BIOCON LIMITED

Analyst / Investor Conference Call
22nd April 2008, 3:00 PM IST

Mansi Parekh: Good afternoon everyone and thank you all for joining us on Biocon Limited's full year FY08 results conference call. We have with us on this call Ms. Kiran Mazumdar-Shaw, Chairman and Managing Director of the company, and also her colleagues who are a part of the senior management team. We will begin the call with opening remarks from the Biocon management followed by a Q&A session with all of you. Now I would like to invite Dr. Kiran Mazumdar-Shaw to briefly discuss the company's performance for the full year ended 31st March 2008.

Kiran Mazumdar-Shaw: Hi. Good afternoon everyone. Thanks for keying in to this conference call. I would like to start by saying that we are pleased with the performance that we have delivered, not only for the fourth quarter, but also for the full year FY08. We believe that we have delivered a very healthy performance for this last fiscal. As you all know we have seen good growth in terms of our overall business, post the enzymes divestment. We have improved operating margins by 2% over the previous fiscal. Our PAT has increased to Rs. 225 crore, which is the highest ever profit that we have delivered to date. R&D continues to be an area, which we have focused on and has seen a further commitment in terms of increased investment and we will continue to do so as we go forward. One of the highlights of this quarter has been the recommendation of the board for a 1:1 bonus issue as well as a special dividend that we have agreed to pay out of 40%, which brings the overall dividend payout to 100% or Rs. 5 per share. I would now like to just comment a little bit on our revenues and profitability.

Our research services business have grown by 29% to Rs.176 crore from Rs.136 crore and this of course contributes to about 16% of our overall revenues. Albeit at a profit level, I think we have seen this take a little bit of a hit in terms of Syngene's profitability, this is largely because of the impact of the depreciation in the US Dollar and the expenses that we have had to carry for ramping up our Syngene capabilities in anticipation of some big contracts that we have seen coming in, especially the BMS contract. There are also other ramping up exercises that we have had to do in terms of biologics business in Syngene. We have also made some investment commitments for Clinigene, because both these businesses are expected to deliver good growth trajectory in the near future. In terms of Biocon's own business, our biopharma segment has really delivered very robustly, both in terms of licensing income as well as in overall growth. Most of this growth has come from three or four key segments: this includes statins, immunosuppressants, insulin, our branded formulations businesses, as well the licensing revenues. So, overall we have had a very robust performance. I believe that we have actually invested in creating some very important springboards, which will deliver growth for us in both the short, medium, and long term.

In terms of short term growth, the springboards that we have created are really in the areas of research services. In the medium term, we believe that the investments we are making in developing our bio-similars which is going to generate good revenues and growth for us. And when it comes to long term investments, these are by way of the new drug development programs that we have developed and are continuing to develop.

So, this is the way we have developed our overall business strategy. I would again like to emphasize that Biocon has over the years developed and is continuing to evolve and develop a very robust business model, which has a balance of portfolios, which are also risk balanced, in terms of our approach. As you know, we are focused both on products and services, generics and new molecules; we are now looking at front-ending our businesses, not only in India, but now overseas through our AxiCorp acquisition. And, this we believe is now heading in the right

direction. I hope our story is beginning to unfold with a lot of clarity and we look forward to really delivering on all these verticals that we have developed very deliberately in a strong way as we go forward. I would also like to end these initial comments by saying that we are trying to support Biocon's emerging bellwether profile by increasing market liquidity and that is really the key rationale for announcing the bonus issue. We have also recommended a special dividend this quarter for the year, and this is largely on account of the divestment of the enzymes business, where we believe that we had to share a part of the income that we generated from this divestment with our share holders. So, we continue to believe very strongly in building strong share holder value, and this is what we have done and we will continue to do so as we go about growing and building Biocon into a global biotech major. I think we are ready now to take a Q&A session.

Question and Answer Session

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

Balaji Prasad: Hi, good afternoon. What is the licensing strategy going forward? What stages are you looking at, out licensing any of your molecules, be it T1h or IN-105?

Kiran Mazumdar-Shaw: We have many programs to license. These are across the biosimilar and new drug molecule space. As far as IN-105 is concerned, you must have seen from our press release that this is making good progress. We are in the process of conducting Phase IIa trials and we will be entering into Phase IIb trials, which is really the proof of concept trials. This is going to take another one year before we can really start aggressively licensing this molecule. In terms of T1h or anti-CD6, this is at the moment entering Phase IIb trials, which are really the proof of concept trials that we need to evaluate in order to again make it ready for licensing. So, we believe that both these molecules will be available for licensing over the next 12 to 18 months, which are expected to deliver huge upsides. In addition to that we also have a pipeline of biosimilar molecules which we will continue to license as and when they complete some levels of clinical development. We already have quite a few products that are undergoing Phase III clinical trials, like glargine and a few other products and once this happens, we will continuously look at licensing these out.

Balaji Prasad: Thank you.

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

Bino Pathiparampil: Hi, my question is about the biopharmaceuticals business, which still contributes about more than 75% of the business. It seems that this part grew only by about 10% in the last financial year. Is this the kind of growth rate you are looking at or what are the factors we can look forward with which we can see some acceleration there?

Kiran Mazumdar-Shaw: One of the reasons why you have not seen higher growth is because we have deliberately had a product mix that would deliver bottom line rather than top line growth. And therefore you can clearly see that the reason we have been able to deliver higher numbers is really because of the biopharma sector. On the other hand, we are gearing up to increase our top line performance in biopharma. So the year ahead should see us delivering a better growth in terms of biopharma. I will ask my colleague to add to this, Rakesh Bamzai.

Rakesh Bamzai: Hi. Actually biopharma is a mix of lots of products and insulin is one of them. Insulin, being a product which has to be registered in many countries, it takes time to get an approval and that's why you would have seen those numbers. But going forward, I would say that Biocon is in a process of registering insulin in 80 countries, and once that approval comes in those countries in a phased manner, we are going to see a very big value there.

Bino Pathiparampil: Okay great. And how much was the total licensing fees for last financial year?

Kiran Mazumdar-Shaw: It is Rs. 45 crore.

Bino Pathiparampil: How much of Branded Formulations sales have grown in the year? Could you give some rough sales estimate?

Rakesh Bamzai: We have grown by more than 100% in comparison to last year. And the growth story is going to go on at this rate, because right now the base is small. Biocon stands committed to build up big brands of products like Insugen, BIOMAb-EGFR, Statix and similar type of products.

Bino Pathiparampil: Okay. So how much were the branded sales for the year?

Kiran Mazumdar-Shaw: See, while we don't really break it up into these kind of segments, we believe that we will start reporting these numbers when they start looking towards the Rs. 500 crore kind of segment size. And we expect we can achieve these kinds of numbers in the next two to three years.

Bino Pathiparampil: Okay. Does statins continue to be about 33%, 34% of the biopharmaceutical revenue?

Rakesh Bamzai: Yes, statins is approximately around that, although we keep on saying in all the conference that our dependence on statins is reducing and growth is coming from other areas as well.

Bino Pathiparampil: Okay, right, and that there was Rs. 12 crore other income which came in this quarter. Also last quarter there was Rs. 21 crore as well. Could you just give some color as to where that has come from?

Murali Krishnan: That has basically come from; one is the treasury income that we have been getting over the last two quarters, consequent to the divestment of our enzyme business to Novozymes. This generates approximately about seven crore on a quarterly basis,. And also in addition to that, there were certain milestone payments that we received from the Novozyme post the divestment. This has contributed the rest..

Bino Pathiparampil: Okay. And last question when is this AxiCorp deal expected to conclude?

Murali Krishnan: By the end of this month.

Bino Pathiparampil: Okay, thank you very much.

Moderator: Our next question comes from Mr. Abhay Shanbhag of Deutsche Equities.

Abhay Shanbhag: Just a couple of questions. Biopharma which is almost 80% of the sales, can we at least get some broad classification on the type of products, like statins, insulin, or the domestic formulations. I mean, any broad numbers, so that we can at least project it forward.

Kiran Mazumdar-Shaw: Well, I think you have already heard that statins is about a third.

Abhay Shanbhag: Yes, 33%.

Kiran Mazumdar-Shaw: And I think if you look at immuno-suppressants and insulin, it's about another 25%. And then the rest are all miscellaneous products, including our branded formulations.

Abhay Shanbhag: Okay, and what is the sort of marketing team that you have and are you looking to increase it, now that you are increasing focus on this business?

Rakesh Bamzai: Yes, we have a focus on increasing the marketing team force, we today as we stand, we have 464 people across all the divisions, which is diabetology, nephrology, and oncology divisions, and this we are going to increase because we are putting more focus on cardiology as a new division, by adding another 200 people.

Abhay Shanbhag: So from 464, it goes up 664 or so in about one or two years.

Rakesh Bamzai: No, within a year's time.

Abhay Shanbhag: And what's the product basket, is it about 15 - 20 products now, or is it much more than that, in the domestic business?

Rakesh Bamzai: Yes, see each division has different products, all together there are may be 30-35 products.

Abhay Shanbhag: Okay. One last question on the CAPEX, what sort of CAPEX numbers do we see going forward?

Murali Krishnan: It's in the region of about Rs. 125 crore to Rs. 150 crore, of which the majority of CAPEX is going to building a new R&D division or a building.

Abhay Shanbhag: And this is in the next fiscal, which is FY09?

Murali Krishnan: FY09 with a spill over to FY10.

Abhay Shanbhag: Okay, so next 15 months you are looking at almost Rs. 125 crore to Rs. 150 crore.

Murali Krishnan: That's right.

Abhay Shanbhag: And AxiCorp, the entire 30 million Euro will be paid off once the deal is done in a month or so?

Murali Krishnan: Yes, that's right.

Abhay Shanbhag: Okay fine. Thanks a lot Sir.

Moderator: Our next question comes from Mr. Ankur Ranjan of Mata Securities.

Ankur Ranjan: Is the company planning for investment in nanotechnologies and its application into biotechnological field?

Kiran Mazumdar-Shaw: Well, nanotechnology is certainly a technology that we are looking at for formulation purposes, so we are certainly going to look at that; Also as you know we have in-licensed Abraxane, which is based on nanotechnology.

Ankur Ranjan: And one more question, most of the Indian pharma companies focus on bioavailability and bio-equivalent tests rather than novel drug discovery, so what is your say on that?

Kiran Mazumdar-Shaw: See, bio-equivalents and bioavailability is for generic small molecules. When you are trying to deliver bio-similars, you cannot do that. You have to do very extensive product characterization and clinical development; pre- clinical and human clinical trials. So those are completely two tracks and very different tracks.

Ankur Ranjan: But India lags far behind in this novel drug discovery.

Kiran Mazumdar-Shaw: Yes, the novel drug discovery is very different. That's a third track. The third track is that you have to do a lot of pre-clinical, Phase I, Phase II, Phase III, so that's a third track. You are absolutely right. India has a shortage of these capabilities, but companies like ours are doing some of this work in India, some of this work outside India.

Ankur Ranjan: Okay. Thank you Ma'am.

Moderator: Our next question comes from Mr. Nimesh of Mehta Partners.

Nimesh Mehta: Yes hi, good afternoon and congrats for a good set of numbers. My first question is related to the Tacrolimus opportunity that we have, have we been able to book any API sales for Tacrolimus as the product has gone off patent in the US market?

Rakesh Bamzai: Tacrolimus is part of our immunosuppressant basket, Nimesh. And we have booked pretty decent sales, and going forward we will book more sales in the year to come.

Nimesh Mehta: And this sale that you have booked, is it related to the US opportunity?

Rakesh Bamzai: Yes, it is US based.

Nimesh Mehta: I see. Any idea of how big the market would be, because I understand there will not be too many players for supplying API as well as Tacrolimus to the US

Rakesh Bamzai: Tacrolimus will be a big product for Biocon, and the market opportunity is decent, because not many Companies produce the Product that can meet the specification. So we are uniquely positioned to get a value out of Tacrolimus business out of the US products getting off-patent after June 2008.

Nimesh Mehta: Okay. We have not seen any ANDA approvals on Tacrolimus so far, so this does not seem like the launch quantity in sales.

Rakesh Bamzai: You will see some in the month of May.

Nimesh Mehta: I see. Okay and how many companies do you supply to?

Rakesh Bamzai: That's confidential, I can tell you we have like in the other molecules that Biocon manufactures, we are targeting an aggressive market share and we have a pretty decent number of customers in the US.

Nimesh Mehta: My second question is actually on the licensing income. We have had almost 6 or 7 quarters of reporting licensing income. How far are we likely to receive this cash flow? My understanding is that you would have been by now, been able to register the products in most of the markets that we are targeting.

Kiran Mazumdar-Shaw: Well, we are expecting to see how we can keep maintaining this steady stream of licensing incomes, because these licensing incomes are really coming from large number of programs and products. So we will continue to do the same this year also.

Nimesh Mehta: This is not only related to insulin, dossier filing?

Kiran Mazumdar-Shaw: No. This has got a lot of other programs. Basically these are not huge numbers; the real huge value will come when we license some of our novel programs.

Nimesh Mehta: Okay, these may not be huge numbers on the top line, but bottom line definitely…

Kiran Mazumdar-Shaw: Yes, so it's a very interesting, that's why we have focused so much on making sure that we keep on getting these kind of licensing opportunities.

Nimesh Mehta: Okay and my final question actually is related to the ramp up in expenses. What is the outlook on those R&D expenses, SG&A expenses for FY09, FY10?

Kiran Mazumdar-Shaw: See the R&D is always something that you need to do because you want to basically move up the value chain. And of course there is a risk element associated with it. Now obviously most companies who invest in R&D are very confident that they can generate some value out of those investments, and that's how we feel. But we also realize that these R&D investments are not like other investments, they could either give you a huge upside or you might suddenly find that you made a big mistake. So that is why I think we are very committed to investing in this kind of novel drug programs, but at the same time we are not going over board, Although you can see that it in terms of percentage it is large, in terms of real investment its not going to collapse the company. So that's the way we look at investing in these kinds of programs. But we feel that these opportunities could be very large.

Nimesh Mehta: And any take on the SG&A expenses, now that we are likely to see more and more…

Murali Krishnan: SG&A it will be in line with the business that's growing. So its not going to be proportionately different compared to the business growth. Like the R&D expenses.

Nimesh Mehta: Okay, so it will now more or less be in proportion with the growth in business?

Murali Krishnan: Yes, more or less.

Nimesh Mehta: Okay, thanks a lot.

Moderator: Next question comes from Mr. Sachin Kasera of Pinc Research.

Sachin Kasera: Hi Ma'am, two to three questions. One, if you could give a break-up of Rs. 34 crore of other income for the full year, between licensing income, the treasury income, and income from the sale of enzyme business?

Murali Krishnan: Okay. There is no licensing income in Rs. 36 crore. The treasury income is about Rs. 14 crore. And balance has come from Novozyme, consequent to having accomplished certain milestones.

Sachin Kasera: So how much is the licensing income in the current year?

Murali Krishnan: Rs. 45 crore that is added in the biopharmaceutical business.

Sachin Kasera: Compared to last year some Rs. 25 crore?

Murali Krishnan: Last year was Rs. 27 crore.

Sachin Kasera: Secondly for the contract research business, last quarter has seen just a 10% growth compared to the full year 29%, would you like to make some comments on that?

Kiran Mazumdar-Shaw: Well, I think basically this business has really invested more in ramping up, and that's why you are not seeing that growth in the last quarter. And it's like getting ready for the growth ahead. So you are likely to only see that growth coming in the next quarter onwards.

Sachin Kasera: But the type of visibility we are seeing, can we maintain the type of growth that we have seen in FY08, in the contract research business?

Kiran Mazumdar-Shaw: Yes, I definitely think we are trying to make sure that this kind of growth can be sustained.

Sachin Kasera: Okay and you mentioned the figure for CAPEX for FY09 as Rs. 125 to Rs. 150 crore. That is including the contract research business, or it is only for biopharmaceuticals?

Kiran Mazumdar-Shaw: Only biopharma.

Sachin Kasera: How much would it be additionally for the contract research business?

Murali Krishnan: That we have already mentioned, over the last two years, that is last year and this year, we would be spending about Rs. 275 crore to put up all the facilities for BMS and other businesses for contract research.

Sachin Kasera: Okay. But anything specifically for FY08, what could be figure for contract research?

Murali Krishnan: The total for the two years, it's about Rs. 275 crore.

Sachin Kasera: Okay. And what is the updates regarding the separate listing of the contract research business plan?

Kiran Mazumdar-Shaw: Yes, we are on track for that. We are watching the market sentiments and how the markets perform to take a call on the timing. But we are basically on track to see how we can do that this fiscal.

Sachin Kasera: Okay, but are we also looking at an option where we could get some sort of a private equity if not a full listing, or if and when we go ahead it will only be a full fledged listing?

Kiran Mazumdar-Shaw: We have not really addressed all these nuances, but basically we are just looking at a straight listing.

Sachin Kasera: And could you just give the profit numbers for the contract business for the current year?

Murali Krishnan: Profit number for both put together, it's about Rs. 35 crore.

Sachin Kasera: Okay, thank you very much.

Moderator: Our next question comes from Mr. Vishal Jajoo of Centrum Broking.

Vishal Jajoo: My question was, year-on-year we have seen a growth of 10% in the total income, but if we try and correlate the material and power cost, they have remained more or less the same, around Rs. 513 crore for FY07 and FY08. Any specific reason why there has been no significant increase?

Murali Krishnan: That's right. We have put in certain measures especially in the power and utilities by shifting to bought out power instead of self generated power. Further savings will accrue in FY09.

Vishal Jajoo: Okay any specific reason for the increased depreciation of Rs. 27 crore this year?

Murali Krishnan: That's for all the additions that have happened in the contract research business and the Biopharmaceutical business.

Vishal Jajoo: Okay and year-on-year there is a reduction being seen in the taxes, what is the effective tax rate?

MB Chinappa: See, right now the effective tax rate is 5-6%.

Vishal Jajoo: Going ahead we expect to maintain it at the same levels?

MB Chinappa: At least for the next two years we don't see the tax rates going up.

Kiran Mazumdar-Shaw: Because we have a number of SEZ benefits as well as EOU. And EOU has been extended by one year.

Vishal Jajoo: Total secured loans and unsecured loans for this year are Rs. 255 crore, and the interest that we have paid against them is around Rs. 10 crore. So the funding cost is around 4% only on the total amount, secured plus unsecured?

MB Chinappa: Yes. We have got an unsecured loan which is interest free at about Rs. 60 crore. The rest of it is at 5% p.a..

Vishal Jajoo: And any guidance with regard to the total income for the next year, like this year we have witnessed an increase of 10% in the total income, so going ahead what kind of guidance can we expect in terms of increase in the total income?

Kiran Mazumdar-Shaw: See, we don't give guidance, but certainly our aim is to definitely achieve double digit growth.

Vishal Jajoo: And the PAT margins, like in FY06 the margins were around 21% and then we saw a reduction in FY07 to 19.6%, and this year again we have come up with 20.6%. So going ahead, we will stick to this 20%, 21%?

Kiran Mazumdar-Shaw: Well that is the aim.

Vishal Jajoo: Okay, thank you.

Moderator: Our next question comes from Ms. Monica Joshi of Avendus Capital.

Monica Joshi: Actually my questions have been answered. Thank you very much.

Moderator: Next question comes from Ms. Charulata Gaidhani of Almonds Global.

Charulata Gaidhani: Congratulations on the set of good numbers. I wanted to know about the CAPEX program. Are you planning any expansion in capacities?

Kiran Mazumdar-Shaw: Not really. There is no capacity expansion; most of the CAPEX that is being planned is really for R&D. We need to invest in setting up dedicated R&D facility.

Charulata Gaidhani: Okay, where?

Kiran Mazumdar-Shaw: Right here in the SEZ.

Charulata Gaidhani: Okay. And are you planning for any acquisitions?

Kiran Mazumdar-Shaw: Well we are looking at acquisitions because we want to increase our global footprint both in Biocon's business as well as in terms of Syngene and Clinigene business. So we will be looking at acquisitions and when we catch the right opportunity, like we did in AxiCorp, we will definitely take a call on that.

Charulata Gaidhani: Okay. And you mentioned that you are registering insulin in 80 countries, how many of these approvals do you expect in FY09?

Rakesh Bamzai: See, we can't tell you the exact number because these are regulatory approvals based on regulatory agencies, but we estimate around 10 to 15 will come this year.

Charulata Gaidhani: Okay. Thank you.

Moderator: Our next question comes from Mr. Harish, an individual investor.

Harish: Thank you very much for taking my question. First of all I wanted to congratulate the entire board for taking the decision on the bonus.

Kiran Mazumdar-Shaw: Thank you.

Harish: I think that's a great decision that reiterates the commitment of the company. Thank you very much for that.

Kiran Mazumdar-Shaw: You are welcome.

Harish: I have a few questions. The first question is more related to the strategy that we plan to have on the new drug development. I was wondering that is there an option that we can consider of Biocon going the whole way on IN-105, instead of out licensing the same post Phase II because even otherwise the value of the new drug currently is not reflected in the market cap.

Kiran Mazumdar-Shaw: Yes, obviously Biocon will definitely go all the way in terms of developing IN-105 for the Indian market. But when it comes to global markets, it is just not realistic to even consider that. Because we don't have the bandwidth to do justice to such a product, which has a multibillion dollar potential without having a very strong marketing setup, which only big pharma has. So it's very difficult for us to only go it down the development path all on our own, and the cost of doing clinical trials for such a product, if you want global market access, it's going to be huge, and I don't think Biocon can afford to take that kind of risk. So we will do it for our market, which is really India and maybe some other limited markets, but certainly not for global markets.

Harish: Okay. Can you give us an indication of the top and bottom line impact of the AxiCorp acquisition and also when this will get reflected in the consolidated numbers?

Kiran Mazumdar-Shaw: AxiCorp has been acquired totally out of our internal accruals and in terms of top line, AxiCorp, when we acquired it had a top line of about 75 million Euros and a small bottom line, so actually the reason as you know, we are buying AxiCorp is because we believe that it will allow us good market access in Germany and other parts of Europe, and these numbers will start getting reflected from this fiscal itself.

Harish: Okay. There was a news item which was subsequently denied about the huge investment being planned in a US distribution company and we have also spent roughly about Rs. 200 crore on the AxiCorp deal. Now Biocon, as I understand is essentially a company which wants to be a R&D driven new drug company in the future, so does the numbers really warrant making such huge investments, I mean, do we see such a good reduction in the marketing and distribution expenses, which commensurate to the amount that we are investing?

Murali Krishnan: Okay, just to answer that, out of the 30 million Euros investment in AxiCorp, only about 16 million Euros is going to be in cash, the rest is going to be in the form of the technology licensing.

Kiran Mazumdar-Shaw: I think it's very important for us to look at the future in terms of where we see ourselves. We have to definitely look at how do we build a global branding and the only way we can do it is to be in those markets. I think we have been very, very judicious in terms of how we have gone about acquiring a company like AxiCorp, because if you look at the kind of price that we have actually paid in terms of hard cash, it's a very attractive acquisition and we believe that with the kind of capability that AxiCorp has, it will provide huge capabilities and value for us to market our own insulin in Germany and the European markets. This is why we acquired AxiCorp and that's why after a lot of opportunities that was made known to us, we decided to choose AxiCorp because of their capabilities in understanding the insulin business. We will look at similar acquisitions in other areas based on how good a fit they are with us and if you look at the kind of amount that we are spending on AxiCorp, we have spent about say, roughly Rs. 95 crore in terms of the acquisition amount and the R&D investment if you look at it, is about Rs. 70 crore and if you look at even CAPEX, its about Rs. 70 crore. So, if you look at all that, I think it's a very healthy way of protecting ourselves in terms of what we are doing with R&D.

Harish: Thank you very much.

Moderator: Our next question comes from Mr. Bhavin Shah of Dolat Capital.

Bhavin Shah: Good afternoon everyone. Congrats on the good set of numbers. Ma'am, this should take a couple of questions on the biopharma space, so when are we expected to launch Abraxane?

Rakesh Bamzai: We have received all the necessary approvals for launching Abraxane in our territories. We are launching the product in India in the month of June and we are looking to launch this product in the Middle-east, three months after that.

Bhavin Shah: Okay, would it be feasible to ask you, what would be the size of BIOMAb as of today?

Rakesh Bamzai: I am sorry, because of confidential reasons cannot disclose

Kiran Mazumdar-Shaw: All we can say is that there are more than 1,000 patients who have been exposed to BIOMAb.

Bhavin Shah: Alright, that's good news Ma'am and if I could get a sense of the turnover breakup for Syngene and Clinigene, please?

Murali Krishnan: Yes, Syngene is Rs. 158 crore for the year and Clinigene is Rs. 18 crore.

Bhavin Shah: The profitability for both of them?

Murali Krishnan: Rs. 35 crore.

Bhavin Shah: Just a question on the CRO space, we have done a couple of investments there, particularly to the BMS contract, when do we see that fructifying, would it be 2009?

Kiran Mazumdar-Shaw: Yes 2009, that's right, from second half.

Bhavin Shah: And just to get a fair understanding on the acquisition that we have done, on AxiCorp, when do you see the real benefits coming across to you all, given the fact that perhaps the biosimilar space would open up in a couple of years, if some kind of a guidance has been there?

Kiran Mazumdar-Shaw: Yes, two years, I think.

Bhavin Shah: Fine, thank you so much.

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

Sameer Baisiwala: Jus a clarification, I was under the impression that Tacrolimus loses patent expiry in US in April and not June what you said?

Rakesh Bamzai: Yes, we have two thoughts about it, as far as the approvals are concerned, which, people have not yet received final approvals, there are few people still in the pipeline for approvals, but patent is expiring in June and approvals will come by May.

Sameer Baisiwala: So, it's not April patent expiry in generic norms?

Rakesh Bamzai: We have this information from our IP department, but it is June when we are launching the product.

Sameer Baisiwala: Okay, under both circumstances I would have expected a major launch of quantity off take to have had happened in the March quarter, because it takes some time to inventory build up and manufacturing?

Rakesh Bamzai: Yes, we have registered launch quantities which are small. as Customers prepare for the launch. And just to clarify, Statins is a huge volume business, it is tons, whereas Tacrolimus is 1 mg capsule, so the quantities will not go in tons, it will be in kilos.

Sameer Baisiwala: Sure, but the price is high as well?

Rakesh Bamzai: Sure.

Sameer Baisiwala: But, Rakesh, just on this note, if I compare December quarter, Biopharma revenues, excluding the technology licensing income with this March quarter, then there is a differential of roughly about Rs. 15 crore, so Rs. 15 crore differential between the two quarters accounts for the entire Tacrolimus launch quantity plus whatever your Biopharma business is growing at, is that a fair comment?

Rakesh Bamzai: True.

Sameer Baisiwala: Okay, so we should see the potential of Tacrolimus in this context?

Rakesh Bamzai: Yes, this quarter and next quarter you will good Tacrolimus sales coming across.

Sameer Baisiwala: Okay and on IN-105 and also T1h, if I heard you correctly, you said the licensing would be done in 12 to 18 months time frame?

Kiran Mazumdar-Shaw: Yes, that's right, because we have to generate phase IIb data as a proof of concept before you can really get some good value out of those programs.

Sameer Baisiwala: Okay and this is a little different from what you had said earlier, which was probably middle of this fiscal or something like that?

Kiran Mazumdar-Shaw: No, we had said this fiscal, I don't remember whether I said middle of this fiscal, but we have had some regulatory delays to do some of these trials. I think, we are finding that, like someone just commented, I think India is really just not such a great place to do some of these novel drug development programs and this has slowed down some of the programs, but we are now on track. I mean, we were supposed to start the IIa trial at least three months ahead and we have only recently started it, so I think there has been some inherent delays, but I think we are well on track and that's why I said, 12 months now that all the approvals have come, we feel that it will be in 12 months.

Sameer Baisiwala: Okay, excellent and can you finally share some details, what kind of patient population are you looking at for current phase IIa and phase IIb?

Kiran Mazumdar-Shaw: Sure, in IN-105, we are doing a open label multi centric trials, which is really looking at type-II diabetics who don't have good glycemic control under metformin condition, so we are actually looking at treating these with IN-105, but this is a study that really has to just look at those and sort of PK Pharmaco Dynamic kind of studies. So, we are looking at PKPD kind of studies at the phase IIa level and this is really to establish the optimal dose level, which will then allow us to do the phase IIb trial. And the phase IIb trial again will be done on type-II diabetics with poor glycemic control, with patients who are just on metformin and there we will have the sort of the extended chronic use trials, which will then look at Hb, A1c levels and other glucose control factors.

Sameer Baisiwala: What kind of patient population would you be looking at phase IIb?

Kiran Mazumdar-Shaw: Phase IIb is also going to be done in India, type-II diabetics.

Sameer Baisiwala: Okay, Kiran, a lot of other Indian companies do initial phase I, phase IIa outside India, because otherwise there is a lot of replication of work, once it is going to get outlicensed, is there any such plan that you would be looking at?

Kiran Mazumdar-Shaw: Well, you know, one part of our phase I trial, we have done it abroad. We have done a CRAM study in Sweden, which is still on going and then we have decided to do IIa, IIb in India and then, therefore when it comes to the phase III trials, that's when we need to do it as a global trial. May be, Harish, you might want to comment on this.

Harish Iyer: I just want to add that the data we are getting from our phase I trials, we are confident that we can go to regulated markets with this. We are confident that our phase I trials

are all ICH compliant and we are confident that we can use the data to file an IND in the US or CTA/IMPD in Europe.

Sameer Baisiwala: That's fine, IND filing is one thing, but would you not be required to do Phase I and Phase II again or some bridging studies of what you are doing right now?

Harish Iyer: No, we don't believe we will be required to do that, these are PK studies and we believe the data are well validated, there won't be any difference in PK between populations of India and outside India.

Sameer Baisiwala: So, you would start straight Phase III for regulatory markets?

Harish Iyer: From Phase II, this is what our plan is right now, of course we need to get advise from the regulators, but we might do some Phase II, see Phase II could be done in many different populations, the first population we plan to do it in people who are on metformin and inadequately controlled, but in diabetes there are many, many classes of people who could be just on basal insulin plus OAD's or on multiple OAD's, so we will have to do trials separately in different segments. Some of those trials could be done outside as part of our bridging strategy.

Kiran Mazumdar-Shaw: And one of the things is that, you have to also be very smart about doing these trials, because when you look at standard of care in different countries, it doesn't allow you to do certain types of trials which might give you the kind of information you are looking for.

Sameer Baisiwala: Okay and Kiran, if you can share some update on GCSF and insulin regulatory process for the European market, where are we in terms of clinicals and what are the milestones you are looking at?

Kiran Mazumdar-Shaw: See, GCSF has been licensed to Abraxis BioScience as you know, and they are already underway in terms of getting this under clinical development. As far as insulin is concerned, we are also well underway in terms of going about our own program, we have had a consultation with the regulatory agency in Europe and we have a good understanding now of what it takes.

Sameer Baisiwala: Okay, so you will be looking at commencing your clinical trials for insulin sometime soon?

Kiran Mazumdar-Shaw: Very soon, yes.

Sameer Baisiwala: Okay and we are looking at regulatory dossier submission around, what, this calendar or next calendar?

Kiran Mazumdar-Shaw: No, it will probably be next calendar.

Sameer Baisiwala: Okay, Kiran, just one last question, I mean, one of the news channel was showing that Biocon management has given a guidance of 20% sales growth and 13% to 15% profit growth.

Kiran Mazumdar-Shaw: No, that's not at all properly said, its misquoted, all we said is, we are going to sustain current levels.

Sameer Baisiwala: Okay, thank you very much.

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

Nitin Agarwal: Hi, good afternoon everyone. Just couple of questions, one is on the Middle-east business, can you just throw some light, how the business has been progressing over there in terms of the outlook you see for that geography?

Rakesh Bamzai: Yes. We have set up a marketing company called Neo-Biocon in the Middle-east. This Neo-Biocon is a joint venture between us and Dr. Shetty's Research Laboratories, called Neopharma and we are right now in a process of registering our products in that territory. We have established this company around 8 to 10 months back and by the end of this year, we will have all approvals in place and we are starting our marketing in that territory by end of this year, so we are going to do brand building exercise in the Middle-east and you will see good revenues coming end of this financial year or beginning of next fiscal.

Nitin Agarwal: Okay great and secondly what was the R&D cost or the revenue or account we booked for this year?

Murali Krishnan: This year it is Rs. 46 crore.

Nitin Agarwal: And how much was it last year?

Murali Krishnan: Last year it was Rs. 38 crore.

Nitin Agarwal: Okay and Murali, has there been a sharp drop in the profitability for the Syngene, Clinigene business for the current year?

Kiran Mazumdar-Shaw: That's exactly what I said in my opening comment and I think I have reflected, I mean, I basically explained that by saying that we have had to expend a lot in terms of ramping up, so we have had to actually ramp up for some of the sales that we expect in the current fiscal. Like, we have setup a biologics facility, which of course where we have had to sort of staff it and those carrying cost of the biological facility also have been quite high. We have also had to ramp up the synthesis business, the chemistry business, so all that has entailed a lot of investments and expenditure.

Nitin Agarwal: Murali, I couldn't get the number, what is the profit number for these subsidiaries for the current year?

Murali Krishnan: Totally Rs. 35 crore.

Nitin Agarwal: Which was about Rs. 50 crore last year, right?

Murali Krishnan: Yes, Rs. 49 crore.

Nitin Agarwal: And the Biopharma business, what would have been the profit contribution?

Murali Krishnan: The JV business, it is (-) Rs. 7 crore, that's 51%. Totally it is about (-) Rs. 13 and odd crore, so (-) Rs. 7 crore balance is ours.

Nitin Agarwal: Okay fine, thank you very much.

Moderator: We have a followup question from Mr. Sachin Kasera of Pinc Research.

Sachin Kasera: Yes Ma'am, just one small question regarding the investments, the balance sheet shows the figure as Rs. 466 crore, if you could give this breakup between what is the investment in subsidiaries versus the cash and cash equivalent?

MB Chinappa: The investment in subsidiaries is minimal at about Rs. 38 crore. All the rest is represented by liquid securities.

Sachin Kasera: So, approximately around Rs. 428 crore is cash and cash equivalent?

MB Chinappa: That's right.

Sachin Kasera: Okay, and secondly, these loans and advances have almost doubled from Rs. 53 crore to Rs. 97 crore Y-o-Y, any specific reason, is it towards some acquisition that we have paid?

MB Chinappa: I need to get back to you on that.

Sachin Kasera: Okay and if you could give some sense in terms of how have the Indian formulation businesses progressed during the year?

Rakesh Bamzai: We have done very well with the formulated type of business, the branded business. We have grown by more than 100% and we have similar type of projections for next year.

Sachin Kasera: Could you give some sense in terms of the type of numbers we have done for the Indian formulation business this year?

Rakesh Bamzai: See, we haven't given numbers to any body, but right now they are just below 100 crore.

Sachin Kasera: Okay and are we breaking even with either the EBITDA or the net level in this business right now?

Rakesh Bamzai: Yes, we are profitable.

Sachin Kasera: Okay, so, which means you are talking of almost 100% growth next year, so next year the profitability could be substantial from the Indian formulation business?

Rakesh Bamzai: Yes.

Sachin Kasera: Okay, thanks.

Moderator: We have a followup question from Mr. Nimesh Mehta of Mehta Partners.

Nimesh Mehta: Yes hi, just a followup question on the oral insulin program, I understand and correct me if I am not getting it correctly, that bioavailability would be a big issue as far as the oral insulin is concerned, if that is the case, can you share some color on what is the bioavailability comparison as against the injectable insulin?

Harish Iyer: Bioavailability for this molecule is hard to compare against injected insulin, because bioavailability means different things at different sites of the body. Since diabetes is primarily a disease of the liver, the bioavailability at the liver is going to be significantly higher than injectable insulin, so that's the good news. But, if you want to compare just what's available, the serum, the number is small, its probably in the range of 5% to 10% bioavailability. But I think that what we need to look at is that oral insulin has delivered in a physiologically, similar to how natural physiology of the body works and we think that this is going to have great benefits and there are several studies that show that delivering insulin by this route in animal model and some in type-I diabetics have tremendous benefits towards the body in all aspects of cardiovascular disease.

Nimesh Mehta: So, is bioavailability a major issue or it is not the…

Harish Iyer: We don't think it will be a major issue.

Nimesh Mehta: In general for any oral insulin program, that is not a big issue, I assume that there are so many oral insulin programs which have failed and those are not largely because of bioavailability, is it correct?

Harish Iyer: Those, I think, partly because the trials were not designed correctly. They didn't look at the right doses and we believe we are looking at the right doses and we should see, and are able to manufacture drug cheap enough to afford the right doses.

Nimesh Mehta: Right sir okay. You are not giving breakup by product line, but can you give geographical breakup for FY08?

Kiran Mazumdar-Shaw: Yes, geographical breakup is that we have got it quite nicely divided between Europe, US and Rest of the World, one third, one third, one third and in Rest of the World it includes India.

Nimesh Mehta: Okay, thanks a lot.

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

Bhavin Shah: Thanks for taking my question again. Of the Rs. 275 crore that we had intended to spend in the R&D, how much have we spent in 2008?

MB Chinappa: About Rs. 150 crore has already been spent.

Bhavin Shah: Right sir, thanks.

Moderator: We have a followup question from Mr. Ankur Ranjan of Mata Securities.

Ankur Ranjan: First of all thank you very much for taking my question once again. What are the competitive advantages of your insulin formulation over the formulation of other global pharmaceutical giants like Novo Nordisk and Eli Lily, who are the market leaders in the diabetic therapy?

Harish Iyer: Our insulin is expected to perform identically to the leading marketed insulins and we believe it should be switchable between our formulation and their formulation.

Ankur Ranjan: And sir is your company facing tough competition from these global pharmaceutical giants?

Rakesh Bamzai: See, I take this question in a different way, like competition is a reality of life. Tell me the area where there is no competition?

Ankur Ranjan: Yes sir, I do agree by your statement

Rakesh Bamzai: So, we will be competing with the companies like Novo and Lily, who are very, very strong globally, but we have strategies in place to face it and do well in the markets where they are operating.

Ankur Ranjan: Thank you.

Moderator: Next followup question comes from Mr. Nitin Agarwal of IDFC.

Nitin Agarwal: Hi, we have been talking a lot about the initiative that the company has been taking and the investments that the company is making, I mean, when you look out, look ahead in terms of, when do you see, in terms of, if you can get some sense on a particular phase or period in time, when you see some of these investments that actually will probably start coming together, you see FY09 being that year, second half FY09, FY10 or probably some more time out?

Kiran Mazumdar-Shaw: I think, I already mentioned, AxiCorp will start reflecting in our bottom line in two years time and hopefully our foray into the biosimilar space through AxiCorp will generate very large upsides for us and equally if you look at some of the other investments that we have made, like for instance IATRICA, this is another investment we have made in extending our discovery pipeline, again we believe that in the next three to four years we will see some good licensable program from there as well and of course the ones that we have already invested in like IN-105 and T1h, these I already mentioned is in a year or year and a half, we should start seeing some value being delivered from these investments. So, I think, the general sense is that all these investments, we believe will start delivering short, medium and long term returns.

Nitin Agarwal: Okay, great, thanks, best of luck.

Moderator: We have a followup question from Mr. Nimesh Mehta of Mehta Partners.

Nimesh Mehta: Yes, thanks for taking my other question. I just wanted to clarify one thing; you mentioned that the sales breakup in geography is one third, one third, one third between US, Europe and Rest of the World. In US and Europe, do we sell anything besides statins and if no, then statins by this equation becomes two third of your total sale, so, I may be missing out something…

Rakesh Bamzai: See, when we told you around 33% in the US. –By US we mean US, Mexico and Canada. Europe is Europe, EU and other European countries and ROW is India and other countries. Now, we sell statins, Immunosuppressants, research services as well as other products in these countries and when we put our revenues all together and this split is in the form that we have mentioned to you.

Nimesh Mehta: So, this includes the contract research services also, I mean, that is allocated to US, Europe?

Rakesh Bamzai: Yes.

Nimesh Mehta: Right, okay, thanks a lot?

Moderator: We have a followup question from Mr. Sachin Kasera of Pinc Research.

Sachin Kasera: Just one question regarding the progress on the Vizag SEZ, if you could just give an update on that?

Kiran Mazumdar-Shaw: No, its not much progress, we are just in the process of acquiring it and signing up, but not much progress in terms on the land as such.

Sachin Kasera: Okay, but at least the land acquisition is through, ma'am or it is still under progress?

Kiran Mazumdar-Shaw: We paid the large part of the money and it's just a question of finalizing, the final signing.

Sachin Kasera: How much would you have spent on Vizag till date?

Murali Krishnan: It's about Rs. 13 crore.

Sachin Kasera: Okay, thank you.

Moderator: Dear participants, please press * and 1 for your questions. Next question comes from Mr. Amish Kanani of JM Financials.

Amish Kanani: Yes, hi, this is Ramesh from JM Financials. Just wanted to understand since research services, you say it is actually lower on PAT numbers whereas the growth on the top line has significantly gone up. And you are looking at BMS contract actually contributing substantially in the second half of this fiscal, if you can just give us some guidance on how do you see the profitability panning out, where this year has been low because of the investments that you mentioned. Can we expect this year, which is FY09 being substantially better than say FY08 and will it be say even better in terms of profitability, in terms of EBITDA margins, it is better than FY07, if you can give some color on that?

MB Chinappa: Yes, actually this year while we have grown the services business, a large part of the profits disappeared in the rupee appreciation or the dollar depreciation, whichever way you look at it, but in the coming years as we ramp up, I guess from these levels we will obviously see a increase in the expansion of both the margins and PAT.

Amish Kanani: Okay, so, is it fair to expect that it will go back to the FY07 level or it may not be as profitable because of the INR strength?

MB Chinappa: It should be back at 2007 levels and then grow from there.

Amish Kanani: Okay, thanks.

Moderator: Next question comes from Mr. Basavraj Shetti of Centum Broking.

Basavraj Shetti: Hi, you said the AxiCorp business is a low margin business and it is going to add significantly, say next two years onwards, so during these two years, do you think there would be EPS dilution because of consolidation of AxiCorp? I think there could be a significant EPS rise?

MB Chinappa: No, we do not really see an EPS dilution because we are not diluting capital for AxiCorp. ?

Kiran Mazumdar-Shaw: There is no offer of shares; this is straight cash out deal.

Basavraj Shetti: Right, and next question is, you said this BIOMAb sales is around Rs. 20 crore or so in your previous quarters and it is growing at a healthy rate, so despite that there is loss through this JV, so when can we expect the profitability?

Kiran Mazumdar-Shaw: The JV is a different reason, because the JV has had a huge investment.

MB Chinappa: See the JV will really start generating profits once we start supplying material into the global markets or when our sales of BIOMAb go above Rs. 50 crore. The manufacturing facility is built to address large scale manufacturing for global market. So, once our partners get approval overseas, the JV Co. will revert to profitability.

Basavraj Shetti: Okay, Rs. 50 crore is the threshold, what you are saying?

MB Chinappa: Yes, about USD 10 million plus.

Basavraj Shetti: Okay, one clarification, I think licensing income of around 45 crore has been included in Biopharma, right?

MB Chinappa: That's right.

Basavraj Shetti: Okay, fine, thank you.

Moderator: There are no further questions. Now I hand over the floor to Ms. Kiran Mazumdar-Shaw for closing comments.

JMM Shaw: Right, well, thank you very much everyone for attending this conference call and we look forward to speaking to you all next quarter.

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