Q1 FY06 Results conference call

July 21, 2005

Shiv Muttoo: Good Afternoon everyone and thank you for joining us on Biocon's Q1 FY06 results conference call. Joining us from Bangalore are Mrs. Kiran Mazumdar-Shaw, Biocon's chairman and managing director, and her colleagues on the senior management team. Before we begin, I would like to state that some of the statements made in this discussion maybe forward looking in nature based on the managements current expectations and may involve risks and uncertainties. A detailed statement in this regarded is available in the results announcement release which has been e-mailed to you and which is also posted on Biocon's corporate website. I now invite Mrs. Kiran Mazumdar-Shaw to provide a brief overview of the Company's performance for the quarter. Thank you.

Kiran Mazumdar-Shaw: Thank you Shiv, and thank you all for attending this conference call. I am very pleased to present my comments on Biocon's first quarter performance. I would like to start by saying that we are very satisfied with this performance and it is completely in line with expectations. You have seen us announcing a flat sales, our top line performance, and this is certainly on account of very large capacity constraint, and in terms of EBITDA we have seen margins slide from the previous year's first quarter to this year's first quarter, but we have maintained the EBITDA margins of 30% that we have seen in the last quarter. So at an operational level I think we have had a pretty flat performance, but I think this can really be attributed to many factors, largely on account of capacity constraints, and price erosion that we have seen in the European market. There has also been an impact of extra tax charge and a higher depreciation as compared with the first quarter of the last fiscal.

In addition to this I would like to also make a comment that quarter one of the last fiscal had much higher price realization in terms of the statins business in Europe because it coincided with the time when pravastatin went off patent, and that of course allowed us to enjoy very high prices at that time, which have eroded, as reflected in subsequent quarters. Having said that, we are of course very positive about the future quarters.

We have always recognized that this is a transition year for us where we are building global scale into our businesses and we are actually building a very strong springboard from which we can actually deliver very long term growth opportunities for the Company. In addition to that we are also very strategically building a very strong innovation base. This has always been the ultimate goal of Biocon. We have entered into biopharmaceuticals with a clear cut strategy of approaching proprietary drug molecule development through a generic strategy, and I think this has worked out very well for us. It allowed us to fund the kind of innovation pathways that we are pursuing. I think all our discovery programs are making a lot of good progress. We also have a very exciting pipeline of proprietary products. Our research pipeline is exciting and extensive and this is something that we are very proud of. We have developed a research pipeline which

has a huge potential and is also a de-risked model where we have got into many of these programs in terms after evaluating clinical data. Foremost in these development programs are two very important products for us. One is the monoclonal antibody Biomab which is well into clinical development and we expect that the clinical trials that we are currently conducting on head and neck cancers will be completed in the near future and we are actually hoping that we can submit an application for market approval with the Indian regulatory authorities by the end of this year, and we hope that we get marketing approval sometimes early next year, which means that we should be able to get into the Indian market, if not by the end of quarter four then at least by the beginning of quarter one next fiscal. This is going to be a very important product for us. Antibody therapy for cancer is now becoming a very important therapy area all over the world. India is no exception, but the only issue in India is affordability and we believe that Biocon as a company will be addressing the affordability factor and thereby have a very strong position in the market place.

Additionally, the oral insulin program is also making good progress. This is of course a blockbuster opportunity for Biocon since it is a global opportunity. Biocon is driving this program and we are at the moment in the process of conducting preclinical development in the animal model, both in the US and in India to really evaluate safety, efficacy and of course a proof of concept at the animal model level. Data generated so far is extremely encouraging and we expect to file an investigational new drug application with US FDA, European regulatory authorities and the Indian regulatory authority by the end of this year, which means that we should be able to start conducting human clinical trials early next year.

In addition to that I think our immunosuppressant and insulin product pipeline is also very important for us going forward. Insulin is beginning to become a very important product segment for us. We see a lot of promise in this particular segment. We have introduced Insugen and insulin into several markets outside India. In India itself it is making good steady progress and it is garnering good market share. In terms of other market opportunities, it is under registration in about 20 countries around the world, including Latin America, Middle East, Asia and South East Asia and these are expected to translate into very interesting opportunities in the future.

Additionally the announcement by EMEA to indicate that they are at last very comfortable about an abbreviated pathway for biologics is also very encouraging news for us. When we look at the guidelines announced for products like insulin we believe that we are in a strong position to meet these guideline requirements and we hope to be able to address these market opportunities in the near future. We are already partnering with a few European companies who are interested in marketing insulin and all this just makes it a lot more acceptable. So I would say that we are extremely confident and very positive on the outlook for the remaining part of the year.

As I mentioned this quarter has taken the brunt of capacity constraints, the sort of price erosions that we have had to encounter and having talked about the price erosion, I would also like to state here that despite the very aggressive competition that we have

had from China and other parts of the world, we have managed not only to retain our market share but even increase our market share in Europe albeit at a lower price level. So this actually gives you an idea about the way we are warding off competition. We are very strong in this respect because of our technological capabilities, and since as I said this is a quarter that has taken the brunt of all these negative impacts on our business, we see the future as being very positive, the future quarters can only be better.

I would like to make one last final comment that our research services business has been extremely aggressive and I think we have seen some very good performance in this particular area. The growth that we have seen in this sector is about 35% and given the kind of investments we have made and the kind of new contracts that we are garnering both in terms of existing and new clients, this looks like a very robust business that we will be able to support.

And with that I would like to now throw open this conference to a Q&A session, and before I do that I would just like to inform you that besides me and Mr. John Shaw we have with us members of the senior management team represented by the Head of Technology and Operation Dr.Arun Chandavarkar, Mr.Shrikumar Suryanarayan, who heads R&D, Mr. Ajay Bhardwaj who heads marketing, Mr. Murali Krishnan and Mr.M.B.Chinappa who are President and Vice President of Finance and Dr. A.S. Arvind, who heads Clinigene.

Moderator: Thank you very much Madam. First in line, we have Mr. Lalit Nambiar from SBI Capital Markets.

Lalit Nambiar: Good Afternoon. Could you elaborate on the pitfalls and opportunities relating to insulin in EU and the market size and time lines for your interest there?

Ajay Bhardwaj: The opportunity is very large. Europe is about the same size as the market in US for insulin type of opportunity and we are working with a number of leading companies who want to take the lead in getting approvals of bio-similar products. We have already been inspected by one of the European country's regulators and have got quite a good report on that, so we feel we are making good progress slowly and steadily It will be hard for me to tell what exactly the timeline would be, but I expect that within a year we should have some product going into European countries.

Lalit Nambiar: Thank you.

Moderator: Next in line we have Mr. S. Ranganathan from LKP Shares and Stockbrokers

S.Ranganathan: Good Afternoon. My question is, if we have really addressed the capacity constraints that were faced till now and whether this issue is settled now?

Kiran Mazumdar-Shaw: Well, as you know, we have made a huge investment in setting up a very large facility or as a new green field project and this particular facility is ready for commissioning. We have had some delays on account of certain basic amenities being made available to us from the local state government, but it seems to have been addressed now. We have had our electricity connected this morning and we hope that the main issue which is the water pipelines would also be connected in the next few weeks, which means that we can start operating these facilities this quarter. But having said that, the main opportunity obviously is for the US market, which will open up by the middle of next year, for that we are well in line with this particular facility and that actually gives us a very strong position in terms of addressing these market opportunities. I think if we had commissioned this plant few months ago, it would have reflected in our performance.

S.Ranganathan: Thank you.

Moderator:. Next in line we have Mr. Jinesh Gandhi from Motilal Oswal.

Jinesh Gandhi: Good Afternoon. My question is pertaining to insulin for European market. Is there any regulatory guideline in terms of clinical trials to be conducted before the launch?

Kiran Mazumdar-Shaw: Well, as per the guidelines, what they have stated is that we do have to have the clinical data that is comparative in nature, where you are comparing your insulin with the innovator's insulin, and I am very pleased to inform you that Biocon has done this already.

Jinesh Gandhi: Would it be a full-fledged clinical trial?

Kiran Mazumdar-Shaw: We don't need to do a full-fledged clinical trial. This is the trial data that you need to show to the European authorities that you have actually compared your product with the innovator's product.

Jinesh Gandhi: So, does Biocon have that data?

Kiran Mazumdar-Shaw: Yes. We have the required data.

Jinesh Gandhi: Okay. Thank you.

Moderator: Next in line we have Mr. Gaurav from Techo Shares and Stocks Ltd.

Gaurav: Good Afternoon. I would like to know the current status of capacities in China, and what is the situation in India?

Kiran Mazumdar-Shaw: Well, to begin with I don't think capacities in China are really going to be able to address the market opportunities in the US, but more importantly I think what is important for us to say here is that, despite the Chinese capacities and pricing, we have actually been able to increase our market share in Europe, which means that we are very cost competitive. The Chinese have actually managed to bring down prices, but they have not been able to make much inroads into our market.

Gaurav: Are we lagging behind China in terms of quality?

Kiran Mazumdar-Shaw: No China has always been catching up with India.

Gaurav: Thank you.

Moderator: Mr. Ravichandran from Unifi Wealth Management

Ravichandran. Good Afternoon. Can you just give us some idea about the status of Simvastatin in US, you know, how many producers are likely to be, and whether you expect the same kind of margin erosion, which we had experienced in Europe? And how is the Simvastatin business as a whole growing? Is it really growing or people are moving from Simva to Atorva,

Kiran Mazumdar-Shaw: Okay, I will answer the last part of your question first. As far as the whole Simvastatin market is concerned, first and foremost, price erosion in these kind of market segments as we have seen in Europe will happen after a certain period of time. So, Biocon really has a good opportunity when the patent expiry takes place and we are buffered for a certain amount of time. The only difference between the European rate of erosion and the US rate of erosion is that, because there are no inspections from European authorities, the entry barriers are much lower, whereas in US, US FDA makes it mandatory to be inspected. Perhaps, you will be at least reassured to know that Biocon is one of the very few companies approved by US FDA for Simvastatin, Pravastatin, and Lovastatin. So, from that point of view we are well ahead of competition to enter the US market. After patent expiry takes place it remains to be seen how long it will take for others to come into the market and start eroding price, but as far as we are concerned we have a buffer for at least six to nine months before the price erosion will start taking place.

Ajay Bhardwaj: It is hard to say how many ANDA's will be filed in the future, but one good guideline is only one company has tentative approval and that is Ranbaxy. So, it is quite mystifying that even though so many claims have been made by various companies, there are hardly any ANDA approvals for Simvastatin.

Ravichandran: Would we need to have any specific approval before entering into the market or are we through with all the approvals and the marketing arrangements?

Kiran Mazumdar-Shaw: We are through with all the US FDA approvals.

Ajay Bhardwaj: As for arrangements, we work of course with a number of companies over there now.

Ravichandran: With regards to capacity, you have repeatedly said about the capacity constraint, and suppose assuming that your new capacity is starting production some time in next three to four months, does it mean that your market share in Europe will increase even from the current level in the rest of the current financial year?

Kiran Mazumdar-Shaw: The new capacity is being set up to address the US Markets.

Ravichandran.M: Thank you.

Moderator: Next in line we have Mr. Ravi Agrawal from JP Morgan.

Ravi Agrawal: Good Afternoon. This is regarding our insulin strategy for US. My first question was, the **EMEA** guidelines have actually come out specifically for two products, **EPO** and **GCSF,** or are there any specific guidelines that have come out for insulin as well?

Kiran Mazumdar-Shaw: They have come out specifically for **Insulin**, **HGH**, **GCSF**, and **EPO**.

Ravi Agrawal: My second question was regarding the fact that you were talking about having actually done all your clinical trials for insulin for Europe. Does that mean that now filing will start from say next quarter or so?

Kiran Mazumdar-Shaw: Well, we will try and file as soon as possible.

Ravi Agrawal: Is there any regulatory roadblock as far as filings are concerned, since you are saying you have completed your clinical trials.

Kiran Mazumdar-Shaw: No, there are no regulatory roadblocks, but there are some aspects of the EMEA guidelines that we still need to complete. While most of it is done some further work needs to be done, so we won't be able to file in this quarter, but we certainly expect to file in the very near future.

Ravi Agrawal: Okay. Shall we say FY '06, we should be filing in Europe?

Kiran Mazumdar-Shaw: Yes, certainly.

Ravi Agrawal: And so, can we then expect to launch sometime in next year, or do we also look at year to two years from now.

Kiran Mazumdar-Shaw: We can have the opportunity to introduce our products in the next 12 months.

Ravi Agrawal: And we will be going through our partners only, and we would not be doing it independently?

Kiran Mazumdar-Shaw: Yes, at this stage I think we would rather go through a partner.

Ravi Agrawal: Okay. Thank you very much.

Moderator: Next in line we have Mr. Sanjay Kohli from Karma Capital.

Sanjay Kohli: Good Afternoon. I just wanted to know, which are the drug molecules that are coming off patent as mentioned in the annual report, is Biocon focusing on?

Kiran Mazumdar-Shaw: Which molecules are you talking about- biological or smaller molecules?

Sanjay Kohli: Biological molecules.

Kiran Mazumdar-Shaw: Yes, we have announced that we have already got insulin, GCSF, EPO, streptokinase and many other products.

Sanjay Kohli: Another question, one of the challenges mentioned in your annual report is that genome medicine is leading to smaller patient population and a smaller market size. Could you just elaborate on this and explain this from a lay person's point of view?

Shrikumar Suryanarayan: Yes. I think today what is happening is that this approach of one size fits all or one drug treats everyone is slowly getting diluted because every disease has a very specific profile and diagnostics today are playing a very important role in addressing what therapy is best suited for a certain type of patient.

Now, for instance in the field of oncology, antibodies are now becoming very important as a therapy base. But again you cannot use antibodies to treat all types of cancers. These are very specific for each type of cancer. So before you treat a patient with a certain type of antibody, you have to make sure that the patient is diagnosed to have that particular profile or the genomic profile or the genetic profile, which allows the use of these kinds of antibodies. So this is what is happening in terms of differentiated medicine. For instance, the antibody that we are developing is very specific in targeting what is called as the epidermal growth factor receptor.

Sanjay Kohli: That is the **hR3**.

Shrikumar Suryanarayan : Yes. So, when you look at the product like that and you look at the cancer, the first thing you have to do is to analyze the tumor to make sure that it has a high level of EGFR so that the patient can benefit from this therapy. So, that is what we mean by genomic or differentiated medicine.

But of course this also applies to many other diseases when you start looking at genetic profiles. And, there are several ways of then looking at which drug or what dosage of each drug suits these patients.

Sanjay Kohli: Thank you

Moderator: Next in line we have Ms. Pakhi Jain from Edelweiss Capital

Pakhi Jain: Is there any further investment that is needed in terms of capacity to address the EU biologics opportunity?

Kiran Mazumdar-Shaw: For market entry we may not have to do it, but if the market builds up, we certainly will have to expand the capacity.

Pakhi Jain: Would you have any certain timeline, as to when would you start looking at that?

Kiran Mazumdar-Shaw: It will all depend on, how the market business is doing after we get into the market, but the timelines to expansion are not that enormous, so we can address these kind of things very quickly.

Pakhi Jain: Do you mean to say it is easily scalable?

Kiran Mazumdar-Shaw: Yes, it is easily scalable.

Pakhi Jain: What would be the effective tax rate of Biocon going forward?

Murali Krishnan: It will continue at the rate of about sub 10% level.

Pakhi Jain: Sub 10% for the next two years?

Murali Krishnan: Yes.

Pakhi Jain: Thank you.

Moderator: Next, we have C. Visalakshi from DSP Merrill Lynch.

C. Visalakshi: Good Afternoon. My question is actually on the insulin segment, How much do you expect insulin to contribute, some broad numbers for this year, and how big do you see this business scaling up over the long-term say 3-4 years?

Number two is, specifically on the oral insulin project, is there any particular status that you would like to update us upon and any kind of licensing deals you are looking at?

And third is on this opportunity in the Asian market. How will the registrations build up, how is that market size and how do you see that one translating for Biocon?

Kiran Mazumdar-Shaw: Visa, as you know, we are very excited about our insulin strategy and of course we are very confident that insulin will become an important segment. It will probably overtake statins in the future. So that is how we see the insulin business panning out for us.

In terms of the question on oral insulin, we are in discussion with two pharma majors and we are unable to disclose at this point in time the status of those discussions because it is still too early to talk about it. But basically I think we will decide on when we want to license this molecule depending on the valuations that we can arrive at, during these discussions. If we are not satisfied with the kind of value they are willing to ascribe to this program, at this stage we would rather take it up the value chain and the development chain and then readdress the licensing opportunity. But, if the licensing deal sounds attractive at this stage, we don't mind taking a look at it.

And in terms of registrations in Asia and countries like that, I think there are 10 such registrations going on, and I think in the next 12 months we will start seeing some business realizations out of these registrations.

C. Visalakshi: What would be the market size of these registrations which you are targeting?

Ajay Bhardwaj: The size potentially is enormous, Asia as a population put together is about 60-65% of the world, but what we have to see is what we can realistically get. So the selection of the partner who takes up the product there has to be very critical and that is what we have already done in these 10 countries. So, as Kiran said we are looking at insulin being in some sense the same way like statins have been the main engine for us.

C. Visalakshi: What is the status of the supply arrangement to BMS?

Ajay Bhardwaj: We expect BMS to enter Phase 1.

C. Visalakshi: How much can insulin contribute this year in some broad sense?

Kiran Mazumdar-Shaw: No, we cannot give such product specific information.

C. Visalakshi: Thank you.

Moderator: Next we have Mr. Surya Narayan Patra from Capital Market.

Surya Narayan Patra: Good Afternoon I wanted to know whether the Simvastatin has gone off patent in France?

Kiran Mazumdar-Shaw: Yes, it has gone off patent is France.

Surya Narayan Patra: When has that happened?

Kiran Mazumdar-Shaw: Few months back.

Surya Narayan Patra: Since you have a significant market share in that area, what sort of revenue did you generate during the last quarter?

Kiran Mazumdar-Shaw: We are unable to give you such detailed information. We don't share geographical information.

Surya Narayan Patra: What kind of business expectation is there for Clinigene from its recent tie up with Scirex?

Kiran Mazumdar-Shaw: Basically, the real opportunities will start featuring in next fiscal. But even in this fiscal we expect to see some improved performance from Clinigene as a result of this tie up.

Surya Narayan Patra: How many new clients have come to Syngene business?

Kiran Mazumdar-Shaw: Normally we don't share the numbers. We have added three more clients this quarter.

Surya Narayan Patra: Are they global clients?

Kiran Mazumdar-Shaw: Yes.

Surya Narayan Patra: Thank you

Moderator: Next we have Mr. Sameer Baisiwala from JM Morgan Stanley

Sameer Baisiwala: Good Afternoon. When do you expect to take the validation batches from your new fermentation facility and when would you expect the FDA to go ahead on the same?

Arun Chandavarkar: We expect to take the validation batches later this quarter.

Sameer Baisiwala: And when do you think FDA would be able to approve it?

Arun Chandavarkar: The FDA approval of the facility depends on the ANDA holder triggering it, so I can't give you an exact date, but it will happen well in time for the US market.

Sameer Baisiwala: US market when you say, including the fact if the prava market opens up in April.

Arun Chandavarkar: We already have an existing capacity. So we could use the new facility in the interim for other markets as well and the existing facility continues to the US.

Sameer Baisiwala: The second question is about GCSF for the European market, guidelines have been issued, when do you expect the filing for this product to be submitted?

Ajay Bhardwaj: We are in discussion with partners and we have a lot of the information and the data being generated too and we are happy to share with you that our estimate of what EU might require in terms of regulatory requirement was bang on and we have always designed our data generation right from scratch to be as per the EMEA standard. Whatever we have generated now will give us the lead. So, we can say that we will be far ahead.

Sameer Baisiwala: On this point, can you mention about, it is going to be fairly convenient for the insulin filing, I would guess that all the data collected would have been formed by Indian population for insulin, do you think this would be acceptable to the European authorities?

Arun Chandavarkar: I think the clinical data is acceptable. We may have to do a few additional things like small studies of 18-20 people to demonstrate the bio similarity or bioequivalence, as per the guidance received. But our data having compared it with Novo's insulin, which is the standard in European Union, will support it to a large extent.

Sameer Baisiwala: Are you saying this on the back of your discussion that you have already had with EMEA?

Arun Chandavarkar: No we have not had discussions, but we have had a look at the guidelines.

Sameer Baisiwala: Okay, fair enough. One last question that when we are in September-October next year where do you see the utilization rate and when all the major markets like simva, prava, would have been opened up?

Arun Chandavarkar: Going by Biocon's track records, it should be 100%.

Sameer Baisiwala: Okay. Given the fact that this new facility is four times bigger than the current one, you still think it would be hitting 100% mark.

Arun Chandavarkar: Yes.

Sameer Baisiwala: Thank you

Moderator: Next is a followup question from Mr. Jinesh Gandhi of Motilal Oswal

Jinesh Gandhi: My follow up question is on monoclonal antibodies. I believe we are conducting Phase II-B trials in India, how would it help in registering products with US FDA?

Kiran Mazumdar-Shaw: This product is not being targeted for the US market.

Jinesh Gandhi: Okay, so is it primarily for Indian Market?

Kiran Mazumdar-Shaw: Yes

Jinesh Gandhi: Any plans to take it forward to US markets at a later stage?

Kiran Mazumdar-Shaw: No, we don't have a license for this product for taking it outside the Indian subcontinent, but we have other antibodies that we are developing which will have global market.

Jinesh Gandhi: Is that in association with your Cuban partner?

Kiran Mazumdar-Shaw: Yes with Cuba and also with Vaccinex.

Jinesh Gandhi: Thank you.

Moderator: Next question is from Mr. Madhusudan Bagree of Citigroup Global Markets

Madhusudan Bagree: My question relates to the statins opportunity in the US. I want to know, using your existing facilities have you already partnered to file the ANDAs using that facility with the US FDA?

Kiran Mazumdar-Shaw: Yes,

Madhusudan Bagree: So, to get this right, if you have let us say two partners for pravastatin, or as many partners, they have already used the DMF filing from existing facility to file an ANDA?

Ajay Bhardwaj: As you know our facility was inspected last year, and the inspection was triggered because there were people who had ANDAs filed.

Madhusudan Bagree: And you are saying that when you have your new facility and the batches come out, they will re-file using that facility also?

Ajay Bhardwaj: They just have to show comparability

Madhusudan Bagree: Thank you.

Moderator: Next is a follow up question from Mr. Sanjay Kohli of Karma Capital.

Sanjay Kohli: You mentioned that you are not targeting monoclonal antibody HR-3 for the US market. Would it be fair to assume that if this kind of thing works in India, then it will be very easy for you to introduce it in the US market? And would that happen say in the next three or four years because this is quite a normal kind of platform?

Kiran Mazumdar-Shaw: Yes. But this particular molecule was licensed to us only for the South Asian market and so we can only introduce it into these markets. But we have a global supply license, which means that if someone wants to market it in the US, they can buy from us. We do not have the right to sell this antibody on our own,

Sanjay Kohli: What do you mean, by if someone wants to buy they can buy from you and you cannot sell there.

Kiran Mazumdar-Shaw: It means that the Cuban partner has licensed this particular molecule for marketing to other people for the European and US market, but they do not have manufacturing rights.

Sanjay Kohli: So you are the only people who are going to manufacture this?

Kiran Mazumdar-Shaw: We and the Cuban partner.

Moderator: Next in line we have Mr. Tarun Bhojwani, an individual investor.

Tarun Bhojwani: You mentioned in your press release that you are catering to six out of ten global pharma majors from your Syngene business, could you like to name the six companies?

Kiran Mazumdar-Shaw: We cannot name all of them for confidentiality reasons, but the people we can name are Merck, Novartis, and Astra Zeneca. These are the people who have allowed us to use their names, the others have not allowed us to use their names.

Tarun Bhojwani: What is the length of contract that you enter into generally? To what extent this business will continue?

Kiran Mazumdar-Shaw: It varies. We have had people for five years now, and there are others who have been much longer, there are 10 year old customers, too.

Tarun Bhojwani: What is the average length of your relationship with these top six companies?

Kiran Mazumdar-Shaw: With all these companies we have had more than 5 years relationship and it is growing.

Tarun Bhojwani: So all six are consistently growing?,

Kiran Mazumdar-Shaw: Yes.

Tarun Bhojwani: I generally find a lot of information you share about your developments, the only problem we face is, how to quantify lot of things which you are talking about for future projections? Okay, that is one…. The other is…. I am sure every analyst must be facing….is there any guidance that you can give in terms of who are your comparable companies, who will be in a similar situation and how are they valued. On the valuation side we will find out how they are valued, but if you can just give us comparable companies

Kiran Mazumdar-Shaw: Basically, if you look at the kind of programs we are into, antibodies is one area where every single large biotech company is into for commercialization. So whether it is a Genentec, or Amgen, Centecor, all these biotech companies are into antibody development, and if you look at the kind of licensing deals that are being done by big pharma, they are also mostly around antibodies. So antibodies is a very important space. To give you some idea about the kind of products we are working on today, products like Enbrel and Humeira are all billion dollar products in terms of their market shares.

Tarun Bhojwani: The guidance that Biocon provides is qualitative and hence as an investor, it is very difficult to quantify your future potential.

Kiran Mazumdar-Shaw: Yes If you look at companies which we are benchmarking ourselves against, like Genentec and Amgen, are trading at very large multiples, But the point is there needs to be a good understanding of the research programs and the kind of prospects that these kind of products have.

Ajay Bharadwaj: We understand your dilemma but you know we are pioneering into this work. It is such a new area for everybody including ourselves.

Tarun Bhojwani: I am sure it is harder to even explain to the analyst, right?

Murali Krishnan: Absolutely.

Kiran Mazumdar-Shaw: But one more thing I could tell you is that for instance if you look at the kind of product segments we are in, these are all potentially blockbuster segments that is all we can say to you.

Tarun Bhojwani: And let me understand your confidence about your developments, how confident you are that they will really result?

Kiran Mazumdar-Shaw: Yes we are very confident and would not have been investing so much money in these programs.

Tarun Bhojwani: What is the strike rate achieved in the developments you have been undertaking in the past, what is the strike rate you achieved?

Kiran Mazumdar-Shaw: 100% so far. But the point is we have never taken a new product to the market.

Ajay Bhardwaj: And neither has anybody else and that is why you are also, in dilemma, because no Indian company has succeeded and we believe we will be the first one.

Shrikumar Suryanarayan: If you look at our product portfolio carefully, it is a very de-risked product portfolio. In pharma research, there is something called a new molecule and there is something called a validated target. If you look at the HR-3, the point is that it is now well established that if you could target the epidermal growth factor receptor on a cancer cell, it will cure the cancer. So we are coming up with a molecule against the validated target.

Now, this compared to the fact that-I do not know if I ever hit the EGF receptor, will it work, will it not work? So, that doubt is not there. If you hit the EGF receptor, the molecule will work, but ours will be a better molecule in terms of side effects, so you can see the amount of de-risking that is going on, so that is called a validated target.

In oral insulin, the question is whether insulin is delivered, and if it is available in the blood stream the fact that insulin will work is not in doubt. It is not a new molecule. We are making a modification to the whole delivery mechanism such that the insulin is delivered effectively via a tablet. So, again you can see the de-risking that is happening. Now, layered on top of this is the fact that the oral delivery route for insulin that we have chosen, allows the insulin to come into the body exactly the same way that it is released in the body that is, into the portal vein. No other method of insulin delivery - injection, inhaled insulin, spray insulin, or the patch insulin can match this kind of delivery mechanism. Physiological benefits of doing that are enormous, but we cannot tell you that because nobody has been able to do it before.

Kiran Mazumdar-Shaw: ….So that is what we are betting on also.

Tarun Bhojwani: Okay. One more question, when you are making investment in these developments, what is the benchmark return you are looking at in terms of over the 5 years or 10 years on your investments?

Kiran Mazumdar-Shaw: We are looking for blockbuster returns.

Tarun Bhojwani: Will it be 200% - 300% on each of our investments?

Kiran Mazumdar-Shaw: Return on research investment is anybody's guess, you know, it can be 2000% if we are successful. I mean if oral insulin becomes a reality then you know it is a several billion dollar opportunity.

Tarun Bhojwani: So, what is the message for the investors then, do we keep patience?

Kiran Mazumdar-Shaw: Well, you should believe in us, and be patient and I think you know Biocon has never let down any of its investors.

Tarun Bhojwani: The IPO came almost one and half years back, and really if you see the investors are really concerned whether we are really going to get a return from this Company as of now?

Kiran Mazumdar-Shaw: One needs to wait for a minimum three-year period for any kind of decent return on Biocon's investment. One should not look at quarter on quarter return on your investment.

Tarun Bhojwani: Okay, fine, I take your word. Thank you.

Moderator: Next is a follow up question by Mr. Sanjay Kohli of Karma Capital.

Sanjay Kohli: What is the thinking and your philosophy behind your cost of capital that you would like to maintain, the debt equity ratio, and in times in bull markets like now, how would you balance your debt and equity, and what is your thinking?

Murali Krishnan: We maintain a conservative debt policy. Presently there is hardly any debt in our books, except for an interest free deferred sales tax.

Sanjay Kohli: Would this not be a good time to raise debt With the high degree of confidence internally and the success that you met in the past Biotechnology companies all over the world do not do that, but if you are thinking outside the box kind of situation.…Could you elaborate a little bit more on this?

Murali Krishnan: Our projected cash requirements for our capex projects are already covered by the IPO funds and the internal accruals. At the moment we have about Rs. 100 crores in liquid investments which will be deployed in the ongoing capex programmes. Since we currently do not have any acquisitions plans, we do not propose to raise any debt immediately, just because it is cheaper today.

Sanjay Kohli: So what is your cost of capital right now, in your internal calculation?

Murali Krishnan: It is less than 10%.

Sanjay Kohli: Is that because of the low level of debt.

Murali Krishnan: Debt is factored at about 5%.

Sanjay Kohli: Thanks.

Moderator: I would like to hand over the floor back to Mr. Shiv Muttoo for final remarks.
Shiv Muttoo: On behalf of Biocon's management team, I would like to thank you for your participation.