

Transcript

Conference Call of Biocon Limited

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Moderator: Good afternoon ladies and gentlemen. I am Mary, moderator for this conference. Welcome to the conference call of Biocon Limited. At this moment, all participants are in listen-only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the floor to Ms. Urvashi of Citigate Dewe Rogerson.

Urvashi: Thank you. Good afternoon everybody and thank you for joining us on Biocon Limited's Q2 and H1 FY12 conference call. We have with us on this call today, Ms. Kiran Mazumdar-Shaw, Biocon Chairman and Managing Director and members of the senior management team at Biocon. We will begin this call with the opening remarks by the chairman, followed by an interactive Q&A session. I would like to add that some statements in this call may be forward looking in nature. Now I would like to invite Ms. Kiran Mazumdar-Shaw to briefly discuss the company's performance for the quarter ended 30th September 2011.

Kiran Mazumdar-Shaw: Thank you Urvashi and I welcome all of you to Biocon's investor call for the first half of fiscal 2012. I would like to start by saying that we are pleased that we could actually deliver some very good set of numbers this half. We have posted a good 17% revenue growth and an 11% EBIDTA growth on a YoY basis, taking our EBIDTA to Rs 282 crores this first half. Our performance was particularly strong in two core verticals - the research services vertical which grew a robust 20% and our branded formulations business which grew a strong 37%. I would like to point out that in our core businesses, i.e. excluding AxiCorp and licensing, we have seen a PAT growth of 41% on a like-for-like basis over the first half of last fiscal. Our Statins and Immunosuppressants businesses have shown a steady growth state.

We have also seen some very good traction from our research services businesses, accompanied by robust growth. We have seen outstanding profitability of Rs 24 crores being delivered this first half versus a breakeven position last fiscal. We have had expansions of existing customers as well as new customers coming on board with increased FTEs.

I do want to highlight the launch of our insulin pen device, INSUPen[®] which happened on Monday. This is also going to be a very important growth kicker for us in the insulin segment. This has been a much-awaited launch and we have taken a long time to develop and finally deliver this device. The pen has been worth the wait - It offers us a well differentiated position in the insulin market. This will be a unique pen where the same device is capable of delivering both Insulin & Glargine, thus complementing our full range insulin portfolio. This will be a big benefit to patients in terms of convenience of not having to use two different pens. We also offer three color variants and this will help

patients manage their diabetes better as they can use a similar device in varied colors for the different Insulins they need.

Additionally, I would like to mention that we have seen licensing income being impacted at the bottom line. We have seen growth in licensing income at the top line with Rs 51 crores of licensing income recognized this half versus Rs 44 crores in the previous year. But at a PAT level, after allowing and adjusting for the expenses relating to the corresponding development, only Rs 11 crores has flowed down to the bottom line as opposed to Rs 44 crores the previous fiscal. This has, in a way, muted our PAT numbers. Recognition of licensing income, however, is about timing; It is about getting regulatory approvals at the right time to allow us to move forward with development. We have had certain challenges in India where delay in regulatory approvals for development programs resulted in a lower recognition of licensing income, but having received most of the approvals now, the next half of this year should see better traction in terms of recognition of licensing income.

On the various programs that we have partnered with Pfizer and Mylan, these are progressing well and on schedule. We have also seen Pfizer launch their Insulin in the Indian market products with two brands, Univia and Glarvia. We see ourselves in strong leadership roles in the Insulin and diabetes segment. Biocon has already climbed up to the number four position in the diabetes segment, which is a big achievement for us. In the Insulin segment, we were handicapped to some extent all these years as we did not have the reusable pen but with the launch of INSUPen, we are confident that we will be able to garner additional market share. Going forward, between Biocon and our partner Pfizer, we are looking at garnering significant market share in the Insulin segment.

We now have an employee headcount of over 5,800. As far as our research pipeline is concerned, we continue to engage with potential global partners for all the novel programs, specifically Oral Insulin and Itolizumab. Our Anti-CD20 program, BVX-20, is expected to commence clinical trials by the first quarter of the next fiscal year. We are hoping to file an IND and enter the clinic with our Amylin-partnered Phybrid program, sometime early next year.

Overall, we are very confident that all our verticals are delivering and would continue doing well. With that, I would now like to open up the floor to Q&A. Thank you very much.

Question and Answer Session

Moderator: Thank you ma'am. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again.

First question comes from Mr. Girish Bakhru of HSBC Securities.

Girish Bakhru: I wanted to know about the other operating income which is very high in this quarter-about Rs 5 crores, can you give a composition of that?

Kiran Kumar: The other operating income relates to fees received for some supplementary services that we rendered to one of our customers during the current quarter.

Girish Bakhru: Okay. So, what would be the usual rate? Is it like around 1 or 1½ crores which we normally do, rest would be like one-off fee here?

Kiran Kumar: It is a one-off contract that was completed and we received fees towards that.

Girish Bakhru: Okay. The R&D cost and the other expenses are pretty high in the quarter, any reason for that?

Kiran Mazumdar-Shaw: Yes, as I mentioned earlier, we are going through a development phase and as this advances towards the clinic, the expenses are bound to get incrementally higher. And that is what you are seeing reported in the R&D numbers.

Girish Bakhru: So, is there a full year guidance that we can get on how much of these developmental costs will be booked in this fiscal?

Kiran Mazumdar-Shaw: It is very difficult to give you guidance because it all depends on the timing of regulatory approvals and the time at which certain events like patient recruitments happen. There are a number of factors that affect the expenses involved and you will see increasing R&D trends.

Girish Bakhru: Okay, I will join back the queue. Thanks.

Moderator: Thank you. Next question comes from Mr. Bino Pathiparambil from IIFL.

Bino Pathiparambil: Hi. Now that the formulation business is a significant part of your business, would you be able to give the break-up of the biopharmaceuticals?

Kiran Mazumdar-Shaw: The segmentation is between diabetology, nephrology, oncotherapeutics, cardiology, comprehensive care and immunotherapy. Last year, we had clocked about Rs 180 crores and this year we are trying to nearly double that as all our divisions are doing very well. The combined growth has been 37% in the branded formulations vertical this half year.

Bino Pathiparambil: Okay. And the Rs 11 crores from the licensing fee that comes to the bottom line, did you mean at the EBITDA level?

Kiran Mazumdar-Shaw: No, at the PAT level.

Bino Pathiparambil: So, can we know at the EBITDA level how much it would be?

Kiran Mazumdar-Shaw: It is Rs 22 crores.

Bino Pathiparambil: Essentially can we assume that of the Rs 44 crores that you booked, Rs 22 crores related to R&D?

Kiran Mazumdar-Shaw: No, we have booked Rs 51 crores in licensing income for the first half, of which Rs 22 crores is the EBITDA and Rs 11 crores is the PAT.

Bino Pathiparambil: Okay, Great. The margins over the last couple of quarters have been looking a bit weak at the EBITDA level. Of course, the R&D expense has gone up, but then they are backed by licensing fee, so I don't think that should be a reason.

Kiran Mazumdar-Shaw: I don't think you should compare this to the last year, because last year the margins were much higher as the licensing fees came directly to the bottom line. In the last fiscal, we had Rs 44 crores of licensing income at the top line and the entire amount went directly to PAT. This is strictly not comparable to the way we have recognized licensing income this year; where we have taken Rs 51 crores of gross licensing income at the top, but only Rs 11 crores has come to the PAT level. It will obviously impact margins if you look at it in terms of last year and this year but having said that I would say that we have always maintained margins at around 29% to 30%, so we are still at that level.

Bino Pathiparambil: Right. But if you remove the other income, it's like almost 26%, which is actually weaker than last quarter.

Kiran Mazumdar-Shaw: No, it is the same. On a like-to-like basis YoY, we have maintained the margins.

Bino Pathiparambil: Okay right, thank you very much. I will join back in the queue.

Moderator: Thank you sir. Next question comes from Mr. Surya Narayan Patra from Systematix Shares & Stocks.

Surya Narayan Patra: Yeah, thank you for taking my question. Ma'am, in the last call you had indicated that you are doing some restructuring in your R&D activities. And in the press release, you had mentioned Mr. Abhijit Barve has joined Head of the R&D, core R&D. So, can you tell me what the restructuring is and that you have either done or what is your position?

Kiran Mazumdar-Shaw: In our R&D presently, we are seeing more and more of our programs moving into the clinic. And as you know, our R&D head, Dr. Harish Iyer left us a few months ago and we felt that this was the right time for us to restructure the R&D at Biocon in sync with the way our products are being developed. We believe that we need an R&D lead who has clinical expertise because all this time we were really focused more on API and drug substances whereas now we have to look at drug products and how we take these products through the clinic. Dr. Barve brings in the kind of experience and expertise that will help us to develop all the programs that we have in our pipeline and take it to commercialization.

Surya Narayan Patra: So, that means now onwards we would be designing our clinical trials including external clinical trials which would be conducted in the regulated markets, and managing those?

Kiran Mazumdar-Shaw: Well that is something we have always been doing internally with the assistance of consultants. So yes, we will have a little more knowledge internally on how to design these trials. We have strengthened our clinical capability at Biocon's

R&D. I will let Dr. Abhijit Barve talk to you about how we are setting it up. But suffice to say that we have decided to strengthen our clinical capability in R&D.

Abhijit Barve: I think the thrust going forward is to develop the drugs in an appropriate, cost efficient and timely manner for regulatory approvals across different markets. We have moved from a company focused on APIs to being more of a product company. And I think, in that context, clinical R&D will play a critical role in how we get many of these compounds to the market in a timely manner which is probably the most important thing in the competitive landscape that we work in. We have added a few people to strengthen some of our clinical development programs and also on the clinical operations front. So, we will be designing all the studies internally with some inputs from consultants as required.

Surya Narayan Patra: Okay. So, possibly that is why we are confidently saying that licensing income from our core R&D activities would be improving in the second half of the current financial year onwards. So, on that front can you give us some idea on the kind of licensing income from our core R&D activities apart from the Pfizer led R&D licensing income?

Kiran Mazumdar-Shaw: We are engaged in discussions with a number of potential partners. We will keep you posted on these major developments.

Surya Narayan Patra: Okay. Regarding Oral Insulin again, we know that we are in discussion with various players for putting up some partnership deal, but can you just update us what is the clinical progress of that oral insulin at the current moment?

Kiran Mazumdar-Shaw: As you know that we are planning to go forward on the clinical development in consultation with a partner. At this point in time, with Dr. Barve on board, we are looking at what the design of the next trial should look like. So, we will be evaluating that and then discussing it with the potential partner.

Surya Narayan Patra: Okay. Is it possible to share how much of the Rs 37 crores licensing income that we have booked in the quarter, is booked out of the Pfizer deal?

Kiran Mazumdar-Shaw: Most of it is from Pfizer.

Surya Narayan Patra: Okay. Just last question ma'am. Can you indicate as to what is the implication of this rupee depreciation on the revenues and were there any FOREX loss in the quarter?

Murali Krishnan: There were no FOREX losses this past quarter. On the contrary, there has been an additional FOREX gain because of the rupee depreciation.

Surya Narayan Patra: And what is the implication of the depreciating rupee on the revenue this quarter?

Murali Krishnan: The additional gain has been about Rs 3 crores over the last quarter.

Surya Narayan Patra: Okay, thank you.

Moderator: Thank you sir. Next question comes from Mr. Ranjit Kapadia from Centrum Broking.

Ranjit Kapadia: Good afternoon. My question relates to the tax rate. Our tax rate has gone up from 11.9% to 18% despite an increase in R&D expenses by almost 55%. My second question relates to Fidaxomycin - if you can give some idea how Fidaxomycin supplies are going on and what are the revenues you have booked.

Kiran Mazumdar-Shaw: Well, In terms of Fidaxomycin, Optimer has recently launched the product in the US and the good news is that it has been very well received. Also, they felt that their original forecast was very conservative and now they have significantly increased it. We are looking at as to how we can cater to this increased demand. It is essentially an upside for us. The significant numbers from Fidaxomycin will start kicking in only from the next fiscal. But, this fiscal itself Fidaxomycin will be quite a nice business for us.

Ranjit Kapadia: Ma'am, Optimer has indicated 2 billion dollar sales at the peak level, what is the revised number, if you can share?

Kiran Mazumdar-Shaw: That is the revised number and initially it was considered to be at a sub-billion dollar level. But I think with the kind of market feedback that they are receiving, combined with their pricing strategy, they believe that this could be upwards of a billion dollar product, which is good news for us.

Murali Krishnan: Can you repeat the first question, please?

Ranjit Kapadia: My first question was regarding the tax rate. The tax rate was 11.9% last year and it is 18% in the current quarter. Now we have already increased the R&D expenses almost from 197 million to 306 million, upwards by 55%. And this entitles to you to the 200% AWD deduction, so in spite of that why the tax rate has gone up. Could you throw some light on that?

Kiran Kumar: There has been an increase on account of the expiry of the EOU tax benefits. Further, some of the SEZ units are now eligible for only 50% rebate in the current year. These are the two factors that have led to the increase in tax rates.

Ranjith Kapadia: Which unit sir?

Kiran Mazumdar-Shaw: The SEZ units are eligible for 100% rebate in the first five years and 50% rebate in the following 5 years.

Murali Krishnan: Even though the R&D expenses are going up, we are entitled for an additional tax benefit on the R&D development expenses which are incurred in India. But we are not eligible for additional tax benefits on clinical development expenses with respect to the same R & D programs, when these are incurred outside India.

Kiran Mazumdar-Shaw: We have been asking the Finance Ministry to allow all R&D expenses to come under the weighted average tax deduction of 200%. But, unfortunately our Finance Ministry allows 200% tax deduction on Indian activities and it does not include any overseas development, like clinical trials etc. This is a big

impediment that the industry is facing. I want all of you to put some pressure on the Finance Ministry.

Ranjith Kapadia: Ma'am, one more question. This is regarding the insulin pen. What is the price differential with the competing products?

Rakesh Bamzai: Our INSUPen is a best-in-class pen. It is priced at Rs 675 to the patient whereas other pens range from Rs 450 to Rs1350.

Ranjith Kapadia: What is the benefit over the Rs 450 pen?

Kiran Mazumdar-Shaw: I think there is a huge difference between the Rs 450 pen and our pen, because this is a state-of-the art pen with a bunch of features that the Rs 450 pen does not offer.

Rakesh Bamzai: And when you take this pen and calculate the cost of insulin (INSUGEN) and cost of Glargine (BASALOG), there is a huge cost advantage for the patient. The patient will have an advantage on insulin on a recurring basis amounting to Rs.1,500 per year and for Glargine, it is approximately 50% net advantage on cost of therapy per year.

Kiran Mazumdar-Shaw: There are a number of features but there are clear differentiators. For instance in the Rs 450 pen, if you increase the dose rates by mistake, you cannot revert back to the original dose rate. So, you will have to waste some insulin and then inject it. So, if you wanted say, 10 units and you put in 12 by mistake, then you can't retract those 2 units. You just have to expunge the 2 units and then use the 10 units. But, in our pen, you can go back. In addition, it has some very sophisticated features which are difficult to explain unless you see the pen.

Ranjith Kapadia: Are we paying any royalty to the German partner for this device?

Kiran Mazumdar-Shaw: No, this is an outright purchase.

Ranjith Kapadia: Okay, thank you very much and all the best.

Moderator: Thank you sir. Next question comes from Mr. Krishna Prasad from JM Financial.

Krishna Prasad: Hello everyone and thanks for taking my question. You have said that for the first half, you had about Rs 22 crores of licensing income at the EBITDA level; can you provide what that number is for the current quarter and at the PAT level as well? And you talked about the expenses which are associated with the licensing income. Can you provide what it is for the current quarter and its impact at the EBITDA level?

Murali Krishnan: Can you repeat the question?

Krishna Prasad: You have said that for the first half, you had about Rs 22 crores of licensing income at the EBITDA level; can you provide what that number is for the current quarter and at the PAT level as well?

Murali Krishnan: At the PAT level for the current quarter it is about Rs 6 crores.

Krishna Prasad: Okay, and at the EBITDA level?

Murali Krishnan: At the EBITDA level, it is Rs 10 crores.

Krishna Prasad: Can you help us understand what are these expenses associated with licensing income, and under which cost item are they getting booked?

Murali Krishnan: The said expenses are booked under various heads of expenditure, depending upon the type of expense incurred, but predominantly in the Research & Development expenses.

Krishna Prasad: Right. And would that be the case going forward? Would you have associated costs for the licensing income? Because, this was not the case last year, is there something that has changed here?

Kiran Mazumdar-Shaw: The costs will be reflected moving forward, because one of the costs is on account of transfers needed for innovator samples required to conduct clinical trials. For comparative studies, you have to import innovator samples and this is a big cost in clinical trials.

Krishna Prasad: Right. And does that get booked under the raw material cost?

Kiran Mazumdar-Shaw: No, under R&D cost.

Krishna Prasad: Okay, thank you.

Moderator: Thank you sir. Next question comes from Mr. Krishnendu Saha from Quantam AMC.

Krishnendu Saha: Hello. I just need an update on the Mylan deal, how it is progressing, because you stated in your press release that it is on time to meet our estimates for market formation?

Kiran Mazumdar-Shaw: Yes, we are able to share only so much with you at this time. We are on track with our development programs and we are confident that we will meet the market formation date.

Krishnendu Saha: Just another question on financial side, the Malaysia groundbreaking happened on 10th September, so this US160 million dollars which will be spent, would be spent over the next 2 ½ years for this, starting from 10th September?

Kiran Mazumdar-Shaw: That's right.

Krishnendu Saha: And last question, the amount of debt on your books has increased, but the interest payment has gone down, so just wondering if I am reading it correctly?

Kiran Kumar: There has been some borrowing on Biocon's towards the end of the quarter while Syngene has repaid some loans during the quarter. The net effect is a reduction in the interest payment.

Krishnendu Saha: Right, thank you.

Moderator: Thank you sir. Next question comes from Mr. Nimesh Mehta from MP Advisor.

Nimesh Mehta: Hi, thanks for taking my question. Can you throw some color on the uptake of Atorvastatin API; is that a big contributor to the biopharma growth?

Rakesh Bamzai: Can you please repeat the question?

Nimesh Mehta: Just wanted to know the uptake in the API of Atorvastatin in various markets.

Rakesh Bamzai: Atorvastatin is an important Statin for Biocon. And as we discussed in the last conference call, we had an early entry opportunity in Spain with a very innovative salt strategy. So in November we will enter a few more markets in Europe when the market opens up. And we are also expecting one approval for a partner. So, going forward we will see good business of Atorvastatin coming our way.

Nimesh Mehta: Right now how many companies you are supplying it to in Europe?

Rakesh Bamzai: In Europe we have pretty good market share. We have around four good partners. We had one in the US and we have added one more recently.

Nimesh Mehta: Okay, so four in Europe and two likely to be in US, right?

Rakesh Bamzai: Yes.

Nimesh Mehta: Right. Do you expect the biopharma sales growth to be driven lot by this statins in this year or next year or anything...?

Rakesh Bamzai: Yes, Statins, Immunosuppressants and Insulins.

Moderator: Thank you sir. Next question comes from Mr. Hitesh Mahida from PUG Securities.

Hitesh Mahida: Hi. Thanks for taking my question. First thing is, all the emerging markets which Pfizer has identified, which all key regions do you think are there? And how many of all the key regions, have you launched insulin?

Rakesh Bamzai: We have looked at early entry opportunities in many markets. The normal suspects would be the BRIC nations and other markets are where the growth rates are very high for Insulin or Insulin analogs. So, these are the major regions where we are focusing jointly.

Hitesh Mahida: And how many regions have you launched it, apart from India?

Rakesh Bamzai: This is a pharmaceutical product and it takes time for getting approval, regulations, filing, and time for filing. Right now we are waiting for approvals in some more countries. As soon as we get those approvals, we will launch.

Hitesh Mahida: Okay. And if I look at your YoY gross margins, they have actually gone down by 260 basis points, what could be the key reason for this?

Kiran Mazumdar-Shaw: We already explained this a little earlier. When you compare the financials of last fiscal and this fiscal, licensing had quite a large component of FY11 numbers in the first half and this obviously gave you a much higher margin. On a like-for-like basis, you will not see a decline.

Hitesh Mahida: I am talking of gross margins.

Murali krishnan: The margins have been pretty much the same as compared to the last year on a Year-To-Date basis. Can we take this offline?

Hitesh Mahida: Okay. And what has been the growth in the immunosuppressants space during the quarter?

Rakesh Bamzai: Last year, immunosuppressants were close to 8% and now it exceeds 10% in our overall biopharmaceutical business. It has become an important business for us.

Hitesh Mahida: Okay, thanks a lot and all the best.

Moderator: Thank you sir. Next question comes from Mr. Basavaraj Shetty from Mirae.

Basavaraj Shetty: I was trying to understand whether the Pfizer launch in India is being catered by your Indian facility and this Malaysian facility will cater to rest of the world market?

Kiran Mazumdar-Shaw: Yes.

Basavrij Shetty: Fine. Thanks.

Moderator: Thank you sir. Next question comes from Mr. Bhagwan Choudhary from India Nivesh Securities.

Bhagwan Choudhary: My question is, in the last quarter you were discussing that there was some sales effect because of the turmoil in the Middle East, so can you please update what is the current status?

Rakesh Bamzai: There are two things in the Middle East - All of us are aware of what is happening in the Middle East and the countries that are important as far as the pharmaceutical business is concerned. So, whether you are talking about Syria, Egypt, Yemen, Algeria others around that region, where there is political instability, we have had a bit of dip. But we have doubled our sales in the branded formulation business in NeoBiocon this year which is in line with Biocon's strategy of building brands in the Middle East. So, we are doing very well with our branded formulation business, which is from a stable region like UAE and we are building our brands. So, overall it's a mixed thing for us, because in one segment we are growing and in another segment, we are affected adversely.

Bhagwan Choudhary: Yes. And what kind of outlook you are expecting from there?

Rakesh Bamzai: It is difficult for me to say anything because all of us hope that the political condition becomes better. But, in the branded formulation, the outlook is pretty strong.

Bhagwan Choudhary: Okay, got it sir. You had mentioned earlier that as we are in the development stage, we have expanded lot on the R&D side as well as on the manufacturing side and hence our hiring is also on the higher side. So, are we seeing any kind of margin pressure? So, by what time do you think we can expect that our sales to be in line to surpass these expenses and take the margins again back on this, so that we are 30% and above?

Kiran Mazumdar-Shaw: Our margins are on par with what we have delivered in the past. I don't think margin is such a concern. But, yes, you must understand that this is a business where we will have to invest in R&D, we will have to put up with increasing wage hikes. This is something that the whole industry is going to be challenged with and we cannot insulate ourselves against such trends. But we are confident that our business growth will compensate for some of these trends. But, I think we are looking at how to beef up our operational excellence, we are trying to sweat our assets better, we are trying to do cost cutting as much as possible on every front. And there remains certain challenges like cost of power, higher fuel prices and things like that on which we have no control but on things that we do have control, we will try and see how we can economize.

Bhagwan Choudhary: By what time, do we expect our operational efficiencies to be on the sufficient side?

Kiran Mazumdar-Shaw: I think your question is a bit difficult to answer, because what we are saying is that this is a continual process. And if you look at our margins today and compare it to what they were maybe two or three quarters ago, we have been able to sustain these margins. And I think that's a very positive sign. So in terms of whether we can improve margins - that is something which we are working towards. But, it's a continual process. We have to look at all the market factors, market dynamics. We have increased our headcount from 4700 last year to about 5800 this year and we will continue to increase headcount because we want to build the branded formulations business and expand all our businesses. So, we are very conscious of this but at the same time, we are very confident that we will grow this business very robustly.

Bhagwan Choudhary: Okay, thank you.

Moderator: Thank you sir. Next question comes from Ms. Priti Arora from Kotak Institutional Equities.

Priti Arora: Hi. In the previous calls you had indicated Rs 150 crores kind of R&D expense, but at the first half run rate we are going to be doing around Rs 100 crores, so is that Rs 150 crores still the number we should look at or lower than that?

Kiran Mazumdar-Shaw: We can't fix it at any level because you will have to look at what stage of development these programs are. And as I said, it all depends on

regulatory aspects of the development and if we are trying to move these developments at a fast pace, then the costs will also increase. So you should not assume that it can be capped at a Rs 100 crores level or at a Rs 150 crore level. If we move these programs faster into development, then we will have to spend more money.

Priti Arora: So putting it another way, what you are saying is if we see R&D ramping up to Rs 150 crores, we should also see licensing income increasing in the second half?

Kiran Mazumdar-Shaw: Yes, I think it does broadly kind of fall in line with what you are saying.

Priti Arora: And would you say this quarter is an aberration because your development expenses in the last quarter which was the first quarter, you booked an EBITDA of Rs 12 crores with a licensing revenue of Rs 14 crores whereas this quarter that has obviously changed with development expenses that have come in a huge quantum whereas licensing fees hasn't grown proportionately. So do you think the high front loading of development expenses would result in higher licensing in second half?

Kiran Mazumdar-Shaw: I don't want to give you a general answer because this is going to be lumpy. One quarter it might be high and the next quarter it might be low. But it is very difficult to predict because it all depends on how fast we can progress these programs. Sometimes it is for want of certain regulatory clearances. If we are at a certain stage you may not see those expenses taking place. But the moment an approval is obtained, we have to start triggering the process where some are payments that we have to make at the time of starting the trials. So it is about timing. It is very difficult for us to predict what we can book for each quarter but it would suffice to say on an annualized basis, we can give you an idea that this would be the kind of quantum of R&D spent. So don't look at it on a quarter to quarter basis.

Priti Arora: And where are these development expenses accounted for? Is it staff cost and other expenses mainly?

Kiran Mazumdar-Shaw: It is under R&D expenses.

Priti Arora: Okay. Just one last question...what is the average USD- rupee rate at which you have realized your revenues this quarter?

kiran kumar: This quarter it is about 45.70 because it has moved up only at the end of the quarter.

Priti Arora: Okay. So for the next quarter what average rate spot rate do you expect to realize?

Kiran Kumar: Average for the particular month in which the sale has been made.

Priti Arora: Okay. So basically the rupee depreciation benefit should come in the next quarter. That's what you are saying?

Kiran Mazumdar-Shaw: Yes certainly if it holds at these levels.

Priti Arora: Okay thank you.

Moderator: Thank you madam. Next question comes from Mr. Krishna Kiran from ICICI Direct.

Krishna Kiran: Ma'am can I get profitability of research services during the quarter?

Kiran Mazumdar-Shaw: Rs 24 crores was the PAT number of Research Services for the first half.

Krishna Kiran: Ma'am in the last conference call you told us that for Q1 it is Rs 10 crores and therefore it is Rs 14 crores in the current quarter. So, if we look at the last three to four quarters, we have seen consistent improvement in the profitability of research services. So what profitability margins are you comfortable with for coming out with an IPO?

Kiran Mazumdar-Shaw: It is not about profitability margins, it is really about sustaining growth. I think we are very clear in our minds that we want to see sustainable growth over at least six to eight quarters before we look at going to the market. We need to look at how the global trends are especially economic trends in terms of the recessionary impact that it could have on these kind of businesses. We believe they are inflated but we must make sure that our hypothesis is correct. And therefore we want to make sure that we can sustain this growth run. It gives all of us confidence because at the end of the day we need to deliver value to shareholders and we need to deliver value to the business. So we need to make sure that we actually derive maximum value from going public.

Krishna Kiran: Okay fine. Ma'am what is our FOREX hedging strategy now?

Kiran Mazumdar-Shaw: I think we had shared with you that our FOREX strategy has not changed. We have basically made sure that we have insured the FOREX at certain levels and therefore have safeguarded against fluctuations. That is what you are seeing today and the FOREX gain that we have seen of course is also a result of this hedge.

Krishna Kiran: How much would that FOREX gain be during the quarter?

Kiran Mazumdar-Shaw: During this quarter, it is about Rs 3 crores additional, over the last quarter.

Krishna Kiran: Okay, I am just trying to understand here, why our raw material cost has steeply increased?

Murali Krishnan: As we stated earlier that the material costs as a percentage to net sales remains more-or-less the same.

Krishna Kiran: Okay fine. I will get back in the queue, thanks a lot.

Moderator: Thank you sir. Next question comes from Ms. Meetha Shetty from Asian Markets.

Meetha Shetty: Hello this is Meetha Shetty from Asian Markets. Most of my questions are answered. Just need one clarification. If I go through the press release, you say

that the EBITDA margin is at 29% wherein you have included the other income in your calculations. So when you say 30% EBITDA, are you talking on the same levels? So will it be correct that if I remove the other income that would be the core EBITDA?

Murali Krishnan: When you talk about the EBITDA margins we include the licensing income and the other income. Other income comes largely from investments invested in money market liquid funds and this has been recurring every quarter.

Meetha Shetty: Okay. So when you say 30%, you include this income and then you are guiding around 30% EBITDA for the year as well?

Murali Krishnan: Yes.

Meetha Shetty: Okay thank you.

Moderator: Thank you madam. Next question comes from Mr. Manoj Garg from Edelweiss securities.

Manoj Garg: Good afternoon and thanks for taking my question. Can you give us a timeline for the key monetary milestone for our oral insulin program?

Kiran Mazumdar-Shaw: I think I mentioned earlier on that right now we are still engaged in discussion with potential partners and we are now in the process of designing the next clinical trial which we will also discuss with the partner when we get them on board.

Manoj Garg: Okay. What could be the estimated timeline for this?

Kiran Mazumdar-Shaw: We are hopeful that we could get the potential partner on board by the end of this fiscal and we will be looking at the clinical protocols in the same amount of time.

Manoj Garg: Okay. This question is for Rakesh. When we talk about the branded formulations business, we are running at a quarterly run rate of around Rs 64- 65 crores, what percentage of this branded formulations come from India?

Rakesh Bamzai: The Branded formulation business is mostly in India and in very small parts in Biocon UAE.

Manoj Garg: True. I just want to understand because we have been hearing from many other companies that of late there is an intense competition in both chronic and acute segment and some of the MNCs have also come out with their products, which are typically priced at one third or one fourth of the premium branded products in the market. So what is your sense in terms of competition and have you also felt that that kind of competitive pricing in the portfolio segments you are present in?

Rakesh Bamzai: This is correct. The industry is growing at 9% growth as per the reports appearing in the press. There is competition, there are new people in the market, there are new products in the market, but we have a much differentiated strategy in the market place - The portfolio, the customer benefit, the patient care etc. We are positioned in very specialized segments of diabetology, cardiology, oncology,

comprehensive care and nephrology and our products are clearly differentiated as well. This helps us to grow faster than the industry growth rate and we are staying ahead of the curve. And as we mentioned earlier on, building brands will be an important strategy for Biocon in the branded formulation business. So we will continue doing it in days to come.

Manoj Garg: Okay and like Pfizer who have launched the bio insulin portfolio, are they at a similar pricing or there is some price differentiation between you and Pfizer?

Rakesh Bamzai: The price is the same.

Murali Krishnan: Price of Insulin is controlled by NPPA and hence the price is the same that of Biocon's insulins.

Manoj Garg: Okay that's all from my side, wish you all the best.

Rakesh Bamzai: Thank you.

Moderator: Thank you sir. Next question comes from Mr. Ashish Rathi from Equirus Securities.

Ashish Rathi: Hi, good afternoon everyone. If I may use this opportunity to ask ma'am, what is your outlook on the biosimilar opportunity that may unfold in sometime from now and what would be the size, what is Biocon's strategy to tap this opportunity?

Kiran Mazumdar-Shaw: Well as you know the biosimilar opportunity is large and there is almost about 50 billion dollars worth of an opportunity in the bio pharma space. But having said that I think because it is biosimilars, there is a feeling that it is going to be very competitive but the market opportunity is still going to be substantial. Now based on that, there is also an indication that it is not going to be very easy; there are going to be a lot of entry barriers because developing biosimilars is not easy, the investment costs are pretty large and therefore they are talking about a handful of players who will be able to address this very interesting opportunity and I am pleased that Biocon is counted amongst one of those companies who have the capabilities.

Ashish Rathi: Okay. When you say 50 billion dollar opportunity, do you see it as a 50-billion dollar opportunity for the US market in biosimilars or is it on a global level?

Kiran Mazumdar-Shaw: No this is at a global level but depending on which product you are addressing, obviously the market opportunity is different. We cannot disclose the products we are addressing in the market place but suffice to say it is going to be a large opportunity. Certainly, each company is addressing a billion dollar plus opportunity.

Ashish Rathi: Fine thanks a lot ma'am.

Moderator: Ladies and gentlemen this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant day.

Note: This document has been edited to improve readability.