SUN PHARMA
Q3 RESULTS CONFERENCE CALL
JANUARY 21, 2005

Moderator: Good afternoon ladies and gentlemen. I am Parimala, the moderator for this conference. Welcome to the Sun Pharma 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.

Shanghvi: Welcome and thank you for joining us today for the conference call after announcement of the third quarter result. As always, in this call, we will be sharing both numbers and developments on strategy. Mr. Valia will first share key financial highlights and operational issues, and then I will move on to broad strategies and direction. We will follow the discussion with a question and answer session. I will now hand over to Mr. Valia.

Valia: Good afternoon participants. I hope you have the first quarter numbers and with this, numbers for a large chunk of the year are with you, and we are confident of meeting the guidance that we shared with you. These are the unaudited numbers and limited review will be done by the statutory auditor on their appointment at the EGM of the company on February 8th.

For each of discussion, like last quarter, we shall look at the consolidated numbers on Sun Pharma plus the partnership firm, Sun Pharmaceutical Industries, so that we compare likes. This does not include the results of the overseas subsidiary which is already with you in the table of consolidated results.

Caraco's results for the year ending December 2004 are already with you. They exceeded their top line estimate with sales of US dollars 60 million and growth of a strong 32% against projection of 20-25%.

On Sun Pharma and Sun Pharma Industries basis, total income from operations grew to Rs. 3109 million from Rs. 2412 million up by 28.9% over quarter three last year. Sales grew from Rs. 2390 million to Rs. 2949 million up 23.4% over Q3 last year. Profit before tax increased to Rs. 854 million from Rs. 762 million, an increased of 12% over Q3 last year. Profit after tax increased to 810 million from 718 million up by 12.8% over Q3 last year. Net profit margin is 25.2% against 29%.

You would observe that the net profit margin is down, but I would like to draw your attention that the R&D expenditure has gone up by approximately Rs. 100 million for the quarter and the provisions have been made for the management fees of Rs.157 million for the FCCB issue and redemption premium of Rs.63 million which has been provided for allowing the principals of prudence and conservatism.

Revenue R&D this period was Rs. 188 million or 6.4% of the turnover against Rs. 98 million last year.

Exports of formulation and bulk active were 24.6% of total turnover, which has grown by 16.4%. Domestic formulation sales have grown 24.2% over the same period last year.

As per the November 2004 ORG-MAT data, Sun Pharma's market share is now at 3.27% from 3.08% in the last November, which is increase of almost 20 basis point because we continue to grow more than twice the industry rate of growth. Our five core therapy areas, cardiology, psychiatry, neurology, gastroenterology, and diabetology accounted for 70% of the domestic formulation sales. The latest specialist data from CMARC for the three months is in and we continue to hold top four ranking with 8 classes of specialists and having significantly increased market share with psychiatrists, neurologists, cardiologists, and gastroenterologists.

Export formulation from Sun Pharma stand alone to the 26 market where we sell specialty prescription brands increased by 22% over the same period last year.

Our new plant in Bangladesh recently started production activity, and I expect to have more to share about Mexico, Bangladesh, and Brazil going ahead. All the subsidiaries in the Mexico, Bangladesh, and US have commenced commercial activity in modest way in the third quarter.

We remain profit focused 25.2% as against 29.2% margin last year for the third quarter after higher R&D expenses, management fees for FCCB, and redemption premium on FCCB.

All of us are aware of the recent changes in the excise laws, after which excise is payable on the MRP and not on the first transfer. This change will have a negative impact on the cash outflow of the company; however, the impact would be limited and marginal on account of the unit in the backward area of Jammu, which has excise benefit.

The tax outgo including the provision for the deferred tax at Rs. 44 million is about the same as last year on the larger turnover and going ahead we expect the tax rate to remain at about the same level on account of the various benefits that we have.

The net interest expense and financial charges was Rs. 20 million for the nine months against net interest income of Rs. 38 million in the last year. We are taking charge of this quarter for 158 million on account of the fees for FCCB as I have explained earlier.

Although these are zero coupon bonds, premium on redemption of FCCB has been provided in the quarterly results. The shortfall in the YTM of 4.61% that is the related premium on the redemption of FCCB and the interest we are earning on such funds is clubbed with the interest expense and finance charges.

The R&D expense for the first nine months period is Rs. 786 million versus Rs. 733 million. Of this R&D capex was Rs. 266 million as against Rs. 404 million and as you know both Mahakali and Tandalja research centers have now commenced so the capital expenditure will keep falling even we increase the R&D budget to take care of the drug discovery projects.

So far the total capex on the new Baroda R&D site is Rs.600 million and on the R&D site at Mumbai it is Rs. 275 million. At Baroda, equipment and instrumentation of Rs. 500 million have been transferred from the old R&D center to the new site. As such, we are on track to spend Rs. 750 million number that we have shared for R&D from time to time.
The R&D revenue expenses have increased significantly up to Rs. 519 million versus Rs329 million for the same period last year.

Standalone basic EPS is at Rs. 4.4 up from Rs. 3.8 on the equivalent basis for the similar quarter and up to Rs.12.7 from Rs.10.3 for the nine months period.

Interesting new products were introduced across the marketing divisions. We continue to look for products in which technology is differentiating factor. Lipodox one of the few liposomal doxorubicin brand available anywhere in the world, one such product we brought to the market based entirely on our own technology. Among our leading products Pantocid, Susten, Repace, Aztor, Oleanz, Clopilet continue to make a mark.

We continue to do well with the high margins specialty bulk segment of our business and in the period scaled up technically complex products like entacapone, tiagabine, duloxetine, capecitabine. Some of these helped us be the first to launch the brand in the Indian market.

The US, Europe are priority areas for future growth as we have shared earlier. We now have 7 DMF approved, 8 COS approved, and total 23 DMF plus COS awaiting approval. We continue with our plan of 8-10 regulated market findings throughout the year, most of which would go into our products. You have already seen how this has increased the margin at Caraco. With this, I will now hand over the platform to Mr. Shanghvi.

Shanghvi: Yes! Thank you Mr. Valia. As Mr. Valia shared with you, I think, our overall performance is in line with the guidance that we have shared with you and after looking at some one-time charges, I think the overall profitability also is in line with what we have shared with you earlier. Formulation exports is slightly less than what we originally expected. Hopefully, we should be able to still achieve the guidance by end of this year.

One important issue which is essentially non-financial, I would like to share with you, is the visits and inauguration of our research facility at Baroda by His Excellency Dr APJ Abdul Kalam, President of India, and I also would like to share with you that he was quite happy spending his time with the scientists in the research center. He spent instead of 20 minutes almost 45-50 minutes inside the facility and in a way he left all of us excited and very optimistic about our future, and we have shared with you in the past that R&D continues to be an important focus and we have consistently increased our spend on R&D. Even last quarter, we have significant increased R&D spend, and we should be able to see some benefits coming out of this increased spend in the next few years. The excise on MRP to certain extent would have a negative impact because the excise increases our cost of operation; however, we have a facility at Jammu from where we were expecting significant savings because we have no excise duty there. So, it should help us in negating the net impact of the increased excise duty, but originally we wanted to use this additional cash flow to pay for the increased R&D spend, so we will need to work and find that additional cash flow.

If we look at the performance of Caraco, which announced its annual numbers yesterday, they have crossed $60 million and they have come out ahead of their guidance. They have also shared with investors that they have paid up all their debts and they have actually paid off more than $33 million in last two years and they have become a debt-free company. Their guidance for next year is a growth of 15-20%, and they have also advised investors that they are seeing increasing pricing pressure in the market place 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 ANDAs next year. In Sun Pharma also, we should be filing more than 8 ANDAs out of India this year.

The product, we have one product in human phase 1 study in Europe and it seems to be doing quite well. We hope to file IND for this product in the US sometime by first quarter of next year.

The government has announced certain changes in the sales tax structure and they will introduce VAT from 1st of April and we are uncertain as to the kind of impact that would have on our sales in last quarter of this year. Hopefully, we should be able to cushion any negative impact on the change, but even if there is, we should make up all of this in the first quarter of next year.

Government has also, through an ordinance, amended the patent law. There are a few areas of concern and we remain very optimistic that when finally the patent regulation is approved, some of these limitations would be corrected.

If we look at Sun as a company, then we have a significantly stable and rapidly growing business in India, which continues to generate significant cash flows. We have also a very rapidly growing export business out of India. The US subsidiary remains very profitable. The initial investments in research are producing results and we are quite excited about this progress. We now have close to $400 million in bank which we can use at short notice should some opportunity become available and be retracted from our calculations. So, 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 telephone keypad. On pressing *1, participants will get a chance to present their question on a first in line basis. To ask questions, please press *1 now. First in line, we have Mr. Rajesh Vora from ICICI Securities.

Rajesh Vora: Good evening gentlemen and congratulations for a very good set of numbers. Two questions, first one if Mr. Shanghvi can answer. On one side you have significant R&D investments being made over the last two years and you will continue to step it up over the next couple of years going forward in order to make it an innovation based company. In this light, you continue to also excel on operating profit margin since you continue to improve consistently. How would you manage this balance between continuing to increase R&D spend on one side and increasing operating profit margin, which is extremely high at this stage comparing with your peers in the industry? And the second question if you could throw some light on recent resignation of Statutory Auditor, Price Waterhouse that will be meaningful.

Shanghvi: Yes. Thank you Rajesh. If I understand your question, I think you have asked us question about duality of focus is that we are investing on research on one side and at the other side focusing on the generic and the branded generic business in India. I think the results that you see are because of our high level of focus on managing our operations efficiently by creating an environment where everybody is excited to contribute towards the growth of the organization and an environment whereby one can produce result. And if we look at what it has done for us is that it has helped us grow very rapidly compared to rest of the companies in the industry. At the same time, focus on bottom line has helped us achieve very profitable and consistently performing business and whichever business that is, whether it is formulation business in India, export business in India, export business of the formulations from India, bulk active business, or the US business. Our focus in R&D and management of innovation also is the same, is that we give our scientist an environment and an opportunity whereby their capability is used effectively for producing significantly innovative product with add value, and we are able to do that with relatively smaller investments compared to other companies, and when I am saying other companies, I am looking at mainly international companies who have significantly higher research strength than we have. And we hope that the skills, which have helped company growth in last 10 years, we should able to continue to look for growing the business further. Mr. Valia will answer your question in connection with the change or resignation of auditor.

Valia: Yes, welcome Rajesh.

Rajesh Vora: Thanks.

Valia: You are aware that, yes, as you all also know we cannot respond on behalf of the auditor but it is important for us to reflect on the implications.

Rajesh Vora: Yes.

Valia: The accounts for the year of 31st March, 2004 are completed and the Price Waterhouse has already completed the audit for the year. There is a proposal of the amalgamation of the merger of Phlox Pharmaceutical with company because of which the accounts were not confirmed at the AGM and hence the appointment of the AGM for the year 31st March, 2005 is pending. There is no audit issue as the accounts for the year ending 31st March, 2004 is completed, and there is auditor yet to be appointed for 31st March, 2005. However, a copy of audited accounts has been already issued to the shareholders and there is no amendment to this accounts required except effect of merger or amalgamation. The auditors had completed limited review for the two quarters ended 30th June as well as 30th September. Now not only that, they have done even the review up to December 09, 2004 and issued comfort letter to the merchant bankers which permitted us to exercise the green shoe option of FCCB bonds. For the current quarter, limited review has not been completed. We would complete the limited review with the new auditors within 30 days. As EGM is scheduled to be held on 8th February, 2005, towards a proposal to appoint the Deloitte

Haskins & Sells as auditor of the company. I hope this gives the explanation to your query.

Rajesh Vora: Yes! Thank you so much and before I get off if Mr. Shanghvi can just give some color on, you know, the company is sitting on 400 million dollars of surplus cash, Sun is looking to take the big stride and next leap forward, if Sun geared up in terms of the organization complexity in terms of the bandwidth of management taking this big leap forward what are the challenges that you expect over the next few years if you can throw some light on that.

Shanghvi: Thanks. It is a very good question. To answer the first part of the question, which is whether we are ready to manage a much larger business than what, we have today, and I think we believe that we have what is called an elastic organization. So it has ability to mange far more complexity than our current organization in terms of processes that we are managing. Very few of you actually have any idea of the kind of complex business organization that we are already managing because even within Sun Pharma we have something like 16 different marketing divisions in domestic business. So we are very complex business organization as it is, and we feel reasonably confident that we can manage should an opportunity become available. At the same point of time, I would like to restate that to me whatever business we are acquire is not only the accretive in terms of EPS and that is essentially not the criteria by which we look at investment opportunity. We would look at our ability to recover investment within a period of time after providing for financial cost. So whatever business that we acquire, we should able to payoff maximum within five or six years, and if I look at investment opportunities internationally today, then I am not able to see many such opportunities which will meet our ability to achieve what I said recover our investment in less than five or six years. So, we will remain disciplined about the money that we have, and we will invest only when we feel confident that we can achieve our business objective and manage that new business effectively.

Rajesh Vora: Thank you so much and I wish you all the best for the future. Thanks.

Shanghvi: Thank you.

Moderator: Thank you very much Sir. Next in line we have Mr. Tushar Chandra from Enam Securities.

Tushar Chandra: Good afternoon everyone. Just a couple of questions related to the financial. Looking at the past couple of quarters, the staff cost, was felt this s a little bit lower for this quarter. Could you comment on that and secondly there was a substantial foreign exchange gain that was included in other operational income this quarter, could you comment on that as well and whether you see that going forward?

Shanghvi: Yes, as regards the staff cost is concerned, it's only for the quarter you see marginal decrease because last year the increment was effected in the latter part of the period and that was why it is for the particular quarter, if you compare for the nine months you will see there is an increase in the staff cost. For the nine months the staff cost is Rs. 801 million as compared to Rs.727 million throughout the nine months. I do appreciate your observation because for the quarter ended December it is Rs. 239 million as compared to Rs.256 million in the last year.

Tushar Chandra: Yeah, I guess my question was do you see this, it seems like an aberration because I would expect greater cost going forward especially taking into account, and I am talking about the consolidated statements especially taking Caraco's staff cost into account, so I was just little confused with that.

Shanghvi: Well, I think there is a slight drop this year, but we are not expecting significant increase over on an annual basis except in the annual increment and routine increment.

Tushar Chandra: As regard the income, which you all said about financial income on account of the foreign exchange

Valia: Basically on account of investment, which we are protecting against the depreciation of the currency, dollar is depreciating against rupee and our investment is in dollars. So, this is nothing but just protection towards our investment so that income is reflected. There is about Rs.41 million income on account of early payment of sales tax liability by which remission is given by the sales tax authority on account of the backward area benefits which we had in our Ahmednagar plant.

Tushar Chandra: Okay. Thanks.

Shanghvi: Yes! Thank you.

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

Mr. Madhusudan: Some of my questions have been answered mostly. I just want to kind of you know understand, you know, the interim strategy you have on the $350 million that you have raised in US$ currency, what's the kind of you know hedging strategy you are following over here and also if you could share with us in what assets this money has been deployed, it would help us in kind of calculating some of the income that you would generate in the future related to this?

Shanghvi: I think really we remain of the view that the US dollars will depreciate in the next few years, and our issue against which we have raised the money is Indian share, so we've booked the cost in Indian rupees. Just to that extent, we have the revision. The money remains invested in liquid funds in bank deposits internationally and temporarily there is a negative carry cost which is the money that we have invested is in liquid money and that at the most get 2.5% return and that negative carry for the period of one and half months or one month is already reflected in our book. Once we invest this money, I think this would no more be an issue.

Mr. Madhusudan: Okay, If I understand correctly from the other statements you have made, you have already, what you call, covered your position on the dollars.

Shanghvi: That's it.

Mr. Madhusudan: Can that is what is largely resulting in this Rs.12 odd crores of foreign exchange fluctuation, right?

Shanghvi: No, that is not right. No that's previous contract.

Mr. Madhusudan: Okay, it relating to something else.

Shanghvi: Look, those are earlier hedging. This is not related to $350 million. This $350 million is now fully covered and we have a forward contract and whatever is valued, difference has been recognized in the accounts.

Mr. Madhusudan: Okay. Just one question sir if you want to share that information? Could you tell us, you know, overall how many US dollars you hedge and at what rate?

Overall, for the entire company now, how much US dollars you are hedged done at what rate?

Shanghvi: Whatever is the investment or assets, which is outside India that we have hedged.

Mr. Madhusudan: Okay. Thanks a lot, sir.

Shanghvi: Thank you.

Moderator: Thank you very much, sir. Participants who wish to ask questions, please press *1 now. Participants who wish to ask questions, please press *1 now. Next in line, we have Mr. Lalit

Nambiar from SBI Capital.

Mr. Lalit: Sir, congratulations on your good set of numbers. I just had a question; you mentioned concerns in the current patent law ordinance and your expectation that changes would be effected in the law when it is passed. Just if you could elaborate on the area of concern?

Shanghvi: I think we expect some clarification about the preplanned opposition to come and the process to become slightly more transparent. Also, we expect some clarity about patentability laws so that polymorph patent and ever greening of patent is avoided.

Mr. Lalit: Thanks.

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

Manish Jain: Yeah. Good afternoon everyone. I had few questions. One is pertaining to the results. One is that indirect taxes have actually reduced despite the growth in sales. Second question pertains to other expenditure, which has not grown in line with sales growth. The third thing, which is not to accounts, is what is the likely impact of starting manufacturing operations in Bangladesh?

Shanghvi: The first, which you asked, is in relation to indirect taxes. See that indirect taxes is nothing but excise duty and we have benefits in the backward areas because of Jammu and tax actually has to some extent a marginal reduction in terms of total tax liability and as regards the other part which you said is other expenses which has almost remain constant between these two periods or marginally reduced as compared to that. All the expenses which have not been categorized into particular category comes here that is hardly much change, because of cost reductions and technology communication cost are down, another major part is power where we have captive plants at some units to generate power. So there are few of these corrections and close monitoring helped the company to maintain these expenses in a controlled environment.

As regards Bangladesh activities are concerned, this is the first year of the first quarter where their activities have commenced and we are very positive as we will be able to have reasonable amount of margins in the business from now on.

Manish Jain: Thanks. One last question is you have stated that Jammu and Dadra are close to capacity utilization. Are you planning any further expansion and the likely capex for the current year?

Shanghvi: I think the capex plan that we have shared with you earlier was somewhere in region of 60 to 80 crores which covers all the capacity expansion. And there is some amount of capacity expansion in Jammu, which is additional dosage form lines, but it’s not a significant expansion.

Manish Jain: Thanks.

Moderator: Thank you very much, sir. Next, we have Mr. Jesal Shah from JP Morgan.

Mr. Jesal Shah: Hello. My first question is on the domestic formulation business. In this quarter, it has grown at 30% compared to the previous quarter growth of about 10%. If you can explain how this has happened and whether there is any advance sales, which have gone to the distributors in view of the VAT implementation?

Shanghvi: I think basically you are looking at consolidated numbers, which include Caraco because that is also treated as a formulation business. If we take away that and if we look at Sun Pharma on a stand-alone basis, then I think it is around 24%. Therefore Indian business is around 24%.

Mr. Jesal Shah: Fine. You know even in your consolidated numbers you have reported domestic formulation as growing at 35%.

Shanghvi: Actually, that is a misnomer. It is domestic because the US business is domestic to Caraco. So it is not retail US business. Is that right?

No, no, no, no

Shanghvi: 30% growth is Domestic formulations without Caraco

Shanghvi: So if even that is treated as exports including Caraco

Yeah! I think if you look at only Indian business then it's grown at around 24% and it will include Caraco that is around 30%.

Mr. Jesal. Shah: So, basically there is no advanced stocking with the distributors in anticipation of VAT

Shanghvi: How can you do advance stocking? Who will buy from you?

Mr. Jesal Shah: Okay.

Shanghvi: I mean, in the sense, sales tax rate for VAT currently 4% and the effect is more than average of 9%. So, people will not buy now, no. What actually I said is that in the last quarter I am expecting some impact in sales because of reduced rate of taxes because of VAT from 1st of April. So, we would see actually some reduction in inventory in the system.

Mr. Jesal Shah: The second question was on the NDDS projects, which are currently going on. If you can describe what the status is on that?

Shanghvi: I think we are slightly behind schedule. We should start the clinical study by first quarter of next year but from whatever early studies we are seeing we are actually seeing very positive returns. So, we are actually quite excited about these products and we would like to push, so that they can come to market at the earliest.

Mr. Jesal Shah: The third question is on the staff strength. If you can tell me what is your staff strength now versus let's say last year?

Shanghvi: I don't have the exact number but there would be a few people we would have hired in R&D. There would be some increase in, field force. There would be some increase on account of expansion at Panoli as well as Nagar, but Jammu is not actually part of SPI, but there would be staffing at Jammu also, but I think around 350 people in the last year.

Mr. Jesal Shah: Okay, thank you so much.

Shanghvi: Yes! Thank you.

Moderator: Thank you very much sir. Next, we have a follow-up question from Mr. Tushar Chandra of Enam Securities.

Tushar Chandra: Just a question on the Brazil and Mexico business. You mentioned it briefly in the initial statement. Would you shed some more light on that please?

Shanghvi: We have a subsidiary and joint venture in Brazil and we have products under registration in Mexico. We have started operations of the Mexican subsidiary, and the turnover and the profits of the subsidiary have been consolidated in the consolidated accounts.

Tushar Chandra: Do you see this business growing rapidly over the medium term and then is it going to make a substantial contribution or is it still going to be a very small part of the business overall?.

Shanghvi: I think it will go to a few million dollars, but you can still be quite small compared to the overall Indian business, but in a way it will help faster growth of the exports and international business.

Tushar Chandra: Okay thank you.

Shanghvi: Thank you.

Moderator: Thank you very much sir. Participants who wish to ask questions please press *1 now. Next in line we have Mr. Saion Mukherjee from Brics securities.

Saion Mukherjee: I just have a question on the ANDA filings from India. Can you give us an update on what is number of filings and pending approvals?

Shanghvi: We have till date filed twelve products from India, and we continue to work very actively for filing new products.

Saion Mukherjee: Okay, so there are 12 pending approvals now.

Shanghvi: That's correct.

Saion Mukherjee: And can you throw some light on filing of parenteral ANDA? When do you expect that to start?

Shanghvi: I think we don't share any specific therapy or dosage form filing but …….

Saion Mukherjee: Okay, thanks.

Shanghvi: Thank you.

Moderator: Thank you very much Sir. Our next question is from Mr. Vineet Sambre of IL&FS.

Vineet Samre: Good afternoon everyone. Sir, my question is for Mr. Dilip Shanghvi. Sir regarding this money which you have raised for the acquisition plans which you have internationally, would you like to give us a fair amount of idea what kind of acquisition, though it is too early to say, but what is in the mind of the company, when you are going out of an acquisition whether it will be manufacturing unit, it will be more of a distribution kind of company having distribution strength and what is the likely candidate for the company?

Shanghvi: Broadly I think, the distribution would be more or less in line with the existing business of the company, mostly likely the kind of company where we would be looking at would be a manufacturing facility with infrastructure and products, but most important, I think is that we can generate significant value by maybe leveraging our existing infrastructure or improving their cost structure so that we can get above average return on our investment.

Vineet Sambre: Sir and also in your initial remark you mentioned that while you are scouting for this company, you would be very much concerned about the payout period which has been around five years and right now it is not the right time where companies are available with that particular perspective in mind. When do we expect this kind of news to come out fairly, whether it will be one year or two year? What is the kind of estimate, which the management has?

Shanghvi: Actually we have no timeline.

Vineet Samre: Okay.

Shanghvi: My comment was very general that the evaluations that I see for a few proposals that I have received do not achieve this kind of threshold for investment in our consideration.

Vineet Samre: Okay. Sir my second question is regarding this MRP based excise, which has been introduced. Now the industry players were in talks with the government to enhance the rate of abatement from 35% to 50%. How far do you feel that this is possible and it may happen?

Shanghvi: I think I know as much as you know. As the industry has appealed to the government to increase the rate of abatement because I think the industry deserves greater abatement.

Vineet Sambre: Correct. Sir in case the abatement rate is not raised, then whatever there is going to be enhanced duty because of this MRP based system, will that be passed on to the customer or will it be borne by the company and what would be the strategy?

Shanghvi: I think different company will take different view. We haven't taken a view as yet.

Vineet Samre: Okay, thank you, thank you sir.

Moderator: Thank you very much sir. Next in line we have Mr. Prashant Nair from Motilal Oswal.

Prashant Nair: Hello. I just had a small clarification on the numbers. In this quarter indirect taxes for your entire consolidated entity with Caraco is actually lower by Rs.8 crores than the figure for just Sun Pharma and the partnership firm combined. Is this some kind of a classification issue the way you do it?

Shanghvi: I think you have asked a question for which we don't have immediate answer. We will study and confirm.

Prashant Nair: Okay, yeah! Thanks.

Shanghvi: Thank you.

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

Giridhar Iyengar: Hi! This question is for Mr. Shanghvi. I just wondered given that you know taxes will have a minimal impact on Sun Pharma, just wondered if some of your competitors pass on some of the excise impact to customers, then, you know, what would be your strategy be? Would you hold your price line or to would you also increase your prices?

Shanghvi: No, actually I think I explained that is that we have not taken any strategic view on this whether we will pass on the additional cost on account of excise which to consumers but we can study that. We, as of today, part of a group of companies from IPA have assured the ministry of chemicals and fertilizers that we would not change prices until March of this year. So, at least till that point of time, we will not change pricing. Later on I think we have not taken, any decision, but there is a significant increased cost on account of additional excise.

Giridhar Iyengar: Okay, thanks.

Shanghvi: In regards to the earlier question, the gentleman has asked about the indirect taxes.

Moderator: Mr. Prashant Nair, could you please press *1 sir?

Prashant Nair: Hello.

Moderator: Mr. Nair?

Prashant Nair: Yeah.

Moderator: Sir we have Mr. Nair in line, you go ahead.

Valia: This is in relation to the excise, which is reversed on account of a merger. See what happens, whatever the sales are made in inter unit, when we make sales, we also incorporate the excise-taking place and that is how the booking is done in the other companies. While eliminating the sales, what happens is that purchase does not get netted off automatically because purchase and the excise duty both make up the component of total face value. So we have to reduce excise due to reduced purchase and certainly reduced sale. That actually happens when we do consolidation.

Prashant Nair: Okay.

Shanghvi: That is the reason why the consolidated excise changes- because there is no excise in Caraco or the industry package at US. It is only emerging when we eliminate the number, that time this elimination of excise is required.

Prashant Nair: Okay, so is this something which has just commenced this year because I think till the last year it was the other…….

Shanghvi: Yes you are right. Earlier we were not eliminating out of that excise value, we were eliminating out of purchase value.

Prashant Nair: Okay.

Shanghvi: Then we studied further that when we were looking into the consumption data, we realized that actually the impact has to go to excise because the sales included that.

Prashant Nair: All right, yeah, thanks a lot.

Moderator: Thank you very much, sir. Next is a follow-up question from Mr. Manish Jain of Deutsche Bank.

Manish Jain: Yes! I had two questions. One is on the 12 ANDA spending in Sun and six in Caraco. Are there any para fours and secondly on NDDS, you maintained that your clinical studies will start in first quarter of next year, how many projects are you starting clinicals on?

Shanghvi: The answer to second question is two and answer to first question, we have some ANDAs, which are para fours. We have not yet gone into active litigation, but we have received notices. We haven't shared specific products.

Manish Jain: Thanks.

Shanghvi: Thank you..

Moderator: Thank you very much sir. Participants who wish to ask questions, please press *1 now. I repeat, participants who wish to ask questions, please press *1 now. Our next question is from Mr. Manish Bhandari of ING Vysya.

Manish Bhandari: Hi! Good afternoon sir.

Shanghvi: Yeah! Good afternoon.

Manish Bhandari: I am very concerned on the implementation of VAT, what will be the position of Sun Pharma? Would it be revenue neutral or what kind of problem you may face on the VAT implementation?

Shanghvi: Can you come again?

Manish Bhandari: Sir, implementation of VAT, which is about to be implemented sometime in 2005. What will be the impact and what is your outlook on that?

Shanghvi: See, it is a very complex area because what will happen is that we will get the credit to the extent of the purchase, which we effect and then there will be charges when we save. So today we are taking the risks on account of the purchase, which we then consume, on which no credit is available. So that will be once we study the provisions and how the implication are carried to the manufacturing side, we will decide about the implication on the sale side. There will be definitely implication on account of our purchase, but there will be different revenue to help the marginalise the extent of the purchase because as of today, there are two states where already this kind of VAT structure is prevailing. One is in Rajasthan and the second is in Kolkata.

Manish Bhandari: Okay.

Shanghvi: Where they have something like abatement and on which the sales tax is paid so that it is more or like fixed prices at which the sales tax is paid. So the impact has already commenced in the current year. So that affects about 20% of the total business activity as of now. So looking forward, there will be marginal impact. We cannot quantify unless we really study the manufacturing benefit which we are likely to get on accounts of the VAT.

Manish Bhandari: Sir, I have got another query.

Shanghvi: Yes.

Manish Bhandari: That is regarding what percentage of your total sales is coming from the excise exempt area as of now and going forward?

Manish Bhandari: Hello.

Shanghvi: Yeah, I think we are trying to understand your question. You are talking of clearance out of Jammu?

Manish Bhandari: No. I am talking about in India what percentage of your revenue is coming from excise exempt area as of now?

Shanghvi: Exempt area means what?

Manish Bhandari: Something like Jammu?

Shanghvi: I think around Rs50 crore plus.

Manish Bhandari: How much it will be going forward?

Shanghvi: I think around 250 crore rupees in a year.

Manish Bhandari: Okay. Thanks a lot sir.

Shanghvi: Yeah. Thank you.

Moderator: Thank you very much sir. Next in line we have Mr. Shashi from Franklin Templeton.

Shashi: Good afternoon sir. Just one question on the inventory. When you look at the consolidated results, there seems to be a substantial inventory buildup compared to the standalone or the SPIL or SPI. Is there any specific reason?

Shanghvi: Yes, there is. Two places where the significant inventory increase is there. One is in Caraco as well as in the Sun Pharma Partnership Firm. In Caraco, since our sales pattern and distribution pattern has changed and we are now going to larger distributors, we are forced to keep a larger inventory wherein, otherwise we are affected with the penalty or other costs. So the Caraco inventory has gone up by 4 to 5 million dollars. At the same time, Jammu being the area which is remote and the distribution from there is also taking lot of time. The inventory at that plant is also because this is the first quarter where the significant amount of business has gone out of that place.

Shashi: Right.

Shanghvi: Before that we have created enough pipelines so that we do not suffer loss of sales in the market. Perhaps, one of the reasons, which you observed, is about inventory having gone up at Jammu also.

Shashi: Okay.

Sashi: Okay. Okay. Just one more thing. In terms of total net debt as of December 2004, if you could just update that.

Shanghvi: The debt in Caraco is 0.

Sashi: Yeah. That for Sun Pharma as a whole, you know you talked about 350-400 million dollars of cash. Apart from the FCCB if there is any debt? Just trying to get the net debt

Shanghvi: I think we have a ECB of $40 million.

Sashi: Okay.

Shanghvi: You have about more than 450 million dollars cash with bank.

Sashi: Okay. Thank you sir.

Shanghvi: Yes.

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

Dilip Shanghvi: Yes, thank you for a very interesting question and answer session. Looking at the kind of questions that we get asked, I actually wish to compliment all of you just for the kind of detailing that you go into. So I will now need to come more prepared for all these meetings than what I am doing. Thanks once again for your participation. Bye!

Moderator: Thank you very much sir. Ladies and gentlemen, thank you for choosing this concludes this conference call. Thank you for your participation. You may now disconnect your line. Thank you and have a nice evening.

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