

18th July 2008, 3:00 PM IST

## BIOCON LIMITED

### Transcript of the Conference Call with Analysts / Investors

**Mansi Parekh:** Good afternoon everyone and thanks for joining us on Biocon Limited's Q1FY2009 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 a part of the senior management team. We will begin the call with the opening remarks from the Biocon management followed by a Q&A session with all of you. Now I would like to invite Ms. Kiran Mazumdar-Shaw to briefly discuss the company's performance for the quarter ended June 30<sup>th</sup> 2008.

**Kiran Mazumdar-Shaw:** Thank you Mansi. Good afternoon everyone. Welcome to Q1 FY2009 analyst call and I would like to start by saying that yes, I think Q1 FY2009 has been impacted by exceptional factors, largely a mark-to-market provision of Rs. 26 crores, which has of course depressed our PAT numbers to Rs.15 crores. Now I know that there are some concerns expressed by various market analysts about some parts of our business and I would like to start by making a very strong commitment that Biocon has very robust business financials. What you are seeing this quarter is exceptional and I think you will see very good growth in the quarters ahead. To begin with, we have on a like-for-like basis, excluding our historic enzyme's business, increase our top line by 7%. The absence of licensing income and here I would like to qualify that by saying that licensing income is event driven, last year this quarter, there was a licensing income revenue of Rs. 17 crores, which was absent this quarter and therefore you were seeing only a 7% increase in our overall biopharmaceutical business, but the licensing income is going to kick in and we do expect to see significant licensing income by the end of the year. Since several of our programs are ready for licensing and the fact that we are in various stages of discussion we are confident that you will start seeing licensing income being reported in the remaining quarters. So I think you are going to see this licensing income not only matching last year's licensing income, but we expect it to even exceed that.

In terms of the PAT, we have not only been impacted by the MTM provision, but also an additional Rs.6 crores impact on a/c of foreign exchange losses across the group. In terms of our mark-to-market provision, I would like to clarify here that this is only on account of forward cover of our export revenues. The biopharmaceutical business, if you were to exclude licensing income, actually has shown a 40% increase in PAT from Rs. 28 crores level in Q1 FY2008, to Rs. 39 crores in Q1 FY2009. This shows that the biopharmaceuticals business is on the right trajectory and this is the business for which we divested our enzymes business, and I think we are very confident that this is a business that will really drive strong growth in the future.

Our branded formulations business has also done exceptionally well, in fact it has doubled over the previous year and we expect it to keep driving growth, although in order to really become a very significant part of our overall biopharmaceuticals business, we expect it to become a Rs.500 crores business over the next two fiscals.

Now out of all our businesses, I think the one that has raised a lot of concerns and questions is Syngene. Syngene has had a very difficult quarter for many reasons. One of it of course has been about currency loss and the other has been a decline in operating profits to the extent of Rs. 6 crores. This has been largely on account of certain ramp up activities that we have had to incur in order to be ready for some of the contract research that we are going to start commissioning and delivering on in quarter 3. The other reason for Syngene's decline has been a much lower custom synthesis component. So I think as far as the FTE business is concerned, that has shown

good growth and it will continue to show very good growth in the future quarters. Custom synthesis is something where we have actually changed the business model and that is why you are seeing the total impact this quarter, but you are going to see corrections as we move forward. The reason being that the kind of custom synthesis business that we had entered into, was commoditizing very rapidly, and we have decided to get into more high value custom synthesis, which of course then becomes billable in a sort of a longer term interval. Now, this means that we have not been able to capture the full custom synthesis billing this quarter and instead will start getting captured from next quarter.

I would like to share with you that management is very confident Research Services delivering a year end top line growth of 25% with commensurate profits, over the previous year. Equally I think I would like to also add that on a sequential quarter basis, next quarter will see an improvement of 25% in terms of the top line and we hope to double the profits that have been reported this quarter. So this is the confidence with which we are approaching this business, it continues to be a very important part of our business. Syngene continues to be a very attractive business for us. We have decided to make a few business changes, which is what you are seeing today. I think you will see a very robust quarter start getting reported from next quarter onwards whereas quarter 3 and quarter 4 will actually have the maximum growth in profitability.

In terms of Clinigene's business, this has now moved into its new facility and we expect to see 100% growth this year. As you know, our balance sheet remains very strong and the net cash was at Rs.74 crores. In terms of our research programs, we have made very good progress and two of our lead programs, which is IN-105 or the oral insulin program and our T1h or the anti-CD6 antibody program, both are showing very, very promising results.

In terms of the IN-105 program, phase II A trials have recently been completed and we are very encouraged by the linear dose related response that has been demonstrated during the study and we are confident that we will start phase II B/III clinical trials by the end of this year, and if all goes well we might even be able to see an oral insulin tablet being introduced into the Indian market by 2010 / 2011. In terms of the IN-105 program, Biocon will be presenting a paper on its phase II A trial data at the EASD, or the European Association for the Study of Diabetes at its annual meeting, which is going to be held in Rome, in September. We are also confident that the oral insulin program will start offering excellent licensing opportunities once we complete phase II B studies, which will be done on diabetic patients, and it will look at tracking certain important diabetic markers like HbA1c and other standard markers, which are used for diabetes.

In terms of T1h, we have started two studies, one for rheumatoid arthritis, and one for psoriasis, both are showing excellent responses. We are extremely excited and encouraged by some of the data that is coming at this early stage. These studies will be completed sometime in early to middle of 2009 and we believe that this particular molecule will offer us excellent licensing opportunities based on this kind of data.

Now, in terms of patents, again we filed 23 patents this quarter and our total tally is about 881 filed patents and 154 granted patents. IATRICa, the company that we had invested in, also is making good progress and again we are very excited by the kind of products that are being developed under this umbrella. These are cutting edge products and at the recent ASCO meeting, we are clearly excited by the fact that we have this kind of opportunity to work with the IATRICa technology because this was touted as being the front year cutting edge technology that many companies are trying to pursue. We are very confident about ending this year with good profitability, we do expect profit growth over last year, and subject to the rupee not going further upwards, in the sense, if it remains at these 43 levels, we are fine. But subject to that, I think we will be able to make a good correction on this quarter because we do expect based on this kind of rupee levels to really show good improvement over the quarters ahead. So I would like to leave it there and I would like to now open it up to question and answers. Thank you.

## Question and Answer Session

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**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 key pad and wait for your turn to ask the question. If your question has been answered before your turn, and you wish to withdraw your request, you may do so by pressing # key.

Our first question comes from Ms. Monica Joshi of Aventus Capital.

**Monica Joshi:** Good afternoon ma'am and thank you for taking questions. This is actually pertaining to the balance sheet. If you could throw some light on the increase that we have seen in the secured loan book that could help us.

**MB Chinappa:** 30th June '08 Balance Sheet, includes the Balance Sheet numbers of AxiCorp business as of 31st March '08. We have acquired AxiCorp with effect from 1st April and while the quarter reflects the increase in the assets based on the AxiCorp business, we will be consolidating the P&L with a one quarter lag. So in Q2 FY2009 we will be reporting the consolidated results of all the Biocon Group including AxiCorp for the 1st quarter, Apr – June '08. The other reason for the increase in secured loans is actually the increase in borrowings at Syngene, supporting the increased capex relating to the BMS project, the Vivarium and the Kilo Lab, while Biocon continues to maintain the positive cash position.

**Monica Joshi:** Just one clarification, you said that you have consolidated the June ending balance sheet. So, the P&L will start showing impact when?

**MB Chinappa:** From the next quarter, Q2 FY2009, that is July – Sep '08.

**Monica Joshi:** And why is that sir?

**MB Chinappa:** Basically, the AxiCorp business is a consolidation of five subsidiaries and the flow of information do not meet our requirements for reporting our results by the 3rd week of each quarter. So we decided to consolidate AxiCorp with a one quarter lag.

**Murali Krishnan:** Until such time they can come back in speed with our closure, which could happen in about two years down the line, we will follow this procedure (one quarter lag) and the accounting standards permit this.

**Monica Joshi:** Okay, so the conclusion is, Q1 reported numbers does not include any revenues from AxiCorp?

**Murali Krishnan:** Yes, that is absolutely right.

**Monica Joshi:** Fair enough, if you could highlight how much was the borrowing at Syngene which was extra in the quarter, the top on borrowing?

**MB Chinappa:** It is just under Rs. 100 crores.

**Monica Joshi:** And all this is in foreign currency or Indian currency?

**MB Chinappa:** Most of it is foreign currency.

**Monica Joshi:** Okay. So then where does this mark-to-market actually loss comes from, I am a little confused on this Rs. 26 crores?

**Murali Krishnan:** The mark-to-market loss comes on the covered portion of our exports revenues estimated for this year as well as next year. Approximately about 50% of this year's export receivables and about 70% of next year's export receivables have been covered through simple forward contract. We have hedged these flows at Rs. 41 levels, and as of 30<sup>th</sup> June '08 (closing) the forward rates are at Rs. 43 – 44 levels, including forward premium. This difference has made an impact of the Rs. 26 crores.

**Monica Joshi:** Okay, I think that makes it clearer. Another point is on the sundry debtors. Do we see any alarming rise in that particular item?

**Murali Krishnan:** No, it is normal levels. If you look at debtors over six months we have actually seen a reduction and there is constant focus to reduce it even further.

**Monica Joshi:** Okay. The last question is on Syngene, are we still on track in actually listing this company separately? What are the changes on that front?

**Kiran Mazumdar-Shaw:** Well, I think we are still on track in terms of our preparation. But what we will look and see is how the market sentiments are. Because obviously we do not want to list Syngene at a time when the market sentiments are down and when it is a bearish kind of sentiment. So we had planned to look at listing Syngene during this fiscal, and we will really play a wait and watch kind of a policy to see when we list Syngene.

**Monica Joshi:** Sure, but ma'am have you worked on any kind of a swap ratio or any sort of an arrangement, or is that still in the process?

**Kiran Mazumdar-Shaw:** That is still in the process of being worked out. But at the moment, I think we are looking at the markets and saying we don't think this is going to look possible at least in this quarter or next quarter. I think it will certainly be like, if at all possible, in quarter 4 of this fiscal.

**Monica Joshi:** Thank you ma'am.

**Moderator:** Our next question comes from Mr. Ajay Kumar Singh, a private investor.

**Ajay Kumar Singh:** Just a couple of question. During previous conference call it was said that molecule T1h and IN-105 can be out licensed this fiscal after completion of phase II B clinical trial. I want to know that since T1h may be nearing its completion of phase II B trial, can we expect out licensing during Q3 FY09.

**Kiran Mazumdar-Shaw:** We are going to see when we can license this, because none of these trials really have got any predictable kind of end point, because it all depends on the regulatory approvals that we get. Like for instance, we want to start II B trials for IN-105, we are very dependent on regulatory approvals to even start the trial. And if we can start the trial by this, say November, December, it will still take us almost a year before we can complete the trials. So IN-105 is not going to be licensable till next fiscal. But as far as T1h is concerned, again, the full data will only be available sometime by June '09. So we don't think we will really be looking at licensing it before that.

**Ajay Kumar Singh:** Okay, thank you.

**Moderator:** Our next question comes from Mr. Chirag Dagli of Deutsche Equity.

**Chirag Dagli:** Ma'am I had a question on the Rs. 6 crores FOREX loss, is this realized loss?

**Kiran Mazumdar-Shaw:** Yes, this is realized loss.

**Chirag Dagli:** This pertains to the same hedging contract that you wrote and this is just realized loss.

**Kiran Mazumdar-Shaw:** Yes, this is realized loss in the quarter.

**Chirag Dagli:** Sir, that means that the Rs. 26 crores mark-to-market loss that you have, it is quite possible that you might see some bit of this getting realized also, depending on how the rupee moves.

**Murali Krishnan:** Yes.

**Chirag Dagli:** Sure. Okay, on the biopharmaceutical side excluding the licensing income, you seem to have grown about 18%, any particular reason you can attribute to, is this largely from branded formulations in India, or is it pricing in statins or anything else that you can just throw some light on.

**Kiran Mazumdar-Shaw:** Well, its for multiple reasons like you just said, branded formulations, our insulin is doing well, our pricing has improved on certain of the APIs etc.,

**Chirag Dagli:** Ma'am, we would love some quantitative color on this.

**Kiran Mazumdar-Shaw:** I would also love to, but it's for competitive reasons I can't.

**Chirag Dagli:** Okay, would you say branded formulations would have been a large part of this increase?

**Kiran Mazumdar-Shaw:** Not really. I would say branded formulations are still about 10% of our overall business. So it's not really a significant part, but what is the significant part are certainly our APIs and the insulin.

**Chirag Dagli:** Okay and insulin would be what percentage of sales, this says 10%.

**Kiran Mazumdar-Shaw:** It's definitely in excess of 10%, that's all I can say.

**Chirag Dagli:** Okay. And the last question I had was, your profit numbers for the quarter including the exception comes to Rs. 40.5 crores, of which biopharmaceuticals accounts for Rs. 39 crores, meaning thereby that on the contract services business there is hardly any profit. Is that the right way of looking at it, or am I missing some interpretation?

**Kiran Mazumdar-Shaw:** The consolidated results also reflect the loss of BBPL. So contract research is little higher.

**Chirag Dagli:** Sure, I get that. So would you say that the outlook for the full year is still sanguine?

**Kiran Mazumdar-Shaw:** Absolutely, I think we have just mentioned that we are very confident that we will deliver good growth and it will definitely overtake last year's growth. But more importantly I want to allay your fears about Syngene. I think Syngene is going to deliver 25% growth by the end of this year. Even the next quarter will see a 25% improvement over this quarter.

**Chirag Dagli:** Sure. One last question I had was on AxiCorp. If you can throw some light on the profitability or on how the P&L looks for AxiCorp really going forward, since this is going to be an important year.

**Kiran Mazumdar-Shaw:** Well, AxiCorp really is a very sort of low margin business and it's a top line driven business, which at least for the next couple of years will be a top line driven business because really we have acquired AxiCorp for our biosimilars business. So only when we start marketing biosimilars, will the margin start improving. Otherwise it will be like any generic commodity segment.

**Chirag Dagli:** Would you say negligible profits at the bottom line?

**Murali Krishnan:** For the next one or two years it will certainly be negligible.

**Chirag Dagli:** And on the EBITDA level?

**Murali Krishnan:** It will be still single digit.

**Chirag Dagli:** Okay, thank you so much.

**Murali Krishnan:** Okay, thank you.

**Moderator:** Our next question comes from Mr. Arvind Bothra of Merrill Lynch.

**Arvind Bothra:** Hi, I just wanted to get more color on the gross block front, I mean, could you please reiterate your CAPEX plan for the next two years and possibly whatever improvement we have seen in the net fixed assets. Is that relating just to AxiCorp acquisition? Just wanted to know the ballpark figure, what would be the gross block addition in AxiCorp?

**Murali Krishnan:** Gross block addition in AxiCorp will not be significant because they are not very CAPEX intensive. The CAPEX plans of the Biocon group have not changed at all from what we said last year. It's about approximately Rs. 250 - 275 crores for the Syngene business, about Rs.130 -150 crores for rest of Biocon group business, of which about Rs. 80 crores will be spent to build the new R&D facility at Biocon SEZ.

**Arvind Bothra:** Okay, so Rs.250 crores plus Rs.130 crores odd...

**Murali Krishnan:** About Rs. 250 crores will be capitalized during the course of this year, in Syngene. Biocon's capex will be spread over 2 years, since the R&D block will take about 18 - 24 months for completion.

**Arvind Bothra:** Okay, so AxiCorp we can expect maybe Rs. 20, 30 crores CAPEX.

**Murali Krishnan:** Yes, it will be very, very small. May not be even that much.

**Arvind Bothra:** Okay, so it would be smaller than that.

**Murali Krishnan:** Yes.

**Arvind Bothra:** Okay, that is one, and also just wanted to get some color, there are 170 employees in AxiCorp, would the personnel expenses go up hugely because of that on a full year basis? Just wanted to get an idea of what kind of outlook can be on that front.

**Murali Krishnan:** In terms of the people cost you are talking about?

**Arvind Bothra:** Yes.

**Murali Krishnan:** It will not be significantly going up beyond the consolidated kind of numbers. Overall it will be about 10%and not significantly beyond that level.

**Arvind Bothra:** Okay, so it would be within the company's levels?

**Murali Krishnan:** Yes, absolutely within the Group's level.

**Arvind Bothra:** So if I am not mistaken, like you said the margins in AxiCorp would be little lower in the single digit, maybe late single digit levels. So on a consolidated overall basis, the margins would come off a bit, over the next two years?

**Kiran Mazumdar-Shaw:** Yes, the margins will come off, but then you have to look at it on a like-to-like basis where you can still compare the profit margins of Biocon and AxiCorp.

**Arvind Bothra:** So the base business margin would remain at around 27% - 28% you mean to say?

**Murali Krishnan:** Yes, at the EBITDA level..

**Arvind Bothra:** Okay, thank you so much.

**Murali Krishnan:** Thank you.

**Moderator:** Our next question comes from Mr. Rajesh Pherwani of HDFC Mutual Fund.

**Rajesh Pherwani:** Hi. I just wanted to ask you a couple of questions. What was the average rupee rate that you got for the first quarter for your sales?

**Murali Krishnan:** For the sales again it will be around Rs. 41 - 41.50 / \$.

**Rajesh Pherwani:** So the entire benefit of the rupee decline has not come in there as of yet.

**Murali Krishnan:** Yes.

**Rajesh Pherwani:** And what is the status on Tacrolimus?

**Rakesh Bazmai:** The Tacrolimus patent US4894366 actually got expired on 8<sup>th</sup> of April 2008. But there is yet to be a generic launch in United States because of lots of reasons. We have tied up with five customers and they are launching their product between October and December 2008.

**Rajesh Pherwani:** So, have we been able to fill the pipeline or it is still reflecting?

**Rakesh Bazmai:** The orders are going to happen now in quarter 2 and 3.

**Rajesh Pherwani:** Okay sir, it has not yet come in and can you also give me some sense on what has been the registration on the insulin front, like this time last year how many countries did we register in, how many have been done over the last one year.

**Rakesh Bazmai:** I think insulin is going to be a main success and top line and bottom line drivers for Biocon. In all we are there in 31 countries now and Biocon will be participating in four major big tenders globally in this year and if we have a little bit luck on our side, we will be very successful in these four tenders. Our past history has demonstrated that we have got substantial market share in the markets that we have participated.

**Rajesh Pherwani:** So, what is the sort of market share are we getting?

**Rakesh Bazmai:** In the markets that where we are operating right now I can't again say because of competitive reasons, but in the markets that we are operating we have market share between 35% to 65%. So, we take aggressive position in the countries that we operate.

**Rajesh Pherwani:** And the four tenders that you are talking about, what's the kind of market we are addressing there?

**Rakesh Bazmai:** See the tender value is totally close to USD 25 million, may be more than that.

**Rajesh Pherwani:** Okay and what are these, these are government tenders?

**Rakesh Bazmai:** These are country tenders.

**Rajesh Pherwani:** Okay, so there would be more competition in these tenders, right?

**Rakesh Bazmai:** Yes, there will be competition, there will be people participating, other companies participating, but we will be there.

**Rajesh Pherwani:** Okay and how are the sales, you are saying insulin sales are around 10% plus of the total sales, how are they divided between crystals and formulations?

**Rakesh Bazmai:** See, Biocon is building Insugen brand globally. Right now we are selling crystals, but going forward you will see more of brand happening in these countries and today the mix is almost half and half.

**Rajesh Pherwani:** Okay and does Insugen business make better margins than the company ones or would they be in line?

**Murali Krishnan:** Yes, definitely Insugen gives better margin than the statins.

**Rajesh Pherwani:** And the overall company margin?

**Murali Krishnan:** It is definitely better than the overall company margin, that's why, we are able to get to these levels.

**Rajesh Pherwani:** Okay, thank you.

**Moderator:** Our next question comes from Mr. Bino Pathiparampil of IIFL Capital.

**Bino Pathiparampil:** Hi, just a couple of quick questions. You mentioned that the licensing income will start coming from next quarter, so which are the programs which are going to give this exactly?

**Kiran Mazumdar-Shaw:** Well, basically we have got insulin glargine, insulin analogue; these are the main kind of programs that we are looking at.

**Bino Pathiparampil:** Okay, so essentially it will be licensing those products or related technologies to other emerging markets where patents are not applicable?

**Kiran Mazumdar-Shaw:** No, it's not necessarily that, I think it is a combination of licensing opportunities.

**Bino Pathiparampil:** Okay, right and what is the delay with the BMS deal at Syngene?

**Kiran Mazumdar-Shaw:** There is no delay. The project is scheduled to be fully operational and going on stream by November this year.



**Bino Pathiparampil:** So it is as per plan.

**Kiran Mazumdar-Shaw:** Originally when we had actually signed up the agreement it was supposed to become operational in July and that is the only first delay that took place, which got pushed to November, but apart from that there is no delay, because for the last six months clearly this is the targeted date of completion.

**Bino Pathiparampil:** Okay, right and could you give me a breakup of this Rs.12.6 crores other income?

**Murali Krishnan:** Other income, it is largely coming from the investments (liquid funds) that we made out of the money that we got from Novozymes. Also, some income coming from the services that we continue to provide to Novozymes, including lease rentals. . But the dividend or interest income from the Investments, constitutes large part of the other income.

**Bino Pathiparampil:** Okay and the R&D expenditure for FY '08 full year was Rs. 40 crores, for the first quarter this year it shows about Rs.11 crores, is that a comparable figure?

**Murali Krishnan:** R&D expenses, including capex was about Rs. 65 crores and excluding capex it was about Rs. 47 crores during FY '08.

**Bino Pathiparampil:** Okay, thank you very much.

**Moderator:** Next question comes from Mr. Mitul Mehta of Lucky Securities.

**Mitul Mehta:** Good afternoon ma'am, could you just tell me what is the reason for the delay in launch of Tacrolimus after the expiry of the patent?

**Rakesh Bamzai:** The delay in launch this product may be attributed to the delay in formulations & bio studies which happened a bit late. Their programs are running behind schedule. There are no serious problems with our potential customers.

**Mitul Mehta:** And will any of our customers be the first to launch in this particular product?

**Rakesh Bamzai:** I expect that one of them, may be the first to launch.

**Mitul Mehta:** Okay, and is it because this formulating this product is very difficult or because it is very unusual right, that the product patent expires and nobody is able to launch?

**Rakesh Bamzai:** This is a tricky formulation story and you are right, partly that is the reason.

**Mitul Mehta:** Okay and have there been any ANDA approvals till date?

**Rakesh Bamzai:** Not yet.

**Mitul Mehta:** Right sir, thank you very much, all the best.

**Moderator:** Our next question comes from Mr. Prashant Nair of Citigroup.

**Prashant Nair:** Yes, on Syngene, the custom synthesis business, the change that you are doing to the kind of business here, how long do you think it will take before you are able to execute this fully?

**Kiran Mazumdar-Shaw:** I think it will start only getting fully reflected by Q4 FY2009, because going forward you are going to see improvement, but the full impact of fully converting to this new model will be about two, three quarters ahead.

**Prashant Nair:** Okay and what kind of improvement in terms of returns or financials could this bring about in a typical contract?

**Kiran Mazumdar-Shaw:** Well, this is really aimed to sort of improve margins of this business.

**Prashant Nair:** Okay and the disruptions or the problems which Syngene faced in the first quarter was this something, which was foreseen or did it come as a surprise?

**Kiran Mazumdar-Shaw:** It is foreseen, but we had to take corrective action may be two quarters ago, so obviously then we had to start refusing some contracts. So, that's what then made us sort of get into this situation, because it was starting to be very commodity based kind of project and then we decided not to accept such contracts, just to look at low margin business didn't make sense long term. So, we really started looking at more high value businesses, high margin businesses and that's why it takes time to suddenly ramp up.

**Prashant Nair:** All right and have you kept adding people during this quarter?

**Kiran Mazumdar-Shaw:** Yes, we have got some good customers now.

**Prashant Nair:** No, in terms of employees?

**Kiran Mazumdar-Shaw:** Yes, we have now started getting good people on board.

**Prashant Nair:** Okay, so what is the total employee count in Syngene or number of scientists that you are employing now?

**Kiran Mazumdar-Shaw:** It's about 1,000.

**Prashant Nair:** Okay, thanks a lot.

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

**Bhavin Shah:** Taking my question, just wanted a sense of, if you could give us the breakup of the CRO business, Rs. 42.7 crores that you have reported, is it possible for you to give me Syngene and Clinigene sales.

**Murali Krishnan:** Yes, Syngene is about Rs. 39 crores, the balance is Clinigene.

**Bhavin Shah:** Thank you and on the oral insulin plan, we said that we will probably commence phase II B and phase III trials later this year, by when do you really target this happening and in terms of patient size, etc. if you could just give us some detail on that?

**Kiran Mazumdar-Shaw:** Yes, the phase II B trials for IN-105 or the oral insulin program we are hoping to start it by December this year and as far as the phase II trials of T1h are concerned they have already started and of course we expect this II B trials of oral insulin to be completed late next year and this T1h trials also will complete as I mentioned around June 2008 next year.

**Bhavin Shah:** As next year we will probably see one of them being out licensed or rather T1h will be a more closer a possibility?

**Kiran Mazumdar-Shaw:** Obviously once people start seeing data, there might be opportunities to license ahead, but we definitely want to make sure that we get a really good valuation for these

programs, so obviously if you finish that program, you will be able to unlock a lot more value, but we are not going to sort of turn away potential partners who will come in between and say look we really want to partner with you because we are very excited with the data. So, I think it could happen ahead, although we are realistic about it and we are saying, no it will happen only next fiscal, but if the data really starts looking astounding, then obviously people are going to come ahead of time and we will look at those opportunities.

**Bhavin Shah:** Yes, and ma'am would you be looking at investments in terms of the clinical trial costs that perhaps would be required for such a big trial?

**Kiran Mazumdar-Shaw:** No, right now I think these are trial costs, which we can at the moment, absorb internally, but when we look at larger global trials, that's the time really we will need a licensing partner because obviously we can't afford to do such kind of trials. So, right now our strategy is to do a lot of the clinical development as much as we can in India, to generate the kind of data and the valuation for these programs that will allow us to get a good licensing partner.

**Bhavin Shah:** Right ma'am, thank you so much and wish you all the best.

**Moderator:** Our next question comes from Mr. Nitin Agarwal of IDFC SSKI.

**Nitin Agarwal:** Hi, good afternoon, everyone. Just a couple of small questions, one is on glargine, what is the time line for launching it in India and other countries, ma'am?

**Kiran Mazumdar-Shaw:** Right now we can't really give you very definite information because we are at the moment doing a lot of clinical trials and a lot of it depends on regulatory approvals.

**Nitin Agarwal:** Okay and in terms of other biosimilars, which are the other ones which are really next in line to be launched in the country, in India to start with?

**Kiran Mazumdar-Shaw:** Well, we are developing a range of antibodies.

**Rakesh Bamzai:** We are also in addition to the antibodies that we are developing, we launched a very different streptokinase called Myokinase today in Indian market and we call it metfree streptokinase for life, this is going to transform our cardiovascular division, which is recently launched and the good news is that our first stocks to the market, were sold on the first day because of the quality of the drug.

**Nitin Agarwal:** That's good, so in terms of, I mean, if I get it right, in terms of biosimilars that we have in the market, we have got the insulin, we have got this Myokinase and we have got couple of others which we launched sometime during last year, right, there were four of those molecules which are biosimilars, which are there in the Indian market?

**Rakesh Bamzai:** Yes, but this is a different strepto, that's what I said, metfree Streptokinase for life.

**Nitin Agarwal:** Okay.

**Kiran Mazumdar-Shaw:** See, the others are not methanine free and there is a huge difference between ours and the others.

**Nitin Agarwal:** Okay ma'am.

**Kiran Mazumdar-Shaw:** So, it is a very differentiated product.

**Nitin Agarwal:** Okay, so this is going to be again a product for the other markets also?

**Kiran Mazumdar-Shaw:** Yes, we are already marketing it in other international markets.

**Nitin Agarwal:** Okay, and secondly on Syngene, was there any one off costs, which was there for the Syngene business for the quarter?

**Murali Krishnan:** No exceptional costs, except forex and MTM losses.

**MB Chinappa:** There is a realized exchange loss of about Rs. 3 crores.

**Nitin Agarwal:** Okay so on an operational basis the profit would be Rs. 4 - 4.5 crores?

**MB Chinappa:** Approximately Rs.5.5 crores.

**Nitin Agarwal:** And there was no really one off kind of expenses really, which was involved there?

**MB Chinappa:** Rs.5.5 crores of operational profit and then the exchange loss translating to about Rs. 3 crores of reported profits, The Rs. 5.5 crores also is based on the increased salaries and the increased employee base. Incremental revenues on this cost base will come later.

**Kiran Mazumdar-Shaw:** Actually we have entered into more FTE contracts which will come on stream later on this year and we have done it deliberately because we have to wait for the BMS facility to go on stream before we can actually take on those new contracts. So, this is why we have had a bit of a lag where because we are fully saturated at this point in time, we have to basically only accept those new FTE contracts as soon as the BMS facility gets operational. So, that capacity is just not there.

**Nitin Agarwal:** Okay, so bit of a front-loading as far as people are really concerned.

**Kiran Mazumdar-Shaw:** So, that's why we have had to incur a lot of costs as a result of that?

**Nitin Agarwal:** Ma'am in terms of the margins that the business used to enjoy till about a couple of years back, close to almost 45%, 50% EBITDA margins, which if I remember right were the margins of Syngene business, do you see Syngene business actually getting back to this margin at some stage, going forward?

**Kiran Mazumdar-Shaw:** Yes, I think we are going to be seeing at least a good approach towards those kind of levels by fiscal 2010.

**Nitin Agarwal:** Okay, that's great, best of luck ma'am.

**Moderator:** Our next question comes from Mr. Sachin Kasera of Pinc Research.

**Sachin Kasera:** Yes, ma'am just a couple of questions. One if you could just give some indication in terms of the growth we have seen in insulin in the current quarter in terms of the actual percentage levels?

**Murali Krishnan:** No, unfortunately we can't do that. In the past we have been seeing good growth (about 50%) every year.

**Sachin Kasera:** So, broadly in that range?

**Murali Krishnan:** Yes.

**Sachin Kasera:** Okay, secondly is, if I could get the breakup of Rs. 450 crores of investments in the balance sheet?

**MB Chinappa:** See, most of it is in liquid funds. Beside the liquid funds the investments we have is really in Vaccinex, NeoBiocon and IATRICa.

**Sachin Kasera:** If you could just give a breakup between the market investments and the strategic investment that would be fine.

**MB Chinappa:** About Rs. 30 crores is the strategic investment and the balance about 420 cr in liquid fund investments.

**Sachin Kasera:** And secondly sir, regarding the interest cost, the loan has gone up, one, primarily because of the acquisition, how much of that would be in the balance sheet of the company that is being acquired and how much would be on the balance sheet of Biocon?

**MB Chinappa:** Axicorp's loan is about 7 or 8 million Euros, about Rs. 55 crores.

**Sachin Kasera:** Okay, so how do we see the interest in the finance charges going forward, this quarter was around Rs.3.7 crores, how do you see that in the next two or three quarters, sir?

**Murali Krishnan:** It will stay at around these levels.

**Sachin Kasera:** Okay and just one question regarding the FOREX, ma'am mentioned in the initial call that if rupee remains at these levels we should be able to improve profitability, just for our understanding the way we have hedged at the moment, what is the type of impact that could be on the P&L in case of, say a 5% to 7% movement either side in terms of the rupee dollar, if you could just highlight that?

**Murali Krishnan:** Probably for every one rupee increase / decrease, could impact about Rs. 8 - 10 crores.

**Sachin Kasera:** On the negative side.

**Murali Krishnan:** No, either way. Supposing by Dec '08 the rupee moves the other way round, the provision to that extent would to get reversed for the un-matured contracts.

**Sachin Kasera:** Okay, so it would, in case the rupee further strengthens the losses would reduce by around Rs. 8 to 10 crores, for approximately every rupee movement?

**Murali Krishnan:** Yes, exactly.

**Kiran Mazumdar-Shaw:** Yes, so I think if you look at say a rupee at about 42 levels, you can see an improvement. If it goes to 45 levels obviously it becomes another Rs. 20 crores negative impact.

**Sachin Kasera:** Okay and this profitability growth that you mentioned, about 40% growth in the profitability for biopharma division, this is I think including this sharp increase in the other income to Rs.12 crores?

**Murali Krishnan:** The other income includes Income from Investments, lease rentals, etc.,

**Sachin Kasera:** Because last year the same figure was only Rs.1.5 crores, so if we were to remove that other income

**Murali Krishnan:** If you remove that it will still be upwards of 25%.

**Sachin Kasera:** Okay, thanks a lot.

**Moderator:** Our next question comes from Mr. Sameer Baisiwala of Morgan Stanley.

**Sameer Baisiwala:** Pursuing the question by another speaker earlier, what is the plan for more antibody launches, any time frame that you can put through?

**Rakesh Bamzai:** We are developing series of monoclonal antibodies in our monoclonal antibodies facility. We have four of them in pipeline and that is going to take two to three years to commercialize these products in India and then another two to three years to go global. There is going to be mega sales in top and bottom line.

**Sameer Baisiwala:** Fantastic, okay. And is it just limited to monoclonal antibodies or it could be another proteins, etc.?

**Rakesh Bamzai:** These are monoclonal antibodies we are talking about, we have four of them.

**Sameer Baisiwala:** Okay and the other question I had is on insulin, what kind of a global competition do you see, especially in the API format?

**Rakesh Bamzai:** You will see more success of Biocon in the next two to three years because of insulin. We are very determined to fight top two companies, which all of you know on insulin. There is going to be competition

**Kiran Mazumdar-Shaw:** Yes, I don't think we have much competition from biosimilar insulin. Most of the competition that we are seeing is really coming from the innovator companies.

**Rakesh Bamzai:** If we think about insulin and its analogues that Biocon is thinking, I think in three to five years this will be again a very major part of our sales.

**Sameer Baisiwala:** Sure, but you are not seeing anyone from China coming up, we have seen few DMF's?

**Rakesh Bamzai:** There are companies in China, but they are insignificant right now and insulin, there are a lot of entry barriers to regulatory approvals, clinical, quality, delivery devices; it is not all that easy game.

**Sameer Baisiwala:** Do you think they can do a catch up out there or do you think they are

**Rakesh Bamzai:** China is trying to do catch up on everything, but we will be little up there.

**Kiran Mazumdar-Shaw:** China also has now to address very serious concerns which are being raised about quality issues. They have had a little bit of a set back and that too in just small molecules, so you can imagine in biologicals, the challenge that they have is even higher.

**Sameer Baisiwala:** Yes sure, and Rakesh just to confirm, you said for Tacro, you are confirming that your partners have not taken up anything for large quantities?

**Rakesh Bamzai:** Its very small quantities they would normally take, but we will see a good impact in next quarter, this quarter and next quarter.

**Sameer Baisiwala:** Okay and Kiran, I think if I remember correctly, on the last call you mentioned about talking about fiscal '09 guidance, about double digit earnings growth, versus this fall you are saying some growth over last fiscal, so...

**Kiran Mazumdar-Shaw:** No, I continue to maintain what I said.

**Sameer Baisiwala:** Okay, so we are looking at double digit profit growth in FY10?

**Kiran Mazumdar-Shaw:** Yes.

**Sameer Baisiwala:** Okay and just the last question on statins, Rakesh anything that you can update us on in terms of volumes, pricing, specifically with simvastatin?

**Rakesh Bamzai:** See, in all the statins Biocon is right now participating in, which are simva and prava and lovastatin, we continue maintaining a significant market share in United States and Europe, where we are the lead suppliers of statins in these markets. The good news is that prices have stabilized and moved a little bit up and the two new statins, that Biocon is marketing, we have an order book which is full till December.

**Sameer Baisiwala:** This is for which geography?

**Rakesh Bamzai:** Both US and Europe.

**Sameer Baisiwala:** This is in generic space?

**Rakesh Bamzai:** Yes.

**Sameer Baisiwala:** Okay and for the earlier three molecules you said you have seen an uptake in the prices?

**Rakesh Bamzai:** Prices have stabilized and moved little bit up. Order book is looking very good and we are happy about the progress in statins.

**Sameer Baisiwala:** Okay, thanks, that's all from my side.

**Moderator:** Our next question comes from Mr. Ashish Thakkar of JHP Securities.

**Ashish Thakkar:** Hi, are we seeing any client additions?

**Kiran Mazumdar-Shaw:** In our services business?

**Ashish Thakkar:** Like are we seeing any client additions on the services side, the contract. Can you just quantify the number of clients added this quarter?

**Goutam Das:** Among the top ten clients, we have added another two more in this quarter.

**Ashish Thakkar:** Okay fine, and are we also looking at overseas acquisition in the research services or front end?

**Kiran Mazumdar-Shaw:** Not at this point in time, I mean, we are continuously keeping our eyes open to see if there are any interesting acquisition opportunities, but at this point in time I don't believe that we need to have a overseas acquisition strategy at least for our research services business, because I think that's where India has its competitive edge and we will continue to build on that.

**Ashish Thakkar:** Okay and we are seeing the rupee getting depreciated so, do we see higher revenues coming from the research services in the coming quarters?

**Kiran Mazumdar-Shaw:** Yes, I think partly we will see some benefit of that, but we have covered a lot of these contracts, so we are a bit trapped with that kind of cover. Only a small part of it will benefit from rupee depreciation.

**Ashish Thakkar:** Do we have any view of the rupee going ahead, at least for this fiscal?

**Kiran Mazumdar-Shaw:** It is as good as any ones guess; I mean none of us know what's happening. In fact we even covered these contracts, thanks to all the pundits telling us that you must cover and the rupee is going to go to 37, so that was the basis on which we did the cover and obviously everyone has been proved wrong. So, I don't think anyone should be speculating at this stage and we certainly have taken a lot of corrective measures because of this very unfortunate set of circumstances, which got us into this situation.

**Ashish Thakkar:** Ma'am, can I get the margins by the business segment?

**Murali Krishnan:** Research services and Bio-pharma?

**Ashish Thakkar:** Yes.

**Murali Krishnan:** We have the consol and we have the stand alone.

**Ashish Thakkar:** Okay, just give me that.

**Murali Krishnan:** Okay, we will do this offline?

**Ashish Thakkar:** Okay, not an issue. The last question, for the statin as such, are we seeing any pricing pressure or the competitive pressure?

**Kiran Mazumdar-Shaw:** I think you just heard that the prices have stabilized and in fact we are seeing an upward revision.

**Ashish Thakkar:** And in the US and European markets, are we seeing the market opening for the biopharmaceutical segment as such?

**Kiran Mazumdar-Shaw:** Well, biopharmaceutical as you know, EMEA is the only one who has really issued guidelines, but obviously we are registering our insulin in both markets and GCSF, these are two products which we are registering in both markets.

**Ashish Thakkar:** Okay fine, Sir could I also get some guidance for the top line and the bottom line?

**Kiran Mazumdar-Shaw:** Yes, I think I gave you some guidance. I think we have mentioned that in terms of our Syngene business, we are expecting to see a 25% growth by the end of the year over last year and we are also expecting to see commensurate growth in profits and as far as Biocon's overall profits and the top line is concerned, we have already said that it will be a good double digit number.

**Ashish Thakkar:** Okay, that's it from my side, all the best.

**Moderator:** Our next question comes from Mr. Nimesh Mehta of M. P. Advisors.

**Nimesh Mehta:** Hi, thank you for taking my questions. My first question is related to the overall EBITDA margins, even if we adjust the previous years EBITDA with the licensing income, if we deduct the licensing income from Q1 FY2009, the EBITDA is more or less matching with what you have reported this quarter, so I am trying to understand that you have mentioned an improvement in EBITDA on the Biopharma business, which is either not reflecting on the overall numbers or is getting absorbed somewhere else?

**Murali Krishnan:** In Biopharma it has increased, but in the contract business it has decreased so overall it is still being maintained.



**Nimesh Mehta:** I see, so it is basically compensating for each other. Okay, the second question is about the R&D expense; if I am not wrong, you had guided for about 8% to 9% of the total sales for the entire area while for this quarter we have seen roughly about 4%?

**Murali Krishnan:** That's right. That again like licensing income, it is not going to be even. It is going to be event based. So when we start our EMEA projects there for insulin, the phase I and thereafter the phase II / III, we will have the expenses bunched up in the coming quarters. It will be lumpy.

**Nimesh Mehta:** Okay. Finally, one question to Ms. Kiran, about the commoditization of custom synthesis, can you throw some more color? Because custom synthesis is something that we have always understood to be really tailor made and thus commoditization is like a far fetched feature there?

**Kiran Mazumdar-Shaw:** You know what happens is, when you have custom synthesis in the past companies have come up and these kinds of contract research services to do certain custom synthesis for them. But in the recent past, what has happened is that the custom synthesis business has become like a tendering process almost, which is basically where people then offer a tender and say anybody and everybody can bid for this process. So with the result the margins have started coming down. And what we feel is we want to go back to a system where we can actually enter into a good arrangement with certain key customers who will give us much higher margin business rather than going for this kind of tendering process.

**Nimesh Mehta:** So in that change of business model will the selection of business partner be the key or the ability to supply technology? I am just trying to understand it a little better.

**MB Chinappa:** Basically, what we are doing to support this business is to do a lot more process development and instead of quoting for each of the RFPs. We are looking at actually engaging our customers by working on process development and if we succeed then that would turn into a longer-term of arrangement where we would supply quantities of that product over a longer term. Then we get a steadier stream of revenue and that's the kind of shift we are looking to move towards.

**Nimesh Mehta:** Thank you again. Do you not feel such kind of commoditization happening in the FTE business model?

**Kiran Mazumdar-Shaw:** FTE business as you know, first and foremost you have to differentiate yourself through some high-end services and that is what Syngene has very successfully done and that is why we are entering into these very long-term contracts with all the big pharmaceutical companies. I think we are not that concerned about commoditization because we have entered into these kind of arrangements. But if we had started getting into arrangements where we just take a few FTEs from each customer, then certainly commoditization was a threat. But I think we have moved away from that model.

**Nimesh Mehta:** Okay. Finally can you just throw some light on the performance of BIOMAb and the nephrology business – I read somewhere that nephrology is not working

**Rakesh Bamzai:** BIOMAb is doing very well. We have till today 1,250 patient exposures. We are going to add another 800 patients by the end of this year. We are also thinking how to increase the affordability of the patients who actually need this wonderful drug. On nephrology, we have launched nephrology last year. The good news is that we have broken even in the first year of operations and this year we will be making good profits. We are doing very well in nephrology segment.

**Nimesh Mehta:** I see. Is it correct that nephrology is accounting for 8% of the group sale or 8% of domestic sale?

**Rakesh Bamzai:** I don't know who gave you this number. From where did you get this number?

**Nimesh Mehta:** I read it in some print media, I don't remember exactly.

**Rakesh Bamzai:** Every year we are doubling the sales, actually we are increasing by 200% every year. Right now they are not very big numbers, but in the next 2 to 3 years you will see more of it. We are building a brand in nephrology called Erypro; EryproSafe is an erythropoietin with a very special delivery device which is very safe for the self-injection of the patients. We are building our brand around Erypro, and we are also launching a very different protein supplement called Narita this year.

**Nimesh Mehta:** Okay thanks a lot for taking the questions.

**Moderator:** Our next question comes from Mr. Nitin Agarwal of IDFC SSKI.

**Nitin Agarwal:** This is again a couple of small questions. Ma'am what's the rationale behind the R&D 100% subsidiary that Biocon has been talking about?

**Kiran Mazumdar-Shaw:** Well first and foremost I think as our research program begin to sort of gain traction and are moving into the clinics, this becomes a very important focus for us and therefore we are starting to make a lot of investments and I think here we require to almost treat it as a separate business unit. And these are now approaching licensing, so that's why we want to treat it as a kind of a separate business altogether, the research business.

**Nitin Agarwal:** Is there any intention at some stage to get a partner into this business?

**Kiran Mazumdar-Shaw:** No, we are not doing it for that reason. We are doing it mostly to give a good business focus on research.

**Nitin Agarwal:** Ma'am secondly, on the research pipeline we talk about the oral insulin and the T1h antibody, what is it that beyond these that you are particularly excited about which will be as a follow-up to these two molecules?

**Kiran Mazumdar-Shaw:** Well, there are a number of biosimilars which are very encrypting and exciting. We have our BVX10 and BVX20 also in that antibody sector. Also, we have the IATRICa program which is very exciting.

**Nitin Agarwal:** Any of these programs likely to enter into clinics during this year ma'am?

**Kiran Mazumdar-Shaw:** So far we have already got about 3, 4 of our other protein therapeutics which are likely to enter the clinic over the next 1 year. Right now we have almost 4 clinical trials on going.

**Nitin Agarwal:** This would include the T1h and the oral insulin I guess?

**Kiran Mazumdar-Shaw:** Yes, IN105, T1h and some of the insulin analogues.

**Nitin Agarwal:** Okay thank you very much.

**Moderator:** Our next question comes from Mr. Akshat Vyas of Emkay Shares.

**Akskay Vyas:** Hello, could I just know the potential market of the launch of Abraxane which you are going to do on 18<sup>th</sup> July?

**Kiran Mazumdar-Shaw:** Yes, actually Abraxane is a very important drug for us because Abraxane has really had a lot of market success in the US and European areas. And this is a product we are adding to our onco-therapeutic division. I think this is a product that we expect to sort of realize the sales of even Rs.10 to 15 crores in its first year of launch and we expect this to really grow into a very sizeable market in the next two to three years. Our onco-therapeutic division itself we want to grow it to Rs. 100-crores size within the next two years.

**Akskay Vyas:** Sorry ma'am you said how much is the sales we are expecting?

**Kiran Mazumdar-Shaw:** The whole onco-therapeutic market we expect it to build into a 100-crores business in the next two fiscals.

**Akskay Vyas:** Yes ma'am, Abraxane for the first year how much do you plan to sell.

**Kiran Mazumdar-Shaw:** Abraxane can be about Rs.10 to 15 crores business in the first year.

**Moderator:** The last question comes from Ms. Poorvi Shah of Dalal and Broacha.

**Poorvi Shah:** Good afternoon ma'am, my question is with regard to Syngene. You said 25% year-on-year growth. Just a clarification, are we saying 25% improvement in Q2 over Q1 as well?

**Kiran Mazumdar-Shaw:** Also. We are looking at a sequential growth of 25% over Q1 to Q2 and we are also looking at a 25% growth on an annualized basis. Last year we did about Rs.160 crores, so we expect this year 25% growth in that top line as well.

**Poorvi Shah:** Okay ma'am. Now with regards to biopharmaceuticals, I just missed on what you had said about the growth in biopharmaceutical business.

**Kiran Mazumdar-Shaw:** What we said is, if you were to exclude licensing income, then the biopharmaceutical segment has grown significantly even if you remove the other income, it has grown by 25%. But if you look at it on a collective basis, it has grown 40%. So this we believe reflects very strong business fundamentals because that is the future of Biocon.

**Poorvi Shah:** Yes ma'am, okay fine thank you so much.

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

**Kiran Mazumdar-Shaw:** Thank you very much for participating in this conference call. If there are any questions or clarifications please don't hesitate to contact us. Murali Krishnan and his team and Arun Chandavarkar and my other colleagues, Rakesh who heads Biocon's Marketing, Gautham Das, who heads Syngene, Chinappa who is the new CFO of Syngene, Harish Iyer who heads our R&D and Dr. Arvind Atignal who heads Clinigene, will all be available for any clarifications if any of you want them. Thank you very much.

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