BIOCON
Q1FY2005 RESULTS CONFERENCE CALL
JULY 14, 2004

Moderator: Good afternoon Ladies and Gentleman. Welcome to the first quarter results conference call of Biocon Limited, hosted by Motilal Oswal Securities. We have with us Ms. Kiran Mazumdar-Shaw, Chairman and Managing Director, Biocon, and other members of the Company's senior management team. I would now like to hand the conference over to Mr. Sanjay Chawla of Motilal Oswal Securities.

Mr. Sanjay Chawla: Good afternoon everybody. We at Motilal Oswal Securities take pleasure in welcoming you all to Biocon's Q1 FY05 post results conference call. We have with us Ms. Kiran Mazumdar-Shaw - Chairman and Managing Director, and her senior management team on this conference call. At this stage, I would like to hand over the floor to Biocon. Over to you Kiran.

Kiran Mazumdar-Shaw: Thank you very much and welcome to you all. Since we have many participants in this conference call, I would like to immediately start the Q&A session. I am pleased to say that Biocon has demonstrated very robust growth in the first quarter. As you all know, the profits have soared to Rs. 48.6 crore, up 112% and our total income is up 65% to Rs. 178 crores. With that, I would like you to start the Q & A session.

Sanjay Chawla: May I request everybody that we restrict ourselves to one question per participant and queue in again, so that it gives an opportunity for everybody to ask their question.

Moderator: Thank you Sir. Ladies and Gentleman, we will now begin the question-and-answer session. If you have a question, please press *1 on your push-button phone and wait your turn.We have our first participant Mr. Abhay Shanbhag of HSBC Securities. Please go ahead, Mr. Shanbhag.

Abhay Shanbhag: Good afternoon Kiran. It is great numbers from your side.

Kiran Mazumdar-Shaw: Thank you.

Abhay Shanbhag: Just a small question. What is the revenue of lovastatin in Europe and US?

Kiran Mazumdar-Shaw: I do not think we can give you selective information but we can share with you the fact that the statin segment alone has contributed very strong numbers. About 50% of total sales have been contributed by the statin segment, which includes pravastatin to the European market post patent expiry and lovastatin and simvastatin have continued to also lend their support to the statin business.

Abhay Shanbhag: Just a follow up of that. I had believed that some regulatory batches for US had happened in the first quarter. Is that true for pravastatin?

Kiran Mazumdar-Shaw: No. That is not true.

Abhay Shanbhag: Okay, fine. Thank you madam.

Moderator: Thank you Mr. Shanbhag. We have our next participant Mr. Raj Mohan who is a private investor. Please go ahead, Mr. Mohan.

Raj Mohan: Good afternoon and congratulations to the Biocon management on delivering a fabulous set of numbers. My first question was in light of the fact that statin usage is getting further intensified with steps like the latest US government guidelines couple of days back trying to bring down cholesterol levels to 70 mg/dl or something. How do you see the demand supply economics in statins working over the next 1-3 years and if you could also give a pricing angle under the perceived demand-supply scenario?

Kiran Mazumdar-Shaw: Well, I believe you have very correctly identified the major opportunity that exists for Biocon. First and foremost in terms of regulatory compliance, Biocon is the only company in India, in fact it is the only non-European company to be US FDA qualified for all the statins except, ofcourse, atorvastatin, which is yet to go off patent. So, we are the only company qualified by US FDA for lovastatin, simvastatin, and pravastatin and we see these kinds of announcements being made by the regulatory authorities or by various medical authorities to be a great boost for this segment. We see that Biocon is uniquely placed to really boost its sales in statins going forward.

Raj Mohan: Okay, but do you see any further compliance as in further clearances through US FDA coming into play and increasing the supply side of the market?

Kiran Mazumdar-Shaw: Well, we certainly know that the regulatory barriers are quite huge. So for other companies to come up to par, with what Biocon is able to do, will take some time. We do believe that whilst there will be others who will come in over time, in the immediate future we do not see too much competition.

Raj Mohan: Okay, one more question. With things like combination therapy, OTC sales, authorized generics etc, and the company's own admission of trying to enter into agreements with innovator companies, actually how close is Biocon into getting into an agreement with an innovator company? And also, are there any other API manufacturers who currently have a supply agreement with innovator companies in statins?

Kiran Mazumdar-Shaw: We are not aware of any other API companies having a supply arrangement with innovator companies, but from our point of view, you will hear this as soon as we are able to announce it.

Raj Mohan: Okay, thanks and all the best.

Moderator: Thank you Mr. Raj Mohan. We have our next participant Mr. Surjit Pal of Emkay Shares and Stockbrokers. Please go ahead, Mr. Pal.

Mr. Surjit Pal: One thing that you said earlier, that by the first half of this year the company is expecting to launch the human insulin in domestic market. What is the latest status on it and what is your latest status on the venture in the US and European markets in human insulin?

Kiran Mazumdar-Shaw: Well, we are still confident of launching it in the first half. We are only awaiting final nods , , from agencies such as GEAC , , to be able to launch in the Indian market. As far as our entry into the generic insulin market in the US and Europe, I am very pleased to share with you that as recently as last week, the US FDA has actually made an announcement that they are willing to consider the application request under 505b2 for human insulin which means that Biocon is really well poised to take advantage of this opportunity. So, we can see a generic insulin in the US market produced with Biocon's insulin in the next two or three years.

Surjit Pal: Thank you.

Moderator: Thank you Mr. Pal. We have our next participant Mr. Rahul Sharma of Karvy Stock Broking. Please go ahead, Mr. Sharma.

Rahul Sharma: Congratulations on a good set of numbers. I just wanted to ask, despite our strong revenue growth, our margins are lower, and even though pravastatin is being launched in Europe, margins are lower than the last quarter, that is Q4FY04. What can you attribute this to? Basically, other expenses have gone up, what else makes it so high? Can you please throw some light on it?

Kiran Mazumdar-Shaw: Yes, I will ask Mr. Chinnappa to answer this question.

Chinnappa M.B.: Hi Rahul. Are you comparing with Q1FY04 or Q4 FY04

Rahul Sharma: Q4FY04.

Chinnappa M.B.: Okay. During the last quarter, that is the quarter January 2004 to March 2004, when the rupee moved from 45.6 to 43.5, we had an exchange gain of Rs. 42 million and the same contract has now reversed position and it is a loss of Rs. 50 million in the current quarter.

In the current quarter. Rs. 50 million has been classified as other expense and the gain in Q4 of the previous year has got reclassified as a negative to the expenses. That caused about a 6% shift in margin, because one is you have a gain in the previous quarter and you have an expense in the current quarter.

Rahul Sharma: Do you have any inventory build up of statins for launch in the European markets

Murali Krishnan.: No, typically, there is not much of inventory that is held for launch as such. Because we are very short of capacity today, we do not stock anything.

Rahul Sharma: And Sir a last question. What does CAPEX and investments of close to 3.7 billion rupees classify?

Murali Krishnan: That is really the IPO funds, which is invested in liquid funds.

Rahul Sharma: Okay, thank you.

Moderator: Thank you Mr. Sharma. Our next participant is Mr. Rajesh Vora of ICICI Securities. Please go ahead Mr. Vora.

Rajesh Vora: Hi Kiran and the team, the results are excellent. Just one question on the product pipeline as such. In your Press Release, Kiran, you have mentioned, that you have a sequential flow of new fermentation-based products going forward. Keeping that in light and your current dominant contribution from statins, if you can throw some light on the expected. You said that you expect competition but not very soon. Can throw some light on the pricing environment that exists today and as we go forward into next 12-18 months, how will that change and are there any significant new product launches other than statins or other biopharmaceuticals that are around the corner in the next 12-15 months?

Kiran Mazumdar-Shaw: Well, the first comment I would like to make is contrary to the apprehension expressed by some of the analysts about commoditization of statins, you can see ,that our first quarter numbers do not support this view. We continue to see statins as being a very strong growth driver for us in this year and going forward. Competition is going to build up but we see this competition at least a few years away especially in the US market. Basically, Biocon is building a competitive edge through its US FDA regulatory compliance and ofcourse by building global scale capacity because I think that is something which is very important for us which will really keep us in a leadership position.

In terms of the sequential flow of products, we have a very good portfolio of immunosuppressants, which are going to follow the statin and thereafter, ofcourse, insulin and a few more biological products are also on the way. What is also very important from our product pipeline is the fact that we are also going to be conducting clinical trials with our first antibody for head and neck cancers in the next few weeks and this is a very exciting phase for us going forward. In the next four or five years, Biocon will clearly emerge as a proprietary products company.

Rajesh Vora: Thank you so much and all the best.

Moderator: Thank you Mr. Vora. Our next participant is Mr. Nikunj Doshi of Kotak Securities. Please go ahead Mr. Doshi.

Nikunj Doshi: I just wanted to understand, Kiran, about this insulin 505b2. Will we be required to do any clinical trials for that .

Kiran Mazumdar-Shaw: Yes, we may have to do very similar kinds of clinical trials as what we have done for our product in India. That is, we will need to do a Phase 3 clinical trial to establish similarity.

Nikunj Doshi: Okay.

Kiran Mazumdar-Shaw: We have already done that in India, so I do not believe that it will be a difficult exercise to do in the US.

Nikunj Doshi: But that data would be valid in US also or you will carry out clinical trials again.

Kiran Mazumdar-Shaw: Well, we will have to discuss it with the US FDA.

Nikunj Doshi: Okay, but if you prove that it is equivalent, then you will be able to launch it immediately .

Kiran Mazumdar-Shaw: It is too early tell . USFDA has only recently made this announcement. We will be talking to them very soon.

Moderator: Thank you Mr. Doshi. Our next participant is Ms. Monica Joshi of Quantum Securities. Please go ahead, Ms. Joshi.

Monica Joshi: Could you please tell me about what patents you have filed for in this quarter?

Kiran Mazumdar-Shaw: I will have to get back to you on details of that, but we have filed a few patents and I can give you some details separately.

Monica Joshi: Okay, thanks a lot.

Moderator: Thank you Ms. Joshi. We have a next participant Mr. Ravi Dharamshi from Rare Enterprises. Please go ahead, Mr. Dharamshi.

Ravi Dharamshi: My question is regarding pravastatin. Can we know like what kind of a market share you have been able to grab and the markets that have gone off patent in Europe?

Kiran Mazumdar-Shaw: It is too early to tell in terms of market share. I do believe that we have a significant share of the market. The first market that has taken advantage of patent expiration is Germany and that is where we have seen some significant growth in quantities going to that market but then there are other markets in Europe which are already in the same set of patent expiry kind of phase and we will be able to give you little more constructive data probably going forward.

Ravi Dharamshi: Okay, which are the markets in which we have already launched and which are the markets, which are about to go off patent?

Kiran Mazumdar-Shaw: Well it is basically Germany and Scandinavia really that have gone off patent and then followed by UK, France, and a few other countries.

Ravi Dharamshi: Okay, thank you.

Moderator: Thank you Mr. Dharamshi. Our next participant is Ms. Shahina Mukadam of HDFC Securities. Please go ahead with the question madam.

Shahina Mukadam: I have a question on your tie up with the Cuban Institute. This is regarding your five products. Could you throw some light on what sort of investments you plan to make in research and considering the fact that as of now the investments on research are not as high compared to maybe the other leading companies. What sort of investments do you see in research going forward and what potential do you see from this specific joint venture?

Kiran Mazumdar-Shaw: Well, we are very focused on now getting a pipeline of proprietary products underway and the products that we have expanded and taken into the portfolio are two more antibodies, one is an anti-CD3 antibody, which is really an immunosuppressant antibody focused at the transplant market and we have a second one which is an anti-CD6 antibody which has indications in rheumatoid arthritis, psoriasis, and T-cell lymphoma. In addition to that, we have also identified three cancer vaccines against EGF, EGF alpha, and HER 1 and these are all important targets from our oncotherapy point of view and we believe that these are very, very important products going forward. The kinds of investment that are envisaged are very manageable given Biocon's present profitability.

Shahina Mukadam: Do we have similar vaccines in the market globally?

Kiran Mazumdar-Shaw: Cancer vaccines have not yet been commercialized anywhere in the world. This will be the first time that cancer vaccines will be clinically evaluated as a therapeutic.

Shahina Mukadam: And the amount of time it takes to commercialize a cancer vaccine would be similar to what it would be for chemical products?

Kiran Mazumdar-Shaw: No, because you need to look at other means of the clinical evaluation, the program for biologicals is quite different. But yes as a new molecule you will need to establish safety and efficacy. So, if you are looking at a new molecule, yes it will take the same kind of time but in the case of vaccines and antibodies because of their specificity, the timelines are a little shorter.

Shahina Mukadam: And the last question is on your generic pipeline. Could you throw some light on your non-statin, non-biogeneric-type of pipeline to generic market?

Kiran Mazumdar-Shaw: After statins we basically have immunosuppressants. That is the key product segment that we have in the nonbiological space. But apart from insulin in the biological space, we also have GCSF and streptokinase as the next two products.

Shahina Mukadam: Thank you madam.

Moderator: Thank you Ms. Shahina. Our next question comes from Mr. Pawar Nahar of SSKI Securities. Please go ahead Mr. Nahar.

Pawar Nahar: Okay madam, you were talking about your MAB, monoclonal antibody, going into Phase II B Clinical trials. I mean the HR3**.**

Kiran Mazumdar-Shaw: Yes.

Pawar Nahar: You are talking about it being in Phase II clinical trial in Canada.

Kiran Mazumdar-Shaw: Yes.

Pawar Nahar: Phase IIB in India, right?

Kiran Mazumdar-Shaw: Yes.

Pawar Nahar: Now my first question is how many patients are you trying this on in Canada?

Kiran Mazumdar-Shaw: In Canada, it was tried on about 28 patients.

Pawar Nahar: 28 patients. Okay and it is already over, the Phase II study?

Kiran Mazumdar-Shaw: Yes

Kiran Mazumdar-Shaw: That was Phase II. That is just for proof of concept kind of study where you validate the molecule.

Pawar Nahar: And I am sure you are very encouraged by the response

Kiran Mazumdar-Shaw: Yes the results have been very encouraging.

Pawar Nahar: Okay fine, basically now what I want to understand is what is the next step for this molecule?

Kiran Mazumdar-Shaw: Well, we are going to be conducting Phase IIB trial with the forearm trial on 120 patients. And if the data is as we expect it to be, then there is a chance of getting a fast track approval for this product and then they will ask us to do a post marketing surveillance as a Phase III. So that is the real possibility of this product.

Pawar Nahar: Yes sure that sounds encouraging. These 120 patients, would this be in India?

Kiran Mazumdar-Shaw: Yes.

Pawar Nahar: Okay and you are hoping that this data would get accepted.

Kiran Mazumdar-Shaw: Yes.

Pawar Nahar: Is that a real possibility?

Kiran Mazumdar-Shaw: We are first going to launch it in India. And then we will explore and examine the global opportunities because we first need to demonstrate efficacy in India and then it really opens up a very large potential depending on how the product is accepted and approved in India.

Pawar Nahar: This sounds interesting, you probably will be the first Indian company to launch a molecule.

Kiran Mazumdar-Shaw: An antibody, yes.

Pawar Nahar: An antibody and also a new drug.

Kiran Mazumdar-Shaw: Correct.

Pawar Nahar: But then, when did you start developing this?

Kiran Mazumdar-Shaw: About a year ago. But remember the initial work had already been done by Cuban partners. We had the opportunity of taking this forward together now.

Pawar Nahar: Because what I understand of Cuba is they are very good, the similar, I mean if I cannot use the equivalent term developing molecules that are similar, the generic kind of stuff.

Kiran Mazumdar-Shaw: There are also other products that Cuba does which we have been fortunate to identify.

Pawar Nahar: You pay some kind of royalties

Kiran Mazumdar-Shaw: No this is a joint venture so they bring the technology and the product to the table and we do the development and the production and marketing. 51:49 joint venture.

Pawar Nahar: How much would you have spent on the clinical trials till now, not significant right?

Kiran Mazumdar-Shaw: No, it is just about to start so basically the clinical trials activity will go on for another nine months in the first instance.

Pawar Nahar: Okay, then my next question is you said that Insulin, the 505b2 route is what you probably would like to pursue at a later date, when will there be more clarity

Kiran Mazumdar-Shaw: No right now the clarity already seems to have come from US FDA.

Pawar Nahar: Oh great.

Kiran Mazumdar-Shaw: We will be starting this kind of dialogue immediately.

Pawar Nahar: Okay, now what I want to understand is that on the other side you have a relation with Bristol-Myers.

Kiran Mazumdar-Shaw: That is non-exclusive supply arrangement for bulk insulin.

Pawar Nahar: Sure. But at one end you are saying that you want to make a product on your own which probably is a great thing and on the second side, you are saying that you want to be supplying the insulin to this party there.

Kiran Mazumdar-Shaw: Yes but even on our own we will not be doing it entirely on our own. We have to part load with Generic or Big Pharma or whoever it is who wants generic insulin.

Pawar Nahar: Okay.

Kiran Mazumdar-Shaw: We do not have the resources with which to market the product .

Pawar Nahar: I am sure you will have a lot of resources now.

Kiran Mazumdar-Shaw: Well we do, but not for the kind of marketing that this product requires in the US and Europe.

Murali Krishnan : Not for the overseas market but enough for the Indian market and we will be doing it on our own.

Pawar Nahar: Okay, now the next question is that Bristol-Myers have this molecule in Phase II for which probably they are looking, this is what I understand, to supply and source some insulin from you. But they have been doing this work for the last five or six years.

Kiran Mazumdar-Shaw: That is not true.

Pawar Nahar: So for how long they have been doing this.

Kiran Mazumdar-Shaw: They have only recently licensed both these technologies.

Pawar Nahar: Okay and in that case they have entered into a sourcing agreement with you.

Kiran Mazumdar-Shaw: Yes.

Pawar Nahar: Okay. Then in your presentation about the quarterly numbers, you have indicated that the sequential growth and I remember at the IPO Meet, you had indicated that you watch our performance on a quarterly basis. So are you hoping that there is going to be an improvement in the quarter after?

Kiran Mazumdar-Shaw: No, I did not say that. I said you should please examine us on a 12-month basis. I have clearly said that our business is cyclical, it is dependent very much on regulatory approvals, on patent expirations, so you will see an uneven kind of performance over the year. I did not say "please, watch us on a sequential basis".

Pawar Nahar: I am sorry, because here I see a Q1 and Q4 sequential comparisons.

Kiran Mazumdar-Shaw: I categorically made a statement that please do not judge us like IT companies.

Pawar Nahar: Okay. Finally how much you hope to spend this year in terms of capex.

Kiran Mazumdar-Shaw: Rs. 650 crore over the next 12 months. Really it is over two fiscal years.

Pawar Nahar: And how much of this would be the MAB facility?

Kiran Mazumdar-Shaw: About Rs. 100 crores.

Pawar Nahar: Can you please give some break up - Rs. 650 crore seems to be huge…

Kiran Mazumdar-Shaw: We have already given it in the prospectus if you see.

Murali Krishnan.: It is about Rs. 400 + crores in the fermentation.

Kiran Mazumdar-Shaw: That is for statins facility..

Murali Krishnan: Statins and few other products. Then about Rs. 85 crores for the Biological products ,.

Pawar Nahar: Okay.

Murali Krishnan.: And immunosuppressants about 25 crores. Syngene facility - new facility about 35 crores .

Pawar Nahar: Okay.

Murali Krishnan: And the other capex is basically for Research, Quality and Balancing Equipment..

Pawar Nahar: Fine thanks and all the best.

Moderator: Thank you Mr. Nahar. Our next question comes from Mr. Arvind Joshi of ValueQuest. Please go ahead, Mr. Doshi.

Arvind Joshi: I had a question on the early indications. Though I know it is early to say on the volume expansion versus the price erosion in pravastatin and the time span that you have been able to study it. Do you see a similar expansion that you saw in the other two statins?

Kiran Mazumdar-Shaw: Well let me put it this way. There is absolutely no price erosion in pravastatin at this stage and if I may say so, lovastatin is a three-year-old product and there is price firming and not price erosion. They have neither seen the kind of price erosion that people are talking about, even in Simvastatin. So as far as we are concerned, the statin business is very, very stable.

Arvind Joshi: And what about the volume expansion?

Kiran Mazumdar-Shaw: Volume expansion is going to be quite massive once many of these markets open up. And Simvastatin is yet to be a big opportunity in the US, which is really the biggest market. And ofcourse we have severe capacity constraints at the moment. So until our new facilities come up, we are totally sold out.

Arvind Joshi: Okay, fine.

Moderator: Thank you Mr. Joshi. We have a next participant Mr. Keswinder Singh Suri from Span Capital Services. Please go ahead with your question.

Keswinder Singh Suri: This question pertains to your domestic branded portfolio. I know it is bit too early to ask, but how much has it been contributing to your top line and bottom line?

Kiran Mazumdar-Shaw: It is too early. Because it is just a month old.

Keswinder Singh Suri: Yes but how has the response been with regards to the prescriptions from doctors?

Kiran Mazumdar-Shaw: Very positive, doctors have been very, very willing to prescribe our statin product called Statix and few of the antidiabetic products. We are really waiting for our insulin launch to go all aggressive on this particular front.

Keswinder Singh Suri: So that will be in the third quarter, we should expect that?

Kiran Mazumdar-Shaw: Yes.

Keswinder Singh Suri: Okay, thank you very much.

Moderator: Thank you Mr. Suri for your question. We have a next participant Mr. Raj Mohan, a private investor. Please go ahead Mr. Mohan.

Raj Mohan: I want to understand how does the company view combination therapy drugs like Vitron. How does the company see the patent expiration of Zocor and the launch of Vitron this year to affect API sales dynamics for simvastatin.

Kiran Mazumdar-Shaw: Basically it is a boost to statins and what generally tends to happen is HMOs prefers a statin in terms of what it does in lipid lowering. We have seen lovastatin grow into a very, very strong product segment in the HMOs space and this is likely to also happen in the Zocor space once it goes off patent. Simvastatin is also going to be another huge opportunity for this kind of prescription. The new products, we will certainly try and get a big market share, but we do not believe that this will really upset the generic opportunity that there is in the statins business.

Raj Mohan: Okay, one last question. Have you received, in this quarter, any milestone payment from BMS?

Kiran Mazumdar-Shaw: There were no milestone payments. Basically this is a straight deal, it is a supply agreement where we have received the sign up fee for this year and we will continue to receive the capacity reservation fees going forward until they launch commercially.

Raj Mohan: Okay, thank you.

Moderator: Thank you Mr. Raj Mohan. We have a next participant Mr. Suryanarayan of Capital Market. Please go ahead Mr. Suryanarayan.

Suryanarayan: I have some queries regarding the statin business. You have said the sales of lovastatin from US are increasing, but recently probably 17 cases have filed DMF in US FDA for lovastatin. Do you think the growth for this lovastatin from US will continue …

Kiran Mazumdar-Shaw: Only time will tell how many of these 17 are going to be successful in paving their entry in the market. The entry barriers, which is really the US FDA, and in addition to that please understand that the real opportunity in 2006 is quickly going to convert to simvastatin and as far as we are concerned, Biocon has a head start in this phase. It is very difficult for present customers to switch over to new people unless there is a real justification.

Suryanarayan: Okay, one more question ma'am. This Simvastatin is going off patent during 2006. You are also having more than 50% market share in European market, so do you think this would be an added advantage for Biocon to grab market share in US?

Kiran Mazumdar-Shaw: Of course it is natural that when we have a head start in one of the statins, it is automatically a head start product and we are the only US FDA approved facility in India for all the statins. So, we clearly have a head start over others.

Suryanarayan: May I ask what volume of business you expect from simvastatin and the US market?

Kiran Mazumdar-Shaw: It is very difficult but we will try and aim for a significant market share.

Moderator: Thank you Mr. Suryanarayan. We have our next participant Mr. S. Jayraj of Cholamandalam Securities. Please go ahead, Mr. Jayaraj.

S. Jayaraj: Good afternoon everybody. I have couple of questions. First, I wanted to know what was the expenditure on R&D this quarter?

Kiran Mazumdar-Shaw: We would rather give this figure at the end of the year.

S. Jayaraj: Okay, any tentative numbers in terms of percentage.

Kiran Mazumdar-Shaw: It will be between 12-15% of our revenue for the entire year.

S. Jayaraj: And second, I wanted to know, the effective tax rate this quarter is about 6.5%, whereas if we look at FY04 tax rate, it was about 14%. Does that lead to a lower tax rate this quarter and is it sustainable going forward?

Murali Krishnan: It is likely to be sustainable. What happened last year was, we had one EOU commissioned in the middle of the year.

S. Jayaraj: Okay.

Murali Krishnan: That is why gradually it came down during the year. In the third quarter it was around 17% and for the full year it averaged 15%. Going forward, it is likely to be in single digit, because even the new facilities are being set up as a 100% EOUs.

S. Jayaraj: Fine, madam can we at least have the break up of statin sales in terms of exports market and the domestic market?

Kiran Mazumdar-Shaw: Yes that is mostly export. Statin is hardly much of domestic market.

S. Jayaraj: So, do I take 95% export and 5% domestic.

Murali Krishnan: Yes.

S. Jayaraj: Yes and my final question is, how many DMF's and CoA's have been filed this quarter?

Kiran Mazumdar-Shaw: Can I get back to you on this?

S. Jayaraj: Oh sure.

Moderator: Thank you Mr. Jayaraj. We have a next participant Mr. Ashwin Agarwal of Akash Ganga Investment. Mr. Agarwal, please go ahead.

Ashwin Agarwal: Kiran, can you talk of the insulin opportunities for the non-regulated markets, which could kick-start probably this year.

Kiran Mazumdar-Shaw: We are sort of obviously progressing this opportunity very, very strongly and I will only be able to really give you some clear data maybe in the third quarter. It is a long registration process and it is not that simple.

Ashwin Agarwal: Which would be country you would start in the first phase?

Kiran Mazumdar-Shaw: We are looking at various opportunities in Asia and in the Middle East and Latin America.

Ashwin Agarwal: Okay and lastly at the IPO Meet, you had talked about a non-infringing process patent on atorvastatin. Have you made any progress or have you tied with an alliance partner?

Kiran Mazumdar-Shaw: Yes we have tied up with couple of them and we would be able to share this with you going forward.

Ashwin Agarwal: Does that in anyway include Ranbaxy?

Kiran Mazumdar-Shaw: No.

Ashwin Agarwal: Thanks a lot.

Moderator: Thank you Mr. Agarwal. We have a next participant Mr. Dipen Mehta of Dipen Mehta Shares and Stockbrokers. Please go ahead, Mr. Mehta.

Dipen Mehta: I wanted to know the geographical distribution of exports. How much in US, Europe, elsewhere?

Kiran Mazumdar-Shaw: You can see that most of our exports are almost divided between Europe and US for the time being.

Dipen Mehta: So that is 50% US and 50% Europe?

Kiran Mazumdar-Shaw: Roughly, but basically we really would not like to share this too much.

Dipen Mehta: Okay thank you.

Moderator: Thank you Mr. Mehta. We have a next participant Mr. Nikunj Doshi of Kotak Securities. Please go ahead Mr. Doshi.

Nikunj Doshi: Just one follow-up question. During this quarter, if we see sales over last year this first quarter, the sales have gone up by almost 70%, but debtors have also increased substantially in this quarter. Is there any particular reason for increasing debtors base .

Murali Krishnan: Debtors base have not increased substantially. In fact it has been the same and going forward it is likely to decrease, because of more exports.

Nikunj Doshi: Okay, thanks.

Moderator: Thank you very much. We have a next participant Mr. Sameer Narayan of Enam securities. Please go ahead Mr. Narayan.

Sameer Narayan: I understand the sequential growth in terms of revenue, if we see Q1 2005 over 2004; domestic revenues have grown from Rs. 38 crore to Rs. 61 crore. The exports have been more or less the same, you know 106 and 113. So what has contributed to this entire geography revenue growth?

Kiran Mazumdar-Shaw: Basically if you look at the domestic growth in the last year, it is not evenly spread over the year, so you are likely to see a fluctuation in this and this

really reflects. If you look at it on an average basis this is not such a dramatic growth in that sense.

Sameer Narayan: Okay because even in the biopharma segment, the other component has probably registered the same amount of value growth that is Rs. 26 crore to Rs. 44 crore. So, I just want to understand the composition of it.

Murali Krishnan: In the biopharma segment – (fermentation based products), we are faced with capacity constraints.

Sameer Narayan: I am talking about the other segment.

Murali Krishnan: The segments that are growing faster are the ones, where we do not require basic fermentation.

Sameer Narayan: Okay.

Murali Krishnan: So once we have the new fermentation facilities up and running, you will see very significant growth in the fermented production.

Sameer Narayan: Okay. The other question was regarding the secured loan. Any particular reason why we had to take that to the extent of almost 25 odd crores in the current quarter March ending.

Murali Krishnan: What we have taken is purely for working capital finance. And it is all ,dollar denominated. , The dollar-denominated loans are at a much lower cost than the returns generated by the IPO funds, invested in liquid funds, which have been reserved for capex payments.

Sameer Narayan: Lastly I just had a suggestion that although the information given out is really good in terms of helping our analysis, it would be great if you could give us segmental margins.

Kiran Mazumdar-Shaw: That is not possible. There are too many people eyeing our model.

Moderator: Thank you Mr. Narayan. We have the next participant Mr. Giridhar Iyengar of ABN Amro Equities. Please go ahead Mr. Giridhar Iyengar.

Giridhar Iyengar: Just a couple of things. One is your R&D expenses as a percentage to sales in fiscal '04 was 2.69%. You spent Rs. 143 million in revenue R&D. I want to know for fiscal '05, you mentioned 10-12%. Do you mean from 2.69% you are going to 10%?

Kiran Mazumdar-Shaw: No, you have not quite looked at the figures the way we do it.

Murali Krishnan: Biocon's R&D Expenditure is about 5% of Biocon's revenue, if you take it in terms of both the revenue and the capital expenditure on R&D.

Giridhar Iyengar: Okay. I was looking at the revenue R&D of Rs. 143 million.

Chinnappa M.B.: That is only Biocon's.

Giridhar Iyengar: Okay, so how much do you expect that to go up?

Murali Krishnan: It is expected to be at 5% levels.

Giridhar Iyengar: Okay, 5% including the capital expenditure.

Murali Krishnan: Yes. This 5% is only in Biocon and at group level is it will be in the range of 10% - 12%

Giridhar Iyengar: Okay, overall including everything.

Murali Krishnan: Including Syngene and Clinigene

Giridhar Iyengar: Okay fine that is one thing. Secondly, I was just looking at your statin sales in the fourth quarter and the first quarter. There seems to be an increase of just Rs. 8 crores in statin sales compared to the fourth and the first quarter. And given that you have launched pravastatin, is there is any degrowth in simvastatin or something.

Murali Krishnan: We have answered this question. Our problem today is the shortfall in manufacturing capacity. We have orders but are not able manufacture enough to meet the full demand till the new facilities are up and running.

Giridhar Iyengar: Okay, thanks.

Moderator: Thank you Mr. Giridhar. We have a next participant Mr. Suhas Naik of ING. Please go ahead Mr. Naik.

Suhas Naik: Could you comment on potential competition from China in simvastatin.

Kiran Mazumdar-Shaw: Again the real market opportunity is the US and we have not seen any competition even in lovastatin from China as yet, so US FDA is certainly a big entry barrier for Chinese manufacturers. In Europe we have seen Chinese competition but we have been able to sustain our levels of sales in the European markets and price and in fact, what we are really looking at it to increase our capacity with which to really increase our market share in both these markets.

Suhas Naik: According to some information, Chinese are putting up very large-scale capacity in Simva.

Kiran Mazumdar-Shaw: We are also setting up very large capacities.

Suhas Naik: Would it put pressure on the pricing?

Kiran Mazumdar-Shaw: No, I do not believe so. Because as I said, the biggest hurdle in the statin segments are regulatory hurdles. And the Chinese are a few years away.

Suhas Naik: Okay. Thank you.

Moderator: Thank you Mr. Naik. We have the next participant Mr. Ashwin Agarwal of Akash Ganga Investments. Please go ahead Mr. Agarwal.

Ashwin Agarwal: Kiran, you said that for both Simva as well as Prava opportunities for 2006 we could assume, immediately after exclusivity that is for prava somewhere in April and for Simva in June 2006, our alliance partners would launch the products? That means we are supplying to the first to file players also?

Kiran Mazumdar-Shaw: We are supplying to most of the key generics players. Your guess is as good as mine.

Ashwin Agarwal: Okay, thanks.

Moderator: Thank you Mr. Agarwal. We have the next participant Mr. Abhay Shanbhag of HSBC.

Abhay Shanbhag: A couple of questions. Number one is, we had a loss on forex of about Rs. 5.1 crores for the quarter. So what is the policy going forward? Have you taken a lot of forex cover for future exports?

Murali Krishnan: Yes, basically we have a forex policy to hedge up to about $20 million, which is basically the gap between our imports and exports. Now the Rs. 5 crore loss that has arisen is not purely because of the forex difference. Half of that comes from restating the numbers at the end of each quarter. As per the Accounting Standards, in March we restated the numbers at 43-44 levels per USD but in June we had to restate whatever debtors outstanding or whatever the liabilities outstanding at around 46 levels per USD. The actual losses are about 2 odd crores, that has happened because of movement in the forex rates.

Abhay Shanbhag: Okay. I am just trying to understand whether there could be some type of similar losses going forward into second and third quarter?

Murali Krishnan: Probably Yes, It all depends on the movement of the USD.

Abhay Shanbhag: Okay. The other question was on insulin exports. Once we start sales in India market, do we see insulin exports pick up in a big way say by the end of the current fiscal year?

Kiran Mazumdar-Shaw: Well, we are making all efforts to see how we can enter into the sort of unregulated markets and it will all depend on how soon the regulatory approvals from those markets come through. You could see some growth taking place towards the end of the year.

Abhay Shanbhag: Yes. Another point is on capacities. All the statin expansion was expected to be commercialized by the end of the current calendar in India and emerging markets, so from last quarter we could see some exports from the new facility.

Kiran Mazumdar-Shaw: It would be Q1 of the next financial year.

Abhay Shanbhag: Yes. Okay, the other thing was on Biocon Biopharmaceuticals. You talked about a lot of new products getting launched.

Kiran Mazumdar-Shaw: Not launched. We are starting work on them.

Abhay Shanbhag: Yes sorry. Do we see a couple of products getting launched by say, 2007, at least two products could be on market?

Kiran Mazumdar-Shaw: Yes, definitely.

Abhay Shanbhag: Okay, and you would be the manufacturing arm plus marketing vehicle for a couple of countries.

Kiran Mazumdar-Shaw: Yes. We have worldwide rights to quite a few of the products.

Abhay Shanbhag: Okay, and the last question was on pravastatin. Do we see a significant ramp up now with prava going off patent in more markets in Europe.

Kiran Mazumdar-Shaw: And again, only when the new facility comes up can we address these opportunities.

Abhay Shanbhag: Okay and so in Europe basically the approvals are much faster so once the capacity comes on stream by December '04 say by mid of '05 or late '05, should we see Europe really pick up in a big way for prava?

Kiran Mazumdar-Shaw: Yes.

Abhay Shanbhag: Okay. Thank you ma'am.

Moderator: Thank you Mr. Shanbhag. We have the next participant, Mr. Shashikant of Templeton Asset Management. Please go ahead Mr. Shashikant.

Mr. Shashikant: I wanted a breakup of your raw material cost, what percentage of that is imported and domestic?

Murali Krishnan: Unfortunately we are not able to share that information.

Mr. Shashikant: Okay, and on your insulin, you did say that there are some capacity-based revenues or incomes that you get. Would you want to quantify that?

Kiran Mazumdar-Shaw: No, unfortunately we are not allowed to quantify that because for confidentiality reasons we have entered into with BMS themselves.

Mr. Shashikant: Okay, thank you.

Moderator: Thank you Mr. Shashikant. We have the next participant Mr. Surya Narayan of Capital Market. Please go ahead Mr. Surya Narayan.

Surya Narayan: I have a question about Syngene and Clinigene. In this current quarter compared to previous quarter the contract research fees has increased by 17%, so does that indicate the Clinigene and Syngene have got some new contracts?

Murali Krishnan: Syngene definitely yes. Clinigene has just started and during the course of this year you will see some more contracts coming in.

Surya Narayan: Okay, during the last quarter have you got any new contracts or what?

Kiran Mazumdar-Shaw: Yes, we have. About six or seven new companies .

Murali Krishnan: One thing is new companies and the second thing is the existing companies themselves, they increase the number of projects or FTEs.

Surya Narayan: Okay, thank you.

Moderator: Thank you Mr. Surya Narayan. We have a next participant, Mr. Ajay Sharma of CLSA. Please go ahead Mr. Sharma.

Ajay Sharma: Good afternoon Kiran. Excellent quarter. Just one small question. When omeprazole went off patent in US, we saw some therapeutic substitution and other proton pump inhibitors took a hit. Do you see a therapeutic substitution happening in Europe in statins that is simvastatin probably replacing some of the lova, atorva, and so on?

Kiran Mazumdar-Shaw: Since you always choose to compare statins to the other kinds of molecules, it is very difficult to convince you that we are not in the same space.

Ajay Sharma: No, but any therapeutic substitution happening in Europe at the market level in statins?

Kiran Mazumdar-Shaw: No, I do not believe so.

Ajay Sharma: Okay, thanks.

Moderator: Thank you Mr. Sharma. We have the next participant Mr. Ravi Dharamshi of Rare Enterprises. Please go ahead Mr. Dharamshi.

Ravi Dharamshi: In volume terms in simvastatin have we gained or lost market share in Europe?

Kiran Mazumdar-Shaw: We have sustained market shares since, as I mentioned, we do not have enough capacity to meet demand, and as soon as our new capacities kicks in, we will increase market share.

Ravi Dharamshi: So, this essentially means that the market has not grown.

Kiran Mazumdar-Shaw: Well, the market in Europe has probably grown but we have not been able to partake in that growth in a big way.

Murali Krishnan: Because now pravastatin has gone off patent, and we would like to get into that space now.

Ravi Dharamshi: Sorry, I did not get you.

Kiran Mazumdar-Shaw: No, we have looked at Europe. You see, first and foremost, very recently we have been able to look at the pravastatin opportunity, right? So, we have had to address ,this emerging opportunity. We have not been able to grow our simvastatin business as a result of that.

Ravi Dharamshi: Okay, thank you.

Moderator: Thank you Mr. Dharamshi. Our next question comes from Mr. Ashish Kacholia of Lucky Securities. Please go ahead Mr. Kacholia.

Ashish Kacholia: I had a question on your CIMAB molecules. One of the molecules you mentioned was undergoing trials in Canada with about 25 patients. Will the next phase of that molecule continue in Canada?

Kiran Mazumdar-Shaw: We are actually going to do a Phase IIB study in India and based on which we will look at doing a Phase III or may be they can even accept the Phase II B trial study from India itself.

Ashish Kacholia: So what is the logic for shifting the Phase II study to India, is it cost or is it some other reason?

Kiran Mazumdar-Shaw: There is a cost implication certainly, because once you move in from Phase II to Phase III there is a huge cost implication. Certainly India provides a much better option to do Phase II B studies and faster recruitment of such cancer patients.

Ashish Kacholia: Okay, and I also see that you have mentioned that the facility for this mammalian cell culture products will be commissioned by next year, so does this imply that these products will be getting into the market at the same time .

Kiran Mazumdar-Shaw: That is what we are planning. We are hoping that our regulatory approval might coincide with the time that we are able to really commission the plant.

Ashish Kacholia: Okay, so this product will get first launched into India and on that basis the capacity is coming up next year?

Kiran Mazumdar-Shaw: Yes.

Ashish Kacholia: And to a layperson this seems like a very, very fast entry of a product into the market given that these trials are supposed to last for 8-10 years. So is this a different regulatory mechanism for these kinds of products?

Kiran Mazumdar-Shaw: Generally for cancer products there is a fast track approval route and more so in the antibody space, even faster. That is why the time duration, generally which will be about 8-10 years, can be as low as 3 to 5 years and that is what we are banking on.

Ashish Kacholia: Okay. And are some of these monoclonal antibodies already there in the market?

Kiran Mazumdar-Shaw: Well, obviously each monoclonal antibody is very, very novel. But recently Erbitux, which is a product very similar to our HR3 and has been approved in Europe and has recently been approved in the US market.

Ashish Kacholia: Okay, so this is in the same category of products?

Kiran Mazumdar-Shaw: Yes, this is in that kind of category and here I would say that we believe we have a slightly superior product because it is humanized whereas the Erbitux is a chimeric version, which is half mouse, half man.

Ashish Kacholia: Thank you very much ma'am.

Moderator: Thank you Mr. Kacholia. We have our next participant, Mr. Rahul Sharma of Karvy Stock Broking. Please go ahead Mr. Sharma.

Rahul Sharma: Just some clarification on expansion of statins commencing in first quarter '05, calendar year '05. Does that mean that we will be selling on the expanded capacity from the last quarter of '05 or it will be in the next year FY'06 first quarter.

Kiran Mazumdar-Shaw: Benefits of the capacity expansion will really be reflected in the first quarter of '05-'06, but we will see some effects in the last quarter of this fiscal year.

Rahul Sharma: If I was to quantify, would it be around 20-30%, which I could probably incorporate with my model.

Kiran Mazumdar-Shaw: No, I do not want you to incorporate anything for this year.

Rahul Sharma: And another thing was tax rates on consolidated basis are 7%. I could not get it properly, is it sustainable at around 7% for the full year on a consolidated basis

Murali Krishnan: Yes, it is possible because even the new facilities that we are putting up are all coming through the 10B route which is 100% EOU. Therefore tax rate should be in single digits.

Moderator: Thank you, Mr. Sharma. We have a next participant, Mr. Giridhar Iyengar of ABN Amro Equities. Please go ahead Mr. Giridhar Iyengar.

Giridhar Iyengar: Just some clarification on the R&D investment. On page 38 you have given the break up between Biocon, Syngene, Clinigene in terms of capex and revenue and then again when I look at your Annual Report in Indian GAAP consolidated where you have mentioned only a Rs. 14 crore charge on a consolidated basis. I was getting confused as to what exactly is the actual revenue R&D that has been incurred in fiscal '04, whether it is Rs. 14 crore or it is Rs. 38 crore which is taking into account the breakup that you have given in page 38 of your Annual Report.

Murali Krishnan.: Yes. Rs. 14 crore is Biocon's revenue expenditure. The balance is the Capex Spend and the amount spent on Syngene & Clinigene. Syngene and Clinigene is pure R&D and when you add up all those numbers, it comes to about 10%.

Giridhar Iyengar: Okay, fine, thanks.

Moderator: Thank you Mr. Giridhar for your questions. Ladies and Gentlemen, for any further questions you are requested to press *1.

Sanjay Chawla: I have a question for Kiran. 10 mg simvastatin has gone OTC in UK. Could you tell us what is the emerging trend in terms of demand and the pricing after the product has gone OTC?

Kiran Mazumdar-Shaw: Right now it has not made a severe impact on this particular market segment but we need to watch this space and see how it shapes up. In fact, it could be a huge opportunity for us.

Sanjay Chawla: Have you tied up with any of the OTC companies in the UK?

Kiran Mazumdar-Shaw: I do not think we would like to disclose that kind of information as yet.

Sanjay Chawla: Okay, and one question on the Ratiopharm. They had launched this product on 1st July and that is before the patent expiry in the German market. Is that actually impacting the supplies from the other generic players?

Kiran Mazumdar-Shaw: I did not quite get your question.

Sanjay Chawla: Ratiopharm has started selling pravastatin in the German market prior to the patent expiry based on the authorized generic kind of thing.

Kiran Mazumdar-Shaw: Okay.

Sanjay Chawla: Now is that impacting the market share of the other generic players in the German market?

Kiran Mazumdar-Shaw: Not that we can perceive.

Sanjay Chawla: Okay, thank you. Priyanka if you have no more questions, we can close the call.

Moderator: We have no further questions in the queue Sir. You may please proceed.

Sanjay Chawla: I would like to thank Kiran and her team for taking time out to make a detailed presentation and talking on all queries. We wish you all the best for the coming quarters. I would also like to thank all the participants for being on the call. Thank you.

Kiran Mazumdar-Shaw: Thank you.

Murali Krishnan: Thank you everybody.

Moderator: Ladies and Gentlemen, this concludes the conference for today. We thank you for your participation and for using Tata Indicom Conferencing Services. You may please disconnect your lines now. Thank you.