

BIOCON LIMITED

Analyst / Investor Conference Call 21st January 2010, 03:00 PM IST

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 conference to Ms. Mansi Parekh of Citigate Dewe Rogerson.

Mansi Parekh: Thank you Shirley and good afternoon everybody and thank you for joining us on Biocon Limited's Q3 and nine months FY2010 conference call. We have with us on this call Ms. Kiran Mazumdar Shaw, Biocon Chairman and Managing Director and also her colleagues who are part of the senior management team. We will begin the call with the opening remarks from the Biocon management followed by an interactive Q&A session. I would like to add that some of the statements made in this call are forward looking in nature and 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 period ended December 31st, 2009. Over to you, madam.

Kiran Mazumdar Shaw: Thank you Mansi and good afternoon everyone. It gives me great pleasure to present Biocon's Q3 numbers to you this afternoon. As you can see, we have delivered a very strong set of numbers. To use cricket as an analogy, our run rate has started improving as we approach the finishing line this fiscal and we are very confident that we will continue to hit sixes in this coming quarter.

At the outset, let me say that we have delivered very robustly on the top line. We have registered a top line revenue growth of 47% on a year-on-year basis, approaching Rs.1,800 crores with an EBITDA of Rs.369 crores which represents a 33% year-on-year growth. We have delivered a strong PAT of Rs. 213 crores, up 212% YoY but this growth appears huge because it is over last year's smaller base due to the MTM losses. I would like to highlight that our 9-month revenues in this fiscal have already crossed our full year revenues of FY09. Excluding AxiCorp, the group has surpassed its annual revenues of FY09. We currently stand at Rs.1,079 crores, up 21% year-on-year. EBITDA is at Rs.328 crores, a 21% YoY growth and a PAT of Rs.192 crores, which is up approximately 190% YoY. It is important to mention here that the operating margins of the group on a standalone basis have been maintained at 20%.

During the quarter, we have performed extremely well. This is perhaps one of our strongest quarters. We have delivered a PAT of Rs.81 crores which is significantly higher than any other quarter so far. On standalone basis, we have delivered a PAT of Rs.71 crores which translates into a 160% YoY growth. The quarter revenue for the Biocon Group without AxiCorp is Rs. 382 crores which makes this our highest ever quarter. If we include AxiCorp, the revenue number is Rs.642 crores. Overall, all the business segments have delivered good growth. The branded formulations business in India delivered a 40% YoY growth and the 9M FY2010 revenues for this segment have crossed Rs.100 crores, which is where we ended last fiscal. Our research services business has also delivered good growth this quarter. We have grown 32% year-on-year in terms of our research services business. And in this business segment, it is worth noting that we have actually improved our profit realization this quarter as compared to the previous quarter. There may be a marginal decline in the top line in the Syngene business – the research services business - but this has to be seen along with the customs synthesis business. This latter segment

was a higher volume-lower margin business last quarter and this quarter it is the other way around, which is why there is a little improvement in profitability. We are very confident that we will continue with this run rate and conclude this fiscal on a very positive note.

In terms of our research pipeline, we are making steady progress in our biosimilars program with Mylan. We have also filed a US IND application for our oral insulin program, which is making good progress. We will be commencing our Phase III trials on our Anti CD6 monoclonal antibody shortly. With respect to our other research partnerships, all of them are making steady progress. To wrap up, I would like to say that we are focusing strongly on the emerging markets, on our branded formulations segment and we expect that these will be very important growth drivers in the near term. With that, I would like to move on to the question and answer session.

Question and Answer Session

Moderator: Thank you, madam. First question comes from Mr. Balaji Prasad from Goldman Sachs.

Balaji Prasad: Hi, good afternoon everyone. Congratulations on the strong numbers. I want to understand the diabetic market in India especially noting that insulin sales have been one of the key reasons for your strong performance. Could you throw some light on the market, the size, and the various segments? Also, when you look to launch IN105 in the Indian market at the end of this year, or beginning next year, what kind of upsides do you expect to see?

Rakesh Bamzai: Hi Balaji. We have total field force of 300 representatives in India in the diabetology segment and we are growing rapidly at about 40%. We have a 12% market share in insulins in India. Our goal is to change the mindset of physicians because diabetes is a very big issue in this country. With 30 million diabetics in this country alone, we are going to focus on making sure that people are diagnosed and treated. This involves placing a lot of emphasis on increasing the market itself, and also on how to get patients to start on insulin in the early stages and how to achieve an HbA1c level of less than 7. Further, we are able to use the Indian experience in many other countries and continue building our franchises.

Balaji Prasad: Thanks for the response. Are you seeking to increase the strength of the sales force and in terms of the diabetic market growth itself, what do you think is the market's inherent growth rate? You are growing at around 40%, but what rate do you think the diabetic market will be growing at going forward in the next couple of years?

Rakesh Bamzai: In India, this market is growing at approximately 17% and we are growing better than that because our base is small. But we are building very interesting strategies with physicians and our acceptance rate is very high. To answer your query on our field force, we will have to increase this because we are still looking at how to reach areas like Bihar and Orissa.

Balaji Prasad: Thanks. My last question was on the oral insulin molecule. You had said last quarter that your goal is to launch it in the Indian market in a span of maybe three to four quarters. What is your strategy to launch this?

Kiran Mazumdar Shaw: I think it is too early to talk about this because we still have to do many more trials before we can really strategize in terms of product positioning and how we want to launch this product. So, I think, this is a question we can answer only after certain trials are completed.

Balaji Prasad: Fair enough. But in terms of a launch date, are you looking at 2011?

Kiran Mazumdar Shaw: Yes, 2011, if everything goes well.

Balaji Prasad: Okay, thank you very much.

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

Bhavin Shah: Good afternoon everyone and congratulations on the great numbers. Madam, if you could shed some light on the Tacrolimus launch, if it has happened and also sequentially, there seems to be more of a flattish trend in the CRO business. Is there anything that we should read from that?

Kiran Mazumdar Shaw: Well, I think you shouldn't read too much into the sequential part of the research services business because as I mentioned, this quarter should be looked at in terms of improving the bottom line of Syngene. The top line can be a bit misleading because it would depend on the product mix. As you know, apart from the FTE business, we also have the customs synthesis business. So, sometimes we might take on large volumes-low margins kind of products and I think that's what you have seen last quarter whereas this quarter the kind of products that we have synthesized under customs synthesis have actually been much more profitable, but lower in terms of value. That's the explanation for the numbers appearing stagnant. I don't think this is a cause for concern because the business is in very good shape and I think that in the next quarter also, the business expects to do very well. Now, on your question on the Tacrolimus launch, I will request my colleague Rakesh to answer it.

Rakesh Bamzai: Hi Bhavin. The product was available as a generic in the United States in the month of August 2009 and we didn't participate in the first phase of launch because only Sandoz got the approval. In second phase, we have one customer approval expected shortly and we are gearing up for it as the demands are huge. We also have two more customer approvals in the pipeline.

Bhavin Shah: So do you expect more shipments for this product to happen perhaps Q1 FY11 onwards?

Rakesh Bamzai: Yes, we will see the impact in the next four quarters.

Bhavin Shah: Okay, so anything specific in the immunosuppressants category that has seen some upside?

Rakesh Bamzai: Yes, we are gaining market share in Mycophenolate Mofetil. Tacrolimus will continue to grow. We have developed two new immunosuppressants and we will file in the US with these two. Mycophenolate Sodium is another one where we are in a strong position. So, we are going to play in that space and we are going to do very well.

Bhavin Shah: Okay. Thanks a lot.

Moderator: Thank you sir. Next question is from Mr. Ranjit Kapadia from HDFC Securities.

Ranjit Kapadia: Good afternoon and hearty congratulations. My question relates to the performance of AxiCorp. In the three-month period, that is the current quarter, sales was about Rs. 2.6 billion and the net profit was Rs. 120 million, EBITDA margin was 7.3% and net margin was 5% against an EBITDA margin of 6.3% and 4% for the nine-month period, so the performance of AxiCorp has really improved. Coming to the German market, other companies are not doing well and the market is going towards the tender business. Can you throw some light in that context on how you see the AxiCorp business growing further?

Kiran Mazumdar Shaw: Well, like you said AxiCorp has done extremely well when you compare it to the other companies that are operating in the German market. And I think this is something that speaks very highly of the management at AxiCorp. I think we have contained costs very well.

The metformin tenders and a few other tenders that AxiCorp has won are also helping to boost the top line. We are very confident that AxiCorp will maintain this positive, profitable growth.

Rakesh Bamzai: Also, as per a recent survey, AxiCorp is the largest Indian-owned pharmaceutical company in Germany.

Ranjit Kapadia: Can you throw some light on the German market and how it is shaping up?

Kiran Mazumdar Shaw: Well, the German market is going to be very challenging because most of it is moving towards the tender market. So it is going to be a fiercely competitive market. Finally, it is all about companies who understand their business, understand their market, and how they operate in such challenging market places. I think that with a very capable and experienced management team, combined with our sourcing assistance, AxiCorp has been able to gain advantage in the German market.

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

Moderator: Next question comes from Mr. Bino Patiparambil of IIFL Capital.

Bino Patiparambil: Hi. Congratulations on a very good set of numbers. I am really happy that the run rate is really going up, but it would be great if you could share a bit about who are those batsmen who are scoring the sixes in the biopharmaceutical business, provide a little color on how insulin is doing and what are the other products that have driven the growth?

Kiran Mazumdar Shaw: Yes, I think, one of our star batsmen has been the branded formulations business in India where for the first time we are actually sharing some numbers with you. We have crossed the Rs.100 crore mark in the nine-month period which, as I mentioned, was the number we did for the full year of FY09. So you can see that we have grown at a pretty good rate. In addition to this particular segment, we have also had other big contributors like insulin in the emerging markets. And we are doing very well in certain markets like Latin America, Middle East, North Africa and Asia. These are markets where we are doing extremely well in insulin. We are going to be focusing a lot on our insulin sales in other emerging markets. In terms of research services, this has been another star batsman again because this is a business that is also showing strong traction and this is a business that will grow robustly for the foreseeable future. APIs have always been very solid batsmen and they have always delivered a very sound run rate and they will continue in this manner. In addition to this, we have AxiCorp, which has also contributed significantly. Therefore, it is not one particular segment that has delivered, but the good performance has been across the board, and that's what makes us a very risk-balanced business model. We have a diversified portfolio and every part of that portfolio is delivering good numbers.

Bino Patiparambil: Right. Would you be able to share some rough numbers on insulin sales levels?

Kiran Mazumdar Shaw: Well, roughly, insulin accounts for more than 10%.

Bino Patiparambil: 10% of?

Kiran Mazumdar Shaw: Of revenues.

Bino Patiparambil: Okay. Excluding AxiCorp?

Murali Krishnan: Yes, but including Biocon India subsidiaries.

Bino Patiparambil: Okay, I understand. And on AxiCorp, we understand that there are more insurance companies in Germany which have come out with tenders and subsequently contracts were awarded. Has AxiCorp won some of these? If you have, then have you already started the supply for these tenders, or is it going to ramp up over the next couple of quarters?

Kiran Mazumdar Shaw: Well, quite a large part of this has already begun. They have won a few more tenders. Although these are smaller they are important ones and for the next two years these will definitely provide a good earning base for AxiCorp.

Bino Patiparambil: Okay. Finally, for Syngene, would you be able to give the EBITDA and PAT figures?

Murali Krishnan: That will definitely be maintained and will start getting better now.

Kiran Mazumdar Shaw: The EBITDA numbers of Syngene in the third quarter is roughly, I think, about Rs.21 crores, about 30%.

Bino Patiparambil: Okay 30% EBITDA margin.

Murali Krishnan: As I said, we will maintain that and it will start getting better going forward.

Bino Patiparambil: Sorry. Is 30% the EBITDA margin?

Murali Krishnan: Yes, it is the EBITDA margin.

Bino Patiparambil: Okay, right. And PAT?

Kiran Mazumdar Shaw: PAT is about Rs. 8 crores.

Bino Patiparambil: Do you still have plans ahead to do an IPO?

Kiran Mazumdar Shaw: Yes, we will look at an opportunity to list our research services business in the next fiscal.

Bino Patiparambil: Okay, thank you very much.

Moderator: Thank you sir. Next question comes from Mr. Vikas Sonawale of Religare Capital Markets.

Vikas Sonawale: Yes. Congratulations on a good set of numbers. I have two questions on the research services. One is I believe something that madam spoke about - the addition of new clients – would they be similar to BMS in size? Also, how do we look at addition of clients in a year and what are the sustainable margins here because we have seen some kind of pressure in the EBITDA margins of Syngene. So going ahead - 25%, 30%, or 35% - which would be the more likely number?

Chinappa MB: I will start with the margins. As we ramp up from the current level, we expect to sustain an EBITDA margin of between 33% to 35% and a PAT margin of 20% at current exchange rates. Regarding the buildup of clients, yes, we have seen a lot of traction among our existing customers both in terms of expanding the number of scientists and the scope of the services we offer. While we have not yet signed any new contracts that assure us BMS kind of revenues, the indications are that a couple of clients are interested ramping up integrated discovery services.

Vikas Sonawale: Okay. And how much was the contribution of BMS during the quarter? I think it was about 30% last quarter.

Chinappa MB: We maintain client confidentiality and do not disclose revenues by client. However BMS remains our largest customer.

Vikas Sonawale: Okay. And the last question is on material and power cost. We have seen significant increase in material and power cost by 58% for the quarter. Even if I exclude AxiCorp, there is an increase of about 55% YoY. So what factors have contributed to this?

Chinappa MB: I presume you are talking about the Biocon Group as a whole, excluding AxiCorp?

Vikas Sonawale: Yes. If I exclude AxiCorp, then the material and power costs are up 55%?

Chinappa MB: If you look at our YTD numbers across both the years, material and power cost together have been averaging about 43% of sales. The Q3FY09 numbers were much lower due to the accounting effect of buildup in inventories. Since then, on an overall basis, we have been maintaining material and power cost at around 43%.

Indraneel Das: I would like to add to what Chinappa said. If you actually separate the material and the power components of this combined figure, we have actually made a 2% savings in our power cost per se by switching over from our generator to the grid power last year. This has resulted in a Rs. 1.1 crore per month savings for these nine months. So the effect which you see as 1% year-on-year, without AxiCorp, is essentially on account of the accounting issue, which Chinappa mentioned.

Vikas Sonawale: Finally, if you can throw some light on the increasing licensing income and how do we look at this part of the business going ahead - If not on a quarter-on-quarter basis, at least on an annual basis?

Murali Krishnan: It will continue over the next six quarters of which two quarters have already passed.

Vikas Sonawale: Okay, great. Thanks.

Moderator: Thank you sir. Next question comes from Ms. Monica Joshi of Aventus Capital.

Monica Joshi: Hi, thank you for taking my questions. If you could highlight what is really driving the growth in AxiCorp because you mentioned that it is a challenging market and that's what we keep hearing. So what is really driving the growth over here? Secondly, if you could throw some light on the MMF market share you have in the generic phase, it would be helpful.

Kiran Mazumdar Shaw: Essentially, AxiCorp has two or three different types of businesses. There is the traditional business which has grown very significantly and that was topped up by all these generic awards won from the tenders. But apart from these, AxiCorp has also become very cost conscious and they have managed lot of cost savings, which is what has delivered profits. I think if AxiCorp had not been acquired by Biocon, they would have found it very challenging to deliver much profitability.

Monica Joshi: When Biocon acquired it, the margins should have been at about 7% to 8% at the EBITDA level. Please correct me if I am wrong here. How does the margin improve now and how can we build on that?

Rakesh Bamzai: I think once we started looking after the business, we looked at strategic sourcing and building up operations in an efficient way. In the last six months, the margins have gone up steadily and we will see good margins in the next 6-12 months.

Monica Joshi: Okay, and on MMF, if you could share some market share details.

Rakesh Bamzai: We have a 20% market share in the United States and we have close to 22% in Europe. We are gaining market share in other markets also.

Monica Joshi: Great. You mentioned that statins have also contributed to your growth. Are you seeing some sort of price increase or are you seeing a volume increase?

Rakesh Bamzai: Simvastatin is stable with volumes increasing and the US market share rising. Pravastatin is also stable. The largest upside was our entry into the European market with a partner before the patent expiry in Spain. This gave us a huge upside in Atorvastatin. We are present with a different sort of Atorvastatin in Europe which is the only product available in the market.

Monica Joshi: Good. So these numbers on statins - are they sustainable?

Rakesh Bamzai: Yes, they are sustainable and growing.

Monica Joshi: Great. Thank you so much and wish you all the best.

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

Prashant Nair: Yes, my question was related to the cost excluding AxiCorp which you have answered. I also wanted to get a sense of where the sustainable margins would be. Last year was an accounting impact, so would this 28% to 30% range be the level that we are looking at including the licensing payments that come from Mylan?

Murali Krishnan: Yes, absolutely. You are right on that. We are looking at around 30% including AxiCorp and including the licensing fees.

Prashant Nair: Okay sir, thanks a lot.

Moderator: Next question comes from Mr. Shriram Rathi of Centrum Broking.

Shriram Rathi: My questions have already been answered, thank you.

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

Nitin Agarwal: I want to check on the generic insulin in Europe. You mentioned that there has been a bit of delay. So, are you now looking at FY2013 kind of a launch possibility? Does it have something to do with the regulatory process or are we having issues with internal development?

Kiran Mazumdar Shaw: When I say FY2013, what I am saying is that it will still take place in calendar year 2012. Originally, when we had first embarked on this particular development of generic insulin for Europe, if you recall we were almost expecting it to enter the market in late 2011. That has shifted to 2012 because the regulatory timelines turned out to be much longer than what we had factored in. Nothing has changed in terms of the clinical development or the clinical trials that we are engaged in. All of that is on track.

Nitin Agarwal: And what would be your sense of the target market in Europe? I mean the size of the potential market that could be there for the taking.

Kiran Mazumdar Shaw: Well, the market is enormous. It is a billion dollar market for insulin but it all remains to be seen how successful we are in terms of getting market share.

Nitin Agarwal: You mean a billion dollar market for human insulin, excluding the analogues?

Kiran Mazumdar Shaw: Yes, excluding analogues.

Nitin Agarwal: Okay, and since the last call, do you have anything more to share with us in terms of the timelines or in terms of launches happening as part of the Mylan deal? When do you see products coming into the market?

Kiran Mazumdar Shaw: We will be there on the first day of market formation in any of the US-European territories. We are also looking at launching these products in India and the emerging markets but this is at least a few years away.

Nitin Agarwal: Okay, fine. Thank you very much.

Moderator: Next question comes from Mr. Anshuman Gupta of Ambit Capital.

Anshuman Gupta: Yes, hi. My question is related to the Health Care Reform Bill that the US is planning to introduce. If this bill passes in the present form, it is going to provide 12 years of exclusivity for the innovator. How will it impact the development of biosimilars at Biocon?

Kiran Mazumdar Shaw: I think we have already answered this question in the past. It doesn't impact any of our products. Based on the basket of products we have, factoring in the 12-year exclusivity, all of them have the ability to enter the market whenever the patents expire.

Nitin Agarwal: Okay ma'am. Thank you.

Moderator: Next question comes from Mr. Sanjay Kohli, an individual investor.

Sanjay Kohli: Hi, I wanted to know the amount of MAT credit accumulated?

Murali Krishnan: My colleague Kiran Kumar will answer this.

Sanjay Kohli: And while you are accessing it, ma'am I also wanted to check on the amount of charity that is factored into your results in terms of either direct payments recorded in your expenses or free-of-cost medicines that have been distributed here in India?

Murali Krishnan: We will just answer the MAT credit question first.

Kiran Kumar: As on date, there is no MAT credit available. Whatever MAT was paid in the previous year has been set off against the normal tax in the current period.

Kiran Mazumdar Shaw: In terms of your question on charity, I think we have a very small component which can be described as charitable, but having said that, there is a foundation that I have created called the Biocon Foundation in my own personal capacity and it is through that foundation that we are actually helping a lot of patients and a lot of initiatives that involve these kind of charitable efforts.

Sanjay Kohli: Yes ma'am, I am aware of that. One keeps reading about that and hearing your interviews from time-to-time, but at a corporate level, at Biocon's consolidated level you are basically indicating that...

Kiran Mazumdar Shaw: I would say it is more on a need basis. We have not made significant charitable contributions but we have supported a number of patients, especially in the cancer area with a lot of free drugs.

Sanjay Kohli: Okay ma'am. Thank you.

Moderator: Next question comes from Mr. Abhay Shanbhag of Deutsche Bank.

Abhay Shanbhag: Yes, hi. A couple of questions – One, how much sourcing does AxiCorp do from Biocon?

Murali Krishnan: Nothing.

Abhay Shanbhag: Okay. So, all the margin improvement is by cost saving at AxiCorp itself and not through any linkages with Biocon?

Murali Krishnan: There are no linkages directly through sales but Biocon helps Axicorp in sourcing from Indian companies. Biocon gets in the forefront and does the negotiation and thereby helps Axicorp save on costs.

Abhay Shanbhag: Technically how much would they save? Would it be like 30%-40% of AxiCorp's sourcing? In the future, do we expect this to go up – in other words, I just want to get a sense of some number.

Rakesh Bamzai: It is primarily a distribution business there so the impact is close to 10% currently but in future it will grow and this may be 20% or more.

Abhay Shanbhag: Okay and these would be for those that are already approved in the German market?

Rakesh Bamzai: Yes.

Abhay Shanbhag: Okay. My other question was on the acquisition of a company in Andhra Pradesh. What was the company and what was it acquired for?

Kiran Mazumdar Shaw: This is a company called IDL Specialties and this was a company that was acquired for its API facilities. Basically, there was a need for Biocon to expand its API capacity and the choice was - do we do it as a green-field venture or do we acquire a readymade facility? We opted for the latter because it actually allowed us to shrink the time-to-market for such APIs. So, we are using this facility to make intermediates and certain APIs and it has allowed us to rapidly expand our API capacity.

Abhay Shanbhag: Okay and ma'am can you throw some light on how much contribution it has made to this quarter in terms of revenue?

Kiran Mazumdar Shaw: This quarter, zero. The contribution will start only from next fiscal.

Abhay Shanbhag: So, April 2010 onwards?

Kiran Mazumdar Shaw: Correct.

Abhay Shanbhag: And what is the acquisition cost and what sort of revenues can we expect?

Kiran Mazumdar Shaw: We cannot share that with you, but it is a modest cost. It is not a huge number.

Abhay Shanbhag: Okay and in Syngene - you have been saying that you are looking at more contracts. In the past, you have done a significant amount of CAPEX there so for the next step of growth, would more CAPEX be required or it would just be contracts coming in? You already have built-in capacities which you will be able to increase going forward?

Chinappa MB: Hi, Abhay, we could ramp up to about a 50% increase based on existing capacities.

Abhay Shanbhag: Okay and you would expect that to happen in one or two years or would it take longer?

Chinappa MB: Over the next one to two years.

Abhay Shanbhag: Okay, fine. Thank you.

Moderator: Next question comes from Ms. Cheenu Gupta of Tata AIG Life Insurance.

Cheenu Gupta: Hello ma'am. You spoke about the margins improving in the Syngene business from 30% currently in this quarter to even 33% to 35%. Historically, we have seen the margins at close to 25%. So what are the key factors that would bring about this improvement in margins?

Chinappa MB: As I mentioned in the previous question, Syngene is actually operating at about 60% of its total capacity and a lot of costs are associated with the idle capacities. As we ramp up, we expect the margins to increase.

Cheenu Gupta: We are talking about EBITDA margins?

Chinappa MB: Both EBITDA and PAT. I am talking about maintenance cost, power, utilities, etc – these costs bring down the EBITDA margin and of course depreciation and interest on the entire facility.

Cheenu Gupta: Okay and you have a FOREX loss of Rs. 9.6 crore in the current quarter - what would that be related to?

Indranil: The forex loss relates to transactions in foreign currency during the current period. This is a realized loss due to movement in the exchange rates.

Cheenu Gupta: Okay and what would be our current hedging status?

Murali Krishnan: It will continue to be the same. We are going by the policy that has been approved by the audit committee and the board. We are sticking to it and we have not taken any hedges during the course of the last quarter.

Cheenu Gupta: Okay. So what percent of our exports would be hedged?

Murali Krishnan: It is 70% of the net exposure for the first year and 50% for the second year.

Cheenu Gupta: Okay, thanks.

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

Girish Bakhru: Yes hi, can you share the percentage of exports in the biopharmaceutical business - how much comes from the developed and how much from the emerging markets?

Murali Krishnan: The overall split for Biocon in biopharmaceuticals is approximately about 50-50. About 45% to 50% is in exports and the balance is for the domestic market. Having said that, I must point out that some of our sales in the domestic market go onward to the regulated markets via our domestic customers. However, we book these as domestic sales. It is actually deemed exports.

Girish Bakhru: Alright, and sorry if I missed this but what is the current status of the insulin registration in the developed markets?

Kiran Mazumdar Shaw: As I mentioned earlier, in Europe and in the US, it is under clinical development where phase 1 clinical development for the PKPD profile is almost complete and the phase 3 trials will start very soon.

Girish Bakhru: When do we expect milestone payments then?

Kiran Mazumdar Shaw: There are no milestone payments. We are doing it ourselves in Europe and in the US where we have a partner, the milestones are really small.

Girish Bakhru: And what would be the cost incurred for these?

Kiran Mazumdar Shaw: We cannot share that with you but these are in the order of tens of millions of dollars.

Girish Bakhru: Okay, just getting onto the key drivers for the next year - if you can drill down to key products that will drive the earnings momentum for the next year or years later than that?

Kiran Mazumdar Shaw: The same growth drivers that you have seen this quarter will continue to be the growth drivers for next year, namely insulin, the branded formulations, the services and our APIs.

Girish Bakhru: Are you giving any guidance for sales growth?

Kiran Mazumdar Shaw: No, we don't do that.

Girish Bakhru: Lastly on the CAPEX front, what CAPEX can we look at and how much have we already incurred in this year?

Murali Krishnan: This year we expected to incur about Rs. 125 crores and we will be well within that. At this point in time, we expect next year's CAPEX also to be around the same level and nothing more.

Girish Bakhru: Alright, thank you so much.

Moderator: Next question comes from Ms. Sanjuktha Mazumdar of S.K. Securities Limited.

Sanjuktha Mazumdar: Hello, good afternoon ma'am. Could you please take us through the research pipeline once more and could you please throw some light on the formulations business and are you looking at acquisitions right now?

Kiran Mazumdar Shaw: Well, to answer your first question - we have a very well-balanced research pipeline between generics, bio generics and novel programs. Our two leading novel programs are oral insulin and anti CD6 which will be ready for licensing towards the later part of this calendar year. If you look at our bio generics, we are developing these with Mylan and these will probably have a market opportunity starting in 24 months time. Then you have the small

molecule generics which are already in advanced stages of development and we are in the process of accessing the emerging as well as the US and European markets for these.

In terms of acquisitions, we will keep our eyes open to see whether there are any interesting acquisitions that will make a good strategic fit for us.

Sanjuktha Mazumdar: Thank you, ma'am.

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

Arvind Bothra: Hi, most of my questions have been answered. On the immunosuppressants and insulin side of the business – would they continue to be the key drivers of growth because I would assume statins would remain a cash cow business for you?

Kiran Mazumdar Shaw: As I mentioned earlier, it is not just insulins and immunosuppressants but also our branded formulations business in India that will drive growth along with our research services business.

Arvind Bothra: Okay. In the research services business, the 34% growth in Syngene specifically - does that include licensing income as well?

Kiran Mazumdar Shaw: No, Syngene does not have any licensing income.

Arvind Bothra: Okay.

Murali Krishnan: Licensing income is clubbed with biopharmaceuticals.

Arvind Bothra: Okay. Thanks.

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

Sameer Basiwala: Hi, Rakesh, I think you mentioned a different salt form of Mycophenolate - it comes in hcl and you mentioned sodium. Could you elaborate a bit on that and what is the business plan in that?

Rakesh Bamzai: Yes, we are entering the market with a partner for the sodium salt because we have a strong IP there. I cannot discuss this further owing to confidentiality reasons but you can see some upside on Mycophenolate Sodium as well.

Sameer Basiwala: And which market are you referring to?

Rakesh Bamzai: US and Europe.

Sameer Basiwala: But, in the US, the original form is already widely generalized.

Rakesh Bamzai: Yes.

Sameer Basiwala: And versus the hcl form, how much is the market share of the sodium version?

Rakesh Bamzai: It is growing at 35%. Currently, it is small. It is close to 300 million but the growth rate is higher.

Sameer Basiwala: Okay and when do you expect to enter the market?

Rakesh Bamzai: It depends on the approval and regulatory processes. I cannot tell you the year in which it will be available on the shelf.

Sameer Basiwala: Has an ANDA been filed for this?

Rakesh Bamzai: It is in the process.

Sameer Basiwala: And the other question is about Tacrolimus. I think you mentioned that your partner has been approved and Sandoz is not your partner. I can see that Sandoz is the only player approved on the FDA website.

Rakesh Bamzai: Well, one more company is expected to receive an approval shortly. We are currently sweating to fulfill their requirements. It is challenging for us as their requirement is huge.

Sameer Basiwala: Okay, excellent. Thank you so much.

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

Nitin Agarwal: Hi, Murali, I had a question on the working capital. There seems to be a pretty sharp improvement on both receivables as well as the inventory front. Is this sustainable in terms of the numbers?

Murali Krishnan: On the inventory side, if you look at only Biocon, it has gone up and we are also trying to contain that but the major increase has come because of AxiCorp where they will have to buy the tendered products and they will have to get it in container loads only.

Nitin Agarwal: But the inventory as I see it has gone from 309...

Murali Krishnan: What you are seeing is the nine months increase but if you see on a quarterly basis, it will be a normal and gradual kind of ramp up.

Nitin Agarwal: Okay and on statins - what percentage of the biopharma sales will this segment account for?

Murali Krishnan: Approximately one-third.

Nitin Agarwal: Okay. Thank you.

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

Manoj Garg: Hi. I wonder if you could share the breakup between API and formulations in your business.

Kiran Mazumdar Shaw: Well, I think, we mentioned that our formulation business is about 10%.

Manoj Garg: And the balance 90% is API, right?

Kiran Mazumdar Shaw: Well, the rest is largely API.

Manoj Garg: Okay, thank you very much.

Moderator: Thank you, sir. Next question comes from Mr. Balasubramanyam of PCS Securities.

Balasubramanyam: Hi, congratulations on a good set of numbers. Ma'am can you throw some light on Abraxane? There was a drug recall by the DCGA from Natco and you are the only other

player in that segment. What is the actual market size and how are you going to penetrate into the market in the future?

Rakesh Bamzai: The total paclitaxel market in India is close to Rs.60 crores and if you add Taxane, there is a Rs. 100 crore opportunity for us. From the first year, we have had close to 600 patient exposures. The growth rate is enormous - we are expecting it to more than double next year and we are going to get a very good market share in the next two years time. The indication is that it is becoming a drug of choice in metastatic breast cancer.

Balasubramanyam: Okay, thank you and what exactly is the quantum of milestone payments from Mylan in this quarter?

Murali Krishnan: We cannot disclose the number but overall we have got about 18 crores this quarter.

Balasubramanyam: Okay. Thank you very much.

Moderator: Next question comes from Mr. Krishnanath Munde of HDFC Securities.

Krishnanath Munde: Yes, good afternoon ma'am. My question is on the DMF approval. We know that you got DMF approval for patented drugs like Advate Actos, Prograf, Lipitor, Lexapro, etc. Could you throw some light on what is the total addressable market for these approvals and expected revenue for Biocon in the near term?

Rakesh Bamzai: If you are talking about pioglitazone, atorvastatin and Tacrolimus and what else did you say? You mentioned four, five continuously - I did not capture all of them.

Krishnanath Munde: Yes, Lexapro.

Rakesh Bamzai: Lexapro? I don't think we have that. What is the active ingredient in it?

Krishnanath Munde: I don't know the active ingredient; I will have to check.

Rakesh Bamzai: Okay, what was the question again please?

Krishnanath Munde: What is the total addressable market for these drugs and what would be the expected revenue for Biocon through these DMF approvals in the near term?

Rakesh Bamzai: The market opportunity if you put all together? Are you talking about the US alone or the US and Europe?

Krishnanath Munde: US alone.

Rakesh Bamzai: In the US, if you put all of them together, it is close to a billion and a half and if you consider 10% of that as generic, it is US \$150 million. So we are amongst the first few companies there and we are going to have a good position in numbers. However, it depends on lots of things - pricing at the time of launch, pricing by other people in the market, exclusivity and the rest of it.

Krishnanath Munde: Okay, thank you very much, sir.

Moderator: I request the participants to press * and 1 for your questions. There are no further questions, now I hand over the floor to Ms. Kiran Mazumdar Shaw, Chairman and Managing Director of Biocon Limited for closing comments.

Kiran Mazumdar Shaw: I would like to conclude by thanking everyone for participating in this call and I look forward to interacting with you when we close the year in April. I wish you all the best.

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 evening.

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