

SUN PHARMA
ANNUAL RESULTS CONFERENCE CALL
APRIL 22, 2004

Moderator: Good afternoon ladies and gentlemen, I am Monali, the moderator for this conference. Welcome to Sun Pharma's post quarter fourth results conference call. Mr. Sudhir Valia of Sun Pharma is your call leader today. For the duration of the presentation, all participants' line will be in the listen-only mode. I will be standing by for the question and answer session. I would now like to hand over to Mr. Sudhir Valia of Sun Pharma. Thank you and over to Mr. Valia.

Sudhir Valia: Welcome and thank you participants for joining us today for the fourth quarter and the annual results conference call. As always, we will be touching upon both numbers and strategy. I will share financial highlights and operational issues, and Mr. Shanghvi will talk about our strategies and direction. After that we will open for questions.

First of all, I am happy to share that the board has recommended 1:1 bonus subject to shareholders' approval.

In all, we had a good year, as the results are already with you. The year across the business segments we compete in, our performance was in line with our projection for the year. The growth we have shown in quarter four is in line with the kind of growth numbers we have been showing every quarter year after year. For all comparisons, I will consider the number of Sun Pharma along with Sun Pharma Industries. Our total turnover grew 13% over last year and 8% over December quarter. Gross profit increased 18.4% over last year and 14.26% over previous quarter. Net profit increased 21.2% over last year and 20.3% over December quarter. The increase in profitability is on account of a better realization, both international bulk active and formulation, continuing cost control due to better sourcing. We have maintained profitability after continuing with another year of heavy R&D investment. Revenue R&D this year was about Rs. 487 million against Rs. 294 million. Formulation accounted for 68% of the sales and speciality bulk active 31%. Exports across formulation and bulk active recorded 22% of the sale. Domestic formulation sales have grown 4% over year to March 2004. The quarter four domestic formulations were gone down 1.9% over the same quarter last year. As you already know, last year this component of our sales featured special price sale of 350 million, which would have otherwise happened in quarter one this year. As per the March 2004 ORG MAT data, Sun Pharma continued to be ranked fifth with net growth of 12.5% against 7.3% growth for the industry. Market share has increased to 3.11% from 2.99% last year. The core therapy area, psychiatry, neurology, cardiology, diabetology, and gastroenterology accounted 70% of the domestic formulation sale. Among the other newer therapy areas, we have begun to make inroads with chest physicians, oncology, and dermatology in the terms of the rank increases with the specialities as per CMARC for November- February. Here, I would specially like to highlight orthopedics where we are now third, and gastroenterology where we are now second. This is in addition to the rank improvements, I had told you that last quarter, oncology where we are eighth, and gynecology we are at eleventh rank. These are good ranks and we expect to build prescription shares as we apply the same specialties template that have worked well for us in our other core therapy areas.

Exports formulation has lived up to its promise and has grown well with 53% growth for the year. Growth for the March quarter was 36%. This growth is the net result of better focus, tighter operational control, and strong team building. Based on the initial success of our strategy, I expect to grow it significantly in the coming year. Our plant in Bangladesh is about to begin production activity. At Sun Pharma, as always, we continue to focus on net profit with 29% margin for March 2004. The working capital cycle continued to be a priority area within the company. We continue to strengthen our infrastructure and systems, and put into place sensible measures to improve these numbers. The tax outgo is Rs 85 million last year it was Rs. 158 million. The net interest income was Rs 53 million for the year against Rs. 67 million for the last. As I shared with you earlier, we have continued to increase R&D investments and margins have increased and been maintained after R&D expenses. R&D total expenses for the year is Rs.1077 million versus Rs.658 million. Of this, R&D capex was Rs. 598 million for the year as against Rs. 363 million last year. The R&D revenue expenses have also increased to Rs.479 million versus Rs. 294 million last year.

EPS is at Rs. 30.10 up from Rs. 24.70. Board has proposed dividend of 130% as compared to 100% last year. We have also taken board permission to initiate a buy-back program for preference bonus shares. Several new products were introduced across our marketing divisions and we continue to use technology as a differentiating factor. Several products introduced within last few years such as **Pantocid, Susten, Repace, Aztor, Oleanz, Clopilet**, feature among top 15 products for the company and these continue to grow at a healthy rate. We continue to do well with the high margin speciality bulk segment of our business and are prioritizing the US, Europe for future growth. We now have five DMF approved, five COS approved, and total 17 DMFs plus COS awaiting approval. We continue with our plan of eight to ten regulated market filings for the year. With this, I will now ask Mr. Shanghvi to outline our strategy particularly in line with our plans for likely to acquisition opportunities that we have shared. Over to Mr. Shanghvi.

Mr. Shanghvi: Thank you Mr. Valia for explanation of your numbers. I will share with you investors the outlook of the company, our US operations, the R&D, and other future plans. First the international business. International market moved to 23% of turnover, up from 17% last year. As you already know in view of the immense opportunity that we see in the US market for generics, we have increased our stake in Caraco to 63% from 49% last year by buying out equity from two large shareholders. In order to take our international market plans to the next growth orbit, we have also announced our intent to raise funds of not over \$350 million by issue of an equity linked instrument in foreign currency convertible bond, secured or unsecured. An EGM is being held on May 6, 2004, for seeking shareholder approval.

You also may be aware of our bid for public sector unit Hindustan Antibiotics. However, this is a competitive bidding process and we should be able to share details once we receive a formal clearance. We see a good opportunity ahead using the facility for participation in the fermentation and biological space should we be successful with our bid.

Export of formulations from India achieved a 50+% growth on a relatively small size business. However, it constitutes 6% of our overall turnover compared to 4.6% last year. Going forward, looking at the kind of products and the potential for these products in the international market, we expect this business to continue to grow at 40-50% for the

next two years.

US market is the most important priority for the company and we put into action words by increasing our stake in Caraco to 63%. Caraco had posted sales of \$45 million for the year 2003, which compares very favorably with their initial shared estimate of \$35 million and profit after tax was \$11.5 million with cash flow of \$15.5 million. Our numbers consolidated with those of Caraco are also with you. They have also shared that they will be filing seven products in the year 2004. Sun Pharma using an Indian facility has filed four products as we have shared with you last year. Participating in the US generic opportunity with the advantage of integration and a comprehensive product portfolio will help us become an increasingly important player in the US market. We are committed to growing this part of business as rapidly as possible while following the tenets of building long-term sustainable business that adds to shareholder value.

If you look at return on capital employed for Sun Pharma for this year in comparison with last year, return on capital employed has come down. This is on account of \$40 million ECB that we raised during the last year and as we have shared with you our intention of raising FCCB, it is likely to go down further. However, as I have shared with some of you in the past individually, we will remain very vigilant about the use of these proceeds and invest only if it helps us create a long-term business value for our shareholders. We have also been sharing with you our intent to ramp up R&D in order to reach the next growth orbit with innovation based projects. We have also been sharing with you that one **NCE** project and two NDDS projects would be in human trial in 2005. I am glad to tell you that one new chemical entity has entered human trials in Europe and two NDDS will enter human trial this year for regulated market. In 2003-2004, we invested on the revenue expenditure side of Rs. 479 million, which compares very favorably with 294 million for the last year. So, effectively our revenue expenses for R&D has gone up. This does not include research and development investment at Caraco, which they do for ANDA filing. Between the two new sites we have commissioned, 275 thousand square feet of research space this year and the phase one has been commissioned at both the centers.

Now, if I look at the outlook for the current year, internationalizing the business as quickly as possible remains the top priority. One way of doing this is receiving regulated market approvals for manufacturing sites in India, which we have been doing from time to time. Two bulk active units are US FDA and European regulatory agency approved. One drug manufacturing site is approved for Australia. One formulation plant is approved by the UK MCA during the last year. The Brazilian and South African authorities have also approved the same facility. We expect exports of formulation to continue growing at 40-50%+ and export of bulk active to grow at 20-25%. Another way of participating in the international opportunities with a base in the market, which we have commenced with Caraco, and we will now take ahead even more intensely with the use of proceeds.

R&D continues to be a critical growth driver. We expect to continue to heavily invest in revenue R&D expenses. These investments may impact margins in the short term, we will try our best to see that it does not significantly impact the margin, but this will help us make the most of the potential of the market and our technological skills as we address this opportunity. The domestic formulation business at 60% of the turnover continues to be the largest part of our business. While this year's number, we will have an impact of one-time sales made last year, I am confident of continuing with solid growth in this business and I am revising growth numbers to 13% and 18% up from 10% to 15% earlier.

We have always believed in focusing on growing the business rather than watching competition because we believe that focus and tight operating discipline is the only way to deliver value year after year. We intend to put this focus to good use in this year and in the next. With Caraco on a solid base, our announced intention to participate in the European market only through a local partner, we are ready to reach for the next stage of our international market growth.

We expect to spend a capex of around Rs.1000 million for the current year, more or less comparable to what we spent last year, and if any additional sites are added to our list of facilities through acquisition, this number may change during this year. With this, I would like to leave the floor open for questions, 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 touchtone-enabled telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. To ask a question, please press *1 now. We have our first question from Mr. Rahul Sharma of Karvy Stock Broking.

Rahul Sharma: Hello sir. Good set of numbers. I just wanted to ask you on R&D, one has gone on in phase one in Europe sir, and what about the others, I did not catch up with that?

Shanghvi: What we shared with investors earlier is that we will have one new chemical entity in phase one human study during the year 2004 and 2005 and that product has started phase one human study. We have also shared that during this year, two NDDS projects will also go in phase two B human study during this year.

Rahul Sharma: Sir, these numbers are inclusive Caraco?

Sudhir Valia: No, this is Sun Pharma and Sun Pharma Industries. These are two companies that is what we say is operation what we have in India.

Rahul Sharma: Sir, could you throw some light on money that you are going to raise, almost Rs.1500 million, what are you going to deploy it for?

Mr. Shanghvi: The money that we are can raise, can be up to Rs.1500 million Indian rupees or something like 350 million US dollars. What we have shared is, we will look at investment opportunities in internationalizing our business.

Rahul Sharma: So will it be targeting US and Europe, or and other markets across EU?

Mr. Shanghvi: Primary focus is the US market.

Rahul Sharma: Okay, thank you sir.

Moderator: Thank you very much sir. Next is Mr. Ajay Sharma from CLSA.

Ajay Sharma: Good afternoon gentlemen. Excellent numbers. First of all, could you tell me what NCE is this, which class of compound or therapeutic area?

Mr. Shanghvi: I think as it progresses, once it crosses phase two, we will give more specific details.

Ajay Sharma: Okay. On the revenue side, pretty comfortable with your guidance of excellent exports and domestic, but I am quite intrigued by the kind of margins you are sustaining and 40+% EBITDA margins, can you tell me whether the kind of raw materials cost and the savings you are talking about is this kind of margin sustainable or should be taking lower margins for next year, that is first, and secondly the tax rates also look abysmal, anything on that front, whether it is going to go up or not?

Sudhir Valia: You have been seeing continuously this kind of margins, and at every growth level we have put significant efforts to achieve that. I do appreciate that in the competitive environment and in the marketing area where the competition is increasing sustained margin is difficult. We have one more interesting advantage that currently 30% of our formulation is supported by our own bulk active and this is one of the significant advantages which we have. As regards to the tax which you are talking

Mr. Shanghvi: What he is asking is, what he should take for next year's planning of our numbers. What should he consider.....?

Sudhir Valia: The current level of the numbers

Mr. Shanghvi: Ajay, you should take the annual numbers as a basis.

Ajay Sharma: Perfect. So I can maintain that.

Mr. Shanghvi: Yes.

Ajay Sharma: And this tax rate thing?

Sudhir Valia: Tax rates have definitely been significantly lowering for us on account of various exemptions, which we are enjoying because of backward area as well as EOU unit, which qualifies our 100% of export as a tax benefit instead of marginal which is 20% this year only on exports. So, these both are very crucial where they are not covered within the MAT also. This benefit which we will continue to have up to 2009, okay. Secondly, our significant expenditure on R&D which is where we are getting weighted deduction on our revenue expenses. It also helps us in minimizing our tax burden.

Ajay Sharma: Okay and two more questions, one finally on the consolidated numbers, you have Rs. 359 Crores of profits for the full year consoled with Caraco and everything, which is a huge growth over last year, now on Rs.358 cr , we expect the kind of growth you have been showing on standalone which is approximately 20% or should it be higher?

Sudhir Valia: We have....

Mr. Shanghvi: Ajay, we do not give bottom line numbers.

Ajay Sharma: Okay, not a problem. Last question. Four ANDAs filed by Sun from India, would it be fair to assume this could be probably pantoprazole, carboplatin, the DMFs you filed, or that is a wild assumption?

Mr. Shanghvi: No, I think it is your assumption. We have not shared specific products.

Ajay Sharma: Okay, but your DMF should be some indication on that front.

Mr. Shanghvi: That is what I am saying you have to take your assumption.

Ajay Sharma: Okay. Thanks for taking my questions.

Moderator: Thank you very much sir. Next is Mr. Vineet Samre from IL&FS

Vineet Samre: Good afternoon sir. My question pertains to your Hindustan Antibiotics, which you are planning to take over, I would just like to understand what is the kind of money which you will have, you know, planned for this acquisition, and also further capital expenditure which you will require for this company and what are the benefits, which you will be deriving?

Hello, hello

Mr. Shanghvi: Yes.

Vineet Samre: Did you hear my question Sir?

Mr. Shanghvi: Yeah, we heard you. Okay, I think Hindustan Antibiotics as Mr. Valia shared with you is a competitive bidding process, so we cannot share specific information with you in this detail. However, as I discussed in my presentation, it gives us an opportunity to get into fermentation-based business and biotechnology, which we consider to be important part of our future growth plan.

Vineet Samre: Sir, would you just like to explain to us as to what kind of money you will require post this acquisition to, you know, put into this plant so as to make it functional.

Mr. Shanghvi: I think we have not shared specific information, but broadly the size of the investment that we would look at can be funded from internal accruals.

Vineet Samre: I did not hear that sir.

Mr. Shanghvi: We should be able to fund it out of internal accrual.

Vineet Samre: Okay, one more question relating to your R&D, you mentioned that your revenue R&D expenditure is going to remain robust, but could we understand as a percent of sales what is your target?

Mr. Shanghvi: This year it has moved up I think in excess 5% on revenue side without impacting margin. I have shared with people in the past that our plan is to increase our R&D spent on revenue size to 15 million over next 18 months.

Vineet Samre: Okay. Thank you sir.

Sudhir Valia: Thank you.

Moderator: Thank you very much sir. Next is Mr. Pawan of SSKI.

Pawan: Yeah, hi. What I wanted to know was in this particular quarter, how much of API exports we would have done to Caraco, or would you continue not mentioning that number?

Sudhir Valia: No, we generally do not segregate the number unit customer wise.

Pawan: Okay. Or let me ask at this way that is it possible for you to give me a quarterly, I mean, for this particular quarter, the consolidated profits.

Sudhir Valia: Consolidated profit of Caraco with Sun.

Pawan: Yeah, this quarter.

Sudhir Valia: Once we disclose the results at Caraco , we will share with you, no problem.

Pawan: Okay, okay. Because that was something I was trying to understand. Is it because, you know, is there any large number that we have exported to Caraco and that is result of, you know, that has led to this huge jump in profits or is it that normal. This is all normal.

Sudhir Valia: No, definitely there is growth marginally has come out that version also, but not that much which will impact significantly the results, but yes, we have been increasing our exports in regulated markets other than Caraco also because as we are getting approvals one after the other, we are finding much more opportunity in the business.

Pawan: Okay and the other thing I wanted to check was on the tax rate, for the full year, you have something like 4.7% tax, and for this quarter hardly anything. Should I assume that this quarter is more realistic and next day it is going to be probably 1 to 2%.

Sudhir Valia: These are the eventualities, we provided earlier

Mr. Shanghvi: Pawan, next year's tax rate you should presume the annual overall tax rate.

Pawan: So that means that in the first three quarters, we had actually provided a little more.

Mr. Shanghvi: That is true.

Pawan: Okay okay, fine thanks.

Moderator: Thank you very sir. Next is Mr. Rajesh Vora of ICICI securities.

Rajesh Vora: Good afternoon team. I think phenomenal results. My heartiest congratulations on a stellar performance. Mr. Shanghvi, I have one very simple question. Over the past few year, you have been scaling up big time, I mean, I see your numbers in the last 5 years, you have tripled your sales, and despite rising competition in niche therapeutic areas in India, which has been your bread and butter, despite that your net

profit margin has increased from 16% to almost 27%. Despite this massive scale-up that you have achieved, you have remained pretty much conservative, very little investment, large investment that you have done. In the past few months, I see you making massive investment plan, beginning with close to \$46 million investment in Caraco in the past few months. Now \$350 million that you are planning to raise, what has changed or what is it that you are seeing exciting future ahead, and with such a massive fund-raising program, I am sure it is going to bring in a lot of challenges that you have not come across so far, could you through some light on this?

Mr. Shanghvi: I think Rajesh, I would like to look back maybe ten years that is the time when we went public and that is the time when we raised Rs. 55 crore and in that year profit after tax was Rs. 7 crore. Now, we used the Rs. 55 crore that we raised in the public issue to take the business to the next level. We used this money conservatively and we used when the appropriate opportunity appeared in front of us. I do not think that irrespective of what investor perceive of it, we are not risk averse if we are confident of execution.

Rajesh Vora: Sure.

Mr. Shanghvi: But we do not invest in businesses if we do not understand, we do not invest in businesses that we do not feel confident about and we do not invest if we cannot live with worst case probability. At no point in time, any one of the strategy that we are working on, if let us say none of them workout, we would at the most expose our that year's profit is the conscious investment philosophy that we have followed. We are not changing the way we are looking at business and future from our point of view in any way. However, we feel confident about our ability to manage the next phase of transition. All Indian companies have used their ability to operate in India as well as in the generic business to generate cash flow for expanding their future opportunity. But the future as I see will require us to achieve a critical mass and a minimum size of operation, and that is what we did in 1994 when we went public is that we achieved critical mass and a size of operation, which allowed us to reach where we are today. So, have I answered your question?

Rajesh Vora: Yeah, I think almost. One interesting point that you raised that in future, in the past as you have tried to achieve the critical mass, I am sure large part of your current investments and plant investments are also aimed at that, would you like to throw some light in terms of what would you consider, may not be for Sun Pharma, but for a company from India to be of a critical size to transform from reverse engineering company to a research-based company over the next five years, what is the critical mass that you think is something that can make you globally competitive?

Mr. Shanghvi: I think it would depend on the specific business plan and the opportunities that the company wants to exploit, and depending on that one would ultimately decide the size and the critical mass, but when I look at critical mass, I not only look at critical mass in terms of size of the business, I also look at the critical mass in terms of their depth in science, their comprehension of the regulatory and marketing processes, and different environment that they want to participate in, and their ability to understand the customer requirement of those market so that they can develop products which fulfill unmet customer needs. So we are talking about not only size and profit and turnover, but we are talking about large number of other things.

Rajesh Vora: Sure, sure, last question this critical mass whatever number that you have in mind when do you think Sun Pharma would be able to reach as a first step in terms of next three years, five years?

Mr. Shanghvi: We achieved a critical mass and now we want to move to the next phase.

Rajesh Vora: Absolutely.

Mr. Shanghvi: So I do not think in that way there would be a specific target that once we reach, then we sit down and say that now I do not think of anything further.

Rajesh Vora: Sure, sure excellent. Thanks and good luck.

Mr. Shanghvi: Thank you, and we need that luck, I think what we are doing is some thing that we have done in past, some of the things that we are thinking of doing we have not done in past.

Moderator: Thank you very much Sir. Next we have Mr. Sameer Baisiwala of J M Morgan Stanley.

Sameer Baisiwala: Hi good afternoon everyone.

Mr. Shanghvi: Yes, good afternoon.

Sameer Baisiwala: The first question is about the sharp increase in the stock in trade that we have seen on a consolidated number including Caraco to about Rs. 799 million from Rs. 103 million last year same quarter. What is the reason for such a high number?

Sudhir Valia: No, can you repeat?

Sameer Baisiwala: With the stock in trade, that is inventory number that we are seeing the fourth quarter number on a consolidated basis including Caraco is about 80 Crores versus 10 Crores, you know, higher than the previous quarter on the last year. Why has there been such sharp increase in this inventory number?

Sudhir Valia: In Caraco or....?

Mr. Shanghvi: Consolidated number.

Sudhir Valia: Consolidated, closing stock?

Mr. Shanghvi: He is asking why is there an increase in the inventory, is that the question Sameer?

Sameer Baisiwala: Yeah that is right. It is a stock in trade, not really inventory, stock in trade, that is the part of your material expense you can say that. Sir, if I can make it a bit simpler way, I am getting to is for the same quarter if you look at the Sun Pharma and SPI number again this is 10 Crores but when you include Caraco then it shoots up to 80 Crores.

Mr. Shanghvi: I think I am not very sure about the exact answer, but what I understand

is that we have transferred certain, but does it mean that we are prebooking that profits? I do not think.

Sudhir Valia: No, no here we are talking increase in stock, which means we are talking about 10 Crores against 80 crores

Mr. Shanghvi: Stock in trade I understand, but are we valuing it at the final price

I know that Caraco has been increasing inventory because they want to, I have talked to you in the past that Sun Pharma and Caraco has not been attempting to get into the wholesaler segment because they have very steep non-supply requirement.

Sameer Baisiwala: Okay.

Mr. Shanghvi: Am I clear on this?

Sameer Baisiwala: Yes Sir you are fairly clear but again if I were to look at the previous quarter number when the Caraco was more or less on same line, this number seems to be really significantly high, is there a new product launch quantity or something like that?

Mr. Shanghvi: I think Caraco, I know, has significantly enhanced the inventory numbers in the last two quarters.

Sameer Baisiwala: Okay.

Mr. Shanghvi: So they have been producing more than what they sell, essentially with a view that they want to create a 60-day inventory buffer so that they can handle primary source supply with any wholesaler; because in the US if you want to be a primary source, then they have very steep penalty. If you do not supply then they charge you, they buy from market and charge you the difference.

Sameer Baisiwala: Okay.

Mr. Shanghvi: But I do not know whether this is, I will need to study, I am sorry I am not able to answer you.

Sudhir Valia: No, you have to also factor that last time the inventory which was supposed to be there in my record which is pushed by me, also if you remember 350 million we have pushed last year into the trade pipeline.

Sameer Baisiwala: That is right.

Sudhir Valia: That pushed down the inventory number for last year, this otherwise would have qualified in my inventory.

Sameer Baisiwala: Okay.

Sudhir Valia: And this all combined number has, you are telling effective increase, what you are talking is effective increase isn't it? I mean, 103 million to 798 million, that is what the question you asked.

Sameer Baisiwala: Exactly.

Sudhir Valia: Yeah, so this is because of that inventory level, actually was higher even last year, which we pushed into the sales.

Sameer Baisiwala: Yeah.

Mr. Shanghvi: There are actually three things as Mr. Valia says inventory last year in Sun was lower, second is Caraco inventory has gone up, and the third is that some inventory for technology transferred already to Sun Pharma global which is not yet paid for by Caraco is also appearing in stock entry at cost.

Sameer Baisiwala: Okay. Sir the next question is about the NDDS drugs you mentioned that you are taking two drugs into human trial, how much would this entail in terms of the cost of trial, and is this tracked into your 15 million dollar estimate for the 18 months going forward?

Mr. Shanghvi: This year, yes. This year it would be. Once it goes in phase three, then the numbers change, but this year it will come within, all the human studies will come within the 15 million that we have shared.

Sameer Baisiwala: Okay, which is like phase IIB which you mentioned?

Mr. Shanghvi: Yes, yes.

Sameer Baisiwala: And which would take about a year's time to complete?

Mr. Shanghvi: Depends on I think the two issues, one is the duration of the study, second is the what is called recruitment speed because some of the trials have difficulty in recruiting patients.

Sameer Baisiwala: Okay. So would it be, I mean, all these trials would naturally be done in US market?

Mr. Shanghvi: Both US and in Europe.

Sameer Baisiwala: Okay, and the phase III again would take about couple of years or?

Mr. Shanghvi: Yes I think typically they take around 18 months to 30 months.

Sameer Baisiwala: Okay, okay, and the next question is on the ANDA, how many ANDAs you target to file through Sun, you mentioned 7 through Caraco, but through Sun how many we will be doing?

Mr. Shanghvi: 5.

Sameer Baisiwala: 5?

Mr. Shanghvi: Yes.

Sameer Baisiwala: Okay, and how many approvals do you expect to come through this

year, both Caraco and Sun put together?

Mr. Shanghvi: We do not expect any approval in Sun.

Sameer Baisiwala: Okay.

Mr. Shanghvi: But we expect at least two or three approvals for Caraco during the year.

Sameer Baisiwala: Okay. Sir my next question is one about carboplatin, what is the key bottleneck for your entry into market, is it the FDA approval process or there something else?

Mr. Shanghvi: Come again I am not clear.

Sameer Baisiwala: Sir what is the biggest roadblock for you to launch carboplatin in the US market?

Mr. Shanghvi: I do not know whether, I mean, we filed the drug master file for carboplatin. We have not shared with anybody whether we are filing formulation.

Sameer Baisiwala: Okay, okay, that is fine. Sir my last question is on couple of the cost items that we see during this quarter, one if the material cost and the other is the other expense, both as a percent of sales seems to be quite low as compared to previous quarter, both YOY as well as QOQ, why is that so?

Mr. Shanghvi: No, can you ask a specific question, with numbers?

Sameer Baisiwala: Well I do not have the exact number off hand, but your material...

Mr. Shanghvi: Material cost this quarter including SPI and SPIS.

Sameer Baisiwala: No, I am talking about the consolidated number with SPI.

Mr. Shanghvi: Okay.

Sameer Baisiwala: If you want the exact number I can give it to you. This is about 70 crores versus the previous quarter, previous year when it was about 84-85 crores almost on a similar sales base. So, there has been, the question here is there a considerably improved revenue mix or more profitable drugs that you sold during the quarter gone by?

Sudhir Valia: One of the reason happened is that our import cost has gone down on account of additional revenue which we get or reductions we get in the import duty on account of, our incremental export is more than 25% and it is more by 25 crores. There are two limits which is mentioned that the incremental export is more than 25 crore and it is more by 25% than the incremental exports we will get 10% as a duty exemption.

Sameer Baisiwala: Okay.

Sudhir Valia: So that is a significant amount which reduces our cost.

Sameer Baisiwala: Okay and that is both as a part of other expenditure or material

cost?

Sudhir Valia: It is basically a duty reduction.

Mr. Shanghvi: It would impact material cost. See if you see material cost in last quarter is 27% against the overall number of close to 32%.

Sameer Baisiwala: Okay.

Mr. Shanghvi: So last, but I am asking people to look at 33% as the overall annual material cost, do not look at the last quarter number.

Sudhir Valia: The credit they give only at the year end.

Sameer Baisiwala: Okay. That is fine, that answers all my questions. Thank you very much.

Sudhir Valia: But we appreciate your detailed study to find out this kind of fine figures.

Sameer Baisiwala: I understand, I would probably talk to you separately.

Sudhir Valia: Great.

Sameer Baisiwala: Fine.

Sudhir Valia: Yeah.

Moderator: Thank you very much Sir. Next is a follow up from Mr. Pawan of SSKI.

Pawan: Yes hi, just to continue with that question Sameer had asked, it is more on the consolidation. Sun Pharma, I mean the Indian operation, Sun Pharma and the manufacturing unit that we had, we have done 280 crores of profit, and for the consolidated we have 359 crores, so the balance is about 785 million or 79 Crores; now what I was trying to understand is that other than Caraco, I mean, how much of this would have come from Caraco, A. And B.) is there any other material I mean profit from some other subsidiary because this 79 Crores seems to be on the higher side.

Sudhir Valia: Yeah what you say is true, now it is the three subsidiary, which is actually we need to understand, that one is you look into is Caraco, one is Sun Pharma and the third one is Sun Pharma Global. Now whatever shares being issued by Caraco is now accounted as a incoming Sun Pharma. See it is a cost which they are booking in their R&D which debited to the books which is known to you people, okay? So there has to be a corresponding reflection to that.

Pawan: Okay.

Sudhir Valia: So that corresponding reflection is the valuation of the share.

Pawan: Sun Global we are recording the entire thing as income and whatever the expense.

Sudhir Valia: Correct, correct, correct.

Pawan: Okay, okay, okay. Now that was one thing, so basically, but still I think let us assume about 3 million dollars was the R&D cost last year in Caraco?

Sudhir Valia: Yeah but that is before December.

Pawan: Oh, you have, this consolidation is based on the latest quarterly result, I mean.

Sudhir Valia: No, no, no Caraco is December.

Pawan: Okay.

Sudhir Valia: Sun Pharma Global is March, Sun Pharma March.

Pawan: Oh, Sun Pharma Global has received some income this quarter?

Sudhir Valia: So what we will do, now we will for making easier for the analyst activity, once Caraco declares the quarter results, we will help making everyone March closer just for the information purpose though we have only audited December balance sheet of Caraco, and as per the regulations only audited has to get merged with audited. So our number which we will get the consolidated, audited, presented to the shareholders will continue to be in the same manner which we are doing.

Pawan: Okay.

Sudhir Valia: But for the analyst purpose we will do some extra work by making March to March merger so all this concern of yours will get addressed.

Pawan: Fine, can I, because this is already a published result from you, can I ask how much of income did Sun Global receive in the first quarter, I mean the fourth quarter?

Sudhir Valia: Totally it is about 49 Crores, is the income accounted in the books of Sun Pharma Global.

Pawan: So that means probably what more than 30, 49 Crores you said income?

Sudhir Valia: Correct, correct, correct.

Pawan: So about 30 Crores would have been last year, how much, I mean, 3 million dollar is what Caraco would have paid last year, so that is about let us say 15 Crores, and balance you are saying is in the fourth quarter that has come?

Sudhir Valia: Yeah that is around 7 million, correct, correct.

Pawan: 7 million this quarter?

Sudhir Valia: Correct, correct.

Pawan: Okay so that is the reason that the quarterly profits, I am sorry, the consolidated is high. Okay second was, you have spoken about setting up a

manufacturing unit in Bangladesh, can I, you know, I am just trying to understand is this what for the local market there and also you know we have seen that you are very focused on profitability, etc. so can you just explain that, what is the rationale there?

Mr. Shanghvi: No Bangladesh is a good opportunity as a formulation business.

Pawan: Okay.

Mr. Shanghvi: We can also use Bangladesh as a country to export out of to the other countries in Middle East and Saudi Arabia, and the idea is to participate in both these opportunities through the unit in Bangladesh.

Pawan: Okay, okay any specific advantage you get out there, is it I mean..?

Mr. Shanghvi: Of course the unit we get five-year tax exemption from the date of operation.

Pawan: Okay.

Mr. Shanghvi: But that is not the purpose, the purpose is that Bangladesh is attractive market and we can become a meaningful player in that market in a short period of time, and also as time progresses and when we license products from other international companies, we become a licensor for a larger number of markets in addition to India, so they do not need to look at every market.

Pawan: Okay, the third thing I wanted to ask you was you said that you know you have got approval, UKMCA approval for one of our formulation unit, and then you said that in Europe you want to look at selling through local partners or distributors there I would assume, so can we expect that I mean since you have got approval, etc. can we expect that business would begin this year, European market?

Mr. Shanghvi: Yes a small part of the business will begin this year.

Pawan: Would you like to give any number in terms of filings not the revenues you have made, approvals you have received?

Mr. Shanghvi: I actually do not have specific number in front of me, but we will make, let us say, if you wish we can start giving some broad European filing plans for the year.

Pawan: And it would be only for UK or can we expect it as MRP route and you know you get it in other markets etc.

Mr. Shanghvi: I think it will be, once you file and get an approval for one European market, there is a process to get it in other European markets.

Sudhir Valia: Mutual recognition is there.

Pawan: Okay, okay and finally last question was on the domestic market what kind of a growth should or would you expect this year.

Mr. Shanghvi: I think what I said is I am revising upwards the guidance of 10 to 15% to 13 to 18%.

Pawan: 13-18% is what you expect this year.

Mr. Shanghvi: Yeah.

Pawan: Okay fine, thank you.

Mr. Shanghvi: Thank you.

Moderator: Thank you very much Sir. Next we have a question from Mr. Ravi Shankar of Sundaram Mutual Fund.

Ravi Shankar: Yeah good afternoon, just a very basic query, I was just looking at the numbers, the share of income from firm what you have disclosed for this quarter is about 39 Crores, for the full year it is about 100 Crores, I was looking at the earlier quarter numbers, I mean, they have not been disclosed so I mean like what is the reason for this gap in this thing?

Mr. Shanghvi: I think they were disclosed, we are not disclosing anything first time.

Sudhir Valia: Every quarter we have been disclosing this number

Ravi Shankar: Okay, I was just looking at the website, I could not get it, may be I missed it.

Mr. Shanghvi: No, there is I think in the last quarter numbers that we have shared, the share of the firm profit is there.

Sudhir Valia: But what you are now asking it is not 39, it is 30, but the production activity has just began in the beginning of the year, so that has taken its own time to take a shape. It will further continue to grow in a similar speed.

Ravi Shankar: Okay and basically this is PAT, 95% PAT of the...?

Sudhir Valia: Correct, correct.

Ravi Shankar: Okay, okay fine thank you.

Moderator: Thank you very much Sir. Next we have Mr. Madhusudan from Smith Barney.

Madhusudan: Good afternoon Sir, congratulations on good results. I just, most of the questions have been answered just a few more details. First is when are you going to book, should we assume this 18 Crores of exchange fluctuation gain, and this 5.2 Crores of forward cover you will book in the current year?

Sudhir Valia: No we have not booked that as a income at all.

Madhusudan: That is what I am saying, will you book it in FY05?

Sudhir Valia: No, see what is happening is that ECB is for the five years.

Madhusudan: Right.

Sudhir Valia: End of the fifth year, whether we are going to pay the same amount or not which we do not know, because the rupee vis-à-vis dollar is fluctuating.

Madhusudan: Okay so it will only happen at the end of the period of five years?

Sudhir Valia: End of the fifth year whatever has been there, whether positive or negative has to be booked through.

Madhusudan: Okay and what does, the second question is, this sales for the quarter includes the consignment sales of 469 million rupees, is this recurring or is this like kind of one time?

Sudhir Valia: What is happening is that consignment sales which is there is as an agency we are selling in Sun Pharma where there is only a knowledge point of view information that this includes the sales of Sun Pharma which is manufactured by Sun Pharma Industries that is a partnership firm.

Mr. Shanghvi: Madhusudan to answer your question it is a recurring item.

Madhusudan: It is a recurring one. Okay and the last question could you give us a sense of the indirect taxes, like in your standalone results the indirect taxes are actually coming down last year, for the full year it was about 100 Crores, this year it is about 88 Crores, whereas on the consolidated results it seems like indirect taxes are actually going up from 100 Crores last year to 118 Crores, if you could just kind of explain what is happening here?

Sudhir Valia: See what is happening that is that because of standalone business of formulation, which is coming out of partnership firm, the excise paid by them is not accounted in the standalone transactions. Once you merge it, it will happen.

Madhusudan: Okay I got it, thanks Sir.

Moderator: Thank you very much Sir. Next we have Mr. Nimesh Mehta of Mehta Partners.

Nimesh Mehta: Yeah good afternoon Sir. My question is broadly related to the R&D strategy, can you give us some more color on that as to what kind of therapy classes are you targeting and where do you see your R&D provisions let us say five years down the line, how many MCs, how many NDDS, you are targeting and all that?

Mr. Shanghvi: I think what we have shared with investors in the past is that once product comes closer to the market we will give you specific information and we still maintain the same position, so I am unable to give you more specific information. As to where we will be five years down the line, I wish I knew the answer but I do not know.

Nimesh Mehta: Okay, Sir nextly on Caraco, just want to reconfirm that Caraco, what is

the outlook for December 2004 because we had read and probably it has been shared by Caraco that because of the non-cash, R&D expense they may book some losses this year?

Mr. Shanghvi: That is correct Caraco has shared that with their investors that if they file all the products that they wish to file, and depending on what remains their share price, their non-cash charge would be higher than the cash profit that they generate.

Nimesh Mehta: But can you give us, I mean, some broad outlook without the non-cash expense that they may book?

Mr. Shanghvi: I am not clear.

Nimesh Mehta: Okay, I mean, you know what are your expectations let us say from Caraco this year without the non-cash expenses?

Mr. Shanghvi: I think what they have shared with investors is a top line growth of 20-25%, and because we will file more products this year, they will have physically higher outgo on account of research and development. So these are public domain information beyond that because Caraco is a public company I cannot share specific information with you.

Nimesh Mehta: Okay, thank you very much.

Mr. Shanghvi: Thank you.

Moderator: Thank you very much Sir. Next is a follow up from Mr. Rahul Sharma of Karvy Stock Broking.

Rahul Sharma: Hello Sir. I just had a follow up question, just wanted to know has there been any change in our growth numbers for our bulk business per se due to higher filings coming through, could you just give us a flavor on bulks business outlook?

Mr. Shanghvi: I think we maintain 20-25% growth in the bulk business.

Rahul Sharma: And sir what type of regulatory approvals are you expecting in US and Europe on a quarter to quarter or a year basis?

Mr. Shanghvi: We expect two or three products approved for the US this year as a formulation product. We do not expect any approval for India for a formulation product out of the US. We will be filing 6-8 drug master files for US and Europe during this year.

Rahul Sharma: Sir I did not understand the first part of query, you said you will be getting two to three products formulation approvals.

Mr. Shanghvi: In the US.

Rahul Sharma: That means you will be supplying your bulks, your API to US companies for formulations or is it marketing right?

Mr. Shanghvi: Yes I think if they get approval and if the approval is based on a Sun drug then we will supplying the bulk active.

Rahul Sharma: Okay, Sir another thing was, rest of my queries have been answered, thank you.

Thank you.

Moderator: Thank you very much Sir. Next is again a follow up from Mr. Pawan of SSKI.

Pawan: Hi I am sorry one more follow up, basically I had a hypothetical question. Right now what we are doing is, for consolidation, whatever the incomes and global receipts from Caraco that is the number of shares into whatever the price is being treated as income. Now, here the question that I have is tomorrow god forbid if the Caraco price goes to half, what will be the accounting entry we will do?

Sudhir Valia: See whenever the shares are issued at that point of time Caraco is booking that expenses for the purpose of their R&D expenses.

Pawan: Right.

Sudhir Valia: And the same corresponding entries are taking.

Pawan: Right.

Sudhir Valia: What you are definitely talking about is that if price goes down.

Pawan: Yeah.

Sudhir Valia: Yes, that point of time whatever investments are holding whichever price, we do disclose our cost as a one figure as a balance sheet figure, and we disclose the market value of the investment. In Sun today the market value is more than 6000 Crores where in, 600 Crores not, that is 6000 millions sorry, and the investment is 122 million.

Pawan: That is fine.

Sudhir Valia: 122 Crores is the investment.

Pawan: No, that is fine.

Sudhir Valia: 600 is the market value of Caraco share.

Pawan: No that is fine, that is perfectly fine. What I am trying to really ask you right now is that see in the past, there was a case when you know the market value was lower than our investments and obviously we knew that the value would...

Sudhir Valia: See whatever happened, I have to book accounting as accounting whatever transaction taken on a particular place of time.

Pawan: Okay.

Sudhir Valia: Then I have to do all corrections.

Pawan: Okay, okay.

Sudhir Valia: That correction I have to reflect like that.

Pawan: Okay, no because, I am coming from the point that I actually was just thinking, is it possible, or you know, is there a chance that this particular thing, Caraco the shares that you received should not be treated as income. See technically what you are saying is you have a.....

Sudhir Valia: If we were not accounting for that as an income then the issue definitely arises in the accounting standards that whether are we disclosing correct thing or not, and that process, because if you see all the shares which so far we have received were not accounted as a income in the book of Sun Pharma when we received directly the shares in Sun.

Pawan: Right.

Sudhir Valia: Because we consider that as a conservative policy, we should not try to make them.

Pawan: Absolutely we should be conservative even now right?

Sudhir Valia: But now what is happening in this consolidated accounting standard policy and accounting standards which is last two years make lot of changes. They are if you see this time there is note which is given by us for the 18 Crores as we have not declared as a income, and we believe genuinely that income can be said when the transaction crystallize.

Pawan: Right.

Sudhir Valia: Now there is accounting standard talks about realizations and specialization for the transaction, but at the same time some accounting standard talks about the mark to market, so we have nothing but to disclose to the shareholders that this income has not been disclosed by us and this also remains part of our disclosure when we consolidated that this is not a purchase at Caraco, but in a sense it is Sun Global, so accounted into overseas, otherwise if it is a purchase that it would have been knocked off.

Mr. Shanghvi: Philosophically Pawan, if we are left to ourselves then we would not like to disclose this as income.

Pawan: Okay.

Mr. Shanghvi: And we have not disclosed till the time we were able to justify.

Pawan: Right, right okay.

Mr. Shanghvi: But because of the clarity in the accounting standard, there is no flexibility on this account.

Pawan: Okay, okay, okay.

Mr. Shanghvi: Wherever we have flexibility like this, not taking this 18 Crores exchange gain as.

Pawan: Yeah absolutely, I was just trying to relate to that.

Mr. Shanghvi: we use a conservative standard because we can use the same logic to convince the auditors.

Pawan: Okay, okay.

Mr. Shanghvi: Because normally we have a issue with auditors to see that how we show the most conservative picture to the investor. We do not want to.

Pawan: Yeah absolutely you have never done that.

Mr. Shanghvi: We want to continue but these are issues that accounting standards does not give any flexibility.

Pawan: Okay, fine thanks.

Mr. Shanghvi: But if you can come up with some solution.

Pawan: No, I basically for my consolidation I do not treat that as an income.

Mr. Shanghvi: No, I understand, I do not want to, but you have to help me to go through with the auditor.

Pawan: Okay, okay. Wish I could. Thanks a lot.

Mr. Shanghvi: Thank you.

Moderator: Thank you very much Sir. Next we have Mr. Manish Jain from Deutsch Bank.

Manish Jain: Yeah, first of all congratulations on an excellent results. I just had question on Caraco stake, which is at 63%, and the transfer of technology agreement which is still in place, what stake will the transfer of technology take us to and in what timeframe?

Mr. Shanghvi: When all the technology is transferred we will I think go up to 75+ percent.

Manish Jain: And in what timeframe?

Mr. Shanghvi: When we transfer all the technology, this year we will transfer as Caraco has shared 7 product technologies, that will leave us with, I think, 16 or 17 products that we still have to transfer. So how rapidly we can transfer would determine the time.

Manish Jain: Thanks.

Mr. Shanghvi: Thank you.

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

Sudhir Valia: Thank you participants for active participation and I believe we have put our best efforts, but really because of the limitations of the accounting standards and laws which we have to follow number 1. 2) because of we have a number of subsidiaries, I appreciate the efforts taken by the participants in reading between the lines and it will be our definite endeavor to give any explanations which you need, thanking you.

Mr. Shanghvi: Thanks all of you, bye.