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Sun's US subsidiary gets help from its banker

Joe C Mathew / New Delhi March 09, 2010, 0:36 IST

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Breathing space till late this year for Caraco to set affairs in order with regulator.

Caraco Pharmaceuticals, the troubled US subsidiary of Sun Pharma, got a temporary reprieve after its banker, RBS Citizens, agreed to suspend the conditions on a term loan of \$18 million till October 6. A line of credit worth \$15 million would not be affected by the suspension, the banker also agreed.

Loan covenants usually give performance targets. If invoked now, these would have put Caraco in trouble, as its manufacturing units remain closed after a United States Food and Drugs Administration (USFDA) order.

USFDA had decided that the Caraco manufacturing facility did not comply with its regulatory specifications. In the absence of production, Caraco would have become a technical loan defaulter, according to the covenants it had signed with RBS.

Industry experts said the suspension of the covenant indicated the bank's trust in the long-term prospects of Caraco.

In a filing to the Securities and Exchange Commission of the US, the markets regulator, Caraco said the agreement to temporarily suspend the loan covenants was reached on February 26, the day when the earlier term of a similar agreement expired. Caraco said it anticipated entering into revised loan agreements, fully repaying the loan or extending the temporary suspension, the three options, on or before October 6.

The October-December 2009 quarter sales of Caraco were \$52 million, seven per cent down as compared to the corresponding quarter of the previous year. In the absence of manufacturing revenues, the entire turnover was based on the products Caraco was able to outsource and market in the US. The company had posted a quarterly loss of \$3 million for the quarter, compared with the net profit of \$5 million in the corresponding quarter last year.

A New York Stock Exchange-listed company, Caraco had a turnover of \$337.2 million in 2008-09, of which \$112 million was from sale of own products and \$225 million from sale of Sun Pharma products. Declining revenues from Caraco were the biggest negative factor that impacted Sun's revenues during the last quarter. Sun Pharma holds 76 per cent in Caraco, which it acquired in 2002.

It was in June 2009 that US marshals, acting on FDA complaints, seized Caraco products and closed its production centres at Detroit, Farmington Hills, and Wixom. The FDA had said it would not allow Caraco to sell drugs in the US until the company gave an assurance that the firm complied with FDA's Current

Good Manufacturing Practice (cGMP) requirements.

Though analysts had then feared the action to have an impact of at least 12 per cent on Sun's revenues, Caraco, by increasing the outsourcing of products, has attempted to minimise the impact.

"It is very difficult to predict the impact on Sun Pharma's revenues due to the Caraco trouble as Caraco is getting more products marketed in the US through third party outsourcing. This is driving its revenue today," said Ranjit Kapadia, an analyst with HDFC Securities.

Sun Pharma's spokesperson was unavailable for comments. However, the company had during an investor conference in January, said Caraco has given a work plan with necessary details to FDA.

"In conjunction with efforts to restart its manufacturing activity, Caraco has also begun to recall some of its employees who were part of the indefinite layoff earlier in the second quarter. Even while these efforts on resuming manufacturing are on, Caraco has transferred certain of its own products to alternate manufacturing sites in an effort to regain some revenues. Overall, Caraco intends to continue to work with FDA to effectively resolve the remaining concerns," Sun Pharma had said.