SUN PHARMA
Q4 RESULTS CONFERENCE CALL
April 28, 2005

Moderator: Good morning ladies and gentlemen. I am Parimala, the moderator for this conference. Welcome to the Sun Pharma fourth quarter conference call. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would like to hand over to Mr. Dilip Shanghvi of Sun Pharma. Thank you and over to Mr. Shanghvi.

Dilip Shanghvi: Welcome and thank you for joining us today for the conference call after announcement of fourth quarter and annual result. As always, this call will be sharing both numbers and developmental strategies. Mr. Valia will first share key financial highlights and operational issues, and I will talk about strategies and direction. We will follow the discussion with a question and answer session. I will now hand over to Mr. Valia.

Sudhir Valia: Good morning everybody. I hope you have the fourth quarter numbers with you and you would see that we have more or less comfortably met the guidance we had shared at the beginning of the year for all four sectors of our business including domestic formulation, which has registered good growth despite the effect of external factor. These are unaudited numbers and limited review has been done by statutory auditor. For ease of discussion, like last quarter, we shall look at the consolidated numbers.

On the consolidated basis, sales and income for the operation grew to Rs. 3205 million from 2620 million up by 22% over the fourth quarter last year. Sales grew from Rs. 2675 million to 3116 million up by 16.5% over the same quarter last year. Profit before tax increased to Rs. 1174 million from Rs. 1097 million, an increase of 7% over quarter last year. Net profit after minority interest increased to Rs. 1183 million from Rs. 1169 million. For the year, net profit margin is 38% against 43%. The reduction in net profit margins is mainly from the increased cost of material. This year has the impact of some external factors VAT, issues about psychotropic documentation, and MRP based excise, these have distorted formulation sales and its contribution ;otherwise, we would have been able to achieve reasonable sales, but (because of these reasons) the percentage of the cost has gone up.

Our R&D cost has gone up by about 15% and at Caraco material cost which is because of pricing pressure has also gone up, which contributes to margin pressure. R&D revenue expenses have increased by Rs. 375 million for the year as we continued to fund long-term innovation based projects.

Export of formulation and bulk active was 39% of total turnover and is inching steadily towards 50% mark we had shared for our international business. Despite external factors such as VAT and other issues, domestic formulation sales for the year have grown a healthy 17.7% over previous year.

As per the March 2005 ORG MAT data, Sun Pharma's market share is now 3.36% from 3.27% in November. If you look at the March ORG data, you would see we are the only company with double industry rate of growth. Our five core therapy areas, cardiology, psychiatry, neurology, gastroenterology, and diabetology accounted for almost 72% of our domestic formulation sales.

The latest specialist data from the CMARC for three months is in, and we continue to be at top rank with psychiatrists, neurologists, cardiologists, and among top 4 ranks with seven more classes of speciality. We have significantly increased market share with psychiatrists, neurologists, cardiologists, and gastroenterologists.

Caraco's results for the first quarter ending March 31, 2005 and and the year ended 31st December 2004 are already with you. For the first quarter, they reported sales of 17.3 million dollar and a net cash from

operations of 4.7 million dollars . In December, they had posted sales of US $60.3 million and growth of strong 32% against projection of 20-25%.
Export formulations from Sun Pharma to 26 markets where we sell speciality prescription brands increased by 47% over same period last year. Our new plant under a joint venture in Bangladesh recently started production activities.

Across the sector, this quarter witnessed slowdown in the sales on account of VAT and de-stocking by traders on the issue of documentation for psychotropic products. These issues and that of the excise on MRP were reasons that impacted sales during the last quarter. Despite which I am very happy to report that could limit the impact of the fourth quarter to negative 6%. This impact could have been more but having acquired MJ Pharma we disposed material worth around 10 crores, which has helped to some extent protect the sales for the quarter.
We have met our annual projections of domestic formulation sales, which is up by 17% over previous year. As most of you know industry expects quarter one to be on track as systems are implemented for VAT and MRP based excise across most of the country. The tax outgo including the provisions for the deferred tax at Rs. 169.9 million is about the same as last year on larger turnover and profit, and going ahead we expect the tax to remain at about the same level. The net interest income was Rs. 186 million for the year against net interest income of Rs. 6 million in last year. R&D expense for the year was Rs. 1459 million versus Rs. 1267 million. Of this, R&D capex was Rs.418 million as against Rs. 598 million. R&D revenue expenses have increased significantly up to Rs. 1041 million versus Rs.669 million for the previous year. EPS is at Rs. 22.6 up from Rs. 18.9 last year. Standalone EPS is at Rs.17.6 up from Rs.15.1 last year.

Over forty interesting new products were brought to market across 17 divisions more than half of which were the product with the technology complexity or delivery system differentiation. Nine new products used bulk active that had been developed in-house. We continue to actively develop products in which technology is differentiating factor, Eptiflo, a product containing clot buster, eptifibatide, which is an emergency medication used in angina and after heart attacks, is a product that we were proud to bring to market based on the bulk active which we developed in-house. With Lipodox, we believe we are one of the few liposomal doxorubicin brands available anywhere in the world. Among our leading products, Pantocid, Susten, Repace, Aztor, Clopilet, Oxetol continue to grow at double-digit rate.
High margins speciality bulk segment of our business overall has done well, and in addition to developing 18 drug master files, we scaled up technically complex products like atomoxetine, capecitabine, entacapone, tiagabine, and duloxetine. Some of these helped us reach market first with our brand.
The US, Europe are priority areas for growth. We now have seven DMF approved, 9 COS approved, and 22 DMF plus 7 COS awaiting approval. We continue with our plan of 8-10 regulated market filings throughout the year, most of which would go into our own products. You have already seen how this impacts the margin at Caraco and enables Caraco to b a nimble competitor in the US generic market. With this, I will now handover the platform to Mr. Shanghvi.

Dilip Shanghvi: Thank you Mr. Valia. As you have shared, our overall performance across all four parts of business is in-line with the guidance that we have shared with the investors and after looking at some one-time charges, I think the overall profitability also is in-line with projection. International formulation despite being at a slightly lower level for the nine months period outperformed in the last quarter. It closed the year with an impressive 34% growth. The year held an important milestone in our history, the visit and inauguration of our research facility at Baroda by his Excellency Dr. APJ Abdul Kalam, President of India. Our entire research team has been enthused and motivated to give their very best. In a way, the 50 odd minutes that he spent inside the center has changed the outlook and confidence level and imparted an eagerness to make a mark in world markets with intellectual property that belongs to us. This year we have significantly increased R&D expense, and we should be able to

see some benefits coming out of this increased expense in next few years.
The issues with VAT implementation have more or less been sorted out now. Excise on MRP is to a certain extent a fact of life for us now.
Caraco has reported its first quarter number yesterday. They posted a gain of 17.3 million US dollars and a net cash from operations of 4.7 million dollars. For the year to December they had sales of over 60 million dollars and had exceeded their guidance. Most notably, they have paid off more than 33 million in last two years and become a debt-free company and invested almost two million plus in capex last year. Their guidance for 2005 is a growth of 15-20% after advising investors of increasing pricing pressure in the marketplace, so they remain cautious on account of pricing. We remain quite active in terms of filing ANDA this year and Caraco also hopes to file at least 6-7 ANDA in 2005. In Sun Pharma also we should be filing more than 10 ANDAs this year out of India. As you know, last year between Sun and Caraco, 22 ANDAs were filed, and this does not include different strengths of the same product. The molecule of our own, the new chemical entity we have in human studies is on the way to completing its phase 1 study in Europe, and we are online to file the IND for this product with the US sometimes may be by end of first quarter or beginning of second quarter.
If you look at Sun as a Company, then across the four parts of our business we are well positioned for both stable sales and to make the most of our growth opportunities. This ensures a steady dependable cash flow while we invest this in areas where returns will be long term but when those returns will come, they will produce a cash flow, which is qualitatively and quantitatively very different from our current cash flow. We have also been rapidly growing export business out of India. The US subsidiary remains quite cash flow positive. Our initial investment and research are producing significant results, and I am confident of doing better as we go ahead. We now have close to 440 million US dollars available with us. We can use this at a short notice should some opportunity become available. I think we are quite excited about the future as we see it. With this, I would like to leave this 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 service telephone keypad. On pressing *1, participants will get a chance to present their questions on a first in-line basis. To ask questions, please press *1 now. First in line, we have Mr. Ajay Sharma from CLSA.

Ajay Sharma: Yes good morning Dilip Bhai. Phenomenal year- congratulations. Two-three questions. First is, you just touched upon how your earnings expected to change qualitatively and quantitatively. Now we have seen phenomenal delivery over the last 5-10 years. Now one question I want to ask is on the people issue. Yourself and Mr. Valia have been in the top management, but the hiring of someone from, you know, one of the US generic companies in Caraco, is that an indication of, you know, wanting to broad base management for the new challenges you are facing?

Dilip Shanghvi: Yes, I think the qualitative and quantitative improvement or change in the earning is a function of increased international presence in markets where value additions are significantly higher. At the same time, as we move closer to a confidence that products with intellectual property and significant benefit over currently marketed products will come to market, they will then be able to generate a much more consistent and a significantly higher level of profitability than our current products, which are all multisource products and always open to price competition and new competitors.

Ajay Sharma: Okay and the second question is a lot of your earnings till now have been largely predictable; you know, very little coming from US less than 15%. Now going forward the way your filing say pantoprazole or Lupron kind of products, a lot of that earning also becomes, of course better qualitatively and quantitatively as and when it happens but also unpredictable. So how do you manage the dichotomy of the current; you know, lean cost, good margins versus unpredictability of a certain portion of your business?

Dilip Shanghvi: I think, the view we have taken is that we will continue to grow the stable and consistent business that we have and on top of that any success that we achieve with any of these products is an addition to it and is not a substitute for stable and consistent growth. The qualitative improvement in earnings will happen not with these new products alone but also with products which are let's say based on delivery systems, and we feel very confident that they will produce significant benefit over current products which are in market and when these products will come to market in all regulated markets they will do significantly larger business than our current business. So I think the shift is when these products come to market in next four or five years down the line. The challenge as I see for us in management is to be able to spend increasingly larger money for bringing these products to market but at the same time not allowing that increased R&D spend to significantly profitability.

Ajay Sharma: And just to take off from that is then would you at least expect to maintain the very high margins that you have despite investing in R&D ?

Dilip Shanghvi: I mean that is what I think we are trying to do and we feel reasonably comfortable at least for next two years that should be possible.

Ajay Sharma: Okay understood. Thanks a lot.

Dilip Shanghvi: Yes one issue which I haven't answered is about the people issue.

Mr. Ajay Sharma: Yes.

Dilip Shanghvi: And the appointment of a new CEO for Caraco. I think the idea is that as business becomes bigger and the opportunities become more exciting, to manage to bring all of these opportunities to a logical contributing position, we will keep on adding to the management team to strengthen our capability.

Ajay Sharma: Wonderful. Thank you.

Sudhir Valia: Ajay one more thing which I would add is if you see on a yearly basis raw material cost, then earlier it was 22.46 and this has gone up to 24.4. It's about 2% increase in material cost for the year. For the quarter it is different with various impact and that also is because of the higher bulk sales than formulations which mainly affected last quarter heavily. So if we put all this together then marginal variations in the material cost will always happen.We are putting in the best effort to see that how we reduce costs at every level.

Ajay Sharma: Fair enough. Thank you.

Moderator: Thank you very much sir. Participants who wish to ask questions please press *1 now. Next in line we have Mr. Arun Malhotra from Smith Management.

Arun Malhotra: Good morning Mr. Dilip.

Dilip Shanghvi: Good morning.

Arun Malhotra: I see that you have surplus cash on your balance sheet. If you are looking for an acquisition what kind of partner or what kind of company you would be looking for?

Dilip Shanghvi: Our investment philosophy is that after providing for cost of money, we should be able to recover our original investment within four or five years.

Arun Malhotra: What I meant was are you looking for a generic player or a distribution company in the US since you are trying to enter the US market?

Dilip Shanghvi: I think idea is to leverage what we already have, so we are looking at other generic companies which can help us in broad basing our existing product offerings and where we can significantly improve margin.
Arun Malhotra: Thanks, thanks a lot.

Dilip Shanghvi: Yes, thank you.

Moderator: Thank you very much sir. Next in line we have Mr. Madhusudan from Citi Group.

Mr. Madhusudan: Hello. Congratulation sir on the good set of numbers.

Dilip Shanghvi: Yes thanks.

Mr. Madhusudan: My question was, are you issuing any guidance for the next year FY '06?

Dilip Shanghvi: Not in this conference call but we will issue shortly.

Mr. Madhusudan: And sir the other question is industry wide we have seen a trend of pressure on sales for bulk drugs which you seem to have evaded. Can you throw some light on what is going on over here in terms of which are the geographies which are probably helping you to see the business increase?

Dilip Shanghvi: We are not aware of any significant change in the market dynamics for bulk drug for other companies, but I think most of our business comes from regular customers Is that not Mr.Valia?. There is no specific product or a specific customer who has significantly helped us grow the business.

Mr. Madhusudan: And another related question sir. When I look at your numbers in relation to some of the other companies that have reported, the increase-decrease in stock in trade that does not seem to have, kind of you know, increased very, very significantly in comparison with some of the other results that we have seen. There has been lot of, you know, inventory stocking because of VAT issue. Is there any particular reason for that?

Dilip Shanghvi: Can I understand what you mean. You mean the last quarter impact for us is not very high. Is that what you are saying?

Mr. Madhusudan: No what I am asking you is that are you consciously running down the inventory in the system?

Dilip Shanghvi: We run with reasonably efficient level of inventory. We don't have significantly high level of inventory with trade. So to that extent I think we are impacted less, but actually if you see our impact is not very low because till the third quarter we were growing at 20+%. And we have de-grown by 5-6%. So the overall impact is almost 25% for us.

Mr. Madhusudan: The variance is 25%.

Dilip Shanghvi: So it is not less and I don't know what is the variance for other companies, but it is a significant variance.

Mr. Madhusudan: That's why I wanted to ask you that typically if you had held that as inventory to be pushed out in April, the increase in stock in trade that you were holding should have been much higher. So have you consciously run down inventory over here?

Dilip Shanghvi: No, no see. In fact, the impact to us is less because in our pipeline there is no major inventory. So even the impact is less because people exhausted the pipeline, but not refilled has only impacted us marginally in our last quarter , vis-à-vis when we are filling the pipeline in q1, the pipeline filling will not be very large.

Mr. Madhusudan: Okay. Thanks a lot sir.

Dilip Shanghvi: Thanks.

Moderator: Thank you very much sir. Next we have Mr. Rajesh from ICICI Securities.

Mr. Rajesh: Good morning gentleman. Congrats for good set of yearly numbers. First question to Mr. Shanghvi on pricing pressure and if we derive the number based on first quarter performance of Caraco, the cost of goods seems to have gone up reflecting this pricing pressure. So if you could throw some light as to where do you see this year with respect to margins.
Next one- year fiscal '06, which is when Caraco is also going to align with Sun -in terms of the pricing pressure and potential impact on margins going forward and the second question is to Mr. Valia on fourth quarter FY '04 numbers. There seems to be some regrouping. If you look at your first nine months' number that you put out in the last quarter and if we derive the four Q numbers, the sales and profit numbers seems to be different, derived number comes to 129 crores while what you have given in this quarterly release is about 117 crores, if you can throw some light on that?

Dilip Shanghvi: Since we are not operationally involved with the US business, I will not know much about the pricing pressure, but there is an increased level of competition within all segments of business where Caraco is present and that's increasing and basically, leading to reduction in prices at top line, cost being fixed or constant, they are unable to protect their margins so far, and that's why cost of goods have gone up significantly. I expect this to continue even during the year if I see the press release of Caraco to their investors after the quarterly numbers, they expect this trend to continue during the year, and I think it will still continue for may be a few more quarters, may be five-six quarters.

Mr. Rajesh: Okay thanks.

Sudhir Valia: As regards what you ask is, we have regrouped our numbers to the extent of inter-unit sales, which were not eliminated earlier and now have been eliminated with the guideline changes. So earlier the inter-unit sales from the bulk drug to formulation whatever sales we used to do we were reporting under bulk sales. We were disclosing those figures and that is regrouped. As regards when you say about the number of the profit in the last nine months in this quarter, I am not able to reply because if I see the nine months accumulated profit of the consolidated companies it is 301 crore against which this year for the quarter is 118 crores and for the year it is 419 crores.

Mr. Rajesh: No, no I was talking about the previous year. If you look at the nine-month number it is 221 crores for the first nine months of FY '04 and the full-year number is 350 crores for the FY '04, so the derived number for four Q FY '04 stands at about 129 crores while when you report this quarterly numbers, you have given 117 crores as the number for the quarter?

Sudhir Valia: Anyway, I just would like to say that the period which we are now seeing has marginal impact on account of Caraco's number.

Dilip Shanghvi: Rajesh, I think if you recall they started reporting these numbers for first time only last two or three quarters. So there is a certain amount of what you call streamlining and consolidation. That is why we are not able to give you more specific information, I think.

Mr. Rajesh: Sure, sure. No problem. Yes. Thanks a lot and all the best.

Dilip Shanghvi: Thanks.

Moderator: Thank you very much sir. Next we have Mr. Saurabh Jhalaria Deutsche Bank.

Mr. Saurabh: Good morning to the Sun Pharma team. I had one question on your other operating income for last year. You know the fourth quarter you have shown a loss of 126 million. What is this relating to?

Dilip Shanghvi: Can you repeat?

Mr. Saurabh: Other operating income?

Dilip Shanghvi: Other operating income?

Mr. Saurabh: There is a loss of 126 million last year.

Dilip Shanghvi: This is a visible loss which we see. Other income is last year is 126 million for the quarter. Isn't that you are asking?

Mr. Saurabh: Yes.

Dilip Shanghvi: That is the income. There is no loss there.

Mr. Saurabh: Okay. My second question relates to your bulk drug exports. You have shown a very strong quarter this year and do you see this trend going forward or there is some reclassification again in this?

Sudhir Valia: Bulk business is a little lumpy business. We are putting our best efforts to see that we get more and more sales from the regulated markets because this way the consistencies will increase and we hope to achieve this kind of growth, but this is the business where the switch over is possible. Cost is a very important factor and relationship also. So it is not as predictable a business as the branded business

Dilip Shanghvi: But we will give you overall guidance for all the business areas for next year.

Mr. Saurabh: Okay, thank you.

Dilip Shanghvi: Thank you.

Moderator: Thank you very much sir. Next in line we have Mr. Sameer Baisiwala from JM Morgan Stanley.

Sameer Baisiwala: Good morning everyone. The opening margins have come down very sharply during this quarter and I think you mention in the opening remarks that for the next two years you expect to maintain the profitability of the overall company despite higher R&D expense. Then should we say that for this quarter it was a bit of an aberration as far as profitability is concerned?

Dilip Shanghvi: Partly yes because of the VAT and other issues. So to that extent this is an aberration, but the fact that R&D expenditure will continuously grow and there will be increased generic competition. These are also factors that we need need to keep in mind.

Sameer Baisiwala: So you do think that the margins could be under a bit of pressure because of these two factors?

Dilip Shanghvi: I think what I can be reasonably comfortable with is that situation where our profits will continue to grow, may not the same margin but it will grow.

Sameer Baisiwala: Okay. The second question is about your US business. How many ANDAs are currently pending US FD approval and how many approvals do you expect during the current year?

Dilip Shanghvi: 22 between Sun and Caraco.

Sameer Baisiwala: Are pending. And how many approvals do you expect during the current year?

Dilip Shanghvi: We have not taken a view. I mean it is difficult to predict actually because if you get a major deficiency about the analytical method, it’s not a question of stability of the prodcut. Then the approval can get delayed as much as six months. So it is difficult to predict, but I think we will now see a continuous stream of approvals after six months.

Sameer Baisiwala: Okay. The other question, you mentioned some context that you are building the US team in anticipation of bigger opportunities, but your guidance from $60 million, 15% to 20% growth takes to $70 million, does not seem to be that big an opportunity. I mean are you talking of the longer term.

Dilip Shanghvi: I think if you mean we have in the past also referred that Caraco has limited presence in the complete distribution channel. And it is not present in number of channels like small pharmacy chains, wholesalers, in warehousing as well as non-warehousing chains.

Sameer Baisiwala: I am sorry?

Dilip Shanghvi: There are warehousing and non-warehousing chains in the US.

Sameer Baisiwala: Okay.

Dilip Shanghvi: And Caraco has a very limited presence in this part of the market. And that is almost 35% of the total business. So the idea is to be able to present Caraco products in all segments of distribution channel and Dan Movens who is shortly joining t Caraco as a CEO has significant sales and marketing experience of the US generic market. The idea is to strengthen the capability to enter such parts of the market where we are not present. The function of 15%-20% guidance is anticipation of significant increase in competition because we will achieve much higher volume growth, but the value growth will only be 15 to 20%.

Sameer Baisiwala: Okay. And just to clarify, you mentioned 35% is the segment you are present or not present?

Dilip Shanghvi: I mean the 35% of segment is the pharmacy chain where we are not present.

Sameer Baisiwala: Okay. You are not present. Okay.

Dilip Shanghvi: or, where we have very small presence.

Sameer Baisiwala: Okay. My other question is about your NDDS projects, it was expected to enter the human trials in the current quarter. What is the update on that?

Dilip Shanghvi: I think they are in line with what we want to do, but also these are things we have not done in the past. So there may be a delay of a few weeks here or there, but they are actually doing very well.

Sameer Baisiwala: Okay. That is all from me. Thank you very much.

Dilip Shanghvi: Thank you.

Moderator: Thank you very much, sir. Next we have Abhay Shanbhag from HSBC.

Abhay Shanbhag: Good morning, sir. Just a couple of questions taking over from what Sameer was asking, there has been a very robust growth of exports of almost 60%. Despite that you have seen a sharp contraction in operating margins. So does it indicate that exports still have much lower margins as compared to your India formulation business?

Dilip Shanghvi: Not clear..

Abhay Shanbhag: Hello.

Dilip Shanghvi: Yes, Abhay.

Abhay Shanbhag: Yes.

Dilip Shanghvi: Mr. Valia missed your question.

Abhay Shanbhag: What I was asking you is in the fourth quarter, there has been a robust growth of exports at about 58%. Despite that we have seen our contraction in operating margins. So, does it indicate that your exports have a much lower margin as compared to your domestic formulation, which is the very profitable business?

Dilip Shanghvi: Exports, yes is profitable, I appreciate what you say.

Abhay Shanbhag: Yes.

Dilip Shanghvi: But, when we compare the bulk to the formulations, well, the branded formulation has better margin than the bulk.

Abhay Shanbhag: Okay, so, going forward the proportion of exports go up, we could see some amount of pressure on margins. I mean, one is, exports also there is a global pricing pressure, but you know, otherwise in your case because exports have a lower margin as compared to Indian business, can we expect margins to come under pressure going forward?

Dilip Shanghvi: See, if we say that bulk exports will grow and margins will come under pressure, yes; but if we say that formulation export grow, then it will be a reverse scenario. So, I do agree that the bulk exports or bulk business growing will have in terms of margin pressure, but if we see the contrary, the bulk has a larger operating fixed cost. The larger the business you do, your income will then generate much faster at the bottom line. So, at top line, or we say in terms of contribution, it is not happy, but it is definitely helping bottom line. But this is a business which one has to optimize.

Abhay Shanbhag: And, it will be common?

Dilip Shanghvi: And there is one important issue, which I think all of us are missing, is that we are not factoring into most important contributions to the margin. One is that I believe, that we lost almost 35-40 crore worth formulation business in India in the last quarter because of the VAT as well as the Psychotropic issue. So, that has impacted margin. If that had not happened, the margins would have been much better. The second thing is the increased R&D expenditure, which is a conscious effort towards creating a significantly higher value for the company in longer term future. The third is the mandatory impact of the MRP based excise to the extent of our third-party purchasing and increased cost on account of excise that will also be impacting margins.

Abhay Shanbhag: Sir, how is the impact of MRP-base excise duty for you, I mean as compared to other companies?

Dilip Shanghvi: So whatever we were producing at MJ,

Abhay Shanbhag: Yes.

Dilip Shanghvi: Excise was paid on the first transfer so with the change to MRP based excise there is a significant increase in the overall excise.

Abhay Shanbhag: Cost.

Dilip Shanghvi: MRP, excise duty.

Abhay Shanbhag: Okay. Would you like to explain?

Dilip Shanghvi: Otherwise, we don’t have significant third-party purchase.

Abhay Shanbhag: Okay, and sir, how much of your production now would be from the backward areas like Jammu & Kashmir, I mean, can we say about 60-70% of domestic formulations would be from backward areas?

Dilip Shanghvi: I think 40-45%.

Abhay Shanbhag: And we would see that going up in future, sir?

Dilip Shanghvi: The 40% will be reached this year. 40% would mean sales of 300 cr Rupees, going beyond this is not so easy.

Abhay Shanbhag: Okay.

Sudhir Valia: Our objectives are what you say.

Dilip Shanghvi: To increase production from the units in backward areas beyond this will not be very easy.

Abhay Shanbhag: Sir, just one last question, I mean, looking at it from a different perspective, we always, I mean, we are always under the belief that you would be acquiring companies now that you have so much cash. So, this particular, you know, recruitment of senior persons at Caraco, does it indicate that your acquisition, you are willing to wait for some more time before the acquisition happens?

Dilip Shanghvi: I think creating an appropriate structure in the US would be a prerequisite before you do a major acquisition. Because that would be a requirement. Whatever that we buy in case we buy in Sun, then it will need to access distribution. We have not yet decided whether it will be an injectable business or preexisting solid oral dosage forms but with getting more people in the US who understand the US business, is a perquisite for investment in the US market.

Abhay Shanbhag: Okay, fine sir. Thanks a lot sir.

Dilip Shanghvi: Thank you.

Abhay Shanbhag: Yes, thank you.

Moderator: Thank you very much, sir. Next in line, we have Mr. Manish Jain from Deutsche Bank.

Mr. Manish Jain: Yes, I had just an extension of Saurabh's question on other operating income is, in your consolidated numbers, you are showing that other operating income for the fourth quarter this year is around 88.5 million rupees which comes from 75 million of exchange rate fluctuation and 14 million from others and the same figure last year was negative 55 million, 72 million from exchange rate and 126 million negative. That's where we wanted some clarity and second is …
Dilip Shanghvi: Manish?

Manish Jain: Yes. Yes, that one you can answer later and second is that if you can quantify the MRP-based excise like you mentioned it's coming mainly from MJ, but roughly, if you can quantify that?

Dilip Shanghvi: Yes, it will be around 20 crore annually.

Mr. Manish Jain: The MRP-based excise number?

Dilip Shanghvi: Sure.

Mr. Manish Jain: Okay, thanks.

Moderator: Mr. Jain, are you through with your question?

Mr. Manish Jain: Yes.

Moderator: Thank you very much, sir. Next in line, we have Mr. Giridhar Iyengar from ABN Amro.

Mr. Giridhar Iyengar: Hi Dilip Bhai! I just wondered one question on the MRP based excise, have you taken any price increases to offset some of this impact?

Dilip Shanghvi: Not increased price because of the excise on MRP, since we as an industry body from IPA, had agreed that up to March we will not raise prices.

Mr. Giridhar Iyengar: Right.

Dilip Shanghvi: But after that, March, I think we would have… During the year we will take some price increases.

Mr. Giridhar Iyengar: Okay, okay, thanks.

Dilip Shanghvi: Yes, thank you.

Moderator: Thank you very much, sir. Next we have a question from Mr. Ravi Agarwal of JP Morgan.

Jesal Shah: Hi! This is Jesal Shah here. I just had one question on your filings in the US as well as in the other markets of the world. In the US, you have mentioned you have filed 21 applications and these are pending approval. But how many were filed from Sun itself in the fourth quarter, that's #1, and second is, how may other filings have you made in the other parts of the world, particularly in Europe and the other markets we are present?

Dilip Shanghvi: Jesal, we don't have specific information right now, I think the 22 would be, how many is Caraco, how many is Sun.. 9 are awaiting approval from Caraco. So, that difference would be the one, which we have filed.

Jesal Shah: If I remember correctly from Sun, there were about 10 or 11 filings till the first 9 months. So, I am not sure how many we have filed in the fourth quarter and again you have talked about this being only new molecules, I am not sure how many total were there including the other strengths for the existing molecules?

Dilip Shanghvi: We haven't actually told about new and old in the past, but we can get back to you, we will send to all the people who wish the number of filings for both Sun and Caraco.

Jesal Shah: And what about the, let's say the European market? Have you initiated filings in Europe ?
Dilip Shanghvi: Yes, but very few.

Jesal Shah: Sorry.

Dilip Shanghvi: Very few.

Jesal Shah: Okay. So, as far as Europe is concerned, it will still remain very much bulk focus is that the correct impression?

Dilip Shanghvi: At least for next three years, it is correct.

Jesal Shah: Okay. If I look at the FY05 number in the last quarter, there has been a sharp increase in the bulk business in the export market whereas compared to the first nine months where there wasn't much increase on a consolidated number. So, if you could throw some light on how suddenly in the fourth quarter there has been so much increase, I mean, what really has changed and how do you see it going forward?

Sudhir Valia: See, if you see bulk business what may be happening that the business has so many availability issues and looking to the overall if you see, there is about 20% growth in the business of bulk exports. From the quarter, if the percentage looks very high because same quarter last year, the business was not very high. It was hardly 20 crores. If I put into comparison also, less than 20% of the total business of the last year. So, that evens out. Business activity is always difficult to predict in this business because one order, which I may have of 2 million dollars, but my shipment may get delayed for some small reasons, then sales shifts to the next month. This marginal impact is always there in this business.

Jesal Shah: Right. So, basically what you are suggesting is that we take a look at the full-year number to make a forecast on the bulk sales?

Dilip Shanghvi: I think last quarter is not an indicator of future.

Jesal Shah: Right. Because

Dilip Shanghvi: Also as Mr. Valia said, it is a lumpy business. So, it’s very difficult to maintain consistency quarter after quarter, or predict.

Jesal Shah: Right. In Europe, for example, you had got some 9 COS approved and you had mentioned that in the opening remarks. I don’t know actually how many were approved in the last year. So, the question would be that, you know, whatever that number is, how much is the sales really being driven by the new approvals. In these new molecules, what kind of market shares you are able to capture?

Dilip Shanghvi: : No, I think we wont answer this, I am not sure whether we wish to, but we will give some additional information if you send a mail.

Jesal Shah: Okay, I will do that. The last issue, which I wanted to discuss was in terms of your focus on the innovation-driven opportunities going forward on a three-to-five-year basis and in that context, obviously the NDDS projects which you have, which will enter phase-1 studies in the first quarter and also the NCEs, so these are the two things that you announced.

Dilip Shanghvi: Yes.

Jesal Shah: But, if you can give us some overall view in terms of, what activities are going on and besides these products, what else is going on in the company so that, even if something was wrong in this products, there is enough momentum going on in terms of the developing activities which can, therefore, be seen with lot of confidence on a three-to-five-year basis and also if you can explain to us simply but more about the NDDS products, you know, what kind of innovation is involved here, what kind of delivery advantage, without mentioning in the names of products ,some idea what about medical benefits it is expected to offer?

Dilip Shanghvi: Yes, I understand. I think what you are saying possibly we need to share this, we can’t discuss in this conference call. At some point in time may be during the year, we will organize a analyst meet, we will share more information related to R&D that we are doing and also share the technologies, what is our data, how we compare with the other people in the industry worldwide and where we see our position, the relative strength and weakness we have, but that will take some time. But, I think that we are quite comfortable that we have not a few but a large number of products which will continue to be developed as we move forward and the challenge is to develop them in such a way that we are able to bring this product to market without impacting margin because development costs of these products will be significantly higher than what we have done till now.

Jesal Shah: Right. So one option which obviously many other companies are also exploring is, you know, tying up with other companies to manage the short-term pressures on margin and so in that context, are you also willing to explore some tie-ups which you are also monitoring some of these product concepts at an early level, at an early stage?

Dilip Shanghvi: I am not sure whether that is in the best interest of the shareholders because not to take an impact on your current profitability and give-away significant upside of future where you feel reasonably confident that the product will come to market whether monetizing the future value is the option. But I think we have to continue to find a solution.

Jesal Shah: Thanks so much.

Dilip Shanghvi: Thank you Jesal.

Sudhir Valia: Manish Jain.

Moderator: Sir, he is not in line. Mr. Jain could you please press *1. Mr. Jain.

Manish Jain: Yes.

Moderator: Go ahead sir.

Manish Jain: Yes.

Dilip Shanghvi: Manish.

Manish Jain: Yes.

Sudhir Valia: You raised that earlier also and there was a misunderstanding on our part about the other income negative shown for March 04, about 126 million. Now first I apologize for not correctly giving this figure that negative is 54 million rupees. The exchange fluctuation is 18 million instead of 71 million which is written there and total that is the other, which is 72 millions. So 72 minus 18 the negative is 54, now 72 constitutes mainly the income under which in December quarter 03, we have booked on fixed maturity planning investment on accrual basis. At the time when we were concluding the year the view was that even if it is Fixed Maturity Plans the income has to booked at the year or the time when we receive rather than on accrual, so that reversal, which is done has fallen into negative and with minor positive of fluctuation gain the negative was about 54 million. The same query was also raised by other gentleman, which unfortunately I have seen that actually same figure is 126 million, income coming in other income. Now what we are talking is sales breakup, in the sales breakup, I got confused.

Manish Jain: Fine, fine, thanks a lot.

Moderator: Thank you very much sir. Next we have a followup question from Mr. Ajay Sharma of CLSA.

Mr. Ajay Sharma: Question to Mr. Valia, the staff cost for the year is 88 crores and last year it was 84 crores, a marginal growth of around 4% but nine months this staff cost was around 80 crores. So if you have just added 4.6 crores in the quarter, but actually the quarterly number is 16 crores. So any reclassification? Something going into R&D and so on?

Dilip Shanghvi: Yes, I think something about reclassification we will able to deal with specific information only. We also noticed this a few minutes back. We will be able to give you more information.

Mr. Ajay Sharma: Okay.

Dilip Shanghvi: Let's go on. We'll have a clarification sent related to this also related to the point about bulk sales that we have earlier talked about.

Mr. Ajay Sharma: No rather the accounting thing sir I just to want understand that you are at 88 crores and we have seen even lean companies like Cipla saying in the quarter that we have had to increase, you know, increments to staffs and lot of churn you know, poaching within the industry. And even Ranbaxy we have seen increasing, you know, cost by 30%-40% in salary, so isn't that the challenge even you as a company are facing?

Sudhir Valia: We appreciate your question, actually I think that is nothing with this year, last year it was 84 crores, and this year it is 88 crores.

Mr. Ajay Sharma: So very small increase.

Sudhir Valia: Yes. It is.

Mr. Ajay Sharma: Incrementally, you know, will it increase faster because other companies are fighting for talent and increasing salaries.

Dilip Shanghvi: Actually, I think Ajay what you are saying is correct. The increase of salary is significantly higher than what is shown here. Because some of the salary is reclassified as a R&D expense. So it may be there in the previous year in the 84 crores, which is not there in the 88 crores. So there is an increase in staff cost, which is significantly higher than what we are reflecting.

Mr. Ajay Sharma: Okay, should rather look at R&D and labor together to get the right picture, because R&D is 57 odd

Sudhir Valia: No. Cost of R&D is not the cost of the R&D people alone.

Mr. Ajay Sharma: No, no, I understand that, but

Sudhir Valia: I think this has happened, it means if over a period of time this will reflect the base, it will remain will constant, no?

Mr. Ajay Sharma: Yes, understood. That's I just to want to understand from 88 how do we project now, you know, that kind of a thing?

Sudhir Valia: Yes I think you should presume at least 15-20% small positive increases annually.

Mr. Ajay Sharma: Okay, that's what I wanted to get at, thank you.

Moderator: Thank you very much sir. Next we have Mr. Suryanaryan from Capital Market.

Mr. Suryanaryan: Good morning sir, in fact I have a query on this interest income. As you see that the net interest income in the current quarter, you have mentioned 219 million as the income, whereas compared to the last corresponding previous quarter, it was 58.5.

Sudhir Valia: We are not clear. Can you ask again?

Mr. Suryanaryan: Yes, Yes. If you see this net interest income the end of current quarter year you have reported 21.9 crore as income, but in the corresponding previous income that was the loss of for 5.85 crores like, so can you just elaborate on that, how will this move?

Sudhir Valia: We have money with us, which we have raised through FCCB and ECB and that money is earning interest. So we cannot compare both the quarters.

Mr. Suryanaryan: Okay, okay.

Sudhir Valia: But earlier year, there would have been some interest cost.

Mr. Suryanaryan: Okay,

Sudhir Valia: Yes.

Mr. Suryanaryan: The next question will be, can you just please repeat the Caraco Financial figures

Sudhir Valia: What would you like to understand? Because we have sent the press release at Caraco.

Mr. Suryanaryan: okay, okay sorry, then I might have not received that probably.

Sudhir Valia:: We will resend this to you.

Mr. Suryanaryan: Okay, fine sir.

Sudhir Valia: Thank you.

Mr. Suryanaryan: Thank you sir.

Moderator: Sir are you through your question?

Mr. Suryanaryan: Yes.

Moderator: Thank you very much sir. Next we have a followup question from Mr. Saurabh Jhalaria of Deutsche bank.

Saurabh Jaluria: Sorry about this, my question has been answered. Thank you.

Moderator: Thank you very much sir. Next in line we have Mr. Rahul Sharma from Karvy.

Mr. Rahul Sharma: Sir could you send the mail of Caraco numbers sir to get a more better feel of how the US operations are panning out. Hello.

Mr. Dilip Shanghvi: Caraco has not shared the unaudited number, they have just given a press release, which we will send to you.

Mr. Rahul Sharma: I have got the press release.

Mr. Dilip Shanghvi: You have received the press release.

Mr. Rahul Sharma: I just wanted the breakup of the expenses
Mr. Dilip Shanghvi: Yes I think when they share the numbers with their investors we can share it with you. But we have consolidated Caraco number in our number.

Mr. Rahul Sharma: Okay sir thank you.

Mr. Dilip Shanghvi: Okay.

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

Mr. Dilip Shanghvi: We wish to thank all the participants for their attending the conference call. We are also very happy that we have studied the overall numbers, which is very clear from the kind of questions that we have received. So thanks and bye.

Moderator: Thank you very much sir. Ladies and gentleman, thank you for choosing WebEx 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.

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