

BIOCON LIMITED

Analyst / Investor Conference Call 18th October 2006, 3:30 PM IST

Moderator: Good afternoon Ladies and Gentlemen, I am Gopal, moderator for this conference. Welcome to the Biocon Conference Call. 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 conference to Mr. Nitin Tandon of Citigate Dewe Rogerson. Mr. Nitin Tandon please go ahead sir.

Nitin Tandon: Thank you, good afternoon everyone, and thanks for joining us on Biocon H1 FY 2007, results conference call. We have with us on this call from Bangalore Ms. Kiran Mazumdar Shaw, Biocon Chairman and Managing Director, and also her colleagues, who are part of the Senior Management Team. We will begin this session by opening remarks from the Biocon Management, which we will be followed by a discussion forum with all of you. Also some of the statements made in today's discussion may be forward-looking. A detailed statement on this regard is available along with the H1 FY07 results announcement release, which has been e-mailed out earlier, and is also been posted on Biocon's website. Now I would like to invite Ms. Kiran Mazumdar Shaw to briefly discuss the company's performance for first half of FY 2007.

Kiran Mazumdar Shaw: Thank you Nitin, first and foremost, I want to wish every one of you a very Happy Diwali. I would like to start today's analyst conference by saying that the H1 financial results that we have shared with you today are something that the management is very pleased with. I think we are extremely satisfied with our ability to deliver robust performance, and we are also equally encouraged by the growing profitability that we have demonstrated. And I think this is something that we should be able to maintain and perhaps even better as we grow forward.

As you can see this particular half year performance indicates that our top line has grown by 23% from Rs 377 crore last year to Rs 463 crore this year. The EBITDA also has grown from Rs 112 crore to Rs 122 crore, and PAT has grown from Rs 82 crore to Rs 84 crore. Although PAT doesn't seem like a great growth story, and seems to be more flat, I would like you to see this in context with the fact that Biocon has actually increased its R&D expenditure by 100% to Rs 16 crore. Additionally we have also seen large depreciation factor kick in along with fixed carrying cost of the Biocon Park, which has also being very challenging for us. What is important for me to highlight is the fact that tax benefits have also helped us with this performance. So, the depreciation has almost got offset with the kind of tax benefits that we have realized for this particular financial period. Additionally, we have seen some very strong performance from some of our sectors. I think our services, which are largely led by Syngene and Clinigene have done an outstanding job for us, and Syngene and Clinigene have collectively delivered profit growth of 53% and I am sure that this is something that everyone will look at very positively. Apart from this, our biopharmaceutical business which includes the statins, Insulin and Immunosuppressant's, have also contributed to this growth.

In addition to this, technology licensing has also helped us to add to the bottom line growth, of Biocon, and this is something, which we see as a regular feature of our financials going forward. Biocon very strongly believes that its innovation strategy is really beginning to take a very good shape. We are going to continue to invest very strongly in our R&D program. All our programs are making including the oral insulin and the antibody programs are making good progress. We are about to bring into the market three more bio-similar products, EPO, GCSF, and streptokinase. We are beginning to get very encouraged by our R&D capabilities.

I think, what I need to also highlight at this point in time is that Biocon-Biopharama story is less than 10 years old, and in these years I think they have very encouraged by the learning, the leveraging of learning, and the kind of skills and capabilities, that we have been developing to make us into a very powerful integrated biopharmaceutical company going forward. We have seen a lot of interest in partnering with us. I think we have a very recognized name in the international biopharmaceutical arena. We are seeing a lot of very interesting potential partnership & alliances, and I think going ahead you will see some very interesting licensing deals being made on some of our research programs. So, with that I would like to start the question and answer session.

Question and Answer Session

Moderator: Thank you madam, ladies and gentlemen we will now begin the question and answer session. Our first question comes from Mr. Anshu Govil of CLSA.

Anush Govil: Hello, good afternoon. My question is regarding the contract research business. I just wanted more clarity, whether this is driven by greater number of people being employed and on the whole, how this will pan out in the future? The second question is on the R&D spend, if the R&D spend of the company is entirely from the biopharmaceuticals and enzymes division or part of it also comes from the contract research business?

Kiran Mazumdar: Firstly, as far as the research trend is concerned, we are only talking about the Biocon research revenue expenditure, and it is excluding the contract research spend. The real spend that is taking place is in the discovery led research program, which is considered as very strategic for the company.

Goutam Das: The contract research business growth is a combination of increased business from new and existing clients. We have hired about 100 people during the year and about 200+ people since September 05.

Anshu Govil: What will be your current strength in this division?

Gautam Das: About 600 people.

Anshu Govil: And during the year you hired 100 people?

Gautam Das: Yes.

Anshu Govil: Okay. Thank you.

Moderator: Next question comes from Mr. Ashi Anand of Prudential ICICI.

Ashi Anand: Hi, my question is on bio-similar, one in terms of insulin on, how many countries have you already signed and how many approvals have you got? And you mentioned that you are going to be launching EPO and GCSF, so what is the kind of time frame on that and also terms of your European launch on insulin.

Rakesh Bamzai: We have applied for registration in 34 countries.

Ashi Anand: Okay.

Rakesh Bamzai: The process is long, because all countries have their own regulatory process. We have started exporting finish formulation of insulin in two countries. We have already started selling insulin crystals in 10 countries and on bio-similar EPO and GCSF, and streptokinase were

going to launch all these three products in next six to eight months time in India, based on the date we get approval.

Ashi Anand: Okay the two countries you mentioned insulin formulation, does that include India.

Rakesh Bamzai: No. India excluded.

Ashi Anand: Okay, and just in terms of my understand the fixed fair amount of time, but if you say look it from one year perspective or say entering FY08. How many countries do you hope to be able to selling formulations in?

Rakesh Bamzai: More than 10 countries.

Ashi Anand: Okay. So we hope to be able to get some 8 approvals through this year.

Rakesh Bamzai: Yes.

Ashi Anand: Okay and any greater clarity in terms of European launch of insulin?

Rakesh Bamzai: The process is long, because this is the bio-generic, bio-similar product. We are currently focusing on registering the product in Europe and are following the process as laid down by EMEA. If everything goes on well we should have our marketing authorization by end 2008.

Ashi Anand: By end 2008 calendar year. Who were the other players who looking at Insulin apart from Wockhardt?

Rakesh Bamzai: Globally you know Novo, Lilly and Aventis is there, and then you have a company in China, a company in Poland , Wockhardt and Biocon. As of now these are the main players in the insulin business.

Ashi Anand: Okay in terms of oral insulin where are we in terms of our trial?

Shrikumar Suryanarayan: You know we have mentioned before that oral insulin had entered phase 1 trail. At this point of time we are well beyond the half way point in Phase I trial that nearing the end of all the trails. The results are looking extremely promising. At this point, we can confidently say that we are able to take the oral insulin as a tablet. We are seeing the insulin in the blood, and insulin is behaving the way it is supposed to. So that's extremely promising. We still need to finish the rest of our phase I trail, put the data and file for approvals to get phase II trials.

Ashi Anand: Okay, and just lastly in terms of Biomab, what are the kind of potential revenues we are looking at from this product?

Kiran Mazumdar Shaw: Though, I would say that the only thing that we are looking at is how to build this into our 100-crore brand in India in about 3 to 4 or 5 years.

Ashi Anand: Okay and are we looking at other market apart from India, if so what market?

Rakesh Bamzai: Today we are free to export it in few countries. One is the African continent, South Africa and the SAARC countries. We are also negotiating a bigger territory for, Biomab EGFR.

Ashi Anand: Okay great. Thanks a lot, thanks for the answer.

Moderator: Next question comes from Ms. Visalakshi of DSP Merrill Lynch.

Visalakshi: Thank you every one. My question is on the technology and licensing revenue which you reported from this quarter. Could you give us some qualitative details is to what product line that it's belonging to and how do you feel that growing forward?

Kiran Mazumdar Shaw: Basically licensing and technology fees cover a number of products, it covers insulin, it covers dossiers and it covers some specific technologies that we are developing for specific companies.

Visalakshi: Is that likely to sustain going forward?

Kiran Mazumdar Shaw: I mentioned that, this is going to be a very secular part of our business going forward, because we are seeing more and more interest in this kind of licensing arrangement.

Muralikrisnan K N: This may not happen on quarterly basis, but on annual basis it is sustainable.

Visalakshi: Okay thank you. My second question is on the insulin and immunosuppressants business as a whole. I understand it grows about 15% of your overall revenue right now. How do you see this scaling up over 2 to 3 years time-frame?

Kiran Mazumdar Shaw: I think this is going to be a very important segment for us, and this is going to really increase significantly in the next 3 to 5 years.

Visalakshi: Can this overtake Statins in 3 years time?

Kiran Mazumdar Shaw: Eventually yes.

Visalakshi: Okay thank you very much.

Moderator: Next question comes from Mr. Nimish Mehta of Edelweiss.

Nimish Mehta: Good afternoon everybody. My first question is related to statins I would like to know whether you have seen any growth in statins for the first half on year-on-year basis. Secondly, I would like to know the status of USFDA approval or for the expanded statins facility, and what is the time, and by which you expect things to be on line. Thirdly, I just missed out your feedback on licensing fees. If you can just give us a color as to what is it like and how will it plan out going forward?

Rakesh Bamzai: The business has grown on the value basis 20% during the year, and on volume basis it's increased by 25% to 35%.

Nimish Mehta: Okay.

Rakesh Bamzai: And your next question on FDA regulatory session, we are expecting it within the next 3 months, and it will be from the existing plant. We will be serving US requirements of Simvastatin, Pravastatin in Q3 and Q4.

Nimish Mehta: In Q3 as well as Q4.

Rakesh Bamzai: In Q3 it will be from the existing site, and the new site will kick in Q4.

Nimish Mehta: And when you say statin have grown by 20% by value, this is purely from the European statin space?.

Rakesh Bamzai: Global sales minus United States.

Nimish Mehta: I just wanted to understand the licensing fees, or if you can just break it up the contract research and licensing fee revenue between licensing fees?

Kiran Mazumdar Shaw: Licensing fees are roughly about Rs 10 crore for this half year.

Nimish Mehta: Okay, so what could be the growth purely on contract research I have to take away?

Kiran Mazumdar Shaw: 53% is the growth on contract research.

Nimish Mehta: Do you see the licensing fee recurring on a continuous basis?

Kiran Mazumdar Shaw: Yes.

Nimish Mehta: And what is the nature of it, you mentioned about registration and stuff like that. You can just throw some more color I missed it out.

Kiran Mazumdar Shaw: Yes, Basically licensing and technology fees cover a number of products, it covers insulin, it covers dossiers and it covers some specific technologies that we are developing for specific companies.

Nimish Mehta: Okay, thank you very much.

Moderator: Next question comes from Sukhwinder Singh of Anagram Stock broking.

Sukhwinder: Yeah, my first question relates to that Biomab for head and neck cancer drug. I just wanted to know how do you conceive the competition emerging in this space, because I believe one of the Canadian company YM Bioscience has also got the approval in India.

Kiran Mazumdar Shaw: YM Bioscience is just a partner company. YM Bio has got the rights for other global markets including North America and Europe. They are referring to the approval that Biocon received in India. So it is the same product being claimed by YM Bio.

Sukhwinder: So right now there are no other places?

Kiran Mazumdar Shaw: We are first company to have commercialized its product. I don't know what you mean by competition, because there are other competitive products in this segment. We at India certainly have a competitive edge in these products and we intend to build into a very big brand.

Sukhwinder: Can I have the figures for Syngene and Clinigene and JV for the quarter independantly?

Muralikrisnan K N: For the first half Syngene revenues were about Rs 55 crore.

Muralikrisnan K N: Clinigene revenues were about Rs 5 crore, and is expected to increase in the coming quarters.

Sukhwinder: Okay and the JV?

Muralikrisnan K N: Sales will start from the Q III onwards.

Sukhwinder: Okay. And just last question what is the potential for developing virulence blockers against bacterial diarrhoeal JC in terms of the market space.

Gautam Das: We have been in association with a Swedish company to do this, and the potential is very high because there are about 1.9 million people who die because the bacterial diarrheal diseases.

Sukhwinder: And is the research restricted to diarrhea only or it can be further extended to other indications?

Gautam Das: It is right now geared towards diarrhea only. However if the same mechanism works elsewhere, we could evaluate it later.

Sukhwinder: Thanks a lot.

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

Abhay Shanbhag: Good afternoon. I have a couple of questions, No.1 is on statins. As Rakesh mentioned about 20% value growth and volume growth of 25% to 35%, does it mean they are still under the significant pricing pressures.

Rakesh Bamzai: Pricing has been stable, in the last 3 months to 6 months and we expect some upside in next 6 months.

Abhay Shanbhag: So one thing is specific now with how we are going off exclusivity on 20th October, have some exports to the US been already started, or you would start off going forward?

Rakesh Bamzai: Very little material has gone in the US in the last quarter, but the next few quarters are going to be very, very important for us.

Abhay Shanbhag: Okay, will you be having great volume growth coming through.

Rakesh Bamzai: Yes.

Abhay Shanbhag: So what is the reason for the sharp increase in debtors and inventory as far as balance sheet goes?

Muralikrishnan K N: Basically, you know the business has grown by about in almost 23% if you see the revenue top line so that is more or less inline with that. The average Debtors is maintained at about 90 days.

Abhay Shanbhag: Okay fine. The other thing is as far as the other expenses, it has shown a very significant increase, so does it mean that going forward, we wouldn't see an increase in new plans to come on operation for the 3rd quarter and 4th quarter, do you take these fixed costs to be going at similar proportions or they will increase going forward?

Muralikrishnan K N: They may not increase substantially, but these include R&D expenses, and if R&D expenses further continued to increase then obviously there will be some increase. There have also been some costs associated with maintenance of patents purchased from Nobex which are in the nature of annual costs and which may not happen again next quarter.

Abhay Shanbhag: And how much would that amount be?

Rakesh Bamzai: It will get repeated again next year.

Abhay Shanbhag: Yes, but how much will that cost be onetime cost?

Muralikrishnan K N: It is about Rs 2 crores.

Abhay Shanbhag: Okay fine, the other thing was looking to launch EPO, GPSF and streptokinase in India, what is the approximate market for these products in India?

Rakesh Bamzai: The markets are quite interesting, we can give you EPO, GCSF and streptokinase put together is more than a Rs 100 crore opportunity. We are little bit late in India, but we have a very strong strategy in terms of differentiating the product technologically and being there with a host of products. In addition to that we are going to enter international markets. We have already started some business development activity there.

Abhay Shanbhag: Okay and for this would require or different marketing network in India or I mean would have been increased marketing force?

Rakesh Bamzai: See what is happened is that EPO will be marketed by a new division, which is in the biology division, nephrology division and oncology division. So we are going to have existing oncology employees marketing erythropoietin and GCSF.

Abhay Shanbhag: Streptokinase also?

Rakesh Bamzai: Streptokinase we already have cardiovascular and diabetes segment and this product is going to marketed by them.

Abhay Shanbhag: Okay fine thanks a lot.

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

Prashant Nair: Thanks my questions have been answered.

Moderator: Thank you sir. Next question comes from Mr. Rahul Sharma of Karvy Stock Broking.

Rahul Sharma: This, I didn't get you on Nobex thing; we have written off Rs 2 crore for this quarter. Is it amortization cost that is going to recur next year right, please correct me if I am wrong.

Muralikrishnan K N: This is not amortization of the investment that we made in purchase of the assets. It is only the maintenance of those assets, which is basically some costs that are in the nature of annual patent fees.

Rahul Sharma: Okay. That's it from my side thank you.

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

Nitin Agarwal: Hi good afternoon. I have a couple of small questions. One is what could be the tax rate for FY 07 that you can assume?

Chinappa M B: We expect annual charge to be double of what is booked in first half.

Nitin Agarwal: we booked about Rs 6 crore, which is another Rs 6 crore of taxes of the second half.

Chinappa M B: Yes

Nitin Agarwal: In terms of your depreciation are you going to see any further increase in the depreciation charges that we had for the quarter?

Muralikrishnan K N: Depreciation in the subsequent quarters will be in line with the depreciation for Q2.

Nitin Agarwal: Okay fine thank you.

Moderator: Next question comes from Mr. Jesal Shah from JP Morgan.

Jesal Shah: Yes Good Evening everybody. I just have two, three small issues. One is you know I mean this and pravastatin and simvastatin are only about may be a week or may be about 2 or 3 months away. Can you give me some picture of how many clients have actually been wound up and overall what kind of market share are you think would those make.

Rakesh Bamzai: In the US, we already have access to four customers for simvastatin and equal number of customers for pravastatin.

Jesal Shah: Fine, so out of these 4 customers for pravastatin, you are saying the volume that you dispatched so far is not too much, but you expect some ramp up will happen as we move forward, but the exclusivity accounts gets over in the next few days, so why do you believe that your customers have not taken material from you.

Rakesh Bamzai: You are talking about pravastatin.

Jesal Shah: That's right.

Rakesh Bamzai: Pravastatin we have supplied small quantity for launch, that actual things comes in, they made some tablets and they are with the tablets for the US market, but next 3 months are critical and based on projections from these customers, we have been building up stocks.

Jesal Shah: So the initial quantities that have dispatched what do you think that it can excess capture some 10% kind of market?

Rakesh Bamzai: It is expensive to maintain inventory. The market share will be clearer in the coming quarters.

Jesal Shah: Fine, but you expect all the 3 or 4 customers that you have to be able to launch once the exclusivity expires.

Rakesh Bamzai: Yes.

Jesal: Right and there is no pending legal issues regarding process for either pravastatin or simvastatin.

Rakesh Bamzai: As far as our knowledge growth we haven't yet come to about some legal issues.

Jesal Shah: And how do you see the overall pricing situation as regards your bulk for the US market versus what is going on in Europe

Rakesh Bamzai: Europe and US is different. US market is opening up now, we expect better price realization in the United States. In Europe and other countries we have increased our market share in spite of price erosion, we should be able to do well in the US as well.

Jesal Shah: Fine, and just last thing on the milestone income, you talked about, it's been recurring but what is the nature of these income. You talked about insulin and several dossiers and various other things, but do you think this link to certain event in milestone happening or is it mainly to some kind of product supplies like you know earlier you talked about insulin bulk supplies for example BMS. Is this what is driving or can you just give some more idea about that, and also if you can give some idea about in other 2 or 3 years how big do you think this component will be?

Rakesh Bamzai: Technical transfer and our licensing is going to be very integral part of Biocon's business strategy. This is not a onetime revenue that we are going to get. As Murali and Kiran explained we expect this to increase consistently on an annualized basis.

Jesal Shah: What is that function of I mean you consistent increase what is it, I mean does it require you to file more dossiers in those market?

Rakesh Bamzai: Not exactly it is, if you break it up, it is component of those of dossiers formulation, technology, insulin, and insulin formulation. So it's a wide it's not a single component that we are seeing an upside in this quarter.

Jesal Shah: Fine but it's not link to some product supplies or thing?

Rakesh Bamzai: Not at all, this is not a royalty.

Jesal Shah: So I think 2 or 3 years time how big do you think this activity will be for you?

Kiran Mazumdar: I think this activity will be very substantial when you start looking at our R&D pipeline beginning to get licensed.

Jesal Shah: Right okay thank you.

Moderator: Next question comes from Ms. Amritha of UTI Bank.

Amritha: Hello sir. Good Afternoon, sir I just want to know that what is your segment-wise profit percentage.

Chinappa M B: PAT margins for both is roughly in the range of about 18- 20. The contract research services has the higher profit

Amritha: At how much?

Chinappa M B:: It is about 40%+

Amritha: Okay, and I just want to know the name of the products, which you have going to launch?

Rakesh Bamzai: EPO and GCSF and streptokinase.

Amritha: Okay thank you sir.

Moderator: Next question comes from Mr. Pawan Nahar of Kotak.

Pawan Nahar: I have three questions, one, this is for Murali, what is the Capex that you looking at this year and next year.

Murali Krishnan: This year it is in the range of Rs 100 crore, and next years also we expect similar spend.

Pawan Nahar: And this will be for what?

Murali Krishnan: If additional opportunities comes in our way, then that would change, but as of now its in the region about Rs 100 crore towards routine capex for R&D, Research Services and additional investments toward de-bottlenecking capacities.

Pawan Nahar: At this moment there are no new plans, are you plan to setting up in the country?

Murali Krishnan: No, not at this point of time.

Pawan Nahar: Second, you know you had earlier said that your contract research business is about Rs 55 crore

Murali Krishnan: Yes, Rs 55 crore.

Pawan Nahar: So which means Rs 14 crore is the licensing fee?

Murali Krishnan: Its about 10 crores plus.

Pawan Nahar: For next year do you think you will continue the top line growth of around 20% plus?

Murali Krishnan: We don't give guidance I am not very sure how we can answer this question.

Pawan Nahar: Okay, fine, because at this moment you know this time 10% of next year growth while we are talking about the launches which are substantially enough to drive this kind of number for next year or is it more beyond that I mean the actual growth will happen much later?

Kiran Mazumdar Shaw: I think obviously we are trying to improve an increase in our growth as fast and as much as possible, but since Murali said we don't give guidance I cant give you an exact percentage.

Pawan Nahar: Finally, we can hope that the last two quarters, I mean this is the kind of base?

Murali Krishnan: We think so

Pawan Nahar: Thanks

Moderator: Next we have a follow up question by Ms. Visalakshi of DSP Merrill Lynch.

Visalakshi: Thank you, I have a question on insulin, in the last conference call you had mentioned that you have an advanced talk with one large US player and three European players for licensing insulin formulation. Is there any update on that.

Kiran Mazumdar Shaw: We have concluded that deal.

Visalakshi: Okay any details?

Kiran Mazumdar Shaw: We are unable to provide the same as per the confidentiality agreement with the partner.

Visalakshi: Have you concluded four separate deals or is it one deal?

Kiran Mazumdar Shaw: One deal with a US Company.

Visalakshi: And the European deals still yet to conclude?

Kiran Mazumdar Shaw: Yes. European deals are yet to happen.

Visalakshi: Thank you my second question is the IND filing for oral insulin?

Shrikumar Suryanarayanan: We have probably will go the European route first. I think that it would add a lot of value to include all the phase I details into the IND filing in US. So we are waiting to get the Phase I report and that's actually add a lot of depth to the IND filing because it's constitute human data and most probably the foreign filing will be in Europe.

Visalakshi: Any timeline because last time you had mentioned it will happened by year end.

Shrikumar Suryanarayanan: Yes. I think that would still probably be right. We are expecting that the phase I data should coming towards the end of the year. The IND is not really necessary till we are ready to start clinical trails outside of India. We will file the IND when we are ready to start clinical trail outside of India, but all the data that we have to date is from India.

Visalakshi: Thanks and finally on insulin once again the 10 markets which you have supplied to this year, what would be the approximate market size?

Rakesh Bamzai: We would prefer not to state the value because there is a competitive reasons.

Visalakshi: Okay thank you.

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

Kiran Mazumdar Shaw: Well, I just want to thank everyone for this conference call, and I look forward to speaking with you again next quarter. Thank you very much.

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