



Shiv Muttoo: Good afternoon everyone and thank you for joining us on Biocon's Q1 FY07 results conference call. Joining us from Bangalore are Ms. Kiran Mazumdar Shaw, Biocon 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 today's discussions may be forward looking in nature based on the management's current expectations and may involve risks and uncertainties. A detailed statement in this regard is available in the Q1 FY07 results announcement release which has been e-mailed to you and which is also posted on Biocon's corporate web site. I now invite Ms. Kiran Mazumdar Shaw to provide a brief overview of the company's performance for the quarter.

Kiran Mazumdar Shaw: Thank you Shiv and welcome to this conference call.

I would like to now start with this quarter's performance and I would like to state that we, the management of Biocon and its subsidiaries are extremely satisfied with this quarter's performance. I think we have clearly recognized that we have registered a 22% growth in our consolidated sales which is a very, very positive trend. We have maintained the last year's profit level of 39 crores and I think this has to be taken in context with the added expenses that we have seen this quarter which are coming in from the carrying cost of the new facilities at Biocon Park. There is a foreign exchange movement that has also had an adverse impact on this quarter's profitability. It is also important for us to recognize that Q1 2006 had a much higher Statin price level than what we have seen this quarter. Of course having said that I must emphasize that the Statin price levels have been stabilized over the last few quarters. Also, we have seen an increase R&D spend as compared to last year quarter, and I think this is extremely important for the company going forward because we clearly see innovation as a very important growth driver for the future.

Now in terms of other important announcement that I want to share with you is the fact that we have signed an exclusive marketing arrangement with Bayer Healthcare for the China market which will also be extended possibly to other markets in the Asia Pacific region. I think this is a very important announcement for us because it clearly shows that Biocon is really moving towards the higher end of the value chain and in this quarter, sales are also reflected some good contribution made by our healthcare division and although the margins have not been to the extent that we want in the future, we must remember that we have also seen in this quarter some added expenses associated with expanding our marketing teams of both these healthcare initiative as well for our new oncology division. So this has to be seen in that context where Biocon is strategically moving into the finished dosage form and innovation space. We are gaining market share in our Insugen business in India. The Bayer deal and other similar deals in the US and European markets for insulin and other products will really make sure that our presence in the finished dosage at higher end of the value chain, increases.

In terms of innovation we are extremely satisfied with the progress we are making on the entire innovation led program. The first of the block of course is our HR3 antibody. I think this has a very interesting potential both in the near term and long term. Our antibody pipeline is also extremely exciting and has a huge upside potential in terms of T1H antibody and our BVX 10 and BVX 20 antibodies.

Our oral insulin program is making good progress. We have started phase 1 clinical development. The data looks extremely promising and we hope to progress this particular program in a very focused way. Following this, we also have the Oral BNP program, so I believe that as a company with an innovation strategy we have a very rich pipeline of products and what is very important for me to highlight here is the fact that if you look at our clinical development matrix we have products at all stages of development and this makes it a very healthy and robust kind of an innovation strategy.

We have other products in the bio similar space coming into effect like streptokinase and GCSF and also what is important for us to emphasize here is that when you talk about licensing partnerships or marketing arrangements in the insulin space, these are long-term supply arrangements which are far more sustainable than what we had seen in the small molecule API space. It is also very clear to us that we want to move away from being an API supplier to a finished dosage form supplier, especially in the bio generic space and this is already beginning to happen as you can see in the insulin business.

In terms of our outlook for the future I have already shared this with all of you in our press release and that is that we really look at all our businesses, especially the research services business driving growth for the future, and in this context I am pleased that Clinigene is also beginning to deliver and contribute to both top line and bottom line. In fact this quarter you have seen both of our research services business contributing actually to both our top line and bottom line. Syngene continues to do extremely well. Clinigene is now poised for a similar kind of growth that Syngene is stating at this time. So I think we look to the future with a lot of confidence. I think we have some very exciting upsides in our innovation pipeline and of course in our new businesses. I think I will now leave it to the analysts to now start the Q&A. Thank you very much.

Moderator: We will now begin the Q&A interactive session. Participants who wish to ask questions may please press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking questions. To ask a question please press *1 now.

First in line we have Mr. Rahul Sharma from Karvy Stock Broking.

Rahul: Good afternoon to the Biocon team. I just wanted to know what has been the reason for the margin decline compared to that last quarter? Is it due to higher contract research fees which has been primarily responsible for low margins compared to the preceding quarter.

Kiran Mazumdar Shaw: First and foremost if you compare the two sequential quarters, I think one of the main aspects of this quarter is the fact that the research service business did have a decline of about Rs 4 crores between this quarter and last quarter and that as you know has a significant impact on margins. Apart from that, of course we have also seen that this quarter we have the impact of Biocon Park and there is also a foreign exchange movement which has also contributed to this decline.

Murali: The foreign exchange movement last quarter, in the March quarter, we had a gain of about Rs 1.5 crores and this quarter there is a loss of about Rs 1.5 crores, so both put together, there is an impact of about you know Rs 3 crores.

Rahul: How much was the additional expense because of the new facility?

Murali: Our new facility will have fixed costs and power costs of about Rs 4 to 5 crores per month going forward and about Rs 3 crores per month in depreciation.

Rahul: Okay, how much is the power cost in the quarter?

Murali: Power cost in the quarter for the new facility on an average will be about Rs 3 crores per month.

Rahul: And the total power cost is not given, could you give the break up sir.

Murali: Yes, the total power cost is about Rs 10 crores.

Rahul: Okay out of total variable production costs, power is close to Rs 10 crores

Murali: Material and power put together is about 60%.

Rahul: Yes, and another thing when is monoclonal antibody expected to be launched and have you done the detailing work for the same and appointed the requisite sales force?

Kiran Mazumdar Shaw: Yes, the sales force is being created, in fact we have an oncology division that is being headed by Dr. Subhir Basak and we will be launching this product in early September. The detailing of the launch is being worked out.

Rahul: Okay, ma'am how many doctors are we planning to cover in the first phase?.

Rakesh: Continuing with what Kiran said we have got an approval from Drug Control General of India to launch the product in India, which is a major success for us because it is the first of its kind. We have hired 22 people plus we are hiring another 4, so it will be a field force of 30 people totally. There are around 400 oncologists in country and we will cover all of them. In the first phase we expect to cover 200 doctors in all the metros.

Rahul: Okay and sir on Insugen, just wanted some details, how big is the market in China?

Rakesh: China along with India is one of the largest markets for diabetic patients. Insulin is around USD \$100 million total market opportunity and today it is dominated by Novo and Lilly, which has around 35% market share, and with our strategic tie up with Bayer we expect to gain a significant market share once the product is launched in the Chinese market.

Rahul: This 100 million market is for all types of insulin basically long lasting and whatever we are planning to tap in the Chinese market sir.

Rakesh: Yes it is all insulins put together.

Rahul: Okay what type of market share we are looking at in the first year and in the next 2 years sir.

Rakesh: This is market sensitive information and is covered by a confidentiality agreement.

Rahul: Okay sir thank you.

Moderator: Thank you very much sir. Next in line is Mr. Abhay Shanbhag from Deutsche Bank.

Abhay: Good afternoon mad'am, just wanted to check up on the biopharmaceuticals. The new plant has started operations, so you are producing it for the European markets or what is the strategy for the plant.

Kiran Mazumdar Shaw: No right now we are going to cater to our own needs. In future there will be opportunities for us to look at European supplies and supplies to other markets, but for the time being we are focused on our own needs.

Abhay: Okay, will this plant be coming up for approval from the US FDA shortly ma'am?

Kiran Mazumdar Shaw: Well you know right now it has been designed for meeting US FDA standards, but right now we don't envisage such an inspection or approval in the near term.

Abhay: Okay. Once the US market opens up 2-3 months down the line for prava and then simva, you will be supplying it from your old plant.

Kiran Mazumdar Shaw: Sorry. I was under the impression you that you were talking about our monoclonal antibody plant.

Abhay: Sorry, I am talking about the Fermentation Plant for Statins.

Kiran Mazumdar Shaw: Yes. We anticipate inspection of this facility in the very near future.

Abhay: Okay, and right now, I mean the plant is producing it for the European markets,

Kiran Mazumdar Shaw: It will initially produce material for the Non US market.

Arun: In terms of the new facility we have completed updating all our documentation, our drug master files, to include the new facility, many of our clients have taken material from the new facility and are in the process of updating their files as well, and I am quite confident that whenever next the FDA visit would be scheduled, we should be on their radar screen.

Abhay: Okay and we should see exports of prava start off say in next two months, because the exclusivity goes off in September.

Arun: You will see that on our existing facility. You will see that in the 4th quarter of this calendar year.

Abhay: Okay and the last question was on insulins in India, how much of revenues are you doing say on an annualized basis for insulins from India?

Rakesh: Our initial target was to achieve a 10% market share. We have already done that. Now we have set ourselves a bigger milestone to achieve in the next year.

Abhay: So you would be doing about Rs 20 crores plus of revenue from India.

Rakesh: We do not want to disclose the exact numbers.

Abhay: Okay fine thank you sir.

Moderator: Thank you very much sir. Next is Ms. Visalakshi from DSP Merrill Lynch.

Visalakshi: Yes thank you. My question is first of all on Statins. What is the outlook on Zocor pricing post exclusivity given the recent concerns on the formulation side, if you have any thoughts on that, and how many API players do you expect in this space for 6 months post exclusivity.

Kiran Mazumdar Shaw: What are the concerns?.

Vishalakshi: The pricing concerns, that Merck had entered into a deal with some of the managed care.

Rakesh: Right now, the markets, if you see the reports that are published a couple of weeks back, Teva, Ranbaxy and Dr. Reddy's is getting good market share in different strengths, and the API pricing they were talking is about 5% of the innovators price, but going forward once this 6 months exclusivity ends, which is December, we expect the API prices to come down to 2% level. I think Zocor has not behaved same the way other generics have in the US because of exclusivity.

Vishalakshi: So in terms of number of players, how many API players do you expect apart from Biocon.

Rakesh: We anticipate that there will be around 3 producers having regulatory approvals, customers and adequate capacity to supply to the United States.

Vishalakshi: Okay, will Hisun be one of them, do you anticipate that?

Rakesh: We would not like to comment on other players.

Vishalakshi: Okay. The second question is on insulin, on the non-regulated market how many markets are you already supplying to and how many more do you expect to open up over the next 1 year.

Rakesh: See we have a very strategic direction for insulin registration. The process of registration is a long process in all countries and each country has a different way of regulatory approval. We have put in our applications in 22 countries and last month we exported the first consignment. This year we expect to get approval in many more countries.

Arun: Is your question is about formulated or bulk insulin.

Vishalakshi: The bulk insulin.

Rakesh: We are already exporting Bulk Insulin to more than 6 countries.

Vishalakshi: Okay and are you likely to export even the formulation.

Rakesh: I was actually telling you about the registration of formulation.

Vishalakshi: Okay. So all these put together what sort of market size would you be addressing?

Rakesh: The market size would be descent and we are pretty sure that in 20 months time, we will fill our formulation capacity.

Vishalakshi: And just a final question on pricing of this BIOMAb- which we expect a launch by September, what sort of discount would you anticipate for this launch.

Rakesh: See I think it is not proper to let you know the strategy of pricing at this point of time. We are launching the product between September and December and we have a strategy to see that people get advantage of a product manufactured in India.

Vishalakshi: And what do you think is the space in India in terms of market size that can be addressed say over the 2 year timeframe.

Rakesh: See the market potential is Rs 50 crores.

Vishalakshi: Okay.

Moderator: Thank you very much ma'am.

Moderator: That is from Mr. Nimish Mehta of Edelweiss Capital.

Nimish: Yes, hi, good afternoon. My first question is related to the agreement with Bayer, I would like to know who will own the brand.

Rakesh: We have transferred rights of using the brand to Bayer.

Kiran Mazumdar Shaw: It is our brand, the ownership is our but we have licensed it to them.

Nimish : Okay, so in Chinese market Bayer will own the brand, is it like that.

Rakesh: We have licensed it to them, they will use the brand.

Nimish: Okay.

Rakesh: Brand is ours.

Kiran Mazumdar Shaw: Yes the product will be marketed as Insugen.

Nimish: Bayer will be Marketing the product. Will they also be bearing the marketing expenses.

Kiran Mazumdar Shaw: Yes.

Nimish: Okay and agreement with Bayer is in terms of profit sharing or royalty in terms of sales.

Rakesh: See we can't discuss the agreement because you know it is a confidential business agreement. We can tell you that it is going to be a very big upside for all of us and we are very excited about it.

Nimish: It is not just a sale, it is a combination of supply price and royalty

Kiran Mazumdar Shaw: Whether you call it royalty of profit share, it is a profit share at the end of the day.

Nimish: Okay. The next question is related to the marketing cost, can you tell me what could be the outlook of marketing cost for the entire FY2007, in other words the cost related to additional marketing of insulin, and are they fully reflected in this quarter or will it go increasing in the next quarters .

Murali: These costs are mostly reflected in this quarter. Last year we had about 150 employees and since then we have expanded into other states with an addition of about 100 employees. These costs are already reflected in this quarter and also the cost of the Oncology marketing team.

Nimish: Okay, the staff cost has increased I suppose by 20% YOY.

Murali: This is on account of various factors including the Oncology team, increase in scientists at Syngene and a lot of people joining that senior levels. It is not just the cost associated with the field staff.

Nimish: Okay and the marketing cost as in the promotional material and stuff like that will be incurred in the next quarters right.

Murali: Yes that will be an ongoing recurring cost. These costs are higher every time you enter a new market or launch a new product.

Nimish: Correct, okay, finally can you also let me know as to you know the research income from Clinigene and Syngene has reduced on a sequential quarter basis. Does this mean that there is any sort of capacity constraint there

Kiran Mazumdar Shaw: No you will always have these sort of difference from one quarter to another because some of the business is project based and it depends on when a project gets completed. So last quarter what you saw was one large project being completed which was captured that quarter, but if you see in terms of growth, year-on-year we have had spectacular growth and you know we are very well, we are very upbeat about the research services business.

Nimish: Okay, last year it has seen sequential growth for all the four quarters.

Kiran Mazumdar Shaw: But you know it just depends on the project, As I said last quarter we had a very big project to complete and it is so happened that it was completed at the end of that quarter, but it could have also been completed in this quarter for instance and then you might have seen the growth in this quarter, so I would not like to comment on that. The basic business of both the research services is very robust.

Nimish: Okay, finally any outlook on the enzyme business and there is increase off late, I mean I was under the assumption that it will decrease because your focus remains on the innovator.

Rakesh: I would like to say that enzymes business will grow this year because of lot of export contracts and inclusion of some new products. We are also increasing our capacities on the enzyme production because of Biocon Park, so Q3 and Q4 could be very good.

Nimish: You are increasing the capacity.

Kiran Mazumdar Shaw: No we freed up capacity. If you remember last year we were getting constrained with capacity because we were depending only on the present Biocon capacity, and today with Biocon Park coming on stream we were able to free up some of the capacity and use it for the enzymes, so a lot of the enzymes sales that could have taken place last year we were not able to adjust because we had absolutely no extra capacity.

Nimish: Okay and what is this increasing capacity roughly as a percentage of the previous capacity or whatever.

Kiran Mazumdar Shaw: You cannot compare it like that. Because capacities are so multi product-based, it is very difficult to give you increases in percentage term.

Nimish: Okay, finally can you let me know what is the percentage of I mean what are Statin sales as a percentage of total sales.

Muralikrishnan K N: About 40%.

Nimish: 40%.

Muralikrishnan K N: Yes.

Nimish: Okay. Thanks, this answers all my questions. Thank you.

Male speaker: Thank you.

Moderator: Thank you very much sir. Next is Mr. Prashant Nair from Citigroup.

Prashant: Yes hi, I just had a couple of questions. Firstly, if you could just repeat you know what you said on the number of API suppliers in the US, I just could not catch that number at that point in time.

Rakesh: I said we expect three API producers to participate in the US in December and these three I said the criteria is regulatory approval, capacities, and the customers that these API producers will have.

Prashant: Okay, fine. Next question was on your balance sheet, there is an element called intangible asset to the tune of Rs 53 crores now what is this exactly.

Murali : This represents the intellectual property assets we purchased from Nobex,

Prashant: Okay, all right, all right. Thanks. I am done with my questions.

Moderator: Thank you very much sir. Next in line we have Mr. H.R. Gala from Quest Investment.

H.R. Gala: Hi, good afternoon to all the team of Biocon. There was one question that our other expenditure in Q1 FY07 has increased from Rs 12 to Rs 21 crores and partial explanation that we find in the press release is one is R&D and I presume that the foreign exchange related expense is also included in other cost. Is my presumption correct?

Murali: Yes that is right.

H.R. Gala: Okay. Madam also said something about some Rs. 4 crores worth R&D revenue was lost or I did not get it because the line was not clear.

Kiran Mazumdar Shaw: What we clarified was why did research services business decline on the sequential quarter basis.

H.R. Gala: Okay.

Kiran Mazumdar Shaw: So there we said that there was a project that was captured in the last quarter.

H.R. Gala: That was in Q4 FY06.

Kiran Mazumdar Shaw: Yes, Q4 FY06.

H.R. Gala: Yes I appreciate, because that was roughly around Rs 4 crores.

Kiran Mazumdar Shaw: Yes, so there was a very major project we were undertaking which came to a conclusion at the end of last year, it just so happened that the timing was the previous quarter. .

H.R. Gala: Okay.

Kiran Mazumdar Shaw: But we said please don't build that into every quarter.

H.R. Gala: Every quarter, but do we have such significantly large contracts under execution in the current year which might be billed in the subsequent quarters.

Kiran Mazumdar Shaw: Yes.

H.R. Gala: Okay very good. This Rs 53 crores again we could not hear it, is it on account of Nobex.

Murali: Yes that represents the intellectual property assets acquired from Nobex.

H.R. Gala: Okay, so it is like a good will.

Murali: Yes it is like goodwill.

H.R. Gala: Okay. Madam we have always been seeking some sort of guidance from you because since we are I think still not at a stable stage how do we read the full year picture, we don't want the exact numbers but if you can give us some direction it will be helpful to us.

Kiran Mazumdar Shaw: Well you know obviously we are at a point or stage in our business development where we are trying to balance our research spend with a lot of the earning and profit support that we are keeping for all these kind of spends, so I think what we will definitely try and aim for is to maintain these kind of profitability levels, so that we can really afford to spend more and more in R&D.

H.R. Gala: Okay.

Kiran Mazumdar Shaw: You know those are the kind of aims and objectives that we have.

H.R. Gala: Going ahead do we see improvement in EBIDTA margin from this 25.5% that we have in Q1 FY07, to last year level of about 29%.

Murali: Over the next 2 quarters there would be an increase in research expenditure towards the discovery programs, and also costs associated with the new facility until it goes to the full utilisation.

H.R. Gala: Okay.

Murali: Next quarter we will not be manufacturing simvastatin for the US markets because of the 6 months exclusivity period, it will start thereafter .

H.R. Gala: Okay so may be from Q3 FY07 to Q4 FY07.

Murali: That is right.

H.R. Gala: Okay, okay. Thank you very much.

Moderator: Thank you very much sir. Next in line is Mr. Ajay Sharma from Whitney & Co's Healthcare Fund, Singapore.

Ajay: Yes good evening, I have two questions goes to Kiran is if you look at your business what is of today and say 2 years from now, how much do you see the change from the dependence on the statins to the products like insulin, antibodies and so on.

Kiran Mazumdar Shaw: Obviously our aim is to have less and less dependence on product like Statin and we will have more and more strategies to go up the value chain and have more and more revenues being generated by higher margin products, so you are likely to see a big change in the kind of portfolio or segmentation of our business going forward.

Ajay: Okay but do you have any number in mind that you want to say, less than 1/3rd or less or half.

Kiran Mazumdar Shaw: Yes, I think you are right, I mean basically after 2 years I think we would like to see statins at around 25 to 30% levels.

Ajay: Okay, and the second is to Arun on the new manufacturing facility, given the uncertainty in the US environment and all. How flexible is the manufacturing in terms of how you know quickly can you switch from a Statin to another product.

Arun: See in terms of the technology and the manufacturing capability it is not very difficult to switch and we have always maintained that our facilities are multiple product facilities.

Ajay: Okay.

Arun: On a technical standpoint, you know it should not be any difficult, there might be some balancing equipment here and there, but by and large you can largely do it, like if you look at our fermentation per say the balancing equipment if at all required might be somewhere in the purification.

Ajay: It will not involve a lot of capital expenditure.

Arun: No, it should not.

Ajay: Okay. Great wonderful. Thanks.

Moderator: Thank you very much sir. Next is Mr. Jinesh Gandhi from Motilal Oswal.

Jinesh : I want the clarification on the date of launch of insulin in China through Bayer, would it be in Q1 FY08 or later than that.

Kiran Mazumdar Shaw: It is difficult at this point in time to really put an absolute timeframe in that, because it will all depend on the regulatory process as you know, so I think we have just said that we expect it to be some time during 2008.

Jinesh: Calendar year or financial year.

Kiran Mazumdar Shaw: Calendar year.

Jinesh: Okay.

Kiran Mazumdar Shaw: Because I think we should to err on the safer side it should be in the later half.

Jinesh: Okay and secondly what kind of increase in R&D expenditure do you see in FY07 and FY08.

Murali: As a percentage you know we expect that to be about 5% of Biocon Standalone sales.

Jinesh: Okay and lastly when do you expect contribution from Biocon Park to commence.

Murali: That will start from this quarter.

Jinesh: This quarter onwards, okay, and sir lastly can you give any further details on the licensing arrangement you see for Europe market and insulin.

Kiran Mazumdar Shaw: Well as I said you know we have we are in very advance stages of discussion.

Jinesh: But this would be for oral insulin or regular insulin.

Kiran Mazumdar Shaw: No this is for regular insulin.

Jinesh: Regular insulin.

Kiran Mazumdar Shaw: Oral insulin is obviously something that we will definitely look at as soon as we believe we have sufficient data to capture the value that we see.

Jinesh: Right but since there is not much of clarity for the US market, can you give some time line for out licensing.

Kiran Mazumdar Shaw: Do you mean for oral insulin.

Jinesh: No for the other insulin.

Arun: The lack of clarity is if you want to follow that India model of positioning .

Jinesh: Okay.

Arun: But as you know that Sandoz has already got approval in the US market for their Omnitrope and we did not see any reason why insulin should be any different.

Jinesh: Okay sir can you put any time line for that.

Arun: At this point we cannot put a time line but it would be two years plus.

Jinesh: Two years plus. Okay sir thanks a lot.

Moderator: Thank you very much sir. Next is Mr. Purushottam from Enam Securities.

Purushottam: Yes, I have couple of questions on **BIOMAb**, firstly can you give some idea of the improvement in medium time to survival over cisplatin and standard therapies. Secondly as far as I remember head and neck cancers are you know only about 5% of total, so the real upside would be when you get approvals for colorectal and the other tumors, so is there any milestone or any tests that you would need to do before you get those approvals and what sort of costs would be there for those.

Arvind: The first question the improvement of the survivors is very high when compared with what happens when we treat them only with radiotherapy or with radiotherapy and chemotherapy. Improvement in survival time is around 8 to 10 months.

Purushottam: Okay.

Arvind: And with respect to your second question head and neck cancer still remains the most important cancer in our country, 34% to 40% of cancers are head and neck, and obviously you know we will extend it to other indications because if it is a well accepted drug, we think the subsequent trials we would need to do, would be smaller and shorter in duration.

Purushottam: And so this market size that was mentioned earlier by Rakesh of Rs. 50 to 60 crores that pertains to only head and neck or does it include others.

Arvind: It is a market size for the monoclonal antibodies today in India, and it pertains to all the indications that monoclonal antibodies are today prescribed.

Purushottam: Okay so it would apply to **BIOMAb** only after you really get approvals for the other indication.

Arvind: Yes.

Purushottam: When so is there any time line Dr. Arvind when you think all these trials would be over.

Arvind: Yes between 18 months to 2 years.

Purushottam: Okay, thank you.

Moderator: Thank you very much sir. Next is line is Mr. Sameer Baisiwala from JM Morgan Stanley.

Sameer: Hi, good afternoon everyone. Can you update us at what stage are you for insulin filing in the European market.

Arun : In terms of the insulin filing in the European market the first step was to file for the bulk product and for that we have already filed. There are 2 steps or actually 3 steps to these filings in the European market. One is qualifying the bulk.

Sameer: Yes.

Arun: And in terms of qualification of the bulk, we have already brought the bulk documentation in place in Europe, which has also been reviewed by the European authorities. One of the authorities from a country in Europe has been inspected our facility and have no reported any adverse observations on this facility.

Sameer: Okay.

Arun: The next step is of course is the finished dosage form. We have just commissioned our own finished storage form facility and are in the process of filing the documents.

Sameer: Okay.

Sameer: Okay and when do you expect to do this filing, and what is the clinical trial burden for doing this filing.

Arun: In terms of the clinical program for insulin formulations in Europe, we would be doing that in consultation with out potential partners in Europe and also in terms of consultations with the regulatory authorities, that the clinical trial costs will be the borne by our partners.

Sameer: Am I right in assuming that your commercial sales would pick up and would be predominant only for the finished dosage form.

Arun: Yes.

Sameer: Okay and when.

Arun: Our bulk sales are also there. The bulk sales to Europe are already in place.

Sameer: Okay but the key growth driver would be the once you get the approval for the finished dosage form.

Arun: That is right.

Sameer: And when do you expect your discussions to be over and the filing to be completed

Arun: I think the time line should be fairly similar to as I mentioned earlier, for the US.

Sameer: In 2 years times you expect to get the approval or you do the filing.

Arun: No, no this is for approval.

Sameer: Okay and my second question is to Arun about the new fermentation facility for statins, do you expect the USFDA approval to be in place by December.

Arun: We cannot predict but yes we are hopeful.

Sameer: Okay and the last point is about your press release talked about still some pricing pressures in Statins in the current quarter.

Kiran Mazumdar Shaw: I think what you have misread is that what we have said is that the price level or the price of statin this quarter as compared to statin prices in Q1 FY06.

Sameer: Oh! I see okay, but how would you compare the prices versus Q4 FY06, on a sequential basis.

Kiran Mazumdar Shaw: They have been stable.

Sameer: Okay fine, Yes. Thank you that is all from my side.

Moderator: Thank you very much sir. Next in line is Mr. Pawan Nahar from Kotak Securities.

Pawan: Yes, thank you. My question is for Rakesh. This is on the branded formulation business in the fixed market, without getting into segments if you could just give us some target that you have in terms of revenues you want to achieve from these two segments, also I mean I assume you are going to be building a basket of products around these two core products that you have.

Rakesh: The strategy that we have in place is to double our field force in health care, from 135 to 260 or 270 this year, which means we will be launching more territories like Madhya Pradesh, Uttar Pradesh, and lot of other places like Orissa, West Bengal, Assam. We also expect to double our sales. In insulin itself we have gained 10% market share and in other oral antidiabetic and other cardiovascular oral therapies we have increased our sales substantially.

Pawan: Can you please give us the base for the last year because I mean that is important, doubling on what base?

Rakesh: Base was small, because it is a new division I can tell you that, but the number which we are looking for is a very substantial growth.

Murali: We do not disclose the break-up of sales for reasons already explained in the past. We just included these sales under biopharmaceuticals.

Pawan: Yes, okay. Second question is for Kiran basically the two new plants that you have one biologics and the second for statin, when do you hope to reach optimal utilization for these plants.

Kiran Mazumdar Shaw: I think for the statin facility we will be optimally using this facility in the Q4 FY07 and when you look at the biological facility it will take us at least 2 years before we can optimally use this facility.

Pawan: And the other question I have is on the Bayer deal. You have licensed your product or your registration to Bayer and I assume you have the received some milestone are you are due to receive some milestone on this.

Murali: Yes, we have received a sign on bonus for this.

Pawan: I mean without mentioning the amount, is it meaningful.

Murli: Yes it is meaningful.

Pawan: And that has been reflected in this quarter's numbers.

Murali: No.

Pawan: And how are you going to reflect that.

Arun: It will be taken on a pro rata basis over a period of the contract.

Pawan: And what is the period of the contract.

Arun: About 10 years.

Pawan: So can we then I mean are you under confidentiality that you cannot disclose that amount.

Arun: Yes we cannot disclose.

Pawan: Okay, fine. Finally on pravastatin, I understand that pravastatin you might have much lower competition as compared to simvastatin, so these things are then as a good opportunity for you.

Kiran Mazumdar Shaw: Certainly.

Pawan: I mean much better than simva right?

Kiran Mazumdar Shaw: Yes.

Pawan: Okay, my last question to you is I just think of it today, if I look at simvastatin and pravastatin, for which basically two-three guys have already taken away majority market share. The new guys I presume will be your customers other than may be you know in simvastatin you might have won in the market, how are you going to get this market share and what kind of a market share are you targeting.

Rakesh: If you look at what Biocon has done in Statins although we have had pressures on margins but we have retained market shares because of a good technology, because of very good process, and rest of it.

Pawan: That is I completely agree, you know, I am just saying that here because of whatever reasons you are going to the second market, so what is the market share that you are looking at in the US, let us say simvastatin and pravastatin.

Rakesh: See internally we expect to be able to at least achieve 40% market share in the US.

Pawan: Okay and the market is about 100 tons, 80 tons?

Rakesh: Yes, there about. We will actually come to know after couple of months because these are launch quantities are going in the US.

Pawan: Okay, I am sorry. One last question, can we hope that this is I mean this is the base quarter or you know the next few quarters are going to be much better than this in absolute profits.

Kiran Mazumdar Shaw: I think this quarter itself is a very positive quarter.

Pawan: Absolutely agree.

Kiran Mazumdar Shaw: And I think as I said you should look at it in context with what the other aspects are.

Pawan: No, no madam I completely agree this is a great performance in the challenging environment.

Kiran Mazumdar Shaw: Yes, so I would say that the really sort of good quarter which makes you feel is a great quarter.

Pawan: It is a great quarter.

Kiran Mazumdar Shaw: Yes but I think then the really big improvement you will see is in Q4 FY07.

Pawan: Q4 FY07.

Kiran Mazumdar Shaw: Yes.

Pawan: But this is the base, I mean next three quarters will be better than this.

Kiran Mazumdar Shaw: As I said I don't want to say better than this, if you really I don't know what you know when you people talk of better it is very difficult for us to understand.

Pawan: Okay ma'am.

Kiran Mazumdar Shaw: So I would say that yes overall the year is going to look good.

Pawan: Okay.

Kiran Mazumdar Shaw: And I think if you look at in terms of Q4 FY07 we certainly expect that to be construed as a better quarter in an overall sense.

Pawan: Okay, thank you.

Kiran Mazumdar Shaw: But you know we don't factor it in a quarter-on-quarter basis as you know.

Pawan: Okay.

Moderator: Thank you very much. Next in line is Mr. Chirag Talati from Mehta Partners.

Chirag Talati: Hi, good afternoon everybody. Could you tell me your hedge position as of now since you have taken Rs 3 crores hit on your forex losses and what kind of hedge position do you have on your research contracts?

Murali: We look to cover about 70% of our net forex exposure over a 2 year period and the current hedge position is at 70%.

Chirag Talati: Okay that is great, and could you just repeat the market share in insulin in India.

Rakesh: 10% today and we are planning to grow it further.

Chirag Talati: Okay any estimate of how much are you planning to grow it to.

Rakesh: In next 2 years we should double it.

Chirag Talati: Next 2 years double it, okay that is great I think that answers my questions. Thank you.

Moderator: Thank you very much sir. Next is Mr. Jesal Shah from JP Morgan.

Jesal: Yes good afternoon. I think many questions have been asked, but a few clarifications if I may. I just want the cost structures in the first quarter, I think I did not fully understand what Murali explained in terms of the contribution of the new facility, how much has that added in terms of cost in Q1 FY07.

Murali: Q1 FY07 result reflects about Rs 4 crores additional fixed costs and Rs 3 crores in of depreciation, which is just you know basically in just about a month fixed costs.

Jesal: Yes so basically you are saying 3 crores increase in power cost, 3 crores increase in depreciation, and 1 crore in other expenses.

Murali: Yes.

Jesal: Is typically pertaining to 1 month.

Murali: Yes 1 month and going forward you know that will be for every quarter and it will be a multiplication by a factor of 3.

Jesal: Got it, and the second thing is that if you can just explain which facilities actually you have started booking expenses for in the P&L.

Murali: You know the Biocon facility is a single facility.

Jesal: Right, so basically your biological, your formulation, your statins, everything.

Murali: You know what is not captured is the antibody facility, that biocon biopharmaceuticals plant. That will come sometime, post September.

Murali: Yes that is right.

Jesal: Okay and what about the R&D expense booked in the P&L in the current quarter.

Murali: Yes that is about Rs 6 crores.

Jesal: Is that including capital expense.

Murali: That does not include capital expenditure, this is purely revenue.

Jesal: Okay and how much of this is because of **Nobex**.

Murali: No we do not give a break up of our R&D costs by programs. The R&D costs is really nothing to do with Nobex but include costs towards developing the oral insulin and the other technologies that we are taking it forward in the discovery pipeline; cost incurred on these programs are being expensed. Nothing is being paid to Nobex.

Jesal: Right, so I guess the increase in R&D cost is not so much because of Nobex consolidation.

Murali: No. What is your query about consolidation.

Jesal: What I meant was basically because of the acquisition of Nobex assets that is not lead to the increase in R&D expense.

Murali: No, the assets acquired were only intellectual property assets and the R&D costs reflect internal costs relating to our own programs including oral insulin.

Jesal: Right, okay and second question was if you could somehow explain you know the growth that you have seen in biopharmaceuticals in the first quarter of 19%, what has really driven this growth if you can just kindly explain.

Murali: No it is across, you know, it is statins, immunosuppressants, and insulin, and also the healthcare

Jesal: But is it all contributing to growth in equal measure.

Murali: Yes more or less you know it is the same ratio.

Jesal: Sorry, more or less in the same range.

Murali: Yes, Yes.

Jesal: And sir last year basically your statin proportion to sales also would have been about the same.

Murali: Yes it would have been about 45 to 50% because of the price.

Jesal: Would it be possible for you to give us I think some idea about what is the kind of bulk price for simvastatin and pravastatin in UK or in Germany now.

Kiran Mazumdar Shaw: I am sure you have a much better idea of that.

Rakesh: May be if you take a take on that.

Jesal: No actually we don't have much idea frankly, it will be useful to get some indication otherwise you know we can.

Kiran Mazumdar Shaw: No as we said it has stabilized over the last few quarters so I would say that is much as we would like to make a statement and I would say that you know as far as we are concerned as Murali very rightly said the contribution of Statins to our overall business is declining only and going down to 40% level largely because of the fact that our other businesses are beginning to kick in and if you look at the price levels that we are looking at in terms of the overall tonnages then obviously that way you know it is still important part of our business, but we are expecting the new product to contribute more and more.

Moderator: We take the next question. A follow up from Mr. Nimish Mehta of Edelweiss Capital.

Nimish: Yes just one clarification I want. This **BIOMAb** will be a new chemical entity that will be launched for first time in India.

Kiran Mazumdar Shaw: Yes absolutely.

Nimish: So this is not launched anywhere.

Kiran Mazumdar Shaw: It is a biological entity not chemical.

Nimish: I am sorry, new biological entity and this is also not launched anywhere in worldwide.

Kiran Mazumdar Shaw: Nowhere else except in Cuba. This will be the first time in this part of the world.

Nimish: Okay, thanks.

Moderator: Thank you very much sir. Next is the follow up from Mr. Chirag Talati of Mehta Partners.

Chirag Talati: Thanks for taking my call up. I just wanted to know regards to your new biologic facility, when you started the process of getting approval from other markets like EU.

Arun: In the large facility we can only take approval to in those territories where we have marketing rights, and we do not at the moment have marketing rights in a large part of the segment.

Chirag Talati: Okay.

Arun: It is only India and near India.

Chirag Talati: Okay. Thanks. Thanks for my question.

Moderator: Thank you very much sir. Next is a follow up from Mr. Jinesh Gandhi of Motilal Oswal.

Jinesh: Yes, this is Jinesh from Motilal Oswal. I had a question on this R&D expenditure guidance which you gave of around 5 to 8% for 07-08. For the first quarter you have done around 3% of sales. So does it mean that you would be ramping up R&D expenditure in coming quarters in a significant manner?

Murali: Yes . Including capital expenditure, expressed as a percentage to Biocon's stand alone sales.

Jinesh: Yes and secondly about the BIOMAb, since it is a new biological entity would you be enjoying patent on this product or you have filed for the patent on this product in India?

Kiran Mazumdar Shaw: Patents have been filed for this product, and we will be enjoying sort of an innovator status on this particular molecule in India, because nobody else can come up with such a product.

Jinesh: Okay so any idea when you would be getting the patent and its exclusivity?

Kiran Mazumdar Shaw: Patent have already been granted.

Jinesh: Granted okay. And lastly can you throw some light on the progress of this BIOMAb in regulated markets. I mean the progress of your Cuban partner on the same product.

Kiran Mazumdar Shaw: Yes there is the lot of advancement has been made in the European market, and the European development is expecting approval sometime next year.

Jinesh: Okay approval sometime next year. And how about US?

Kiran Mazumdar Shaw: Not US . there has been no development as yet initiated in the US market, it has to start.

Jinesh: Okay, and I missed the quantity of the I mean the sense of the Indian market in head and neck segment.

Kiran Mazumdar Shaw: I think 34% of the cancer patients in India are actually suffering through head and neck cases. So the potential in very large and I think this is an absolutely new therapy. So I think we will look at this in a very proactive way to see how much you know we can capture in terms of this particular market segment.

Jinesh: Okay, thanks a lot.

Moderator: Thank you very much. Next in line is Mr. Jesal Shah of JP Morgan.

Jesal: Yes thanks for taking my question again, actually I got cut off the last time. Just one or two things more on the growth drivers for the current quarter, you mentioned that everything you know all the different parts of biopharmaceuticals are contributing equally to growth, and at the same time you also mentioned that statin's proportion has fallen from about 45 to 50% last year first quarter to close to about 40% now. So clearly statins seem to have either maybe in line or decline. Would this be a fair kind of conclusion or am I making some mistake somewhere.

Kiran Mazumdar Shaw: No. You are right, I mean we basically said that in terms of percentage contribution of statins have certainly declined because as I said if you look at the price levels that we have got and the tonnage that we had in Q1 FY06 as compared to what we have seen this quarter, yes there is a definite decline in prices.

Jesal: Right and that is not kind of getting totally compensated by volume increases.

Kiran Mazumdar Shaw: It is. It is getting compensated, but I am just saying when you are talking about the growth we are talking about.

Arun: That is what you are saying that top line growth and because of the price erosion the PAT had remained flat if you look at over a one year period. I think how Murali was trying to address was the fact that despite statins as a percentage decreasing from say 50% to about 40% now, the other businesses has started contributing significantly which is insulin, health care, immunosuppressants, and the research services business.

Jesal: Right if I just look at the biopharmaceuticals business, that has increased from Rs 135 crores to 161 crores that is increase of about 25%

Arun: Yes that includes the other products.

Jesal: Right, and I guess it could include many other products which you traditionally used to have in bulk portfolio.

Arun: That includes everything.

Jesal: Right. So basically if I have to since you know since we do not exactly know how much insulin is contributing or how much immunosuppressants are contributing.

Arun: Yes these are growing very well.

Jesal: Right. Okay. The last question was on your R&D expense guidance of 5-8%. Is that including the capital expenditure or is that just revenue.

Kiran Mazumdar Shaw: Revenue and Capital.

Jesal: Revenue. And lastly on the Bayer deal, you know, what kind of R&D expense do you think would need to be incurred to get the product registered in China and who will bear that cost.

Arun: See all the registration processes to be done by our partner in China, and whatever work we have done in India we are going to transfer that work to them.

Jesal: Okay and is that the same kind of model that you would want to work with in Europe like, you know, all the registration cost will need to be incurred by the partners.

Arun: See in Europe we have a different strategy. In US we have a different strategy. We will let you know once we sign those agreements.

Jesal: Okay, thank you so much.

Moderator: Thank you very much sir. Next is a follow up from Mr. Chirag Talati of Mehta Partners.

Chirag Talati: Thanks but my question has been answered. Thanks a lot.

Moderator: Thank you very much sir. Next in line is Ms. Monica Joshi from Quantum Securities.

Monica: Good afternoon ma'am. Thanks for giving me this question. I just wanted to know since you have been guiding to very exciting period ahead for your contracted services, can you give us some idea on what is if any is huge capital expenditure that you may incur to increase your capacity or in any ways so you know in facilities or in employees strength. Is there anything in the pipeline.

Kiran Mazumdar Shaw: We are already underway with expansion of our current facilities, but as you know in Syngene and Clinigene business, the kind of capital investments that we talk about are very different to the kind of capital investments that we have to do in Biocon. So it is not that significant in that sense. So we have already commence expansion our current facilities both at Clinigene and Syngene.

Monica: What I am trying to understand is that given that it is coming from a parent with a good amount of repute like yours, is there any possibility that you may want to get these businesses off to a different company altogether and may be have a private equity or something of that sort to let them grow into huge organizations by themselves.

Kiran Mazumdar Shaw: Well, you know, we will always keep looking at these opportunities, but right now we do not believe it has reached a critical mass level for us to really capture the kind of volume we would like to capture at this point in time, and all the capital needs that it has at the moment can be internally met. So at this point in time we do not really like to spin them off, but we will keep addressing this opportunity as we go forward.

Monica: Thank you so much ma'am and all the best.

Moderator: At this moment there are no further questions from participants, I would like to hand over the floor back to Mr Mutttoo for final remarks.

Shiv Mutttoo: I look forward to being in touch with all of you. Please get in touch with us if you have any further clarifications or input, and thank you once again.