Q4 & FY13 Post Earnings Conference Call
April 26, 2013

Participants from Biocon Group's Senior Management Team

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

Presentation Session

Moderator: Ladies and gentlemen, good day and welcome to the Biocon Limited Q4 FY13 Earnings Conference Call. As a reminder, for the duration of this conference, all participants' lines will be in the listen-only mode. There will be an opportunity to ask questions at the end of today's presentation. Should you need assistance during this conference, please signal the operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Urvashi Butani of CDR India. Thank you.

Urvashi Butani: Good afternoon everybody, and thank you for joining us in Biocon Limited's Q4 FY13 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 the opening remarks from Biocon's management followed by an interactive Q&A session. I would like to add that some of the statements made in this 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 period ended 31st March 2013.

Kiran M Shaw: Thank you Urvashi. Good afternoon and welcome to Biocon's investor conference call for the fiscal year ended 31st March 2013. I will cover the performance for the year and for the quarter separately to better explain the business growth. Let me begin with our performance for the year.

- Group sales have risen by 18% to Rs. 2,428 Crores. We have had particularly strong performances from our Research Services business and our Healthcare division.
    - ❖ Research Services have grown a robust 36% to Rs. 557 Crores, and I would particularly like to highlight this performance as having crossed the Rs. 500 Crores turnover mark.
    - ❖ Healthcare has grown by 34% to Rs. 348 Crores from the previous year's Rs.259 Crores. Biologics contributes over 50% to our Healthcare division revenues and I

think this is particularly relevant in positioning us as a differentiated branded formulation company in the country.

- Group net profit for the FY13 has grown by over 50% to a record Rs.509 Crores. This is on the back of an exceptional income that we have recognized this year, pertaining to the re-licensing of our generic insulin analogs portfolio to Mylan.

- Excluding all exceptional items, group net profit for the full year stands at Rs.343 Crores. Performance at the PAT level has been impacted by increased tax outflow due to the partial loss of SEZ and EOU benefits to our facilities. In fact, tax has grown from Rs.54 Crores last fiscal to Rs.98 Crores this fiscal.

A significant milestone this quarter was the extension of our partnership with Mylan in February 2013 for generic insulin analogs. This deal is very significant for us as not only do we get a very strong co-development and commercialization partner in Mylan, but it also endorse the tremendous value of this asset. I would like to highlight here some key differences between the 2 deals which we executed for these assets. Unlike the Pfizer deal which put the complete onus of development on Biocon, the Mylan deal is a co-development arrangement wherein Mylan will bear a significant part of the development cost for generic insulin analogs in both US and EU. This deal therefore significantly reduces our development spend in meeting the regulatory requirements for taking our generic insulin analogs portfolio to US, Europe and other regulated markets. While the erstwhile Pfizer deal was based on milestone payments and royalties, the Mylan deal involves profit sharing upon commercialization. This alliance validates our business model of generating revenues both from product sales as well as licensing.

As you are aware, we have always taken a prudent approach towards accounting for licensing income whereby we recognize income commensurate with clinical and regulatory development. This is what we did when we signed the agreement with Pfizer, and this is what we will do in our current partnership arrangement with Mylan. Consequently our development obligations continue for rh-insulin which we have not partnered as yet, but greatly reduce for our generic insulin analogs. We have therefore re-assessed the earlier deferred amounts for our insulin portfolio earmarked towards clinical and other obligated development cost, and have accordingly booked Rs.215 Crores as exceptional income this quarter.

The reading of Q4 numbers has been impacted by several exceptional items. The exceptional income and certain exceptional provisions made this quarter should be factored in when analyzing the same. As a matter of abundant caution, we have made a provision of 13 Crores towards perceived erosion in the value of our equity investment in IATRICa, a small US startup company. We have also provided Rs.10 Crores for certain management bonuses, which will be paid out to various executives in our company who have put in exceptional efforts over the past 2 years in licensing various assets including generic insulin analogs to Mylan.

There has been a decline in sequential quarterly revenue in our Biopharma business from Rs.409 Crores to Rs.380 Crores. This is largely due to a phasing issue in insulins where we have undertaken an expansion, which has led to the plant shutdown in late February. This has impacted our insulin sales this quarter. Needless to say that insulin is a critical growth factor for us and we believe that this expansion will benefit us next fiscal. We are also factoring in an impact on account of forex loss this quarter whereby on a sequential basis, the delta is Rs.13 Crores.

There is an additional variable component of licensing income. We had booked Rs.46 Crores in Q4 FY12 and Rs.9 Crores in Q3 FY13; while this quarter we had a licensing income of only Rs. 2 Crores. Given these factors, I believe that Q4 FY13 was an anomaly and we will see a very smart recovery next quarter and for the remaining part of next fiscal.

Overall, I am extremely pleased with the kind of performance we put in. Our core business has been resilient while research services have had a stellar year. Syngene continues to do extremely well. Research Services has crossed Rs.500 Crores mark this fiscal whereby sales have grown 36% YoY to Rs.557 Crores with EBITDA growing by 25% to Rs.175 Crores.

We have evolved a forex policy over time and today most of our exchange contracts are taken in the form of range or put options. We believe this will permit us to manage the risks in foreign exchange more efficiently. If you recall, we continue to book exchange losses in Syngene on account of hedge contracts against our Research Services contract with BMS. These losses arise from the simple forward exchange contract that we took in 2007. The losses pertaining to this contract will end by Q2 FY14 and therefore in the second half of FY14, you will again see a very strong performance in our Research Services business.

In conclusion, we believe that FY13 has been a very significant year for us at Biocon. We built on our existing relationships with BMS and Mylan to expand into oral insulin and generic insulin analog programs respectively. We have delivered consistent growth across all our business verticals by leveraging efficiencies and our existing partnership platform.

The focus in FY14 is, therefore to sustain this momentum. We aim to transform Biocon into a leading global insulin player by further expanding our India manufacturing capacities. We aim to maintain our growth in research and integrated services. We will further our development work in biosimilars and novel molecules to bring affordable therapeutics to the market. Therefore, the thrust is firmly on execution with operation efficiencies and complementary cost structures to ensure that Biocon is well positioned to take the next leap of growth. I will now stop to take questions. Thank you.

Question and Answer Session

Moderator: Thank you. We will now begin with the Q&A session. We have the first question from the line of Anmol Ganjoo from Antique.

Anmol Ganjoo: You spoke about the expansion of Biopharmaceutical capacity, especially with reference to insulin. By what time do you expect this capacity to come on board, and what would the expanded capacity be like?

Kiran M Shaw: The current capacity expansion is aimed at bridging the demand gap till the Malaysian facility comes on stream. As you might recollect, the Malaysia facility will come on stream in 2015, hence we are expanding the existing facility in Bangalore to the maximum extent possible. We have initiated the process and had to take a shutdown towards the end of Feb 2013. The facility should be operational next month. While it is a small shutdown, it will expand our capacity significantly, though we will still be shy of doubling it.

Anmol Ganjoo: My second question is related to raw materials as a percentage of sales. On an annualized basis we have seen a sharp increase there. Sequentially, the raw material costs are up 100 bps. What is the big driver here?

Kiran Kumar: The raw material costs are hinged to two pieces, one is the forex movement which has led to ~20% increase in the imported raw material cost, and the second is the power cost which has increased ~40% YoY, largely driven by the diesel and the fare hike.

Anmol Ganjoo: In FY13 we are at ~16% effective tax rate, which is ~220 bps jump from last year, but still lower than a lot of your peers. So from FY14 standpoint, what should we be looking at?

Kiran Kumar: We have maintained that the tax rate should be ~22%. In the current quarter, the tax has been moderated on account of the one-time exceptional income.

Anmol Ganjoo: Could you share ballpark growth guidance for FY14 on biopharma?

Kiran M Shaw: When you say Biopharma, I assume that you are referring to our core business, and we are aiming for 15% growth this fiscal.

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

Bino Pathiparampil: Just a couple of questions. First, on the Biopharma business, if I remove the domestic branded business and the licensing income, the remaining business in dollar terms shows little growth in FY13. So what was the component that has declined in that part of the business which led to the overall growth rate in that segment being flat?

Kiran Kumar: If you look at the YoY growth in Biopharmaceuticals, We have seen a 10% growth at constant exchange rates there.

Bino Pathiparampil: What is the exact forex loss included in the Q4 P&L and which heads does it go to?

Murali Krishnan: In Q4, we had a forex loss of about Rs.8 Crores which is reflected in the other expenses line. In Q3, we had a net forex gain of Rs.5 Crores which is reflected in other income. So the delta is Rs.13 Crores.

Bino Pathiparampil: Now that the insulin analogs are part of the Mylan partnership, what is your plan for rh-insulin marketing in Europe? Would that be you are planning to do it on your own or are you planning to find a partner for that?

Kiran M Shaw: We are currently developing the insulin asset on our own for Europe and US. And once we get marketing authorization, it will open up many options for us.

Bino Pathiparampil: When do you expect to do the final filing?

Abhijit Barve: For the European MAA, our final study report is expected in a few months time. Once that happens, we will sit down with EMEA and look at the robustness of our dossier for submission. Post the discussion; we will submit it for marketing authorization, hopefully later this year. As far as US is concerned, we expect to have a USFDA meeting soon to work out the time line for commencing our Phase-III trials for the US. Given that we have a US IND in place it should speed up the process. Our intention is to create an extremely valuable asset by the time of marketing authorization by working on the development path individually for the time being, so we will seek a partner at the right stage.

Bino Pathiparampil: Which final study results are we looking forward to, because 2-3 months back we had the data from Type I diabetics, right?

Abhijit Barve: If you recall the study design, we had a 6-month comparative phase and a 6-month follow up phase. We have completed the 6-month follow up phase and during the last call we had said that the data was being analyzed. We have got the data and the study report is under preparation. We have to submit parts of the study report to further our discussion with EMEA.

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

Girish Bakhru: Just wanted more clarity on the insulin filing in Europe, specifically the rh-Insulin. Given that there was a new guideline that just came in Nov-Dec with EMEA, are those new specifications already incorporated in the dossier or do you think that could create some delays in acceptance of the dossier?

Abhijit Barve: We had gone to the EMEA for discussions a couple of years ago when we designed those studies. Hence the studies were designed according to the earlier parameters which we were able to meet. What we want to do now, is sit down with EMEA and get their feedback to ensure that the data that we have generated to date conforms to the new guidelines. Our initial sense is that it should comply, but we need to get those feedbacks from the regulators.

Girish Bakhru: But according to your assessment, is there a significant change in the new guidelines from the previous one?

Abhijit Barve: Our interpretation is that there are small changes, but we have to see how the regulators view them.

Girish Bakhru: In terms of finding a suitable partner, would that be post-filing or are you still looking for a suitable partner?

Abhijit Barve: We will be probably doing it post-approval.

Girish Bakhru: And the other question was on Fidaxomicin's performance within biopharma?

Rakesh Bamzai: Our partner is doing well with sales close to $75 million last year and they are building up their sales and the markets, country-by-country. So we are going to have an exciting time in the next 3-4 years.

Girish Bakhru: Can you comment on if there are now more suppliers to Optimer or are you the sole supplier still at this stage?

Rakesh Bamzai: As you are aware, we have developed this molecule together with Optimer and have an agreement to manufacture and supply right from the beginning. We continue to be their only supplier.

Girish Bakhru: Given that there is a lot of talk going on of possible takeover of Optimer by Glaxo or Astra, would that change the equations for this product?

Rakesh Bamzai: We are in constant touch with Optimer and any such eventuality should impact us positively.

Moderator: Thank you. The next question is from the line of Krishna Kiran from ICICI Direct. Please go ahead.

Krishna Kiran: Ma'am, some clarifications. On the insulin facility which we said was closed from end-February, will it be closed for the next month as well?

Kiran M Shaw: The plant is closed till the end of April.

Krishna Kiran: There is a huge increase in employee cost which is mainly because of those 10 Crores bonuses which we have given, is this right?

Kiran M Shaw: Yes, that is right.it is a one-off cost, so please take it in that way.

Krishna Kiran: And third one, we have mentioned in the press release that we are developing ANDAs. Will these be through the 505(b) (2) route? Can you throw some color on what kind of filing are these?

Kiran M. Shaw: We are not doing any 505(b) (2) right now. These are ANDAs aimed at the US market.

Krishna Kiran: Given that atorvastatin is off patent, have we seen any pricing pressure from customers in Atorvastatin or Simvastatin?

Rakesh Bamzai: The Simvastatin market in US has decreased from ~50% of the overall statin market to ~40% this year while the Atorvastatin market has grown. It is because generic Atorvastatin is taking the market share away from the innovator brand as well as from Simvastatin. As a generic, Simvastatin is stable now, but Atorvastatin is in early phase so there is price erosion. But, we are waiting and watching the whole market and we feel it will get stabilized by end of this year.

Krishna Kiran: Can you tell us gross debt on the books?

Kiran Kumar: It is Rs.164 Crores (long term debt).

Moderator: Thank you. The next question is from the line of Surya Patra from Systematix Shares.

Surya Patra: The Research Services business has been doing well. How long can this momentum be sustained and which are the factors that give you confidence about the growth momentum in the business?

Peter Bains: The demand for Research Services continues to grow as the discovery and development based industrial sectors look to reengineer their R&D systems. Organizations across industries like Pharma, Biopharma, veterinary and agrochemicals are looking to increase their externalization. So in terms of demand, we see the trend continuing going forward. Our confidence in our ability to sustain the momentum that we have achieved in the last 2 years is built on the basis of our platform and strategy of expanding capabilities across multiple sectors. We have seen very strong traction in the last 2 years, not only in the traditional chemistry segment but also in biology, formulation, safety, toxicology, analytical and biologics. We are witnessing growth in Clinigene as well. Thus, we are seeing substantial broad-based growth across our capabilities. We have seen strong customer retention, expansion of existing customers, and in the last year we have added a lot of new customers and partners; some of which have strategic potential. The demand outlook is therefore based on the reengineering of discovery and development externally. We are building capacity, capabilities and have strong traction which indicates that we are moving in the right direction.

Surya Patra: So when you say that you are expanding capabilities, is it on the research front or is it also for the manufacturing side in Research Services?

Peter Bains: We are expanding on both counts.

Surya Patra: Can you tell us the capex outlay that you are looking for Syngene?

Chinappa: We are finalizing the capex plan and we will disclose that in the coming quarters.

Peter Bains: I would like to add that during the course of the year, we had an investment by GE Capital which would be used to undertake capacity and capability expansion going forward.

Surya Patra: Is it possible to share the capex number for the entire Biocon Group for FY14?

Murali Krishnan: In the normal course, we generally have an annual capex outlay for facility augmentation amounting to Rs.150 Crores. Over and above this, will be the capex spends for Malaysia and Syngene expansion.

Surya Patra: In the opening remarks, Madam has indicated about some provisions relating to IATRICa. Can you tell us what is the quantum, and where is it accounted for?

Kiran M Shaw: We have indicated that a provision of ~Rs.13 Crores has been made because we believe that there are some IP related issues that need to be clarified. We are addressing the same to resolve it expeditiously. Given that it is an exceptional item, it has been netted off with the exceptional income

Surya Patra: On the Branded Formulations business, we have been doing well and have been very successful in creating brands out of new launches. Can you give me some sense on the profitability part at the EBITDA level, and how long would it take to up the margin performance to the company level?

Rakesh Bamzai: As you know that brand building takes effort, time and money. At this point of time while it is a profitable business, the EBITDA margins are below the industry standard. We are currently in the investment phase but going forward it will reach and eventually cross the threshold in the next 3-4 years time.

Surya Patra: Considering the brand composition, it seems that the profitability should be better than the normalized branded generic business of the country, is that correct?

Rakesh Bamzai: Yes, but as you are aware, it takes about 2-3 years for the field force to be totally productive. We have our own internal benchmarks which we have consistently met, but the aim is to reach to the level of top performers in the industry who have been there for the last 30-40 years. We are very aggressive, focused and building up our reach, products and brands, and we are doing it faster than the industry, so it will take us some more time to get to those EBITDA levels.

Surya Patra: So the current EBITDA levels are lower that the industry and our overall company EBITDA levels?

Murali Krishnan: That is right.

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

Ranjit Kapadia: My question relates to Syngene listing. After the GE investment of 1.25 billion, what is the plan for Syngene listing?

Kiran M Shaw: As far as Syngene listing is concerned, we want a consistent track record of profitable quarters. So we are looking at listing Syngene by FY15.

Ranjit Kapadia: How many customers do we have in US as well as in Europe for atorvastatin?

Rakesh Bamzai: We were early in Europe and have around 3-4 customers in Europe. In US, we have 5 customers, all of whom are expecting approval.

Ranjit Kapadia: Do you think that despite the 97-98% price fall, they will still be competitive…?

Rakesh Bamzai: Yes, our technology is good.

Moderator: Thank you. The next question is from the line of Arvind Bothra from Bank of America.

Arvind Bothra: Just a question on the deferred revenue part which is there in the current liabilities. Can you let us know the movement there, because I believe 215 Crores from Pfizer was lying there, that gets reduced now and possibly 20 million from Mylan gets added?

Murali Krishnan: As of last year in USD terms, we had ~97 million in deferred income. During the course of this year we spent about 7-10 million USD and about 40 million USD has been taken to the exceptional line in Q-4. So, as of now, we have ~50 million USD remaining for rh-insulin and with the additional monies coming from Mylan, now the remaining amount of ~70 million USD is grouped under current and non-current liabilities.

Arvind Bothra: Kiran has earlier mentioned that much of our R&D large investments are being taken care of through licensing and partnerships, But we have the EU and US trials for rh-insulin, along with other molecules under development. How would the R&D spend pan out in the coming years as a percentage of sales?

Murali Krishnan: The monies received and shown under deferred income amounting to ~ 70 million USD should be able to largely address the expenses, towards our insulin development. But, in terms of the other R&D expenses, it will continue to be at the current levels or will be increasing year on year.

Arvind Bothra: Are we expecting any milestone income on the MAbs portfolio in FY14?

Kiran M Shaw: I want to clarify here that there is no milestone payments involved in this deal, but we are expecting approval and possibly commercial launch of Herceptin in India.

Moderator: Thank you. The next question is from the line of Anand Rawani from Horizon Research.

Anand Rawani: Syngene has been delivering strong set of numbers. Does the management believe that Syngene can fund their growth on their own, and if yes, any thoughts on spinning off Syngene and unlock the value?

Kiran M Shaw: As you know, GE has taken a stake in Syngene and they have set the valuation benchmark at ~$300 million for Syngene, which implies that anyone investing at that level expects a huge value unlock at listing. Given the fact that this investment has come in and will fund the much talked about expansion, we certainly believe that Syngene is in a strong position to fund their own growth, in fact, they are now debt-free and they are well positioned to fund the next phase of their growth. As I mentioned earlier, we are looking at an IPO in FY15.

Anand Rawani: So it will be an IPO and not simple spinning off from Biocon, is that right?

Kiran M Shaw: We cannot discuss all the details of that, but certainly, we will unlock significant value at that time.

Moderator: Thank you. The next question is from the line of Nimesh Mehta from Research Delta Advisors.

Nimesh Mehta: You just mentioned that you will be launching generic Herceptin in India. Just wanted to know in what format will this be. Are we likely to look at compulsory license?

Kiran M Shaw: This is not a patented drug in India; in fact I think there has been a wrong interpretation of Herceptin in India. There is no question of compulsory licensing as this is a straight forward generic Herceptin. We have met all the biosimilar guidelines prescribed by the drug regulator in India, we have completed patient enrolment and we will hopefully be concluding all these trials by the end of the year. I must emphasize that we will launch the product post the regulatory approval, without seeking compulsory licensing.

Nimesh Mehta: So there is no patent on this product in India?

Kiran M. Shaw: No.

Nimesh Mehta: The second is a book-keeping question. As a percentage of sales, how much would the revenue from BMS contract be in Syngene?

Chinappa: Most of the growth is coming from the other verticals. The BMS portion is gradually dipping and is now between 20% and 30%.

Nimesh Mehta: Could you clarify about the need to wait for Syngene's listing in FY15 with respect to the BMS contract?

Kiran M Shaw: The exchange losses are on account of some hedges that we had taken on foreign exchange in 2007 on account of the BMS contract will end by Q2 FY14. Thereafter, we will have a robust growth which will not get impacted by these kinds of historic deals. We have been waiting for this to start preparing ourselves for a likely IPO.

Nimesh Mehta: So, we are already booking some losses for that earlier contract in the current numbers as well?

M.B. Chinappa: In the last year, growth in USD terms has been 26%. In addition, we have gained another 10% due to the rupee depreciation. Of the 10%, most of it has been set-off by forex losses and increase in imports, and only 3% gain has percolated down to profits. Post the expiry of this contract, we expect these losses to disappear and profitability to improve.

Moderator: Thank you. The next question is from the line of Ashish Thakkar from CIMB. Please go ahead.

Ashish Thakkar: Could you let us know about the status of the Malaysia Insulin plant? Are we on track to commercialize the facility by FY14 or '15?

Kiran M Shaw: As I mentioned earlier, everything is on track and we are confident of meeting the 2015 timeline.

Ashish Thakkar: Could you quantify the capacity we are setting up in Malaysia?

Kiran M Shaw: We cannot share capacity details for confidentiality reasons.

Ashish Thakkar: So, if I come to India then, what is the installed capacity as far as the …?

Kiran M Shaw: We cannot share capacity details for confidentiality reasons.

Ashish Thakkar: But post this Malaysia plant coming in, we will be having one of the biggest setup in Asia

Kiran M Shaw: Yes, absolutely.

Moderator: Thank you. The next question is from the line of Hitesh Mahida from Fortune Financial. Please go ahead.

Hitesh Mahida: I had just two queries; one is what is with the progress on Itolizumab? And secondly, what would be the likely market size of Herceptin in India?

Abhijit Barve: Itolizumab is approved in India by DCGI and we will be commercializing the product soon, as Alzumab. We recently had a pre IND meeting with the FDA, and have received favorable feedback on our development strategy for starting clinical work in the US. We are looking at multiple indications for this particular product and at the same time we are also looking at partnering this particular asset.

Rakesh Bamzai: Herceptin is used primarily for metastatic breast cancer and several indication expansions are being pursued. So today, the market is close to Rs.250 Crores, but when we launch the product, we will try to expand the market further. Hence, it is expected to have a lot of potential in India and other emerging markets. We are looking at a good value creation in the next 2-3 years because of generic Herceptin.

Hitesh Mahida: And just one last question, what is our field force in India and are you looking to expand it further?

Rakesh Bamzai: Today, we have ~1500 people on ground in India and 200 people in the corporate office, so 1700 people in this branded formulations initiative. We will expand based on the requirement of that particular segment. The growth going forward will come through our brands and increasing reach.

Moderator: Thank you. The next question is from the line of Sachin Kasera, from Lucky Investments.

Sachin Kasera: Just a follow up on this branded formulations. What was the field force addition in FY13?

Rakesh Bamzai: We have increased our field force by 5-7% over last year.

Sachin Kasera: This year we have grown at 35%, much higher than the market. What is the outlook for FY14, do you think this momentum can be sustained?

Rakesh Bamzai: Yes, we feel we will continue growing this way.

Sachin Kasera: You also mentioned the profitability share is lower than the company average. Is it significantly lower, like it is still in single digit or it is much higher?

Rakesh Bamzai: It is not very high, but it is not a single digit number.

Sachin Kasera: And secondly, on this Herceptin, what is the current cost of this treatment in India? You mentioned the size is around Rs.250 Crores.

Rakesh Bamzai: The cost of therapy varies on the dosage, condition of the patient and on the number of cycle that the patient is recommended. The innovator has priced this product quite aggressively; in fact they have dropped the pricing in the last 6 months. But, we will be able to bring a good value proposition for the patients in India.

Sachin Kasera: I think the current cost is roughly ~80,000 to 1 lakh a vial. So I was wondering that if we have to give good value to the patient, then the current market is much smaller than the addressable market because of the price.

Rakesh Bamzai: There are lots of patients who need Herceptin but cannot get it because it is very expensive. So we have to keep that in mind, as we strongly believe in affordable innovation.

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

Kartik Mehta: Can you talk on the outlook of the Insulin market in India in terms of the pricing, your market share amongst all the domestic companies, and also vis-à-vis your pricing versus the MNC pricing?

Rakesh Bamzai: Insugen has a market share of close to 10% in India while we have a ~35% market share in glargine. We are building this market up with the new devices, despite being under NPPA. We are talking to the regulators to try and have a fair pricing system in this Country.

Kartik Mehta: Could you give an outlook on the pricing? What would be the expected discount that you would have to the MNCs going ahead? And are you trying to maintain market share or would it be more…?

Rakesh Bamzai: We are doing very well in terms of market share in all the markets that we are participating, India being a branded generic market is taking little more time. We have close to 10% market share. Our value proposition is very good: a top quality, global product at reasonable prices, complete care for a diabetes patient including management of HbA1c and patient care through our call center which has been appreciated by patients and physicians alike, thereby increasing our market share.

Kartik Mehta: Is there any money that we received from Pfizer which is shown as deferred revenue?

Murali Krishnan: Still a balance of ~ 50 million USD is being shown under deferred revenues.

Kartik Mehta: What will be the trigger for that amount to be brought into the P&L- a new partner?

Kiran M Shaw: I think we had explained to you right up front that we still need to develop recombinant human insulin. And there is a certain obligation we have to contribute towards developing insulin analogs. So that is the amount that still is kept in deferred revenue.

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

Meeta Shetty: We have seen the core margins come down in FY13, but now going ahead with Herceptin coming in and even Fidaxomicin sales, not to forget to mention the branded formulations as well. What kind of expansion can we see going ahead?

Chinappa: Excluding R&D expenses and R&D income, you would notice that there has been a general improvement and we expect that to continue.

Meeta Shetty: Secondly, on the ANDAs that we expect to file, how many ANDAs should be filed by H1 FY14?

Rakesh Bamzai: We have just started the process around 6-8 months back and there is time needed for developments. There are 20 products in the pipeline, we will start filing in 2 years from now, and eventually we will get approval and start commercializing the products.

Meeta Shetty: So that means that until FY15 we will not be having any significant filing?

Rakesh Bamzai: Yes.

Meeta Shetty: On the gross debt actually, you mentioned 164 Crores, but that is only the long term borrowing, Can you give me the entire debt amount?

Kiran Kumar: ~ Rs.250 Crores

Meeta Shetty: On the Malaysian CAPEX, we had a US$160 million CAPEX planned. Of which how much would we have already spent on it?

Murali Krishnan: It is not completely spent as there is long lead time for equipment. A large part of capex spend will come during the course of FY 14 and the balance during next fiscal. About 80% of estimated capex would have been spent by the end of this fiscal.

Meeta Shetty: So that means only about 15% or 20% of that would have been incurred so far. If I remember correctly we were supposed to take some debt for this CAPEX. So are we going to still go ahead and take debt or …?

Murali Krishnan: Yes, we have gone ahead and started taking debt in Malaysia. Rs. 165 crores debt is largely coming from there.

Meeta Shetty: So whatever debt was supposed to come on the books is already there?

Murali Krishnan: No, not all of it is there as of today. There is more to come over a period of time.

Meeta Shetty: So shall we expect some increase in debt towards the end of…

Murali Krishnan: Certainly yes.

Meeta Shetty: Because we were talking about 60% of the entire CAPEX to be fund through debt, is that the way we should still look at it?

Murali Krishnan: Yes, you are right. Large part of this debt will be taken during FY14.

Moderator: Thank you. The next question is from the line of KC Suri from Span Capital. Please go ahead.

KC Suri: Could you run us again through the accounting part of the insulin analogs development work? Is my understanding correct that none of the developmental expenses will come through P&L?

Murali Krishnan: It will come through P&L under R&D expenses, where deferred income will set it off making it neutral in the P&L.

KC Suri: The 50 million which we have residual from Pfizer would be used for rh-Insulin as well as your share for…?

Murali Krishnan: No, that is only for rh-Insulin.

KC Suri: And the 20 million?

Murali Krishnan: The 20 million will be for our share of Glargine.

KC Suri: And what were the other two?

Murali Krishnan: Yes, Lispro and Aspart will also have some play in that.

KC Suri: You would receive additional funding then?

Murali Krishnan: No.

Moderator: The next question is from the line of Krishnendu Saha from Quantum Asset Management.

Krishnendu Saha: What is the exceptional item of 200 Crores related to?

Kiran Kumar: It relates to the deferred revenue pertaining to the insulin analogs portion of the receipts from the Pfizer termination. We have taken them to the P&L at this point in time.

Krishnendu Saha: But you are supposed to set it off against the R&D expenditure, so I was wondering what would change in this?

Kiran Kumar: We have explained it earlier in the call, so it is better that we take it offline.

Moderator: Thank you. We have the next question follow up question from the line of Bino Pathiparampil from IIFL.

Bino Pathiparampil: You had mentioned about the Trastuzumab Phase III study in Europe. Can we get some more details?

Abhijit Barve: The lead has been taken by Mylan. That study has already been initiated and we have approvals in certain big countries to start the study as well. We are hoping to ramp up going forward. You can get further details on the European clinical trial registry.

Bino Pathiparampil: Finally after this change in accounting for insulin analogs development, Will the R&D costs remain at the current levels?

Kiran Kumar: No. It will increase as we go forward, depending on spends in the MAbs program.

Moderator: Thank you. The next question is from the line of Krishna Prasad from Kotak Securities. Please go ahead.

Krishna Prasad: Could you explain the lower tax rate for the current quarter?

Kiran Kumar: Our average tax rate has been around 22% in the current year. If you look at the Q4, the tax rate has been lower on account of the exceptional item, which has been booked.

Krishna Prasad: So does that mean you did not pay any tax on the…

Kiran Kumar: We have a lower tax rate on that exceptional income, about 10%

Krishna Prasad: So going forward, if I have to project a tax rate, it would be closer to 20%.

Kiran Kumar: Yes, around 22%, that is right.

Krishna Prasad: Just one additional question on the deferred income. If I look at your opening balance of deferred income and then if I do the math on how much has got recognized and how much is the Pfizer number, which has got moved out. It does not add up to the closing number that you have. Is there something that is being missed here?

Murali Krishnan: If you add up the Rupee numbers it will not add up, because the money is received in USD and accounted in the books of Biocon SA. This amount gets retranslated in to Rupee amount at the end of each quarter and hence the math cannot be done in rupee terms.

Krishna Prasad: In an earlier reply, you spoke about the Mylan income which is primarily for Glargine. Is there a reason there, because I suppose it would be covering all the three products which are there as part of your deal, right?

Kiran M Shaw: The money will go towards all analogs, not just Glargine.

Krishna Prasad: And regarding your launch of Herceptin in India, do you expect to see any more players at the time of launch?

Rakesh Bamzai: In India, we will be the second player but the third brand. The Innovator has two brands for the same product.

Krishna Prasad: But in terms of how many more do you expect to enter?

Rakesh Bamzai: There are a couple of more people developing it, but they are far away.

Moderator: Thank you. We have the last question from the line of Sachin Kasera from Lucky Investments.

Sachin Kasera: Could you share the breakup of the 110 Crores of other income?

Kiran Kumar: The other income largely comprises of the dividend and interest income on our current investments. In addition to that in the current year we had a one-off income which is about Rs.30 Crores which was mentioned in the notes.

Sachin Kasera: What is this 30 Crores related to?

Kiran M Shaw: We have explained this in the previous quarter. It is an income that we received as a one-off on the termination of a contract.

Sachin Kasera: Is this a part of Biocon or Syngene?

Kiran M Shaw: It is a part of Biocon.

Moderator: Thank you. I would now like to hand the floor back to members of the management for closing comments.

Kiran M Shaw: Thank you very much for joining and participating in this investor call. I look forward to speaking with you at the next quarterly conference call. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Biocon Ltd, that concludes this conference all. Thank you for joining us.

Note: This document has been edited to improve readability.