Transcript

Conference Call of Biocon Limited

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Participants from Biocon Group's Senior Management Team

- Kiran Mazumdar Shaw: Chairman and Managing Director
- John Shaw: Vice Chairman
- Murali Krishnan: President, Group Finance
- Arun Chandavarkar: Chief Operating Officer
- Abhijit Barve: President, R&D
- Rakesh Bamzai: President, Marketing
- Satish Arunachalam: General Manager, Finance
- Kiran Kumar: Deputy General Manager, Finance
- Peter Bains: Director, Syngene International
- M.B. Chinappa: President, Finance, Syngene International

Presentation Session

Moderator: Good afternoon ladies and gentlemen. I am Shirley, moderator for this conference. Welcome to the conference call 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 keypad. Please note this conference is recorded. I would now like to hand over the floor to Ms. Urvashi of Citigate Dewe Rogerson.

Urvashi: Thank you. Good afternoon everybody and thank you for joining us on Biocon Limited's Q4 and FY12 conference call. We have with us on the call today Ms. Kiran Mazumdar-Shaw, Biocon's Chairman and Managing Director and her 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. I would like to add that some statements made in this conference call may be forward looking in nature and a note to that effect is stated in the release sent out to you earlier. Now, I would like to invite Ms. Kiran Mazumdar-Shaw to briefly discuss the company's performance for the quarter ended 31st March 2012.

Kiran Mazumdar-Shaw: Thank you, Urvashi. Good afternoon and welcome to Biocon's Investor Conference Call for the year ended 31st March 2012. FY12 has been an eventful year for us with good progress across all our business verticals. We have delivered revenues of INR 2,148 Crores, EBITDA of INR 579 Crores and PAT of INR 338 Crores. At a group level, we have delivered 16% revenue growth, driven primarily by research services and branded formulations. Our services business showed a robust near 30% revenue growth from INR 318 crores to INR 410 Crores. The Branded Formulations vertical grew to INR 259 Crores this fiscal, a 39% growth over the previous year. Overall, our EBITDA and PAT margins are at 27% and 16%, respectively. Our net cash position further improved to INR 736 Crores against INR 465 Crores at the end of

last fiscal. The benefit of the net licensing income to our PAT was sharply down to INR 39 Crores this fiscal from the exceptional levels of INR 99 Crores recorded last fiscal. However, improvements across the board maintained the company's PAT very close to last year's level and I believe this is a very strong performance for the group.

I would also like to clarify that in this quarter; some of the licensing income pertaining to the Pfizer program has been netted based on provisions and expenses. Going forward, our development expense will be set off against the retained payments that we have received from Pfizer. We are continuing to allocate a significant portion of our production capacity to a number of Insulin portfolio development programs and this has negatively impacted sales over the past nine months. We anticipate freeing up some of this production capacity going forward which will spur sales.

We have seen exceptional growth in our research services business, an outcome of the strategic investments made over the last two years towards enhancing our integrated service offering. These value added offerings have helped us make a sharp turnaround from the rapidly commoditizing business that we were witnessing two years ago. We are on track to address the planned IPO for Syngene when market conditions are considered appropriate by our advisors. As a preparatory step, Clinigene has been made a subsidiary of Syngene. To refresh your memories, Clinigene was a 100% subsidiary of Biocon earlier and we believe that clubbing the two research services companies together is a significant step, as we prepare to take them to the market. Clinigene is now a 100% subsidiary of Syngene.

Moving up the value chain is integral to our growth strategy and this is reflected in the strong 39% growth delivered by our branded formulations vertical. Our focus on emerging markets has enabled us to realize a greater potential for our API and Insulin portfolio.

Now, I want to spend a few minutes commenting on our Pfizer partnership and what it looks like post Pfizer. Misinformed speculation around the conclusion of our global commercialization agreement with Pfizer has dented our share price. This is a perception issue that, I believe will be overcome in the near future. As explained earlier, a change in priority within the Pfizer biosimilar division led to an amicable dissolution of the partnership. In-house biosimilar programs were felt to deliver better returns to Pfizer, which triggered the decision to part ways. This was agreed to be in the best interest of the two companies. In terms of business continuity, there will be no impact whatsoever. Biocon will continue to develop the program for global registrations as planned, utilizing the retained payments received from Pfizer. The key change will be on the commercialization front, which will now shift from having one global partner, to multiple regional partners. Biocon had a number of strong regional partners in key emerging markets pre-dating Pfizer. Under the Pfizer arrangement, they were confined to marketing vials largely for the tender market. Post Pfizer's exit, cartridges and devices will be made available to them which will enable us to jointly garner a greater share of the value added retail market. We will also aggressively pursue new regional partnerships in the ROW markets through licensing. Licensing of our Biosimilar Insulin portfolio in the developed markets will be initiated post commencement of Phase III global clinical trials in order to unlock greater value.

Now, I'd like to highlight details on how we intend to manage the future. The economic and regulatory uncertainties that are looming large have introduced a number of risks that we are addressing through strategies that will enable us to navigate through this turbulent

environment. We have already set in place a focus on emerging markets, which have seen our business garner good market share. Emerging markets now account for over 50% of our business compared to 35%, a few years ago. We are addressing the threat of product commoditization by developing a pipeline of ANDAs and 505(b) (2) programs that are expected to drive growth going forward. We have already initiated five programs in this segment. I must, however, add that ANDAs and 505(b) (2)s have a gestation timeline and they should deliver handsome returns two to three years from now. Nevertheless, we are focusing on the right product mix for our API in order to make sure that we improve the quality of earnings. Fidaxomicin is a good example of how a product is preventing commoditization and margin erosion.

Our R&D pipeline is advancing satisfactorily with two late stage candidates and several early stage programs with enormous value creation potential through licensing. We are at an advanced stage of discussion for IN-105, our oral Insulin program. I want to mention here that this will not be an out-licensing opportunity with huge upfront. Instead, it will be a back ended licensing deal, which if it crosses the hoops will have a large upside. The positive data generated from the recently concluded Phase-III clinical trials in Psoriasis for Itolizumab, now positions it as a good licensing opportunity in FY13. Right now we are analyzing the Phase-III data and will shortly initiate discussions with several interested parties. .

On the Biosimilar front, we are nearing completion of various trials for Biosimilar Insulins: Phase-III clinical trials are on for recombinant human Insulin in Europe and Phase-I clinical trials for Insulin Glargine for the global markets (US & Europe). We expect to commence Phase-III global clinical trials for Glargine later this year. Biosimilar Lispro and Aspart are also due to enter the clinics shortly. I would also like to mention here that we have commenced Phase-III clinical trials for Biosimilar Trastuzumab or Herceptin in India, which will enable us to access several ROW markets. We are nearing completion of Phase-I clinical trials for this program in EU and expect to commence Phase-III global clinical trials sometime later this fiscal. All the other Biosimilar programs are progressing towards the clinics. The capacity constraints are being addressed through expansion investments which will deliver new capacities in the latter half of this coming fiscal.

We expect FY13 to be a gestational phase in delivering on the growth potential of our five key growth verticals. We expect our strategic initiatives to deliver strong upside going forward. We have identified some key upsides in each one of our verticals and we are confident that we will be able to realize many of these upsides starting this coming fiscal. Our focus will be on delivering on these upsides and on improving our quality of earnings. We have shaped our overall business into key growth verticals, which we believe will enable us to deliver sustainable long term value to our shareholders. These are:

1. Small molecules driven by API and now increasingly by ANDAs and 505(b) (2)s.

2. Biosimilar Biologics driven by our Insulin's portfolio, our Biosimilar MAbs portfolio and PEG-GCSF, partnered with Mylan.

3. Branded products where we have created some very strong brands for Biocon viz. Insugen®, Basalog®, BioMAb®, Erypro®, Statix® and Evertor®. These are amongst the top 2

brands in the market place in their respective segments. Going forward, brand building is going to be the focus with the intent of creating strong brand leaders in the market.

4. Novel molecules: Beyond IN-105 and Itolizumab, we also have BVX-20, a Biobetter anti-CD20 MAb that will enter the clinic this year.

5. Research services where we had a stellar performance by Syngene. The integrated research services model is delivering handsomely for us and we aim to deliver a high double-digit CAGR over the next five fiscals.

Other highlights I would like to comment on this quarter are:

- The inauguration of our state-of-the-art Biocon research center, which will be the fulcrum of innovation for our Biologics programs. We have created a multi-disciplinary integrated research center, which we hope will drive innovation and shorten timelines.

- The February 2012 IMS data for the overall Insulin market is another highlight which shows that Biocon is the fastest growing company in the Insulin segment at 53%. We were the third highest in terms of value added sales at INR 16 Crores after Novo and Sanofi. We overtook Lilly which had INR 10 Crores of value added sales for the same period and we believe that this catapults us into the premier league as an Indian company.

I will stop at this point and open this call to questions.

Question and Answer Session

Moderator: Thank you ma'am. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again.

The first question comes from, Mr. Ravi Aggarwal from Standard Chartered Securities.

Ravi Aggarwal: Good evening and thank you for taking my question. My first question is on the biopharma business. If I take away licensing, domestic formulations and the other income from total revenues, I see a very sharp sequential jump in terms of the overall business: from a run rate of around INR 300 odd Crores per quarter, we seem to be trending to somewhere around INR 350 odd Crores now. So, I was wondering, (a) what is driving this and, (b) is this a sustainable number going forward?

Rakesh Bamzai: Hi, this is Rakesh Bamzai. This is because of some contracts materializing and margins being healthy. So, going forward you can look at these trends on a regular basis.

Ravi Aggarwal: The reason Rakesh, I am asking this question is that post the launch of generic Lipitor in November 2011, one would expect to see some impact in this segment. But, it doesn't

seem to be reflected in the numbers. So, just wanted your sense about how is generic Lipitor affecting our statin business and tying it up with the overall revenue?

Rakesh Bamzai: We have traditionally been producing statins utilizing our technology platform and we continue to maintain strong relationships with our partners thereby ensuring that we do not lose market share. Atorvastatin launch in the US has not impacted our statin business negatively. We are looking forward to getting into the US with our Atorvastatin generic in near future.

Ravi Aggarwal: Okay. The second question was on the residual income which is retained from the Pfizer deal of around INR 493 odd Crores. I was wondering if we could get some sense about, (a) how many years will it take to essentially absorb this into our P&L and, (b) what could be the overall cost associated with this revenue?

Kiran Mazumdar-Shaw: As we had indicated earlier, we would be utilizing this money to develop our Insulins portfolio program over the next two to three years.

Ravi Aggarwal: Okay. Could you give us a sense on the cost side?

Murali Krishnan: Going forward, expenses on the Insulin portfolio will be set off against the retained income in the ratio of 1:1. There will be no mark-up and it will be PAT neutral.

Ravi Aggarwal: So, essentially you are saying that going forward we would now show it as a net off against R&D?

Kiran Mazumdar-Shaw: Let me explain that - When we had the arrangement with Pfizer, we used to book licensing & development fee upon proof and percentage of completion. We would then adjust expenses against it and there would be net licensing recognition to PAT levels. Going forward this will not happen, because the expenses will be booked in line with what we are spending.

Ravi Aggarwal: Okay, one last question. If you take away the INR 46 odd Crores of milestone income which we have received in the quarter, what is the core EBITDA margin on our business?

Murali Krishnan: We are unable to share our segment-wise EBITDA margins. A substantial portion of the INR 46 crores has gone into the R&D development expenses.

Ravi Aggarwal: Would the PAT number be around INR 1 crore?

Murali Krishnan: It is a single digit number.

Ravi Aggarwal: Okay Thanks.

Moderator: Next question comes from Mr. Girish Bakhru from HSBC Securities.

Girish Bakhru: Hi, On the R&D side, we have of course seen quite a jump in this quarter. So, for the full year probably we are going at INR 150 Crores as guided earlier. What is the number that we can look forward in fiscal '13?

Kiran Mazumdar-Shaw: We cannot give you much of an indicator as these numbers are not forecast-able, largely because they are driven by regulatory approval. The commencement of our clinical trials decides our R&D spends. You can expect it to be largely around the same number as FY12.

Girish Bakhru: But, this is bound to increase from hereon, given that there are so many programs?

Kiran Mazumdar-Shaw: Yes, it will increase.

Girish Bakhru: Okay. The other question that I have is on Fidaxomicin. Has the product been launched in Europe and what is the outlook post Vancomycin Generics?

Rakesh Bamzai: We have rights for the US and Europe markets. Fidaxomicin was launched in US in June last year and it is expected to be launched in Europe in July 2012.

Girish Bakhru: Are we seeing any cap on the upside, given that the Vancomycin generics have come before expectation?

Rakesh Bamzai: If you evaluate the profile of Fidaxomicin, it is better than Vancomycin. Fidaxomicin is a very well accepted, premium product. In the last five months, it has done very well in the market.

Girish Bakhru: Right. What is the guidance for FY13, given that we have seen a very low tax rate this quarter as well?

Murali Krishnan: It is likely to be around the MAT rate.

Girish Bakhru: Okay, thanks. I will join back in the queue.

Moderator: Thank you sir. Next question comes from Mr. Bino Pathiparambil from IIFL.

Bino Pathiparambil: Hi, just to clarify an earlier question, the sharp jump in R&D expenses QoQ is linked to the licensing income that you have recognized for the quarter, right?

Murali Krishnan: Yes, that's right.

Bino Pathiparambil: But, still if I look at last quarter, where there was license & development fee of about INR 30 Crores, it has become INR 46 Crores, which is only an increase of about INR 16 Crores.

Murali Krishnan: The R&D expenses reflect work in progress for several concurrently running programs beyond the licensing fee related R & D expenses.

Bino Pathiparambil: Okay, great. Are there any changes in your CAPEX plans regarding the Insulin plant in Malaysia? Are you rethinking anything there?

Murali Krishnan: No, We are going forward as per plan.

Bino Pathiparambil: What is the current estimate for the Malaysian CAPEX requirement?

Murali Krishnan: it is about USD 160 million plus in the first phase.

Bino Pathiparambil: Okay. And when will this will be over?

Murali Krishnan: This will be over three years. By end 2014 we expect the plant to be ready.

Bino Pathiparambil: Right, And finally, when are the Herceptin patents expiring in US and Europe?

Abhijit Barve: The Herceptin patent expires in 2014 in EU, and in 2019 in the US. We hope to be there with our product on the market formation date.

Bino Pathiparambil: Okay. So, have you started any studies in these markets?

Abhijit Barve: Yes there is a Phase-I study that has been initiated in Europe which would support the subsequent trials. A phase III trial has also started in India aimed at emerging markets.

Bino Pathiparambil: Okay, Thank you. I will wait in the queue.

Moderator: Next question comes from Mr. Krishna Kiran from ICICI Direct.

Krishna Kiran: Thanks for taking my question. Can you give me a break up of other operating income?

Kiran Kumar: We will not be able to give you a complete break up. The change that you see is a result of the recent amendments in the accounting treatment of certain items in accordance with the Schedule VI revisions. Hence, certain product sales which were earlier classified as production activities have now been classified as other operating income.

Krishna Kiran: Okay, so it is more to do with reclassification.

Kiran Kumar: Yes.

Krishna Kiran: And secondly, If we look at the licensing & development fees, we have booked around INR 61 Crores in FY11 and INR 125 Crores in FY12, so we need to book around INR 493 Crores of deferred revenue, which comes to a total of INR 680 Crores. So, I am trying to understand, from Pfizer we were expected to get around 100 million dollars upfront and 100 million dollars which were in the escrow account. So, is this amount a part of that 200 million dollars or how does it works?

Murali Krishnan: Well, one cannot put these numbers together to arrive at the total amount that we received from Pfizer because we have also fully amortized certain intangibles relating to Insulins as well as got back certain other marketing rights. So, the total amount that we received is larger than what you have computed. In a way, it is getting reflected in our cash position.

Krishna Kiran: Does that mean that the 100 million dollars from the escrow account is already sitting in the balance sheet right now?

Murali Krishnan: Yes, out of the total sum received from Pfizer, about INR 500 Crores is still in our balance sheet.

Krishna Kiran: Okay, fair enough. And thanks, that's all from my side.

Moderator: Next question comes from Mr. Bhavin Shah from Dolat Capital.

Bhavin Shah: Hi, just wanted an update on the INSUPen launch that we had done earlier and probably some update on the Immunosuppressants in terms of product launches going ahead?

Rakesh Bamzai: INSUPen was launched around six months back and it is regarded as one of the best pens in the market. For the first time, diabetes patients have color options in their Insulin delivery devices. They get three needles with the cartridge, so they don't have to go out and look for needles. We have seen tremendous positive response from the patients. Brand building is a time consuming process, but both doctors and patients are very excited about this product and it is the best-in-class pen available in India so far.

Bhavin Shah: Okay, so it is going to touch the sales projection that you have estimated and is it going to be a gradual process?

Rakesh Bamzai: Yes, it will take time to ramp up to those numbers because registering patients on the pens, demonstrating these pens, and servicing these pens with sustained patient support takes time.

Bhavin Shah: Okay. And in Immunosuppressants, is there any product opportunity coming up now?

Rakesh Bamzai: We have a new immunosuppressant in the pipeline, With respect to the current portfolio of Immunosuppressants that we have, they are doing very well accompanied by consistent growth.

Bhavin Shah: So, both Tacrolimus and MMF should be considered here.

Rakesh Bamzai: Yes, you are right.

Bhavin Shah: And there will be another molecule joining the stable that you are talking about?

Rakesh Bamzai: Yes, there is one new immunosuppressant in the pipeline.

Bhavin Shah: Okay. Could you give us an assessment of the kind of trials that is ongoing globally for Insulins, how soon are we possibly going to hit any of these regulated markets, probably in another 18-24 months from here on?

Abhijit Barve: As we have indicated, the rh-Insulin study is completed in terms of patient getting out, so we are cleaning up the data. We should have the data soon and post that, we would file the applications for the regulated markets.

Bhavin Shah: It will probably be the recombinant one that will hit the markets first?

Abhijit Barve: Yes.

Bhavin Shah: Okay, but that is still about 2015 odd timeline?

Abhijit Barve: About two years, depending on how long the review process is going to be.

Bhavin Shah: Okay fine, thanks.

Moderator: Next question comes from Mr. Bhagwan Chowdhry from India Nivesh Securities.

Bhagwan Chowdhry: You had mentioned earlier that post Pfizer deal, we are likely to go with the regional partners. So, have we made any kind of progress related to that?

Kiran Mazumdar-Shaw: As you know, we concluded this deal with Pfizer about a month ago. We are now focusing on working closely with our existing partners to expand the existing markets. As far as getting into new agreements and identifying new partners is concerned, we are going to give ourselves some time. There is no rush so we would like to commence this exercise after we have sufficiently strengthened our existing base.

Bhagwan Chowdhry: Okay. Could you explain the 1:1 that you mentioned with respect to the out licensing income we are getting? Is that how it will be transferred to the PAT level? Have I understood it correctly?

Kiran Mazumdar-Shaw: What we are trying to say is that there are two ways of licensing income recognition. One is the way we did it with Pfizer related licensing income in the past, where we would recognize a certain sum which used to be set off against expenses and then we used to net it out at the PAT level. The second type of licensing income is the one which does not have any expenses related to it, so it could be taken straight to the PAT level. So, that's what we mean by the two types.

Bhagwan Chowdhry: So, 1:1 is the second one?

Kiran Mazumdar-Shaw: Yes.

Bhagwan Chowdhry: Okay. The last question, In Q4 FY11, the out licensing income mentioned was some 320 million. But, Q4FY12 fact sheet reports it at some 768 million, so am I missing something somewhere?

Murali Krishnan: Which fact sheets are you referring to?

Bhagwan Chowdhry: It is the Q4 FY11.

Kiran Mazumdar-Shaw: Can we take this offline?

Bhagwan Chowdhry: Okay I will take it offline. Thank you.

Moderator: Next question comes from Mr. Nitin Agarwal from IDFC.

Nitin Agarwal: Hello. Ma'am thanks for taking my question. Couple of questions, one is on the ANDA strategy you talked about, when do you see filing some of these 505(b) (2)? When do you file the earliest one?

Kiran Mazumdar-Shaw: We don't much to share currently but we will definitely keep you posted once we are nearing that.

Nitin Agarwal: Okay. Apart from the 505(b) (2), what is the strategy for ANDA? Are there any specific kinds that we are going after?

Kiran Mazumdar-Shaw: We are unable share anything on this currently for competitive reasons.

Nitin Agarwal: Okay, fair enough. On the registration for the human Insulin across emerging markets, what is the status on the Chinese registration? Do we have registration for China?

Rakesh Bamzai: No, the process of registration is ongoing. As of now we have registrations in 32 countries and there are another 55 countries in the pipeline. We expect these approvals to come in over the next 2-3 years.

Nitin Agarwal: Okay. Lastly on Itolizumab, how do you see the licensing potential of this product? At what stage would you start seeking our partners?

Kiran Mazumdar-Shaw: As I mentioned to you, we will be starting that process very soon.

Nitin Agarwal: Okay. And here the fact that you have done trials only in India, would that be a handicap when you are going about choosing a partner for out-licensing?

Kiran Mazumdar-Shaw: No, because the licensing will happen based on providing data irrespective of geography.

Abhijit Barve: One thing we should mention here is that, infection rates is a key differentiator for this particular product. Despite doing this study in India, where there is a high likelihood of opportunistic inspections, we did not see that. The infection levels were very low compared to the competition. So, I think that would be a positive whenever we start discussing this asset with potential partners.

Nitin Agarwal: Have you started the discussions already, or will the process begin as soon as you have collected the Phase-III data?

Kiran Mazumdar-Shaw: The Phase-III data has just been collated. So, there is no point in starting discussions without having all the facts on the table.

Nitin Agarwal: Right. And ma'am on the oral Insulin, how are we moving forward on that?

Kiran Mazumdar-Shaw: Like I mentioned in my opening remarks, we are in advanced stages of partnering this program.

Nitin Agarwal: Okay fine, thanks very much.

Moderator: Next question comes from Mr. Surya Patra from Systematix Shares.

Surya Patra: Yeah, congrats for a good set of numbers. But, all my questions have been answered already, thanks.

Kiran Mazumdar-Shaw: Thank you.

Moderator: Thank you sir. Next question comes from Ms. Monika Joshi from Avendus Securities.

Monika Joshi: Hi, good afternoon. Just one house keeping question. What was the licensing income contribution to profits in FY12 and FY11?

Kiran Mazumdar-Shaw: FY12 has been INR 39 Crores as the net licensing level and in FY11 it was INR 99 Crores. So, there is INR 60 Crores shortfall.

Monika Joshi: Great. Could you help me in understanding your opening comments, you said FY13 would be a year of gestation. Does that mean that you are looking at flattish revenue trend, however improving on your profit margins?

Kiran Mazumdar-Shaw: Well, you can interpret it anyway you want to. But, all I can say is that there are some potential upsides that we will try and work on.

Monika Joshi: Okay. If I just may probe a little bit, do your assumptions include that you would be a player in Atorvastatin, but you may lose some volumes on Pravastatin and Simvastatin?

Rakesh Bamzai: No, that is not correct; because we continue saying that we have partners for all our manufactured products that we support as required. The indication that they have given us for FY13 is consistent sales and growth.

Monika Joshi: How many contracts or partners have you already tied up with for Atorvastatin in the US?

Rakesh Bamzai: The product has just been launched and we cannot either name or number those partners, but we will be there and we will have good market share.

Monika Joshi: Right. One last question on your balance sheet: there has been an increase in long term liabilities. Is there any specific reason for that considering you have enough cash on your books? I am talking about INR 583 Crores vs. INR 339 Crores.

Murali Krishnan: It is because of reclassification of certain long term deferred liabilities.

Monika Joshi: Understood. So, that's been classified as other long term liabilities, is it?

Murali Krishnan: Yes.

Monika Joshi: Okay, that's it. Thank you and wish you the best.

Moderator: Next question comes from Mr. Nikhil Kale from MoneyWorks4me.com.

Nikhil Kale: Yes, thank you for taking my question. One of my questions was about recent partners has already been answered. Research services have recorded quite a good performance again. We have been talking about listing plan for both these subsidiaries, so any update on that?

Peter: The listing plan remains on track. Preparatory steps have been taken to align the structure of Clinigene to Syngene, which will allow seamless integration of those services and the timing will be guided by the financial side as well as the market conditions.

Nikhil Kale: Okay, thank you.

Moderator: Next question comes from Ms. Purvi Shah from Dalal and Broacha.

Purvi Shah: Thank you for taking my question. I have two questions. One is could we have a breakup of the research services into Syngene and Clinigene in terms of sales and PAT number. And other one is on the R&D expenses, which is around 7% to 7.5% to sales this fiscal. So, can we take this sales number going forward also?

Chinappa: Clinigene represents less than 10% of the total research service business.

Kiran Mazumdar-Shaw: To answer the percentage R&D to sales, yes, that's the kind of percentage you can work with.

Purvi Shah: Okay sir. Okay fine, thank you so much.

Moderator: Next question comes from Mr. Surjit Pal from Elara Capital.

Surjit Pal: Hi, I have just two questions. This is with reference to the latest technology on oral Insulin by Tamarisk Technologies where they use SSNe platform. If I go by the statement made by the CEO, Dr. Daniel Debrouse, he said that about Biocon's oral Insulin will continue to fail because everyone is overlooking the fact that they have to get across the membrane in the intestinal tract after they have gotten through the gastrointestinal tract. Could you throw some light on it? And how this new, Nano particle based technology, restricts or impacts the commercial viability of your oral Insulin?

Kiran Mazumdar-Shaw: Firstly, I want to mention that many, Nano particle based formulations have been tried in the past for Insulin. And each one has claimed itself to be a superior way of delivering Insulin orally vis-à-vis the previous one. Our molecule is a modified-Insulin, because not only is it about delivering Insulin, but also about protecting Insulin. How do you make sure that the Insulin doesn't get degraded whilst it's being taken through the gastrointestinal tract?

IN-105 with its modified Insulin backbone prevents this. We have also shown that the molecular structure of IN-105 actually lends itself to easy transportation across the membrane. So, though everyone is going to have their own view on Oral Insulin, we are the most advanced and all we know is that our product works for sure, and in terms of proof of action as well as proof of mode of action; it has done exactly what we expected it to do.

Abhijit Barve: To add to what Kiran mentioned, the phase III in India showed that IN-105 behaves like prandial insulin and is able to reduce the blood glucose levels after food. So we know that our drug is absorbed and it works. I think we were unfortunate in terms of the placebo effect, but that is something that we should be able to address in the subsequent studies.

Surjit Pal: Because, what this technology is saying is that at its lowest, their bio-availability is 90%.

Kiran Mazumdar-Shaw: IN-105's bioavailability is much higher than that.

Abhijit Barve: Yes, I think we don't want to get into the physiology of Insulin here. But, I think the real proof is in the clinical studies. So, once you get there, that would be the way to look at it.

Surjit Pal: Another question is about the Pfizer deal. You have received roughly around 200 million dollars now, is there any provision to receive another 150 million dollars?

Murali Krishnan: We have already received a substantial part of 200 million dollars and will not be receiving any more monies from Pfizer, under this deal.

Surjit Pal: Okay, thank you.

Moderator: Next question comes from Ms. Priti Arora from Kotak Equities.

Priti Arora: Yeah, I just want the profit contribution from contract research services for this year and last year.

Kiran Mazumdar-Shaw: At the EBITDA level, it is about 33%.

Priti Arora: And at PAT levels?

Kiran Mazumdar-Shaw: I don't think we'll disclose it at this point. You can extrapolate, but right now I don't think we will be able to give you those numbers.

Priti Arora: Okay, no problem, thanks.

Moderator: Next question comes from Mr. Ajay Tyagi from PTI.

Ajay Tyagi: Hello. Ma'am, this question is for you. You said that you have received lower net licensing income in FY12, but you had received around 200 million USD from Pfizer. So, how do you go about it?

Kiran Mazumdar-Shaw: We have not received 200 million and secondly I think you must understand that whatever payments we have received from Pfizer is being reflected in our balance sheet. And as we mentioned, we will be utilizing these funds for the development of our Insulins.

Ajay Tyagi: Thank you ma'am.

Moderator: Next question comes from Ms. Meeta Shetty from AMSEC

Meeta Shetty: Hello, thanks for taking my questions. Just wanted some clarification, if I have to see 8% of sales over the next two years as your R&D expense, I get a number close to INR 350 to INR 400 Crores, so how much of that would be going towards the Insulin and other research that you will be doing?

Murali Krishnan: The Insulin program is not going to have any impact on the P&L, because whatever money that we have retained in our balance sheet will be set off against the expenses as we incur them for the development of our Insulin portfolio. So, what you are going to see as the R&D expenses in our P&L A/c will be the R&D expenses that we will be incurring on our other R&D programs, which will be little over our current R&D spends.

Meeta Shetty: If I get you right, you mean to say that whatever licensing income will be shown will be exactly the same amount as the R&D expense would be incurred in that particular part?

Murali Krishnan: Just to put it the other way, whatever R&D spends that we will be incurring on our Insulin portfolio, a similar amount will be taken to the licensing income line or both will get netted off, as per the revised Schedule VI guidelines.

Meeta Shetty: Okay. What about the Malaysia CAPEX of 160 million. Will that be funded through the cash that we got from Pfizer or will that be Biocon's investment?

Murali Krishnan: The financial closure through a set of banks under a consortium arrangement was already put in place by Q2 of FY12. Balance funding will be done by Biocon out of its cash accruals, current & future.

Meeta Shetty: Could you quantify this breakup?

Murali Krishnan: In the ratio of about 1:2.

Meeta Shetty: 1:2, alright. But then if I am not mistaken, earlier the 200 million would have been used for both the research as well as the CAPEX?

Kiran Mazumdar-Shaw: No. If you remember, we were supposed to receive 200 million from Pfizer, plus we were supposed to receive 150 million in milestones. And all these amounts were going to be utilized. The milestones would have come much later. The 200 million was expected to be used for development. So, that doesn't change. What does change is that the 150 million milestone payments will not be received by us after the dissolution of the

agreement. In any case, in order to start the Malaysian facility, we had to enter into a bank borrowing. That is something we have already put into place.

Meeta Shetty: So, we don't see any further debts, is that what you mean?

Kiran Mazumdar-Shaw: No, there will be debt, but we haven't borrowed anything as of now.

Meeta Shetty: Okay, you have just taken the lines…

Murali Krishnan: We have just taken the lines and so far we have been putting our share of money. But, over the next two years we will be using these lines and will be reflecting the debts on our books.

Meeta Shetty: Okay, Alright. Thanks, that's from my side.

Moderator: Next question comes from Mr. Nimish Desai from Motilal Oswal Securities.

Nimish Desai: Good evening. I had a few questions. One was on the 200 million licensing income which has been received from Pfizer, could you just briefly tell us where all it has got reflected, because what we see in the balance sheet is this 493 Crores and some income we would have already booked, but all those income doesn't add up to 200. So, is it exactly 200 or its less 200, how is it?

Kiran Mazumdar-Shaw: Firstly, we have categorically mentioned that the retained amount is not 200 million. Secondly, we have reflected it in the overall cash position of the company.

Nimish Desai: So, can you clarify what exactly is that amount, because we were under the impression that it is 100 million upfront licensing income and 100 million in escrow account?

Kiran Mazumdar-Shaw: We have clearly said earlier, that USD 100 million has been received by us and out of the balance USD 100 million in escrow, we received a significant proportion of that amount. We did not say that we received the whole amount. And we will not be able to divulge the exact amount received.

Nimish Desai: Okay fine, understood. So, it is less than 200.

Kiran Mazumdar-Shaw: It is less than 200, but if you see our balance sheet, we have a very strong cash position.

Nimish Desai: Yes, I see that.

Kiran Mazumdar-Shaw: So, that reflects most of what we have received from Pfizer. Of course we have spent money as well. So, whatever you are seeing there is what we have retained.

Nimish Desai: Okay, sure. The other question was on your comments on the statins business, in answer to a question wherein whether Statins business will get impacted because of generic Lipitor and you said that there is no impact. What I wanted to know was, are we to assume that

this comment is based on your visibility of customer orders for FY13 regarding your existing Statins?

Kiran Mazumdar-Shaw: See, we are not exiting any of these Statins. But, yes you are right. It reflects the order book that we have for FY13.

Nimish Desai: Okay understood. And the last thing is a clarification that I needed, you said that the research service's EBITDA contribution was 33%, that means EBITDA margin in research services is 33%, is that correct?

Kiran Mazumdar-Shaw: Exactly, the EBITDA margin in research service is 33%.

Nimish Desai: 33%, okay. Thanks a lot.

Moderator: Next question comes from Mr. Dheeresh Pathak from GSAM.

Dheeresh Pathak: Hi good evening. What is the amount of deferred revenue in the balance sheet at the end of the quarter?

Murali Krishnan: It is little over INR 600 crores, a large part of which is reflected under other long term liabilities and the balance under other current liabilities.

Dheeresh Pathak: Okay. What was the total consideration for the stake sale in AxiCorp and how much was received in cash and how much in reacquisition of marketing right?

Murali Krishnan: Sorry, we are unable to share that number.

Dheeresh Pathak: Right. Could you name the minority shareholders in Axicorp?

Kiran Mazumdar-Shaw: We suggest you look up Axicorp's website - they might have added some more shareholders, which we might not be aware of.

Dheeresh Pathak: Right. What would be the geographic breakup of the biopharma revenues ex India and ex-licensing?

Rakesh Bamzai: Emerging markets is going to grow. And if you want a break up between international and India, I think India would be around 40% and international is around 60%.

Dheeresh Pathak: Okay, thank you.

Moderator: Next question comes from Mr. Nimesh Mehta from MP Advisors.

Nimesh Mehta: Yeah, thanks for taking my question. I just had one simple question. How much do you guide for the R&D expenses?

Kiran Mazumdar-Shaw: We don't give guidance, but we have mentioned earlier it will be about 7.5% to 8% of our revenues.

Nimesh Mehta: Okay. And this will include the R&D expense for the biosimilar Insulin franchises, right?

Kiran Mazumdar-Shaw: Yeah. But, it will be treated differently.

Nimesh Mehta: It will be treated differently, but it will still be a part of the R&D expense.

Kiran Mazumdar-Shaw: Absolutely.

Nimesh Mehta: Right. Could you explain how it will be treated differently?

Kiran Mazumdar-Shaw: We will use the retained payments from Pfizer, but it won't impact on the bottom line.

Nimesh Mehta: Fair enough. And if you can give us some color in the Fidaxomicin related sales this quarter and going forward.

Kiran Mazumdar-Shaw: We will not be able to share that.

Nimesh Mehta: But how has it ramped up?

Rakesh Bamzai: It's been very good. Fidaxomicin is one of the best products for *Clostridium difficile* bacterial infection across the world. So, we are right now ramping up to ensure complete support to our partner.

Nimesh Mehta: Fair enough, thank you very much.

Moderator: Next question is a follow up question from Mr. Ravi Aggarwal from Standard Chartered Securities.

Ravi Aggarwal: Yeah, thanks for taking this question again. I have a couple of questions. One was on the Pfizer milestone. If my calculations are correct, you have basically recognized around INR 200 Crores in your P&L so far. And you have got to recognize another INR 493 Crores, which you will recognize over the next three to four years. If that is correct, then you are essentially working with the number close to around 140 to 150 million dollars.

Murali Krishnan: Well one cannot put these numbers together and arrive at the amount that we received from Pfizer, because we have also fully amortized certain intangibles relating to Insulins and as well got back certain other marketing rights. So, the amount that we received is much larger than what you have computed. In a way, it is getting reflected in our cash position.

Ravi Aggarwal: Fair enough. Second question was on the rh-Insulin for Europe essentially. Are we aware of any other company having filed for these or planning to file for this in markets like Germany or any other EU markets?

Rakesh Bamzai: We are aware of Bioton having a product in fore line.

Ravi Aggarwal: Would you be aware whether they have they filed or not?

Rakesh Bamzai: We are not aware about their plans.

Ravi Aggarwal: Is it that in the next two years, we would possibly be the first people?

Rakesh Bamzai: It looks like we are in the lead. Once we get the regulators to look at our file and approve our product, only then we can tell you with confidence.

Ravi Aggarwal: Okay. And my final question is on Kiran's introductory remarks, she mentioned something on the oral Insulin side, about looking at some deal for this year which may not be very material upfront, but which would have a very significant amount of potential revenues, is that correct?

Kiran Mazumdar-Shaw: Yeah, that is correct. What I said is that we are planning to partner this program. But, because of the fact that we need to establish certain criteria before we move ahead, I don't think you can expect to see any large upfront, but it will be a large back-ended deal. So, the moment you cross certain regulatory or clinical milestones, then the upsides are likely to be very large.

Ravi Aggarwal: And those milestones typically would take place over multiple years?

Kiran Mazumdar-Shaw: Maybe a few years.

Ravi Aggarwal: Okay, thank you so much, thanks.

Moderator: Next question comes from Mr. Harish Swaminathan, an Individual Investor.

Harish Swaminathan: Good evening. Could you give us a brief idea on the total number of patents Biocon has and some idea on the value that we can ascribe to those patents?

Kiran Mazumdar-Shaw: Well, in terms of our patents portfolio, we have close to 1000 patents. Value ascribed to them depends on the investors also, because nobody seems to be valuing patents and IP in a big way. As it is a notional value, it is very difficult for us to put a value on them. The patent value starts coming out when you start licensing these assets. So, in India we have to learn to value patents, and then only we can give you some notional value.

Harish Swaminathan: Okay. And my second question is on Syngene. What percentage of Syngene's revenue would come from the risk reward sharing model?

Peter Bains: That would be a small percentage, a single digit at the moment.

Harish Swaminathan: And what would be your plan to take that number up to?

Peter Bains: Well, I think we would have to look at that in the context of the mix and the evolution of our business. Our business is growing, as you have heard, very considerably with a top line growth of 40% in Syngene. So, we would look to grow it, but we would also look to measure it carefully.

Harish Swaminathan: Thank you.

Moderator: Next question comes from Mr. Manish Soni from Ventura Securities Limited.

Manish Soni: Congratulations on a good set of numbers. I had question on your Immunosuppressant and statin business. Ma'am, can I get the YoY growth for these businesses?

Murali Krishnan: Sorry, we do not share details based on product segments or geographies.

Manish Soni: Okay. And can I get an update on your newly formed comprehensive care unit?

Rakesh Bamzai: Comprehensive care unit was launched almost a year back. They have done very well. The forecast for the next three years is that they will grow rapidly. It is targeted at the hospital care segment, for the high end critical care patients. We have premium products in this area with around 290 people in this division today.

Manish Soni: Okay sir, thanks.

Moderator: Next is a follow up question from Mr. Krishna Kiran from ICICI Direct.

Krishna Kiran: Yeah, thanks for taking again. Can you just throw some light on your hedging strategy?

Satish Arunachalam: We still maintain our policy of hedging about 100% of year 1 net exports and about 50% of year 2 net exports. Most of our recent hedges have been taken with a put option or a caller with a range between 50 and 55.

Krishna Kiran: Okay. It is like previously we have discussed that if it's more than 55, we will recognize 55 and less than 50 also, and we will recognize 50, is this right?

Satish Arunachalam: Yes. If it is a caller and if the rupee goes below 50, we will get a minimum of 50. If it goes above 55, we would get only 55. In the put option, we are entitled to a minimum of Rs. 50/USD with participation rights when it trades above Rs. 50. Of course, these are paid options and there is a premium to that.

Krishna Kiran: Okay, fair enough. Thanks a lot.

Moderator: Next is a follow up question from Ms. Meeta Shetty from AMSEC.

Meeta Shetty: Yeah thanks again. Just some clarification on the Insulin business in India, since we have recorded a very good year this time, but also given the fact that Pfizer was also somewhere marketing our Insulin in the Indian market, now given that Pfizer is not there as a partner, what is the outlook for the Indian Insulin business?

Rakesh Bamzai: We have a lot of respect for Pfizer's marketing skills, but post the termination of the contract, we are focusing on beefing up our sales team to increase penetration and build the diabetes portfolio. So, we see a strong growth in insulin and insulin analogs. And with our

new launch of INSUPen, which is the best in class insulin delivery device in the country, we expect the Insulin business to grow.

Kiran Mazumdar-Shaw: Alright, just want to clarify here that all the numbers we are alluding to, does not include Pfizer.

Meeta Shetty: Okay. What about the inventories that we had supplied to Pfizer?

Kiran Mazumdar-Shaw: No, that is all with Pfizer. It is not reflected in our books.

Meeta Shetty: That is not reflected, okay. Alright, thanks.

Moderator: Next is a follow up question from Mr. Nimesh Desai from Motilal Oswal Securities.

Nimesh Desai: Yeah hello, thanks for the follow up. Just one question, I wanted to know whether we have started supplying atorvastatin to our partners in US, since the market is opening up in the month of May.

Rakesh Bamzai: I think our partners are about to get approval. The approval process in the US is taking longer than expected. So, once they have approval, we will supply the material.

Nimesh Desai: So, as of now for the March quarter, there has been no supply, is that it?

Rakesh Bamzai: Until March 31st there was no supply. There was supply to other markets including our customers in EU.

Nimesh Desai: Okay. So, in that context what has driven the very strong growth in biopharma revenues for the fourth quarter?

Rakesh Bamzai: The existing products did well. The margins were better and the overall business grew.

Nimesh Desai: Okay. So, then this kind of growth obviously is not sustainable, right? We should not extrapolate this growth.

Rakesh Bamzai: To be fair; we have good business plans for the next year. So, if nothing goes wrong in the market place, we should be able to do well.

Nimesh Desai: Okay fine, thank you.

Moderator: Last is a follow up question from Mr. Nitin Agarwal from IDFC.

Nitin Agarwal: Thanks for taking my question again. Ma'am, on the human Insulin in Europe, when do you start looking for partners?

Kiran Mazumdar-Shaw: We will start looking at Insulin partnering as soon as we file for marketing authorization.

Nitin Agarwal: Which is sometime probably during the end of the year, close to the end of the year?

Kiran Mazumdar-Shaw: Yes.

Nitin Agarwal: And lastly, Murali has there been any amount of forex gains in the numbers for this quarter? I thought there is a loss which has knocked off your other income for the quarter.

Murali Krishnan: That is right, yes.

Nitin Agarwal: What is the extent of the loss for the quarter?

Kiran Mazumdar-Shaw: It's about INR 7 Crores.

Nitin Agarwal: Okay. Where is the interest income that you make on the cash getting reflected in your numbers?

Murali Krishnan: In other income.

Nitin Agarwal: Which has got nullified by the forex loss?

Murali Krishnan: Yes, that's right.

Nitin Agarwal: Okay fine, thanks very much.

Moderator: Thank you sir. There are no further questions. Now, I hand over the floor to Ms. Kiran Mazumdar-Shaw, Chairman and Managing Director for closing comments.

Kiran Mazumdar-Shaw: Thank you very much for joining us and I look forward to speaking with you next quarter. Thank you.

Moderator: Thank you ma'am. 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.

Note: 1.This document has been edited to improve readability.