

Transcript

Conference Call of Biocon Limited

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Presentation Session

Moderator:

Good afternoon ladies and gentlemen. I am Rashmiya, 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 conference to Ms. Urvashi of Citigate Dewe Rogerson. Please go ahead, ma'am.

Urvashi:

Thank you. Good afternoon everybody and thank you for joining us on Biocon Limited's Q4 and FY11 conference call. We have with us on this call today Ms. Kiran Mazumdar-Shaw, Biocon Chairman and Managing Director and also her colleagues who are part of the senior management team. We will begin this call with 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 the concall may be forward looking in nature and a note to that effect was 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 year ended 31st March 2011. Over to you ma'am.

Kiran Mazumdar-Shaw:

Thank you Urvashi and thank you all for joining this conference call where we will be discussing Biocon's financials for the financial year ended 31st March 2011. I am really pleased to share with you the financials of this quarter and the year gone by. I am very pleased to report that we have delivered a strong set of numbers both for quarter four as well as for the entire fiscal. We have delivered revenues of Rs 2814 crores, an EBITDA of Rs 630 crores and an all-time high PAT of Rs 368 crores. I would like to start by saying that we have seen growth across all our businesses. Biopharma as a business has delivered very strong growth. We have seen a 26% YoY growth in our Biopharma business at the revenue level, a 30% growth in terms of our EBITDA performance in

Biopharma and a PAT performance of 34%. Our contract research business has also signaled a good turnaround in the second half, especially in this last quarter. This business has delivered a top line growth of 13% and an EBITDA growth of 10%. At the PAT level, it was more or less flat with a slight decline as the first half of the last year was very challenging. We are very optimistic and confident that the year ahead will deliver robust growth in our research services business. I will cover AxiCorp separately but in terms of numbers, AxiCorp has shown a modest growth of 7% at the top line, 2% growth in EBITDA and 17% growth in PAT. At a consolidated level, we have delivered a top line growth of 17%, an EBITDA growth of 24% and a PAT growth of 26%. I would like to emphasize here that we have seen some very good contribution to both top line and profitability from our API business, especially the emerging markets. We have also seen very good contribution from our domestic formulations business. Licensing income was also very strong this past fiscal. We have seen our licensing income triple from Rs 51 crores in FY10 to Rs 152 crores this past fiscal. And this has happened largely on account of the Pfizer deal with Mylan also contributing to this licensing income. This reflects the value of our research pipeline and we expect that licensing income will continue to contribute to profits as we go forward.

With AxiCorp, we have decided to exit from our 78% stake holding in this subsidiary. We have decided to divest this investment to the present promoters' group at AxiCorp. I believe that this is in the best interest of both companies. Both shareholders recognized that this will allow the respective companies to focus on what they would like to do. AxiCorp has done a great job despite the challenges of the German pharmaceutical market, where the Government has as you all know enforced a 16% rebate across all pharmaceutical products. And although AxiCorp is a profitable company, the new path ahead will allow them to employ their profits into growing their present business. From Biocon's perspective, we believe that AxiCorp had a great amount of relevance to Biocon's strategy prior to the Pfizer deal where AxiCorp would have been the preferred route of commercializing our Insulins portfolio. Post the Pfizer deal, we believe that this relevance has changed and therefore this divestment is in keeping with what we believe is best realized through our Pfizer partnership. There is no change in our development strategy. We will continue with the development strategy of commercializing insulin for Germany and for Europe. And this will allow both AxiCorp and Biocon to focus on their respective business strategies, without being challenged

with other aspects of the business. So, with this, I would like to now turn it over to the Q&A.

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 your question has been answered before your turn, and you wish to withdraw your request, you may do so by pressing # key.

Speaker 1: Just a couple of questions on the financials. Just want to understand your R&D expenditure, it's far lower compared to Q3, just trying to figure that out. And also the technical licensing fee, is this the run rate we can expect besides the Mylan's licensing income?

Kiran Mazumdar-Shaw: I suggest you look at the yearly spend on our R&D. We have certainly increased our net R&D spend from Rs 79 crores to Rs 118 crores. Many of our R&D spends are very contingent upon certain regulatory approvals. We have seen a lot of delayed approvals even in India and this is something the entire industry is facing. And therefore what we forecast as spends sometimes does not quite get reflected in the quarterly numbers.

Speaker 1: But this time licensing fee income would exclude margins, right? Am I right in that?

Kiran Mazumdar-Shaw: The Licensing Fee recognized as income represents the gross amount. The corresponding expenses are captured under various line items in the P & L a/c, including R & D expenses.

Speaker 1: Another question on the current liability and asset front. There is a marked increase in that - so what is that related to? And on the asset front, is it related to the investment made in Malaysia?

Murali Krishnan: It is not related to the proposed investment in Malaysia. It is related to the Pfizer deal.

The receipt of upfront amount from this deal, to the extent not yet recognized as income, is shown as a liability and to the extent the cash is invested in liquid funds / deposits, and shown as current asset. The amount shown under liabilities will be recognized as income over the next four – five years.

- Speaker 1:** Right. But, the fixed asset has increased by around Rs 63 crores. Just wondering what that increase is?
- Kiran Mazumdar-Shaw:** This is just regular CAPEX additions made during the year.
- Speaker 1:** Okay, Thank you.
- Moderator:** Next question comes from Mr. Balaji Prasad of Goldman Sachs.
- Baneesh:** Hi, this is Baneesh on behalf of Balaji. Just a couple of quick questions. First of all, we were not sure about the numbers and the 26% growth on the Biopharma division. When we compare the numbers which we have for 4Q, 2010 was Rs. 3,382 million versus this quarter of Rs 3,205 million. We get a 5% decline for 4Q. Are we missing something in it?
- Murali Krishnan:** Are you taking the numbers from the fact sheet?
- Baneesh:** No. We got our own numbers for the Biopharma division.
- Murali Krishnan:** Please use the numbers from the Fact Sheet we have provided. We don't give the exact break up of each vertical like Statins, Insulins, Immunosuppressants etc.
- Baneesh:** Right. Just two more questions. One I wanted to know what is the cost of power as a percentage of revenues and what will be the impact of rising fuel cost on your power expenses? That's one. Second is, can you also give us the break-down of the divisions for which thousand employees are being hired.
- Murali Krishnan:** The power cost is about 6% of biopharma revenues.
- Kiran Mazumdar-Shaw:** This will be across the board. We are looking at increasing our headcount by thousand across all divisions. We have got a large recruitment need in the healthcare division as well as headcount requirement in R&D, manufacturing and Syngene.
- Baneesh:** Right. And any impact you factored in for your rising expenses from the increase in the impact of fuel cost?
- Murali Krishnan:** To the extent possible, we use power from the grid which is far cheaper than use of captive power. Over the last few years, the power cost has been contained in the range of 6%.
- Baneesh:** Right. Many thanks for the answers.

- Moderator:** Thank you sir. Next question comes from Mr. Bino Pathiparampil from IIFL Broking.
- Bino Pathiparampil:** Hi, congrats on a good set of numbers. Just a couple of questions. The margins for the quarter came out a bit weak, rather on the weaker side. So, was there any particular reason that Biocon or Syngene or was it more AxiCorp that's created?
- Kiran Mazumdar-Shaw:** If you look at the consolidated margin, it is about 22%. But if you exclude AxiCorp from that consolidation, then our margins are over 30%.
- Bino Pathiparampil:** Right. Would you be able to share the AxiCorp EBITDA number?
- Kiran Mazumdar-Shaw:** The AxiCorp EBITDA margin is about 6% and about 3% at the PAT level.
- Bino Pathiparampil:** Okay, great. And for the AxiCorp stake sale, are you getting an amount which is similar to what you had paid originally or is it?
- Kiran Mazumdar-Shaw:** Yes, we will be realizing a similar value.
- Bino Pathiparampil:** Okay, good. And from an accounting perspective I would guess that it will be still in your P&L next quarter as well as you have a lag, right?
- Murali Krishnan:** The transaction is likely to get completed by May or thereabouts and therefore it is unlikely to get consolidated in our next quarter numbers.
- Bino Pathiparampil:** Okay, I got it.
- Kiran Mazumdar-Shaw:** This is probably the last quarter.
- Bino Pathiparampil:** Right, great, great, thanks. And finally any updates on Fidaxomicin and the Phase-III insulin trial in Europe?
- Kiran Mazumdar-Shaw:** Optimer has got its PDUFA Date on the 30th of May and they expect to launch shortly thereafter. So we will be getting ready to supply them with launch quantities of the material. As far as our Insulin Phase-III trials are concerned, these are ongoing. We expect to complete the Phase-III trials sometime next year.
- Bino Pathiparampil:** Great, thanks very much. I will join back the queue.
- Moderator:** Next question comes from Mr. Bhavin Shah from Dolat Capital.

- Bhavin Shah:** Ma'am, congrats on the results. If you could share some more color on the Contract Research business? You are giving a confident outlook next year. What are the growth figures, if you could just assemble and put it?
- Peter Bains:** Our outlook for the coming year is very positive and this is based on two or three underpinning features. We have been investing quite substantially in the last two years on strengthening our capability platforms and our service offering, which will enable us to offer more services across the greater width in discovery and development so more integrated services. This is a strong underpinning of our confidence moving forward. In the year just completed, the results of which are very solid, we saw very encouraging signs of traction in the second half of the year. And we are looking to see that traction continue into the next fiscal with accelerating top line growth and bottom line growth.
- Bhavin Shah:** Is there any orders specific to any plans that you could share that are under execution or will get executed?
- Kiran Mazumdar-Shaw:** Not at this time.
- Bhavin Shah:** Okay, thanks so much. Thank you.
- Moderator:** Next question comes from Mr. Vivek Kumar from SBI Caps Securities.
- Vivek Kumar:** Thanks for taking up my questions. It is specific to the branded domestic formulations. What is the headcount over there, medical experts?
- Rakesh Bamzai:** With the new divisions included, we are around 1000+.
- Vivek Kumar:** So 1000 at the end of FY11 and then you are going to be adding for the next year, right?
- Rakesh Bamzai:** Yes.
- Vivek Kumar:** Okay. And the second thing is, on the guidance front excluding AxiCorp since that would not be there now, any guidance that you are putting across next year in terms of revenue?
- Kiran Mazumdar-Shaw:** We don't provide guidance but we are very confident that we will continue to deliver accelerated growth and profits on annual basis. And we certainly see some good upside for us going forward. One is the sale of Fidaxomicin, Two, Pfizer will start selling Insulin into the emerging market starting with India. Three, we are very gung-ho about our

healthcare business where we see a lot of traction. Four, our API sales to global markets is very strong and we will continue to see growth in all these products. In Research Services also, as you just heard, we will see accelerated revenues and profitability. So, I think we are going to be seeing growth across all sectors.

Vivek Kumar: Okay. And the last one is the total number of customers we have got for Tacrolimus as of now?

Rakesh Bamzai: Four customers.

Vivek Kumar: Okay, thank you very much.

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

Krishna Prasad: Hi. Good afternoon everybody and thanks for taking my question. My question is regarding the sale of the stake in AxiCorp. I think when you announced the sale; you talked about a cash payment of around 15 million euro and 14 million in terms of IP transfer. So, I was just wondering what would be the split when you are buying back the stake now.

Kiran Mazumdar-Shaw: We can't share that with you right now. But I can tell you that our value consideration at the time of investment was roughly 31 million Euro and the carrying value at the time of exit is roughly 40 million Euro. But, once we conclude the transaction, we will share details on how we will treat these.

Krishna Prasad: Okay. And just on your Contract Research business, it seems to be doing quite well. I was just wondering any specific reason behind the growth? Are you seeing new clients there? Also in terms of employees in Syngene, what are the plans for FY12?

Peter Bains: So we are seeing strong customer retention - existing customer base is staying with us - and an acceleration of new customers, which are obviously both contributing to the outlook for accelerating growth. In terms of the outlook for the number of scientists in our team, in the year to come again, what we are looking is increasing that as you have heard in line with the increase across Biocon.

Krishna Prasad: Right. And margin is expected to sort of see a rebound this year, given that they actually contracted last year in Syngene?

- Peter Bains:** Well, margins recovered in the second half of the year. And we expect that trend to continue in the coming year.
- Krishna Prasad:** Thanks for taking my questions.
- Moderator:** Thank you sir. Next question comes from Mr. Abhay Shanbhag from Deutsche Bank.
- Abhay Shanbhag:** On Immunosuppressants, the press release talked about a 36% growth for the fiscal. Now given the fact that this was expected to be a big growth segment, is the growth much on the lower side? You had any issues in terms of customers, capacities, prices; because, 36% looks a bit low given the fact that it was a big growth driver.
- Kiran Mazumdar-Shaw:** I don't understand your question Abhay. 36% growth by any stretch of imagination is high.
- Abhay Shanbhag:** Because of patent expirations and on the low base, we were expecting a much higher growth for Tacrolimus in the US market. So, have we not seen as much, because 36% looks a bit low?
- Rakesh Bamzai:** I think if you see the growth rate that we have had, it's pretty decent in Mycophenolate Mofetil, which got out of patent in Europe as well. For all Immunosuppressants, overall, across the board 36% is not a small growth, because as it gets generic and the time pulls along, there is a realization which differs. It starts as high price and then the prices drop a bit. If there is a 36% growth, I agree with Kiran that it's a decent growth rate.
- Abhay Shanbhag:** Okay, because the issue very clearly what happens is, after more guys come into the market, while you gain in volumes, your realization tends to be a bit under pressure. So, overall the value growth clearly comes from the year when the patents, when the realizations begins.
- Kiran Mazumdar-Shaw:** Well there is a difference between sale of final product and API.
- Abhay Shanbhag:** Okay. The other one was on CAPEX. With the Pfizer money coming in, in your balance sheet, almost more than 100 million dollars, so what sort of CAPEX do we expect going forward for next two years?
- Murali Krishnan:** The new facility that we plan to build in Malaysia is going to be around 160 million USD. Further, for our regular operations it will be anywhere between about Rs 150 to 200 crores for this fiscal.

- Abhay Shanbhag:** So, this Malaysia would be over two years or longer?
- Kiran Mazumdar-Shaw:** Three - four years.
- Abhay Shanbhag:** Okay. And with the Pfizer insulin, will it largely be India where the ramp up would happen or do we also expect Pfizer to launch these insulin in couple of other markets?
- Rakesh Bamzai:** Yes, I think it is a time-to-market issue. We have filed in many markets or are filing aggressively in a lot of other emerging markets as well; Pfizer already has an approval in India and that is the immediate opportunity. We are also pursuing approvals with health authorities across continents and once we get these, we will launch. The impact will be seen from the current financial year onwards, Abhay.
- Abhay Shanbhag:** Okay. Thanks a lot.
- Moderator:** Thank you sir. Next question comes from Mr. Sriram Rathi from Anand Rathi.
- Sriram Rathi:** Thanks for taking my question. Most of my questions have been answered. Just one question is that, in terms of R&D expenditure, are you guiding for any amount for fiscal year 2012 and fiscal 2013, overall R&D expenditure
- Kiran Mazumdar-Shaw:** We don't give guidance but we do expect to increase our R&D spends as we go forward.
- Sriram Rathi:** Okay. Can we assume around 20% to 25% kind of increase?
- Kiran Mazumdar-Shaw:** Yes, I think you can expect that kind of increase.
- Sriram Rathi:** Okay. And in terms of effective tax rate for the next year, since the EOU benefits are now going away, so will it continue to be around MAT or it will be higher than that?
- Murali Krishnan:** It will be higher than that.
- Sriram Rathi:** Around 24%-25% is what we can expect?
- Murali Krishnan:** Definitely 20% + because the EOU benefits have gone away. Secondly, even under the SEZ, we have completed five years and are moving to the second phase where we get only 50% tax exemption, for most of our units.
- Sriram Rathi:** Okay, right. Okay, understood. Thank you. And just I missed on the AxiCorp part, is that with effect from which date it will be divested or any idea that you are talking?

For fiscal year 2012, how many months of sales will be there from AxiCorp for Biocon?

Murali Krishnan: The transaction is expected to get completed during this quarter (Q-1). As mentioned earlier, Axicorp numbers are not likely to be consolidated from this quarter, i.e Q1 FY12.

Kiran Mazumdar-Shaw: In other words, this is the last quarter of AxiCorp being a part of our consolidation.

Sriram Rathi: Okay, Thank you.

Moderator: Thank you sir. Next question comes from Mr. Hitesh Mahida from Marwadi Shares & Finance Limited.

Hitesh Mahida: Congratulations Ma'am for a good set of numbers.

Kiran Mazumdar-Shaw: Thank you.

Hitesh Mahida: Just wanted to know we haven't got any new updates as far as oral insulin is concerned.

Harish Iyer: We have submitted an abstract to present some of the data on our Type-II study that just concluded. We are also going ahead and completing the Type-I study which was done under USIND, the data for that will come in the second half of the year. And in the process we are also starting partnering discussions with global pharma companies to take the development global.

Hitesh Mahida: Okay. As far as the insulin to ROW market is concerned by Pfizer, when will we see sales from that particular deal?

Rakesh Bamzai: We have listed first priority countries. We can't list the countries because of competitive reasons. But, as we get approvals we will announce the country that we are launching in.

Hitesh Mahida: But, India is the first target.

Rakesh Bamzai: India is the first one because we have got the approval.

Hitesh Mahida: Okay, so from Q1 itself can we expect sales from this particular deal?

Rakesh Bamzai: No the impact will come in Q2.

Hitesh Mahida: Q2. Okay. Thank you.

Moderator: Thank you sir. Next question comes from Mr. Nimesh Desai from Motilal Oswal.

- Nimesh Desai:** Yeah, good afternoon everybody, just two-three questions. One was on your Statins business. Now, you all know that sometime over the next few months, Lipitor is going off patent in US. Could you briefly tell us what kind of effect, either positive or negative it will have on your overall Statins business?
- Rakesh Bamzai:** Simvastatin will be impacted by launch of Atorvastatin. I think this is everybody's understanding. And because the US is opening out, we also have our files with our partners in the United States. We continue to be with the multiple partners in Europe. So, we will get an upside from the European business and from the US launches but our Simvastatin will get impacted.
- Nimesh Desai:** So, overall will the Statins portfolio grow or decline?
- Rakesh Bamzai:** Overall, Statins will definitely grow. The net impact on our Statins portfolio will be positive.
- Nimesh Desai:** Okay, even from a profitability perspective?
- Rakesh Bamzai:** Yes.
- Nimesh Desai:** Simvastatin's pricing is well settled out there.
- Rakesh Bamzai:** Yes, it was a mature product. The incremental revenues and profitability will come from the newer Statins.
- Nimesh Desai:** Okay. The second thing was on the licensing income. Now I understand it's very difficult to predict this on a quarterly basis. But, on an annual basis, what should we assume as licensing income for the year forward FY12-13, what kind of licensing income should one budget?
- Kiran Mazumdar-Shaw:** You know there are certain predictable milestones that we can hope and expect from Pfizer, but apart from that I think what we hope is that they could be potential licensing opportunities. Obviously these are not predictable but there are a number of licensing opportunities that we are looking at, including as you know partnering oral insulin, partnering our Anti-CD6 and several other novel products. So these could potentially give good licensing revenues but apart from that I would say that the only thing that we can expect in a small but predictable way is some of the milestones that are linked with the Pfizer's deal.
- Nimesh Desai:** Right. And those milestones income would be equivalent to what you booked in FY11 or it would be more than that?

Kiran Mazumdar-Shaw: No, this will not be completely equivalent to that, but there will be a certain amount that will come out of this particular licensing. But it is very difficult to predict because some of them are linked to regulatory approvals, some of them are linked to other milestones. We are trying to sustain these levels of licensing revenues and obviously we will try and better them as well. But a lot depends on many, many factors.

Nimesh Desai: But, just continuing on that, your overall Pfizer deal, as we understand, is worth about \$ 350 million, excluding the upside that you get when products are actually commercialized, of which about \$160 million is the CAPEX for the Malaysian facility. I am presuming the remaining portion is the milestones related to product development, regulatory filings and approvals.

Kiran Mazumdar-Shaw: Not really. We are receiving a certain amount upfront and a certain amount linked to milestones. It is not a simplistic kind of breakup between the Malaysian investments and other milestones.

Nimesh Desai: Okay, fair enough. And the last question from my side was, see now that we are divesting AxiCorp, what we wanted to know was that pre AxiCorp our EBITDA margins generally used to be in the range of round about 30 odd percent, so now post AxiCorp divestment, do we revert back to the same margins or since we are in a very strong investment phase, there are different kinds of expenditures that we are making, should we budget EBITDA margins lower than that 30% ballpark.

Kiran Mazumdar-Shaw: I would say, 30% ballpark is a very realistic margin and even today if you remove AxiCorp from the numbers, you would still see that we are at that 30% plus level.

Nimesh Desai: Right. No, the question was more in context of you adding about 1,000 odd employees spread over FY12, R&D expenditure going up by about 20%-25%. Despite that we are confident that we should be able to maintain that 30% kind of a number.

Kiran Mazumdar-Shaw: Fair enough, but despite that, I think we should be able to maintain it at that 30% level.

Nimesh Desai: Okay, thank you so much for answering all questions.

Moderator: Thank you sir. Next question comes from Mr. Alok Dalal from MF Global.

- Alok Dalal:** Yes, hi. Thanks for taking my question. Just wanted to understand the progress that we have made on Mylan so far?
- Rakesh Bamzai:** As per the plan we are progressing quite well and the first product is going to get into clinical trial very soon.
- Alok Dalal:** Okay so first product moves into clinical trials soon. And any launch time lines for the products in emerging markets and regulatory?
- Kiran Mazumdar-Shaw:** We need to finish clinical trials.
- Alok Dalal:** Yeah, that is correct. Okay, so by 2013-14 can one expect a launch?
- Kiran Mazumdar-Shaw:** Yes, it should be possible.
- Alok Dalal:** Okay, thank you so much.
- Moderator:** Thank you sir. Next question comes from Ms. Monica Joshi from Aventus Securities.
- Monica Joshi:** Hi, thanks for taking my question. This is on AxiCorp, if you could just share what is the current quarterly employee cost that you have in AxiCorp currently?
- Kiran Mazumdar-Shaw:** I think you have to take this offline.
- Monica Joshi:** Okay, what we are trying to understand is if you are adding about 20% of your workforce, how is that going to impact your staff costs, but obviously we will have to adjust AxiCorp, right, from the consolidated number.
- Murali Krishnan:** Biocon Group's (ex-Axicorp) staff cost is about 12%.
- Monica Joshi:** Okay fine. Also I just wanted to know if you are the sole supplier for Optimer or is there any other supplier?
- Kiran Mazumdar-Shaw:** We are the sole suppliers.
- Monica Joshi:** For the global market, is it?
- Kiran Mazumdar-Shaw:** Yes.
- Monica Joshi:** Okay, thank you so much.
- Moderator:** Thank you ma'am. Next question comes from Ms. Dimple Sheth from SKS Capital.

- Dimple Sheth:** Thanks for taking my question. Ma'am I want to know what would be the revenue inflow from the Pfizer deal for FY11-'12?
- Kiran Mazumdar-Shaw:** What we said was that the Pfizer deal did see some realization of licensing revenue this fiscal, but it is difficult for us to quantify that going forward because it depends on regulatory and other milestones.
- Dimple Sheth:** Okay. And ma'am one more question would be that the other income in this quarter has gone up Rs 13 crores, which is substantially high from the Rs 7 crores last year in the same period and even in the last quarter. So where is the other income accruing from?
- Murali Krishnan:** The other income is largely on account of the returns derived from investments. Most of it is dividend income from investment in liquid funds.
- Dimple Sheth:** Okay. So how much of your investments are in liquid cash in MFs or quarterly equity?
- Murali Krishnan:** All of it is liquid MFs.
- Dimple Sheth:** And what would be the growth expected in biopharma and CRAMS for the next quarter and for the next fiscal?
- Kiran Mazumdar-Shaw:** As you know we do not give guidance but we are looking at sustaining the present level.
- Dimple Sheth:** Okay, thanks a lot.
- Moderator:** Thank you ma'am. Next question comes from Mr. Balasubramaniam P. from PCS Securities Limited.
- Balasubramaniam P.:** Yeah, one of my questions has been answered. Can you share some light on your co development deal with Amylin, at what stage is it and what are the molecules you are launching with Amylin?
- Harish Iyer:** With the hybrid molecule we have managed to develop good process and scale it up and this year we hope to file the IND with the USFDA and we believe that after that we can move forward into clinical trials some time during the next calendar year.
- Balasubramaniam P.** So, would you expect some payments, milestones from Amylin too?

- Kiran Mazumdar-Shaw:** This is a co-development program so we don't expect any payments from Amylin, but when we license it to a third party we will receive some payment.
- Balasubramaniam P.** Do you share the costs between both of you, Amylin and Biocon?
- Kiran Mazumdar-Shaw:** Yes, that's correct.
- Balasubramaniam P.** Okay, my questions have been answered, thanks.
- Moderator:** Thank you sir. Next question comes from Mr. Akshat Vyas from Anvil Shares.
- Akshat Vyas:** Good afternoon ma'am. Could you just tell me the FOREX gain/loss this quarter?
- Kiran Kumar:** In the current quarter, we saw a gain on the FOREX.
- Akshat Vyas:** Okay, and for the full year?
- Kiran Kumar:** For the full year also we have seen a net gain on account of FOREX.
- Akshat Vyas:** How much is it sir?
- Murali Krishnan:** It is nothing very significant.
- Akshat Vyas:** Okay. And could you just tell me the update on listing of Syngene, is it still on or...
- Kiran Mazumdar-Shaw:** Yes, it is very much on the anvil. We will be looking at revisiting the IPO plan as we deliver a sustained performance. As you know, we have just seen a turnaround and we would like to look at sustaining this performance over the next few quarters and then get ready to look at a listing plan.
- Akshat Vyas:** Okay, thank you ma'am.
- Moderator:** Thank you sir. Next question comes from Mr. Chirag Talati from Espirito Santo.
- Chirag Talati:** Hi, thanks for taking my question. Just to clarify on the Pfizer deal again, the \$100 million that you have in escrow right now will only be drawn on based on CAPEX finding, is that right?
- Murali Krishnan:** It will be released based on the progress that we have made on the CAPEX spends, over a 3 – 4 year period.

- Chirag Talati:** Okay, so then, is it fair to say that the remaining \$100 million that you booked in upfront, is what you will sort of off-set against R&D?
- Murali Krishnan:** No, there is no direct link between the two.
- Chirag Talati:** Okay so then, for the \$100 million upfront, can you just sort of again clarify as to how it is going to be recognized over the coming years?
- Murali Krishnan:** It is not just the \$100 million, what we received in November last year. You will have to look at the entire 350 million USD being recognized over a period of four to five year period
- Chirag Talati:** But then the \$150 million is contingent on approvals.
- Murali Krishnan:** Contingent on the development, approvals and launch.
- Chirag Talati:** Okay then presume at least that you cannot recognize that as licensing income until those...
- Murali Krishnan:** Until such events happen and our plans get executed, we will not be able to recognize it. This is why we said it is going to be difficult to cite every quarter or on an annual basis how much is going to be recognized. It all depends on the geography-wise development. Based on the phase and percentage of completion, it will be recognized, both on the top line as licensing income and on the expenses side, as R&D expenses, clinical development expenses etc.,
- Chirag Talati:** Okay, fair enough, thanks. And on the R&D side quickly, if I recall correctly, you had guided for Rs 150 to Rs 180 crores in R&D for this year, we have touched Rs 118 crores and a 25% increase on that implies to Rs 150 crores for next year, so have you revised it downwards or who should we view it?
- Murali Krishnan:** No, it has not been revised downwards. As we said earlier, a lot of the R&D expenses are linked to regulatory approvals. We might have planned few things, but the time line for regulatory approvals is not something in our control. If that gets slightly either delayed or advanced, then it can either go up or go down.
- Chirag Talati:** Okay, fine, thanks. Finally on Mylan, if I understood correctly, I thought the program was supposed to enter a co-sharing of expenses phase, so can we expect the licensing income from Mylan to taper down from this level?

- Murali Krishnan:** The Mylan licensing income has been fully recognized as of January 2011. Going forward, they will only share the development expenses.
- Chirag Talati:** So, then is it fine enough to say that there was a very marginal component of Mylan in current quarter's licensing income?
- Murali Krishnan:** Yes.
- Chirag Talati:** Okay, thanks for my question.
- Moderator:** Thank you sir. Next question comes from Mr. Surajit Pal from Elara Capital.
- Surajit Pal:** Good afternoon everybody. I have just one question, it seems that the vibe, which is coming in US Pfizer is that post Jeff Kindler's exit and appointment of Mr. Ian Read new CEO, it seems that the new board or the new CEO is thinking of restructuring the business, which basically which they have hinted in couple of times that they might spin off or sell off their non-core activities including established product division while they would be maintaining their emerging market business, which is their one of the core focus among the five business they want to maintain among the core activities, so in that light Kiran, could you throw some light on how is your deal with Pfizer will be safer or will it be under emerging market activities or established product division?
- Kiran Mazumdar-Shaw:** We are very committed to making a success of this particular opportunity.
- Surajit Pal:** Okay, thanks.
- Moderator:** Thank you sir. Follow up question comes from Mr. Krishna Prasad from JM Financial.
- Krishna Prasad:** Hi, thanks for taking my follow up question. Just one thing on the other expenditure, you know we are seeing this other expenditure remain low similar to last quarter, can you help us understand if there has been any income from Pfizer here and maybe quantify what the amount is?
- Kiran Mazumdar-Shaw:** I do not think there is any. This is arising out of dividends.
- Krishna Prasad:** No, I mean the other expenditure, not other income.
- Kiran Kumar:** During the last quarter you must have seen some expense come under the Pfizer agreement but as I explained we

have some exchange gain or two coming out over there, that would be the small reduction in the expenses.

Krishna Prasad: Right, but is most of it from the Pfizer income or is it from the exchange gain, because you know the number on a YOY basis for example is come off like Rs 14 crores, so I am just trying to understand how much of that would be your recurring thing?

Kiran Kumar: There has been reduction in the expenses of AxiCorp, so we have seen reduction in the overall other expenses.

Krishna Prasad: So, all of this is really sustainable, I mean, nothing is really one off in nature or any payment from Pfizer and so on?

Murali Krishnan: No, significant one-off payments.

Krishna Prasad: Right, just one more question on Fidaxomicin, can you help us understand what is your expectation in terms of the market potential?

Kiran Mazumdar-Shaw: Well, analysts estimates indicate that Fidaxomicin can attain peak sales of between 500 million USD to 1.5 billion USD, you know that is the potential they have indicated, so if you have to sort of dimension the opportunity for us that is the kind of maximum opportunity we can realize, but beyond that I think we are not able to really share anything else with you.

Krishna Prasad: Okay and just one last question, if you can tell us what would be the cash payment that you would receive from the AxiCorp stake sale?

Kiran Mazumdar-Shaw: As I mentioned earlier, I think right now we need to conclude this whole transaction and once that is done we will share with you how we will treat the value realization.

Krishna Prasad: Okay, thank you for taking my question.

Moderator: Thank you sir. Follow up question comes from Mr. Krishnandu Saha from Quantum AMC.

Krishnandu Saha: Yeah hi, thanks for taking my question. Just wanted to understand as to where the investments are, you said you have a \$150 million investment to be made in Malaysia, so what stage we are in right now?

Kiran Mazumdar-Shaw: Very early stage.

- Murali Krishnan:** We are in the talks for buying the land and so it is in the very early stage. I think the ground breaking could happen at the end of this quarter or early next quarter.
- Krishnandu Saha:** So, would 150 million USD be spread over this whole year or...
- Murali Krishnan:** Over three years, till 2011 - 14.
- Krishnandu Saha:** And the normal maintenance CAPEX of Rs 100 crores per year?
- Murali Krishnan:** Rs 150+ crores.
- Krishnandu Saha:** Thank you, that is it, thank you very much.
- Moderator:** Thank you sir. Next question comes from Ms. Meeta Shetty from Dalal and Broacha.
- Meeta Shetty:** Hello ma'am, most of my questions are answered, just one clarity on German market, since earlier we were going to co-market it with Pfizer, now that AxiCorp will not be there, so what would be the status for that?
- Kiran Mazumdar-Shaw:** No, we still have that option, so we will see what is best for us.
- Meeta Shetty:** So, do you plan to set up a distribution setup yourself or marketing field force there?
- Kiran Mazumdar-Shaw:** We will review this as and when we are approaching the regulatory approval.
- Meeta Shetty:** Okay, that's it from my side, thanks.
- Moderator:** Thank you ma'am. Next question comes from Mr. Bhagwan Chaudhary from India Nivesh.
- Bhagwan Chaudhary:** Yeah, thanks for taking my question and most of my queries have been answered, just one query on the divestment part of the AxiCorp, madam what percentage...or you are divesting it fully or some extent?
- Kiran Mazumdar-Shaw:** Yeah, we have a 78% stake and we are divesting it fully.
- Bhagwan Chaudhary:** Okay and the other question is now how much it contributes to the balance sheet, how much assets of the balance sheet?
- Kiran Kumar:** The net assets of AxiCorp is around 13 million Euro.

- Bhagwan Chaudhary:** Okay, thank you.
- Moderator:** Thank you, sir. Next question comes from Ms. Preeti Arora from Kotak Institution.
- Preeti Arora:** Thank you, most of my questions have been answered, just one question, any reason for the tax rate to be lower this quarter?
- Murali Krishnan:** During the last quarter the licensing of the insulin dossier to Biocon SA increased the tax rate.
- Preeti Arora:** Yes but it is lower than the first half average. Last quarter I know it was higher than expected due to transfer of IP, but it is lower than the first half average of around 15%, 16%.
- Murali Krishnan:** It is a mix of profitability from across the units, so you might not be able to look at it on a quarter-on-quarter basis.
- Preeti Arora:** Okay. what is the update on launch of insulin in pen device in India?
- Rakesh Bamzai:** We are launching this in 2011. We are launching the reusable pens first, so we will get into the market with top end pens by this year.
- Preeti Arora:** Okay, so when Pfizer launches, the Pfizer launch will also happen in all forms of devices by this year?
- Rakesh Bamzai:** Yes.
- Preeti Arora:** And just one last question, if you can just throw some light on the trials on the Anti-CD6 molecule?
- Harish Iyer:** On the psoriasis study, the data base is almost locked and we expect to be analyzing the results this quarter. As you know we are also applying for a RA study in India, which we hope to again take up and complete and give proof of concept in RA. Apart from this, our plans are to talk to the FDA to see how we could develop this product globally. We are also doing some work on perhaps expanding indications in animal models, so there is a lot of activity going on in T1H, but it is all in the background.
- Preeti Arora:** Okay, but you would be pursuing trials under IND in the US like you have for oral insulin?
- Harish Iyer:** Certainly, that is absolutely the long term plan to develop it globally, but this is just the first steps, we want to get some experience while we do this in parallel and there is lot of other activity behind this as well.

- Preeti Arora:** Okay, thank you. That is all from my side.
- Moderator:** Thank you, ma'am. Follow up question comes from Mr. Hitesh Mahida from Marwadi Shares & Finance Limited.
- Hitesh Mahida:** Yeah hi, just wanted to know your view on how the market and all the conditions are shaping up in Germany?
- Kiran Mazumdar-Shaw:** Well, as you know Germany is being challenged with these forced rebates that the government has introduced and apart from that I think the tender business is also very competitive.
- Hitesh Mahida:** Okay, thanks a lot.
- Moderator:** Thank you, sir. Follow up question comes from Mr. Chirag Talati from Espirito Santo.
- Chirag Talati:** Hi, thanks for the follow up, just a quick one on the human insulin market, Novo has reported a decline in its human insulin sales and the trend has been that they are withdrawing the human insulin from some of the European market, so how do you see the market opportunity for human insulin particularly shaping up over the next three years?
- Kiran Mazumdar-Shaw:** Yes I think the market leaders are trying to wean the market away from human insulin to analogs and that is why you are seeing a decline in the human insulin market, but having said that, I think, we still believe that there is a good market opportunity for our insulin.
- Chirag Talati:** So, just to clarify, I mean, for countries where human insulin has already been withdrawn by Novo, would you and Pfizer be pursuing the launch even in those countries, re-launch?
- Kiran Mazumdar-Shaw:** Yes but as I mentioned the withdrawing of insulin does not reflect on insulin per se and I think they are trying to push the market towards analogs so that they can get better realizations.
- Chirag Talati:** Yes, I appreciate that.
- Kiran Mazumdar-Shaw:** So, we will obviously look at those markets as an opportunity to carve out a niche for us.
- Chirag Talati:** Okay, thanks for my question.

Moderator: Thank you, sir. 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: Thank you and if there are any questions that you need to be answered please feel free to contact our people, we will be very happy to deal with any queries that arise from this Q&A. Thank you very much.

Moderator: Ladies and gentlemen, this concludes the 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.

Note: 1. This document has been edited to improve readability.