



BIOCON LIMITED

Analyst / Investor Conference Call 18th October 2007, 3:00 PM IST

Moderator: Good afternoon ladies and gentlemen. I am Leela, moderator for this conference. Welcome to the conference call of Biocon Limited. We have with us today the management team of Biocon Limited. At this moment all participants are in listen only mode. Later, we will conduct a question and answer session, at that time if you have a question, please press * and 1 on your telephone key pad. Please note this conference is recorded. I would now like to hand over the conference to Ms. Mansi Parekh of Citigate Dewe Rogerson.

Mansi Parekh: Thanks Leela. Good afternoon everyone and thank you all for joining us on the Biocon Limited H1 FY08 results conference call. We have with us on this call from Bangalore Ms. Kiran Mazumdar-Shaw, Chairman and Managing Director of the company, and also her colleagues who are a part of the senior management team. We will begin the call with opening remarks from the Biocon management followed by a Q&A session with all of you. Now I would like to invite Ms. Kiran Mazumdar-Shaw to briefly discuss the performance during the half year ended September 2007.

Kiran Mazumdar-Shaw: Good afternoon everyone. It is my pleasure to share with you the H1 FY08 financials for Biocon and its subsidiaries. To begin with, I would like to say on behalf of the Biocon Group management that we are pleased with our ability to deliver a robust performance for this first half, which as you can see has clocked revenues of Rs **553 crores, EBITDA of Rs 160 Crores and a PAT of Rs 107 crores**. This has delivered a **27%** profit growth, and against a very challenging backdrop we believe this is a good performance across all our business segments.

We have had to contend with a lower contribution from our enzymes business, which we have recently divested, and going forward of course, we will have no contribution from our enzymes business. We have also had to contend with a depreciating dollar and in view of the fact that a large percentage of our revenues are dollar denominated, this has been a big challenge for us. And in addition to this, we have managed to register an improvement in our margins, which have increased from 26% to 29% this fiscal, and we believe this has been made possible largely because of our reduced dependence on the low margin statins business and our increasing contribution made by our other segments like immunosuppressants, insulin, and our branded formulations. We believe that going forward, Biocon will be able to sustain these levels of growth and we also believe that given the divestment that we have recently made, with respect to our enzymes business, we have now a kitty that will allow us to address opportunities to both acquire and invest in growing our business for the future. These will include looking at acquisition opportunities with which to move up the value chain, we will look at acquiring marketing and distribution capabilities in international markets, we will look at investing in new research programs that will allow us to increase and expand our innovation-led research strategies, and we will also look at acquisition opportunities with which we can inorganically grow our research services business. We expect to be able to do a few of these at least by the end of this fiscal, and we believe that we are in a good shape to deliver a good sound financial and business model for the Biocon Group in the years ahead.

On the aspect of international listing, which is a frequently asked question, I think Biocon will clearly look at listing on international Stock Exchanges in the coming years. We could also look at listing our subsidiary research companies in this particular strategy. We will also look at listing Biocon on an international bourse, preferably on one of the US Stock Exchanges going forward, but this will all depend on certain important key milestones being achieved. In the case of Biocon, we certainly look at our innovation led strategies reaching certain milestones in clinical

development and in the research services business; we would like good balance of our CRAMS business model to be attained before we look at listing on an international Stock Exchange.

So this I hope gives you a summary of the Biocon business, and I now look forward to a Q & A session. I would also like to inform people who have logged on that the management team here is well represented by our marketing, R&D, Syngene, Clinigene, as the Finance Department and we have also our COO, CFO, President - Marketing, General Manager - R&D, Dr. Harish Iyer, whom I would like to introduce to all the callers, the COOs of both Syngene and Clinigene, our Vice President – Finance, and the Head of Corporate Communications. So with that I would like to start this Q&A. Thank you.

Question and Answer Session

Moderator: Thank you madam. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone key pad and wait for your turn to ask the question. If your question has been answered before your turn, and you wish to withdraw your request, you may do so by pressing # key.

First question comes from Milind Karmarkar of Dalal & Broacha Stock.

Milind Karmarkar: This is Milind Karmarkar from Dalal & Broacha. Good afternoon and congratulations for a good set of numbers.

Kiran Mazumdar-Shaw: Thank you.

Milind Karmarkar: One question which I had was that in the last quarter I think we had about Rs 15 to Rs 16 Crores of licensing income in Biopharmaceuticals. Just wanted to check out how much was it in this quarter.

Kiran Mazumdar-Shaw: A similar amount.

Milind Karmarkar: Okay, thank you.

Moderator: Next question comes from H. R. Gala of Quest Investments.

H. R. Gala: Congratulations to the Biocon team.

Kiran Mazumdar-Shaw: Yes, thank you.

H. R. Gala: One question has already been asked; I wanted to know about the license income, you say it was around Rs 15 to Rs 16 Crores in Q2 also. Do you expect this trend to continue more or less on a regular basis now on year on year basis, it may not be on a quarterly basis?

Kiran Mazumdar-Shaw: Yes, on a year on year basis.

H. R. Gala: Okay, the second thing is we have noted from the fact sheet - what is the reason for our Biopharmaceutical sale to come down in the second quarter as compared to the first quarter, any particular reasons?

Murali Krishnan: I think there is a bit of confusion. The licensing fees have been erroneously added to contract research and hence the contract research number is reading higher at Rs 118 Crores, which is not actually right. The Biopharmaceuticals business inclusive of Licensing Fees is Rs. 418 Crores.

H. R. Gala: Rs. 418 Crores, instead of Rs. 386 Crores.

Murali Krishnan: Yes, that is right. Enzymes business has contributed Rs. 46 Crores and the contract research business Rs. 86 Crores.

H. R. Gala: Okay, I think that puts things in proper perspective. Now Murali Krishnan, our licensing income is added in the contract research?

Murali Krishnan: No. In the re-grouped numbers indicated above, it has been added to Biopharmaceuticals. In the initial years, the licensing fee was getting included in the contract Research business, when this number was very small. As this number started growing, we have started re-grouping it under Biopharmaceuticals business.

H. R. Gala: Okay, and have we restated the corresponding figures of the previous year also?

Murali Krishnan: Yes, I got the previous year's re-grouped figures. Biopharmaceuticals is Rs. 349 Crores, and Enzymes Rs. 54 Crores, and contract research Rs. 58 crores.

H. R. Gala: Okay fine. So can you tell in Rs 418 Crores, roughly around Rs 30 Crores of licensing fees is added or is it Rs 32 Crores?

Murali Krishnan: About Rs 32 Crores.

H. R. Gala: And how much was it in the corresponding half of the previous year?

Murali Krishnan: About Rs 11 Crores.

H. R. Gala: Okay, now going ahead, Madam said that we expect to sustain the level of growth that we have achieved, which I think is a very strong double digit growth. How about the operating profit margin as we are going to step up the R&D and other expenditure. So do we expect that also to be maintained at the current level, because we have really achieved a wonderful margin of 28%, rather 29%?

Kiran Mazumdar-Shaw: Well, it will be definitely our effort to see if we can keep maintaining these levels, because obviously as I mentioned, one of the developments that we have very deliberately worked at, and which is paying off rich dividends is the fact that we are trying to reduce our dependence on statins. And that has really been a big burden and strain on our margins, and as we displace statins and replace it by higher margin products, obviously we believe we can maintain these levels.

H. R. Gala: Okay, and can you give some flavor about what kind of capital expenditure we will have in this year and next few years?

Murali Krishnan: That I think we have stated in the past. As said earlier, in Syngene we expect to spend about Rs 275 Crores spread over a two-year period, and in Biocon for this year it would be approximately Rs 100 - 150 Crores, depending upon when we will have to make the payment for the Vizag land. On an ongoing basis, Biocon's Capex would be around Rs 100 Crores p.a.

H. R. Gala: Okay and the rest will be in Syngene?

Murali Krishnan: Yes, the rest will be in Syngene..

H. R. Gala: Rs 275 Crores includes about Rs 100 - 150 Crores.

Murali Krishnan: No, Rs 275 Crores is only for Syngene.

H. R. Gala: Okay, that's over two years. So, how much will we spend in FY08 and FY09?

Murali Krishnan: FY08 will not be very significant and could be in the range of about 25% and by the time we finish the entire facility, towards end of next year the balance 75% would be spent.

H. R. Gala: Okay, so only about Rs 70 Crores will be in this year.

Murali Krishnan: Yes, about Rs 75 - 100 Crores, and balance in the next year.

H. R. Gala: And Biocon Rs 100 - 150 Crores as you said, subject to the Vizag land. Vizag land will be how much, roughly?

Murali Krishnan: That will be about Rs 30 Crores plus.

H. R. Gala: Rs 100 - 150 Crores, including Rs 30 - 35 Crores for Vizag land?.

Murali Krishnan: Yes.

H. R. Gala: Then in FY09 in Biocon, how much CAPEX approximately?

Murali Krishnan: Approximately about the same, about Rs 100 - 150 Crores maximum, as of now.

H. R. Gala: Okay and R&D spend, we have not indicated over here separately, so how much has been R&D as a percentage to consolidated sales?

Kiran Mazumdar-Shaw: We had actually spent Rs. 32 Crores for our R&D, as opposed to Rs. 19 Crores in the previous year. So that will give you some idea about the increased R&D spend.

H. R. Gala: This is in H1FY08 or Q2FY08 madam?

Kiran Mazumdar-Shaw: H1FY08.

H. R. Gala: Okay, thank you very much.

Murali Krishnan: R & D spend number was given in the press release.

H. R. Gala: Okay, thank you.

Moderator: Next question comes from Visalakshi Chandramouli of DSP Merrill Lynch.

Visalakshi: Hi, good afternoon. Thank you for taking my question. Are there any one off charges for the quarter or any kind of losses relating to FOREX, anything relating to hedging, etc?

Kiran Mazumdar-Shaw: Well, there is one number, which is actually something we should talk about, is the Rs 3 Crores provision that we have made towards a doubtful debtor, which I think will be reversed hopefully in the next few quarters, because we have had this covered by ECGC.

Visalakshi: Okay and are there any FOREX related losses?

Murali Krishnan: The FOREX losses for this year is about Rs. 1 Crores.

Visalakshi: Okay. Secondly, can you give some color on how you intend to progress further on the oral insulin trials, any kind of update on that would be very helpful?

Kiran Mazumdar-Shaw: Yes, I will ask Harish Iyer to comment on this.

Harish: We plan to move forward with trials in type 2 diabetic patients. We are looking initially at trials both in India and in Sweden. Our first application for a clinical trial in Sweden just got approved, indicating that others outside India have also looked at our data package, and are happy with the profile of the product. And long-term, we will be getting into longer term studies, to show efficacy in diabetics.

Visalakshi: So would you start in Sweden with phase 1 trial once again, or, how is that?

Harish: Yes, the trials in Sweden are slightly different. We will be doing minimal number of phase 1 trials in Sweden, there will probably be just one phase 1 trial, and after that we will simultaneously start phase 2 in India, and then go out either to Europe or the US to do more trials. Our phase 2 trial will be beginning probably by December of this year in India.

Visalakshi: What does this translate in terms of R&D spend, the entire oral insulin program?

Murali Krishnan: On an overall basis, as we said earlier, it is going to range of 6% to 8%. It is very difficult to put a number for the project.

Visalakshi: And finally at what stage would you think of out licensing this product?

Kiran Mazumdar-Shaw: I think we will look at out licensing this product in the next 12 months for sure, because we would like some phase 2 data to come in.

Visalakshi: Okay, and finally some color on the BIOMAb status in India and any plans for launching in any of the emerging markets?

Rakesh Bamzai: Hi Ms. Visalakshi, I am Rakesh. BIOMAb is doing very well in India. We have completed 12 months of launch and we have clearly emerged as a number one brand in that segment. It is the best launch ever for a monoclonal antibody in India. We are also looking at markets where we have rights to market a product. We launched the product in Pakistan and Sri Lanka. And we have till today 800 patients on BIOMAb-EGFR and we are recruiting many patients in future. In addition to that, we have also started clinical trials on non-small cell lung carcinoma and also Glioma. This will expand the indication, hence we are not only targeting head and neck cancer, but we are also targeting two very big markets. So, we are very, very confident that BIOMAb-EGFR will be a much sought after mega brand of Biocon in oncology and very big brand created out of India.

Visalakshi: How big is this already?

Rakesh Bamzai: We are very close to Rs 20 Crores

Visalakshi: Thank you so much.

Moderator: Next question comes from Mr. Harish Swaminathan, an individual investor.

Harish Swaminathan: Hello, thanks for taking my question. I am a private investor. My first question is on, I was reading a Harvard case study, where it was mentioned that one of our vision is to convert Biocon to a top 10 biotech firms by 2015. So I wanted to know does that vision remain or are we aiming at a much shorter timeframe?

Kiran Mazumdar-Shaw: Well, I think we have to be realistic, because if you really want to be a global leader, you must have a proprietary brand also in the market, and it takes time to introduce a proprietary brand into the market. That is why we kept a vision of 2015. Of course, if we get approval sooner than what we expect we can shrink those time lines. Having said that, we are still looking at positioning ourselves to be a globally very strong just based on making Insugen a very big brand globally.

Harish Swaminathan: Okay, we have seen the transcripts and we have seen that there is a move to have Shrikumar Suryanarayan relinquishing operational responsibilities to Harish Iyer and we have seen that happening to some extent with Murali Krishnan handing over to some extent to Chinnappa.

Kiran Mazumdar-Shaw: I don't know where you have got that information from, unless Murali has been secretly telling people, but this is absolutely not the case.

Harish Swaminathan: My question was, is this part of a conscious strategy, some commentary on this move. What is the, is it a plan to have something like de-risking, or what is the basic idea?

Kiran Mazumdar-Shaw: No, certainly we are committed to a succession plan, but in the case of Shrikumar Suryanarayan, he basically did want to pursue some other larger interests in public health, and I think that was the reason why he stepped down from the operational responsibility. Also considering the fact that the company is really focusing a lot on its discovery research initiative, where Harish Iyer is really in-charge of those programs, Shrikumar felt that this was the right time to hand over charge to Harish Iyer to drive a lot of those research programs. Having said that, Shrikumar as you know is on the scientific advisory board and will continue to advise us and give us his strategic inputs, in term of his research knowledge. But in terms of operational responsibilities, and really focusing on our discovery programs, Harish is very well suited to take charge of that responsibility.

Harish Swaminathan: I read a new item that Biogen, which is the third biggest company in the world, is up for sale. Now we know how TATA approached the Corus deal, is there some sort of a thought in our mind to consider the possibility of making a bid for such a company like Biogen?

Kiran Mazumdar-Shaw: At this point, I don't have such guts, because the value being given for Biogen Idec is 25 billion dollars. And I don't think I would like to take that, especially in view of the fact that Biogen Idec really has most of its revenues coming from royalties and it has only one or two molecules. And I think we have to be realistic. I don't think this is the time Biocon can look at such big deals.

Harish Swaminathan: I have a question on the new biotech policy, which is expected to come out in about 15 to 20 days. Does it have any sort of an impact on Biocon either positively or on a neutral basis?

Kiran Mazumdar-Shaw: Not at all, the biotech policy basically is really for the industry at large, and it is really about helping to expand the sector by encouraging more people into pursuing a biotech-based business approach. But in terms of policy as such, I think it doesn't impact Biocon one way or another. Except that it will impact the overall sector positively in terms of human resource development.

Harish Swaminathan: I came across an interesting comment made by the chairman that a biotech business is a marathon race, in which the CEO manages potential, more than performance. So in this backdrop, if you can share the...

Kiran Mazumdar-Shaw: I would request that we confine this to the financials, because we could have an offline discussion on this, if you don't mind.

Harish Swaminathan: No, my question was more on what is the potential of IN105 and T1h.

Kiran Mazumdar-Shaw: Well, we believe that it has a very huge potential. We believe that IN105 and T1h both have blockbuster potential, and this is what we are aiming to develop them for.

Harish Swaminathan: So, would you be able to give some sort of broad numbers to this, for example, is oral insulin a 5 billion per year market, or something like that, which will give us...

Kiran Mazumdar-Shaw: Well there are analysts reports to suggest that these are around three to five billion dollar opportunities, and of course, T1h is definitely also considered to be in that one to two billion range, so that's as much as we can share with you.

Harish Swaminathan: I have just one last question, which is, today's newspapers have reported that Shasun is getting out of API, which is basically companies are moving towards higher margin products. So is there some sort of a similar thought in our mind, of getting out of products, which we give us lesser margins?

Kiran Mazumdar-Shaw: Well, I think we have already told you that we are trying to replace our API business with more high value APIs, I mean, that is a strategy which all companies would definitely follow.

Harish Swaminathan: Thank you.

Moderator: Next question comes from Mr. Nimesh Mehta of Mehta Partners.

Nimesh Mehta: Good afternoon everybody. I just have a couple of questions. You had mentioned that your dependence on statins sales has reduced, and so I presume that on an absolute basis, the statin sales would be reduced. In that circumstance, the growth in Biopharma, which is still about 14%, 15% even if you take away the licensing income part, so where is it coming from?

Rakesh Bamzai: The growth is coming from majorly insulin and formulated products of insulin and other cardio, diabetes, oncology, and nephrology products. Immunosuppressants are another area of growth, but as our chairman told you in the earlier remarks that we are changing our model of business. We are getting more into branding, we are getting closer to the markets, we are entering international markets, and we are building up brands, and that will be our strategy going forward.

Nimesh Mehta: Okay, so the larger part of the growth is coming from insulin and immunosuppressants and other oncology products, right?

Rakesh Bamzai: Yes.

Nimesh Mehta: Okay, the second question is actually on the outlook on statin price. Now that we probably have seen the bottom of statin pricing, is there any likelihood of that changing, what is your perception about it?

Rakesh Bamzai: Yes, in the last quarter this question was also asked and my views were that the prices are stable, moving little bit up, and Biocon has the technology to make sure that we are competitive with margins better than other companies. In statins, and we are doing well and although the statin is flattening out, or slightly reducing, but it's not at the cost of our margins.

Nimesh Mehta: I see, but do you expect any kind of improvement or you just expect stable prices here?

Rakesh Bamzai: Right now, the forecast that we have, we feel that it will be stable. There is also possibility because of the China factor, where the costs are increasing in China, the price might slightly move up.

Nimesh Mehta: Actually that was the reason of my asking that, because of what we have seen in PenG

Rakesh Bamzai: You're right, and we want your best wishes and blessings so that we also get the PenG effect on statins.

Nimesh Mehta: I agree. Thirdly, what is your R&D expense guidance, last you mentioned, if I am not wrong, correct me if it is wrong, that it would be about 7% of the sales, and if I take Rs 32 Crores, what you mentioned, it is about 5.5% of the total sales. So are we expecting an increase in R&D expense for the year, in the rest of the quarter?

Kiran Mazumdar-Shaw: Yes, we expect it to be at the 6% to 7% range.

Nimesh Mehta: Okay, one last question and that is on the cash flow statement. It is heartening to see that the first half cash from operating activities are actually higher than the full year cash for FY07. What could be the reason? Is there any conscious strategy of reducing working capital, or any such thing, anything that you can throw light on?

Chinappa: Actually last year with the growth in sales and the setting up of Biocon Park, there was a huge buildup in both the inventory and debtors, which absorbed about Rs 128 Crores of working capital.

Nimesh Mehta: I'm sorry, I couldn't hear you properly. You said there was a pileup of inventory because of what?

Chinappa: There was an increase in inventory subsequent to us capitalizing Biocon Park. We scaled up all our operations, which led to an increase in inventory and also an increase in debtors. This year, we have been able to maintain working capital at similar levels to the previous year. This has released more cash from operations.

Nimesh Mehta: I see, so it was more because last year was more abnormal in terms of higher inventory and working capital. It is getting evened out.

Chinappa: That's right.

Nimesh Mehta: Okay, can you finally give the effective tax rate guidance? It has been very low this, what could be the tax rate guidance?

Kiran Mazumdar-Shaw: I think it would still be at same levels, because as you know we have also put a lot of our business under our SEZ status, as well as an EOU status that we still enjoy on quite a large part of our business.

Chinappa: Most of the growth is coming from businesses which are subject to nil tax.

Nimesh Mehta: Okay, so it will be what, at about 2%, something like that level right?

Chinappa: Of revenue?

Nimesh Mehta: Sorry, about 5% of PBT.

Chinappa: Yes, our expected rate is within the range of 5 to 7%.

Nimesh Mehta: Okay thanks a lot.

Moderator: Next question comes from Mr. Manoj Garg of Emkay Shares.

Manoj Garg: Yes a very good afternoon to all of you. My first question regarding the European market. What are your plans to enter into European market, because now the biosimilars markets are open in Europe?

Kiran Mazumdar-Shaw: Well, we are in the process of registering our insulin for the European market.

Rakesh Bamzai: See, we have multiple strategies on G-CSF; we have licensed to a company called Abraxis BioScience for Europe. We have pretty significant presence in statin segment and other oral anti-diabetics, through our B-to-B relationships, and on insulin we are aggressively pursuing our registration strategy in EU. And we are setting up a marketing office in London; our focus will be Europe, in next 12 to 24 months time. You will see lot of activity happening around Europe.

Manoj Garg: So would we like to have a statin kind of marketing team over there, or it would be through persons?

Rakesh Bamzai: We are looking at various options of being close to the market, and one of the options is also looking at a marketing setup.

Manoj Garg: Okay, what's your review upon US market, when this biosimilar market would be likely to open in that side?

Kiran Mazumdar-Shaw: We have actually licensed G-CSF again to Abraxis and have licensed insulin to another US company. So both these companies are really developing a good strategy to register these products for the US market. So we are obviously waiting for our partners to really take this forward and although the US has still not announced a clear-cut guideline on biosimilars, we expect this will soon happen.

Manoj Garg: Any timeline, when do you expect this guidelines to be opened?

Kiran Mazumdar-Shaw: Well, our partners tell us it will take about 18 to 24 months.

Manoj Garg: Okay then, thank you.

Moderator: Next question comes from Mr. Nitin Agarwal of SSKI.

Nitin Agarwal: Good afternoon everyone. Couple of questions, one is on immunosuppressants, what is your outlook on entering the regulated markets?

Rakesh Bamzai: See, the patent expiries in different countries range from 2008 and 2009 end. Biocon has filed with partners in few markets in Europe and America, and as we are talking about, immunosuppressants it is going to be also very big segment for us, because we are present not only in APIs but we also have formulation in India. We are launching formulations in GCC countries, we are looking at South East Asia and we are looking at formulations launches in Latin American countries, so next two to three years, we will see lot of immunosuppressants being marketed by Biocon in different forms in all these countries.

Nitin Agarwal: But for the regulatory markets, charge is going to be, we will be supplying API to our partners.

Rakesh Bamzai: Yes, and we are also looking at having our own file and having our own formulations.

Nitin Agarwal: For all immunosuppressants?

Rakesh Bamzai: Yes.

Nitin Agarwal: Okay, but in terms of the regulated markets revenues, you will see some of it start getting visible from FY09 onwards.

Rakesh Bamzai: Yes, late 2008.

Murali Krishnan: Because the patent is expiring towards the end of 2008, we are likely to see the big number in calendar 2009.

Nitin Agarwal: Okay, the big numbers in FY10, but some part in FY09 is what we are talking about.

Murali Krishnan: Yes.

Nitin Agarwal: On our T1h, what is the status with clinical trials on the arthritis monoclonal antibody?

Harish: They are in phase 2 trial is going to start very soon, may be next week I think.

Nitin Agarwal: This is the phase 1 trial?

Kiran Mazumdar-Shaw: No phase 2.

Nitin Agarwal: What's the status of the phase 1 trials for India?

Harish: The phase one trials have been completed and this data which we have collected from various studies have been submitted for phase 2 approval, which we have got from the DCGI. We will commence phase 2 trials next week.

Nitin Agarwal: And these are going to be India specific trials, or are you going to be taking a look at some other geographies also?

Harish: Well, at the moment, India.

Nitin Agarwal: And, you talked about a 12 month kind of a timeline for oral insulin for any possible out licensing, is there any kind of timeline that you have in mind for the T1h?

Kiran Mazumdar-Shaw: I think you can look at a similar kind of timeline for licensing even of T1h.

Nitin Agarwal: Okay, Murali Krishnan on the licensing income, we booked about Rs 32 Crores of licensing income this quarter?

Murali Krishnan: This quarter it was about Rs 15 Crores.

Nitin Agarwal: Okay, so about Rs 15 Crores in this quarter. The depreciation has kind of shot up a bit in this quarter, what would be your sustainable kind of a number for the depreciation?

Murali Krishnan: Yes, more or less at current levels.

Nitin Agarwal: Rs 25 Crores per quarter.

Murali Krishnan: Yes, until Syngene's new facility, costing about 275 crores comes up.

Nitin Agarwal: Okay fine, thanks very much.

Moderator: Next question comes from Mr. Bhavin Shah of Dolat Capital.

Bhavin Shah: Good afternoon, everybody, sir, my question pertains more to our Syngene and Clinigene investments, what will be our growth outlook forward, given the kind of CAPEX that we are incurring, both in custom manufacturing and clinical research, thank you.

Kiran Mazumdar-Shaw: Well, I think the growth outlook is really good, you can see that we have shown good growth this half and I think going forward also, we believe that we can sustain growth levels at this level largely because of the fact that we are focusing a lot on a CRAMS business model as well as the BMS business model, and Clinigene also is beginning to get some large contracts for clinical trials, so going forward we believe our research services business will certainly have a good growth potential.

Bhavin Shah: Right ma'am and then this also comes along with addition in our staff here to 1000 by FY08, which was previously mentioned, right?

Kiran Mazumdar-Shaw: Yes.

Bhavin Shah: Is it possible by your end to share if there are any new projects which has been bagged by both of them or any other events that have happened recently?

Kiran Mazumdar-Shaw: Syngene and Clinigene generally don't share client details, but we do share details when we have large deals like BMS. So, we have shared that information and we continuously get new contracts, but as soon as they are of the size of BMS, we will be very happy to share it.

Bhavin Shah: Okay ma'am, so are we saying that the growth trajectory and the real momentum would come in from FY09?

Kiran Mazumdar-Shaw: Yes.

Bhavin Shah: Alright, thank you so much.

Moderator: Next question comes from Mr. Prashant Nair of Citigroup.

Prashant Nair: Yes, hi, my question is, can you give us a breakup of your revenues currency wise, what would your rupee revenues be, dollar and other currency?

Murali Krishnan: The USD : Rupees ratio is approximately 60:40.

Kiran Mazumdar-Shaw: Little over 60% are dollar denominated revenues and the rest are rupee denominated.

Prashant Nair: Okay, so all your exports are...

Kiran Mazumdar-Shaw: Largely dollar, there is some Euro, but largely I would say 85% to 90% of our revenues are in dollars.

Prashant Nair: Alright and this includes Biopharma as well as the research business services.

Kiran Mazumdar-Shaw: Yes.

Prashant Nair: Okay and the next question relates to your various businesses, out of the total capital employed that you have currently, how much would you have invested in the research services business so far?

Kiran Mazumdar-Shaw: Yes, between Rs 100 - 150 Crores is what we have invested in our research services businesses.

Prashant Nair: Cumulative, so far.

Kiran Mazumdar-Shaw: Cumulative, yes.

Prashant Nair: Okay, thanks.

Moderator: Next question comes from Dr. Prit Pal of JP Morgan.

Kiran Mazumdar-Shaw: Hello.

Moderator: There is no response ma'am. Next question comes from Mr. Binu of Thomas Weisel.

Bino Pakhiparampil: Hi, just couple of questions here, first one regarding the bio generic insulin, I think you just gave a guidance of about 12 to 24 months in entering the European market, so what do you think the market scenario would be, by that time, how many players do you expect with the generic insulin by that time, what kind of a mark down do you think would be there on the branded product?

Kiran Mazumdar-Shaw: We don't expect there to be too many players, I think there are at the moment maybe two different potential players for this segment and we expect these to remain when the market for biosimilar insulin does open in Europe. We believe that we are well positioned to take advantage of this market when it opens up.

Bino Pakhiparampil: Okay, for the other bio generic which were recently approved, I think there was a 25% mark down on the branded product, will it be kind of same for the insulin as well?

Kiran Mazumdar-Shaw: Yes, certainly there will be a discount for insulin as well.

Bino Pakhiparampil: Okay, but you can't put any percentage at this stage?

Kiran Mazumdar-Shaw: Not at this stage, we will see what the market scenario is like and then decide.

Bino Pakhiparampil: Right, my second question is regarding the oral insulin, I know there are at least 4, 5 companies across Europe and US, which are into different alternate delivery methods of insulin like oral or nasal etc, but several of them have hit road blocks post phase 2 or they are kind of getting prolonged beyond the expected time lines. Is there any difference between many of them and your product by which you can be more confident about it going through its end points?

Kiran Mazumdar-Shaw: Well, one of the major concerns today from the regulatory point of view is of course safety concerns and if you look at a large number of the non-injectable insulins that are being developed, most of them are using a sort of inhaled route and they are using a lot of other injectable routes, which need to have a lot of safety data. The advantage of having an oral delivery system is because a large number of these safety issues that are lung related disappear, so we believe that, certainly like any new molecule, you cannot predict exactly what the regulators will demand, but we believe that if the data looks good in the phase 2, phase 3 trials, the kind of concerns that are there for inhaled insulins will not be there for oral insulins.

Bino Pakhiparampil: Okay, and this oral insulin, what type of injectable insulin are you trying?

Kiran Mazumdar-Shaw: It's insulin in a tablet.

Bino Pakhiparampil: No, my question is: what type of injectable insulin are you trying to replace with it, is it very short acting or rapid acting or long acting?

Harish Iyer: This is Harish here; basically we want to see the efficacy of insulin before you get into injectable insulin. Basically when you progress in type 2 diabetes or you start losing the ability to secrete insulin over time and that is why you have to replace or supplement oral anti-diabetic small molecule agents with injectable insulin, but we think that there are areas for positioning an oral insulin that will prevent you from hopefully going on to needles or delay perhaps getting on to needles significantly when we go with oral insulin and there is also additional benefits of giving something orally because you have a liver targeting action which mimics natural physiology and so there is a lot of different options for oral insulin in that sense.

Bino Pakhiparampil: Okay, so if I understand it correctly, broadly you are trying to position it between oral anti-diabetics and injectable insulins?

Harish Iyer: Yes, there are many positions possible for oral insulin, so obviously we will pursue clinical strategies that can address each of these positions and certainly a very good position is between oral anti-diabetic failure and getting on to injectable insulin. It can also be thought of as supplementing basal insulins for example, so you reduce the number of injections you get. So, there are many different positions and we will probably do clinical studies in different positions and that's why this is such an exciting job.

Bino Pakhiparampil: Okay, thanks. Just one more quick question regarding the recent focus on the CRAMS business, especially there were some news reports related to some arrangement with bigger pharmaceutical companies, I am not just talking about those two news flows, but in general what is your strategy, would you be looking at just providing CRAMS services and building plans for that or would you be also thinking of taking up a stake in some of those molecules on which you do research?

Arun Chandavarkar: I think it will be more of the first kind, you said, but of course we can't rule out any other possibilities at this point.

Kiran Mazumdar-Shaw: Well, as you know, we have the Syngene model, which we'll definitely look at the regular CRAM model and in Biocon's case; we may look at the second model that you talked about.

Bino Pakhiparampil: Okay, thank you very much.

Moderator: Next question comes from Cheenu Gupta of ING Mutual Funds.

Cheenu Gupta: Hello.

Kiran Mazumdar-Shaw: Yes.

Cheenu Gupta: Yes, ma'am congratulations on your good numbers.

Kiran Mazumdar-Shaw: Thank you.

Cheenu Gupta: I had a doubt regarding the FOREX figure, there was a kind of figure of Rs 1 crores mentioned, was it a gain or loss and where was it booked exactly?

Murali Krishnan: It was a loss.

Cheenu Gupta: It's a loss of Rs 1 crores.

Murali Krishnan: Yes, about 1 crores for this six months period.

Cheenu Gupta: Okay, it has been booked under?

Murali Krishnan: Other expenses.

Cheenu Gupta: Okay and if you just observe the other expenses, sequentially, there has been kind of significant drop, any particular reason for that?

Murali Krishnan: Comparing which figures, could you please tell me?

Cheenu Gupta: The R&D expenses or...

Murali Krishnan: That's gone up. From the fact sheet?

Cheenu Gupta: Yes, because our R&D expenses have gone up significantly, so excluding that if I take the other expenses?

Chinappa: R&D actually comes in many cost classifications. You cannot just take it off of other expenses, it is spread across other costs as well such as staff cost...

Murali Krishnan: The R&D expenses which we said, it is about Rs 32 Crores. It could come partly in the material, partly in the staff cost, partly in manufacturing and other costs. So that way you cannot take out the complete Rs 32 Crores from that Rs 68 Crores and to say that okay the other expenses have come down.

Cheenu Gupta: Okay, if you can, regarding the listing of subsidiaries that you have spoken about, you are talking about listing of Syngene, Clinigene, but any other plans regarding our R&D hiving off separately?

Kiran Mazumdar-Shaw: No.

Cheenu Gupta: Okay and what was the time limit you spoke of regarding Syngene and Clinigene listing?

Kiran Mazumdar-Shaw: There is no time line as such, but we can look at these kinds of opportunities over the next 24 months.

Cheenu Gupta: Okay, that would be it.

Moderator: Next question comes from Sameer Baisiwala of Morgan Stanley.

Sameer Baisiwala: Hi, this is Sameer, good afternoon, everyone. The chairman of Bayer visited Biocon recently, anything that you can share with us as far as the business opportunity is concerned?

Kiran Mazumdar-Shaw: Not really, because this is just early days yet, we are in discussion with them and nothing concrete has emerged at the moment.

Sameer Baisiwala: But was the focus largely on research services or even otherwise?

Kiran Mazumdar-Shaw: On everything.

Sameer Baisiwala: Okay, and the second question is, anything that you can share about insulin and G-CSF in Europe, your discussions with the regulators and what kind of clinical burden have they asked you to go through?

Kiran Mazumdar-Shaw: No, we can't share all that, because that's very confidential information.

Sameer Baisiwala: But, let me say, you have clarity as to what is required to be done or?

Kiran Mazumdar-Shaw: Yes, absolutely.

Sameer Baisiwala: And has your partner started the clinicals?

Kiran Mazumdar-Shaw: Yes, definitely our partners have initiated the process.

Sameer Baisiwala: Okay and when do you expect the regulatory submission to take place?

Kiran Mazumdar-Shaw: We reckon it will be anywhere between 18 to 24 months.

Sameer: I thought that could be the time for the approval, you say that's for submission.

Kiran Mazumdar-Shaw: Yes, that's why, I mean, basically we hope that we can submit within 18 months, but you have to give yourself a window of at least 6 months for that kind of submission.

Sameer Baisiwala: Again, if the clinicals have started and it would take 18 to 24 months for submission, it looks like the clinical burden is...

Kiran Mazumdar-Shaw: No, I never said the clinical trials have started, I said we know exactly what we have to do, but really at this point in time we cannot share much data with you, because we really have to rely on our partners to initiate a lot of things.

Sameer Baisiwala: Okay and the other thing that you mentioned about, you would be looking at inorganic opportunities, just in that context, what kind of gearing are you comfortable to go just in case your target is too big or something?

Kiran Mazumdar-Shaw: I don't think as a policy we would look at opportunities which we can't handle, we will obviously look at things which are within our reach and which we are comfortable with.

Sameer Baisiwala: Okay, and just last question is, we talked about pricing in statins, but anything that we should look forward to as far as volumes are concerned, is there reason to believe that volumes may go out, additional approvals, etc?

Rakesh Bamzai: Yes, on statins I think we have been able to move the volumes slightly up and we are hopeful that the prices will stabilize, the prices are right now stable, we are hopeful that they will move slightly up.

Sameer Baisiwala: Okay and you expect the volumes to remain more or less where they are?

Rakesh Bamzai: Yes.

Sameer Baisiwala: Market expansion has gone through what it was supposed to, or?

Rakesh Bamzai: Yes, we also are building up some strategies around atorvastatin, which is around the corner and if that happens that will be a very good upside for us.

Sameer Baisiwala: This is for the US market?

Rakesh Bamzai: We can't tell you right now, because there are lots of things happening in many markets. I can't disclose because of competitive reasons.

Sameer Baisiwala: I see, okay, that's all from my side, thanks.

Moderator: Next question comes from Ms. Milind Karmarkar of Dalal and Broacha.

Milind Karmarkar: Hello, this is Milind Karmarkar again, I had one question, I wanted to know how would the cash flows be from sale of enzymes business, could you please elaborate on that?

Murali Krishnan: Yes. We in fact answered this last time itself, about Rs 400 Crores has already come in and out of the balance Rs 67 Crores, about Rs 35 Crores will come over the next two years and the balance over the next 8 years.

Milind Karmarkar: Okay, thank you very much.

Moderator: We have a follow-up question from Nitin Agarwal of SSKI.

Nitin Agarwal: Ma'am, on the BIOMAb, is there a possibility that we can look at some kind of manufacturing for regulated markets where some of the other partners have the marketing rights?

Rakesh Bamzai: We have an agreement on that and we are going to as a strategy supply to markets in Europe, Canada and other markets. So as a strategy, first of all I was saying we have an agreement for supplies of material to these markets from our plant. We are right now seeing what is the best way regulatory-wise to make sure that our material goes to these markets, but sure enough we will be supplying to markets in Europe, Canada. We have already started supplying back to our partners in Havana.

Nitin Agarwal: Okay and do you have any time line that you can really look at in terms of when the supplies to regulated markets can possibly resume?

Rakesh Bamzai: I think, if all goes well between 6 to 12 months.

Nitin Agarwal: So, the trials have advanced to those stages where serious commercial supplies can start happening?

Rakesh Bamzai: Yes.

Nitin Agarwal: Okay, that's great, thanks, thank you very much.

Moderator: We have a follow-up question from Ms. Visalakshi of DSP Merrill Lynch.

Visalakshi: Yes, hi, thank you, my question is on insulin, could you give us a sense on, for the first half, how much is insulin as a percentage of overall revenues?

Murali Krishnan: Overall it is in double digit, we can't give a number, but it is more than 10%.

Visalakshi: And what was this last year?

Murali Krishnan: It was a single digit.

Visalakshi: How do you see insulin's contribution to revenues over the next two years?

Kiran Mazumdar-Shaw: I think we are very strong on insulin, especially if we get into these regulated markets, obviously then the insulin becomes a very big opportunity for us. So, till then I would say that it is an important product, but once we get into the US and European markets, obviously it will become a big number.

Visalakshi: Okay, and finally any update on your insulin licensing deal with the US Company?

Kiran Mazumdar-Shaw: No, we can't share the identity of the company, but certainly Rakesh can give you some update.

Rakesh Bamzai: We have had meetings with the partners and also we initiated first meeting with US FDA on our strategy. The things were progressing as per our projections and we are moving pretty fast in the right direction.

Visalakshi: Has the partner filed in the US?

Rakesh Bamzai: Not yet.

Visalakshi: When is that expected?

Rakesh Bamzai: It depends, once we are ready with the information that is required to be put in the files, we will be filing it, but it is going to take time.

Visalakshi: Thank you so much.

Moderator: We have a follow-up question from Mr. H. R. Gala of Quest Investments.

H. R. Gala: Mr. Murali, this is a question for you, you were kind enough to give the revised numbers of revenue including license fee in Biopharma, can you give similar numbers for FY2007 for the full year, whether that Rs 714 Crores, Rs 109 Crores, Rs 136 Crores takes care of it?

Murali Krishnan: Okay, for the full year it was Rs. 741 Crores, Rs 109 Crores and Rs. 136 crores.

H. R. Gala: And Rs 136 Crores?

Murali Krishnan: Rs 136 Crores remains the same.

Moderator: Next question comes from Mr. Nimesh Mehta of Mehta Partners.

Nimesh Mehta: Yes, I missed that point, but you mentioned that insulin sales is more than 10% of the total sales?

Murali Krishnan: Yes, for the insulin, it is not just Insugen.

Nimesh Mehta: Pardon, come again?

Murali Krishnan: Yes, it is not just Insugen; it includes the bulk Insulin crystals, that we sell outside India.

Nimesh Mehta: I see.

Nimesh Mehta: Okay, what could be that sales?

Murali Krishnan: No, unfortunately we are not able to give that number.

Nimesh Mehta: Okay and when you say this 10% of total sales, do you also include the licensing income that you incur or...

Murali Krishnan: No, this is just the product sales.

Nimesh Mehta: Okay, so it is more than about 100 Crores annualized, right? Okay, thanks.

Moderator: We have a follow-up question from Mr. H. R. Gala of Quest Investment.

H. R. Gala: Yes, this is again to disturb Murali Krishnan, this does not add up to Rs 958 Crores, I think Rs 136 Crores should go down, is it not?

Murali Krishnan: Just one second.

H. R. Gala: Yes, FY2007, full year.

Murali Krishnan: It is Rs 986 Crores and not Rs. 958 crores.

Murali Krishnan: . Rs. 741+109+136 = Rs. 986

Murali Krishnan: Yes, the total number was Rs 986 Crores, the last year total revenue (including other Income) was Rs 990 Crores.

H. R. Gala: Okay fine, thank you.

Moderator: Next question comes from Jesal Shah of JP Morgan.

Jesal Shah: Yes, hi, this is Jason, just wanted to get some clarification on this foreign exchange loss of 1 crores, what exactly does it include and exclude, I mean, does it, you would have some kind of operational loss on revenue front and then you would have a corresponding gain on whatever hedges you might have got, if you can give us that breakup, that would be good?

Chinnappa: Hi, Jesal, Chini here. Yes, the FOREX loss as reported from an accounting perspective is the difference between the price realized and the price at which it has been booked on the date of sale. This translated to Rs 1 crores. Then of course we have lost more money because we have sold at a lower rate compared to what we sold in the previous year, but that does not get accounted as a forex loss, that is like a lost opportunity.

Jesal Shah: Yes, so is there any hedging gain that you have got in this quarter?

Chinnappa: All hedging gain, etc has been reflected in the Rs 1 crores net FOREX loss for the half year.

Jesal Shah: Okay and how much would that be for the quarter?

Chinnappa: For the quarter we have actually gained a crores and first quarter we lost Rs 2 crores, so the net impact is Rs 1 crores negative.

Jesal Shah: And because it would be reflected at two places, I presume one would come into sales and the other one would come into maybe a reduction of your other expenditure and to one of the previous speaker's questions, on why is the other expenditure down so much on a YOY basis, could it be partly explained by also the foreign exchange gain that you might have booked in second quarter?

Murali Krishnan: All the gains/ losses are reflected in the manufacturing, staff and other expenses. If it is a gain, it doesn't get booked in sales and if it is a loss, it doesn't get booked under expenditure.

Jesal Shah: Right, and what about the power cost, how much is it for the quarter?

Chinnappa: Roughly, about Rs 19 Crores for the quarter.

Jesal Shah: Okay and in terms of your insulin strategy for European market and you kind of indicated that you are may be leaning more towards standing on your own and marketing on your own, just on the filing front, have you guys got some estimate of how much does it cost to really bring this product into the market?

Rakesh Bamzai: We have an estimate, but we don't what to share because with this is linked our clinical strategy which is key to the success of the product.

Jesal Shah: Sure, but can you give us some ballpark, like is it 5 million, 10 million, 15 million...

Arun Chandavarkar: No, because we are fiercely competitive market and our clinical development strategy is going to determine our success, we would not want to disclose these figures.

Jesal Shah: Sure, okay, in terms of total number of employees can you just give us an idea about how much it is?

Kiran Mazumdar-Shaw: It is 2,700.

Jesal Shah: And how has this increased in the last six months?

Kiran Mazumdar-Shaw: In the last six months we have added almost 450.

Jesal Shah: And this would have been added mainly in which businesses?

Kiran Mazumdar-Shaw: In all our businesses, basically we have added 250 people in Syngene and the rest is across the other departments.

Jesal Shah: Right and you also talked about becoming more a branded kind of a company, so in that context I just wanted to get some idea about your field force strength in India?

Rakesh Bamzai: See, we have in total 350 people spread over in three divisions, which is health care, onco-therapeutic and nephrology, but we are increasing the field force, in next may be six months time, we are building up a strategy to have enhanced reach with cardiologists, so we are going to increase the number of people there.

Jesal Shah: Fine and what is your market share in insulin now?

Rakesh Bamzai: We are moving pretty fast, in some of the markets we have dislodged Lilly, in some of the markets Lilly is ahead of us, so overall we are doing very good. Our growth rates in comparison to our competitors is better, but because they are in the market since last 25 years, it will take us some time to be number one. Overall growth and market share will be around 12% to 15 %.

Jesal Shah: Sorry, is that growth or market share?

Rakesh Bamzai: Market share, but then growth is very high.

Jesal Shah: So, 12% to 15% market share on a nation wide basis?

Rakesh: Yes.

Jesal Shah: Okay, that's good and just one thing, on immunosuppressants, can you just give us some idea about how much does it contribute to sales now?

Rakesh Bamzai: No, we can't give breakup actually.

Jesal Shah: No, you had indicated 20% is immunosuppressants and insulin together.

Murali Krishnan: Insulin and immunosuppressants together we said it was about 15%; we don't give any number separately either insulin or immunosuppressants.

Jesal Shah: Okay and just wanted to make sure that my numbers are correct, I am getting for the second quarter Biopharmaceutical growth of 10% YOY, is that right?

Kiran Mazumdar-Shaw: Biopharmaceuticals is 19%.

Chinappa: Excluding contract business fee, the growth compared to the corresponding quarter is 10%.

Jesal Shah: Right okay, so given this issue, what kind of trend are we looking at?

Rakesh Bamzai: We expect the growth to continue.

Jesal Shah: At the same level or higher, I guess?

Rakesh Bamzai: See, we aim for a higher, but as we know there are lot of things between aiming and actually what happens in the market place. So, at least we will aim at higher growth rates, but we are very confident we will sustain these numbers.

Jesal Shah: Okay, thank you so much.

Rakesh Bamzai: Thank you.

Moderator: Next question comes from *N. Sathyanarayana* of Cholamandalam Securities.

N. Sathyanarayana: Hi, my question is, could you throw some light on the immunosuppressant business, I think I missed your earlier discussion about it, particularly about MMF?

Kiran Mazumdar-Shaw: No, we are not, what do you want to know, because we cannot give you any numbers on that.

N. Sathyanarayana: No, I don't want more numbers, I want to know what kind of growth, is it up to your expectation or when it comes to market leadership, has it achieved the milestone internally, what you set?

Rakesh Bamzai: Yes, Mycophenolate Mofetil if you are interested in, Biocon has the best IP position, okay, because we have a very good IP position supported by our manufacturing capabilities, we will achieve what we want to achieve in Mycophenolate Mofetil.

N. Sathyanarayana: Yes, that is the point I wanted to see that, would you like to give me any number like that, are you number one or number two in the Indian position; basically I am looking at the domestic market?

Rakesh Bamzai: We are by far number one.

N. Sathyanarayana: By far number one, oh yes, thank you very much.

Rakesh Bamzai: Thank you.

Moderator: There are no further questions. Now I hand over the floor to Ms. Kiran Mazumdar-Shaw, Chairman and Managing Director of Biocon for closing comments.

Kiran Mazumdar-Shaw: Thank you very much and please if there are any additional questions please communicate with Murali Krishnan and Chinnappa and Arun Chandavarkar and they will be pleased to give you answers. Thank you.

Moderator: Ladies and gentlemen this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant evening.

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