Transcript

Conference Call of Biocon Limited

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Participants from Biocon Group's Senior Management Team

- Kiran Mazumdar Shaw: Chairman and Managing Director
- John Shaw: Vice Chairman
- Murali Krishnan K N : President, Group Finance
- Arun Chandavarkar: Chief Operating Officer
- Abhijit Barve: President, R&D
- Rakesh Bamzai: President, Marketing
- Satish Arunachalam: General Manager, Finance
- Kiran Kumar: Deputy General Manager, Finance
- Peter Bains: Director, Syngene International
- M.B. Chinappa: President, Finance, Syngene International
- Manoj Nerurkar: Chief Operating Officer, Syngene International

Presentation Session

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

Urvashi Butani: Thank you. Good afternoon everybody and thank you for joining us on Biocon Limited's Q1FY13 conference call. We have with us on the call today Ms. Kiran Mazumdar-Shaw, Biocon's Chairman and Managing Director and her colleagues from the senior management team. We will begin this call with opening remarks from Biocon's management followed by an interactive Q&A session. I would like to state that some statements made in this call today may be forward looking in nature and a note to that effect has been 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 June 30th 2012.

Kiran Mazumdar-Shaw: Thank you, Urvashi. Good afternoon and welcome to Biocon's investor conference call for the first quarter of FY13 ended 30th June 2012. I am pleased to report that the first quarter has seen good performances across all our business verticals. At the group level, we have delivered 28% revenue growth. Our research services business, comprising of Syngene and Clinigene continue their robust growth

with a 40% topline increase from 88 Crores to 123 Crores this quarter. Biocon's revenues grew 25% from 376 Crores last fiscal to 470 Crores this fiscal.

Revenue growth has been bolstered by the depreciation of the rupee, which has enhanced our top line from exports by approximately 1600 basis points. Depreciation of the rupee sharply increased the cost of imported intermediates and solvents as well. Given these factors, I believe we have seen good profitable growth across our businesses. At the PAT level, we have seen a YoY growth of 13%. This, in my view, is a very good performance given that our R&D spend increased this quarter by 75% from ~20 Crores last fiscal to ~36 Crores this fiscal. This is on account of clinical spends on a number of global trials, which are a necessary investment required to unlock value and gain market access to various global markets.

I believe that the increased R&D spend should be viewed positively as they are an integral part of our investment spend and key to delivering value in the foreseeable future. In addition, net foreign exchange loss this quarter on account of historical contractual obligations largely from the BMS contract has also impacted EBITDA. The combined impact of these two items has resulted in our PAT at group level being contained to 79 Crores. Consequently, our EBITDA and PAT margins are being delivered at 23% and 13% respectively.

Our other biopharma businesses have also delivered excellent profitable growth, largely through good performances from Fidaxomicin, Insulins, and Immunosuppressants. Our net cash position is a robust 770 Crores.

We have also seen continued growth in our integrated research services business. The recently announced Abbott Nutrition Research Center is a further endorsement of the success of our new business model. In recent times, there is a global trend to downsize R&D, particularly in outsourced FTEs. Whilst we have seen a reduction in FTEs by some of our clients, these have been offset by our integrated services where we have delivered value-added growth. We believe that this will help us create a sustainable and differentiated business going forward. We continue to look ahead at listing Syngene in line with our advisors' recommendations. We need to make sure that the market is ready for an offering of this nature. The idea behind Syngene's listing transcends capital requirements and aims at value creation.

Moving up the value chain is integral to our growth strategy as demonstrated by the strong growth in our branded formulations vertical. We have seen a 52% YoY sales growth this quarter in this vertical with the topline growing from 57 Crores last fiscal to 86 Crores this year. It is important for me to mention here that this business has seen a three-fold increase over the last three fiscals.

I am also pleased to report the successful completion of our global phase I study for Biosimilar Insulin Glargine that has established Pharmaco kinetic and Pharmaco dynamic

equivalence between our biosimilar Glargine and Lantus, both the EU and US reference standards of the innovator. This is a very important milestone that paves the way for global phase 3 trials that will enable us to take Biosimilar Insulin Glargine to the US, Europe, and other regulated markets.

Moving on to the other key areas of our business, we believe that our engagement with potential partners for the various R&D programs is making good progress. We are confident that we will be able to translate these discussions into licensing agreements moving forward. We are also in the process of submitting positive data that we generated from the recently concluded phase 3 clinical trials in Psoriasis for Itolizumab for market approval in India. Our Malaysia project is making good progress and is on track to deliver additional Insulin capacity by 2014.

We expect FY13 to be a very important phase in our development with respect to delivering on the growth potential of our five key growth verticals. Our focus has started paying us good results and we expect our strategic initiatives to deliver strong upside going forward. I believe we will continue to make good progress through the rest of the year.

I will stop at this point and take any questions you may have. Thank you.

Question and Answer Session

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

The first question comes from Krishna Kiran from ICICI Direct. Please go ahead.

Krishna Kiran: How much is the FOREX loss for the quarter?

Murali Krishnan: It is about 5 Crores, largely coming from the BMS contract, which was taken at Rs. 41 / USD in 2008.

Krishna Kiran: Okay. You had earlier disclosed that we have option contracts between 52 and 55; therefore, if the rupee crosses 55 we will be booking only 55. How many such option contracts are pending so far?

Murali Krishnan: We don't have the numbers readily available now but suffice to say that we keep taking new contracts on a quarterly basis, as the old contracts mature.

Kiran Mazumdar-Shaw: To add to this comment - what you are seeing is a 5 crore net FOREX loss at the group level.

Krishna Kiran: Fine ma'am. And does the other income include any FOREX gain?

Murali Krishnan: No. As per the revised reporting format if there is a FOREX gain, it will be shown under Other Income and if there is a FOREX loss it will be shown under Other Expenses.

Krishna Kiran: Okay, so other expenditure includes 5 Crores of FOREX loss.

Murali Krishnan: That's right. In the corresponding quarter of the last fiscal, there was 10 Crores FOREX gain.

Krishna Kiran: So that was removed from other operating expenditure?

Murali Krishnan: No, it got reclassified under Other Income. They are now comparable.

Krishna Kiran: Okay. And can you help me out with the sharp increase in other non-current liabilities this quarter?

Murali Krishnan: The non-current liabilities largely reflect the amount that we have retained from termination of agreement with Pfizer.

Krishna Kiran: No, I was just looking at non-current liabilities. If I remember correctly, I think the Pfizer retentions were placed in current liabilities.

Murali Krishnan: To the extent of what is likely to be spent this year is classified under current and the balance is shown as non-current liabilities.

Krishna Kiran: Okay, fine. Could you help us out with your outlook on branded formulation and any segments you are looking at for further expansion?

Kiran Mazumdar-Shaw: This is a very important growth vertical for us. We are targeting a 500 Crore segment over the next two years. We are on track to achieve that objective. As you are aware, this is a very important brand building opportunity for us and I think Biocon is gaining good traction, brand visibility and market share. Now, in terms of the various divisions, the largest and most rapidly growing divisions are Diabetology and Oncology. I just want to mention here that today Biocon is India's fastest growing Insulin Company.

Rakesh Bamzai: I think the strategy is very clear; we are here to build brands. We are also trying to take India's success to other countries; we are already present in GCC. We are also trying to scale up in a few more geographies.

Krishna Kiran: How many MRs do we have?

Rakesh Bamzai: Today we are 1,700 people strong in India.

Krishna Kiran: So, how many are you targeting for to reach the 500 crore mark in the next couple of years?

Rakesh Bamzai: I thing I would like to clarify here is that if we are growing, we have to grow by increased output from these MRs and also addition of more people. We are looking to increase reach and build more brands through the existing people.

Krishna Kiran: Okay, thanks. That's all from my end. Thank you.

Moderator: Thank you. The next question comes from Girish Bakhru from HSBC. Please go ahead.

Girish Bakhru: Hi. The other operating income at 6 Crores is a bit high, is there any one-off there?

Murali Krishnan: It is part of our regular operations; there is no one-off in this line item.

Girish Bakhru: Okay. And this quarter you have booked about 13 Crores expenses against clinical trials that have been netted off, right.

Kiran Mazumdar-Shaw: Yes, that has been netted off against the deferred revenues.

Girish Bakhru: But where would that come in the P&L, like which line item would it be netted against?

Murali Krishnan: In the R&D expenditure line itself; to the extent of expenditure, it gets netted off from the deferred income. The R & D expenses pertaining to the biosimilar Insulins, becomes zero in the P & L account. Unlike in the past, it is not getting shown under the income line, part of it in the expenditure line and the balance flowing in to the profit line.

Girish Bakhru: Okay. And why has the staff cost increased Q-on-Q from 76 to 84?

Kiran Mazumdar-Shaw: I think you should understand that we are adding people at the higher management level and branded formulations have also added numbers.

Girish Bakhru: Right and on the Insulin Glargine, what is the next step?

Kiran Mazumdar-Shaw: The Phase I results are an important milestone which will allow us to start global phase 3 program very soon.

Girish Bakhru: So, would you have any rough idea how much would this trial say cost?

Kiran Mazumdar-Shaw: Well, it will happen over three years and I think the costs that are involved are tens of millions of dollars. Today the global Glargine opportunity is at ~6 Billion dollars. In fact it is the largest opportunity in our insulin portfolio and we believe that this is going to unlock tremendous value for us.

Girish Bakhru: Right, fine. I will get back to queue.

Moderator: Thank you ma'am. The next question comes from Mr. Surya Patra from Systematix Shares and Stocks. Please go ahead.

Surya Patra: Could you share what is the kind of income that we have booked out of this Abbott collaboration for the quarter and also what has been the progress in the Fidaxomicin for the quarter?

Kiran Mazumdar-Shaw: Well, this information is protected by client confidentiality, but you can see that we have had a very robust run rate in the research services business, which has seen almost a 40% YoY growth.

Rakesh Bamzai: On Fidaxomicin, if you see the public report available from Optimer, they have a net sales growth of 31% and they are doing well in the market that they are represented in. The product was launched in the US in June 2011. The first phase of launch took place in EU in June 2012 along with the launch in Canada. So, when they do well, we also do well.

Surya Patra: Okay, since we are getting higher realization for the quarterly business and even better margin revenues from Fidaxomicin is coming in, and we have possibly added some incremental business out of the Abbott collaboration also; still the margin this quarter is weak compared to earlier periods.

Kiran Mazumdar-Shaw: I had explained the reason behind the comparatively weaker margins in my opening comments. To reiterate this, about 300 basis points impact has been on account of R&D spends and the balance 200 basis points has come from the combined effect of Forex losses, increased spends on power and other operating cost including staff costs.

Surya Patra: Yes, exactly ma'am, so should we believe that this margin would be progressing in the subsequent quarters?

Kiran Mazumdar-Shaw: Well, if our R&D spends increases you have to expect it, but please understand that R&D spends are integral to our business and the more we spend on R&D, the better it is for our business. This should not be viewed negatively. This is good news because we are making progress in our R&D programs, they are advancing

and the value creation potential is increasing. This also means that the more we advance, the more licensing we can do.

Surya Patra: Yes ma'am, but the R&D expenses figure what we have reported for the quarter is it net of R&D expenses and certain income that we have booked out of the Pfizer or others?

Kiran Mazumdar-Shaw: Yes, This is net of Deferred Revenue.

Surya Patra: And what is the gross amount for the R&D spends?

Kiran Mazumdar-Shaw: You can add another 13 Crores to this number and you will get gross R&D spends at 49 Crores.

Murali Krishnan: We have disclosed this number in the notes, and we will keep sharing this number on a quarterly basis.

Surya Patra: Okay, fine. So, here on since we have multiple projects that are on, so are we expecting a progressive increased R&D spend in the following quarters?

Kiran Mazumdar-Shaw: Yes.

Surya Patra: Then the net R&D impact would be similar to the kind of impact that we are seeing for the current quarter or…

Kiran Mazumdar-Shaw: Yes, we will try and see how we can keep it at these levels because we are also seeing better contribution from all these other programs that we talked about: Insulin, Fidaxomicin and Immunosuppressants and many other programs.

Surya Patra: Okay. Just last one question, regarding the Insulins. What is the progress on the marketing of our insulin products in the 32 emerging markets where we have registrations? How many registrations do we currently have?

Rakesh Bamzai: In most of those 32 countries where we have approval we have started marketing and we will scale up in the coming quarters. As we had mentioned in the last discussion, 55 countries are currently under the approval process.

Surya Patra: Okay, so as of now we are maintaining the same 32 countries, where we were marketing?

Rakesh Bamzai: Yes.

Surya Patra: Thanks a lot.

Moderator: Thank you. The next question comes from Mr. Bhavin Shah from Dolat Capital. Please go ahead.

Bhavin Shah: Thanks, just a data on Atorva supplies. Is it contributing meaningfully to your revenues or …?

Rakesh Bamzai: Yes, Atorvastatin is contributing to the mix, but as of now it is mostly Europe centric. We now have five customers waiting for the approval in the US, once that happens you will see an upside.

Bhavin Shah: Okay, got it and in terms of the Forex benefits coming on the top line, what proportion would be from the contract research business per se, would it be substantial?

Chinappa: We have got a boost of about 10% from foreign exchange this quarter against Q1 of last year.

Bhavin Shah: Okay, Got it. The next question was really on the clinical work that is going on in the Insulins, both Glargine and Recombinant Human. We have got a couple of products in the late stage development mode, so probably do you think it is still late to get a partner roped in for these products to get monetized. Do you think you are still following a suitable timeline; will it be on time for the market formation?

Kiran Mazumdar-Shaw: Yes, I think we are preparing to be ready for market formation in US and Europe and we will certainly see how best to do that.

Bhavin Shah: But you are not falling late in terms of getting in a partner and strategizing the whole thing?

Kiran Mazumdar-Shaw: No.

Bhavin Shah: Okay and the other was on the registrations that you would do in the emerging markets. Do you think the annual number for licensing income will end up rewarding or equating the R&D spends? Do you look at it that way?

Kiran Mazumdar-Shaw: Well we are trying to, but I think what is important for us is to make sure that our entry into these markets is successful and that we get good market share.

Bhavin Shah: Right, I know it is lumpy in nature, but, how do you look at the licensing income moving from here?

Kiran Mazumdar-Shaw: Oh well, I think on an annualized basis, we will be able to do well this year.

Bhavin Shah: A quarterly run rate similar to the first quarter should be comfortable?

Kiran Mazumdar-Shaw: No, please do not look at it on a quarterly basis, because this is not predictable. It will happen when it happens.

Bhavin Shah: Alright, fine. I will fall back in the queue, thanks.

Moderator: Thank you. The next question comes from Nimish Mehta from PM Advisors, please go ahead.

Nimish Mehta: Yes, thanks for taking my questions. Ma'am, I just missed out on the initial part when you mentioned about some 1500 basis point impact on EBITDA…if you can just repeat that?

Kiran Mazumdar-Shaw: Yes, what I mentioned was that we are impacted in terms of EBITDA margin by two components, one is due to the increase in the R&D spend which has reduced EBITDA margin by 300 basis points and other elements like exchange loss, increased staffing costs, increased power and other operating overheads which has brought our EBITDA level to 23%. In addition to that, I think I mentioned that the exchange impact has contributed to 1600 basis points of exports related revenue growth.

Nimish Mehta: Okay. I see. So net EBITDA increase because of FOREX would be roughly how much?

Kiran Mazumdar-Shaw: Well, EBITDA increase is from 130 to 139, There is a 300 basis point impact is because of R&D, but I think R&D needs to be viewed very differently in our business, because it is extremely important to invest in and in fact the greater the R&D spends, the more positive is the news on our R&D progress.

Nimish Mehta: Right, Yes I appreciate that. The other question is actually on Everolimus, your brand Advacan. Recently we saw that Afinitor, the innovative brand has been granted approval for breast cancer, so how do you see the market for Everolimus in India and what kind of competition do you see in this product in India?

Rakesh Bamzai: Everolimus, like all the other limuses that Biocon manufactures, is an important part of our portfolio. We have a little bit of an advantage on timing because we are doing it ahead of time and when you are early you have big value. We are doing very well in the markets that we have launched this product and we are strategizing for the global markets with this molecule. So, going forward in the next 4-5 years you will see this high quality brand becoming an important brand for us.

Nimish Mehta: But, you do not see any immediate boost up because of the addition of breast cancer as an indication for this product?

Rakesh Bamzai: New indications are here so this is going to be a significant product for Immunosuppressants as well as for oncology.

Nimish Mehta: Right, So, roughly what kind of market size does it address in India including all the indications.

Rakesh Bamzai: The market space depends on how well the product is going to be accepted in its indications and it depends on lots of factors like Pharmaco-economics etc. but the space that we are operating is close to 80 Crores.

Nimish Mehta: Okay, fair enough and a last question on Fidaxomicin, are we contracted to supply for the EU markets or is our contract only for the US and Canada markets?

Rakesh Bamzai: Without getting into the specifics of the contract, today we are supplying to Optimer for the global markets.

Nimish Mehta: Okay. And are we the only supplier to Optimer so far or do they have other suppliers?

Rakesh Bamzai: We cannot comment on that because of contract confidentiality.

Nimish Mehta: Okay, fine. Thank you.

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

Bino Pathiparambil: I was looking at the biopharma business excluding India, if we adjust for the dollar-rupee rate; the growth is only in low single digits YoY and QoQ also we have seen some decline. So, what is the story there? Is there anything that is specific to this quarter?

Kiran Mazumdar-Shaw: I think we have already mentioned this by saying that 1600 basis point of the increase in export revenues is on account of the rupee depreciation, which means 20% top line growth has come from actual growth.

Bino Pathiparambil: Right. I am talking just about the biopharma business excluding India, so that shows only very small growth, if we adjust for the dollar rate.

Kiran Mazumdar-Shaw: In biopharma I think there are two issues here. One is of course we have booked much higher licensing income. If you look at Q4 FY12, I think we

have seen much higher licensing income which was as a result of the closure of the Pfizer deal.

Bino Pathiparambil: Right, even if we remove that…

Murali Krishnan: That is one aspect. The second aspect is, normally in the fourth quarter, the sales peaks. Then in the first quarter it comes down slightly and then starts picking up again. This has been the trend in the past as well.

Bino Pathiparambil: Right. And how is the Atorva - Simva tradeoff happening? Are you seeing some fall in Simva sales? Have you been able to stem it with Atorva sales?

Rakesh Bamzai: In the last fiscal call also, we maintained the same thing that we have not seen a drop in Simva sales yet. We continue doing well in Simvastatin.

Bino Pathiparambil: Okay, right. Kiran, you mentioned about the licensing fee for the full year picking up, from what deals would that be?

Kiran Mazumdar-Shaw: Multiple discussions are ongoing and it all depends on when they fructify.

Bino Pathiparambil: Right. And what is the status of Phase-III plain insulin trial, European trial, I believe somewhere around this time it was supposed to be concluding.

Abhijit Barve: Yes, the trial has got two parts. The first part is the six month endpoints and the second part is the twelve month endpoints. The six month data is close to finalization. Hopefully, we should be announcing it shortly. The second part is continuing and that data will take some time. But, the primary endpoints are based on the six month data.

Bino Pathiparambil: Is it still blind? Have you un-blinded it?

Abhijit: No, we have not un-blinded it. We want to make sure that the data is completely clean and we have all the data before we lock it. The registrations are going to be based on this data.

Bino Pathiparambil: Okay. So, hopefully within the next couple of months we will see that primary endpoint data?

Abhijit: Yes.

Bino Pathiparambil: Okay, great. And do you have any plans to announce it as soon as it is ready or are you waiting for some conference or something?

Abhijit: I think it depends on when we get the data, but we will announce it as it is a critical piece for our next steps.

Bino Pathiparambil: Okay, right. I will join back in the queue.

Moderator: Thank you. The next question comes from Mr. Ranjit Kapadia from Centrum Broking. Please go ahead.

Ranjit Kapadia: Good afternoon. My question relates to the BMS contract. If you can elaborate how many scientists are working and what type of work we are doing for them?

Peter Bains: The number of scientists working in the BMS contract is around 400. And the work that they are undertaking is integrated discovery and development.

Ranjit Kapadia: And any plan to increase the number of scientists?

Peter Bains: I think you have to ask BMS that question.

Ranjit Kapadia: Okay. Thank you and wish you all the very best.

Moderator: Thank you. The next question comes from Ms. Monica Joshi from Avendus Securities. Go ahead.

Monica Joshi: Yes, good afternoon. Thank you for taking my questions. Just a clarification, you mentioned that you are not really seeing too much of an impact on the Statin business. But, we have had in the last one week a couple of Indian formulators, who are in the US market, talking about volume shrinkage. So, what is your thought process, are you going to possibly see an impact coming into the coming quarters and how do you really see the market panning out for you? And I am not talking about Atorva; I am talking about Simva and Prava. And the second question is on the domestic formulation business. As I see it, you seem to be largely in chronic therapies. So, why do we see so much volatility between your quarters? So, if I see from March to June, you seem to have a very sharp shift in revenues. I can understand the YoY growth, but I cannot understand how it has come from March to June. So, if you could just share your thoughts on that.

Kiran Mazumdar-Shaw: I think you are complimenting us on good growth; or are you complaining?

Monica Joshi: Absolutely not complaining. I just want to know the quarterly trend. Is there going to be some lumpiness between the quarters? Because given your portfolio, you should not have a cyclical business in domestic formulation.

Kiran Mazumdar-Shaw: I think there is a steady run rate which is improving QoQ and I think this is basically reflecting on good brand creation and market share increase. As you would be aware, there is a gestational time in terms of brand building and brand visibility. When this reaches a critical point, then you see a good surge and a good pick up. I think that is what is happening here. So, I think it is very good and healthy trend and it is as per what we expected.

Monica Joshi: Kiran, can I just get back to where I am coming from? In June last year you had roughly about 67 Crores of business and you had 65 Crores in March that is the March quarter. And now you have 85 Crores. So, I am completely not complaining about the growth. What I am saying is that you had roughly a trend in the last twelve months of FY12; staying between 55 and 70 Crores and now you are 85 Crores. So, do we see any seasonality in your business that is what I am asking you?

Kiran Mazumdar-Shaw: No Monica, what I think we are trying to say is that all these businesses have gestational stages. So, at a certain stage you may not see a huge pick up. But, I think once the gestational phase is over, then you start seeing good healthy pick up and I will let my colleague, Rakesh, comment further on this.

Rakesh Bamzai: Monica, we are on an average six-seven year old in the branded formulation business. And this is a phase of growth, because our brands are good and are perceived to be of high quality by the doctors. We are doing very well in the market place. If you are worried that will this continue forward in the next few quarters? Yes, we are going to have aggressive growth plans in branded formulation. Does it address your question?

Monica Joshi: Yes, it does. On the Statin side if you can share your thoughts.

Rakesh Bamzai: Your question was that some Indian companies are reporting volume shrinkages. I wanted to confirm what is the basis for this information? Because, our statistics do not suggest so, and we maintain that we are not seeing any volume shrinkages. The volumes of Biocon and our partners in the US are continuously growing. It may also be, because our partners are good and they are doing a good job. But, I have not seen any reports saying that there is volume shrinkage of Statins which are there in the market.

Monica Joshi: You are talking particularly about the Simvastatin, is it?

Rakesh: I am talking about Simva and Prava.

Monica Joshi: Okay sir, thank you.

Moderator: Thank you. The next question comes from Ms. Purvi Shah from Dalal and Broacha. Please go ahead.

Purvi Shah: My questions have been answered. Thanks so much.

Moderator: Thank you. The next question comes from Mr. Krishnendu from Quantum AMC. Please go ahead.

Krishnendu: Just some accounting questions regarding the licensing income. This 139 million which is recorded this time, this does not relate to Pfizer, right?

Murali Krishnan: Yes, it is not related.

Krishnendu: And, but in your annual report we have this deferred revenue, so this relates to Pfizer?

Murali Krishnan: The deferred revenue refers to the residual amount retained under the contract terminated with Pfizer and shown in our balance sheet. Out of this deferred revenue amount what got spent during this quarter is about 13 Crores. So, the deferred revenue amounting to 493 Crores reported in the FY 12 annual report, would come down by this amount. The licensing income in this quarter has come from a different partner.

Krishnendu: Okay, fine. Then we have deferred revenue or the long term liabilities and the other current liabilities. So, if I look at FY12 figure on the current liability, we have a figure of 111 Crores. So, is it relating to the figure that will be set off against the R&D in FY13 or that will come to the licensing income?

Kiran Kumar: That will be set off against insulin related R&D spends in FY13.

Murali Krishnan: Yes, it will not come into the licensing income line at all.

Krishnendu: So, 111 Crores will be excluded from the R&D expenditure, that is what is coming as other current liabilities, right?

Murali Krishnan: This is based on the estimated forecast as of end June ’12.

Kiran Kumar: That is the forecast of the expenses that will be incurred in FY13 for the biosimilar Insulins program.

Krishnendu: Okay, right. Thank you.

Moderator: Thank you. The next question comes from Mr. Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: Thanks for taking my questions. The first question is on the contract services business. We have been talking about restructuring and reorganization of the business model. Has that completely been done or you still see some more of the impact really play out, although the growth rates are already beginning to scale up over the last few quarters. Are you seeing the best of the business or there is lot more scale up that you potentially can see going forward?

Peter Bains: We are very pleased with the progress that we have made to date on our integrated model. And I think we have positioned Syngene and Clinigene service capabilities well against the stringent needs of the biopharma companies. The market has a long trajectory ahead, which is probably well placed with the evolution of our model; which continues to develop and currently we are reaping benefits from the investments we have made in the last two years.

Nitin Agarwal: You have been talking about plans for listing the Syngene business, so what is essentially the driving force behind this thought process?

Kiran Mazumdar-Shaw: If you remember, I mentioned at the previous conference call that the main objective for listing Syngene was to unlock value. We believe that Syngene's value is being eclipsed by a lot of Biocon value or is not being projected clearly. Given that objective, we obviously do not want to list in volatile market conditions. And therefore we will adopt a wait and watch policy depending on how ready the market is to unlock this value that we want to create.

Nitin Agarwal: And on the India formulation business, when do you see the business gearing to optimal profitability levels in time?

Kiran Mazumdar-Shaw: We had indicated earlier that we want this to be a 500 Crores business in the next two years. It is already a profitable business, but optimal profitability will only start triggering once it crosses the 500 Crores size.

Nitin Agarwal: Something like FY15-16 is where it will be little more meaningful as far as profitability numbers are concerned.

Kiran Mazumdar-Shaw: 2014-15, Yes.

Nitin Agarwal: And on the Insulin licensing, the rh-insulin in Europe, when do you start looking for partners in different geographies in Europe?

Kiran Mazumdar-Shaw: We will do it quite soon.

Nitin Agarwal: And how do you look at the whole proposition that people talk about Novartis being well positioned especially in these markets, both in terms of scale and presence, what would be the proposition our product will bring to the market?

Kiran Mazumdar-Shaw: Well, I just want to make a comment that in India we are already the fastest growing Insulin company. We have taken on competition including the innovators. So, hopefully I think we should be in a strong position to do likewise in many other markets.

Nitin Agarwal: Okay. And lastly, our CAPEX spent as per the annual report was about 275 Crores in FY12. So, just want to check the major heads where the spending went and how do we see the CAPEX to be happening over the next couple of years?

Murali Krishnan: Next couple of years, one significant CAPEX is Malaysia which is likely to be around US$160 million or thereabouts. That will be over three year period. This will be in addition to the normal maintenance CAPEX, which is going to be in the region of about 150 - 200 crores for capacity expansion etc. in our existing facilities.

Nitin Agarwal: And the 275 Crores, was that towards any specific investment which went through last year?

Murali Krishnan: Biocon Research Center and the Biologics facility were the significant ones, apart from other smaller CAPEX projects.

Nitin Agarwal: Okay. Could you share your thoughts on the cash that we have on the balance sheet. How do you propose to utilize it going forward? Do you have any particular use of the cash in mind, because I understand that the bulk of the CAPEX is the Malaysian facility, which is going to be debt funded?

Kiran Mazumdar-Shaw: Well, there are some important CAPEX requirements going forward. The Malaysian facility will be one of them. And then R&D is a very important area for investment.

Nitin Agarwal: Okay, thanks very much.

Moderator: Thank you. The next question comes from Mr. Ravi Agarwal from Standard Chartered Securities. Please go ahead.

Ravi Agarwal: Hi, good afternoon. Thanks for taking my call. Just on the Glargine phase 3 which we want to do, what are the timelines? And are we going to do it after we get some partner in the next couple of months?

Abhijit: As mentioned in the press release, we will be doing this internally. The data that we have announced today is a critical component. Based on that, the design of the study will be finalized and then we will start the study.

Ravi Agarwal: How much could these trials approximately cost?

Abhijit: I think that will primarily depend upon the sample size of the study and how many people need to be recruited for the study. And as we had mentioned earlier, it will be in the tens of millions of dollars.

Ravi Agarwal: And we will do all of it ourselves?

Abhijit: Correct.

Ravi Agarwal: Okay. The second question is on the licensing. What I understand is we have had 13-crore licensing income during this quarter which we have taken as part of our biopharma sales. Is that correct?

Murali Krishnan: Yes, that is correct.

Ravi Agarwal: And then we have had 13 crore licensing from Pfizer that has been adjusted against R&D, is that again correct?

Kiran Mazumdar-Shaw: Yes, you are right. It is just a coincidence that the two numbers are very similar, but they are very different.

Ravi Agarwal: But, there is a 13 Crores impact of the Pfizer money coming into R&D, I just wanted to check that.

Murali Krishnan: The impact is not coming in the profit and loss account, because it is netted-off from the deferred income. When we incur the expenses on biosimilar Insulins, to the extent of expense incurred, it gets netted-off from the deferred income, through the P&L account. So as we incur these expenses, the deferred income comes down and hence there will be no impact on the profit.

Ravi Agarwal: Okay. But, you were mentioning that the R&D is actually up by 13-14 Crores and you have offset…

Kiran Mazumdar-Shaw: No, no, what we are saying is, if today we have declared 36 Crores as the R&D expense, then you have to add 13 Crores extra to that, if you add the Pfizer, the amount netted out against Pfizer's deferred income.

Ravi Agarwal: So, we have actually incurred 49 Crores and we have to minus 13 Crores from the deferred revenues.

Kiran Mazumdar-Shaw: That's correct.

Ravi Agarwal: And for the year we have got the number of around 111 Crores, is that the number?

Murali Krishnan: No, 150 -160 Crores excluding Insulin.

Ravi Agarwal: How much from the Pfizer part are we planning to kind of offset in this year?

Murali Krishnan: As of now, this amount is expected to be little over 100 crores for this year.

Ravi Agarwal: But, these 490 odd Crores we have at the end of FY12 that is the number which you will…

Murali Krishnan: That is the number we be netted-off over next two to three years' time as we continue to develop and spend on biosimilar Insulins.

Ravi Agarwal: So, by FY15 we will have finished that.

Murali Krishnan: Yes, certainly.

Ravi Agarwal: Okay, fine. Thank you.

Moderator: Thank you. The next question comes from Mr. Ashish Rathe from Equirus Securities. Please go ahead.

Ashish Rathe: Sir, thanks for taking my question. Most of them have been answered. Ma'am, if I heard correctly, you mentioned in your opening remarks that you are seeing some kind of a slowdown in outsourced FTE contracts and R&D expense slowdown from pharma makers. Can you just expand that thought a little bit more and also any particular reason for the same?

Kiran Mazumdar-Shaw: Basically there is a global trend in downsizing R&D and the size of R&D spends. And part of this is definitely in terms of downsizing the number of scientists being hired for research. What we are seeing is that this is also impacting outsourced FTE. So, any kind of fee for service or FTE based component spends is coming down. And we have seen some of this with some of our major clients. But, they are replacing this with the integrated service offering, which is a good sign for us. So, what we are saying is that your typical fee for service or FTE model is likely to change, because I think big pharma in its externalization strategy wants more integrated services.

Ashish Rathe: Okay, got it, got it ma'am. Thank you. That's it.

Moderator: Thank you. The next question comes from Mr. K C Suri from Span Capital. Please go ahead.

K C Suri: Thanks for this. Just a couple of clarifications to the responses you gave earlier. Rakesh, from what we understand, your response to Monica's question about the branded formulations in India, now this 86 crores level, this will be the base and the growth will be on this number, right?

Rakesh Bamzai: Yes, that's correct.

K C Suri: And with regards to the response to the biopharma, with respect to the non-India sales; Is my understanding correct that other than the lumpiness in Q4, there was actually lesser volume off take this quarter? Because, even if we do away with the licensing & development fee booked in the fourth quarter and the licensing income booked this quarter, there is a decline.

Murali Krishnan: To some extent yes, if you are comparing with Q4. As said earlier normally the sales peaks in Q4 and then comes down a bit in Q1.

K C Suri: And at what exchange rate has the dollar have been booked this quarter?

Murali Krishnan: The average is 54.

K C Suri: And how much was it for the fourth quarter?

Murali Krishnan: Fourth quarter would be around 50 levels.

K C Suri: 50 levels. So, despite this there is a significant de-growth, right?

Murali Krishnan: To some extent yes, if you are comparing with Q4 numbers.

K C Suri: Okay. And could you just remind us about your hedging policies for revenues, how do you hedge your FOREX receivable?

Murali Krishnan: The FOREX policy remains the same. We cover 150% - 170% of our net exposure over a period of eighteen months. We largely use simple put options or range forward options with a floor and the cap.

K C Suri: Okay. And what would be the extent of coverage right now? How much we would have covered, the quantum?

Murali Krishnan: The quantum differs between Biocon and Syngene. We look at past performance over the last six months and then the expected performance for the next twelve months, based on which we compute our net exposure to cover, on a quarterly basis.

K C Suri: So, how much would it stand as of the end of this first quarter or as on date?

Murali Krishnan: The number keeps changing, as the old contracts mature and the new contracts are taken during each quarter. There are many moving parts. The policy I mentioned earlier applies for the contracts taken based on past performance or near term purchase orders / estimates (all less than a year). Unlike Biocon, Syngene gets more of annual contracts. Syngene also has few long term contracts. The long term contracts are hedged fully for the entire contracted period.

K C Suri: But, I am asking for the historical amount of what it was, as on 30th of June, what was it? Would you have that number handy or I can take it offline?

Murali Krishnan: Yes, right now I do not have it, but we can give you later.

K C Suri: Thanks so much.

Moderator: Thank you. The next question comes from Ms. Meeta Shetty from Asian Markets. Please go ahead.

Meeta Shetty: Hi, thanks…just one clarification. If I see the segmental breakup, your unallocated expenses have gone up, nearly doubled YoY and have gone up 50%-60% QoQ. So, if you can just explain that?

Kiran Kumar: Just a minute. Which number you are referring to?

Meeta Shetty: It is 948 Crores.

Kiran Kumar: It is 94 Crores for the quarter.

Meeta Shetty: Sorry, Yes, 94 Crores.

Kiran Kumar: It is related to the general corporate expenses, R&D expenses plus the FOREX losses in the respective quarters.

Meeta Shetty: FOREX loss includes in this?

Kiran Kumar: Yes, it is included in this.

Moderator: Thank you. The next question comes from Mr. Sameer Baisiwala from Morgan and Stanley. Please go ahead.

Sameer Baisiwala: Thanks, good afternoon. I just wanted to check on how do you plan to take human Insulin forward for the European market, once the Phase-III is completed,

I guess very shortly now? And what could be the possible launch timelines for the same market?

Rakesh Bamzai: The launch will be based on the date of approval. Once our Phase-III data is complete, we will apply for the review and we will get the marketing authorization launch. As we have mentioned earlier, we are under discussion with potential partners for this business and this market. And once that happens, we will announce it.

Sameer Baisiwala: In your assessment how much time can this take for approval, is it one year, two years…

Abhijit: Usually the standard approval time in Europe ranges anywhere from 18 months to 24 months. So, depending on the way they are looking at it, because the climate has changed quite a bit since earlier, where it used to be about 12 months. But, most of the approvals are now taking close to 18 months.

Sameer Baisiwala: Okay and just a final one on the same issue. Would the approval be done for say, for the vial form or do you need to do some extra work for pen form? How would the end product look like as when you get the approvals?

Rakesh Bamzai: Yes. We are applying for the approval of all the forms.

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

Moderator: Thank you. Now, I hand over the floor to Ms. Kiran Mazumdar-Shaw, Chairman and Managing Director for closing comments. Please go ahead ma'am.

Kiran Mazumdar-Shaw: Thank you for participating in this conference call and I look forward to engaging with you at the next conference call in October. Thank you very much.

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

Note: This document has been edited to improve readability.