Transcript

9MFY12 Earnings Conference Call of Biocon Limited

Moderator: Good afternoon ladies and gentlemen. I am Shirley, 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 key pad. 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 Q3 and 9M 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. 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 and a note to that effect is stated in the release sent out to you earlier. Now I would like to invite Ms. Kiran Mazumdar-Shaw to briefly discuss the company's performance for the quarter ended 31st December 2011.

Kiran Mazumdar-Shaw: Thank you Urvashi. Good afternoon and welcome to Biocon's investor conference call for the nine months ended 31st December 2011 of FY12. I would like to start by saying that our performance in the first three quarters of FY12 needs to be viewed in two dimensions: with and without licensing. On our group performance without licensing, our manufactured products and services have shown good growth with revenues at a consolidated level growing 15% and profits were up nearly 30%. Our services business delivered a robust revenue growth of 28% YoY, and 21% at a sequential level. Overall our EBITDA and PAT level remain healthy at 28% and 17% respectively. Our net cash position also remains very strong at 580 crores up from 460 crores at the end of last fiscal. Now coming to licensing income, we have witnessed a sharp decline in licensing income, both at the gross and net levels. At the PAT level we have only been able to recognize Rs. 14 crores for the first nine months from the exceptional levels recorded last fiscal of Rs. 70 crores for the same nine months period and this has resulted in overall flat earnings. I would like to reiterate that licensing income has inherent periodic variability and it is a matter of timing linked to certain developmental and regulatory events. Based on progress being made on various programs, we will see licensing income increase over the coming quarters. It is also important to mention here that we have had to allocate a significant portion of our production capacity for our development programs, which has cost us sales in the first nine months.. We have seen exceptional growth in our research services business and this is an outcome of the strategic investments we have made in enhancing our integrated service offering. We are therefore on track to address the planned IPO for Syngene over the next 12 to 18 months, subject to market conditions being favorable.

Moving up the value chain is integral to our growth strategy, which is reflected in the strong 40% growth we have delivered in our branded formulations vertical. Our focus on emerging markets is enabling us to realize a greater potential for our APIs and Insulins portfolio. Emerging markets now account for over 50% of our business compared to 37%

in FY08. Our R&D pipeline is advancing satisfactorily with two late stage candidates namely oral insulin and now the Itolizumab program. We have several other early stage programs with enormous value creation potential through licensing. I would like to mention here that our discussions on the oral insulin partnering are still ongoing and our recently announced data on Itolizumab has generated a lot of interest. We will start engaging in partnering discussions after our 52 week data is in place. We have shaped our overall business into five key growth verticals and we believe that this will enable us to deliver sustainable long term value to our shareholders.

Our growth verticals are as follows: The first one is the small molecules vertical which encompasses our historic API business which we want to front end through dossiers, ANDAs, and 505(b)(2) filings. The second vertical is Biosimilar biologics, which includes Insulins, Monoclonal Antibodies and other biologics. Branded Formulations is our third vertical which is currently an India-centric business. We are looking at other opportunities that will help us take these to other markets. The fourth one is the Novel molecules program. We intend to create very high value licensable assets from these programs. And last but not the least, the research services vertical which have shown robust growth. Collectively we aim to deliver a high double digit CAGR over the next 5 years through these growth verticals.

Other highlights that I have briefly alluded to are about the positive efficacy data from our Itolizumab in a pivotal phase 3 psoriasis clinical trials in India. I am very pleased to inform you that this trial has met both its primary and secondary endpoints. Our first delivery device INSUPen, for insulin and analogues, which was successfully launched in October 2011, has been very well met and accepted in the market. This device has now enabled us to compete across both the vials and cartridges segment, thereby allowing us to penetrate and expand the Insulins market with Insugen and Basalog.

With that, I would now like to open up the floor for Q&A. 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 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. Bhavin Shah of Dolat Capital.

Bhavin Shah: If I were to exclude the branded formulations business and licensing income from overall biopharma the numbers appear more or less flat, any specific reasons for that? Is there a possible deceleration in any part of the business?

Kiran Mazumdar-Shaw: As I had mentioned, we have had to give up some amount of our production capacity for developmental programs, and this has cost us some sales.

Bhavin Shah: Got it madam, so this is more of a one-off thing and we should look at normalization from subsequent quarters?

Kiran Mazumdar-Shaw: Absolutely.

Bhavin Shah: Okay, for the licensing income we are still trailing last year's annual figure. I recall that it has to be looked on an annual basis but do you think it will be easy for us to reach the FY11 numbers in the subsequent quarters or in FY13?

Kiran Mazumdar-Shaw: I must inform you here that last year there was one exceptional licensing spike, which happened immediately after the Pfizer deal was signed. So we may not be able to again capture that in this year, but other levels of licensing will come back from the next quarter as quite a lot of the events that could have happened at the end of last quarter have got pushed to the subsequent quarter.

Bhavin Shah: So is Rs 20-30 Crore range a base number to run through on a normal basis?

Kiran Mazumdar-Shaw: Yes

Bhavin Shah: Okay. On the contract research side, is there any FOREX element that has pushed up the growth figure?

Kiran Mazumdar-Shaw: There is an element of FOREX gain, but there has been significant business growth as well.

Bhavin Shah: That is heartening to note. Thank you so much, I will be in the queue. Thanks.

Moderator: Next question comes from Surya Patra of Systematix Shares and Stocks.

Suriya Patra: A couple of questions ma'am. Any update on the supply of Fidaxomicin to Optimer or supply of insulin to Pfizer?

Kiran Mazumdar-Shaw: As far as Fidaxomicin is concerned, the supplies have started, but we cannot give you any further details.

Suriya Patra: Okay, but this quarter we should have witnessed a good amount of implication both in the margin as well as the revenues from these supplies so have we have seen the full quarter implication out of Fidaxomicin?

Rakesh Bamzai: Fidaxomicin launch has been successful and as it happens with the launches of new products in the US, it takes some time to build up in the markets. But the forecast that we have from our partner Optimer is very good.

Suriya Patra: Okay. And if we talk a little bit more on the margins aspect, then ma'am currently we have been seeing the margin levels around 26 - 27% quarterly, whereas after AxiCorp we were expecting something near 30%. Though licensing income used to be the key contributor earlier, but what is the kind of margins one should be expecting for the base business excluding the licensing income?

Kiran Mazumdar-Shaw: I think around 26 to 28 is a very good level for this kind of business. Licensing will prop it up because it generally goes straight to the bottom line.

Suriya Patra: Okay. Earlier you have indicated that you could be getting licensing income out of your core R&D activities. Any color on that because nowadays we are talking on the licensing income only from Pfizer, and not on other potential opportunity apart from the out-licensing of the molecules.

Kiran Mazumdar-Shaw: There are a number of things on the anvil, so I think you will start seeing some of this figuring probably in the next few quarters.

Suriya Patra: Thanks a lot ma'am.

Moderator: Next question comes from Mr. Girish Bakhru of HSBC Securities.

Girish Bakhru: Can you throw some light on the Atorvastatin opportunity?

Rakesh Bamzai: As all of us are aware that in the month of November Watson launched a product followed by Ranbaxy in US market. Our partners are a very close in the line, so you will see something happening from the month of May. But other than that we have seen a significant growth in our branded Atorvastatin as well as other API sales in the markets that we are present in.

Girish Bakhru: Right. We know that you have launched some of the products in the European market, like in Spain. Are there any significant markets left in Europe where this could be a material opportunity?

Rakesh Bamzai: Yes. A few countries are still open, but the patents are expiring and our products should be in those markets pretty soon.

Girish Bakhru: And the number of partners still stays the same: four in Europe and two in US.Is that right?

Rakesh Bamzai: Yes.

Girish Bakhru: Okay. And similarly on Fidaxomicin, with the launch in Europe, what kind of numbers are we looking there?

Rakesh Bamzai: There is a significant amount of the API and formulation requirement for Optimer. It will be a good growth over last year.

Girish Bakhru: Alright, thanks a lot.

Moderator: Next question comes from Mr. Ravi Agarwal of Standard Chartered.

Ravi Agarwal: Good afternoon. Thanks for taking my call. Couple of questions, Kiran you were mentioning ANDA and 505 (b) (2) strategies for the US. Could you explain it a bit more in terms of what our strategy is going to be, is it going to be backward

integrated to some of our APIs or is it going to be something in the biotech space, Could you add color on that please?

Kiran Mazumdar-Shaw: Basically we are looking at being very selective in our ANDA and 505 (b) (2) strategies. We do want to backward integrate it to our specialty APIs but that is all I can tell you right now.

Ravi Agarwal: Have we already started our filings or it is something that we envisage for the future?

Kiran Mazumdar-Shaw: We are currently focused on putting in place the resources that are required to enable us to start doing this. So right now it is about people, infrastructure, and many other things.

Ravi Agarwal: And this is a business, which will build up independence, so it can be through some of the biotech products as well as in some of the small molecule products.

Kiran Mazumdar-Shaw: No, This is a small molecule strategy.

Ravi Agarwal: Okay. Secondly can I have the EBITDA contribution of the milestone income of Rs 29 crores, please?

Kiran Mazumdar-Shaw: Sorry, we cannot share such kind of information.

Ravi Agarwal: Could you share the breakup between Syngene and Clinigene in terms of revenues?

Murali Krishnan: 90%+ of the research services revenues is from Syngene. As regards Clinigene, quite a bit of the revenues come from inter-company services, which do not get reflected in the consolidated numbers.

Ravi Agarwal: Okay, thank you so much.

Moderator: Next question comes from Mr. Ranjit Kapadia of Centrum Broking.

Ranjit Kapadia: Ma'am, my first question is regarding Pfizer India. We are supplying insulin to them, so what is the status on that? And my second question pertains to the IDL facility, which we have purchased in Hyderabad, is that facility approved by US FDA or what is the status?

Rakesh Bamzai: The product has been launched a few months ago by Pfizer; they are doing very well, in line with the forecast and plans. They are ramping up sales and we are continuing supplying of products to them. Brand building takes time, and it will take them some time as well. As for the Hyderabad facility, we do not have an US FDA approval.

Ranjit Kapadia: Okay, thank you.

Moderator: Thank you sir. Next question comes from Mr. Jiten Doshi of Enam AMC.

Jiten Doshi: Hi Kiran. Wonderful set of numbers given the environment where it is.

Kiran Mazumdar-Shaw: Thanks.

Jiten Doshi: A couple of questions. Can you throw more color on where we are in terms of our deal with Pfizer and what is the progress on that?

Kiran Mazumdar-Shaw: It is basically at a development phase, most of the programs are on track. Basically we are making progress on all the programs.

Jiten Doshi: So when would the next milestone really kick in for us?

Kiran Mazumdar-Shaw: It is difficult for me to say that because we are not allowed to disclose too much detail on that. Suffice to say that we are getting a lot of licensing income recognition because of this program and some of it has been reflected in this first nine months.

Jiten Doshi: Okay. My second question is on Syngene, where do you think the margins can stabilize at the EBITDA level in the long term?

Peter Bains: Long term stabilization should be around 30%.

Jiten Doshi: You think 30% is sustainable given today's currency environment or if you take rupee-dollar at 45-47, which we believe is more sustainable?

Peter Bains: I think we would still look to achieve over the long-term stable EBITDA margin of around 30%.

Jiten Doshi: Okay. Kiran, I have a suggestion, why wouldn't you want to list Syngene by de merging the company and getting it listed by allotting some bonus shares to the shareholders and you have the entire company listed, it can do a price discovery, after which it can raise capital?

Kiran Mazumdar-Shaw: We will definitely consider your suggestion, but we will look at all options.

Jiten Doshi: Of course. What are the valuation indications you getting at this moment?

Kiran Mazumdar-Shaw: The process has not yet started, but we want to maximize the value opportunity.

Jiten Doshi: Okay. So what would your next year's revenue forecast be for Syngene?

Kiran Mazumdar-Shaw: We cannot give you guidance, but you can see that we are on a good growth track.

Jiten Doshi: So what would you end this year with?

Kiran Mazumdar-Shaw: Well, you can extrapolate from this particular run rate and see where we can end, but it will be a good growth. If you look at the 28% growth that we have achieved this year, you can expect to see that kind of rate being sustained.

Jiten Doshi: And according to you how big is the opportunity going forward?

Kiran Mazumdar-Shaw: We want to make sure that we keep gaining traction and we are seeing some very good opportunities. So that is why we think we are now in a position to seriously address going to the market.

Jiten Doshi: Okay, fine. Wish you all the best, thank you very much.

Kiran Mazumdar-Shaw: Thanks Jiten.

Moderator: Next question comes from Mr. Bino Pathiparambil from IIFL Capital.

Bino Pathiparambil: Hi. Couple of quick questions, one is a follow-up; we earlier discussed the biopharmaceutical's revenue. So if we remove the licensing fee and the domestic formulations revenue, then in rupee terms it looks flat, but also considering the fact that there is actually a 10% plus depreciation in the rupee, it looks like there is a decline in business sequentially compared to last quarter. So what has led to this specifically?

Kiran Mazumdar-Shaw: As I have already explained, we have had to allocate some capacity for developmental batches, so we have given up some sales, and hence there has been a decline. Please don't exclude the branded formulations business because it is not similar to licensing income As you know, APIs are a very strong business for us but at the same time it is also commoditized. This is what we are trying to address by making sure that we create growth opportunities by front ending our business.

Bino Pathiparambil: Right, thanks. And in the SG&A expense, I see a sharp jump both QoQ and YoY, was there anything specifically that caused it?

Kiran Mazumdar-Shaw: Yes, a large component of the increase was specifically related to launch activities, especially for INSUPen.

Bino Pathiparambil: Okay. So, is it like a one off spike?

Kiran Mazumdar-Shaw: Yes, it is largely one off.

Bino Pathiparambil: Okay, right. And finally, you know, when you talk about Syngene listing, assuming you are going to raise some money out of that, what would that be used for? Is there a strategic plan for utilizing that capital because at the parent level in Biocon you are already sitting on 100 Crores cash?

Kiran Mazumdar-Shaw: Yes, We would basically look at expanding some of the key infrastructure needs of Syngene.

Bino Pathiparambil: As in capacity expansion.

Kiran Mazumdar-Shaw: Yes

Bino Pathiparambil: Okay, I will join back the queue. Thank you.

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

Bhagwan Choudhary: Can you give me an update on oral insulin that you mentioned as being in the process of outlicensing. So, by what time can we expect that to be completed?

Kiran Mazumdar-Shaw: Well, we are in ongoing discussions. We had hoped to have closed this partnering discussion by this time, but the discussions have sustained. So, we hope in the near future we will be able to reach an agreement.

Bhagwan Choudhary: Can you give the numbers for the out licensing income received during the quarter, what was the portion received at the bottom line?

Kiran Mazumdar-Shaw: At the bottom line level, 14 crores are reflecting in terms of the first nine months as opposed to 70 crores, which was reflected last year.

Bhagwan Choudhary: Okay, thank you.

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

Monica Joshi: Hi, thank you for taking my question. You said that you have allocated some portion of your production capacity to development programs. Can you throw some light on the nature of these development programs?

Kiran Mazumdar-Shaw: Any program that you develop today, in the biosimilar or biologics space, requires you to run developmental batches at a commercial scale in the plant. So, all our programs need to go through that, hence we have had to sacrifice some capacity.

Rakesh Bamzai: This is a regulatory requirement for plant validations.

Monica Joshi: Sure, I understand what you are saying. What I don't understand is that this is going to be a normal part of any business and holds true for anybody in the industry. So, is it that you had some significant allocation of your capacity this quarter, which is kind of abnormal for you?

Kiran Mazumdar-Shaw: This is not required in small molecules.

Monica Joshi: Okay, so this is specific to your biosimilar business.

Kiran Mazumdar-Shaw: Biosimilars and biologics.

Monica Joshi: Okay, that's a little clear. Could you share your thoughts on how the statin business will now take shape and what has been the initial reaction in the last 1-1½ months with Atorvastatin being in the market?

Kiran Mazumdar-Shaw: See, we cannot even comment on atorvastatin, because there is a six months exclusivity phase and the main beneficiaries have been Watson and Ranbaxy. So, the play for us in atorvastatin begins from May onwards.

Monica Joshi: My question was actually on Simvastatin and Pravastatin. What are your customers talking about off take and their prescription growth?

Kiran Mazumdar-Shaw: Well, we haven't seen any decline so far in any of the off take.

Monica Joshi: Okay, that's it. Thank you so much and wish you the best.

Moderator: Next question comes from Mr. Nimesh Desai of Motilal Oswal.

Nimesh Desai: Good evening. This question is on Simvastatin. Should we expect that Simvastatin supplies by Biocon will reduce over a period of time, given that post May 2012; lot of people will enter the Atorvastatin market?

Rakesh Bamzai: I think it is too early to comment but, we have seen the market changing from time to time and as the market changes, Biocon will change its strategy. We are also adding to our portfolio of Statins, so this going to be an important segment for Biocon in the future.

Nimesh Desai: Okay fine. My second question is to Kiran on the ANDA and 505(b) (2) strategy that you highlighted. I just wanted to clear my understanding here. If you file ANDAs or 505(b)(2)s, then wouldn't you be competing against your own customers?

Kiran Mazumdar-Shaw: Well, I think we have a certain strategy, where we will do it, not on a competitive basis, but we will do it on a collaborative basis.

Nimesh Desai: Okay. So, would that mean the partner files these products or you file the product and the partner distributes, how would it work?

Kiran Mazumdar-Shaw: We would definitely like to own the dossier.

Nimesh Desai: Okay, fine. As you said over the next twelve months incremental resources are being allocated, then does it mean that we should budget for increase in R&D cost as well, on account of this strategy of ANDA and 505(b)(2)s?

Kiran Mazumdar-Shaw: Not significantly

Nimesh Desai: Okay. And the last question is on the licensing income recognition. In the past, it was mentioned that while forecasting this on a quarterly basis is almost impossible. But, on an annual basis you will at least maintain a licensing income level which you booked in FY11. Now, does that assumption still hold?

Kiran Mazumdar-Shaw: Yes. It certainly holds for us even this year, except for one small component which was a one off. There was one aspect of the Pfizer licensing, which we recognized in Q3 last year and that was a one off, but other than that we can sustain the rest.

Nimesh Desai: That means that in fourth quarter we should see a fairly large amount of licensing income being booked?

Kiran Mazumdar-Shaw: You will have to look at it relatively but it should certainly be larger than Q3.

Nimesh Desai: Okay and would you be able to quantify this one off licensing income from Pfizer that you are talking about, which will not reoccur?

Murali Krishnan: The one off licensing income from Pfizer that we are talking about is the large part of licensing income that was recognized during the 3rd quarter of last year, which is around Rs. 60 crores.

Nimesh Desai: Okay, understood. And the last question, could you guide us for the tax rate for FY12 and FY13, overall tax rate?

Murali Krishnan: About 18% to 20%.

Nimesh Desai: Okay. .However if I see the first nine months, you are averaging around about 15%, so fourth quarter could be a very huge number, if you have to reach about 18%.

Murali Krishnan: It would be somewhere around that. The tax rate is dependent on R&D spends and SEZ benefits.

Nimesh Desai: Okay, understood. Thank you.

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

Nitin Agarwal: Thanks for taking my question. How should one look at the R&D cost progression going forward? Is it going to be linked in some form to the licensing income that we will recognize over the quarters going forward or will we probably have a situation where the R&D cost increases at a much faster rate than the licensing income per se?

Kiran Mazumdar-Shaw: It is a combination of both. There is a part that is directly linked to the licensing income and there are also unlined R&D costs. So, I do not want to give you the false impression that everything gets linked to licensing income. We have many programs that we trying to develop into monetizable assets which also require a lot of development.

Nitin Agarwal: If you look at the last first nine months, the licensing income and the expenditure, more or less net off. So, as long as it remains in the same ballpark, it is

fine. But, are we going to see a situation where the cost really becomes significantly larger than the licensing income?

Murali Krishnan: Yes that will the case, as the spend on our biosimilar Mabs increases.

Kiran Mazumdar-Shaw: But, as of now you can sense that there could be some net positive impact on us.

Nitin Agarwal: Okay great. And on the biopharma business, if you look forward for next twelve to fifteen months, barring the growth which will probably come through when your partners in Atorvastatin start to sell the product, what could be the other growth drivers for the biopharma business for us?

Rakesh Bamzai: The existing products continue to grow and the new launches will happen. Emerging markets will be growing with the new product launches happening there.

Nitin Agarwal: And what sort of emerging markets and products are we talking about here? Is this specific to the Pfizer deal?

Kiran Mazumdar-Shaw: No what we are talking about is LATAM, Middle East, North Africa and South East Asia for a lot of our regular products like Immunosuppressants, Statins and others.

Nitin Agarwal: But, in these markets have you already put up sales teams or is it something which you are going to be work on?

Rakesh Bamzai: No, these are primarily APIs, formulations and tender markets. We will see both APIs and formulations in these markets in the next twelve to fifteen months.

Nitin Agarwal: And this is an opportunity you believe we haven't quite tapped properly at this point of time.

Rakesh Bamzai: This is a new opportunity for us and this is going to show up in the numbers in the next twelve to eighteen months.

Nitin Agarwal: And specifically on the Pfizer insulin deal, in terms of the ramp up across some of the other emerging markets, when do you see inflection point coming in there in terms of the ramp up? Is Pfizer getting licenses or approvals in some of the large geographies?

Rakesh Bamzai: In the global market Pfizer is driving the commercialization strategy. So, we cannot discuss it, due to confidentiality and competitive reasons.

Nitin Agarwal: Okay. And lastly on the other expenses, sequentially if you look at the last two three or four quarters, the other expenses are going up pretty sharply. Is there any particular cost heads which are contributing and what sort of a base should we look

at this cost head at? In the Rs 50 odd crores is there any element which is one off that has spiked the sales expenditure?

Murali Krishnan: Selling expense is one of the drivers. There have been quite a few new product launches happening lately.

Nitin Agarwal: What would be the run rate sustainable as we go forward for the next quarter.

Murali Krishnan: Around Rs. 40-45 crores, is expected to be the run rate for the next few quarters.

Nitin Agarwal: Okay, thank you.

Moderator: Next question comes from Ms. Priti Arora of Kotak.

Priti Arora: Yeah, hi. This spike in other expenses, it's on account of product launches related to insulin in India?

Murali Krishnan: Yes, one of them is being the launch of INSUPen in the Insulin segment.

Preeti Arora: Alright and just wanted the third quarter PAT number from the licensing income and the corresponding number last year, because the last year numbers would be quite high.

Kiran Mazumdar-Shaw: In Q3, at the PAT level it was Rs 3 crores this year as against Rs 26 crores last year.

Preeti Arora: Okay. And Kiran in the earlier calls you had mentioned that the R&D cost on an annual basis would be around Rs 150 Crores but we are running lower than that. Any estimate you can throw on R&D cost say for next year?

Kiran Mazumdar-Shaw: I think largely the R&D cost is driven by the clinical development cost. We had seen a slowing down of regulatory approvals for clinical trials in India. And this had deferred a number of these trials. That is why you are seeing a slowdown. But, we will be seeing some trials taking place starting this quarter onwards. So, you are likely to see those numbers go up.

Preeti Arora: Okay, This question is for Rakesh. Starting May, do you expect both your partners in US to launch or will it be a tiered launch with one of them coming in later probably?

Rakesh Bamzai: One of them is ready to launch in the month of May provided everything happens on time. The other will follow shortly thereafter.

Preeti Arora: Alright, okay. Thanks.

Moderator: Next question comes from Mr. Krishna Kiran of ICICI Direct.

Krishna Kiran: Ma'am, just regarding CAPEX, what would be the CAPEX spends for FY12?

Kiran Mazumdar-Shaw: We will be probably spending about Rs 200 crores.

Krishna Kiran: Okay and for FY13, is it on similar lines?

Kiran Mazumdar-Shaw: In FY13, we are going to be developing our Malaysia projects, so it is likely to be higher.

Krishna Kiran: Okay. Can it go up to Rs 300 levels?

Kiran Mazumdar-Shaw: Yes, it could.

Krishna Kiran: Thanks. In our fact sheet, you mention licensing development fee and licensing income. Licensing development fee is mainly from Pfizer and licensing income is for Mylan, is that right?

Kiran Mazumdar-Shaw: No, it's not just Mylan; it's largely other licensing income.

Krishna Kiran: Okay, fine. Ma'am, just wanted your view on biosimilar regulations in US market, when do you expect it to come into play?

Kiran Mazumdar-Shaw: I think everybody is waiting for those guidelines to be announced. So, let us see.

Krishna Kiran: Fine ma'am. Thanks. Thanks a lot.

Moderator: Next question comes from Mr. Krishna Prasad of JM Financial.

Krishna Prasad: Hi, good afternoon. Thanks for taking my question. I think starting this quarter you have provided this branded formulation sales in India. Could you also tell us maybe a further split of what this biopharmaceutical could contain, in terms of some of your large API segments?

Murali Krishnan: Based on requests from fund managers, analysts and the investor community at large, we started sharing the branded formulations numbers from last quarter, but we are not able to further detail our biopharmaceutical sales.

Krishna Prasad: Sure, thank you. Can you help us understand the recognition of licensing income from Pfizer, better? What are the broad heads under which you decide to recognize this income? And what are these corresponding costs that you are talking about?

Kiran Mazumdar-Shaw: I think if you look at any programs that have to be developed, we have a clear understanding that Biocon has to be developing certain parts of the program and those will be expensed out. So, whatever we received from the Pfizer

licensing deal, we will look at that after expensing this particular development needs and then take the rest to the net line.

Krishna Prasad: Right. So, what you are saying essentially is that the expensing from your end actually happens in previous quarters and subsequently you get the reimbursement in the form of a licensing development fee?

Kiran Mazumdar-Shaw: It's really about how we are treating this money. Since we are developing this program and there are many events involved in developing any program, we basically expense out each parts of the development and then take the balance to the PAT line.

Krishna Prasad: Alright, thank you

Moderator: Next question comes from Mr. Nimesh Mehta of MT Advisors.

Nimesh Mehta: Thanks for taking my question. Once again coming back to the licensing income and as we understand the net income from that licensing income has reduced drastically. So, in a way can we take this as a margin going forward, from the licensing income?

Kiran Mazumdar-Shaw: It varies depending on what stage of development it is. Some parts of the development you might see a smaller amount coming to the bottom line and some parts of the development you might see a bigger amount coming to the bottom line. So, it's difficult to really get into very details. But, suffice to say that we have a certain methodology which we are applying to the way we treat this licensing income.

Nimesh Mehta: I see, okay. And the second question is related to the BMS contract in the Syngene business. Where are we there in terms of the current numbers? And when does it expire?

MB Chinappa: The BMS contract accounts for about a third of Syngene's business. And the contract has another four years to run.

Nimesh Mehta: Okay, great. And finally can you provide growth in biopharma, excluding the branded formulations in terms of constant currency.

Kiran Mazumdar-Shaw: It is about 5%.

Nimesh Mehta: About 5%, okay. Any light that is, have you booked any foreign exchange gains or losses in the current statement and where is it?

Murali Krishnan: The incremental FOREX gain in the current quarter is about Rs 4 Crores.

Nimesh Mehta: Okay. And at what rates have we booked the sales for this quarter?

Murali Krishnan: The average rate for the quarter has been 50.

Nimesh Mehta: Okay. And we are not covering it through any of the forward covers?

Murali Krishnan: We do cover as per our hedging policy, which is only our net exposure.

Nimesh Mehta: So, what is the cover that we have right now?

Murali Krishnan: It will keep varying and depends upon our forecasted net exposure over the next two years. We review this on a quarterly basis and cover the shortfall.

Nimesh Mehta: Thank you very much.

Moderator: Next question comes from Mr. Surya Patra from Systematix Shares and Stocks.

Surya Patra: Hello, just one clarification. You mentioned long back that you have initiated the clinical trial activities for European market for rh-insulin, what is the progress on that ma'am and can you update us?

Abhijit Barve: .The Phase-III trial is ongoing and the readout should hopefully happen in the next quarter.

Surya Patra: So, does that mean that we would be able to commercialize rh-Insulin in Europe by 2013?

Kiran Mazumdar-Shaw: No, in fact it will take much longer, because commercialization is a much longer thing. That is going to be done by Pfizer.

Surya Patra: Okay. The commercialization will happen by Pfizer, but what are the processes in this ma'am?

Kiran Mazumdar-Shaw: The whole process is quite long drawn out. After the clinical trials, you apply with all the data to the regulatory authorities; they take quite a long time to do it and then give you approval. After that you have to take market approvals. So, it takes at least two to three years before you can get into the market.

Surya Patra: Okay. Since we are saying that we will be completing the clinical trial at least for rh-insulin, for European market shortly, should we be expecting good amount of licensing income in the subsequent quarter out of Pfizer?

Murali Krishnan: The trial is only for rh-insulin in European markets. The licensing income does cover all the 4 insulin products.

Surya Patra: Okay. Thank you.

Moderator: Next question comes from Mr. Naresh Suthar from SBI Life Insurance.

Naresh Suthar: Good evening ma'am. I wanted to ask that we have Rs 900 odd Crores of cash and investment in our books. So what are our plans to deploy that cash and investments?

Kiran Mazumdar-Shaw: We have a large need. As you know Malaysia plant is coming up and that's going to be a huge requirement in terms of CAPEX.

Naresh Suthar: Okay got it, thanks.

Moderator: Next question comes from Mr. Dheeresh Pathak of Goldman Sachs Asset Management.

Dheeresh Pathak: Hi, good evening. The way licensing income is being accounted for in the P&L is still not clear and the reason is the margins for example, Q3 FY11 we had 34% PAT margin on the licensing revenue. For nine months it is 17% this year and for this quarter, Q3 FY12, it is 10%. So, how are we booking the revenues?

Kiran Mazumdar-Shaw: I suggest you take this offline, where you will be explained how it is being treated.

Dheeresh Pathak: Okay, appreciate that, thank you.

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

Vipul Shah: Hi good evening. My question is what the total CAPEX for the Malaysia plant and how we are going to finance it?

Kiran Mazumdar-Shaw: About USD160 million over three years.

Vipul Shah: And how we are going to finance it ma'am?

Murali Krishnan: It is partly going to be financed by the banks/ financial institutions and the balance through internal accruals.

Vipul Shah: Okay. And another question is regarding your hedging policy. I think earlier it was asked and if I have understood correctly, you are hedging two years of net profit, is it correct?

Murali Krishnan: As per our Forex policy, we hedge about large part of our estimated two years' net exposure.

Vipul Shah: Net FOREX exposure, okay, got it, thank you very much and all the best.

Moderator: Next question comes from Mr. Ravi Agarwal of Standard Chartered.

Ravi Agarwal: What is the growth in the research services business on a constant currency basis for the quarter and for the nine months?

MB Chinappa: About 10% of the growth in the quarter is on account of favorable foreign currency.

Ravi Agarwal: Okay. The other question is in terms of licensing income you mentioned that the number for the third quarter which we have booked would be one off for the Pfizer insulin project last year. How much would that be?

Murali Krishnan: It is about Rs 60 crores.

Ravi Agarwal: So this is basically the reversal of the capitalization of R&D expenses…?

Kiran Mazumdar-Shaw: Yes

Ravi Agarwal: And thirdly just want to actually confirm, you were mentioning that our nine months EBITDA margins ex licensing income is around 28%, is that correct?

Kiran Mazumdar-Shaw: Yes

Ravi Aggarwal: Thank you so much.

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

Nitin Agarwal: Just one question ma'am, when we book the Fidaxomicin income, that is booked in the biopharma or do you book it in the research business?

Murali Krishnan: In our biopharma revenue.

Nitin Agarwal: Okay fine, thanks so much.

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

Kiran Mazumdar-Shaw: Thank you for attending this conference call and if there are any questions or clarifications, please do not hesitate to contact our colleagues Jill, Murali, Kiran Kumar and Chinappa. Thank you.

Moderator: Thank you madam. 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: 1.This document has been edited to improve readability.