



BIOCON LIMITED

Q4/FY2009 Analyst / Investor Earnings Conference Call 28th April 2009, 3:00 PM IST

Mansi Parekh: Good afternoon all and thank you all for joining us on Biocon Limited's full year FY2009 results earnings 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. I would like to invite Ms. Kiran Mazumdar-Shaw to briefly discuss the company's performance for the full year ended 31st March 2009. Over to you ma'am.

Kiran Mazumdar-Shaw: Thank you Mansi and good afternoon everyone. Welcome to this analysts conference call where I am very pleased to share with you Biocon's consolidated statement of accounts for the year ended 31st March 2009. Let me say that we as a management are extremely satisfied with our performance at an operational level where we have delivered a 16% improvement in EBITDA and a profit after tax of Rs.240 crore (excluding MTM). Total revenues of Rs.1,673 crore is a 53% increase from previous year's revenues. Now having said that, I would like to add that a large part of this revenue has been contributed by our German acquisition of AxiCorp, where AxiCorp itself has contributed almost 29% to the top line. The operating margin is 31% excluding AxiCorp, and 23 % including AxiCorp. Here I would like to stress upon the fact that AxiCorp is a top line business at this point in time. AxiCorp is a business that will only start contributing to margin growth when our insulin business enters into the European markets (first in Germany) and we have always been prepared to see this impact on margins in the interim.

Now coming to AxiCorp's business, again AxiCorp has delivered a good growth trajectory and it is important to note that AxiCorp has just won the AOK tender for Metformin. Now this is a very important milestone for us because winning the Metformin contract means that we actually start announcing our foray or our presence in the German generics market. But additionally it is of strategic importance to us because it also lays the foundation for our diabetes franchise in Germany, where we expect our insulin to enter this market in the next two years, which of course then gets us a very good in-road in the diabetes space – thanks to metformin.

Coming to the other parts of our financials, MTM has caused the biggest impact this year, where we have had to provide for Rs. 147 crore on account of MTM losses. And this means that our PAT has been impacted from a pre MTM profit of Rs. 240 crore to a post MTM profit of Rs. 93 crore. Now, having said that I think what is an important is the fact that we have had a very strong learning from this particular experience of incurring such high MTM losses, where we have unfortunately been caught with a sub-optimal approach to foreign exchange hedging, which we did last year where we took a call on covering the Dollar at a fixed price. And going forward what we have decided to do is to really desist from doing this. We have stemmed all the MTM losses and taken the full hit this year, without deferring the same or taking it to reserves. Going forward we will not take any further MTM hit because our new hedging strategy is about taking an insurance on a Dollar value where we are protected at 50 Rupees to the Dollar and able to participate in the upside if the Dollar then goes beyond 50 Rupees. So this has been a very strong learning for us.

The other aspect that I would like to share with you is that although we have closed most of the FOREX covers that we took, there is a small amount that is still parked with Syngene and you are likely to see small amounts of MTM being declared in Syngene accounts till FY 2014.

Other than that I would now like to quickly come to the services business where Syngene as you know has delivered along with Clinigene an approximate 30% sales growth. We are, of course,



very pleased that our BMS partnership has come to fruition, where the research center, which is dedicated to BMS, is now fully operational. BMS itself will be certainly one of the key drivers of growth for Syngene in the coming years, but additionally I think Syngene has some very exciting prospects in the area of integrated drug development and in the area of biologics development. And as you all know biologics is now becoming a very important part of every pharma company. The Biocon Group is especially well positioned to play an important role not only in novel programs, but also in the bio generics segment. Here the Obama administration has finally paved the way for bio-generics, and while we believe that Biocon has an extra edge over other players or other aspirants in this field is by virtue of our experience in bringing to the market novel antibody programs unlike others and where we fully understand the challenges of clinical development, the challenges of product characterization, product comparability and various other intricate aspects of this kind of very sophisticated bio-generics drug developments.

Again Biocon has a very rich pipeline of bio generics, which includes both insulins and biosimilar monoclonal antibodies, where we see that this will actually offer us a short, medium, and long term opportunity because that's how our pipeline looks at the moment. What is also important for me to announce during this call is the fact that we have received regulatory approval in India for Glargine, a very important drug for the insulin segment. This actually makes our insulin segment very comprehensive in terms of a product offering and, Glargine as a product has huge global opportunities, and we have commenced the activity for obtaining the registration in global markets.

The drug registration program for recombinant human insulin is well under way both in the US and Europe and as we said earlier, we are looking at obtaining marketing approval over the next two years. What is now also important for me to share with you is, the fact that for the coming year we are going to see increased spend in R&D and brand building, because this is where we see our future. R&D is looking at both bio generics as well as novel programs. This is a very balanced approach that we have adopted, which we believe will afford us very attractive opportunities both in terms of growth and licensing opportunities. On the brand building side, Biocon wants to see itself emerge as a strong player in the retail space where our key brands are already forging ahead and six of our brands are already in the top 10 rankings of IMS and we hope that these will make it to the top three rankings. Going ahead we want to make sure that we continue to build these brands not only in India, but for other global markets where we have various joint ventures like NeoBiocon, AxiCorp itself is expected to help us with this brand building exercise in Europe especially for our insulin.

So overall we are very optimistic about the future, the year ahead is going to be very promising because after stemming the MTM losses obviously we can only look upwards and we expect our profits to go northwards now after having dealt with this MTM. We also are very committed to developing Biocon's leadership in the Asia-Pacific region as a leading biotech enterprise and as a concluding remark I would like to state the fact that our novel programs are also making good progress, where oral insulin has entered phase 3 clinical trials, patient enrolment has begun in right earnest and several patients are already on either placebo or oral insulin. Our phase 2b trials with our T1h or antiCD6 antibody program is also making progress where patient enrolment is complete and we will now be just looking to generate the data for both these indications to enable us to then design our phase 3 clinical trials. BVX-20 another program that we are developing is also on track. We are in the pre clinical stage of development and once we look at the data, which as of now looks very promising, we will then enter into phase 1. So I would like to end there and start the Q&A session. Thank you.

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.

First question comes from Mr. Bino Pathiparampil of IIFL.

Bino Pathiparampil: Hi just one question. Comparing your results to the previous quarter that is Q3 of last year, it seems like the base business of Biocon, the margins have come down from previous quarter. Do you have any reason for that?

Murali Krishnan: Are you comparing Biocon on a standalone basis or is it on a consolidated basis?

Bino Pathiparampil: I am looking at consolidated without AxiCorp.

MB Chinnappa: There is an accounting impact because of the decrease in the overall stocks in the company and that has had a slight effect on increasing the material costs, but adjusted for the same there is little impact on margins. A build up in inventory has an effect of reducing material costs. There is a decrease in inventory in this quarter compared to an increase in the previous quarter. .

Bino Pathiparampil: So what would be a steady stage cost of goods, would it be last quarter or this quarter or somewhere in between?

MB Chinnappa: It would be in between. .

Bino Pathiparampil: Okay, right. And second question is about Metformin opportunity in Germany, could you give some guidance of how big it could be and how you would ramp up, when, etc?

Kiran Mazumdar-Shaw: It is about Rs. 100 crore for two years.

Bino Pathiparampil: Rs. 100 crore each year?

Kiran Mazumdar-Shaw: No, over two years.

Bino Pathiparampil: And that would come under AxiCorp?

Murali Krishnan: Yes.

Bino Pathiparampil: Okay and when is it starting?

Murali Krishnan: Middle of this year, June.

Bino Pathiparampil: Could you also give some guidance on the Glargine market in India?

Rakesh Bamzai: We have got the approval from DCGI. We are preparing for the launch of Basalog TM, our brand name for Glargine and you will see it in the market with doctors and patients pretty soon.

Bino Pathiparampil: what is the total Glargine market?

Rakesh Bamzai: Glargine market in India as of now is close to Rs. 50 crore, but we are looking at broader markets – how to shift patients from the conventional therapy to the use of Glargine. So we are looking at a bigger pie than Rs. 50 crore.

Bino Pathiparampil: Okay. And plain insulin if I remember is about Rs. 300 crore, right?

Rakesh Bamzai: Total insulin market is close to Rs. 450 crore.

Bino Pathiparampil: Including analogs?

Rakesh Bamzai: Yes.

Bino Pathiparampil: Okay out of which plain would be?

Rakesh Bamzai: Close to Rs. 300 crore.

Bino Pathiparampil: And Rs. 150 crore for analogs.

Rakesh Bamzai: Yes.

Bino Pathiparampil: Okay, thank you very much.

Moderator: Next question comes from Mr. Vishwa Arya of Mamta Investments.

Vishwa Arya: This is Vishwa Arya speaking. I would like to know how does the oral insulin made by Biocon compare in a double-blind crossover study with Recosulin, which is another oral insulin?

Harish Iyer: We are doing the study against metformin plus placebo, versus metformin plus IN-105, which is a tablet. We don't intend to compare it against Recosulin.

Kiran Mazumdar-Shaw: Recosulin is not oral insulin; it is buccal spray insulin and I suspect that it has been withdrawn.

Vishwa Arya: Thank you.

Moderator: Next question comes from Mr. Prakash Agarwal of Deutsche Bank.

Abhay Shanbhag: Hi, this is Abhay here, just a couple of questions. Number one, in terms of revenues for the fourth quarter, if you look at revenues and the fact that Rupee has depreciated, is there pricing pressure in the biopharma space or have volumes dropped significantly?

MB Chinnappa: Are you comparing Q3 versus Q4?

Abhay Shanbhag: When you are looking at say, across last four quarters, biopharma has been very stagnant between Rs. 200 and Rs. 220 crore despite the Rupee depreciation. So is it because of volumes is it because of prices or what is it?

Rakesh Bamzai: Our new plant was inspected very recently in the month of January and volumes and the value if you see is coming at the same levels because we are waiting for the capacity to be released and supplies of new materials from United States. And apart from that, there were new product launches, which will happen now on - like Immunosuppressants where they are going off market, there is the product patent is expiring and always it does not grow every quarter because it is regulatory based, it is based on the approval of the plants and lots of other things.

Abhay Shanbhag: No, the currency itself in a given sum, 15% growth or so, which is most evident in numbers, so is there a pricing pressure or otherwise?

MB Chinnappa: The average realization to the Dollar for the whole year has been Rs.45 and not Rs.50. Also the impact of currency movement it applies only on 60% of our sales and not on the entire sales. So the impact of exchange in FY 09 is only 6%. As biopharma sales, excluding licensing fees, have grown from Rs.787 crore to Rs. 902 crore, it has got an uplift of only 6% from the exchange rates.

Abhay Shanbhag: Okay. One more thing is, in terms of your debt, you have investments on one hand and debt on the other, your debt has also grown significantly and so has investments. Any specific reason why you are not repaying the debt from the investments?

MB Chinnappa: Basically because we maintain the loans on a company by company basis. Syngene and Biocon Biopharmaceuticals are largely carrying the loan and Biocon has surplus in investments.

Abhay Shanbhag: So what would be the sort of debt on Syngene's books?

MB Chinnappa: Roughly Rs.200 crore Syngene and about Rs. 65 crore on Biocon Biopharmaceuticals.

Abhay Shanbhag: Okay. Just one last question I had on AxiCorp. If I look at the AOK tender, every two years it will come in. So every two years you may or may not get metformin. So how are you going to link it up with your insulin as and when it comes in?

Kiran Mazumdar-Shaw: We have won an AOK tender, which allows us then to also leverage that to also create our branded metformin in other retail chains.

Abhay Shanbhag: Okay, issue again was when you supply to AOK, it is basically a generic sort of a product, particularly none of the companies are supplying to AOK are looking to be a branding, so would...

Kiran Mazumdar-Shaw: No, Abhay it all depends on what your strategy is. We are not just a plain old generics company that wants to build all generics. This is strategically important for a diabetes franchise. So if we have got one AOK that is a tender business, there is also an opportunity for us to create brands out of metformin in the retail pharmacy chain. And that's a very different strategy. So it is a generic, but it is an important part of our diabetes franchise. So if we want to do certain smart things with metformin, we can do that.

Abhay Shanbhag: Okay fine, thank you.

Moderator: Next question comes from Ms. Bhavita Nagrani of M P Advisors.

Bhavita Nagrani: Hello, good afternoon everybody. can you give me some outlook on the licensing income for the financial year '10?

Kiran Mazumdar-Shaw: We can't give you any kind of projections. We can only tell you that yes last year we have had a very low licensing income of only Rs. 12 crore and going forward we expect it to increase.

Bhavita Nagrani: And can you give me breakup of sales in Syngene and Clinigene?

Murali Krishnan: Syngene is Rs. 203 crore and Clinigene is Rs 22 crore – Rs. 22 crore is only third party revenues. Clinigene also does work for Biocon and on a standalone basis, it is Rs. 33 crore.



Bhavita Nagrani: Biocon had declared some partnership with DuPont, so can you share something about it?

Kiran Mazumdar-Shaw: Well, this is basically an alliance, a strategic partnership, which is in the area of research services for the crop protection area, where basically Syngene is integrating and supporting DuPont's discovery pipeline.

Bhavita Nagrani: Finally I would like to know when can we expect Glargine in domestic market?

Kiran Mazumdar-Shaw: In the next two months.

Bhavita Nagrani: Okay, thank you.

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

Bhavin Shah: Good afternoon everyone and congrats on the results. To begin with, on the bio generics opportunity ma'am if you could help us understand how is Biocon now placed as and when the pavement opens up in US and regulated markets. Next question I had was on various supplies that we are planning to do for the products, and Immunosuppressants going off patent?

Arun Chandavarkar: In terms of the bio generics opportunity I will speak first from what's happening in terms of the legislation over there. As you know, Europe had already issued guidelines for four biosimilar products and insulin being one of them and we are making full use of the guidelines used in Europe to proceed with the European registration. In the US, product-wise guideline has not been issued by the USFDA. In fact, our understanding of the bills that are currently introduced in both the House and the Senate, is that it is not about product based guidelines, but more about general pathway for all biosimilars and there are now as I understand two different bills that have been proposed for discussions. One in the House, one in the Senate. The one in the House is by Waxman who as you all know is billed in 1984 led to the generics industry and he has introduced a bill, which is I would say very pro generic. It calls for a five-year exclusivity, it gives opportunities of both having a biosimilar molecule as well as a switchable bio generic molecule and in fact if you can, the first to get a biogeneric classification also gets the 180-day exclusivity that is currently there for smaller molecules.

The other bill that has been introduced was the Issue Bill, I think, I am not sure whether it has lapsed, I think it has been re introduced in the new Congress that has been constituted and in the Issue Bill, I think it is a 12-year exclusivity instead of a five years and there, there is no concept of a bio generic, it is all biosimilar. So we have to wait and watch to see, which way the compromise sort of bill gets passed.

But what is heartening for us is that there are bills being introduced that President Obama is actively pushing for some sort of legislation and there's a strong lobby from the players as well as large corporations, probably you don't know that, one of the largest lobbyists in this is big companies who have very high healthcare costs, so all that we see as a very big positive for companies like Biocon. The reason we are well positioned is largely because we have progressed quite rapidly with how we are doing things in Europe. We have learnt a lot from the way we have addressed some of the guidelines for European approval and hence I feel we are well positioned to address the US opportunity because from a scientific or technical point of view, I don't think they will be very different, it will be more about the exclusivity and those kind of issues rather than the underlying science. Kiran also mentioned that our experience in developing novel programs, that is something, which is very critical because a lot of the generics companies that are entering into biosimilars come from the mindset of doing B-BA studies. They do not come from the mindset of having to do phase 1 PKPD trials or phase 3 comparability trials and very complex comparability on characterization. Since Biocon initially started work with BIOMAb antibody and now we are working on the oral insulin and other programs, we come from

a mindset where we know we have to do elaborate pre clinical studies phase 1, phase 2, phase 3 studies. So internally in terms of the skills as well as the mindset, we are equipped to deal with this opportunity much better than pure placed small molecule generics players.

Bhavin Shah: Update on the supply front of various products to go off patent.

Rakesh Bamzai: Yes, the product right now, which is going off patent on 9th of May, is Mycophenolate Mofetil and we have three big customers who have qualified us as the source and we are building up their stocks. In this quarter we could expect to commence sales.

Bhavin Shah: You are saying that most of the positive impact will come in the quarters coming forward, maybe by September onwards.

Rakesh Bamzai: Sure.

Bhavin Shah: And just a brief outlook on the Syngene front, if we could get some idea as to what could be the potential with BMS going full flow in the next year?

MB Chinnappa: In terms of revenues we expect to maintain the current pace of growth. During the last four quarters, research services has increased from Rs. 43 crore in Q1 to Rs. 53 crore Q2, Rs.61 crore in Q3, and Rs.68 crore in Q4.

Bhavin Shah: All the very best, thank you so much.

Moderator: Next question comes from Mr. Krishna Kiran of Capital Market.

Krishna Kiran: Hi, congrats for a good set of numbers. First question, ma'am is regarding the insurance of hedging of 50 Rupees or something you were telling. Can you throw some more light on it?

Kiran Mazumdar-Shaw: What we are saying is that our hedging strategy has changed. Initially we hedged at a forward rate of 41 Rupees, that was a fixed price forward cover. This resulted in a huge MTM loss of Rs.147 crore, because the Rupee today is at 50, So the direct impact of that is Rs. 9 for all the Dollar exposure that we covered. Now going forward what we are saying is instead of going for a fixed price forward cover, we have bought protection at 50 Rupees at the lower end with a right to participate in the upside. So whatever upside the Dollar gets over Rupees 50, that is, if the Dollar goes northwards we will still get to the market rates. We are not taking fixed price covers anymore.

Krishna Kiran: Ma'am last con call you were telling about entering into an option like 46 to 55, that is cancelled?

Murali Krishnan: No, there are a few zero-cost options where we have a collar between Rs.43 & Rs.49 and some options with a collar of Rs.46 & Rs.55 levels. And after that there is some more new contracts of approximately 72 million USD, where we have taken a put option at Rs. 50 per USD. We have paid a premium to buy this protection.

Krishna Kiran: What would be the premium that you pay for?

Murali Krishnan: I am not very sure if I can share it. So here for this premium, we have got a minimum floor of 50 Rupees to a Dollar and where the maximum is not capped. Thereby, if and when the Rupee depreciates against the Dollar beyond Rs.50, we realise the full value of the depreciation ,

Krishna Kiran: If Rupee-Dollar is less than Rs.50, you will be booking at Rs.50, right?

Murali Krishnan: Yes. We will receive 50 Rupees to a Dollar.

Krishna Kiran: Like you bought an AOK tender, right? What would be the amount for that?

Kiran Mazumdar-Shaw: It is valued at about Rs. 100 crore over two years.

Krishna Kiran: Ma'am what would be the R&D cost for next year?

Kiran Mazumdar-Shaw: R&D costs, right now it is Rs. 60 crore and it will actually increase to about Rs. 80 to Rs. 100 crore.

Krishna Kiran: What would be the CAPEX ma'am?

Kiran Mazumdar-Shaw: CAPEX will be around Rs. 100 crore plus levels.

Krishna Kiran: Okay ma'am, thank you..

Moderator: Next question comes from Mr. Bharath Seth of Finquest.

Bharath Seth: Hi, good afternoon to everyone and congratulation on good set of numbers. In the initial remarks, Madam told that still we will have a three, four years some minor MTM loss on account of Syngene, so can you elaborate what is the size of that contract, the forward cover we have outstanding?

Kiran Mazumdar-Shaw: It is a very small amount and falls part of an old contract that we had forward covered at a 41 Rupee level and falls due over a three year period. So that is why that part will get reflected as a small MTM impact in only Syngene numbers.

Bharath Seth: Madam, now with current year there was a substantial volatility on raw material prices, so now going ahead can we say what will be the sustainable EBITDA margin that we are looking for pharma without AxiCorp and for contract research?

Kiran Mazumdar-Shaw: We are trying to maintain these levels, which is around 30% margin levels.

Bharath Seth: 30% for both businesses?

Kiran Mazumdar-Shaw: Yes.

Bharath Seth: Okay and AxiCorp what would be the margin that we are looking at ?

Kiran Mazumdar-Shaw: AxiCorp is single digit margins and that is the way it will be, because for two years we cannot do anything with the AxiCorp business model because it is only a generics business and it is a trading business and it is a very low margin business. But the reason we acquired AxiCorp was really to start building our insulin business. So, only when insulin sales start in Germany we can start expecting to see margin improvement.

Bharath Seth: The Metformin tender we won, that supply will be done from Biocon?

Kiran Mazumdar-Shaw: No, AxiCorp. Biocon will not be supplying.

Bharath Seth: No, AxiCorp will out source from Biocon?

Kiran Mazumdar-Shaw: No.

Bharath Seth: Okay, thank you.

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

Prashant Nair: Yes, hi. My question is more on the biosimilar opportunity for the regulated markets, how are you going to tackle the distribution aspect? Will you be looking at entering into some kind of tie up with a larger player out there?

Kiran Mazumdar-Shaw: Yes, I think we, in fact in one of my comments I have said that actually because of what Arun just mentioned about why we believe that we are in a very strong position to position ourselves as a player in this segment, we expect to also forge good alliances or partnerships with large players who will really be able to take full advantage of this opportunity, because obviously you will need very strong distribution and business strategies to really make a dent in that kind of emerging opportunity.

Prashant Nair: Right, and will this be product specific or will it be some kind of a blanket tie up with one player – what do you think works better here?

Kiran Mazumdar-Shaw: We will see how it pans out, so over time we can start sharing our strategy with you.

Prashant Nair: And the format will be similar where you get some upfront payments?

Kiran Mazumdar-Shaw: We will be able to share more details with you once we have formulated our strategy, right now it is still being evolved. In this fiscal, you will be able to get a understanding of our partnership model.

Prashant Nair: All right, fair enough. And what is the size of the Mycophenolate mofetil opportunity in the US, the size as of now, the patented size?

Rakesh Bamzai: This total market is close to USD 800 million and we are expecting to look at a generic business size of around USD 150 million after price erosion.

Prashant Nair: All right and is there any update on tacrolimus in the US or does the orphan drug status still block generics?

Rakesh Bamzai: There is no change in status, there is no ruling yet on that and once the litigation or the public PIL is sorted out we will be there.

Prashant Nair: All right and what about the non-US markets, are you already there?

Rakesh Bamzai: Yes, we have partnerships in Europe and in United States. We are participating in the non-US markets right now.

Prashant Nair: Fair enough. Thanks a lot, that's all from me.

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

Monica Joshi: Hi, good evening, thank you for taking my question. Ma'am just two questions from my side. One is on AxiCorp revenues, you mentioned that you would have an AOK tender; I just wanted to have some idea about the base business. As probably a couple of your competitors are trying to pull out of the market, do you think AxiCorp would be able to maintain the current top line?

Kiran Mazumdar-Shaw: Yes, certainly.

Monica Joshi: Okay, I mean, I am not sure how that goes because if you are not there in the AOK markets or AOK tenders for the other products, how does...

Kiran Mazumdar-Shaw: AxiCorp's business is very different to the other generics company; they are not in the same space as the other generics businesses.

Monica Joshi: Okay, so they will not be impacted?

Kiran Mazumdar-Shaw: No, they will not be impacted.

Monica Joshi: Okay, the second this is on margins, ma'am, you answered earlier you would expect to maintain at the current level. Now if we remove the FOREX loss or gain and also ignoring the other income component, do you think that the margins at around 21% odd would continue, given that your R&D spend is expected to rise?

Kiran Mazumdar-Shaw: Yes, but that is what we are aiming to do because you are right, R&D spend is going to increase and if we can still sustain it at these levels, I think that to us is a good performance.

Monica Joshi: Okay, ma'am, thank you so much.

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

Nitin Agarwal: Hi, good afternoon, couple of questions, one is on the biosimilar insulin for Europe. Europe as I understand is a pen based market if I get that right, so do you have like a device that you kind of developed or how do you propose to handle that?

Rakesh Bamzai: Yes, we have a pen device already and we are right now doing trials for compatibility of pen and cartridge and we are also building up a few more advanced devices with a partnership.

Nitin Agarwal: But, these devices still are not launched in the domestic market, right?

Rakesh Bamzai: We haven't yet launched it and once we are ready we will get there.

Nitin Agarwal: And in terms of the time line, do you have a little more firm clarity on exactly when do you see the product coming into the European markets?

Kiran Mazumdar-Shaw: Yes, 2011 to thereabouts.

Nitin Agarwal: Okay and ma'am secondly on the biogenerics part of it, earlier I thought we had a view that generic MABs is not like a business opportunity which might really click, now I guess you probably seem to be targeting this segment, so what has really been the driver behind this change in strategy really?

Kiran Mazumdar-Shaw: No, our strategy was always there to be in the biosimilar MAB area, what we were saying is today the US opportunity has opened up, otherwise we were always targeting this particular opportunity for Europe and rest of the world markets. This is why we specifically referred to the Obama statement as being a very new opportunity that had not been factored in, in the past.

Nitin Agarwal: And how big is the development pipeline for the MABs that the company is working on right now?

Kiran Mazumdar-Shaw: We have quite a rich pipeline of products under development, we have a large number of monoclonal antibodies in our pipeline and two of them have already got into the

preclinical stage of development and over the next two years we will have at least five or six such monoclonal antibodies in the preclinical stage and in the clinic as well and insulin - now you have seen that we have got our insulin and now Glargine also as a biosimilar product and we also already have GCSF and a few other products which have already entered the market, so we are very well poised for this biogeneric opportunity.

And that is why our R&D costs are also going up. When I mentioned that we are likely to see an increase in R&D spends from Rs. 60 crore to about Rs. 80 to Rs. 100 crore, this actually takes into account all these biogeneric pipeline that we are talking about as well as of course our novel programs.

Nitin Agarwal: Of the Rs. 60 crore that we spend in the year, how much would we have spent on the novel products and how much on the biogenerics?

Kiran Mazumdar-Shaw: I don't think we can really share such data, but suffice to say that we have got a very balanced portfolio of programs.

Nitin Agarwal: Secondly, on the Gulf partnership that we have had for the Middle-East market, when do you see that start contributing for us?

Murali Krishnan: Yes, it just started in last October and right now we have just launched one product. During the course of this year we expect to get registration for a couple of more products and this year it will be still very small like Clinigene, but it has already started contributing.

Nitin Agarwal: Lastly if I just look at the numbers for the year, in terms of potential triggers, which are there for us, I mean Q1, it is obviously going to be probably the supply of MMF. What is the other apart for the regular business which is going to keep scaling up, are there other some more upside triggers that one has visibility on for as we look for the year?

Kiran Mazumdar-Shaw: Glargine sales are going to start in the domestic market in the first quarter and then of course we are also beginning registration of Glargine in many markets and there will be sort of several licensing opportunities as well over this fiscal. Then we have got a lot of insulin registrations, insulin tenders, so there is a lot of interesting opportunities plus our domestic branded formulations also have a good growth trajectory planned for this year.

Nitin Agarwal: Okay, perfect. Thanks very much. Best of luck.

Moderator: Next question comes from Mr. Harish Swaminathan, an individual investor.

Harish Swaminathan: Good afternoon and thanks for taking my question. If you can help me understand the de-risking strategy on the new drugs that we have in the pipeline, specifically IN105, what I wanted to understand is, at some point in time post phase 3 would it be go or no-go sort of situation or can we expect that we would do relevant alterations and make changes in the product offering to make it succeed? So I don't know whether I have expressed my question properly?

Kiran Mazumdar-Shaw: Yes, you have expressed it very well and I guess this really is exactly the way you approach new programs. You take decisions based on the data that is generated, so if the data looks abysmal, then we will have to see how we want to go about it, but if it looks pretty promising and pretty encouraging, then obviously we will take a call on proceeding forward, or may be making some changes if we feel that the data has not fully reflected the potential of the drug, so these are the kind of challenges that we have with any new program and I think this is a good opportunity for us to learn to be an innovator.

Harish Swaminathan: Thank you very much.

Moderator: Next question comes from Mr. Girish Bakhru of JM. Financials.

Girish Bakhru: Sir, I just have a few finance related questions. Starting with your tax rate, can you just explain what are tax benefits and what do you think would be the tax rate for next year?

Murali Krishnan: It is still going to be around 10% or sub 10% . We expect to enjoy Section 10B benefits for 100% EOU till March 2010 and thereafter we would get the benefits available for SEZ units.

Girish Bakhru: And almost all of your turnover is part of these two?

Murali Krishnan: Bulk of it comes from here.

Girish Bakhru: Okay, second thing is on the CAPEX item, I see that adding back the depreciation, you have spent close to about Rs. 400 crore this year, is that right?

Murali Krishnan: It is close to that, yes.

Girish Bakhru: And was it that the original number was like Rs. 250 to Rs. 300 crore?

Murali Krishnan: Yes, Rs.250 crore to Rs.300 crore is only Syngene.

Girish Bakhru: So, where is the balance amount spent?

Murali Krishnan: Balance is the rest of the group, the Biocon, Clinigene and to some extent the Biocon Biopharmaceuticals, the Cuban joint venture.

Girish Bakhru: Okay and then on the excise duty, this time I notice that the fourth quarter's turnover is gross of excise, would you be able to give me what is the excise duty component?

MB Chinappa: No, we have given the details net of excise.

Girish Bakhru: Then on minority there is some Rs. 8 crore of outflow in minority, for the fourth quarter, can you explain what that is on account of?

MB Chinappa: This is another impact based on accounting. We have a 51% stake in the joint venture Biocon Biopharmaceuticals. As accounting prudence we have absorbed the entire loss in the books of Biocon's consolidated results. This is expected to be reversed as and when we start making profits in Biocon Biopharmaceuticals.

Girish Bakhru: No, so you are anyway consolidating everything line by line.

MB Chinappa: It is not consolidation

Kiran Mazumdar-Shaw: We only take 51%.

MB Chinappa: And in this case we have actually taken 100% of the loss and when the company turns around we will start recognizing the profit.

Girish Bakhru: Okay, so you are saying that you have taken 100% of the loss of the entity where you have 51% stake?

MB Chinappa: Correct.

Girish Bakhru: I see, okay. And then on the question of interest, I noticed that the other income is higher, is that consisting mostly of interest income or are there some other items also over there?

Murali Krishnan: Yes, there are some other items also, so this time one is some lease rental income that we get from one of our facilities which is leased to Novozyme and also there are some milestone payments in terms of delivering certain milestones post completion of the sale which also came in during this year and is complete now. There is not going to be any more milestone incomes coming from Novozymes going forward and apart from that rest of it is from the dividend that we got from our investments.

Girish Bakhru: Right, so what would you say would be the non-recurring type of income in this year?

Murali Krishnan: Yes, about Rs. 20 crore approximately.

Girish Bakhru: Okay and then lastly actually on the foreign exchange you explained quite a bit about the options which you have taken, so just to understand, if the Rupee were to let's say depreciate, then would you be kind of incurring any losses or you would not on a mark to market basis?

Murali Krishnan: Yes, it will not be on exceptional basis, because all the hedges will be classified as effective hedges. The gains/ losses from the contracts will be spread out across the next two years and they will be accounted not as an exceptional item, but as foreign exchange gains and losses under Other Expenses.

Girish Bakhru: So, just to understand, let us say if the Rupee were to depreciate from here you would have a definitely a gain on the underlying, because you have the net Dollar revenues, but then you would have a loss on the hedge, right?

MB Chinappa: For about a third of our exports we will be able to participate up to a depreciation up to Rs.55 and we get the full benefit of the same. If it goes beyond Rs.55 we will not be able to participate in the depreciation beyond Rs.55. For the balance of our net flows, we will be able to participate beyond Rs.55.

Murali Krishnan: Because this is a caller based option, we will be able to participate up to 55 where there is just a put option or paid option, we will be able to participate up to whatever the level it goes.

Girish Bakhru: Right and on the downside?

Murali Krishnan: On the downside in the caller option it is Rs.46 Rupees and on the put option it is 50 Rupees.

Girish Bakhru: Right, okay, so basically your view is that currency will depreciate from here.

Murali Krishnan: We have not taken a view.

Kiran Mazumdar-Shaw: We don't want to speculate, that is why we have adopted a hedging strategy that protects us from movement in either direction.

MB Chinappa: Our previous hedge actually hedged us from Rupee appreciation. Today the hedging strategy is to hedge against both movements, appreciation and depreciation.

Girish Bakhru: Right, okay. So sir last thing on the AxiCorp, you have Rs. 8 crore of other income in AxiCorp for the fourth quarter, what is that on account of?

Murali Krishnan: We will get back to you on this, offline.

Girish Bakhru: Okay, fine. Thank you so much. I am done.

Moderator: First follow up question is from Mr. Bino Pathiparampil of IIFL.

Bino Pathiparampil: Hi, just couple of quick follow up questions, can I get some color on the mix of Biopharmaceutical revenue, how much is insulin and Immunosuppressants, how much is branded formulations?

Murali Krishnan: In fact the percentage remains more or less kind of the same. In fact the status is about one third, the insulin and immunosuppressant together it is about 20%, the branded formulation is about 10% and research services is about 20%, all more or less around the same levels.

Bino Pathiparampil: Okay, right. What percentage did the India branded formulations grow at over last year?

Murali Krishnan: About 40 % plus. We have crossed that three-digit number this year.

Bino Pathiparampil: Okay, right and sir one more question is on the R&D expense, so this year Rs. 60 crore you said will go up to Rs. 80 to Rs. 100 crore next year, so does that include all the cost related to your biosimilar trials or are you going to capitalize anything?

Murali Krishnan: The insulin trials that we are conducting for EMEA registration will be amortized over a five-year period. Other biosimilars that we are working on, monoclonal antibodies and biosimilars they will all be charged to P&L.

Bino Pathiparampil: Okay, how much is that EMEA trial costing?

Murali Krishnan: we will not be able to share that with you.

Bino Pathiparampil: But, I mean that is an expense incurred, right?

Murali Krishnan: No, it is a work in progress. It will happen until almost end of 2010 or early 2011. So whatever we would have paid will be just a part of it.

Bino Pathiparampil: Okay, right. Thank you.

Moderator: Next follow up question is from Ms. Bhavita Nagrani of MP Advisors.

Nimish Mehta: Yes, hi. This is Nimish Mehta calling, I don't know whether I had missed this, but I actually wanted to know what is the reason behind the huge increase in cost of sales or huge increase in material consumption?

MB Chinappa: I was explaining that actually there is a lot of reasons for the movement in material and power cost. A large impact is because of accounting adjustment for movement in stocks. A reduction in stocks has an impact of increasing material cost as a percentage of sales and every time there is an increase in stock the reverse impact. When you compare between Q3 and Q4, in Q3 we had an increase in stock and in Q4 we had a decrease in stock, this has an element of play on the material cost as a percentage of sales, but minus that material cost as a percentage of sales is in range.

Nimish Mehta: Sir, I am not able to get you, you say that if there is an increase in stock?

MB Chinappa: Sorry, I will just give you the numbers. In Q1 the material and power cost as percentage to net sales was 51%, it dropped to 47% in Q2, Q3 it dropped to 38% and in Q4 it increased to 45%. The logic is that actually the material cost between Q3 and Q4 should have been somewhere in between 38% and 45% and the increase and decrease is an accounting impact, it has nothing to do with the business or the nature of sales.

Nimish Mehta: Okay, but generally higher the stocking, lower would be the expense and lower the stocking higher would be the expense.

Murali Krishnan: Yes, that's because when you are carrying work in progress or finished goods, the direct cost associated with labor, power, depreciation, etc is loaded to the value of the stock.

Nimish Mehta: I see, okay and next I wanted to also know, you guided some growth on the contract research business for the next year, so does this include the growth related only to BMS?

Kiran Mazumdar-Shaw: No, this relates to all growth.

Nimish Mehta: Yes, but the guidance you had given assumes anything beyond BMS?

Kiran Mazumdar-Shaw: Yes, I think if you had heard me, in my opening remarks I talked about integrated drug development and biologics development.

Nimish Mehta: Okay, thanks a lot.

Moderator: Next follow up question is from Mr. Prashant Nair of Citigroup.

Prashant Nair: Yes okay, can you give some details about the contract that you entered with DuPont and how that will play out?

Kiran Mazumdar-Shaw: No, we can't really discuss that.

Prashant Nair: Okay, but will it be something – is it a long-term contract or is it something which...?

MB Chinappa: It is in the normal course of business.

Prashant Nair: Okay and just to understand your hedging once again a bit better on the caller option side, just with an example what would happen, say if the Rupee goes to Rs.57, how would it play out for you?

Kiran Mazumdar-Shaw: Mr.Chinappa had explained that say a third of of our hedge will see us losing 2 Rupees beyond Rs.55, and for the balance we will be able to take full benefit of the Rs.57.

Moderator: Next follow up question is from Mr. Bharath Seth of Finquest.

Bharath Seth: Hello, can you share some more detail about our domestic branded formulation business, how is each division working and will foresight in productivity?

Rakesh Bamzai: Yes, we have four divisions, diabetology, cardiology, nephrology and oncology. In diabetology we have 300 people, in Nephrology we have 40, in Oncology we have 50 and in cardiology we have 250 people. All the divisions put together out of four divisions three divisions are making profits because the cardiology has been launched recently in this year, so it has just broken even. So, all the four divisions have done Rs. 100 crore that is 20% growth over the last year and we are planning to aggressively grow in the current year.

Bharath Seth: What kind of growth we are looking in this year?

Rakesh Bamzai: No, we can't say this year how much, because we don't want to give guidance, but the previous year we grew by 40% and we want to exceed that 40% growth.

Bharath Seth: And where do you see this business over the next two, three years time frame?

Rakesh Bamzai: It is going to be a very important business for Biocon. We are building up brands. Out of 25 brands, 6 brands have reached top 10 as far as IMS rating is concerned. We are improving market share quite decently and this is going to be a very important business in three to five years time. You will see our name in the first page of IMS ORG.

Bharath Seth: And over three to five years what kind of EBITDA that you look forward for this domestic formulation?

Rakesh Bamzai: It is decently profitable, I can't tell you how much profits it will make in three to five years.

Bharath Seth: Okay, thank you.

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

Bhavin Shah: Just one small question. We have got three quarters of AxiCorp coming in this financial year, next year will be four quarters, right?

Kiran Mazumdar-Shaw: Yes.

Bhavin Shah: Okay, thank you so much.

Moderator: Next follow-up question comes from Mr. Nitin Agarwal of IDFC-SSKI Securities.

Nitin Agarwal: Just on the hedging thing, just wanted to check on the put options have you already accounted for the premium in the current financial year?

Murali Krishnan: No, not in the current financial year, it will be be accounted in FY 10 & FY 11. It will be on a pro rata basis. So, every quarter we will do that.

Nitin Agarwal: Okay fine, thank you.

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

Sameer Basiwala: Hi, good evening everyone. A quick question on Mycophenolate. Given that the market opens early May, I would have expected that your customers would have started buying quantities in the March quarter itself, considering the time it would take them to formulate and to build inventories?

Rakesh Bamzai: Yes, we have started supplying a few customers, but in next six months you will see a very good impact on that.

Sameer Basiwala: But, generally speaking for a bulk active player the main thrust or the burst of income is actually front loaded rather than back loaded, so is there something that we are missing?

Rakesh Bamzai: Can you again repeat that question, I didn't understand it fully?

Sameer Basiwala: I mean in general given the fact that the launch quantities are significant, so the burst of sales actually is front loaded rather than back loaded.

Rakesh Bamzai: See, there are two aspects to it. Immunosuppressants, we have to go to the patients, do the switchability that is number one. Number two is also, if you read the Immunosuppressants market well, it is more like a very closely guarded market, so the convergence and the new patient is going to take time, so people are now taking bigger risk in building a very big inventory, but they have given us plans for next six months to twelve months on a very decent quantity of supplies whereby the switching of the existing customers and registering new patients on new Immunosuppressants is going to take some time, because they are also doing switchability trials globally in many centers whereby they can easily prove that Immunosuppressants are switchable. It is little bit more than a normal generic drug.

Sameer Basiwala: Okay and Kiran, I might have missed it, but is it possible for you to quantify what kind of a top line growth that we can expect in fiscal '10?

Kiran Mazumdar-Shaw: You know we don't give guidance, but all I would say is that yes, judging by what we have performed, how we have performed this year, I think we can expect to see at least these levels of growth if not better.

Sameer Basiwala: Okay, thank you very much.

Moderator: Next question comes from Mr. Arvind Bothra of Bank of America.

Arvind Bothra: Yes, hi. I am not sure if I have missed this, but if you can see a large dip in technology licensing income, any update or guidance you would like to give on it on what is the reason or how do we see it going forward?

Kiran Mazumdar-Shaw: Basically licensing income is very lumpy, you cannot really have one year reflecting the next year as a growth trajectory. Basically the way we are looking at it is that we want to unlock now maximum value. Initially when we started licensing we were ready to license at a very early stage, but that does not really give you the kind of value that you want actually for those kind of programs, so we decided deliberately that going forward we should try and get bigger and bigger kind of licensing value for the programs we are developing and since we can afford to take these programs to another more advanced level, we have decided to do that. So, I think this year actually reflects that decision of not licensing many programs so that we can get better valuations in the future. I think this year going ahead you are likely to see increased licensing revenues reflecting the decision we took last year.

Arvind Bothra: Okay, thanks so much. That's it from my side.

Moderator: Next follow up question comes from Mr. Bino Pathiparampil of IIFL.

Bino Pathiparampil: Hi, just checking on AxiCorp accounting, you are including that with a one-quarter lag, is that going to continue?

Murali Krishnan: Yes, that should continue.

Bino Pathiparampil: Okay, thanks.

Moderator: Next follow up question comes from Mr. Sameer Basiwala of Morgan Stanley.

Sameer Basiwala: Kiran, just to be sure that I understood properly your top line guidance for the current fiscal you mentioned that you plan to maintain the same level if not better, so I should look at Biopharma without AxiCorp 10% growth and contract research 28% growth, so that roughly is the number that we are looking for.



Kiran Mazumdar-Shaw: No, I am saying that if you look at the present - just look at it overall without AxiCorp and with AxiCorp, okay, so without AxiCorp is what I am talking about.

Sameer Basiwala: Okay, both for biopharma as well as contract research.

Kiran Mazumdar-Shaw: Yes, we give a consolidated growth level, so some parts of our business grow much faster than others.

Sameer Basiwala: Fair enough, okay, perfect. Thank you so much.

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

Kiran Mazumdar-Shaw: Well, thank you very much for participating in this conference call. If there are any further clarifications or questions please do not hesitate to contact Murali Krishnan or MB Chinnappa for any other information. Thank you.

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