



## BIOCON LIMITED

### Analyst / Investor Conference Call 19th April 2007, 3:00 PM IST

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**Nitin Tandon:** Thank you and good afternoon everyone and thanks for joining us on Biocon FY2007 results conference call. We have with us on this call, from London Dr. Kiran Mazumdar-Shaw, Biocon's Chairman and Managing Director, and her colleagues who form a part of the senior management team, joining us from Bangalore. Kiran joins us from London as she had to make an unplanned visit to the UK along with John to attend to some health matters. As we have been doing earlier, we will begin the call with opening remarks from the Biocon management team, followed by Q&A sessions with all of you. Some of the discussions and the statements may be forward looking, and a detailed statement in this regard along with the FY2007 results has been e-mailed earlier and is also available on Biocon's website. Now I would like to invite Arun Chandavarkar, Chief Operating Officer of Biocon to briefly discuss the company's performance for the year ended FY2007. Over to you Arun.

**Arun Chandavarkar:** Thank you Nitin, and good afternoon everyone and welcome to the Biocon's conference call related to the financial results for fiscal '07. Before we get into the details, I would like tell you that we are pleased with the results declared for last year, which we initially thought, would be an extremely tough year. We will get into the numbers a little later. I would like to begin with a summary of some of the key highlights that took place last year, which signifies the kind of thrust that we are putting to some of the new business areas and strategic areas .

Let me go in no particular order of sequence, because I have a list here with me.

The most recent announcement that we made about Syngene tie up with the Bristol-Myers Squibb, endorses Syngene's ability and commitment to its clients on a long-term basis, which has now resulted in a long-term strategic partnership. This would result in a dedicated facility at our new Biocon Park site which will eventually house more than 400 scientists. Goutam Das COO of Syngene who is with us will add a few comments later on in the call.

The second major milestone, as you know, that took place last year was the launch of our oncology product BIOMAb-EGFR. This represented a significant leap in terms of Biocon's capabilities, because for the first time that we not only launched a new monoclonal antibody, but also took it to a stage of clinical development registration and also manufacturing using a technology that was not prevalent in this part of the world. I shall not get into the details, as most of you have heard earlier, but would like to add that since our launch in September, we have had extremely good acceptance of this particular product by significant number of oncologists; almost half the oncologists in India have already sampled this product, used it on their patients and have expressed an extremely positive opinion about the product. We are also looking to expand our territories for the BIOMAb-EGFR into the neighboring countries and some of the countries in Africa as well.

The next milestone that I would like to highlight about is the inauguration and commissioning of our biopharmaceutical manufacturing facilities at Biocon Park. There was a concern with regard to commissioning of our facilities at Biocon Park and timing for obtaining the FDA approval to facilitate export of products into the US market.

Biocon Park has been successfully commissioned the facilities at Biocon Park, which was inspected and qualified by the US FDA during the last quarter and the exports have begun. So I would say Biocon Park is in a position to cater to the global markets for our small molecule therapeutic APIs. In addition, the icing on the cake was that Biocon Park received SEZ status and this means in future this would have a very positive influence in terms of our tax structure and a part of this is already reflected in the results last year, where the tax incidence has decreased compared to the Fiscal Year '06.

The fourth milestone, signifying the growing emphasis to move from API to branded formulation, is the launch of our nephrology division. This is the third division we have launched with regard to branded formulation. As you know, we launched our cardio-diabetes division about two and a half years ago, with Insugen as the anchor product and a basket of other cardio-diabetes products along with it. This division has done very well, growing very significantly last year, both in terms of numbers and geographic penetration within India. The second division launched by us was the oncology inflammation division, and the anchor product was BIOMAb-EGFR, and as explained earlier, this particular product was received very well by the oncologists in India. Biocon being a vertically integrated player, we will capitalize upon nephrology division. We have a significant stake in the immunosuppressant API business as well and as you know the immunosuppressant API business in terms of regulated markets, is still a few years away in terms of patent expiry, but meanwhile we hope to exploit the immunosuppressant market by way of launching our branded formulations in India, which includes the Mycophenolate Mofetil, Tacrolimus, Cyclosporine, and Sirolimus and along with the biotech product Recombinant Human Erythropoietin.

Now, to summarize a few other key highlights over the years, I would say that all our investments in our research and development continues to increase apace and this is reflected in the progress we have made in our oral insulin program. During the last fiscal we actually got to see real human data and encouraged by the human data that we saw in phase 1, we feel confident that at some stage later this year, we could take it into phase 2. Likewise some of our other R&D programs related to our Vaccinex pipeline are making good progress and we will share the details at the subsequent meetings. So R&D continues to be a strong focus and some of the products resulting out of R&D in the biosimilar space, which is Insulin, GCSF and Streptokinase, have also made good progress. Insulin has been particularly good for us last year, both in terms of the branded formulation Insugen, as well as sales of the bulk insulin. We have continued our effort to expand the market not just in India but globally through partnerships. We announced our partnership with Bayer and also mentioned to you that we have tied up with a US partner for the US market and we have taken this forward in other territories as well. At this stage it is hard to predict when the US and European market will pan out, but we are confident that we have the ability and plan of action to achieve that milestone in the future. I think that the focus on R&D partly reflects in terms of the licensing fees that we had last year and licensing fees along with the research services of Syngene, Clinigene, contributed significantly in terms of percentage growth in their respective business areas last year.

**Kiran Mazumdar Shaw:** I would like to add to Arun's remarks. First and foremost, I would like to apologize for not being there in person, but I am sure you will understand. I have had to attend to medical needs that John has to undergo in London, and therefore I have not been able to be present in Bangalore. But I think my colleagues have stood in for me very admirably, and I am sure they are in a position to address and answer all your questions. I would just like to add to what Arun said, and that is that we are very pleased with the performance that we have delivered this fiscal. I think the sort of key messages that I would like to really reiterate are the following. Services continues to be a very strong and robust business for Biocon going forward, not only at Syngene, but also Clinigene, where we have scaled up Clinigene's existing infrastructure, and we believe



that we will deliver again very robustly even on the clinical research front, where as you know, there is a strong trend globally to start utilizing the clinical research and development capabilities in countries like India; where I think Clinigene is going to play a stellar role in this particular segment; where we already enjoy a very strong quality reputation with some of the key pharmaceutical customers and this is a business that we see will also go the Syngene way in the years to come.

In addition to that, I think our research programs are making good progress and we are very confident that in the years to come we will deliver very strongly, both in terms of licensing and creating market opportunities for new molecules within the group. And our strategy of building up a strong branded formulations business that will eventually lead to new molecules is also paying us good dividends. Insulin has become a very important product segment for us and of course we believe that biosimilars is going to be a very key differentiator for Biocon in global market with insulin, GCSF, and a few more biosimilars. Europe will certainly become an important market in the near to medium term followed very closely by the US, once the regulatory pathway for biosimilars is announced. We continue to be very optimistic about biosimilars in both US and Europe. Additionally, we are already registering our biosimilars in many countries around the world. Insugen itself and insulin has been targeted at over 80 countries. We have already applied for registration in about 25 of them and we continue to expect to enter into these new markets through new registrations as they are recorded. The same will be of other follow-on biosimilars.

Our generic API business, of course, continues to deliver very well for us considering the fact that we have made technological progress on these molecules, which allows us to address the commoditizing prices that these generics often face. Having said that, I think we have seen a lull in the price erosion over the last few quarters, and we expect this to continue in the same way in the quarters going forward, but regardless of that, we are putting into place a strategy that will have less dependence on these commoditizing generics and look at more high value and more sustainable and stable products, even if all these might be in the generic space. I think we have made a very good presence in immunosuppressant and we are very confident of the branded formulations where we have aggressively started introducing into the Indian market. And of course with our recent joint venture with NMC in Abu Dhabi, we believe that again we will look at a global opportunity of pursuing similar joint ventures, introducing our branded formulations in other markets as well.

In terms of BIOMAb, we are again very encouraged by the initial response that this antibody has had in India, both in terms of its pricing and its acceptance levels. I think we are very encouraged by the use of this molecule by many of the leading oncologists in the country. So overall, I think we are heading in the right direction. Our strategy of delivering robust profitability through our generic portfolio, and our services businesses are allowing us to invest in R&D and our new molecule research programs, which we are very confident about that will deliver very handsome returns to share holders in the coming years. So with that, I would like to end my comments and open it up to the Q&A.

## Question and Answer Session

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**Moderator:** Dear participants, please press \* and 1 for your questions.

First question comes from Mr. H.R. Gala of Quest Investment Advisors.

**H.R. Gala:** Congratulations to the team of Biocon for giving such excellent results, which were way ahead of our own expectations from the company and I wish that management will make all the efforts to deliver even better results in the coming years. I have just a few queries. Can you give us a breakup of Rs 163 crores revenue that we have booked under the research services and license fees?

**Murali Krishnan:** Yes, of the total, Rs. 136 crores comes from Syngene and Clinigene. The balance is from the licensing fees.

**H.R. Gala:** Okay, that's roughly Rs 27 crore.

**Murali Krishnan:** Yes.

**H.R. Gala:** Okay, do you see the license fees to be a recurring feature as we go ahead?

**Murali Krishnan:** Yes. Like in the past, it will not happen on a quarterly basis, but on an annual basis, we expect this trend to continue.

**H.R. Gala:** Okay, what kind of growth can we expect in license fees? Can it be somewhat similar to what we are seeing in our mainstream revenues, of around say 25% to 30% per annum?

**Arun Chandavarkar:** I would like to make a comment here that it is not appropriate to view licensing fees as a revenue business, it's not about generating revenues, but making strategic choices. Biocon would decide the appropriate time, when we can capture good value by out licensing something; it will not be driven by revenue compulsion. So keeping that in mind it would be hard for us to predict what kind of licensing can happen.

**H.R. Gala:** My second question is that we have mentioned in the press release that our R&D expenditure is at Rs 38 crore, was 3.8% of about Rs 990 crore turnover. Now do you see going ahead, on a consolidated basis, what would be the R&D percentage?

**Murali Krishnan:** Next year it is likely to be in the region of about 6% - 8%.

**H.R. Gala:** Okay, but do you see that kind of a revenue expenditure on R&D causing a dent on our operating profit margins from 29% that we have achieved.

**Murali Krishnan:** I wouldn't call it a dent, but would call it an investment. Without this investment, we are not likely to see the increase that we would like to see every year. And definitely this is going to increase because we have taken-up certain programs now, which are on the fast track, especially on the insulin front. All these would require significant investment or expenditure. That will have an impact of course. But the business will support this impact.

**H.R. Gala:** Okay, but do you see that through other means of maybe better value added products etc, we may be able to offset that impact?

**Rakesh Bamzai:** As Arun and Kiran mentioned in their opening remarks, we are developing strategies to value add our business.

**H.R. Gala:** Fine, my questions pertains to, can you just explain briefly what kind of a structure we will have for this BMS-Syngene contract research center that we are going to start with 400 people, and when do you think the real activity will begin?

**Goutam Das:** First of all BMS is already a large client. The facility will be ready towards the end of second quarter or early third quarter of next year, and people will start moving out there. Structure-wise, it will be still run and operated by Syngene in the same way though it will be in a separate building within the Biocon Park area. Being a bigger operation, we'll put administrative and other people, in addition to scientific staff. Apart from that I don't see any other substantial changes at least to start with.

**H.R. Gala:** Okay and when do you see we will be able to reach the 400 number scientists over there, working for BMS project?

**Goutam Das:** We expect it to happen by 2010 .

**H.R. Gala:** What kind of revenue do we anticipate from this venture?

**Murali Krishnan:** It could go up to around USD 25 million p.a.

**H.R. Gala:** Okay, by FY2010?

**Murali Krishnan:** Right.

**H.R. Gala:** Okay, very good. My last question pertains to how is the statin market and how do you see the coming quarters?

**Rakesh Bamzai:** Our results have shown that we have done very well in statins in the last two quarters. We understand the challenges and to give you the actual feel, we have above 20% market share in Simvastatin . We also continue to do well in Lovastatin. In the last couple of quarters we haven't seen much price erosion and we expect the price to remain stable, with quantities going up over the next two quarters.

**H.R. Gala:** Okay, what about Prava?

**Rakesh Bamzai:** Last two quarters Prava has been largely stable. We had initial hit at the time of launch as customers had already built up inventory.

**H.R. Gala:** Do we see much of the inventory built up that is apparent from our balance sheet, which has been given, about 46% jump to Rs 161 crore? Is it mainly on account of statin?

**Chinnappa:** Increase in stock is reflective of our higher production capacity.

**H.R. Gala:** Not necessarily just statin orders.

**Rakesh Bamzai:** Not only statin.

**H.R. Gala:** Okay, and my last question pertains to when are we going to begin work on that Vizag SEZ that was announced sometime back?

**Arun Chandavarkar:** Yes, during this fiscal, we will be buying the land and getting the infrastructure ready, and depending on the progress of the phase 2 trials for oral insulin, we will start the work. So it is likely to happen, maybe about 12 months from now.

**H.R. Gala:** Okay, but do you see that the recent controversy, which is surrounding around the SEZ and all that, would have some impact on our plants?

**Arun Chandavarkar:** This is an already approved and notified SEZ.

**H.R. Gala:** Okay fine. Thank you very much and wish you all the best.

**Moderator:** Next question comes from Mr. Vipul Shah, an Individual Investor.

**Vipul Shah:** My question has been answered. Can you still elaborate about the Syngene revenue? What kind of revenue growth can we expect over next two to three years? What type of margins we will have in that joint venture.

**Murali Krishnan:** We do not give the numbers per se, but as we have been delivering growth over the last two to three years, we expect to deliver about 30% of incremental growth in Syngene.

**Vipul Shah:** 30%?

**Murali Krishnan:** Yes, approximately around 30%.

**Vipul Shah:** It is 136 crore this year?

**Murali Krishnan:** That's right.

**Vipul Shah:** So we can expect a 30% jump year over year.

**Murali Krishnan:** Approximately, yes.

**Vipul Shah:** What about margins?

**Murali Krishnan:** That also will be in the same range.

**Vipul Shah:** Thank you very much and all the best for the future sir.

**Murali Krishnan:** Thank you.

**Moderator:** Next question comes from Mr. Kesvinder Singh Suri of Span Capital Services.

**Kesvinder Singh Suri:** Yes good afternoon and congratulations on a good set of numbers. This question is to Murali Krishnan, you said you did about Rs 23 crore of licensing, correct me if I am not wrong, for the December quarter ended, you had said you had done about Rs 26 crore of licensing revenues.

**Murali Krishnan:** As at December it was about Rs. 25 crores (rounded-off). For the full year the licensing revenues was Rs. 27 crores.

**Kesvinder Singh Suri:** Okay and this is for Rakesh. If you could tell me as to how many customers you're supplying Simvastatin in the US right now?

**Rakesh Bamzai:** In the last conference call, we said we have four customers and two are in the pipeline, and now we could successfully convert one amongst the two. We now have five customers in the United States.

**Kesvinder Singh Suri:** Okay, and with regards to the Insugen brand formulation, how many countries has it been registered in?

**Rakesh Bamzai:** It's in the process of getting registration in 25 by the end of this year.

**Kesvinder Singh Suri:** 25 by the end of this year, but how many have you finished registrations as of date?

**Rakesh Bamzai:** It is close to 6 countries now.

**Kesvinder Singh Suri:** And you are marketing in? I mean, you got the registrations in 6, but how many countries are you selling it in?

**Rakesh Bamzai:** All of them.

**Kesvinder Singh Suri:** Okay, and how big a brand is Insugen, value-wise right now for you?

**Rakesh Bamzai:** Brand Insugen is growing in India at 100%. In international market you can't say what the growth rate is because we are new there and it's showing some 400 - 500% growth.

**Kesvinder Singh Suri:** No, but as on date, what's the value it has generated, revenue it has generated?

**Rakesh Bamzai:** Because of competitive reasons, we cannot disclose the exact number. We are very determined to make Insugen a global brand out of India.

**Kesvinder Singh Suri:** Right, I am done with my questions, thank you.

**Moderator:** Next question comes from Mr. Abhay Shanbhag and team of Deutsche Securities.

**Abhay Shanbhag:** Good afternoon, this is Abhay Shanbhag here. A couple of questions, #1, this is on the technology licensing fee, can you throw more light on to which products does it pertain to?

**Murali Krishnan:** Largely insulin.

**Abhay Shanbhag:** And you would expect these sort of numbers to continue in the medium-term, I mean you would see almost 20, 25 crore of licensing fee to continue annualize basis.

**Murali Krishnan:** Yes.

**Abhay Shanbhag:** Okay, will you be able to throw some light into what countries or what markets or whatever in terms of who is taking, who is paying so much of licensing fee?

**Murali Krishnan:** No, at this stage we can not give you the details. Last time itself we mentioned that we had signed up with a US partner, but due to the restrictions in the agreement and confidentiality reasons we could not provide the name of the partner.

**Abhay Shanbhag:** So do I assume that all the Rs 25 crore have come from one partner, or is it multiple partners.

**Arun Chandavarkar:** No, as we mentioned last time, there is a mix of licensing of products like insulin, dossier development, and milestones towards the marketing authorization. Bulk of it though does represent insulin.

**Abhay Shanbhag:** Okay, the other question is in terms of Syngene. This 30% guidance that you are indicating in terms of revenue growth, does it include anything out of BMS, or BMS comes in much later in FY09?

**Goutam Das:** 30% is not for future guidance, but that was the past trend, which is expected to continue. BMS is already an existing client.

**Abhay Shanbhag:** Okay, so as a business, your Syngene is expected to grow at 30%. And the new capacity that you said, it's going to come in by mid of calendar year '08.

**Goutam Das:** Yes.

**Abhay Shanbhag:** Okay, the last thing is terms of the insulin, tell me how much has insulin formulations, bulk, everything put together contributed to your growth last year?

**Rakesh Bamzai:** We cannot reveal that because of competitive reasons.

**Arun Chandavarkar:** Abhay as you know, we have never been giving product-wise details, it's only segment-wise.

**Abhay Shanbhag:** Okay fine. Thanks a lot.

**Moderator:** Next question comes from Mr. Nimish of Edelweiss Capital.

**Nimish Mehta:** Yes good afternoon everybody. Can you tell me what would be your sales from India region, meaning branded formulation in India now that you have launched so many brands in India?

**Rakesh Bamzai:** 5% of our total revenues.

**Murali Krishnan:** Approximately, it's around that level.

**Nimish Mehta:** Okay, and I wanted to understand, in this quarter we have seen an interest income versus an interest expense for the rest of the three quarters, what could be the reasons for that?

**Chinappa:** This income is on the standalone P&L of Biocon; on a consolidated basis we do not have any interest income.

**Nimish Mehta:** The interest expense total for the full year on consolidated basis is about Rs 9 crore.

**Murali Krishnan:** Yes.

**Nimish Mehta:** What could be that amount roughly, interest expense, gross interest? We have seen a gross interest or net interest expense of about Rs 10 crores for nine months.



**Murali Krishnan:** For the full year it's about Rs 9 crores.

**Nimish Mehta:** It means that we have seen an interest income of Rs 1 crore this quarter and you said it is partly because of the dividend income. So what will be the gross interest expense that you would have seen this quarter?

**Chinappa:** YTD December we were at Rs 6 crore total interest expense which has climbed to Rs 9 crore at the end of the year; In terms of income we were at Rs 3 crore YTD December, and Rs 4 crore at the end of the year.

**Nimish Mehta:** Okay, and one last question. In your balance sheet we have seen an intangible asset of Rs 51 crore. What is that on account?

**Murali Krishnan:** On account of the IP assets that we bought from Nobex.

**Nimish Mehta:** IP that you bought from Nobex was about USD 5 million right?

**Murali Krishnan:** No, it was USD 12 million. We have paid about USD 6 million for the development and we paid another USD 6 million to acquire the IP assets through the court process; so the total is about USD 12 million, which represents Rs 50 crore. This transaction was done sometime in April '06.

**Nimish Mehta:** Okay, thank you very much.

**Moderator:** Next question comes from Mr. Sameer of Morgan Stanley.

**Sameer Baisiwala:** What kind of CAPEX are you looking and planning for FY'08?

**Murali Krishnan:** For Syngene, over the next two years, it is going to be in the region of about Rs 250 crore including the CAPEX for the BMS project. And for Biocon standalone, it's likely to be in the region of about Rs 125 crore.

**Sameer Baisiwala:** For two years or one year.

**Murali Krishnan:** This will be for one year, excluding an investment of about Rs 25 crore for purchase of land in Vizag.

**Sameer:** Okay, and given the encouraging response of BIOMAb, any acceleration that you expect from your early expectation of Rs 100 crore revenues in three to four years?

**Rakesh Bamzai:** We have had four months of commercial sales of BIOMAb-EGFR and we have done very well. We are increasing our field force. We are also launching in all other neighboring countries where we have marketing rights. We are also increasing the indications. Our objective is to make it a very big brand in three to four years time.

**Sameer Baisiwala:** But that revenue expectation remains?

**Rakesh Bamzai:** We have set ourselves an aggressive target but we can't reveal the numbers.

**Sameer Baisiwala:** And the final point is what timeframe are you looking at towards submission of your insulin dossier for the European and the US market?

**Arun Chandavarkar:** We are continuing to, work towards a goal, and as we discuss with the regulators, we will probably have greater clarity. So right now, I just have to continue saying like the last quarter and before, that it may take about two years to do the filing

there. In 2008/09 is probably when we expect to do it. But these details can change because if the regulators look favorably upon some of the data that we've generated in India and don't require us to do something. If they say no, you've to do something, then it could extend. Once we have a firm opinion of the regulators, probably we will be in a better position to give a definite answer.

**Sameer Baisiwala:** And when do you expect the regulator to give you clearer indication?

**Arun Chandavarkar:** Hopefully sometime later this year.

**Sameer Baisiwala:** Okay, thanks.

**Moderator:** Next question comes from Mr. Rahul Sharma of Karvy Stock Broking.

**Rahul Sharma** I wanted the breakup of material and power, could you please give me that?

**Murali Krishnan:** On a consolidated basis, both put together, it's about 52%.

**Rahul Sharma** I wanted the separate for material and for power, if you could give me the cost breakup.

**Murali Krishnan:** Right, 46% for the material and 6% for power.

**Rahul Sharma** And, I am just going through the numbers, our minority interest has gone up to Rs 31 million compared to almost Rs 29 million done for the 9 months, could you give me more clarity on this aspect?

**Chinappa:** This represents a fixed cost associated with 51% subsidy Biocon Biopharmaceuticals.

**Rahul Sharma:** Okay, fixed costs of Biocon Biopharma?

**Chinappa:** Yes, Biocon Biopharmaceuticals; the plant is expected to go commercial from April or May 2007 and the fixed costs have been expensed over the last one year.

**Rahul Sharma:** Okay, thanks.

**Moderator:** Next question comes from Ms. Charulatha of Almondz.

**Charulata Gidhani:** Hi this is Charulatha from Almondz Capitals; I want a breakup of the revenue from diabetology and from oncology?

**Murali Krishnan:** As mentioned earlier, unfortunately we do not give such detailed breakup. Total revenue from our Health Care business about 5%.

**Charulata Gidhani:** 5% of?

**Murali Krishnan:** Of the total revenue.

**Charulata Gidhani:** Okay, and I also want a breakup of the exports, which countries contribute to how much, what is the percentage coming from US, what is the percentage coming from Europe?

**Arun Chandavarkar:** Our distribution of revenues is almost equal between US, Europe and ROW.

**Charulata Gidhani:** Okay, can you highlight on the revenue breakup a little more. You only mentioned 5%, but if you could give me a breakup of the revenue?

**Murali Krishnan:** Sorry, unfortunately we do not give further break-up.

**Charulata Gidhani:** Okay, fine.

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

**Visalakshi:** Thank you, I would like to know how do you see the scale up of both bulk insulin as well as oral insulin to your various markets over the next 12 to 15 months and what does that mean in terms of contribution to revenue?

**Murali Krishnan:** Oral insulin definitely is not going to happen in the next 12 to 15 months, as far as bulk insulin I will ask Rakesh to give an answer.

**Rakesh Bamzai:** We are doing very well in bulk insulin in global markets we are going to double the bulk insulin business in the current year for Biocon.

**Visalakshi:** My question was actually not on oral insulin, sorry, it was on branded, the Insugen, how do you see Insugen scaling up as well as bulk insulin scaling up?

**Rakesh Bamzai:** In the markets that we are present, we are growing annually more than 100% because this is quite early. Our focus is to market the brand in 25 countries ASAP.

**Visalakshi:** And right now how many countries are you present in?

**Rakesh Bamzai:** We have registrations in six countries and we are present in all of them.

**Visalakshi:** Okay, what would that be, say by Fiscal '09, how much do you expect insulin would be as a percentage of your revenues?

**Rakesh Bamzai:** We are ramping it up, we should be about 15% to 25%, and it is based on the success in these markets.

**Visalakshi:** I also wanted some clarity on the CAPEX which you explained earlier, I did not get it correctly.

**Murali Krishnan:** In case of Syngene it will be about Rs 250 crore over the next two years and in case of Biocon, for this year, it will be about Rs 125 - 150 including the cost of the land, which we are planning to buy in Vizag.

**Visalakshi:** Okay, and finally on oral insulin, can we expect a progress in terms of a licensing deal or any kind of development over the next 12 months?

**Arun Chandavarkar:** Visalakshi, you will be the first to know, once we have something.

**Visalakshi:** What about nasal insulin, what is the status in terms of supplies to Bentley?

**Rakesh Bamzai:** Yes, we have got an approval for phase 2 study in India, which means that Bentley will need to buy the materials to develop for phase 2 trials. We will have sales to Bentley this year.

**Visalakshi:** Okay, how much would that contribute?

**Rakesh Bamzai:** We can't give the exact quantities and value.

**Visalakshi:** Thank you very much.

**Moderator:** Next question comes from Mr. Rajesh of HDFC Asset Management.

**Rajesh Pherwani:** Good afternoon. I just wanted to know, couple of quarters you have done 30 plus % margins, how do you see margins next year, given that your R&D expenses are going up, you expect to maintain these margins?

**Murali Krishnan:** We would like to maintain, but this definitely depends on certain factors, one is how the statin prices are going to stabilize in the US market and second is the quantum of R&D expenses, which are likely to be bit lumpy. Also the licensing income may not happen on a quarterly basis.

**Rajesh Pherwani:** No but your licensing income was not there this last quarter, but you have still shown 30% margins.

**Murali Krishnan:** It is difficult to comment on margins on a quarterly basis due the reasons mentioned earlier...

**Rajesh Pherwani:** My second question is on the US markets, what is the status of the registration by your partner there?

**Arun Chandavarkar:** YM Biosciences, which is the Cuban licensee, has received what is called OFAC approval, which is a special senate waiver to conduct clinical development on a indication called pontine glioma. So it is still early days to talk about registration of the product.

**Rajesh Pherwani:** Okay, so what is the time frame?

**Arun Chandavarkar:** It is not driven by us; but by the partner, so we are not in a position to comment on that.

**Rajesh Pherwani:** Any sort of link that you can have in terms of manufacturing for that?

**Arun Chandavarkar:** Yes that option is always open, because we have designed our facilities to meet US and European requirements.

**Rajesh Pherwani:** So what is the time frame for that?

**Arun Chandavarkar:** No we have not factored that time frame because it is still a long way off.

**Rajesh Pherwani:** Okay and the last thing is on CAPEX, for Syngene you are showing Rs 250 crore this year, in the next two years, out of which Rs 100 crore would be for BMS, I believe?

**Murali Krishnan:** Little more than that.

**Rajesh Pherwani:** Little more than that and the rest of it are for your organic growth?

**Murali Krishnan:** It is all connected with those businesses, including BMS.

**Rajesh Pherwani:** Okay, thanks.

**Moderator:** Next question comes from Mr. Manoj of Emkay Shares.

**Manoj Garg:** Hi, good afternoon. See my first question is regarding this nephrology division which we are launching in the domestic market. How much revenue we are expecting from this division, maybe next year?

**Rakesh Bamzai:** In nephrology, we are competing with around 8 to 10 good companies in India. We expect to be among the top 7 by end of two years and amongst the top 3 by end of sixth year.

**Manoj Garg:** In terms of revenue sir?

**Rakesh Bamzai:** As explained earlier, we can't give revenue numbers.

**Manoj Garg:** Okay sir, and how do we expect about, again the numbers from this NMC group joint venture which we had in Abu Dhabi?

**Rakesh Bamzai:** We are working on a business plan and we should have very good returns out of this joint venture. The objective is to be in UAE, very close to the customer, leveraging on the knowledge and expertise in biotechnology that we have and the regulatory and market knowledge of our partners, Neopharma.

**Manoj Garg:** Thank you.

**Moderator:** Next question comes from Ms. Monica of Quantum Securities.

**Monica Joshi:** Hi, could you just elaborate a little more on this Rs 125 crore CAPEX that you have for your standalone entity?

**Murali Krishnan:** Yes, that's should be the regular, on going kind of the maintenance CAPEX and including the land that we plan to acquire in Vizag.

**Monica Joshi:** So, let's say how much, the land would be about say Rs 50 odd crore from that?

**Murali Krishnan:** Say about Rs 25 to 35.

**Monica:** Rs 35 crore, so you are saying that you have an ongoing CAPEX of Rs 100 crore a year?

**Arun Chandavarkar:** In order to improve operation efficiency, we keep on working on de-bottlenecking our facilities, modifying our facilities to meet different product requirement in different mix of products. There is also CAPEX associated with expansion of our R&D facilities.

**Monica Joshi:** Okay, so this includes the R&D CAPEX?

**Arun Chandavarkar:** Yes, this includes R&D.

**Monica:** You mentioned that you have a kind of a tie up in the US market for launching insulin when there is the regulatory environment of a favorable condition. What are your plans for the European market?

**Arun Chandavarkar:** At this stage we have decided to go through the regulatory process ourselves and if at a suitable stage we wish to take on a partner, we will take the decision. But at this stage, we are walking through the regulatory process ourselves.

**Monica Joshi:** Fair enough, sir in the US markets since you have a partner, if you could give us some idea on how you would breakup your costs associated with clinical trials or registration process?

**Arun Chandavarkar:** Any cost incurred by them for US registration in the US would be borne by the partner.

**Monica Joshi:** Okay, and when you would go in for a European partner, you would typically look for such an agreement?

**Arun Chandavarkar:** I cannot comment on the type because we are progressing some of the regulatory things ourselves.

**Monica Joshi:** Okay, thank you so much.

**Moderator:** Next question comes from Mr. Ashwin Agarwal of Akash Ganga Investments.

**Ashwin Agarwal:** Congratulations to the management team on a very good set of numbers. Most of my questions are answered, just a quick question. The US alliance for insulin, that is an exclusive or it's a non-exclusive, that means Biocon have several such alliances going forward?

**Arun Chandavarkar:** It's an exclusive for the brand Insugen; we have other customers for our bulk insulin.

**Ashwin Agarwal:** Okay, and very quickly can you tell me the time frame for registering BIOMAb for indications other than head and neck, how long will it take in India?

**Rakesh Bamzai:** In India we are going through a process of approval for the trials and I will ask Dr. Arvind to explain us the time frame.

**Dr. Arvind:** I think it is roughly around three months for getting permission, one year to do the trial, three months to analyze the results and then another three months to get approval. So end of next year optimistically or beginning of the following year, in case of delay.

**Ashwin Agarwal:** Okay, there is no fast track, any earliest possibility of this launch?

**Dr. Arvind:** Well we did it with the head and neck cancer, so if we have good results we can speed it up.

**Ashwin Agarwal:** Okay, lastly for Rakesh, how many neutral API players would be there in the US market for statins, Prava and Simva?

**Rakesh Bamzai:** I didn't get the question, neutral API

**Ashwin Agarwal:** That means who are not present in the formulation in the...

**Rakesh Bamzai:** Not vertically integrated, that's the question?

**Ashwin Agarwal:** Right.

**Rakesh Bamzai:** I think, for our set of products, or for generally?

**Ashwin Agarwal:** For yours, Simva and Prava.

**Rakesh Bamzai:** We have one or two companies that we are presently active in the US market.

**Ashwin Agarwal:** So that means going forward there could be volume expansion, ignoring the price for the moment there could be volume expansions going forward in the quarters ahead?

**Rakesh Bazai:** Yes, we are expecting volume expansions.

**Ashwin Agarwal:** And also market shares increase can happen?

**Rakesh Bazai:** Yes, just like in Europe, we expect market expansion in US for Simvastatin and Pravastatin.

**Ashwin Agarwal:** Means cannibalization from brands like Lipitor could happen to statins like Simva?

**Rakesh Bazai:** It is possible.

**Ashwin Agarwal:** Okay so that means the volumes could explode?

**Rakesh:** Yes.

**Ashwin Agarwal:** Okay, thanks a lot.

**Moderator:** Next question comes from Mr. Krishnan of Krishnan and Company.

**Krishnan:** I have two questions, one is the standalone margin in Biocon in Q4 seems to we have come down, relative to Q3 and the second question is, which month did you get the US FDA approval for Biocon Park?

**Murali Krishnan:** The approval came through sometime during mid February.

**Chinappa:** It is on account of the technology licensing fee, which was there in the third quarter and not there in the fourth quarter.

**Krishnan:** No I am asking specifically in standalone Biocon numbers?

**Chinappa:** The licensing fees are in Biocon.

**Krishnan:** Licensing fees included in Biocon, okay, thank you.

**Moderator:** The next question comes from Mr. Chirag of Mehta Partners.

**Chirag Talati:** Hi, thanks for taking my questions. I had a question on your US alliance for insulin. I wanted to know what is the platform, is it injectable or I mean is it time based or is it vial based?

**Arun Chandavarkar:** It is biosimilar insulin.

**Chirag Talati:** Okay, and secondly you talked about vertical integration of statins. I have a question, most certainly the bigger players will opt to go for vertical integration given the size of the statin space, so don't you see some kind of volume pressure coming in that or you continue to project a higher volume growth?

**Rakesh Bamzai:** A lot of companies are integrating themselves or companies are getting merged and becoming bigger generic companies, but luckily we have had a good spread of customers developed for Simvastatin. We could have done much more numbers than what we are projecting or what we have done, but for the vertical integration and mergers. We still expect the volumes to increase in the coming quarter and this is because we have a very good spread of customers.

**Chirag Talati:** Okay, then that's great, thanks.

**Moderator:** Next question comes from Mr. Biren of Kotak Securities.

**Biren Dalal:** Hello, yes, just wanted to understand on the Syngene numbers, what is the profit for Syngene for the full year?

**Murali Krishnan:** Its Rs 50 crore.

**Biren Dalal:** And what was that last year?

**Murali Krishnan:** Rs 45 crore.

**Biren Dalal:** So the profits of Syngene have not grown at a healthy way, margins have fallen in Syngene?

**Murali Krishnan:** Last years margins were influenced by some highly profitable custom synthesis business that got delivered & billed during the last quarter.

**Biren Dalal:** And what the top line of Syngene this year?

**Murali Krishnan:** This year it is Rs 129 crore vs. Rs 96 crore.

**Biren Dalal:** Rs 96, so you have guided for 30% growth next year, right?

**Murali Krishnan:** That's the kind of growth we have had in the past. We don't give guidance.

**Biren Dalal:** Okay, but do you think margins will be stable in that business?

**Murali Krishnan:** It is likely to be stable.

**Biren Dalal:** Okay, how large has Clinigene become now?

**Murali Krishnan:** Total revenue was about Rs. 12 crores and the external revenues was about Rs. 8 crores This is the first year, Clinigene has contributed to the bottom line of Biocon group as well.

**Arun Chandavarkar:** Clinigene does a lot of work for Biocon as well. So what Murali is referring to is the external revenues.

**Biren Dalal:** And how is this expected to grow over the next couple of years?



**Dr. Arvind:** I think in terms of growth we expect it to be at least two-and-a-half to three times in the coming year and we would double that the following year.

**Biren Dalal:** And has this got similar margin to the Syngene business or the dynamics very different here?

**Dr. Arvind:** It is around 25%

**Biren Dalal:** Okay, thank you sir.

**Moderator:** Next question comes from Mr. Milind Karmarkar of Dalal and Broacha Stock Broking.

**Milind Karmarkar:** Hi congratulations for good set of numbers. I had two questions. Which is the competing product for BIOMAb in India and what is the cost of treatment for BIOMAb?

**Arun Chandavarkar:** The competing product in this phase is a product called Erbitux and I think, what is the second question?

**Milind Karmarkar:** What is the cost of treatment for BIOMAb?

**Arun Chandavarkar:** BIOMAb is priced at Rs 45,000 for a pack and the treatment is typically six packs, but then it is up to the physician.

**Rakesh Bamzai:** BIOMAb is a humanized antibody and the cost of treatment is estimated to be 30% cheaper than that of the competing product.

**Milind Karmarkar:** Okay, another question which I had was on contract research business. One thing which I wanted to know was that this slightly lower margins in the fourth quarter, were they because of higher recruitments and are we facing challenges in this area?

**Goutam Das:** To answer your first question, yes there is higher recruitment in the last two quarters. Regarding challenges, Syngene continues to be in a position to meet its requirements of skilled personnel.

**Milind Karmarkar:** Okay, thank you so much.

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

**Prashant Nair:** Yes hi, my first question is on your filing of insulin in Europe, I know you mentioned this before, but I didn't quite follow it, so can you just clarify, when do you expect to file for insulin in Europe?

**Arun Chandavarkar:** We are hoping that we can file towards the end of 2008.

**Prashant Nair:** Calendar year?

**Arun Chandavarkar:** Yeah, but it all depends on discussions with regulatory agencies and at this point in time we are not in a position to lay out a plan of action before you, because it is confidential..

**Prashant Nair:** Ok, fair enough.

**Arun Chandavarkar:** At this point in time, it is our estimate but the estimate is subject to opinions to be expressed formally in writing by the regulator.

**Prashanth Nair:** All right, and my second question. What is your policy on hedging against FOREX fluctuations given that you have a large export share in your turnover?

**Chinappa:** Our hedging strategy is really looking at a net forward exposure over the next one to two years, and based on that, from time to time we hedge between 50% to 70% of our net forward exposure.

**Prashant Nair:** Okay, and in the fourth quarter as well as in Fiscal '07 did you have any exchange gain or loss in the numbers?

**Chinappa:** In the full year we had about 2 million dollars of gain.

**Prashanth Nair:** Okay and in the last quarter?

**Chinappa:** Rs. 3 crores in the last quarter, Rs. 10 crore for the full year.

**Prashant Nair:** Okay, thanks.

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

**Nitin Agarwal:** Good afternoon sir just wanted to check on the biosimilars, what is the route map for GCSF, streptokinase, and are there any other products which are there in the pipeline and EPO as far as marketing in India and other markets are concerned?

**Rakesh Bamzai:** GCSF, streptokinase, these two biosimilar products we are going to launch in the current financial year and there is a third one, EPO, Erythropoietin where we have already got approval and we will be in the process of launching very shortly. Our brand name is Erypro.

**Nitin Agarwal:** And are these launches going to be there for the domestic market or you are looking at leveraging the same Insugen platform also for these products?

**Rakesh Bamzai:** Yes we are going to do it at a later date, current strategy is India based because registering in other markets you need approvals in home country first. So we are using this document to get our approvals in other countries.

**Nitin Agarwal:** Sir, when do you see the sales for some of these products starting further markets also?

**Rakesh Bamzai:** This year we will focus on India and maybe in next year we will see global sales happening.

**Nitin Agarwal:** Okay, thank you.

**Moderator:** Next question comes from Mr. Jesal of JP Morgan.

**Jesal Shah:** Yes hi, good afternoon, I have actually a few questions; I will just quickly run through them. Firstly if you can just give me some idea about in this fourth quarter, what is the growth in your insulin and immunosuppressant business and what is the contribution of that to the total turnover?

**Arun Chandavarkar:** See we don't give product wise, but as I think Rakesh mentioned the entire formulation business has shown over a 100% growth last year. We can't give you product wise details.

**Jesal Shah:** I understand you have in the past also given some broad number like 14% to 15% being the contribution of insulin and immunosuppressant as a group.

**Arun Chandavarkar:** Insulin and immunosuppressant as a group?

**Jesal Shah:** Yeah, as a group. So how has that percentage changed, that is what I wanted to know?

**Murali Krishnan:** Around the same levels, the percentages across different product segments have not changed much.

**Jesal Shah:** Okay, so your statins is still about 30 to 40%, I guess?

**Murali Krishnan:** Yes, you are right.

**Jesal Shah:** Have you seen any sequential growth in insulin/immunosuppressant as a group or is it sequentially flat?

**Murali Krishnan:** Across all the segments we have seen some kind of growth, that's how we have been able to kind of deliver these numbers.

**Jesal Shah:** Okay, the second question is on your R&D expenditure, can you give us some broad idea about how much of this Rs 38 crore you incurred this year was on the generic development effort versus innovative product development effort?

**Murali Krishnan:** Most of it was on the innovation side.

**Jesal Shah:** All right and even for next year since you have various initiatives going on for generic, both bio generics as well as your GCC venture, which I guess will entail some kind of expenditure on the generic front, so next year how do you see that R&D expenditure breakup?

**Murali Krishnan:** Actually it will continue the same way; it will tilt towards more and more innovation.

**Jesal Shah:** So the entire growth you are envisaging next year also will be largely driven by innovative expenditure I guess?

**Arun Chandavarkar:** The major costs tend to be the clinical development cost and not the process development cost. If you look at the biosimilars and the other products, most of the R&D activities surround the analytical and process development and you can usually directly do phase 3, but when you talk about innovative products, you have to do extensive work through all the stages of development.

**Jesal Shah:** Fine, moving to your milestone incomes and I understand you had stated in the past that this will not happen every quarter and you expect it to carry it on a full year basis, so the question actually is from the US front, I guess which must have been one key market where you have got this milestone incomes from the last two three quarters. What kind of structure do you have over there? Do you envisage that the company will receive some further money from the US market towards insulin even before your partner can launch the product?

**Arun Chandavarkar:** I don't think we can comment on the structure of the deal that we have signed because getting into that detail would basically violate our contractual terms

**Jesal Shah:** No actually what I wanted to get at really was, is it possible for Biocon to generate any further income from US even before insulin is launched in the market?

**Arun Chandavarkar:** We won't certainly like to comment on that.

**Rakesh Bamzai:** Licensing revenues would be a sum of lots of things happening in Biocon, its not only insulin related.

**Jesal Shah:** Sure, so this quarter I guess, have you kind of out-licensed anything for which you might have received cash but not yet recognized income in the books or...

**Murali Krishnan:** When it's recognized, we will let you know but otherwise obviously we cannot comment on that basis.

**Jesal Shah:** All right, okay, and the last thing is on the minority income, actually I didn't understand your explanation, I think you talked something about costs and the fixed costs in the BIOMAb JV, but I guess the accounts show that there is an income, so I am not able to fully understand the explanation?

**Chinappa:** The fixed cost of JV is roughly about Rs 11 crore, which has been expensed in different line items and then 49% of those losses which represent our partner losses is added back as minority interest.

**Jesal Shah:** I see, okay, now I understood and then the last thing is on the domestic business, last time you stated that you had 250 people in marketing field force. What is the number as of now and what is your plan for next year?

**Rakesh Bamzai:** In the domestic business we have 255 business executives which are sales men and then we have around 50-55 line managers. So it is close to 310 people today and we are going to ramp it up in line with our growth plans.

**Arun Chandavarkar:** This does not include the nephrology and oncology divisions, which have a separate force.

**Jesal Shah:** Totally how many people do you have in field force as of now?

**Rakesh Bamzai:** In nephrology we have 25 people and oncology we have more than 25.

**Jesal Shah:** So you have totally about lets say 360 people?

**Rakesh Bamzai:** Yes.

**Jesal Shah:** And where do you see this number at the end of next year?

**Rakesh Bamzai:** That number is going to grow and it is going to grow substantially.

**Jesal Shah:** Okay, so basically as far as I can see your R&D expenditure is going to increase as a percentage of sales plus your SG&A costs also are going to ramp up significantly and I don't know what is the percentage growth in SG&A likely to be, but it seems to be at least about 15%-20%. So would it be fair to say that, if your top line does not grow by more than 15%-20% there will certainly be a decline in margins next year?

**Murali Krishnan:** If sales doesn't grow, then definitely, yes.

**Jesal Shah:** Okay, thank you so much.

**Moderator:** We have a follow-up question from Mr. Gala of Quest Investment Advisors.

**H.R. Gala:** Yes, just one question, in the Biocon standalone result we have other income of Rs 12.11 crore, whereas it is not there in the consolidated, there we are showing only four crore. So can you tell us some breakup of these Rs 12 crore, what does it comprise of?

**Chinappa:** The other income really represent inter company billings for power and utilities, which is knocked off on consolidation.

**Murali Krishnan:** Biocon is the developer in the SEZ and it has to charge the Biocon unit, Syngene and BBPL. These charges are taken as income in Biocon's books and when we do the consolidation we eliminate inter-company billings.

**H.R. Gala:** Okay. There isn't any inter-company dividend or that kind of stuff?

**Murali Krishnan:** Absolutely nothing.

**H.R. Gala:** Okay, I thought that probably that Syngene declared some dividend.

**Murali Krishnan:** No.

**H.R. Gala:** Okay, fine, thank you very much.

**Moderator:** Next question comes from Mr. Shekar of Goldman.

**Shekar Singh:** Hello sir, I just wanted to know this CAPEX in Syngene of around Rs 250 crore for 400 seats is it correct that I have heard?

**Goutam Das:** No, the Rs 250 crore for 400 seats is not exactly the way to say it. I mean, I fully had explained it to you earlier, it's about a little over a Rs 100 crore for the 400 seats and the rest of it is connected with other opportunities.

**Shekar Singh:** It is not dedicated just to the BMS alone?

**Goutam Das:** The other opportunities are not purely dedicated to the BMS alone.

**Shekar Singh:** Okay, so but even Rs 100 crore basically works out to around Rs 25 lacs per seat, what exactly is the sort of CAPEX which is required for this facility?

**Goutam Das:** It is state of the art research lab as you normally see in the west and built to the client's specifications.

**Shekar Singh:** Sir, can you just repeat what was the expected growth rate in Clinigene that you are expecting for the coming year?

**Goutam Das:** To around a 2 ½ times as this year.

**Shekar Singh:** Okay sir, thanks a lot.

**Moderator:** We have a follow-up question from Mr. Nitin Agarwal of SSKI.

**Nitin Agarwal:** Sir for Syngene what is the gross block for the business currently?

**Chinappa:** Slightly below Rs. 100 crores.

**Shekar Singh:** It is less than 100 and you are going to be putting in another Rs 250 crore over the next 2 years, and how many people are there in Syngene currently?

**Murali Krishnan:** We have about 700.

**Shekar Singh:** 700 and what's the ramp up plan for the year?

**Goutam Das:** It should go up by 30% to 40%.

**Shekar Singh:** And what's the numbers like in Clinigene?

**Arvind:** It is about 75-80.

**Shekar Singh:** And what's the ramp up going to be there?

**Arvind:** to about 140 or 150.

**Shekar Singh:** To about 140 to 150, okay, thank you.

**Moderator:** There are no further questions. Now I hand over the floor to Mr. Arun Chandavarkar, Chief Operating Officer of Biocon Limited for closing comments.

**Arun Chandavarkar:** I would like to close this analyst call by again reiterating that we have had a fairly good year last year and we look forward to meeting you again in July. Thank you everybody.

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