these two issues. Our numbers for the international formulation business continue to grow faster than the rest of the business and we have posted 60% growth so far this year as against last year, and we are confident of meeting our projection for 40+% given in the last quarter. At Sun Pharma we are on track with our filing for US markets out of India with five filings to be made in this financial year, Caraco announced in its results released yesterday that they have met their \$45 million sales projection that they had shared with investors earlier and they expect 20 to 25% top line growth for the current year. They have also said that they will be making 7 new filings this year out of which one filing has already been made and they will be taking a 3 million non-cash charge on this account in the last year. As we now view it, Caraco is again on track for filings, and this will help us make most of the opportunities in the US generic market. Five drug master files have been filed as well as approved, and for several of these Caraco has started sourcing bulk. A number of interesting drug master files await approval, this gives Caraco a competitive price advantage and as time progresses will give them ability to enter market earlier than the competition, which can be a significant advantage in generic business. In research, we continue to progress on construction of two new research sites, one at Baroda and one at Bombay, both of these sites are close to being commissioned. We are on track 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. 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 objective of getting into human studies for these products in 2005. We are also progressing quite satisfactorily with our new chemical entity project and as we have shared earlier, this product will be entering human study by 2004-2005. Total R&D expenses as Mr. Valia has shared with you in the first two quarters is up almost by 60% without any impact on the overall margins. We continue our focus on maintaining growth of business, growth of profitability in spite of increased research investment. Our focus on improving our operation and maintaining tight controls on execution and speed to market continue to be a major area and we hope to further strengthen this as time progresses. Now that our US operations has been

streamlined, we are focusing for developing a strategic business plan for Europe and we will be able to share with you progress on this as we make some specific actions. With this I would like to leave the floor open for questions in case if I can clarify any of your doubts. Thank you.

**Sudhir Valia:** Parul?

**Moderator:** Yes Sir.

**Sudhir Valia:** Yes we can have floor open for questions.

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

**Moderator:** We will now begin a question and answer session for participants connected to SingTel Bridge. Please press \*0 or \$0 to ask a question. Once again \*0 or \$0 to ask a question. I am sorry, at this moment, there are no questions from participants at SingTel. I would like to hand over the proceedings back to Parul.

**Moderator:** Thank you Farida. We will now begin the Q&A interactive session for India participants. Participants who wish to ask question, please press \*1 on your 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. First in line, we have a question from Mr. Nikunj Doshi of Kotak Securities.

**Nikunj Doshi:** Hello, good evening everyone. Just one clarity I wanted, what is now the relationship with Caraco, means, there was some issues raised or some news was out that Caraco may not be sourcing ANDAs from us or something like that, so can you just clarify on that -what is the recent development with Caraco?

**Dilip Shanghvi:** The Caraco product technology transfer agreement provided for a committee of independent directors to approve the products to be chosen for tech transfer. A list of products was with Caraco in last 12 months and the selection process was taking much longer than it should.

**Nikunj Doshi:** Okay.

**Dilip Shanghvi:** So, we worked out with Caraco that they will continue to work on the products, and when the product is ready for filing, if Caraco is not interested in filing the product, then Sun will file, reimburse Caraco for all the expenses that were sustained, and the product will become a Sun product and it will be manufactured as a contract manufacture work by Caraco for Sun. However, the first product of this technology transfer has already been filed by Caraco and Caraco has filed on its own. Subsequently two days back, Caraco I think has shared with investors that they have chosen seven products, which they will be filing during the year, so we expect this issue to be resolved going forward.

**Nikunj Doshi:** Okay, but, so, our stake increase in Caraco, is it likely to happen now or it is unlikely in the current light of events?

**Dilip Shanghvi:** I think in line with the agreement as new products are filed, Sun will continue to increase its stake in Caraco.

**Nikunj Doshi:** Okay, but it does mean that, I mean, our independent strategy or the strategies through Caraco will have some negative impact because of this development or a kind of set back.

**Dilip Shanghvi:** Come again.

**Nikunj Doshi:** Means, due to this development do you see US strategy getting impacted or delayed a bit than expected?

**Dilip Shanghvi:** I think we lost a few months during last year, but we hope to make up for most of it during this year.

**Nikunj Doshi:** Okay fine, okay thank you very much.

**Moderator:** Thank you Sir. Next in line we have a question from Mr. H. R. Gala from Quest Securities.

**H. R. Gala:** Yeah my question also revolved around this relationship with Caraco, I could not understand the second question which was asked by the previous speaker about the stake increase to 62% from 49%, when do you see that happening Sir?

**Dilip Shanghvi:** I think once all the technology is transferred, stake will go up to 62%.

**H. R. Gala:** Okay, could it happen in the next fiscal?

**Dilip Shanghvi:** It cannot, no, it will take longer than one year because we have to transfer technology for 25 products, but Caraco has shared with investors that they would be filing seven products during this year, so depending on Caraco's ability to absorb new technology and also looking at product opportunities this I think will take a minimum of three years.

**H. R. Gala:** Three years okay, my second question pertains to some of the news reports which indicated that we are looking out for a second acquisition in USA, now what are our plans on that, and you know, how will it compliment our existing relationship with Caraco?

**Dilip Shanghvi:** We are looking at investment opportunity in the US, it is not as definitive as some of the newspaper reports have indicated.

**H. R. Gala:** Okay.

**Dilip Shanghvi:** We are not in any serious discussion with any investor today, I mean any target today.

**H. R. Gala:** Okay.

**Dilip Shanghvi:** But we believe going forward in the long term, US is a market of strategic importance for us, and we have to continuously look at opportunities by which we can increase the size of our business in the US.

**H. R. Gala:** Okay. So will you be looking for a company, which has its own manufacturing base in those countries or very strong in the marketing, what would our choice be based on?

**Dilip Shanghvi:** Our choice would be that it should have a platform on which we should be able to build rapidly, at the same point of time a company with a turnover which is of a meaningful size and we should be able to add value.

**H. R. Gala:** Okay, thank you.

**Dilip Shanghvi:** Thank you.

**Moderator:** Thank you Sir. Participants who wish to ask question please press \*1. Next in line, we have a question from Mr. Rahul Sharma of Karvy Stock Broking.

**Rahul Sharma:** Sir I had a query, the ANDAs that we are filing will we do contract manufacturing from Caraco or will we be manufacturing on our own and selling it through Caraco's network?

**Dilip Shanghvi:** ANDAs that we will be filing will be out of India and they may or may not be marketed by Caraco. So it is going to be filed out of a Indian site.

**Rahul Sharma:** Okay and what about the contract manufacturing any possibilities through Caraco?

**Dilip Shanghvi:** There is a possibility but we do not see a need.

**Rahul Sharma:** Okay, and Sir inventory correction in case of domestic formulation has been quite extensive, has extended for almost 9 months, when is this due to get over?

**Sudhir Valia:** No, this inventory is affected by various other reasons, bulk and formulation both. In the Bulk part of the business as more and more new products are being introduced the inventory is going up, for the formulations part of the business we can and do put in more control and checks, we may able to reduce inventory to some extent but we cannot go to the level by which we are likely to lose sales.

**Rahul Sharma:** Okay.

**Dilip Shanghvi:** What is the specific purpose of your question?

**Rahul Sharma:** Sir in the sense that what transpired in the last conference call was that we have almost finished our entire pipeline that was there in the domestic formulations and the inventory correction was almost over, so how come this is again being postponed to this quarter, that was what my concern was.

**Dilip Shanghvi:** So, what you are saying is that our overall formulation business growth is around 6%.

**Rahul Sharma:** I am not tallying this with ORG numbers.

**Dilip Shanghvi:** You are referring to the additional sales that we have made in the last quarter last year.

**Rahul Sharma:** Yeah, but that was suppose to have evened out in the first half.

**Dilip Shanghvi:** First two quarters, correct. I mean, even we felt the same, I think since the inventory is at the level of stockist, possibly we misjudged the extent of inventory impact. Hopefully, we expect that this is last quarter we should have an impact for this, but ORG continues to reflect a 12% growth for the company which is more than twice the industry rate of growth and I think going forward we should be able to increase our growth rates to that shown in the ORG.

**Rahul Sharma:** Sir another question was, could you throw some color on our specialty products exports, bulk exports to Europe and to US, basically, particularly in Caraco, which are the products which we are exporting to Caraco, the entire bulk drug list.

**Sudhir Valia:** Currently, we have DMF for metformin, pentoxifylline, tramadol, and metoprolol tartrate...

**Dilip Shanghvi:** These are approved and also...

**Sudhir Valia:** ...and tizanidine and mirtazapine.

**Rahul Sharma:** Any take on the number Sir?

**Dilip Shanghvi:** Yes, what was that?

**Rahul Sharma:** Any take on the numbers, how much have we done in each of these major molecules.

**Dilip Shanghvi:** We have not shared this specific information with investors, but broadly if you see our overall growth for exports of bulk for the year, I think is around 46%.

**Rahul Sharma:** Hello.

**Dilip Shanghvi:** Yeah, our overall export growth during the first 9 months is 46%, and major part of this growth is coming out of regulated markets.

**Rahul Sharma:** But Sir the previous guidance that you all had given for bulk of 20-25%, can you raise that guidance or should we raise the guidance or what should be the growth?

**Dilip Shanghvi:** No, for the last quarter also we maintain the same guidance, that is we will do 20-25% overall growth for bulk , and for formulation exports our guidance is 40% increase even though our overall increase this quarter is 60% but we maintain the guidance. We are not revising the guidance.

**Rahul Sharma:** Okay thank you Sir.

**Dilip Shanghvi:** Yes thank you.

**Moderator:** Thank you Sir. Our next question comes from Mr. Rajesh Vora of ICICI Securities.

**Rajesh Vora:** Good evening gentleman a very good set of results, congrats. Two questions, first on dollar 3 million to 4 million charge for Caraco which is expected for the fourth quarter 2003, I was just wondering as to how that number was arrived. The implied stock price is about 5.5 US dollar if you take 3 million dollar, can you throw some light on that, and the second question is regarding number of scientists that you plan to add once both the new R&D centers are up and running, and by FY05 end, end of next fiscal year, what is the number of scientists that you expect to have for your entire research activity?

**Dilip Shanghvi:** Yeah, I think the number is worked out based on approximate guidance, the charge is a multiple of the value of the stock on the day on which the biostudy passes, and a certain discount to that on account of restriction for the shares that we will be getting. Now the percentage of discount is to be approved by the auditors, so that I why approximate guidance number is given and as you rightly say, I mean calculate, the price range is anywhere from \$5.5 or 6 to around \$7.5.

**Rajesh Vora:** Okay, and this discount is something static number or it will change depending on few parameters?

**Dilip Shanghvi:** No, I think once it is agreed to, it will be a static number.

**Rajesh Vora:** Okay, okay, and on number of scientists?

**Dilip Shanghvi:** Yeah, I think we plan to add between Bombay and Baroda in the next 12 month something like 200 scientists.

**Rajesh Vora:** Okay, 200 scientists. And the last thing on the dosage form exports business, I believe that largely your strategy has been to replicate what you have been doing in the domestic market after failing in the tender business and so on. Now, the focus seems to be on marketing, on the field force, and on few power brands. Is that something that you would like to throw light on or is that going forward the same strategy will continue?

**Dilip Shanghvi:** I think we never failed in the tender business because we never did that, but what we failed in was to reestablish the model that we had in domestic in international market. Now, we are trying to establish the same business model internationally, and it seems to be working and we wish to continue to maintain the same strategy in focus.

**Rajesh Vora:** So what is the field force size right now outside of India?

**Dilip Shanghvi:** I will not have any specific number but I think in all the countries together around 200 and plus. 270, I mean I can be wrong by a few numbers, approximately that is the number.

**Rajesh Vora:** Okay, thanks a ton and all the best.

**Dilip Shanghvi:** Thank you.

**Moderator:** Thank you Sir. Our next question comes from Mr. Ajay of CLSA.

**Ajay:** Good evening, just two questions. First is, there are some newspaper reports that you are bidding for Hindustan Antibiotics. Any particular reasons for that?

**Dilip Shanghvi:** We look at fermentation business as a missing link in Sun's capacity and we believe that Hindustan Antibiotic gives us an access to get into fermentation business. Challenge for us would be how we make this business viable and profitable in the short term and going forward how do we achieve the same kind of margin and introduce sophistication and more high value added product into that business once we acquire those technologies.

**Ajay:** Two leading questions, one, within fermentation you could get into antibiotics, cephalosporins, which you have actually discontinued or statins. So, what is your game plan on that? Antibiotics or statins.

**Dilip Shanghvi:** Yes, that is something that we are considering.

**Ajay:** And secondly, would you be taking only the manufacturing or people and the liabilities and so on?

**Dilip Shanghvi:** We have not shared the specific proposal that we have submitted to the operating agency with people, because it is a competitive bidding process. It is not in our interest to make this public right now.

**Ajay:** Yes, that is fine. Second, a short book keeping question on the tax rate. It looks abysmally low actually at almost less than 6% and 7% for the nine months. Is this sustainable because most companies are actually, in pharma, we are seeing increasing tax rate? So, do you think the tax shelters that you have will continue for at least one or two years?

**Dilip Shanghvi:** Currently as the things stand, since our exports are increasing, we have export zone from which exports are qualifying, and with the coming 80IA benefits of a unit which we are setting up. For the next two to three years we feel we will be comfortably managing that environment, and if Hindustan Antibiotics acquisition goes through, then may be there will be one or two more period which will be having hardly any tax issue.

**Ajay:** And finally, one more question. Looking at your DMF, there is an indication probably you are looking at filing injectables also, cancer products, so are you creating a portfolio or carboplatin is just one off?

**Sudhir Valia:** No, as we have shared with people, we look at our bulk active business independent of our formulation business, and we also offer bulk active to other people. I am not saying that we may not be filing, but we may also be supplying these bulk actives to somebody else.

**Ajay:** Okay, that answers my question. Thanks a lot.

**Sudhir Valia:** Thank you.



**Moderator:** Thank you Sir. Next in line we have a question from Mr. Sameer Narayan of Enam Securities.

**Sameer Narayan:** Good evening Sir, congratulations on a good set of numbers. Just had a query on the export bulk only. On conference call you had mentioned that we could be looking at adding peptides and steroids also in our API portfolio. Now, in the current quarter sales or at least for the nine months of the current year, is there any contribution from these products?

**Sudhir Valia:** Not significant.

**Sameer Narayan:** Okay, but there is.

**Sudhir Valia:** There is sure. We are in commercial production for both these products.

**Sameer Narayan:** Okay, and Sir what is the, in terms of any targets that you set for, how do you see this product portfolio scaling up?

**Dilip Shanghvi:** Can you ask this question again?

**Sameer Narayan:** How do you see this product portfolio scaling up, any set objectives or strategies that you would like to organize?

**Dilip Shanghvi:** For bulk active business?

**Sameer Narayan:** No sir, specifically for peptides and steroids.

**Sudhir Valia:** No, peptides and steroids, as you understand are specialized products and they have fairly high complex manufacturing and quality value addition processes. So, we believe that this gives us a competitive position both as a generic player, also it gives us a competitive position in drug discovery. As on today, we are not seriously looking at using this as a contract manufacturing business for large pharma companies who wish to produce peptides for their own products, but going forward I think that is also an option that we wish to consider.

**Sameer Narayan:** Sir, the other question was out of this 112 crores of export bulk that we have for nine months. What percentage would be for captive Caraco?

**Sudhir Valia:** We have not shared the specific details, both for regulated market and Caraco, but I think when we will consolidate the number for Caraco at the end of the year, then this number will become clear. So, I think we need to take an internal view. As on today, I do not have the number with me, but at the consolidation time I think we will give this number.

**Sameer Narayan:** Okay. Sir, the other question was regarding the tech transfer number for products to Caraco. Earlier it was supposed to be in the range of 4.5 to 5 million and today it has been scaled down to about 3. So, Sir, any specific reason that you would like to outline as to why has it been, and is this, I mean, will this remain at 3 or...?

**Sudhir Valia:** Yeah, I think it is 3 because the day on which the bio passed the share

price was \$7.5. So, that is the reason, nothing to do with, \$4.5 or 5 , which was when share price was in the range of \$10.

**Sameer Narayan:** Okay, okay, so there is no set clause that has been inserted, which would make this 3 million a static figure for all tech transfer going forward.

**Dilip Shanghvi:** No, no.

**Sameer Narayan:** Okay, right Sir, that answers the questions. Thank you Sir.

**Moderator:** Thank you very much Sir. Our next question comes from Mr. Nimish Mehta of Mehta Partners.

**Nimish Mehta:** Good evening Sir. The other income part looks significantly higher for the nine months as well as for the quarter. Can you throw some light on what is it composed of?

**Sudhir Valia:** For the quarter it is 2.5 crores. As we have excess liquidity, we continue to get income on that front.

**Nimish Mehta:** So, it is major, I mean, majority of the other income comes from interest?

**Sudhir Valia:** Yes, interest, as well as some of the export incentives.

**Nimish Mehta:** I see, because for the previous nine months it is 2.8 crores and for these nine months it is 13 crores.

**Sudhir Valia:** Yes, yes. So, if you are seeing for the nine months, then the interest is also significant along with the export incentives, both. They are more or less equal if you say for the nine months.

**Nimish Mehta:** Okay, and Sir, the next question on the share transfer agreement on Caraco, can you tell us as of today how many shares will be transferred for one technology transfer?

**Dilip Shanghvi:** Our agreement provides for 544,000 shares per product.

**Nimish Mehta:** That still continues.

**Dilip Shanghvi:** I think that is the plan.

**Nimish Mehta:** Pardon Sir, can you repeat.

**Dilip Shanghvi:** Yes that is the plan, 544,000.

**Nimish Mehta:** Okay, thank you very much.

**Dilip Shanghvi:** Thank you.

**Moderator:** Thank you Sir. Next in line we have a question from Mr. Pavan of SSKI.

**Pavan:** Yeah, Hi! Sir you said that you plan to file 5 ANDAs out of India this year, I mean fiscal, right FY 04?

**Dilip Shanghvi:** Right.

**Pavan:** And how many have we filed so far?

**Dilip Shanghvi:** We will file 5 by the end of the year.

**Pavan:** You are not saying as to how many you have filed thus far?

**Dilip Shanghvi:** No, not specifically right now.

**Pavan:** Okay fine.

**Dilip Shanghvi:** But we have already filed some.

**Pavan:** Okay, fine. And the other thing was that, I mean any numbers for next year, how many you plan. This year is 5, what about next year?

**Dilip Shanghvi:** Again five.

**Pavan:** Again, Oh, five. Fine. And if I were to look at this new agreement with Caraco, it really does not change our position. We continue to receive the same number of shares and really does not matter to us, you know, what is the price they, you know, are accounted at?

**Dilip Shanghvi:** No, it does matter because it impacts both valuation of Caraco, and subsequently impacting us. We are trying to find some solution. We have not arrived at any solution, which solves the issue in a very balanced kind of way.

**Pavan:** Okay, okay fine thanks.

**Dilip Shanghvi:** Thank you.

**Moderator:** Thank you very much Sir. The next question comes from Mr. Abhay of HSBC.

**Abhay:** Good evening Sir. Just a small question. When you said you are going to file 5 ANDAs, this is in addition to the seven which Caraco is going to file?

**Dilip Shanghvi:** Right.

**Abhay:** Okay, and as far as DMF is concerned, Sir, I did not get the figure. You are going to file 14 DMFs in the next four quarters?

**Dilip Shanghvi:** No, what I think Mr. Valia said is that we have 14 DMFs awaiting approval.

**Abhay:** Oh! 14 are awaiting. But how many you have filed in the quarter, and what is

your plan for the next fiscal. How much do you plan to file on an annual basis, Sir?

**Sudhir Valia:** Currently DMF we are targeting to file between 8 to 10 per year.

**Abhay:** 8 to 10 per year. And 14 are awaiting approval. So, you filed almost 4 to 5 in the quarter, approximately that number?

**Sudhir Valia:** No, it depends, sometimes it gets clustered, but average 2 to 3 will be coming in a quarter.

**Abhay:** Okay, fine thank you Sir.

**Dilip Shanghvi:** Thank you.

**Moderator:** Thank you Sir. Next we have a followup question from Mr. H. R. Gala of Quest Securities.

**H. R. Gala:** Yes, my question pertained to our sales in the domestic formulation market. I still reiterate that while ORG number continuously says that Sun Pharma sales are increasing by say about 12% and our book show only 6%, so, you know, we presume that still there is lot of inventory in the trade which is getting offloaded in the retail market. When do we think we exactly will be more or less aligned, you know, so that the retail off take as well as the company sales to the primary dealer will both reflect more or less a similar growth number?

**Dilip Shanghvi:** That is what I said -that hopefully we are at the end of the tunnel.

**H. R. Gala:** End of the tunnel, okay, thanks.

**Dilip Shanghvi:** Thank you.

**Moderator:** Thank you Sir. Next in line, we have a question from Mr. Sameer Baisiwala of JM Morgan Stanley.

**Sameer Baisiwala:** Good evening everyone. Couple of questions on Caraco, probably some press reports suggest that you are targeting \$100 million sales in 2005 versus say about 20-25% growth this year. So, are we talking of \$55 million going to \$100 million next year?

**Dilip Shanghvi:** No actually, I think that press report was not accurate on number of issues. What Caraco has shared with investors in their press release, which came out day before yesterday was that 20-25% growth is expected during this year. So, maybe \$50-45 million will go up to \$55 million or \$60 million sometime, somewhere in that region this year, 2004.

**Sameer Baisiwal:** And 2005?

**Dilip Shanghvi:** That they have not shared with investors.

**Sameer Baisiwala:** Okay, the second question was about your metformin contract with Veterans Administration Institution say which is probably the large part of your overall

Caraco sales. Could you update us on the December re-negotiation?

**Dilip Shanghvi:** I am not aware actually of any renegotiation.

**Sameer Baisiwala:** I thought the order was to be renewed in December for the full year for the pricing?

**Dilip Shanghvi:** I do not think, I think it gets triggered under certain conditions. Actually, maybe you know more than what I know, last time when I was in the US, I did not discuss any issue related to renegotiating the contract. So as I see, that contract continues to be with Caraco.

**Sameer Baisiwala:** And at the earlier price levels?

**Dilip Shanghvi:** That is correct.

**Sameer Baisiwala:** Okay. And one last question, another question was like, if I understood properly, you mentioned two NDDS going into human trials during calendar 2004?

**Dilip Shanghvi:** 2004-2005 is what I said. So, may be in the next 12 months they will go into human studies.

**Sameer Baisiwala:** Okay, fine, thank you very much.

**Dilip Shanghvi:** Thank you.

**Moderator:** Thank you Sir. Next we have a followup question from Mr. Rahul Sharma of Karvy Stockbroking.

**Rahul Sharma:** Sir, just was curious, what would be the extent of Sun's stake by March end in Caraco?

**Dilip Shanghvi:** This year March end?

**Rahul Sharma:** Yeah.

**Dilip Shanghvi:** I think it will remain 49 or something like that, 48 or 49%.

**Rahul Sharma:** Despite one ANDA being filed and probably another coming by March.

**Dilip Shanghvi:** They do not become shares for next three years. They are some specific type of security which convert into common stock only after three years.

**Rahul Sharma:** Okay. And Sir, what about research expenses, the revenue expenses have gone up to 98 million, almost 99 million for the quarter. Going forward, should we take it as a trend or what would you, what would be the indicative trend?

**Sudhir Valia:** Yes, revenue will continue to be in a similar region.

**Dilip Shanghvi:** It may actually go up, I think, I have shared with investors that it will,

we continue to invest more in R&D.

**Rahul Sharma:** Okay, thank you.

**Moderator:** Thank you Sir. Next in line we have a question from Mr. Prashant Nair of Edelweiss.

**Prashant Nair:** Hello? Yeah, I just have one question. This excess sales which were done in the fourth quarter last year, will that be a trend going forward as well or was that a one off thing?

**Dilip Shanghvi:** No, this year there is no such unit which is completing its period of exemption.

**Prashant Nair:** Okay, so you have, your normal trend should continue.

**Dilip Shanghvi:** Yes.

**Prashant Nair:** Okay, thanks a lot.

**Moderator:** Thank you Sir. Participants who wish to ask questions, please press \*1. Participants who wish to ask questions, please press \*1. Participants who wish to ask questions, please press \*1. 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:** Yes, I thank all the participants for having taken interest, and I hope we have tried our best to answer all the queries you have. If they have any queries, they can be in touch with Mira Desai. We will try our best to comply with questions. Thank you participants.

**Dilip Shanghvi:** Thank you.

**Moderator:** That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice evening.