SUN PHARMA
Q4 & ANNUAL RESULTS
CONFERENCE CALL
MAY 05, 2003

Moderator: Good afternoon Ladies and Gentlemen. I am Snigdha, the moderator for this conference. Welcome to the Sun Pharmaceutical Q4 post result conference call. For the duration of the presentation, all the participant's lines will be in the listen-only mode, after that the question and answer session will be conducted for international participants, after that the question and answer session will be conducted for participants connected to CyberBazaar India. I would like to hand over to Mr. Dilip Shanghvi of Sun Pharmaceuticals. Thank you and over to Mr. Shanghvi.

Sudhir Valia: All of you -welcome. Thank you participants for joining us this afternoon at the 4th quarter and the annual results conference call. As always we will be touching upon both numbers and strategy. I will share the financial highlights and operational issues and Mr. Shanghvi will talk about our strategies and directions. After that we will open for questions.

In all we had an excellent year as the results are already with you. The year has been in line with our projections for the year and the growths we have shown for Q4 is in line with the growth numbers we have been demonstrating quarter over quarter and year after year.

The total turnover grew 15% over the last year and 7.4% over the immediate previous quarters in December quarter. Net profit increased 35% over last year and 84% over the immediate previous quarter. The increase in the profit is reflective of better realizations both international bulk active and formulations as well as cost controls due to better sourcing and almost important of all the PAT numbers are after fairly heavy R&D investment. Formulation accounted for 72% of the sales and bulk active is 28%. The exports, both formulation and bulk active, accounted for 17% of the sales. The domestic formulation sales have grown by 24% for the year to March 03. For Q4 domestic formulations have grown 46.9% over the same quarter last year. This was after special price sales. This additional sales component, which would otherwise have happened in Q1 this year, is about Rs. 350 million worth of sales.

As per the March 03 ORG MAT data, the growth for the company is 16% against 5.7% growth for the industry. Since we have been consistently growing at a higher growth number than the industry based entirely on our organic growth, we have also been adding to prescription shares year after year. Prescription shares has increased to 2.99 say about 3% March 03 MAT from 2.87% last March. The core therapy areas, psychiatry, neurologic, cardiology, diabetology, and gastroenterology, accounted for 72% of the domestic formulation sales and these segments the growth is in excess of 20%. Among the newer therapy area, we have begun to make inroad with chest physicians, oncology, and dermatology in terms of the rank increase with specialties as CMARC for November-February, however, here I would specially like to highlight, diabetology in which we have now reached third rank up from sixth previous quarter, oncology where we are at sixth up from tenth, and gynecology we are at 11th rank up from the 18th rank. These are the remarkable rank increase as we put into the place specialties strategies that have worked well for us in our core therapy area.

Export formulations, it is the key driver for the future growth, has grown very well for the year. Growth for the March quarter over last was 48%. The growth rate for the year, 40%, this was greatly the result of better focus, tighter operational control, and a better team, and I would like to add that I am very upbeat about the international performance and expect to grow it significantly.

Operating margins for the March 03 was 30% as against 26% last year, a significant increase even though we had stated earlier that we had been maintaining numbers, this was largely on account of better bulk active sourcing, new product introductions based on our own bulk, and I have said earlier some of the cost efficiency is because of the way we have structured around the specialty customer with comprehensive disease management offerings, which offers us flexibility in way we load cost to divisions. At Sun Pharma as always we continue to focus on bottom line. We feel that with a 27% margin this year we achieved our objectives.

Now for the closer look at the working capital, cycle where I shall take a similar period comparison. Last year when I had spoken to you, I had said that this is a priority area within the company. We continued to strengthen our infrastructure and systems and over time, these numbers should improve. Inventories are at 66 days' sales from 64 days last year. Domestic formulations collection is 69 days. Export formulation is 205 days. Export bulk is 158 days. Secondary reason is that the main increase is on account of new products. Work in progress is 15 days from 13 days last year. The tax is Rs 214 million from the year last it was Rs.160 million. During the year ahead we expect it to remain at a similar level. Net interest income is 66 million for the year against 42 million for the last. We continue to be practically debt free. As I shared with you earlier, we have increased R&D focus for the year and number reflects this. Margins have increased after R&D expenses. R&D total expenses for the year is Rs. 657 million versus Rs.336 million. Of this R&D capex is 363 million for the year as against 139 mill last year….

Moderator: Mr. Shanghvi? Sir you can go ahead.

Sudhir Valia: I will repeat, as I have shared with you, earlier we have increased R&D focus for the year and number reflects this. Margins have increased after these R&D expenses. R&D total expenses for the year is 657 million versus 336 million of the last year. Of this R&D capex is 363 million, where in the last year it was 139 million, a significant increase. R&D revenue expense has also gone up, to 294 million versus 197 million of last year.

EPS is at 24.7, up from 17.9 adjusted for the share split. Board has proposed a dividend of 100% as compared to 50% last year. We have also initiated a buy back program after receiving required approvals and as on 31st March a total 540,000 shares representing 0.6% of the paid up capital have been bought back through open market offer.

Several new products were introduced across 11 marketing divisions and many of this used technology as a differentiating factor. Several products introduced within last few years, such as Pantocid, Susten, Repace, Aztor, Clopilet features among top 15 products for the company and these continue to grow at a healthy rate. The rank increases are significantly in diabetology, gynecology, and oncology.

As you know the year back we discontinued our cephalosporin bulk active business, which added almost 50 crores to our top line, but less than 1.5 crores to our bottom line, I am glad to share with you that we have now replaced this volume loss with high margin specialty bulk, several interesting bulk active were introduced this year and found buyers in Latin America, Europe, and DMFs were received for metoprolol, metformin, five more DMFs and two COS are filed awaiting approval with several more in the pipeline. With this summing up our performance, I will now ask Mr. Shanghvi to outline the strategies.

Dilip Shanghvi: Thank you, Mr. Valia for this drain down of numbers and the rationale behind that. I will share with you the outlook of the company, our US operations, the R&D and the other future plans.

First international formulation business: Our strategy of concentrating on 30 key products and core markets seems to be working. This year, as we shared with you at the beginning of the year, we have achieved a 40% growth on a relatively small size business in formulation, but formulation export business has now moved up from 5% of our overall turnover compared to 4% last year. Going forward, looking at the kind of products and the potential for these products in the international markets, we appear to be I mean we are quite confident and expect this business to continue to grow significantly faster than the rest of our business, and expect this business to contribute greater percentage of our future turnover.

The other important part of our international business is our investment in Caraco, where we currently own slightly less than 50% equity, but we have shared with you the consolidated numbers for Caraco for this year. The consolidated profit and loss account is already there with you and if you will see in Caraco's overall number, then after providing for non-cash charge of close to $4 million, which is for issue of shares to Sun Pharma, they have lost around $2.2 million last year. We recently shared with you the last quarter performance of Caraco where on a turnover of $8+ million during the first quarter they have announced a profit of $2.2 million, which means we believe that Caraco is on line of achieving the objective of this year that they have shared with their investors that they should do around $35 million. They have also shared and we expect them to do slightly better is that they will be filing 5 to 6 products this year from US as we have shared with you that we plan to file at least 5 to 6 products from India, both for US as well as Europe. The strategy of integrated generic business in the US and having a diversified product portfolio and a product basket should help us become increasingly important player in the US markets, and we expect this business to become increasingly more important for us as time progresses.

And as profits and turnover out of Caraco continues to get consolidated, we expect increased return on capital employed for Sun as a company as a whole, since until now this large investment in the US was not actually producing any significant profit and cash flow, and now returns have started to improve.

The important component of our future business is the research and development that we have been investing in since 93-94, and last year we have increased our revenue expenses in research and development now to almost Rs.300 million, which is an increase of Rs. 100 million over the previous year. This does not include the research and development investment at Caraco, which they do for filing of products. We will be investing close to 400 million INR in setting up the balance part of research and development site at Bombay as well as at Baroda. Between these two sites we hope to commission 275,000 sq. ft. of research space during later part of this year. Construction for both the sites is more or less over and we are doing finishing and installation of utilities and various other services, which is necessary for research and development.

I will now like to share with you my view about how I look to the future going forward. We believe that we are at a stage where we have the entire manufacturing infrastructure in place, we have products available with us; what is required is to expand rapidly our international business, which we plan to do during this year and in subsequent two years. We also plan to take up our revenue R&D expenses from Rs. 300 million this year to something close to Rs. 1000 million or Rs. 100 crores in next two to three years. This large disproportionate investment will help us in leveraging and taking benefit of the inherent potential of the products as well as the opportunities that they represent, even though on a short term basis it may have a slightly negative impact either in terms of growth of our overall profits or a short term impact on return on capital employed, however, in the long term interest of the business this is a critical business decision that we have taken.

The domestic business continues to be healthy and the largest part of our business. We are seeing increasing competition in this business, however, by a focussed strategy and a strong discipline in the way we operate this business, we have been able to maintain our growth above the industry, and we hope to be able to continue to do that this year and in the next year.

Our focus on different specialties and intent to try and achieve leadership position in all these focussed specialties should help us in not only growing this business but also growing it profitably. Now that our investments in the US seem to be producing returns and the profits streamlined, we are giving increasing focus and attention to Europe. As I have shared with you we have no plans to make investments in terms of acquiring businesses in Europe, but we will be working through a joint venture or a partnership mode with different companies in the key markets of Europe with a view to leverage our product and the potential they offer to add to the overall top line and the bottom line of the company.

We, like every year would be planning an approximate capex of around 500 million INR, which also includes setting up a facility in Jammu during this year, which we hope to commission by the end of this year. With this I should now like to leave the floor open for questions. Thank you.

Moderator: Thank you very much sir. At this moment I would like to hand over the proceedings to Raheema at SingTel to conduct the Q&A for international participants. After this we will have a Q&A session for India participants. Over to Raheema.

Raheema: Thank you Snigdha. We will begin the Q&A session for participants connected to SingTel bridge. Please press *0 to ask a question. Thank you. At this moment there are no questions from participants from SingTel. I would like to hand over the proceeding back to Snigdha. Snigdha over to you.

Moderator: Thank you Raheema. We will now begin the Q&A interactive session for participants in India. Participants who wish to ask questions, please press *1 on your touch-tone enabled telephone keypad. On pressing *1, participants will get a chance to present their question on a first-in-line basis. To ask a question, please press *1 now. First in line we have Mr. Anoop Bhaskar from Templeton.

Anoop: Hi, this is regarding the domestic business. Could you just give some thoughts on the sales that you have booked if you look at the sale that you have booked for the March quarter, and there is a comment you know of 35 odd crores of sales which you had for the next quarter; on that if you could just give me comments on that.

Shanghvi: As we have shared this domestic business this year includes rs.35 crores of business, which under normal operations should have come in this quarter of new year. Now as we see the overall turnover we have reached look at for the year, instead of growing at 23%, it would have grown at around 16%, and for the quarter it would have grown at 15%, and this Rs.35 crores turnover as I see would have an approximate bottom line impact of around 200 million INR.

Anoop: Okay. And could you tell us why did you do this you know sale earlier than expected, is it because of VAT issue or…?

Shanghvi: I think multiple issues, VAT, tax planning, because one of our facilities losing its five year tax free status.

Anoop: Okay. And would that impact then your sales in the first quarter of this year?

Shanghvi: It would to the extent of the extra sales that is done

Anoop: And could you give us the figure for capital employed for the year-end now for you.

Shanghvi: Can I understand this question better?

Anoop: Yes, if you could give the figure of capital employed for the company for the year ending March 31, 2003, what would that figure be?

Shanghvi: I think while working out this number, can I take the next question.

Anoop: Yes sure. I have two more queries, if you just could be patient. One is that in terms of growth of domestic market, could you share your views on the outlook for this year and if you look at the new product launches that you had last year, there if you look at cumulative sales they are actually lower than the sales that you had on FY02. If you could give comments on that also.

Shanghvi: Yes, I think, I will answer the first question. The shareholder's fund is that what you want?

Anoop: No, if you could give the total capital employed by the company.

Shanghvi: Yes. It is around Rs.750 crores or 7491 million INR.

Anoop: Okay, thanks Yes.

Shanghvi: And, I think, it is very difficult to match turnover for the new product year on year because the number of issues including when you launch which product have an impact on the total value of new product that we will get in each year, but our experience is that generally every year we get somewhere in the region of 4.5% to 7.5% of our overall domestic turnover, and I think from that point of view we have major products introduced last year may be during the end of the year, but otherwise, I think we are quite happy with the performance of new products.

Anoop: Does it also reflect you know that you are having more price competition in the market?

Shanghvi: Yes, I think price competition in addition to turnover also has an impact on bottom line, which I think we seem to have managed quite well.

Anoop: Yes. And, in terms if you look at the growth as far the domestic formulation goes, what kind of outlook do you have for FY04?

Shanghvi: I think around 15% overall growth for the domestic formulation business. Generally, I think, even last year we shared 15- 20% overall.

Anoop: Yes, and for the market do you see any kind of revival in growth or is it going to remain as subdued as we have seen in the first quarter of this calendar year?

Shanghvi: It is very difficult for me to comment there, I mean the current ORG numbers are actually very low. I expect that to go up slightly.

Valia: The market was lower and it seems to because of VAT and trucker strike also.

Anoop: Okay, and in terms of working capital has there been some improvement over the third quarter because when we had the third quarter conference call you had mentioned that it was an area of concern.

Shanghvi: I think, we are addressing that Mr. Valia, I think, also shared that with you. I will ask Mr. Valia to answer this question.

Valia: The fact remains that it requires further efforts to streamline. In fact, first we have controlled to bring it almost on the similar line as the last year and have not allowed it to go beyond it, and at the same time, we have now gone into further detailed reasoning on that front and we are hopeful that we will be able to reduce. Inventory up from 64 to 66 days is a marginal increase, but more or less the rate at which it was earlier increasing; the working capital cycle has been controlled now.

Shanghvi: Also, I think, you have to factor complexity of our operation. We have many facilities and many products. Any attention or focus that we try to bring, it will take a certain amount of time before we can see visible results.

Anoop: And sir one last question is that because the VAT issue do you see sales getting impacted and if so will it gives us any kind of level that you could share in terms of the percentage growth that would come down because of VAT issue?

Shanghvi: I think, it's a very difficult question to answer. We don't know currently whether there is VAT, there is no VAT, so it is very difficult to answer. I think, if we look at our own experience then we did lose sale in the month of March. But, at the same point of time, we had some extra sale, so overall we got a positive, but otherwise we took a hit in the month of March. But, since we have run on reasonably tight inventory cycles, I don't think we are impacted as much as some other players in the industry may have been.

Valia: But VAT may impact if it is introduced where they expect tax penalties to go down. In this process because they express that they are not going to give credit for the purchase on which more than 4% suppose if they introduce the credit is not given then probably it will hit. So, government needs to understand that they can't go back on those fronts then it will not impact.

Anoop: okay, sir. Thank you very much.

Shanghvi: Thank you.

Moderator: Thank you sir. Next in line, we have Mr. Satish Bhat from Dolat Capital.

Satish Bhat: Hello sir, good results. Sir I want to know when most of the companies have reported 10% to 15% decline in their Q3 sales of domestic, how is it possible that we have been able to grow at 15%, when you yourself told that March sales were impacted, what was the unique selling point in the month of March, and in the quarter which you have been able show far better growth as compared to the industry level? And sir, question number two, sir, in your consolidated notes you have given that from sales to Caraco as a service you have received Rs. 217 million, I want to know how much profit was made on that bulk supply to Caraco on the consolidated basis?

Shanghvi: The last one is easy because we don't share that number. The first one I think as Mr. Valia said in his presentation and I also explained that because of the VAT as well as one of our facilities losing tax-free status by March this last year, we decided to transfer extra inventory into the systems, so that is the reason why we believe that we have preponed sales worth Rs. 350 million of this quarter in last quarter.

Satish Bhat: Sir, how did you grow 15% in the quarter when the big players de-grew by 10%, that is my rationale?

Shanghvi: That I can't answer. We have grown that I know and that ORG also says we have grown.

Satish Bhat: Sir, can you give strategy regarding your ANDA filings for the current year?

Shanghvi: I think, I have shared that with you. This year we will be filing five or six ANDAs out of Caraco and around five or six ANDAs from India.

Satish Bhat: Sir, now we are seeing that the last year you had a target of 40% growth in the domestic formulation business and the strategies are more or less through, can you expect 50% growth for the formulation business in the current year?

Shanghvi: We have actually not shared our overall planned growth with people till now because we have what I would call been giving finishing touches to the planned business for all the segments of business. Once we finalize that, we will share that with you, but I expect international formulation business to be a big part of our future business as well as growth.

Satish Bhat: Okay, thank you sir.

Moderator: Thank you sir. Next in line, we have Mr. Ashit Kothari from ASK Raymond James.

Ashit Kothari: Yes, good afternoon, just one more similar query of the earlier participant that the Caraco formulation a sales of around 11 crores and the services of 21 crores, does it all come in the fourth quarter?

Valia: No, throughout the year. It came throughout the year.

Ashit Kothari: It is not only in the fourth quarter.

Valia: Correct.

Ashit Kothari: And, can you again just explain what is the service to Caraco Formulation?

Valia: The technology, which is provided for ANDA filing as the services given.

Ashit Kothari: But, is it same as the non cash R&D expenditure?

Valia: Because, the shares have been issued.

Ashit Kothari: Okay, so this is the value of that shares?

Valia: Yes, yes.

Ashit Kothari: Okay, thanks a lot.

Moderator: Thank you sir. Next in line, we have Mr. Rajesh from ICICI Securities.

Rajesh: Hello, good afternoon gentlemen, congrats for excellent results. I had two - three specific questions. First and foremost is on 61 patents that you have filed and I believe 16 more have been approved, could you throw some light in terms of where they have been filed whether it is PCT India and also in terms of they pertain to whether drug delivery system area or NCE compounds. Also, if you could throw some light on your mix of R&D expenditure, which has really gone up, are you spending more on NDDS and NCE area and how much of that part is also for the generic business support; and lastly what is the kind of stake that you expect to increase in Caraco Pharma by end of FY04?

Shanghvi: I think, I will answer your question in the same order that you asked. We have not shared specific sub-distribution of the patents. We are internally debating as to up to what level we share with you, the investors, but I am unable to answer that question straight away. But broadly, we have been filing process patents depending on the innovativeness of the patent. It could be either PCT or international filing, generally not Indian filing. A delivery system patents would be PCT filing, generally not Indian filing, and a NCE filing obviously will be international filing. The only thing is that when we file PCT, we also along with that file an Indian patent. So, since the review time for PCT is longer than Indian patent some of them get granted in India faster. So, this is broadly related to the patent. The second question I think is …….

Rajesh: Split of R&D expenditure.

Shanghvi: Yes, I think around 40% to 45% would be for innovative products as well as the US market, and around 55% would be for process development, and as we have shared with you we expect this number for innovation to go up from 40% to 65% - 70% at high growth rates in two to three years. The third question is our equity in Caraco, I think that will reach around 65% when all the technology stocks are issued to us.

Rajesh: So, by FY04 end you expect this to reach 65 or ….?

Shanghvi: No, no, I think, we have five-year agreement and also we get securities, which will actually get converted into shares in two to three years. So, only after they get converted into share we get equity.

Rajesh: Okay.

Shanghvi: It is a five year minimum as I see a five year time length.

Rajesh: Okay, and just last small question. Which of your facility actually has lost this tax-free status. Is that your Daman plant ?

Shanghvi: Silvasa.

Rajesh: Silvasa. Yes, okay. Thanks and all the best.

Shanghvi: Yes, thank you.

Moderator: Thank you sir. Participants who wish to ask question, please press *1 now. Next in line, we have a followup question from Mr. Anoop Bhaskar from Franklin Templeton.

Anoop Bhaskar: Yes. I just wanted to ask you about domestic market. If you could share something on the case of new segments where you have entered and where you have shown growths. There is no mention, in case of respiratory could you tell us what is the status there, and also talk about the two other segments where you have done very well in the last one year, which is the, you know ……

Shanghvi: Yes, gynecology? Yes, I think..

Anoop Bhaskar: Yes, if you could just talk about the case of asthma, what is the status there and about the two other segments where you have done well, you know gynecology and orthopedics.

Shanghvi: In chest we are number 4 and we will continue to be number 4. We have grown in terms of overall number of prescriptions that we have received in that segment. However, number 4 here does not actually mean much because the number 1 and number 2 between them have more than 75% to 80% of the market. So, we believe that we have a long way to go and just before we can say that we are successful. The other segments where we have done well is diabetology where we have moved up to number 3 position, and the other is oncology we have moved up number 6 position, and in gynecology where we have moved up to the eleventh position. I also wish to share generally one or two issues, which are important is that in gynecology the major segments in terms of number of prescriptions are nutritional products, products which are general in nature, whereas the range of products that we are focusing on in gynecology is hormones, treatments for specific female diseases. So, I think, we are quite happy with the overall performance because we are not competing in more than 60% of the market in gynecology, with a presence in only in the 40% our ranking is eleventh. I think, in the same way in oncology, I think, if you look at core oncology products then I think our ranking is slightly better than sixth. But, this is a business in which we will rapidly grow.

Anoop Bhaskar: Okay, and in terms of formulation exports could you just mentioned about the markets where you are focusing, and especially Russia, how is that done and if you could share that?

Shanghvi: I don't have specific numbers here with me, but I think broadly what I recall it in most of the markets where we are operating we have done well. Maybe if you can ask Mira or I will ask Mira to send you specific information.

Anoop Bhaskar: Okay, and one last question is on the US market this income that you get from Caraco of around 21 odd crores that does not get reported in the income of Sun when you look it on a standalone basis.

Valia: No, these are independent companies, so till they declare the dividend, it will not come in the books of Sun as a independent company.

Anoop Bhaskar: No, you mentioned that you have got a service income for the formulation development work that you do for Caraco.

Valia: See, that is in the consolidation from Caraco and from Sun Global which has supplied the products got the shares and that is on the receipt of the technology. And that has been accounted as a income in Sun Pharma Global.

Anoop Bhaskar: But, It is not accounted for if you look at standalone basis of Sun Pharma.

Valia: No, it is Sun Pharma Global who supplied that.

Shanghvi: Agreement provides for the technology from Sun or Sun associates for tax planning purposes and to avoid double taxation, I think, we are routing it through Sun Pharma Global.

Anoop Bhaskar: Okay, okay, sir. And sir, one last question is that in terms of tax rate do you see that now they will go up, you know because there you mentioned that one of your units will not get the full tax free exception that it was getting till last year. So, will the tax rate go for the company as a whole in FY04?

Shanghvi: No, I think, Mr. Valia shared that that during the year we expect the tax rate to remain more or less constant.

Anoop Bhaskar: Okay sir. Thank you very much sir.

Shanghvi: Yes, thank you.

Moderator: Thank you sir. Next in line, we have Mr. Pradeep Kumar from Cholamandalum.

Pradeep Kumar: Actually, I want to confirm one thing whether I should say right or wrong. In the fourth quarter you have booked advanced sale of 35 crores and a profit of 20 crores, which could have been in the first quarter of this year?

Shanghvi: That's correct.

Pradeep Kumar: And, in the first quarter, the same will be affected in the first quarter, the sale will be lowered by that much.

Shanghvi: That's correct.

Pradeep Kumar: Okay, thank you.

Moderator: Next in line, we have Mr. Rajesh from ICICI Securities.

Rajesh: With the extra sales booked, just you confirmed that 350 million was the sales and 200 million was the profit, now that means there is a big margin of almost 57%, how do you explain this, I mean, how can margins be so high?

Shanghvi: This is business without overheads, know? Overheads, we will pay this year.

Rajesh: Okay, so the cost part will be taken care of….

Shanghvi: What there is, is the difference between the material cost and the sales price.

Rajesh: Okay, it's a gross profit margin.

Shanghvi: Yes, it directly goes to the bottom line.

Rajesh: Okay, okay, and which means that just to sum it up your next year will from a domestic dosage from business point of view will comprise of 11 month year rather than 12 months.

Shanghvi: Our domestic business for a month is slightly more than Rs. 35 crores; yes, to the extent of 35 crores it will get under stated

Rajesh: Sure, sure. And, just can you explain the rationale behind this putting up a new plant in Jammu, in specifically with the employees' contribution?

Shanghvi: Pardon.

Rajesh: You are putting up a new plant in Jammu.

Shanghvi: Yes, we are putting up a new plant. There is a new government scheme, which makes it both financially as well as operationally attractive for us to operate because of the benefits offered both by the Center and the State Government. That is why we are setting up that facility. The other issue is the issue of setting it up in partnership with the Sun Pharma Key Employee Trust. It is a tax planning structure. At the same point of time, it allows us flexibility to reward key employees out of this trust.

Rajesh: I see. And, obviously you don't see much of the terrorist problem there.

Shanghvi: Not in Jammu, no.

Rajesh: Okay, thanks a lot.

Shanghvi: Thank you.

Moderator: Thank you sir. Next in line, we have Mr. Rahul Sharma from Karvy Share and Stockbrokers.

Rahul Sharma: Sir, I wanted to ask selling expenses have come down in Caraco from 13.5% in Q4 to 10.9%, and for the full year, we had 14.8% as selling expenses. Could you throw some light on the trend that we can foresee in the near future?

Shanghvi: No, I think, the selling expenses is same thing expressed as a percentage of different turnover. Expense in terms of value has not changed significantly. Its only because the turnover has gone up, the percentage is coming down.

Rahul Sharma: Okay. So, another thing is our margins have improved quite a bit in the last and first quarter, do you think we can sustain it for the full year?

Shanghvi: We expect around 27% overall margin. You are talking of Caraco or …?

Rahul Sharma: Yes, Caraco.

Shanghvi: Yes Caraco, should be if I think in line with the Q1 numbers I mean I don't know what they have shared with investors, but generally in line with q1, there is nothing, which I see significant in the past quarter, which I don't except to see in the next quarter, unless and until prices of some of the critical products, which constitute major part of their sales come down drastically. Those things I will not know, and cannot predict.

Rahul Sharma: Sir, because what has happened is the margins have improved from 12.8 last quarter to 30.34, this is before non-cash charge and for the full year we had 14.1% as operating margins. So, I just wanted to know whether will this be sustainable for the year?

Shanghvi: It should be, because all of this is on account of turnover moving up. You understand no?

Rahul Sharma: Yes, Yes.

Shanghvi: So, fixed over is remaining constant on an increasing turnover.

Rahul Sharma: Okay sir. Thank you.

Moderator: Thank you sir. Next in line, we have Mr. Sameer Narayan from Enam Securities.

Sameer Narayan: Good afternoon sir. Congratulations on a fantastic set of numbers. Sir, I just wanted to know how much of the total output did Silvasa plant contribute in FY03?

Shanghvi: I don't have this number. I will workout and send you. But, it actually will be a significant part of our formulation business, not more than 50% or anything like that but it will be significant.

Sameer Narayan: Okay, and sir on a consolidated basis our effective tax rate is roughly about 20%, so you expect this trend to continue or …..?

Shanghvi: Mr. Valia can answer that.

Valia: Yes, because of the various benefits, which we continue to enjoy, tax is likely to remain at the same levels.

Sameer Narayan: Because it is up sharply from almost 8.5% on a standalone basis and 20% on consolidate with Caraco, so you see that with profitability going up probably this taxes will also move northwards or…?

Valia: No, it will remain because exports is increasing, we are still going for the area where there is a tax saving like Jammu as we discussed, and research is significantly taking place…

Sameer Narayan: Okay, thank you sir.

Valia: Thank you.

Moderator: Thank you sir. Next in line, we have Mr. Pavan from SSKI Securities.

Pavan: Yes, hi. I was looking at the Caraco numbers and the first quarter I mean the R&D cost was about I think something like $800,000, and last year, I mean, for the full year some seven odd million dollars, and based on the filings that you are saying I think it would work out something like $10 million for this year. So, should we assume that going forward in the subsequent quarters Caraco's profits would come down, because of this aspect?

Shanghvi: Sure, I think, your assessment is correct.

Pavan: So, that means that this was not a normal quarter for Caraco, I mean, revenues, yes, it could be higher, but profits could come down in subsequent quarters, may not be Q2, but say in the second half when your filings move up.

Shanghvi: Two things will happen. Direct R&D expense will go up, as they make filings and scale ups, so issue of shares for non-cash charges will go up.

Pavan: Yes, absolutely, cash profits would remain the way they are, but reported PAT could come down. Okay, fine. And, can you just tell us how many ANDAs were filed in Q1 say from Sun and Caraco both?

Shanghvi: I don't think any, not a single ANDA has been filed.

Pavan: And, any plan this quarter, I mean, specific from Sun India?

Shanghvi: No, I think, as we have shared by the end of the year we will be filing five or six products both out of US as well as out of India.

Pavan: Okay, and there is another question that I needed to ask was our stake in Caraco would be 49% approx. at this moment?

Female Speaker: 49.39%.

Pavan: Pardon.

Shanghvi: Approximately yes.

Pavan: 49%. Now, going by the new arrangement that we have with Caraco, I don't think it is going to move for the next two to three years past 49%, I mean, unless there is some equity dilution or you add some from the market?

Shanghvi: Yes, that's a logical conclusion.

Pavan: Okay fine. So, we would still be reporting consolidated numbers.

Shanghvi: We will be.

Pavan: Okay fine. Yes, that's about it, thanks.

Shanghvi: Thank you.

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

Sameer Baisiwala: Good afternoon. You have been fairly aggressive in NDDS product launches in a local markets, I just wanted to know what are your plans for international markets, specifically when do we see the regulatory filings being done for the regulated markets?

Shanghvi: I think, sometimes by this year we will see some filing in some of the markets may be sometimes next year for regulated markets, but money and cash flow from all of that to come after may be two and half to three years.

Sameer Baisiwala: Okay, thank you very much.

Shanghvi: Thank you.

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

Shanghvi: I thank all of you for attending this last year's earning and last quarter's performance numbers with the analysts and press. Thank for attending this. Bye.

Moderator: Ladies and gentlemen that concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice day.
