Transcript

Conference Call of Biocon Limited

Event Date / Time : 21st July 2011, 12:30 PM IST

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 conference to Ms. Urvashi of Citigate Dewe Rogerson.

Urvashi: Thank you. Good afternoon everybody and thank you for joining us on Biocon Limited's Q1FY12 conference call. We have with us on this call today Ms. Kiran Mazumdar-Shaw, Biocon Chairman and Managing Director and members of the senior management team. We will begin with opening remarks by the Chairman, followed by an interactive Q&A session. I would like to add that some statements may be forward looking in nature and a note to that effect is stated in the release. Now I would like to invite Ms. Kiran Mazumdar-Shaw to briefly discuss the company's performance for the quarter ended June 30, 2011.

Kiran Mazumdar-Shaw: Thank you Urvashi. I would like to welcome you all to Biocon's investor call for the first quarter of fiscal 2012. I would like to begin by saying that we are pleased to announce a good set of numbers this quarter. We have registered a revenue growth of 11%, up from Rs 409 crores last year to Rs 454 crores this year. There have been some challenges owing to the turmoil in the Middle East which impacted some of our sales but we have seen a strong performance at the overall company level. On a consolidated basis, we have delivered a PAT of Rs 70 crores and an EBITDA of Rs 133 crores. We have seen good performance in our core manufacturing and research services businesses. I would like to spend a few minutes speaking about licensing income. I would like to point out that licensing income has an inherent variability in it given that it is linked to certain development and regulatory timelines agreed between Biocon and its partners. As has been the practice, we will recognize licensing income to reflect development and regulatory timelines and therefore, I would like you to view licensing income on an annual basis. For example, last year, we have seen licensing income vacillate between Rs 21 crores to Rs 77 crores across quarters. Beginning with the present quarter's licensing income of Rs 14 crores, we expect a ramp up over the next few quarters and we expect that this will be linked to the development and regulatory timelines that has been agreed between our partners.

After the AxiCorp divestment, our operating margin has climbed back to 29%. We will strive to sustain this going forward. Our services businesses, led by Syngene and Clinigene, have had a particularly strong quarter signaling a strong turnaround and the success of our integrated business model that offers end-to-end services. We have delivered 22% top line growth and Rs 10 crores in PAT in this past quarter. We are now well positioned to drive growth. We expect to continue with a similar run rate for this

particular fiscal after which we will initiate and review our IPO plans. We remain committed to the IPO plan and hope that we can do this over the next 18 – 24 months.

On the licensing front, we have initiated several partnering discussions for our leading novel assets - Oral Insulin and the Anti CD6 Monoclonal Antibody programs. While it is too early for me to share any details of these discussions, we will certainly endeavor to realize either both or at least one of these licensing opportunities.

We are making steady progress on the biosimilar insulins front, with a number of registration processes initiated in several emerging markets. We expect to commence supplies of Insulin and Glargine to Pfizer for their India market launch this quarter. More importantly, we are all set to launch our insulin pen viz., Insupen, over the next few months.

We have performed well in our core businesses and expect to end the year on a note of strong performance. With that I would like to start the Q&A. Thank you very much.

Question and Answer Session

Moderator: Thank you madam. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone 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.

First question comes from Ms. Meeta Shetty from Dalal and Broacha.

Meetha Shetty: Hello ma'am. On the Fidaxomicin front, I wanted to know the pricing strategy there compared to Vancomycin. You mentioned a little while ago that Optimer would be entering Europe also for the same, so are we a supplier for the Europe region as well?

Kiran Mazumdar-Shaw: I must clarify that we do not have anything to do with the pricing strategy as this is Optimer's product. Optimer has decided their pricing strategy for their market. We are suppliers of Fidaxomicin API for their global markets. We already started supplying Optimer with its requirements of the drug substance.

Meeta Shetty:Okay. But what kind of PAT level margins are we looking at for this product?

Kiran Mazumdar-Shaw: While we cannot share this, but it is certainly a good margin business.

Meeta Shetty: Secondly, if I go through your annual report, you have mentioned about Orlistat. In that category, two drugs have been banned and so how big is the opportunity for Biocon?

Rakesh Bamzai: Orlistat is the only drug in that category that is doing well because it is a biotech-based product. We are very happy with the growth of Orlistat especially the emerging markets and we expect this trend to continue.

Meeta Shetty: But ban on these two drugs will open up a bigger opportunity for us if I understand it correctly?

Rakesh Bamzai: That is what we also hope.

Meeta Shetty: Okay. Coming to this quarter, the staff cost seems to be little on the higher side, so are we looking at this kind of a run rate or is it only especially this quarter?

Kiran Mazumdar-Shaw: The entire industry is facing higher salary costs and we cannot be immune to this kind of market dynamics so we certainly expect to see increased salary costs for rest of the year and while I hope that we can start seeing some containment going forward we certainly do not see any of that right now.

Meeta Shetty: Okay. If I look at your annual report, your standalone staff costs has gone up by 46% and your consolidated number has gone up by 27%,. So are we looking at a similar kind of 30%-35% increase for this year as well?

Kiran Mazumdar-Shaw: I think that is the way the trend is. Further, this is also about adding people. So when you start growing your businesses and start trying to scale up some of your businesses, you are going to add a large number of people, so certainly this is the ballpark you should look at.

Meetha Shetty: Okay, alright. Thank you so much.

Moderator: Thank you madam. Next question comes from Mr. Binu Patiparambil from IIFL.

Bino Patiparambil: Hi, good afternoon. Biopharmaceutical revenue excluding the licensing fee, of course, doesn't see a lot of improvement over the last couple of quarters despite the Optimer revenue starting in, so is there something else, which has actually sequentially gone down there? In dollar terms, your biopharmaceutical revenue in 3Q and 4Q of last year was in the 78-79 million dollar range which this quarter is about 76 million. We would have expected an improvement over last two quarters since Optimer supply had started etc.

Kiran Mazumdar-Shaw: yes, I mentioned in the opening remarks that we have been impacted by our Middle East business, which we could not realize this quarter. That has been one of the contributors but overall I think our biopharmaceutical business has increased and if you look at how much we have compensated from some of our existing businesses, there is good growth.

Bino Patiparambil: As of today is there any change visible, any improvement visible in your Middle East business?

Kiran Mazumdar-Shaw: Well, we are compensating from other emerging markets. We have had some good business opportunities in regions like Egypt, Tunisia and Syria but unfortunately this year we have been challenged with the turmoil in these regions. What we have done is compensated for these sales from other markets and we see good opportunities in these other new and emerging markets. So, going forward I think we will see some growth from some of these newer opportunities.

Bino Patiparambil: Right. Last year, if you could give a rough idea of last year how much of the biopharma revenue was from Middle East area, the impacted areas?

Murali Krishnan: Unfortunately, we will not be able to share region-wise revenue information.

Bino Patiparambil: Also on the licensing fee, I know it is very variable, etc., but at least for this year what is likely to be recognized, you should have some idea. So, would you be able to give a very broad range, would you be clocking similar range as what you had last year?

Kiran Mazumdar-Shaw: Yes, you can expect that.

Bino Patiparambil: Okay. And the first quarter the licensing fee - is it from Pfizer or somewhere else?

Kiran Mazumdar-Shaw: It is largely from Pfizer.

Bino Patiparambil: Okay, great. And the contract research revenue, this run rate is likely to continue?

Peter Bains: Yes, we would expect to see the current run rate continue till the next fiscal.

Bino Patiparambil: Great, I will join back in the queue. Thank you.

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

Bhavin Shah: Hi, thanks. Just one question, the R&D spend budget for this year, if you could throw some figures in?

Murali Krishnan: For FY12 it is likely to be in the range of 8%-10% of revenues. This quarter it is about Rs. 20 crores.

Bhavin Shah: Okay, so this will further increase in the subsequent quarters.

Murali Krishnan: The development costs for insulins and various other partnered programs will be part of this cost. Therefore, as we progress these programs, the R&D cost also will start increasing over a period of time.

Bhavin Shah: Fine, thanks. And what would be the MR count in the domestic branded formulations business?

Rakesh Bamzai: Approximately, a little over 1100.

Kiran Mazumdar-Shaw: We expect to ramp up to 1500 by the year end.

Bhavin Shah: Thanks so much.

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

Girish Bakhru: Hi. I have a couple of questions on the insulin, first, you are launching reusable pens, so wanted to know if you have any data on how the Indian market is split between reusable and disposable pens?

Kiran Mazumdar-Shaw: India's disposable pen market is small. The most commonly used pen is the reusable one.

Girish Bakhru: Okay. And given that Novo also has products like reusable and disposable pens, if you can share what pricing would we come at for the pens?

Kiran Mazumdar-Shaw: We will certainly adopt a competitive strategy that will compete with Novo and the others.

Girish Bakhru: So, you are saying that our device would be, of course, relatively cheaper vis-à-vis the peers, right?

Rakesh Bamzai: Well, Biocon has always been supportive of Diabetes care and we have always given a good value proposition for the patients. We will do likewise in the device segment as well.

Girish Bakhru: Right. And would it be possible to share the Basalog and Insugen growth rates in the quarter, separately on these two products?

Kiran Mazumdar-Shaw: Are you talking about market share or are you talking about the growth?

Girish Bakhru: If you can give both the numbers it would be great otherwise I am asking mainly growth rate.

Kiran Mazumdar-Shaw: Well, in terms of our market share, we are climbing up rapidly. Today in the insulin space, we are registering between 11% to 15% growth in various markets in the country and in the case of Basalog vials we are the number one brand today.

Girish Bakhru: Okay. And on the development for the Lispro and Aspart, if you can share some updates there?

Kiran Mazumdar-Shaw: These programs are on track in terms of our development and regulatory plans. We are preparing for market entry opportunities post patent expiries.

Girish Bakhru: Right, fine. I will join back the queue for more questions.

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

Priti Arora: Thanks. Just wanted to understand on the biopharma business, assuming the Middle East does not recover and given that you have launches through Pfizer and Fidaxomicin coming through, should we expect much better run rate in the future and any other near term revenue potential you would like to highlight for us?

Kiran Mazumdar-Shaw: We see good traction in many of the emerging markets with all our products. With Fidaxomicin, there is going to be a good ramp up in terms of supplies because Optimer has just launched the product in the US two days ago. We will have to see how the market accepts this product and how the product ramps up. Therefore, we are preparing to support Optimer in their effort to penetrate the market, but this is a good high margin business for us compared to other APIs.

Priti Arora: Okay. And as far as capacity goes for Fidaxomicin API, is Biocon fully comfortable as far as capacity is concerned?

Kiran Mazumdar-Shaw: Yes.

Priti Arora: So, excluding Fidaxomicin, which is I am assuming just come in for one month, I mean, is this the run rate of the business we should assume, and then additional business?

Kiran Mazumdar-Shaw: We hope to improve on this because there are good growth drivers in our existing businesses. We are seeing very good growth in terms of our branded formulation businesses and in some of the emerging markets other than the Middle East, and we are also seeing good growth in our research services businesses. So, I think, overall you can expect an improved run rate.

Priti Arora: And quarter-on-quarter, Rakesh, has there been any, in your opinion, just subjectively, we don't want the number, but any pressure on statins in the last 2-3 quarters or you feel you are comfortable with the numbers you have posted?

Rakesh Bamzai: I have mentioned in the past that our business model is changing. The dependence on Statins going forward is certainly going to be lesser in our entire business strategy. We are building brands, expanding to emerging markets and it takes time to get into the regulated market as it takes time to get approvals and launch the product. But in the Statins segment, I would say that it is an important part of the business today that is stable and it will continue remaining stable.

Priti Arora: So, you are saying stable despite Atorvastatin going generic this year.

Rakesh Bamzai: Yes.

Priti Arora: And the other question is on your debt which seems to have come down quite a bit quarter on quarter, but your interest cost is not reflecting that, if you can just help us understand that?

Kiran Kumar: During the quarter, we repaid a short-term loan that was borrowed in Biocon Limited towards the end of last fiscal and as such the loan was outstanding for only a short period of time.

Priti Arora: Okay. And any FOREX loss? Any FOREX loss in this number of interest cost?

Murali Krishnan: No

Priti Arora: Okay. And on intangible assets, that number is now ex AxiCorp, but it has not declined. I thought there were some intangibles on AxiCorp, if you can just confirm that?

Kiran Kumar: Actually the AxiCorp intangible number is a very small one.

Priti Arora: Okay, fair enough. Thanks.

Moderator: Next question comes from Mr. Ranjit Kapadia from Centrum Broking.

Ranjit Kapadia: Good afternoon. My first question relates to Oral Insulin, have we started, what is the status of clinical trials in the US? And the second question refers to the Pfizer domestic deal, if you can throw some light on this deal and what brand we are going to make for Pfizer?

Kiran Mazumdar-Shaw: As far as the Oral Insulin licensing discussions are concerned, we are in dialogues with a number of potential partners. And we are unable to share anything further and you will have to be a bit patient in terms of getting more information on this particular asset. In terms of Pfizer, they have actually registered two brands - Insulin and Glargine. And they expect to launch this product within the next few months. I think they made that statement recently. And we would be supplying these products.

Ranjit Kapadia: And what is the arrangement that will be profit sharing? What is the arrangement with Pfizer, it will be profit sharing or only the transfer pricing?

Kiran Mazumdar-Shaw: Well, we are unable to share the details, but we are beginning supplies for these requirements.

Ranjit Kapadia: Okay, thank you and wish you all the very best.

Moderator: Next question comes from Mr. Nitin Agarwal from HDFC Securities

Nitin Agarwal: Thanks for taking my question. A couple of things - a) on the EUs insulin, what is the update on that? b) When do you see to get the product launched?

Kiran Mazumdar-Shaw: We are planning to be in the market in 2013.

Nitin Agarwal: This is calendar 2013?

Kiran Mazumdar-Shaw: Yes.

Nitin Agarwal: Okay. On the biopharma business, as we go along, what would be the growth drivers for the business for the remaining part of the year, what do you see would be the three or four growth drivers which you are looking forward to?

Kiran Mazumdar-Shaw: Well, largely it's the branded formulations, the APIs insulins in the emerging markets and as well as research services.

Nitin Agarwal: Any material launches you are looking in the immunosuppressant business for the current year?

Rakesh Bamzai: We have launched one immunosuppressant in India, the new one called Everolimus.

Nitin Agarwal: And in the regulated markets?

Rakesh Bamzai: The regulated markets are not open for this as yet. But, whenever the market opens up with the patent expiry, we will be there.

Nitin Agarwal: And lastly on this insulin deal with Pfizer - how many semi-regulated markets would you expect to be in by the end of the year, if Pfizer should be marketing the product by the end of the year?

Kiran Mazumdar-Shaw: These are driven by when they have registration and Pfizer will have to announce when they are going to enter the market.

Nitin Agarwal: Okay fine, thanks very much.

Moderator: Next question comes from Mr. Krishna Prasad from JM Financials.

Krishna Prasad: Hi, thanks for taking my question, a couple if I may. First on this anti Anti-CD6 molecule that you are talking about, I think you had highlighted you are running a proof of concept trial in RA. So, is there timeline you are looking for? You also have a RA trial, is that correct?

Kiran Mazumdar-Shaw: Yes, we do.

Krishna Prasad: Okay, so is there a sense on timelines in terms of when you would potentially want to look at out-licensing this?

Kiran Mazumdar-Shaw: We have already initiated licensing discussions for this. We have recently performed the data lock for the Psoriasis Phase 2/Phase 3 clinical trial and we will be analyzing this data over the next few months and we will start sharing that information with you. The Phase 3 RA trial is yet to commence. But, we have started seeing lot of expression of interest from potential partners.

Krishna Prasad: Okay. And then on your stake sale of AxiCorp, if you could share what the, how much cash you have received?

Murali Krishnan: The investment into to Axicorp was part cash and part IP and the sale was also a combination of cash & IP.

Krishna Prasad: Sure, but would you be able to share that number?

Murali Krishnan: We are unable to share details of this transaction, but overall we did not incur any kind of gain or loss on this transaction.

Krishna Prasad: Okay, thank you.

Moderator: Next question comes from Mr. Sudharshan Padmanaban from B & K Securities.

Sudharshan Padmanaban: Hello. Can you please give the break up of your biopharmaceutical business, now that you have given the key drivers like branded formulation and immunosuppressant, like how much basically comes from branded business, how much basically comes from the immunosuppressant?

Kiran Mazumdar-Shaw: We don't share segmental break-ups of our biopharma business for competitive reasons but we do have verticals portrayed as APIs, Insulins, Branded Formulations, Licensing and Research Services.

Moderator: Thank you ma'am. Next question comes from Mr. Surya Patra from Systematix Shares.

Surya Patra: Can you share how much we have collected from the Pfizer partnership so far?

Murali Krishnan: While we don't share partner wise revenues. The total licensing income, last year was little over Rs 150 crores and this year we have started with Rs 14 crores for Q1.

Kiran Mazumdar-Shaw: We have shared the basic commercials of the Pfizer partnership with all of you. It is about 350 million US dollars between upfront and milestones. On recognizing of this income that we have received from Pfizer, it is linked to certain development and regulatory timelines. So, although we have received certain money, it will be recognized in our P&L over a period of time.

Surya Patra: Even the first tranche of this 100 million dollar is linked to the various clinical and development, regulatory development?

Murali Krishnan: Yes, we have received this money in our bank account. However, this amount, as well as other milestone related amount when received, will get reflected in our P & L account as development licensing fee over the next four years or so, based on the percentage of completion.

Surya Patra: And this entire 350 million USD will be received and recognized in the next four years or something like that?

Murali Krishnan: Yes, that is correct.

Surya Patra: Okay, thanks. On the Tacrolimus front, have you added any new customers in the last quarter or so?

Rakesh Bamzai: We remain with the number of customers that we mentioned in the last call with you. We have not added any more customers.

Surya Patra: Okay. Is there any problem? Is it because of the regulatory approval issue or delay in regulatory approval or anything else that is hindering from adding new customers for the regulatory markets?

Rakesh Bamzai: There is no hindrance. The four customers have very good market share so we are helping them protect their market share, to stay competitive and do well in the markets.

Surya Patra: Okay and one more thing ma'am. In fact Mr. Harish Iyer, he has already left the organization. He used to head the R&D department. So, have you found out any proper replacement for that or anybody has already come on board?

Kiran Mazumdar-Shaw: We are restructuring our R&D and we will announce the newly structured R&D organization in a short while.

Surya Patra: Okay. Finally, is it possible to share the total revenue and PAT numbers for Syngene and Clinigene for the quarter?

Kiran Mazumdar-Shaw: Yes. We have delivered Rs 96 crores at the top line and Rs 10 crores at the bottom line.

Surya Patra: For Syngene?

Kiran Mazumdar-Shaw: No, combined, Syngene and Clinigene.

Surya Patra: I wanted to know about the Clinigene also separately, why because Clinigene I think we have restructured the business line of Clinigene and recently added the clinical trials instead of earlier BA/BE studies.

Kiran Mazumdar-Shaw: No, what we said is that we are focusing on certain aspects of early phase clinical trials. We did not talk about removing one or the other. And what we normally declare is combined revenues for Syngene and Clinigene. So, we will not be able to separate out the two.

Surya Patra: Okay, in fact in the recent quarters, some sort of weakness was there in the Clinigene side, in terms of the core performance. I believe this quarter we have seen some sort of a growth. Can you at least indicate what is the growth number that is for Clinigene side?

Kiran Mazumdar-Shaw: As you will remember, we have had weakness in our research services business last year and after that we have reorganized this whole business to provide integrated businesses services. And it is post that that you are seeing a Rs 10 crores PAT this quarter. I think it tells you that the business is now doing well and we are seeing some good traction.

Surya Patra: Okay, then thanks ma'am. All my questions are answered.

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

Amit: Hello thanks, this is Amit here for Nimish. Just couple of questions. One is, what CAPEX do we expect for FY12 overall?

Murali Krishnan: It will be around Rs 150 crores, excluding CAPEX in Malaysia.

Amit: Excluding Malaysia. So, any figure for Malaysian facility this year?

Murali Krishnan: The CAPEX spend for the Malaysian facility will be very minimal, since we will commence the project by September 2011. Further this facility will get partly funded by loans from banks. This CAPEX is going to be spent over a 3-4 year time period and expected to be completed by 2013 - 14. There will not be significant cash outflows in the initial years.

Amit: Right. But sir, I am just trying to understand, see some of the licensing income which you will be receiving from Pfizer is related to the CAPEX. So, the guidance you have given of around, let's say the same as previous level, licensing income guidance which you have given, which is the same as previous year, does this include the licensing income which is related to CAPEX also?

Murali Krishnan: No, the recognition licensing income is not related to CAPEX, but purely related to development and clinical costs. The release of monies from the escrow account is alone to setting up the facility in Malaysia.

Amit: Okay, I got it. And sir, do we expect the current debt level to remain stable by the end of this year FY12?

Murali Krishnan: Biocon has very little debt and Syngene has a debt of about Rs 130 crores. It is gradually coming down as it has started generating more cash and profits as well. We will be borrowing money to fund the CAPEX for the Malaysian facility but expect to remain still net cash positive through next year.

Amit: Okay, got it. Thank you.

Moderator: Next question comes from Mr. Hitesh Maheda from Marwadi Shares.

Hitesh Mahida: Hi, congratulations for a good set of numbers. Just wanted to know how has been the performance of international statins and immunosuppressants business, excluding the Middle East market?

Rakesh Bamzai: Overall, we are very stable on statins. And the immunosuppressants have shown a growth rate of about 40%.

Hitesh Mahida: Okay. The other expenses and R&D cost has gone down in absolute terms YoY. What has been the reason behind this?

Murali Krishnan: The R&D cost, as we said earlier, is linked to regulatory approvals and we incur those costs in ROW markets and the regulated markets for our partnered programs. That will also be lumpy and very similar to the licensing income.

Hitesh Mahida: And other expenses?

Kiran Kumar: No, other expenses will have the similar run rate.

Hitesh Mahida: But YoY it has come down from say around Rs 27 crores to 24 crores.

Kiran Kumar: Net of AxiCorp, other expenses is Rs 23 crores for Q1 vs Rs 22 crores in the immediately preceding quarter.

Hitesh Mahida: Okay. And can you share the numbers of how much has been the sales from Fidaxomicin supply?

Kiran Mazumdar-Shaw: Sorry, we will not be able to give that information.

Hitesh Mahida: Okay. Thanks a lot and all the best.

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

Nimish Mehta: Yeah hi, thanks for taking my question. First can you throw some light on the EBITDA margins? I understand that with AxiCorp, it was kind of reported sub 30%. Biocon standalone used to have an EBITDA margin upward of 32% and it is now about 29%. Any reason for the same?

Kiran Mazumdar-Shaw: This is because of product mix and licensing. If you look at higher contribution from licensing, your margin numbers will jump up. But, even at this base level you can see, it has improved from 21%-22% to 29%. And I think that's a pretty healthy margin to go with. And of course as we go forward, this will be improved.

Nimish Mehta: I am actually looking at few quarters in FY10 when this was separately reported. And apart from the last quarter we have seen not so high licensing income, but despite that margin used to be about 32%.

Kiran Mazumdar-Shaw: If you are looking at last year, I think you have seen much higher licensing income, like in the first quarter of the previous year you had Rs 21 crores of licensing income. And this year it has been Rs 14 crores but at the PAT level you can see it's because of certain expenses incurred. The PAT contribution from licensing is only Rs 4 crores. So, from that point of view, you are not comparing like-for-like.

Nimish Mehta: And I missed the R&D guidance. You said 8% to 10% or what was that exactly, the budgeted R&D?

Murali Krishnan: It will be at 8% to 10%.

Nimish Mehta: I see, so it is likely to increase drastically from now. And if you can also let us know about the pens that you are likely to launch, as to who is likely to manufacture the pen? Will it be manufactured by the company self or it will be outsourced?

Kiran Mazumdar-Shaw: This has been sourced from a German company.

Nimish Mehta: I see, okay. So, will that be enjoying any kind of patent in India or how will it be?

Kiran Mazumdar-Shaw: Well, when you get into this business you have to make sure that your patents are secure and that's why we have taken so long to make sure that the pen that we come out with, not only in the Indian market, but global markets, not only has strict and strong IP protection, but also that they are very high quality pens.

Nimish Mehta: Right. And I assume that the German company would be exclusively supplying to Biocon, at least to the Indian market, right?

Kiran Mazumdar-Shaw: Yes.

Nimish Mehta: Okay, fine. And finally if you can throw some light on the Mylan deal, what has been the update in terms of product development or has any product been selected....?

Kiran Mazumdar-Shaw: Yes, all the Mylan programs are on track. I think our partners are very pleased with the progress we are making. And we will share any regulatory milestones as and when we reach them.

Nimish Mehta: How many products have been selected for the co-development, just the number?

Kiran Mazumdar-Shaw: Five.

Nimish Mehta: Right. And all of them are MABs, right?

Kiran Mazumdar-Shaw: Well, they are biologics.

Nimish Mehta: Okay, fine. Thank you. I am done with my questions.

Moderator: Next question comes from Ms. Monica Joshi from Avendus Securities.

Monica Joshi: Thanks for taking my question. Can you just give us some timeline on the Mylan deal and when do you see first of your approvals come in, because now this is about two years old? That's first. And secondly ma'am, I wanted your views on the Research Services Business and it's nice that you have a 10-crore profit. But, if we really work on your annual report, Clinigene though small it is now a loss making business. I want to know what drives growth on the top lines, if you could share some thoughts on how your clients have added or your contracts have added. And secondly, what drives EBITDA? Because, you are going to be adding scientists or technicians, you also spoke a bit about commissioning a new research center. So, will this profit level continue?

Kiran Mazumdar-Shaw: I will ask my colleague Peter Bains to comment about the growth prospects of the research services business. In terms of our research center, which is the in-house research business for Biocon, that's where we talked about our R&D spends increasing. In terms of our Mylan programs, it is not going to be possible to enter the US and European markets in two years. Two years is how long we have been working on these programs but you know that Biosimilar pathways are not going to be like the small molecule BE/BA pathway. These will include clinical trials which are long duration clinical trials. Even the pathway is not very clear. We have some understanding of the European guidelines, but there is no way one can enter these markets in two years.

Monica Joshi: Actually I didn't have that in mind.

Kiran Mazumdar-Shaw: For these programs, we are looking at emerging market opportunities first. We are in the development path and we are on track.

Monica Joshi: Just one clarification there. I was not expecting a timeline, because as what we understood that these are biologics, I guess like the earlier speaker said, some of them maybe cancer drugs. So, we thought that they would be going off patent in FY14. So, what we wanted to understand is FY14 or FY15 in Europe a realistic number? I am not looking at this year or next year.

Kiran Mazumdar-Shaw: It's not FY14 and FY15; these timelines are more like 2016. 2015 and 2016 are the earliest opportunities for many of these molecules. But, what I said was that there might be earlier opportunities in the emerging markets. So, we are still a few years away from a market entry in a regulated market. But, also remember that there are many patent issues that you need to figure. There are molecular patents and then there are formulation patents.

Monica Joshi: Appreciate that. Ma'am also your thoughts on research services?

Peter Bains: Monica, thank you for the question. What we have seen in the first quarter is a growth of 22% on income. That growth has been driven by retaining and expanding our existing customer base and adding in new customers. And we have seen improved momentum on both of those in the quarter. In addition to that, we are evolving our business model towards an integrated offering where we can offer clients not just single component services for example, library development, but we can offer our clients clustered components and integrated partnerships, where we work on them in a broader and a deeper way which adds substantially more value to their discovery and development goals. And between retaining, expanding and bringing in new customers and moving up the value chain towards integrated services, we are able both to drive our top line competitively and improve our margins.

Monica Joshi: Great. If you could share some thoughts on, it's difficult, but after BMS and after that one big client, are we really looking at adding a significantly large client, something that we can look forward to here.

Peter Bains: So, I think we are very pleased with the progress we have made with the BBRC, that has now become substantially the largest scientific discovery and development base collaboration in India and very clearly demonstrates our ability to build and deliver large scale, multi capability integrated offerings with the global major and strengthens our ability to add value to both the discovery and development goals. And we are in a number of discussions that are moving in the direction towards that. So yes, to your question, would we like to develop more partnerships and relationships on a large scale, the answer is yes. And that is entirely consistent with our strategy.

Monica Joshi: Thank you so much and wish you the best.

Moderator: Next question comes from Mr. Sriram Rathi from Anand Rathi.

Sriram Rathi: Thanks for taking my question. I have just one question. Basically on the balance sheet of FY11, there is a line item of deferred revenue in the current liability of Rs 511 crores. So, just wanted to check whether this relates to the licensing income which will be recognized over the next few years or something like that?

Kiran Mazumdar-Shaw: That's right.

Sriram Rathi: Sorry.

Kiran Mazumdar-Shaw: Yes. That's a correct interpretation.

Sriram Rathi: This is in addition to what has been recognized in FY11 already?

Kiran Mazumdar-Shaw: Yes.

Sriram Rathi: Okay. And this is apart from the money that is there in the escrow account, what we received from Pfizer?

Kiran Mazumdar-Shaw: Yes.

Sriram Rathi: Okay. There is nothing which will be going to CAPEX from this money at least; this will be recognized through P&L?

Murali Krishnan: Yes, it will be recognized through the P&L.

Sriram Rathi: Okay, thanks. That's all.

Moderator: Next question comes from Mr. Krishnendu Saha from Quantum AMC.

Krishnendu Saha: Thanks for taking my question. Just one question. This Fidaxomicin, this product, just wanted to know how big is the market and could you give me the market size of the closest competitor of the product please?

Kiran Mazumdar-Shaw: Well, the market estimates which have been prepared by analysts is that at peak sales this product could be anywhere from 1 to 2 billion dollars. So, that's the forecast I can share with you which was in public domain. Apart from that I really can't really shed much more light on it.

Krishnendu Saha: And competitive product which is already there in the market, which is already there?

Kiran Mazumdar-Shaw: The only product that they are competing with is a very old product called Vancomycin. And as you know, Fidaxomicin has quite a strong differentiator, which is the fact that it is very specific to C Difficile and they have seen that the relapse rate in fidaxomicin is far superior to that Vancomycin sees. So, I think that's why they have been able to command pretty high premium in that product rising.

Krishnendu Saha: Right. And just a question on the licensing income. I believe that they were linked to development and regulatory affairs. The regulatory affairs I understand is something which is, but just on a development front. And when is the next big development front coming about in FY13, like 2011-12?

Kiran Mazumdar-Shaw: This pertains to four products -Recombinant human insulin and 3 analogues. So, obviously the development plan is spread over four years. And that's where there is some clear understanding of how we can recognize these licensing

income revenues. And that's fairly well thought out and planned out. And as I mentioned, it's really the regulatory timelines that's really not under our control.

Krishnendu Saha: Right, I get that part, I understand about the development part.

Kiran Mazumdar-Shaw: So basically yes, there is a certain component that we can recognize in quite a planned way.

Krishnendu Saha: Okay, thanks. Thank you.

Moderator: Next is a follow up question from Mr. Girish Bakhru from HSBC Bank.

Girish Bakhru: Yeah hi. Just a follow up on this expansion deal with Endo, can you just throw some more light on that?

Peter Bains: With the Endo partnership, this expansion involving an additional two programs in Oncology.

Girish Bakhru: And would this bring milestone payments or something like fees like that?

Peter Bains: Yes, these programs will include revenue based on the achievements, the development milestones and other success milestones.

Girish Bakhru: Can you give a sense on whether they will come in FY12 or FY13 or when can it come?

Peter Bains: We can't disclose the timing of those at this point.

Girish Bakhru: And just another thought on the domestic market, besides Diabetology, which I see is growing very robustly, which other division can you see the material drivers say in next three years or five years? Could it be on quality or immunosuppressants? I just wanted some more clarity on what can drive besides insulin portfolio in domestic market.

Rakesh Bamzai: In India we have Oncology, Nephrology. We have also launched Comprehensive Care, which is for hospitals type, intensive care type products. So, we see a very robust growth across the division. You would have some idea about Diabetology but the other divisions are growing well too. And you can see more in the near future and also years to come, this business is going to become bigger and bigger in terms of earnings.

Girish Bakhru: Within India, can you give a broad sense of how much would Diabetology contribute overall and if the share is going to increase or decrease going forward?

Rakesh Bamzai: Diabetology is the largest. It is about 50% of the overall branded formulation business.

Girish Bakhru: Right. And immunosuppressants and oncology would be say around 20% odd, right?

Rakesh Bamzai: It's something like that. Comprehensive is what we have launched recently, so in fact it is going to come this year actually. We launched this last year and brand building takes time. In fact we are growing at a pretty decent rate. The industry is growing at 14%-15%; our growths are above 20% which is quite interesting for the company.

Girish Bakhru: Right. So, broad sense is like, the domestic market of course is one of the emphasis market, so it can materially increase its share in say the next three years, right, in overall revenue?

Kiran Mazumdar-Shaw: The plan is that over the next three to five years we want this business to amount for almost 20% to 25% of our overall business.

Girish Bakhru: Okay, that's all. Thank you so much.

Moderator: Thank you sir. Now I hand over the floor to Ms. Kiran Mazumdar-Shaw, Chairman and Managing Director of Biocon Limited for closing comments.

Kiran Mazumdar-Shaw: I hope we have been able to give you some clarity on separate fronts on the way we have recognized licensing income on all the various businesses that we are involved with. We remain confident of delivering strong performance and look forward to speaking with all of you again at the next analysts call next quarter. Thank you very much.

Moderator: Thank you madam. 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.

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