



BIOCON LIMITED

Q1 FY2008 Analyst / Investor Conference Call 19th July 2007, 11:00 AM IST

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

Nitin Tandon: Thank you Leela. Good morning everyone and thank you all for joining us on the Biocon Q1FY08 results conference call. We have with us on this call from Bangalore Dr. Kiran Mazumdar Shaw, Chairman and Managing Director of the company, and also her colleagues who are a part of the senior management team. We propose to begin the call with opening remarks from the Biocon management on their financial performance and the operations update, which will be followed by a Q&A and a discussion session. So now I would like to invite Dr. Kiran Mazumdar Shaw to briefly discuss the company's performance for the first quarter ended June 30th 2007.

Kiran Mazumdar Shaw: Thank you Nitin. Good morning everyone. It is indeed a great pleasure for me to be speaking to you all and sharing the Q1FY08 results and of course the landmark deal that we chalked with Novozymes regarding our enzymes business. We are certainly very encouraged by our first quarter results, where we have delivered both growth and good profitability. As you all know, our sales grew by 28% while our operating profits grew by 40%, and of course profit after tax also grew by 36% over the same period in the previous year. What is important for me to mention here is that all our business verticals delivered good growth. In addition to that, I would also like to say that we have struck some important licensing deals this quarter, which include licensing of our Biosimilar, G-CSF to a global US company. And we see both our Biosimilars, insulin and G-CSF to be able to access the US and European markets in the not too distant future. What is also important for me to share with you is that our discovery programs, particularly oral insulin, IN-105 and anti-CD6, monoclonal antibody under our T1h program have made good progress. IN-105 completed Phase 1-C human clinical trials, which demonstrated proof of concept for us. Based on which we have actually commenced our international clinical development plan through a Phase I study, which we will conduct in Sweden. This particular trial means that we have submitted an IMPD, which refers to an Investigational Medical Product Dossier submission to Sweden, which obviously heralds development plan in Europe. This of course is something, which is an important milestone for this program.

The Bristol Myers Squibb relationship, which was struck earlier this year, of course is now moved to the next step as the facility has commenced construction. Clinigene also moved into a new facility, which will enable it to rapidly expand its own clinical development activities. We see this as a very large opportunity for Biocon going forward, where both Clinigene and Syngene will really propel Biocon's Research Services business in a very significant manner.

But now coming back to our landmark deal, which is about the Novozymes deal, which as many of you know, has been undervalued by a lot of people, who had some indications of this particular plan. I have seen reports where Biocon's enzymes business was only valued at about Rs 150 crore. As you know, this deal is now going realize for Biocon in the vicinity of Rs 467 crore, and this I think tells you about the inherent value of Biocon's various businesses. We decided to divest our Enzymes business largely because we felt with the enzymes business; it was getting very difficult to focus and commit towards our biopharmaceuticals initiatives and to provide the required investment in that space. And as you can see very clearly, Biocon's enzymes business

has over the years started becoming a smaller part of the overall business. In the last fiscal, we saw this business drop to about 10% of Biocon's overall business, and in view of this, we believe that this was the right time to divest this business, so that we could actually start focusing in a much stronger way on our Biopharmaceuticals business. It was also important that we started investing very significantly in many of our very promising discovery led programs, which offers huge upside for the company, both in terms of licensing and market opportunity. What we also plan to do with this particular divestment is to use the proceeds for very strategic activities for the company, especially in investing and possibly acquisition kind of opportunities that will come up for the company's consideration, because these are now very, very critical elements of Biocon's path ahead. What is also important for me to mention here is that we did decide on divesting this business to Novozymes largely because Novozymes is a world leader in enzymes. Biocon has leadership in enzymes in India, and of course had certain market leadership position through its specific products, which we believe that Novozymes will be able to really leverage and take to the next level. In this particular transaction, the people factor was most important for us because we had to make absolutely sure that the career paths of our people would go the right way. And the distributors also of our enzymes businesses had to make sure that they also benefited out of this deal. So I think it has truly been win-win deal for both Novozymes and Biocon, and we see this as our ability to build up a very valuable business over time, which now we have been able to leverage and divest in this way. We believe that the path ahead for Biocon is certainly very promising and bright, and we are very excited by all the research programs and by the marketing efforts that are paying us rich dividends.

I think this quarter has seen our biopharmaceuticals business perform very strongly. We have made strong inroads through many of our products, into certain markets. Our statins of course have made a good mark in the US market, having said that, our reliance on statins is coming down. Today, statins account for about one-third of our overall business, and therefore we believe that going forward you will see a very strong growth story in Biocon. One of the comments that I had made earlier is the fact that our licensing incomes are beginning to show a lot of promise, and I think this will only grow as we mature our R&D programs. So with that I would like to now handover to all the people who have logged on to this conference call and me and my team will be very pleased to take on a Q&A session. Thank you very much.

Question and Answer Session

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

First question comes from Mr. Rahul Sharma of Karvy Stock Broking.

Rahul Sharma: Could you tell us about the timeline when G-CSF could pan out on revenues? Secondly, the EBITDA margins on the enzymes business on a standalone basis has dropped quite sharply in this quarter. Could you throw some light on that?

Kiran Mazumdar-Shaw: Well, to answer your first question, I think G-CSF is something that our partners will really control in terms of entering their markets, which are the US and European markets. They are extremely aggressive in this whole area, because they themselves are considered to be very strong players in oncology. So we are very confident that they will be able to bring this product to the US and European markets within the next 18 to 24 months. However, in terms of our own marketing initiative, we are very confident, we have just received DCGI approval for launching G-CSF in the Indian market, which we will do in the next few months, and G-CSF is a large market opportunity for Biocon itself in its own markets, which are the rest of the world market. We believe that we can enter these markets again in the next 12 to 18 months in many of these markets and within 24 months in the other markets that we control. In terms of enzymes, I would like my colleague Chinnappa to comment on this, but as you know we have just

divested our enzymes business and the reason for the EBITDA margins is something I will let Chinnappa comment on.

Chinnappa: Ahead of the transactions we have kind of focused to manufacture as much of our pharmaceutical products manufactured through solid state fermentation at the facility, and that kind of a facility and...

Rahul Sharma: No, I did not get you; can you just run me through it again?

Chinnappa: One of the facilities actually manufactures both pharma and enzyme products. During the quarter, we used the facility mostly for manufacturing of pharmaceutical products ahead of the transaction to facilitate and to build up stock for the pharma products.

Rahul Sharma: So you have outsourced this entire enzyme production and that is the reason why margins were down.

Chinnappa: No, we have used the enzyme production to make pharmaceutical products.

Rakesh Bamzai : Rahul, I would add what Chinnappa said. I think on quarter to quarter we can see a good growth on the topline. What Chinni is suggesting that the same plant was used for two products - one is a regulatory product, where we had a regulatory obligation to meet the requirements of our US customers. So we were stocking it up, before we actually stopped production after seven - eight months. So because we concentrated more on pharmaceuticals, enzymes took little bit of a hit in this quarter.

Rahul Sharma: Okay, thank you.

Moderator: Next question comes from Mr. Vikas Sonawale of Religare.

Vikas Sonawale: Yeah hi. Congratulations on good set of numbers. I have a couple of questions. The first one is on licensing income. Could you please quantify that number and where exactly that number is reported?

Kiran Mazumdar-Shaw: Biopharmaceuticals is where it has been reported.

Vikas Sonawale: Okay and I believe in quarter Q1 FY07 it was about Rs one crore or so, how does that number looks this time?

Kiran Mazumdar-Shaw: Well, it has increased from about I think a little over Rs 1 crore, it was almost Rs 2 crore last fiscal, and this fiscal it is between Rs 15 - Rs 16 crore.

Vikas Sonawale: Okay, and if I look at EBITDA margin of Biocon on a standalone basis, those are about 25.7% and net margins are at about 19.7%. Is that an indication of the enzymes business also, which has been hived off?

Kiran Mazumdar-Shaw: Yeah, that of course includes the enzymes business.

Vikas Sonawale: No, I mean the enzymes business, which is roughly about Rs 100 crore or so; the net margin would be again about 19%, 20%.

Kiran Mazumdar-Shaw: Yeah, that's true.

Vikas Sonawale: Okay, and secondly on the R&D front, I just wanted your sense on what is the R&D cost during the current quarter, and how that is likely to pan out going ahead?

Kiran Mazumdar-Shaw: Well, this quarter hasn't seen a significant increase in R&D cost, but you will see increased R&D cost moving forward, because of the international clinical development plans starting in the next two quarters, and so all these costs will go up, but, if you compare it to last fiscal, then certainly there is Rs 4 crore increase in FY'07 including all costs in R&D, so it was Rs 6 crore last fiscal and Rs 10 crore this fiscal.

Vikas Sonawale: Okay, and going ahead I believe we were expecting something like 6% to 8% or could be above that as a percentage of sales, that could be in R&D spent. Is it likely to be in that range?

Chinnappa: We're looking at similar levels across this year.

Vikas Sonawale: Okay, thanks a lot.

Moderator: Next question comes from Mr. Krishnan of Krishnan and Company.

Krishnan: My question is regarding the sale of enzymes division, what is the tax implication on this Rs 480 crore that you are likely to realize?

Kiran Mazumdar-Shaw: About I think between 15% to 20%.

Krishnan: Okay, that will be about Rs 100 crore plus.

Kiran Mazumdar-Shaw: Not so much, it will be slightly less than that.

Krishnan: Okay, thank you.

Moderator: Next question comes from Mr. Ranjit Kapadia of Prabhudas Lilladhar.

Ranjit Kapadia: Good morning and congratulations for a good set of numbers. Two questions, one is that US regulators have recently allowed the marketing of Biosimilars in US, so what is your strategy, and what prospects do we see from this market. And second is the streptokinase business, which we are planning to launch as we have received the regulatory approval, so what kind of market you are looking at in the domestic market and what is the gross profit expected?

Kiran Mazumdar-Shaw: Well in terms of what you just said, obviously we see Biosimilars as a big opportunity for a company like Biocon, and that is why we have actually got a good licensing income from both insulin and G-CSF from our partners in the US and from those who are planning to launch this into the US market. But in addition to that, obviously we are very confident that Biocon has a very large opportunity and also the European markets for these products, and again both these markets will give us good opportunity of growth for Biosimilars. Our immediate two products that we are looking at are of course G-CSF and insulin, but then we do have a pipeline of Biosimilars, which we will continue to develop for these markets. In answer to your question about streptokinase, yes, it has got regulatory approval, and we will be launching these products in the Indian market shortly. But for your information, streptokinase in the Indian market is not such a huge market, in real value terms. So don't please expect huge numbers coming from streptokinase. But we do plan to take streptokinase to other markets, where we will get some idea about the registration processes; I think in about 18 months again, you will see us offering this product into other markets. Overall, I think streptokinase is a decent market, but it's not a huge market like insulin and G-CSF.

Ranjit Kapadia: Thank you.

Moderator: Next question comes from Ms. Gracy Mittal of Dolat Capital. Ms. Gracy, you can go ahead ma'am. There is no response. Next question comes from Mr. Balaji of Sundaram BNP.

Balaji: Yeah, hi. If you could just tell us your detailed CAPEX plans for this year and next year, and especially the SEZ at Vizag, and how do you plan to fund the same. Whether will you be coming through the capital markets to raise money, or whether you will be using this proceeds of enzymes business for funding this?

Kiran Mazumdar-Shaw: Yeah, to answer your question, the Vizag facility will at the moment cost us a little under Rs 30 crore to acquire it. We do not propose to have a CAPEX spend on Vizag this financial year, but certainly we will look at developing it in the next financial year. As I explained earlier, we are going to use this facility for expanding our Biosimilar production as well as some of our proprietary molecule production at Vizag, and as we get more clarity on the CAPEX, we will certainly share this information with you. We certainly do not need to go to the capital market to address any of our current CAPEX needs. Our current CAPEX for this year is certainly very manageable, it is in the vicinity of between Rs 300 to Rs 350 crore, and this is going to be spread over two financial years. So we do not think we need to go to capital markets, we have enough internal accruals through our own profits that can adjust these kind of CAPEX expenditures, and if we do need to top up a little bit, we might go in for some minimal borrowing. We do not plan to use the Novozymes' proceeds from our enzymes business divestment for any of this kind of CAPEX kind of needs. We will certainly reserve those kinds of proceeds for very strategic investments.

Balaji: Okay, on insulin licensing fees, could you tell us what was the amount for this quarter?

Kiran Mazumdar-Shaw: No, we cannot share such specific information with public.

Balaji: Okay, thanks.

Moderator: Next question comes from Mr. Abhay Shanbhag of Deutsche Equities.

Abhay Shanbhag: Good morning ma'am. Congratulations for the good set of numbers. A couple of questions, number one is, can you just explain this enzyme deal, because as Chinni puts in, the manufacturing was common for pharma and enzymes, so you will continue manufacturing enzymes in that plant also for some more time, or how is it going to be done?

Kiran Mazumdar-Shaw: No, I think the pharma products are now totally being transferred to our Biocon Park facility; this was a small transition phase that we needed, before our customers could completely switch over to the Biocon Park facility. This has been done, and we have therefore taken care of the transition phase, that is what really was being referred to by Rakesh.

Abhay Shanbhag: So does it mean that the entire land, plant, building, everything will get transferred to no enzymes, or...

Kiran Mazumdar-Shaw: It is going to be leased; it is not going to be transferred.

Abhay Shanbhag: Okay, so it would remain in your books, I mean, the land and the building will remain in your books, only the facility will get leased for a period of time.

Kiran Mazumdar-Shaw: Yeah.

Abhay Shanbhag: Okay, the second question is on the partner, you talked about global biopharmaceutical company, any name we can assign to, you can talk about, in terms of which is this company?

Kiran Mazumdar-Shaw: Yeah, it is Abraxis Bioscience, which is a leading oncology company that has made a huge success of its first product Abraxane, which is actually a next generation paclitaxel, and they have been very successful in bringing such a product to the market in a very

short period of time and they have a leading position on this product in the world market, and we believe that they are a very good partner for us to actually bring G-CSF to the market.

Abhay Shanbhag: Are you also looking at them for other products also?

Kiran Mazumdar-Shaw: Yes, we are.

Abhay Shanbhag: Okay, last question is on this rupee thing, what sort of impact did you see both on your revenues as also on the treasury income or whatever?

Kiran Mazumdar-Shaw: Well certainly it has impacted some of our earnings, because you know that we have a high dollar denominated revenue income, and some of this we have hedged because they're on a contractual basis, but there is a lot of this business that cannot be hedged because of the fact that some of the businesses are really on spot purchases. So we have tried to do as much as we can to safeguard the impact of this. In terms of treasury income, I will ask Chinni to address this.

Chinnappa: There is Rs 2 crore of loss reflected in the financial statement.

Abhay Shanbhag: This is on the treasury side.

Chinnappa: On the treasury side.

Abhay Shanbhag: Okay fine, so it would have hit the top line and also treasury side it's not a positive item, it's a negative item.

Chinnappa: It's a negative item.

Abhay Shanbhag: Okay, ma'am a last question. With statins which was your major product, seeing pressure, do we see the company changing significantly going forward more into services and APIs, rather than being more into product side going forward in future?

Kiran Mazumdar-Shaw: Not at all, I think products are going to be very important for us. What we will focus on is really to get into products that will give us both price stability and increased margins.

Abhay Shanbhag: Okay, and so we are talking about immunosuppressants and the bio generics as they come forward, and as they get approved.

Kiran Mazumdar-Shaw: And proprietary products, yes.

Abhay Shanbhag: Okay fine, thank you ma'am.

Moderator: Next question comes from Mr. Chirag Talati of Mehta Partners.

Chirag Talati: Yeah, hi. If you could explain the growth in Biopharma sales, you mentioned that licensing income is a part of it, if you could break it down in terms of the growth that you have achieved.

Kiran Mazumdar-Shaw: Well, I think I had shared some numbers, and that is around roughly Rs 15 to Rs 16 crore in terms of licensing income, but other than that we have also shown some very good growth in all our segments where all our products, whether it was insulin, whether it was immunosuppressants, whether it was statin, I think they've all delivered very well for us.

Chirag Talati: I missed it, if you could again reiterate the R&D numbers for this quarter?

Kiran Mazumdar-Shaw: R&D numbers. Well, I think we have mentioned that also, it is 10 crore R&D spent.

Chirag Talati: Okay and in terms of your working capital, if I look at the balance sheet and cash flow that you have provided, in the June quarter change in working capital is Rs 70 crore, while the change in net current assets for the quarter as in balance sheet shows only Rs 15 crore, so, I am not able to understand, if you could explain that in a bit detail?

Chinnappa: I think I need to get back to you on this.

Chirag Talati: Okay, no problem.

Chinnappa: Could I have your number?

Chirag Talati: Yeah, I will send a mail to you and may be we can touch base on this?

Chinnappa: Okay, fine.

Chirag Talati: Okay, thank you, yeah I will get back to you, thank you.

Moderator: Next question comes from Mr. Rajesh Pherwani of HDFC Mutual Funds.

Rajesh Pherwani: Hello, I just wanted to get a sense of the statins pricing environment, how is it compared to last quarter and what has been the competition in market share in this quarter?

Rakesh Bamzai: See, on statins, we see price stability in this quarter and there is a growth in terms of top line and the prices have stabilized. We are expecting the trends to continue in Europe and United States in the next two quarter as well. This is impacted by lot of issues with Chinese producers.

Rajesh Pherwani: Okay, what sort of issues?

Rakesh Bamzai: They have pollution issues, R&D is becoming stronger, and their export benefits are getting withdrawn, so they are slowly coming to the realistic cost of production.

Rajesh Pherwani: So, would you say that the competition from China is not likely to happen over the next may be one year or so?

Rakesh Bamzai: See, we can't make this open blanket statement, China is a reality, but as I was saying that China will be more realistic in costing their products properly. That means that price stability will be there. We are actually expecting price stability and slight upward trends.

Rajesh Pherwani: Okay, just to clarify a bit, are we saying that the current prices are may be realistic for a Chinese producer?

Rakesh Bamzai: No, let's not go to those numbers, the prices, I think we have given enough information explaining what is going to happen in the next two quarter, as per our estimates.

Rajesh Pherwani: Okay, may be you can little bit touch upon the deal that you got in with Invitrogen, I just wanted to understand what is the potential of that market?

Rakesh Bamzai: Biocon is a high quality producer of insulin. Today we are the fourth largest in the world. Our quality has been appreciated by people who use this as a raw material to make very, very difficult or a prosthesis biotech product, so insulin is the raw material used for fermentations and there we have the world's leading health culture and Media Company called

Invitrogen, they will be our distributors for this product in United States. It is a huge market and we are expecting very, very good revenues and bottom lines through this.

Rajesh Pherwani: Any size that you can indicate, the market sizes of this?

Rakesh Bamzai: You see market size is very huge, because of confidentiality I can't tell you the numbers.

Rajesh Pherwani: Okay and then when do you see the numbers coming in?

Rakesh Bamzai: Yeah, the numbers have started coming in and we will get a total impact in one year's time.

Rajesh Pherwani: Okay, thank you so much.

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

Sameer Baisiwala: Hi, good morning everyone. Just on this G-CSF deal, could you just take us through very briefly on the roadmap as to the clinical burden and then the dossier submission and the approval timeline?

Kiran Mazumdar-Shaw: It is very difficult to give you exact answers there, but sufficient to say that Biocon has just obtained DCGI approval and with our partners what we will do is that, obviously there will be a discussion with US FDA to look at all our current clinical data that we will share with them and then based on that we expect US FDA to come out with a plan for us as to what they will accept in terms of clinical data. We do expect there will be the need to conduct a limited clinical trial, which will be supported by data from India and of course since we are going to be launching the product in India, we will of course also share a lot of post marketing data with our partners. So that is why we believe that the path to registration might be shorter than what a Greenfield player might have to do.

Sameer Baisiwala: And how do you compare US versus Europe, in this would one be ahead of the other?

Kiran Mazumdar-Shaw: I think at this point in time, both would be the same. In any case we have the same partner for both markets, so we will see how both regulatory authorities perceive all this data.

Sameer Baisiwala: Anything you can share on your best case assumption that your dossiers submission would happen in calendar '08 or something?

Kiran Mazumdar-Shaw: No, we can't share all this information because it's not right of us to do that. It is our partners who have to decide that.

Sameer Baisiwala: Okay, but you stick to your earlier statement that you expect to be in these markets in 18 to 24 months?

Kiran Mazumdar-Shaw: Yes.

Sameer Baisiwala: Okay and similarly for insulin, I remember earlier you were in discussion with EMEA, any update on that as well as progress on US and the timelines for dossier submission?

Arun Chandavarkar: I think I have nothing further to add, we are on track as mentioned in the last conference call also. Yeah, we mentioned that it would be over a two year time frame, I think I mentioned last time, so I think we are on track with that. We have started having dialogues with the concerned agencies, both in US and in Europe.

Sameer Baisiwala: Okay and this dialogue, I assume is pre-clinical in the local territories of US and Europe?

Arun Chandavarkar: What do you mean by that?

Sameer Baisiwala: I mean that you have not done the clinicals in those two geographies?

Arun Chandavarkar: We have not done any clinicals in those territories yet.

Sameer Baisiwala: Okay, can you just, strategically speaking you mentioned that for Novozymes cash flows you will be looking at strategic acquisitions, any color you can give, what exactly are you looking at, is it in biotech space, is it technology platform, is it certain therapy area, is it product?

Kiran Mazumdar-Shaw: It will be a combination of all, at the moment we haven't really, in the past we haven't seriously looked at opportunities that have come our way and therefore we believe that today we should be looking at opportunities, both from a business point of view, where we might be even able to acquire companies that can grow our existing businesses. It could be licensing, innovation platforms, it could be in licensing molecules, I mean, there is a lot of things that we can look at.

Sameer Baisiwala: But it would necessarily be in a proprietary space, if not getting into branded generic markets?

Kiran Mazumdar-Shaw: Yeah, absolutely, we will not get into branded generics for overseas markets, I mean, okay, may be we might look at the Indian market in a different way, but certainly we will be focused on a lot of proprietary products for overseas markets.

Sameer Baisiwala: Okay, Rakesh, just one question for you for statins, are there already Chinese players in the US market?

Rakesh Bamzai: As of now they are on the periphery, and they do not yet exist strongly in that market. I just want to clarify one more point, I just read this agreement of Invitrogen, it is a global, cell culture transaction, it is not only restricted to the US.

Sameer Baisiwala: Okay, thank you very much.

Moderator: Next question comes from Mr. Dipan Mehta of Dipan Mehta Shares.

Dipan Mehta: Congratulations on a good set of numbers, I just couldn't get it, the licensing income you said was Rs 15 to Rs 16 crore for Q1, is that correct?

Kiran Mazumdar-Shaw: Yes.

Dipan Mehta: And how much was this worth for the entire FY07, was it at Rs 23 crore, is that correct?

Kiran Mazumdar-Shaw: Rs 27 crore.

Dipan Mehta: Rs 27 crore is for FY07 in terms of licensing income and that we are disclosing in Biosimilar or are we disclosing it in contract research as a group?

Chinnappa: We group it under the Pharmaceuticals business.

Dipan Mehta: Means under Bio Pharmaceuticals?

Chinnappa: That's right.

Dipan Mehta: Okay, thank you. I have some more questions, come back later, thank you.

Moderator: Next question comes from Mr. Karthik Mehta of Man Financials.

Karthik Mehta: Yeah hi, I just have one small question, what is the expected tax rate for FY08, we had just provided about 2% in the first quarter, thank you.

Chinnappa: We expect tax rates to be at these levels for this year, except for the tax on the Novozymes transaction. On regularity we expect around 5% tax.

Karthik Mehta: Yes but, then we will have some tax on the Rs 80 crore that we are about to receive from Novozymes, right?

Kiran Mazumdar-Shaw: Yes, that's what he said, except barring, if you take away the Novozymes transaction, then the rest of the business will be at current levels of taxation.

Karthik Mehta: Okay, thank you.

Moderator: Next question comes from Mr. Yogesh Patil of Sahara Mutual Funds.

Yogesh Patil: Can you throw some light on contract research, regarding outlook, scalability and how much is repeat business?

Kiran Mazumdar-Shaw: Well I think, we definitely see a large scale growth because you have seen that we have entered into this partnership with BMS, which will see a quadrupling of BMS's own business and I think scalability is not an issue; this will be the way the business will be built.

Yogesh Patil: Okay madam, how much repeat business?

Kiran Mazumdar-Shaw: All of it is repeat business; there is a lot of repeat business coming from all our customers.

Yogesh Patil: Okay, thanks.

Moderator: Next question comes from Mr. Harish Swaminathan, a private investor.

Harish Swaminathan: Thank you for taking my question. My question is more around the pricing strategy of Biocon, what do you think are the areas where we do have pricing power and does it make sense to look at moving out of those areas where we do not foresee having pricing power, for example non-branded generics or APIs?

Rakesh Bamzai: Pricing today is a factor of lots of things. We are building up our branded business, so we will have pricing power by creating our own brands. So our business vertical in branded formulations is getting lot of importance within the company. Then we have other strategic products, which we have built up in our business, which are strong enough. We as a company enjoy good pricing because of our quality of the product and because of our regulatory strategy and because of the speed of marketing the product.

Harish Swaminathan: Just one more question on pricing, I just wanted your thoughts on this social pricing that we seem to have adopted on BIOMAb, where we have priced ourselves at a discount to the market, so do you see that continuing or do you think that we can increase the price, now that we are at a comfortable or dominant position as far as BIOMAb is concerned?

Kiran Mazumdar-Shaw: I think you must understand why we are committed to affordable pricing. I think you must recognize the fact that we have a natural advantage being based in India to develop products in a very affordable manner and when you do that, we are very, very profitable in these products, but we will pass on those development costs for the benefit of patients. I think most multinational companies are not able to price these products at the levels that we can, because they have very, very high cost of development, which they pass on to the patient. That is the kind of differential we are trying to really leverage in a big way, because I think being in India, we do need to expand markets to affordable drugs and I think that is what Biocon is doing very effectively. I think all our branded products are yielding us very good profitability and I do not think that we would like to raise these prices and lose market share. I think today we are creating really strong market share because we can afford to price these products at these levels. Insulin is a very good example of how we are really gaining market share through quality and pricing and really overtaking a lot of the large competitors that we have in this space.

Harish Swaminathan: And the last question, do you think the market really understands Biocon and has priced its future potential into the current price or what is your thought on the figures?

Kiran Mazumdar-Shaw: I think we do believe that the market doesn't understand Biocon's innovation led story very well, I think market also doesn't recognize the inherent values that Biocon brings to the table. I think the enzymes deal itself is reflective of this and I think Biocon's innovation and value story will really come out in the very near future as and when we license our very interesting and very high value programs. So I obviously cannot comment more than this because it is up to all of you to understand our story, I mean, I think I have shared my belief, my strategy and my story with all of you and if the market still doesn't understand that, then there is very little we can do to really go beyond this. Because I think my discussions and my presentations that I made at various forums, very clearly underlines Biocon's very strong branding that it enjoys in world market. Biocon's market leadership that it enjoys in all our business segments that we have engaged in and of course the fact that we have actually created a very, very unique integrated model, which is very well understood by a lot of our partners, but I guess the markets needs to understand this.

Harish Swaminathan: That was a great answer and the last question might be to Murali or to Chinnappa, just to understand the basic strategy adopted while we priced the enzymes sale, did we take into account the market share that the buyer would be getting or did we just look at it from a cost plus basis, what was the basic rationale?

Kiran Mazumdar-Shaw: I think it is very obvious that every single parameter was taken into consideration at arising at this value. I think I mentioned in my opening statement that a lot of the analysts are very, very surprised by how high this deal value has been, because obviously Biocon has done an outstanding job and in portraying all that we stand for and the important thing is that the buyer, that is Novozymes have recognized the true value of this business, which has actually accounted for everything. I think anybody else looking at this deal will clearly agree with me that this has been a very good deal for both sides, where we have both realized the full value and the full potential of this business. So, I think we have done an outstanding job. I don't want to brag about it, but I do believe that even our advisors, you know, Allegro have done a great job in making sure that Biocon's true value is well accepted and well recognized by the buyers.

Harish Swaminathan: Thank you and congratulations.

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

Nitin Agarwal: For insulin have there been any new registrations in the current quarter, in the non-regulated markets?

Rakesh Bamzai: Yes, we are continuously doing this and in this quarter we have got three registrations from Central America.

Nitin Agarwal: So, that makes it about nine countries now?

Rakesh Bamzai: More than nine, I can't tell you the numbers, but more than nine.

Nitin Agarwal: Okay, and a second one, in terms of your import component from China for intermediates and everything, is there a large component of intermediates that we import from China?

Rakesh Bamzai: Not very large, see today everybody has China's strategy, if we have to compete globally, there are American companies, European companies, Indian companies, all the companies buy intermediates or some components from China, then we can compete better. So, we do import, but not a very large quantity.

Nitin Agarwal: Okay, great and lastly can you just tell the update in terms of how the nephrology formulations initiative has been panning out and the BIOMAb roll out?

Rakesh Bamzai: Yes, nephrology has been a grand success; we have a small team of 30 people in nephrology. Our erythropoietin is launched two months back and the trends are that Erypro will be a very leading brand in this country because of quality. Our other immunosuppressants have been very well accepted by the nephrologists and I should thank them for this because they have valued quality. And on BIOMAb, it is continuously growing at a rate of 15% to 20% every quarter and we have more than 500 patient exposures and we are very determined to make it the best monoclonal antibody, the leading monoclonal antibody with largest sales out of Asia.

Nitin Agarwal: Good and on nephrology, is there a plan to take the nephrology group of products to the markets outside India also?

Rakesh Bamzai: Yes, that's the parallel strategy; we are working on that as well.

Nitin Agarwal: So, when do we see the numbers from the non-Indian markets for this?

Rakesh Bamzai: See, we are building up our marketing setups in various countries; Neo-Biocon is the first effort in Middle-East. We are going to have similar efforts in other strategic markets. The numbers are going to come in 18 months to 24 months; you can see those numbers in various markets coming up.

Nitin Agarwal: Okay, thanks and best of luck.

Moderator: Next question comes from Ms. Gracy Mittal of Dolat Capital.

Gracy Mittal: We see a lot of growth in the Biopharma and the contract research; could you please update us on the developments in these segments?

Rakesh Bamzai: See in Biopharmaceuticals, as our Managing Director explained in the opening remark that all the segments, all the business verticals are growing very well and in the contract research as well, I think I will leave it to Gautham. But I can tell you on his behalf that contract research is also doing very well, we are expanding number of people, we are expanding facilities, we have BMS contracts, everything is happening in a positive way.

Gracy Mittal: Sir, and to deploy the proceeds?

Kiran Mazumdar-Shaw: Pardon? I have already answered this question, Gracy.

Gracy Mittal: Ma'am, which markets are you strategically looking at?

Kiran Mazumdar-Shaw: I said we will look at investments in very key, strategic areas, that's all I said, which markets means, global markets.

Gracy Mittal: And ma'am, now that you have sold your enzymes business, how do you see Biocon and contract research, what proportion would they contribute to your turnover?

Kiran Mazumdar-Shaw: 100% of our business now.

Gracy Mittal: As regards your raw material cost, on a year on year basis it has declined, what do you think would be the reason for that?

Arun Chandavarkar: See, there are a couple of factors that are playing in, one is of course the licensing income has no associated cost. There has been some increase in inventory, which causes a reduction in the material cost and then last year this time, the Biocon Park was not operational, as our material cost were higher.

Gracy Mittal: If we compare your results on a sequential result, on a standalone and a consolidated basis, we see that the turnover growth to be flat, so are there any subsidiaries which are making losses?

Kiran Mazumdar-Shaw: Please note that our business is not like the usual IT services model. We are a company that will actually have some fluctuations quarter on quarter and we have clearly indicated that we cannot be looked at in a sequential manner; you have to look at it in an annualized manner. It does not mean that any of our business verticals are making losses like you are interpreting because this is to be viewed on an annualized basis and it gets skewed very much on a quarterly basis review.

Gracy Mittal: Can we expect any milestones to be achieved this year?

Kiran Mazumdar-Shaw: Yes.

Moderator: Next question comes from Mr. Shekar Singh of Goldman Sachs.

Shekar Singh: Sir, just wanted to know for Chinese producers of statins, what was the tax rebate which was offered earlier and how much had it been cut to?

Rakesh Bamzai: According to my knowledge it was 13% and it is gone down to around 7%. It is a class of products and they are doing it in phases.

Shekar Singh: And if you can just tell me if it is public information, like statins accounts form what portion of your EBITDA?

Chinappa: We don't disclose product segmentwise EBITDA. .

Shekar Singh: Okay. And just in terms of price movements for statins we should be expecting some sort of price appreciation in the coming quarter?

Rakesh Singh: Right now the good news is stabilization. The next step we expect is that the prices should go up, but we are watching the market.

Shekar Singh: Okay. Thanks a lot.

Moderator: Next question comes from Mr. Rajesh of HDFC Mutual Fund.

Rajesh Pherwani: This is regarding the licensing income that has become a regular feature for you since the last 3-4 quarters. How do you see this going forward, is it a recurring feature for you?

Kiran Mazumdar-Shaw: If you believe in our R&D story then it has to be a recurring feature.

Rajesh Pherwani: So you see the sort of a climb continuing?

Kiran Mazumdar-Shaw: Absolutely. I think we have clearly seen this ourselves and we hope that you will also recognize this trend.

Rajesh: Okay. Thanks.

Moderator: Next question comes from Mr. Ravi Agrawal of JP Morgan.

Jesal Shah: Good morning. This is Jesal. The first question actually is on the domestic formulation business. If you could give you some idea about what is the turnover last year and in the first quarter of this year?

Rakesh Bamzai: I can tell you that our domestic formulation is growing at a rate of 123% year on year. It is a very positive healthy sign and overall we are moving towards building up this business in a very strong way.

Jesal Shah: Right. But it is growing at 123% on what base?

Rakesh Bamzai: If you see last year first quarter and this year first quarter we compared and there is a 123% growth. Now on annualized base also it is going in the range of 100% and if we keep on growing like this we will be amongst top 5 pharmaceutical companies in the country selling branded products.

Jesal Shah: Actually, I don't know what you fiscal '07 is?

Rakesh Bamzai: The numbers we don't give, on segment wise, business wise you know because of strategic reasons we don't declare. Once the business becomes big enough to disclose the numbers we will disclose.

Jesal Shah: I see, okay. And the other thing is the G-CSF tie-up you said you out licensed, you know in terms of what kind of rights you have given to these guys and in terms of cost-sharing would you be kind of incurring some clinical trial costs or would the cost be entirely for the partners?

Kiran Mazumdar-Shaw: Okay. Obviously, we have given them exclusive marketing rights for US and European markets. The development costs are to their account basically they will incur the cost for clinical development. We will have to support them with CNC dossiers and of course we will share with them all the clinical data that we are generating in our markets, that is the understanding and of course in addition to that any post marketing data also that we generate will be shared with them but any clinical development that is called for by those regulatory agencies will be borne by them and we do not have profit share as such but certainly we will have royalties on their sales and of course we have to supply them with the product.

Jesal Shah: Okay, and would you like to explain the status on the Bayer relationship on insulin for China.

Rakesh Bamzai: The process of registration is going on and it is going to take some time before we get an approval. In China I think all of you read in newspapers that all the general registrations have gone slow in last six months because of lot of changes in the regulatory setup

and people in that country. So our partners are doing whatever they have to do to bring the products to the market as fast as they can.

Jesal Shah: And even there the nature of the relationship is the same as what you just explained for G-CSF for US and Europe?

Rakesh Bamzai: Yes.

Kiran Mazumdar-Shaw: Except that in China of course we have also licensed our brand Insugen to them.

Jesal Shah: I see, okay. The last question from my side is on the Capex - you said some Rs 300 to Rs. 350 crore, would you like to give some idea about which areas you are likely to spend this money?

Kiran Mazumdar-Shaw: A large part of it is in Syngene and then of course we have some expansion taking places in overall businesses all across the board and some of it is of course towards Vishakapattnam as well.

Jesal Shah: Okay. And the R&D expenditure as you look at in the next two years given that you have so many interesting novel kind of products in your pipeline and also given that you have plans to do studies in Sweden and other places what is your feeling in terms of, how much you think you have spent on R&D on a recurring basis may be two years down the line?

Kiran Mazumdar-Shaw: I think you have to expect an increase in R&D spend and I think what we will obviously hope is that this obviously gets offset by the licensing income that we will generate through some of our proprietary products which I think will generate very, very large revenues for us.

Jesal Shah: Okay. Thank you so much.

Moderator: Next question comes from Mr. Saion Mukherjee from Brics Securities.

Saion Mukherjee: Thanks for taking my question. Madam, I just wanted to know whether for G-CSF there are any patent barriers for the regulated markets.

Kiran Mazumdar-Shaw: There are various patent barriers which we have basically looked at and navigated and made sure that we have freedom to operate.

Saion Mukherjee: So the product patent has expired in the regulated market?

Kiran Mazumdar-Shaw: Yes. There are number a of process patterns which we have navigated.

Saion Mukherjee: So you are confident of not infringing any of those?

Kiran Mazumdar-Shaw: Yes.

Saion Mukherjee: Ma'am, can you also share something on your generic biologic pipeline you already have launched some of the products in the Indian market, which are the products which are there in the pipeline for generic biologics?

Kiran Mazumdar-Shaw: The only product we have launched is insulin. Now we have got approval for G-CSF and streptokinase. We have also launched erythropoietin. And now we have got a pipeline that has glargine that has human growth hormone that has Retiplase, and we will continue to keep growing this pipeline.

Saion Mukherjee: I am just wondering on the monoclonal antibodies because of your expertise in mammalian cell culture will you be addressing the generic monoclonal antibody space for the Indian and other less regulated markets.

Kiran Mazumdar-Shaw: See one of the things we must recognize is that Biocon always look at global opportunities. Companies in India are developing generic antibodies which will only have very limited market. They will not be able to enter the US and European markets with generic antibodies. So that is why Biocon has taken a view that we need to develop proprietary antibodies so for instance BVX 10 and BVX 20 are proprietary molecules that will allow Biocon to actually enter into and compete with the class of antibodies in a proprietary manner. So, while the Rituxan is the Anti-CD20 which is marketed in the US and European regions we will have a BVX 20 that is an Anti-CD20 propriety antibody that can actually be launched in these markets a few years ahead of patent expiry. So these are the strategies we are developing whereas others will not even be able to enter those markets. So this is the strategy we are taking and we feel that we have a very good advantage over other generic strategy because antibodies have a much longer patent expiry time line in these markets.

Saion Mukherjee: And finally ma'am, can you give some time lines on the oral insulin program and the CD6 program?

Kiran Mazumdar-Shaw: Well, you know IN 105 I think I just mentioned we will be entering phase II trials in India and we have just started a phase I trial in Europe and the CD6 antibody is entering phase II trials and you know we believe that once we do that we will be in a very, very strong position to really advance it very rapidly.

Saion Mukherjee: And how long will this take for CD6 phase II trials?

Kiran Mazumdar-Shaw: It will take a year.

Saion Mukherjee: Okay thanks a lot and all the very best.

Moderator: Next question comes from Ms. Mukti Seth of CD Equiresearch.

Ms. Mukti Seth: Hello, madam, congratulations for your results.

Kiran Mazumdar-Shaw: Thank you.

Mukti Seth: My question is - what is the top line and the bottom line growth you foresee in the next two years?

Kiran Mazumdar-Shaw: Well, very good that is all I can say because we don't give guidance and I cannot give a percentage indication but certainly we are very confident that we will have very good growth.

Mukti Seth: Okay, thank you.

Moderator: Next question comes from Ms. Rohita Sharma of Alchemy Shares.

Ms. Rohita Sharma: Hi, I just wanted to know your views on how do you see the market for Biosimilars developing given that you know they are having some second generation launches like Prepo and G-CSF.

Kiran Mazumdar-Shaw: Well, I think it is a very good market because there will be very few players in at least the first phase of introduction of these Biosimilars and we certainly see ourselves as being in that first phase of people participating in this opportunity because I think the

kind of regulatory hurdles are going to be very, very steep which will not allow everybody who is in this space to participate.

Rohita Sharma: Okay, fine, thank you.

Moderator: Next question comes from Ms. Cheenu Gupta of UTI Mutual Fund.

Cheenu Gupta: I would like to know what is the number of people that we have in the contract research side and how has the number progressed through this entire year.

Kiran Mazumdar-Shaw: Between Syngene and Clinigene we have about 800 people and of course this will increase quite significantly. We expect that by the end of this fiscal there will probably be an excess of 1000 people.

Cheenu Gupta: Okay. And what was the number last year?

Kiran Mazumdar-Shaw: I think it was about 600.

Cheenu Gupta: Okay. And what would be the number of customers to which we are supplying simvastatin as of now in the US market?

Rakesh Bamzai: In US we have 4 customers who are continuously buying materials from us.

Cheenu Gupta: Okay. And with respect to the hedging strategy that you spoke about do we already have hedging in place for the current quarter results that we have put out or this is some thing we are talking about our future strategy?

Kiran Mazumdar-Shaw: What is that?

Cheenu Gupta: For the hedging that you spoke about that certain amount of hedging we have done for our businesses was this already followed for this current quarter or is it a future strategy.

Rakesh Bamzai: This is more or of a future strategy because most of our hedges expired in March and in April the hedges were at lower rates.

Cheenu Gupta: So we were not hedged for this quarter?

Rakesh Bamzai: Not for the substantial part of the rupee appreciation.

Cheenu Gupta: And for the traction in the business from BMS that we are talking about when do exactly see that traction happening as you said we expect the business to quadruple in some few years time.

Kiran Mazumdar-Shaw: It has already started from this year, so you will see some of that being reflected in this year's figures.

Cheenu Gupta: Okay, thanks a lot.

Moderator: Next question comes from Mr. Amit Hiremath of IDBI Capital.

Amit Hiremath: Thanks for taking my question. I would like to know about the update on the clinical expansion studies being carried out by CIMAB at Cuba.

Kiran Mazumdar: Pardon?

Amit Hiremath: The clinical expansion studies on antibodies being carried out by CIMAB at Cuba. What is the update on it?

Kiran Mazumdar: CIMAB is actually in the case of BioMab, they are actually extending the trials to pancreatic cancers and colorectal cancers. So we will do that in the next phase. Right now we are extending it in India for glioma and non-small cell lung cancer whereas some work has already been done by CIMAB in Cuba on these indications, but they are now moving on to other indications like colorectal cancer, breast cancer and pancreatic cancers.

Amit Hiremath: Okay ma'am, and one more question regarding the licensing fee. Like in the last fiscal, the licensing fees were about Rs 27 crore. Am I right? This particular quarter you were saying that the licensing fees are around Rs 15 - Rs 16 crore. Is it going to be a lumpy kind of growth or is it going to be continued for the next quarters also?

Kiran Mazumdar-Shaw: Well you know it will be lumpy growth in terms of on quarter on quarter but on an annualized basis you are going to see a good substantial growth.

Amit Hiremath: So can we consider it will be growing by what?

Kiran Mazumdar-Shaw: I don't want to say exactly what the percentage is, but you can certainly expect good growth in this sector, this segment.

Amit Hiremath: Okay. Thank you ma'am.

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

Prashant Nair: Hi, I just needed some clarifications on the enzymes business and its sale. First did you mention that the profitability of the enzymes business was in line with the profitability of the overall business or is there any difference?

Chinnappa: Yes. That is right.

Prashant Nair: And the second question is in terms of the consideration that you get from the sale how exactly would the cash flows pan out? How much will you get at the outset and then I believe there are certain needs...

Murali Krishnan: We will get about 85% upon closing the transaction, about 7% we be received over the next two years and the remaining balance 8% over 10 years, from the date of closing.

Prashant Nair: All right. Thanks.

Murali Krishnan: There are some transition services and then some permanent support services, including lease rentals over a period of 10 years and hence the deferment of 15% of the consideration over this period.

Prashant Nair: Okay. Fair enough. Thanks a lot.

Moderator: We have a follow-up question from Mr. Dipan Mehta of Dipan Mehta Shares.

Dipan Mehta: I just wanted to understand that the one third revenue which comes from statin, is that the only business which is of a commodity type nature and two third revenues are more of the nature of where the company is driving its product in the strength of its R&D or then we have the relationships as we do with some of the international nature for supply of reserve product where the entry barriers are very high, so is that a correct understanding basically?

Kiran Mazumdar-Shaw: Well. I think largely yes, your interpretation is right you know, basically we get about 20% of our business coming from services and if you have to look at that then 50% of the business certainly is categorized generally as not a very commoditizing business at this point in time.

Dipan Mehta: That means one third would be dependent upon market forces and China and currency and US market and two thirds are where you have done relationships very high entry barriers.

Kiran Mazumdar-Shaw: Yes.

Dipan Mehta: And do you think that right now assuming that one third will have volatility in terms of earning do you think that the two third part which is the non commodity business of the company now has reached the stage where it can deliver a kind of 30% steady growth and that there would be a certain element of non volatility or stability in those revenues and profits or that we should anticipate that the other two thirds also may have its....

Kiran Mazumdar-Shaw: Well the other two thirds really you know, yes, you are right that we will certainly look at, using the two thirds but even in that two third, the services business also has the slight problem of appreciating rupee and of course there is a lot of competition in out sourcing. So you can't just arbitrarily raise the margins. So there is at the moment a price pressure we are facing on account of the appreciating rupee. So you have to now offset that against what you can do in terms of realizing more margins from these kinds of businesses. But to a large extent yes, that is what our strategy is, that we would like to try and see how we can improve margins in the rest of the business.

Dipan Mehta: As a policy you are not disclosing the EBITDA margins for each of these segments is that correct?

Kiran Mazumdar-Shaw: Yes, it is absolutely correct.

Dipan Mehta: You made this statement earlier in the conference call that perhaps the impression we get is that the market is not understanding Biocon and not evaluating it appropriately. So just a suggestion to you that may be one of the reasons could be that we do not understand, we are not able to value each business by itself because you don't have the EBITDA.

Kiran Mazumdar-Shaw: But for that reason I don't think we would like to share all the breakdown numbers. I think what we are saying is if you can see that the licensing income revenues are going up and you know while I have been constantly focusing on the fact that we are a very R&D driven company and that really the R&D is going to realize huge upsides for the company, I think that has not been recognized at all. Secondly, I think the fact that in very competitive market we are still delivering these kinds of margins also is something that you have not recognized because if you look at all the companies operating in our space I think if you look at their margins with respect to the kind of products that they are offering in the market their margins are much low, so I think that is what I am talking about. That really we have delivered very good margins for the kind of businesses that have been dictating our revenues and profits until now. And going forward I think you will see that we are improving our margins, we are improving our performance, because we have this inherent strength of our research and our products that are coming out of our research.

Dipan Mehta: I think I get your point Ma'am and I think if results keep on coming like this then market will have no problem in trying to understand your strategy and value, anyway all the best.

Kiran Mazumdar-Shaw: I think EBITDA if you were to just go by EBITDA I think this really indicates past performance. What we want the market is to understand the real value of our

intangibles that are in our business which is really about our R&D program about the kind of strength we are gaining in some of the very difficult segments like Biosimilars and the other kind of segments that we have which are very differentiated even in the kind of you know generic segments.

Dipan Mehta: Thank you and all the best, madam.

Moderator: We have a follow up question from Mr. Rahul Sharma of Karvy Stock Broking.

Rahul Sharma: I just wanted to know I have missed out on the presence of Chinese players in the US market and what type of market share do they have in Europe market in statin space.

Rakesh Bamzai: I answered this. In US, they are in periphery. In Europe they are present but their impact is not much, may be in the markets that we are operating, they would be having may be 10% or below 10% market share.

Rahul Sharma: And in US?

Rakesh Bamzai: US they are very, very small, right now they are not there. They are trying to be there. They want to be there.

Rahul Sharma: Okay, but do you see them coming in a major way next year, is it what your market sources or market pulse tells you?

Rakesh Bamzai: It is a long process. Once the people approve us source or a site then there is a huge regulatory process which goes in for qualification of the source. People right now don't want to do it. The customers don't want to do it because anyway the prices are coming down and stabilizing at one level. What additional advantage these companies are going to give to these companies that's what is going to matter in their decision of going ahead with the alternate source.

Rahul Sharma: I do not get the last part of it sir.

Rakesh Bamzai: See what I was saying is China is trying to be in the US but today we don't see them as a threat in the US.

Rahul Sharma: Okay.

Rakesh Bamzai: See you guys would analyze the market and you would conclude that it is India who is creating more price competition in the US than China.

Rahul Sharma: Okay, thank you.

Moderator: We have a follow up question from Mr. Chirag Talati of Mehta Partners.

Chirag Talati: Yes, thanks for taking my question. I understand that you had said that you would like to have a front-end for your insulin in EU is that right?

Rakesh Bamzai: Yes, we have main strategies in the EU. Right now we are all concentrating on getting the regulatory approval for our Insugen brand.

Kiran Mazumdar-Shaw: Yes but the front end would not be for the whole of Europe. We would look at some opportunities in may be select market but we will certainly go through partnerships as well.

Chirag Talati: Okay, that's what I meant.

Kiran Mazumdar-Shaw: No because Europe is too large a market to have a front end for the whole of Europe.

Chirag Talati: Exactly that's what I wanted to have clarity on. So apart from partnerships, would you also be open to inorganic growth?

Kiran Mazumdar-Shaw: Yes.

Chirag Talati: Okay great. Thanks a lot.

Moderator: We have a follow up question from Mr. Harish Swaminathan, a Private Investor.

Harish Swaminathan: Thank you very much sir. The first question might be addressed to Chinnappa on the provision for doubtful debts. What is the current provision for doubtful debts that we carry and if you can tell us what was the highest amount that we have written off due to non-collection of dues from our customers?

Chinnappa: During the quarter we took a charge of Rs one crore towards provision for doubtful debt as per our provisioning policy. On a total basis in the history of the last seven years our total provision that we have accumulated should be in the nature of about Rs 4 crore of which about Rs one crore has been written off as bad debts.

Harish Swaminathan: And do you think it is a possibility that you can include the names of the customers along with the provision schedule in the annual report from next year?

Murali Krishnan: It's not required, because Schedule 6 does not require it to be given. What is not required to be given, we would not like to put it there.

Harish Swaminathan: And what will you think is the effective borrowing cost though I know our borrowings are pretty low but what is the effective interest that we are paying?

Chinnappa: Yeah, its about 8% now, we have about 50% as interest free, on the 50% interest bearing loans which cost us about 8%. Rupee loans are at 9% and dollar loans are about 8%.

Harish Swaminathan: Okay and I also wanted to mention that the revamped web site is really good and I just wanted to put that on record.

Kiran Mazumdar-Shaw: Thank you, thank you very much that's a good feed back.

Harish Swaminathan: The last question on attrition rates at the entry level in the clinical service business, so how have we planned to tackle that and you plan to bring in ESOPs at the entry level.

Arvind Atingnal: I will comment on the attrition rate. Under 15% for people who come at the entry level and about 5% people who are managers and above. This is the phenomena we have to live with and manage it appropriately and we are thinking and implemented also several things including training, accreditation, certification which will make them also enjoy the jobs they are doing as well as progress in their professional careers. That is the only way to do that and not by just giving them ESOPs or any other sort of only financial incentives.

Harish Swaminathan: What you think is the major reason for this 15% attrition?

Arvind Atingnal: We did a very brief analysis of the 15%. A large number of people at CRA level are women employees and half of that 15% is because they get married and unfortunately most women have to follow their husbands to other places including to overseas countries and

other 50% of them are because they join other service organization or they take different paths in their career.

Harish Swaminathan: So is it a good idea to look at ESOPs at the entry level or do you think it's not really worth it?

Kiran Mazumdar-Shaw: As the company we feel that you know just giving the financial incentive which really ESOPs are about at a manager level onwards definitely this is an important consideration but not at an entry level. I think this country has to get into very innovative ways of adjusting attrition.

Harish Swaminathan: And the last question what do you think are the major challenges facing Biocon today?

Kiran Mazumdar-Shaw: I think there are many challenges we have, one is of course since most of our business is very export oriented, certainly the dollar, the depreciating dollar is the big challenge for us. I certainly believe that like all companies, yes, I think we have in this phase a regulatory challenge, where in India especially where we are not familiar with new molecules, we do have a challenge where we have to accept the fact that it is not as fast as it can be. We do have a learning process of going through to get into new molecules, so this is a big challenge and there is a big skill shortage challenge that we are facing. We certainly find that in R&D India is just not geared up to finding all the right talent that we need for propriety product development. We are very good at generic product but very, very weak in propriety product development that is what Biocon's contribution is going to be for this country. We are developing a lot of good talent and we will continue to try and develop this talent and I hope that the rest of the country will also start developing talents in this area. And therefore I think again the challenge is we don't have enough people emanating from our academic institutions and our educational institutions with the right expertise with which companies like us can grow fast. That is the biggest challenge we are facing. It is a skill thing. It is not about skill shortage but sometimes the skill itself is not available in this country.

Harish Swaminathan: Do you think expectation management is a challenge?

Kiran Mazumdar-Shaw: Of course it always is I think managing expectations is part of the whole job of you know all companies and yes it is a big challenge for us because as I said people don't understand the story very well. We still keep getting us questions only on statins; nobody wants to know about our proprietary products. So it is the challenge and I hold myself responsible for that, because obviously I am not able to articulate the exciting R&D work that we are doing the huge value add that we can get from these programs becoming successful. So I hold myself responsible for that and I just hope that in the foreseeable future that people begin to understand what Biocon is all about.

Harish Swaminathan: Thank you, thank you very much.

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

Kiran Mazumdar-Shaw: I would like to thank everyone for participating in this conference call and we look forward to being with you at the next quarter. Thank you.

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

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