

Q1 FY14 Post Earnings Conference Call July 26, 2013

Participants from Biocon Group's Senior Management Team

- ❖ Kiran Mazumdar Shaw: Chairman and Managing Director
- ❖ John Shaw: Vice Chairman
- ❖ Arun Chandavarkar: Chief Operating Officer
- ❖ Murali Krishnan: President, Finance
- ❖ Abhijit Barve: President, R&D
- ❖ Rakesh Bamzai: President, Marketing
- ❖ Siddharth Mittal: Vice-President, Finance
- ❖ Satish Arunachalam: General Manager, Finance
- ❖ Kiran Kumar: Deputy General Manager, Finance
- ❖ Peter Bains: Director, Syngene International
- ❖ M.B. Chinappa: President, Finance, Syngene International
- ❖ Manoj Nerurkar: Chief Operating Officer, Syngene International
- ❖ Saurabh Paliwal: Head, Investor Relations

Presentation Session

Moderator: Ladies and gentlemen, good day and welcome to Biocon Limited Q1 FY14 Earnings Conference Call. As a reminder for the duration of this conference, all participants' lines will be in the listen-only mode. There will be an opportunity to ask questions at the end of today's presentation. Should you need assistance during this conference, please signal the operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Saurabh Paliwal of Biocon Limited. Thank you.

Saurabh Paliwal: Good afternoon everybody, and thank you for joining us on Biocon's quarterly conference call for the period ending 30th June 2013. I am Saurabh Paliwal from the Investor Relations team. We had released our Q1 FY14 results last night and the same are available on our website. We have with us on the call today Ms. Kiran Mazumdar-Shaw, Biocon's Chairman and Managing Director and our colleagues from the senior management team. We will begin this call with opening remarks from Biocon's management followed by an interactive Q&A session. Before we proceed with the call, I would like to remind everyone that this call is being recorded and a replay will be available for the next few days. The call transcript shall be available on our website soon. I would like to add that today's discussion may be forward-looking in nature and must be viewed in conjunction with the risks that our business faces. The safe-harbor contained in our press release also pertains to this conference call. After the end of this call, please feel free to get in touch with the investor relations team with any additional queries that you may have. Now I would like to turn the call over to Ms. Kiran Mazumdar.

Kiran M Shaw: Thank You Saurabh. Good afternoon and welcome to Biocon investor conference call for the quarter ended 30th June, 2013. Let me begin with the key financial highlights:

- ❖ Group sales have risen by 22% to Rs.695 Crores
- ❖ The Biopharma business delivered a strong performance this quarter with a YoY growth of 21%
- ❖ Our Research Services and branded formulations verticals continued to do well and have registered a YoY growth of 17% and 26% respectively.

The branded formulations performance has been impacted by various regulatory and market channel issues in the Indian Pharma space. Given this backdrop, our business still continues to grow faster than the market which grew at 8% YoY this quarter.



Group EBITDA was Rs.175 Crores, with a strong YoY growth of 26%. Our EBITDA growth has kept pace with the revenues despite a 21% increase in R&D investments. I would like to emphasize here that we have also seen a 60 basis point expansion in our EBITDA margin. This is a result of various initiatives focused on evolving the product mix, cost containment measures and streamlining of the organizational structure. I believe that our new organizational structure has brought in greater focus and operational efficiency, resulting in good earnings this quarter and we expect this to continue in the future.

We have seen our tax outflows double this year with a tax rate of 24% for the quarter. This is due to the partial loss of certain SEZ benefits on our facilities. Group Net profit for the quarter has grown by 19% to Rs.94 crores despite the various aspects that I just touched upon.

Towards the end of the quarter we had seen a significant movement in the Rupee which has had an impact on our quarterly performance. At the group sales level, we have been positively impacted by 2%. Hence core revenue growth is a healthy 20%. We had a net forex gain at the group level of Rs.8 Crores this quarter, which is included under other income. Our research services business has also benefitted from the currency movement at the top line by 4%. This benefit however has not accrued to the bottom line due to the losses on our forex hedges that we had taken earlier, particularly with respect to the BMS contract. As mentioned earlier we expect these contracts to mature in Q2 FY14, post which the research services vertical is expected to see further margin expansion. So I want to caution here that we will have to bear a forex loss in the coming quarter but there on and beyond, we expect to see a good improvement in our research services business' performance.

Research services delivered an EBITDA growth of 34% this quarter to reach Rs.44 crores. Total debt for the group at the end of Q1 stood at Rs.374 Crores, largely coming from drawdowns made for the construction of our Malaysia facility. We are net cash positive with a balance of Rs.870 crores at the end of Q1 FY14. Our core business remains robust with our core margins (EBITDA margins excluding the impact of R&D spends and licensing income) at a healthy 26% which gives us sufficient cash to fund our R&D programs. We believe that R&D is integral to our business and we are confident that it will give us exponential returns as we go forward. Our R&D programs are progressing well and the latest success is our second novel biologic Alzumab™, which will soon be launched in the Indian market and is a very valuable licensable asset.

Coming to our generic insulins, we have completed a facility expansion initiative this quarter which will help us meet the increasing demand for biosimilar insulins from emerging markets. Our increasing geographical footprint has augmented this demand and we anticipate this to increase further, helping us deliver a robust growth in the biosimilar segment.

We are awaiting the final EU Phase-3 trial report of our generic rh-insulin and in the meantime we are evaluating the merits of a harmonized filing strategy that includes EU, US and our upcoming Malaysian insulin facility. The increasing demand for rh-Insulin from emerging markets has made it imperative for us to de-risk supplies through additional capacities from our upcoming Malaysian facility. Hence we are making all efforts to ensure that the Malaysian facility will meet the internal time lines, and I am pleased to state that it is on track.

In conclusion, we remain confident of delivering growth across all segments of our business during FY14. We will build upon the performance of our generic insulin business in emerging markets like LATAM, Middle East and Africa. The India launch of our novel product Alzumab™ is important for us and we will make further progress on all our R&D programs, which we believe will help us build sustainable growth platforms. The focus for us is clearly on execution of our business plans while we continue to build efficiencies in our processes. I would now like to open up this conference call to a Q&A. Thank you.

Q&A Session

Moderator: Thank you very much. We will now begin the Q&A session. We have the first question from Anand Rawani from Horizon Research, please go ahead.

Anand Rawani: What is the currency hedging policy of Biocon and do we hedge 100% of our exposure?

Kiran Kumar: We have a policy of hedging our net receivables. The policy is to hedge 100% of our net exposure for year 1 and up to 70% for year two. The hedges are largely through put option contracts except where we have the existing long-term obligations, like the BMS contract in Syngene.

Anand Rawani: Is there a possibility of a renegotiation with clients due to change in exchange rates or can we get the overall benefits going ahead because the rupee has already depreciated?

Kiran Kumar: As of now we do not anticipate any renegotiation with the customers but we can never say that will not happen. If it happens we will address the same.

Anand Rawani: GE Capital owns about 7.69% in Syngene, so Biocon should logically be holding 92.2%. However I was looking at the presentation and it said that Biocon holds 88%, so who owns the rest?

Kiran Kumar: There is an ESOP Trust which holds the rest in Syngene.

Anand Rawani: What is the exit clause on the GE Syngene agreement in terms of time frame & exit route?

M.B. Chinappa: We cannot comment on that, due to confidentiality clauses.

Anand Rawani: Okay, Does Biocon have an option to buyback GE's stake back by giving them, say a 20-25% IRR? Moreover, Syngene's IPO is expected in FY15, so have we given the mandate to any investment banker?

Saurabh Paliwal: Anand, it is a contract between 2 private parties and we are not in a position to disclose the terms of contract.

Anand Rawani: Okay. The press release mentions that Clinigene International is merging with Syngene; can you tell me, what is the thought process here?

Peter Bains: The rationale of merging Clinigene with Syngene is to internally strengthen our integrated service platform, whereby we can align our capabilities and draw some synergy. This will help us to better align our service propositions to our customer universe.

Moderator: Thank you. The next question is from the line of Girish Bakhru from HSBC. Please go ahead.

Girish Bakhru: You have commented that you are still awaiting the Phase-3 trial report but if you could give us a sense on the readings from the early data and when do you see the filing happening- would it be Q3 or will it be pushed to the next year?

Abhijit Barve: We have been indicating that we will have discussions with the regulatory authorities and that will determine the timeline of the filing. We are also exploring the option of having an integrated, harmonized filing strategy which could potentially allow us to cut down on the number of studies that would be required. Beyond that we cannot comment at this point.

Girish Bakhru: But the earlier plan was that these filings for Europe will be targeted first and US will be much later...

Abhijit Barve: Yes, that was the initial plan but we are re-looking at the overall strategy.

Girish Bakhru: Given that Lilly has already filed their Glargine with Europe and EMEA has accepted their filing, where do you think Biocon is in that race with Mylan and if you have got some sense on the similarities between their and our trials?

Abhijit Barve: As we all know, being the first in the Biosimilar game does not necessarily mean that you will always have the best thing- you have your own sets of challenges. Our studies are going to be very similar to those of Lilly and I will leave it at that.

Girish Bakhru: Any color on the current market share of our insulins in the Indian market?

Rakesh Bamzai: We are growing much faster than other Insulin players according to IMS reports and we have increased our market share to ~11%. We are poised to make Insugen, our generic rh- insulin, a Rs. 100 Crores brand very soon.

Moderator: Thank you. The next question is from the line of Bino Pathiparampil from IIFL. Please go ahead.

Bino Pathiparampil: What is the forex loss that you have booked in the quarter from the BMS hedges and where is it?

Chinappa: The net loss in Syngene books is Rs. 11 Crores for the quarter. At the consol level, we had a gain of Rs. 8 Crores which appears under other income

Bino Pathiparampil: On the Biosimilars front, does this harmonized filing of insulin in the US and EU further pushes out the European filing?

Abhijit Barve: We currently cannot comment on the exact timelines

Bino Pathiparampil: But in principle it implies that you are trying to delay the European filing so that you get some kind of concurrence from the US as well?

Abhijit Barve: No, I would not necessarily indicate that

Bino Pathiparampil: Would you be able to give a general idea about the products and progress in the Mylan MAb portfolio?

Abhijit Barve: The Herceptin Biosimilar Program, currently undergoing a global Phase III, is on track and all the other programs are progressing well. We will not be able to comment on the data timelines as of now.

Bino Pathiparampil: Could you give some idea about the kind of R&D expense we are looking at going forward? Last year you did around Rs. 150 Crores. I think the insulin expense will come in this year because the Pfizer income has been recognized. But in the first quarter we have not seen any impact. So are we looking at a major step jump in the R&D expenses in the coming quarters or is it going to be only a gradual increase?

Kiran M Shaw: I think spends on R&D is indicative of the progress being made by our programs. R&D spends will go up this year and you can expect it to be upwards of Rs. 200 Crores for FY14.

Moderator: Thank you. The next question is from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.

Nimish Mehta: Why do we see almost no change in other expenses this quarter- any particular reason or should we expect this run rate going forward?

Kiran Kumar: There was a forex loss last quarter which was sitting in other expenses. If you take that out, there has been a ~15% growth in other expenses.

Nimish Mehta: Can you also explain what is the gross R&D mentioned as a footnote in the Factsheet?

Kiran Kumar: Most of the R&D spends on the Insulin trials are drawn out of the deferred amounts, and hence get netted off. The gross R&D reflects our total R&D spends before this netting off.

Nimish Mehta: Does it anyway reflect the share of Mylan that they might be contributing for the development of other programs?

Kiran Kumar: No, it does not include that. Only our portion of the spends gets reflected in the R&D expenses line. We do not consolidate the Mylan share of spends.

Nimish Mehta: What do you think would be the impact on our insulin, now that the Government is talking about cutting the price of Insulin in India?

Rakesh Bamzai: Insulins have been a part of NPPA for a long time. Hence, there will be no negative impact by this pricing change. Currently, imported insulins are priced higher than the indigenous insulin. We are taking up this issue with the government. We want one pricing in this country for imported and indigenous manufactured insulin, to create a level playing field.

Nimish Mehta: When can we expect the launch of generic Herceptin in India?

Rakesh Bamzai: As an organization we are committed to bringing generic MABs to the market. Our biosimilar Herceptin is currently undergoing an India Phase III trial. Post its completion we look forward to filing the same with the regulators. The launch timing would depend on the receipt of approval from them.

Moderator: Thank you. The next question is from the line of Karthik Mehta from ICICI Securities. Please go ahead.

Karthik Mehta: Two things- One on the outlook of the Indian branded business. We have grown ahead of the industry. Could you highlight any particular part of that business which you think is able to grow way faster than the addressable market? The second question is- what is the outlook on the statins portfolio that we have?

Rakesh Bamzai: I will take this question Karthik. Regarding the first question on branded formulations, we have seen robust growth in all the segments that we are present in and we will continue growing. So it is a broad-based growth leading to an overall decent growth rate. And for the second part, Statins continue to grow. Simvastatin has largely been stable with marginal growth. Atorvastatin and Pravastatin are increasing in revenue share and the new statins will be coming in.

Karthik Mehta: Would you have a timeline for the new statins?

Rakesh Bamzai: We are current present in those statins whose patents have expired. If you follow the pattern then whenever the patents expire, we will be there.

Karthik Mehta: Can you share the existing capacity for statins and would there be anything that we need to incur to increase the capacity if we sell more as these go off patent?

Rakesh Bamzai: It is public knowledge that Biocon is one of the largest producers of Statins and we have sufficient capacities to meet near term demand. In the next two year plans we do not have very big capacity enhancement plans except the occasional de-bottlenecking.

Moderator: Thank you. The next question is from the line of Ranjit Kapadia from Centrum. Please go ahead.

Ranjit Kapadia: Can you elaborate on the current status and outlook for Fidaxomicin and Orlistat?

Rakesh Bamzai: As we have explained in the past, Fidaxomicin is Optimer's product and they continue to build its market by entering into new countries, and growing in the current markets. We cannot disclose more because we are under contractual obligations with Optimer. We have a strong fermentation technology that has enabled us to compete effectively in all our current markets. We were pioneers in Orlistat which is why we have seen continued growth in this molecule. We also sell Orlistat in the Indian market, under our branded formulations vertical.

Ranjit Kapadia: Can you elaborate on what is the capacity increase of insulin at Bangalore post the recently undertaken capacity increase?

Rakesh Bamzai: We cannot share percentage increases. However I would like to mention here that we will keep enhancing our capacities to meet the increasing requirements for our insulins in the emerging markets. At some point, the increasing demand will have to be met by the additional capacity coming from Malaysia.

Moderator: Thank you. The next question is from the line of Surya Patra from Systematix Shares & Stocks. Please go ahead.

Surya Patra: On the rh-Insulin front, we have seen capacity as well as the geographical expansion for our product. So I think that the significant growth that we have seen in this product would continue in the future. Will it be possible to share the current size of the generic insulin business?

Rakesh Bamzai: We cannot share the size of our insulin business currently, but we can share that our product is registered in 46 countries and is under registration in 25 countries.

Surya Patra: Last year, we had registrations in ~25 countries and now we are at 45+. Is it fair to assume that the current movement will continue?

Rakesh Bamzai: You can put together your analysis and statistics, but all that we can say is that we are expanding in terms of both geography & capacities. We have been very well received, our plants are full, and our order books are full as well.

Surya Patra: With the new thought process coming in with regards to rh-Insulin filing in Europe and US- how will that impact the out-licensing opportunity or will that to some extent postpone the out-licensing opportunity out of it?

Rakesh Bamzai: It will not impact because these are two independent processes.

Surya Patra: With the new regulatory developments in the country, we have seen the number of trials declining significantly. Will that impact the growth of Syngene in anyway?

Peter Bains: No, the proportion of revenue and growth in Research Services deriving from clinical trial activity in India is very small. So the current regulatory conditions will not impact our growth projections.

Surya Patra: In the recent annual report, we have mentioned that we have initiated clinical trials for BioMAb EGFR in various international markets. Which are those markets and what is the thought process on this product?

Rakesh Bamzai: We have commercialization rights for this molecule in 10-12 countries. Hence, wherever we need to undertake bridging trials, we are doing that to get a quick approval.

Surya Patra: So this means these are the emerging markets and not any of the advanced market?

Rakesh Bamzai: Yes, that is correct.

Surya Patra: So we should not anticipate any licensing/ milestone income for this product?

Rakesh Bamzai: That is correct.

Surya Patra: Last question: What is the tax that we can expect in FY14 and FY15?

Kiran Kumar: It should be 22-24% for this year.

Moderator: Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: If I understand correctly this is the first time we are hearing about a harmonized filing for both Europe and US as far as rh-Insulin is concerned. What has brought about this change in strategy?

Abhijit Barve: As we mentioned at the beginning of the call, we are currently evaluating this strategy. It is not a done deal yet, but we are definitely evaluating if an integrated filing strategy will give us an added mileage.

Sameer Baisiwala: Have you had a discussion with the US regulator?

Abhijit Barve: We will not be able to comment on our discussions with the regulators.

Sameer Baisiwala: What I am trying to understand is, what is it that is giving us the confidence to look at an integrated filing. I understand that it is a strategy that you are contemplating right now, but is it the quality of the trial results or anything else that is giving you this comfort?

Abhijit Barve: As we have mentioned, we discuss the development program with the regulators on a regular basis. This new strategy being evaluated is based on some of the inputs that we have received.

Sameer Baisiwala: If we go a couple of steps forward from dossier filing & approval, do you think the market would take the branded route? Is that the route that you plan to take for Europe, US or do you think the interchangeability route would be available for this product?

Rakesh Bamzai: We think it will be a blend: wherever it can be easily substituted by governments, it should to be done that way. In other smaller countries where brands are given recognition, it will take that route. This is the same commentary that we are hearing from other biosimilar players like Sandoz. As far as

US is concerned, we are still mulling over the way to go forward. We will let you know, as we make further progress

Sameer Baisiwala: What has been the investment so far on the Malaysian facility?

Murali Krishnan: ~Rs. 220 Crores.

Moderator: Thank you. The next question is from the line of Purvi Shah from Dalal & Broacha. Please go ahead.

Purvi Shah: I just need a small clarification on the BMS contract. When do we see this expiring and does that mean Q2 FY14 would be the last quarter where we would be reporting FX losses?

Chinappa: Yes, in Q2 we will see increased losses. If the rupee remains at 59 to the dollar, we expect profits to come down from Rs. 22 Crores in Q1 to ~Rs. 19 crores in the subsequent quarter. However from Q3 onwards we expect minimal forex losses and all other exposures are covered via put options with a floor rate of 55.

Purvi Shah: Okay, so we can say this financial year could be the last financial year for the losses and from FY15 we will be seeing normal profits at the pertinent FX rates?

Chinappa: Yes, that is right. From Q3 onwards you will see minimal FX losses.

Purvi Shah: So we can expect some improvement in the profitability in the second half?

Chinappa: Yes, if Rupee remain at these levels.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.

Sachin Kasera: You have mentioned, we are completely hedged for the current year. Is that applicable only to Biocon or for the group as a whole? Could give us some ideas as to what are the rates at which you have hedge for FY14 and FY15?

Kiran Kumar: We are hedged at the group level via plain puts.

Sachin Kasera: If we see the numbers on the segmental report for Syngene, the reported EBIT is up by 12% whereas the top line is up by 22%. Is it because of the Rs. 11 Crores forex loss sitting in the EBIT numbers?

Chinappa: Yes, it is really the impact of the forex losses on the EBIT levels. Due to the rupee depreciation, we had Rs. 6 crores gain in revenues which was set off by forex losses of Rs. 11 crores. So the net was a charge of Rs. 5 Crores in this quarter.

Sachin Kasera: What was the figure for the same quarter last year, sir?

Chinappa: Last year we took a net charge of ~6-7 Crores.

Sachin Kasera: So on the EBIT level, the charge is largely the same?

Chinappa: Yes as a percentage to revenues, it is largely the same.

Sachin Kasera: So in that case, why has the EBIT grown at 12% despite a 22% increase in revenues?

Chinappa: Can I just look in to this and revert back to you off-line.

Sachin Kasera: Sure. On the domestic formulation we have seen some slowdown in growth from the 25-30% that we used to report earlier and you have mentioned that the reasons is the market. How do we see this going ahead: do we see growth coming back or because of the market scenario this year we should be looking at more like a 15-20% growth compared to the 25-30% that we have been doing in the last two to three years?

Rakesh Bamzai: Our internal projections state that the growth will be robust but there are industry challenges. So we maintain that we can grow better in the second and third quarters.

Sachin Kasera: Sir, can you give any sense on the number of products we are planning to launch in domestic market in FY14?

Rakesh Bamzai: Beyond AlzumabTM, there are 3-4 new products we expect to launch in Immunotherapy and bio-products divisions.

Sachin Kasera: You mentioned that you are looking to build efficiencies and change the product mix towards margin accretive products. Could you throw some light on this?

Rakesh Bamzai: All companies aim to improve their margins through a better mix. We are also focusing on this and trying to build up a good mix to get better margins. We currently have good margins and we want to improve it.

Sachin Kasera: On the Insulins front, we had mentioned that the timeline for the Malaysian facility is FY14. Can you given us more granularity on it, and the current status of the same

Satish Arunachalam: We have mentioned earlier that the Malaysian facility is on track to be commissioned in FY15.

Sachin Kasera: Okay, so till that time the emerging markets will continue to be served by India?

Satish Arunachalam: That is right.

Sachin Kasera: So in a way the additional capacities from the Malaysian facilities will be available only from FY16?

Satish Arunachalam: That is our expectation.

Sachin Kasera: Can you give us some update on ANDA and 505(b) (2) filings. What is the thought process there, what is the roadmap, can you look at some filings in FY14 or beyond?

Rakesh Bamzai: As we mentioned in the last quarterly call, we have 20 products under development. I think we will start in two years from now. Currently, a world-class development lab has been commissioned and we have some people in place.

Sachin Kasera: So, we are not looking at any filing in FY14?

Rakesh Bamzai: We are not filing anything in this year. We should see something in 2 years.

Sachin Kasera: The R&D spends mentioned earlier of Rs. 200 Crores: is that the gross or the net figure?

Murali Krishnan: Definitely the net number.

Moderator: Thank you. The next question is from the line of Meeta Shetty from HDFC Securities. Please go ahead.

Meeta Shetty: On the other expenses, now that we have planned to launch Alzumab™ in August. Can we expect to see the other expense going up by a significant delta in the coming quarter?

Rakesh Bamzai: Yes, it will go up.

Meeta Shetty: Our current run rate has been 10% to sales for other expenses. Do we see it remaining around at the same levels or going marginally up?

Kiran Kumar: Marginally up.

Meeta Shetty: Secondly, I know you are not answering anything on Fidaxomicin but Cubist Pharma's Surotomycin is expected to get approval sometime in the coming month and since it is going to be serving for CDAD infections, do we see any potential threat for Fidaxomicin growth, just a broad sense if you can give?

Rakesh Bamzai: I think Optimer will be in a better position to reply to this question. As the molecule does not belong to us, we will not be able to comment on this.

Meeta Shetty: On the raw material costs, the fact sheet has Rs. 344 Crores but the exchange filing has ~Rs. 303 Crores. So, why is there a difference?

Kiran Kumar: In the fact sheet we add all the direct costs- raw material and the power costs under the line item, while the exchange filing has only the raw material cost.

Meeta Shetty: Alright, I couldn't get the difference because the power cost is not mentioned in the exchange release.

Kiran Kumar: Yes, it is classified under the other expenses.

Meeta Shetty: So it is reclassified from other expense to the material cost?

Kiran Kumar: Yes.

Meeta Shetty: Lastly on the BMS contract, what is the value of the contract which is outstanding as of date?

Chinappa: We will not be able to comment on that number. As I indicated earlier, Q2 will be the last quarter where these the old contract will mature. The remaining contracts are at a higher rate.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: On the Syngene business you have talked about a manufacturing facility being commissioned in the quarter and the impact that has had. Can you throw some more light on the value add the manufacturing business is bringing to Syngene?

Peter Bains: The custom synthesis business in Syngene is an important and strong growth driver for us. This business is maturing strongly as the portfolio of products in late stage clinical development has increased. With the strengthening last stage pipeline, we are matching our partners with requisite manufacturing support and this presents a continued opportunity for us to grow with the development of these assets.

Nitin Agarwal: How many such assets would be there in late Phase-3 clinical trials which could potentially be commercialized over the next two to three years?

Peter Bains: We have 8 assets currently between Phase-2 and Phase-3. We cannot comment on their commercialization potential, as that is subject to regulatory clearances.

Nitin Agarwal: This manufacturing facility you talked about it is a high potency plant. So are all these assets are in the high potency area?

Peter Bains: No, they are not. We have commissioned the high potency unit which expands our capability base and enables further growth opportunities. These eight assets are not in the high potency area. We have also expanded our custom synthesis capability to support these assets through Phase-2 and Phase-3 and we are looking at further expansion possibilities in to the commercial arena.

Nitin Agarwal: And so I guess most of the commercial manufacturing opportunity that will come your way would typically be products which have moved through development in Syngene?

Peter Bains: That is right.

Nitin Agarwal: Can you give some qualitative feel on how is the contract research business has been shaping up over the last couple of years?

Peter Bains: In terms of the customer profile we have seen strong growth both with new customers and our existing clients. We have expanded the nature of the contracts for our existing customers- both in quantitative and qualitative terms and we have seen strong growth coming from acquisition of new customers. So three years ago we had a customer base of around 100 and today we have a customer base approaching 150.

Nitin Agarwal: Have you seen a trend of a consolidation of vendors happening in the contract research business over the last couple of years and has that been benefitting you in any manner?

Peter Bains: Yes, I think that has been very visible in the public arena. There have been a number of consolidation activities in the contract service business and we have continued to grow with both existing and new customers, as well as through substantial expansion of our capabilities.

Nitin Agarwal: On the rh-Insulin business in emerging markets you have talked about the fact that we are pretty excited by the opportunity and that we need to get the Malaysian facility in place to cater to that. Qualitatively, have you been surprised by the response of your product in some of these markets and how is the dynamic playing out in some of these emerging markets?

Rakesh Bamzai: Biocon has been very well received in the market where we operate in because of our high quality products and very good customer service. We have received a lot of encouragement and increased orders and even a lot of government support in these countries.

Nitin Agarwal: But in the conventional sense, the rh-Insulin API is a volume game and some of the larger Insulin manufactures globally have much larger capacities which should logically make them more cost competitive. So how does that really play out for us when we compete with them in these markets?

Rakesh Bamzai: As we have mentioned earlier, our technology is very competitive and with the upcoming Malaysian facility, we will be amongst the top Insulin producers in the world. So we are competing well on quality and we are aware that we need to compete on capacities as well.

Moderator: Thank you. The next question is from the line of Krishnendu Saha from Quantum Mutual Fund. Please go ahead.

Krishnendu Saha: There are just a couple of clarifications. You mentioned that the new DPCO has not affected you at all on the Insulin business. Does that mean the earlier pricing and the new pricing are largely the same?

Rakesh Bamzai: Yes, there is a minor tax variation which we are adjusting. It is almost the same.

Krishnendu Saha: How much was the CAPEX plan for the Malaysian facility and what amount of debt would be raised for that? Will it be a rupee debt or an USD debt?

Satish Arunachalam: We have arrangements in place for debt and the debt component should be 60-65% of the overall investment of ~\$160 Mn. Some part of these spends will also be funded under our Mylan program also. The entire spend is USD denominated.

Krishnendu Saha: In the fact sheet, investments have increased by Rs.100 crores and the debt has increased also likewise. So I am just assuming it is parked in some liquid cash or some other investments?

Kiran Kumar: Well, these are two different things. The upfront money that we received under some of our partner programs is reflected in the investments line and the debt is on account of the Malaysia project.

Moderator: Thank you. The next question is from the line of Bhagwan Chaudhary from IndiaNivesh. Please go ahead.

Bhagwan Choudhary: Need one clarification on the harmonized filing strategy in Europe and US for rh-Insulin. Are we planning to pursue it simultaneously in both geographies or will it be phased?

Abhijit Barve: As we have mentioned at the beginning of the call we cannot discuss the specifics of the strategy, as we are still in the exploratory stage of this particular activity.

Bhagwan Choudhary: By what time can we expect that you will come out with details to be shared with the investor community?

Abhijit Barve: As soon as we finalize the strategy, we will let you know.

Bhagwan Choudhary: Can we see any margin expansion going forward in the next one or two years?

Murali Krishnan: I think it is difficult to give guidance or outlook on the margins. I think we have a healthy margin, and we will try to maintain that

Bhagwan Choudhary: One last question is on your Bio-Pharma business, I think when you say that our statin business is stable, it means that it is a flat almost Y-o-Y or are you are seeing 2-3% kind of growth?

Rakesh Bamzai: I think as I mentioned earlier, Simvastatin is flat and the other statins are growing. The new statins will also come into play later. So we will see overall growth in the statin segments. If you put all of them together there will be ~5% growth on constant currency basis.

Bhagwan Choudhary: I think that ~40-45% of Bio-Pharma is statins and when we are saying that it is stable, while the entire business is growing at 20%. So what I conclude is that the other businesses are growing at more than 40-45%. Could you help me understand the drivers for that: is it from geographical expansion of any particular product expansion kind of growth?

Rakesh Bamzai: Over the last few years, our product mix has changed. We were strong in statins in the last couple of years, which has come down as a percentage of sales. The growth is coming from non-statins. So today, statins are less than 40% of biopharma.

Bhagwan Choudhary: The non-statins are growing at the rate of 40% + is that sustainable?

Rakesh Bamzai: We should be able to maintain that growth in absolute terms. We are also developing 5-6 new products, but there will be a gestation till the patent expires. So our existing products growth will continue and you will see the new products when the product patent expires.

Moderator: Thank you. The next question is from the line of Akshay Kakal from Credit Suisse. Please go ahead.

Akshay Kakal: If I look at your contract services business, it is kind of funny on a QoQ basis, because it seems you are seeing a bit of de-growth. Could you elaborate on that?

Peter Bains: That is an entirely consistent pattern that underpins our business cycle. What we see is Q4 sales are generally slightly higher than Q1 sales on an annualized basis. This is just a seasonal pattern and is consistent with how we see the business evolving going forward.

Akshay Kakal: If I understand that correctly, through Q3 and Q4 your US and European customers have a lot of spends. But that is not true for Q4 to Q1- is that so?

Peter Bains: Yes, I think your observation is correct that through the fiscal we see accelerating growth from Q1 to Q2 to Q3 to Q4 and then the following year we see a slight dip in Q1 and that is entirely consistent with what you have pointed out. There is about 3-4 month lag for execution of projects. In the month of December we see a slowdown in the manufacturing contracts that are awarded. That slow down in December is reflected in our Q1 performance. Typically in the month of August-September, a lot of contracts are awarded which are reflected in Q4 performance.

Moderator: Thank you. The next question is from the line of Vivek Agarwal from MP Advisors. Please go ahead.

Vivek Agarwal: My first question is related to the Generic Insulin that we are developing for Europe. Will the Insulin delivery device be comparable to that of innovator?

Rakesh Bamzai: Yes, we have a very good device, comparable to the best in class.

Vivek Agarwal: Could you share what is overall capacity of your Malaysia plant at 100% utilization?

Kiran M Shaw: Sorry, we cannot share capacity details due to competitive reasons.

Vivek Agarwal: How does the margin of your insulin business compare to your small molecules?

Saurabh Paliwal: We do not share product level margins. However, it is sufficient to say that our insulin business enjoys greater than company's margins.

Moderator: Thank you. We will take a final question from the line of Mehul Seth from Asit C Mehta. Please go ahead.

Mehul Seth: My question is related to AlzumabTM, what will be the market size you are expecting for this product?

Rakesh Bamzai: We aim to address a large, unmet need of ~5.6 million people in this country. We are very committed to build a patient-focused, affordable therapy for Psoriasis in the country so we are looking at building the market and giving the patients what they do not have today. It will take time to ramp up, but will become a strong brand for us.

Mehul Seth: Does it mean that its revenue impact will be from Q3 or Q4?

Kiran M Shaw: Well, we are going to launch this product over the next few weeks so we do not have more than half the year to realise any revenues from this product. So the tangible opportunities will only start from next fiscal.

Mehul Seth: Can you throw some light on your other oncology molecule BVX-20?

Abhijit Barve: The Phase –I clinical trial for this molecule has started in India and it is progressing well.

Mehul Seth: Can you give some growth guidelines for the company?

Saurabh Paliwal: We do not give any guidance with regard to growth. I think whatever guidance is there, is available in the public domain. Beyond that we will not be able to comment further.

Mehul Seth: Can we expect same growth rate for the following quarters?

Saurabh Paliwal: Well, you are trying to put words in my mouth. I am saying the company has been growing well and we see no reason for that to change.

Kiran M Shaw: We have shared with you our aspirational growth trajectory, so please go according to that.

Moderator: Thank you. I would now like to hand the floor over to Mr. Saurabh Paliwal for closing comments.

Saurabh Paliwal: Thank you everybody for been part of this call. We look forward to your participation in the second quarter's conference call. You can hang up your lines now. Thank you.

Moderator: Thank you, sir. On behalf of Biocon Limited, that concludes this conference. Thank you for joining us, you may now disconnect you lines.

Note: This document has been edited to improve readability