

# RESULTS REVIEW

## Biocon Ltd.

Rs. 505 | Buy

Q4FY07 results update

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**Nifty: 4084; Sensex: 13897**

### Key Stock Data

Sector	Pharmaceuticals
Bloomberg/Reuters	BIOS@IN/BION.BO
Shares o/s (m)	100
Market cap (Rs m)	50,470
Market cap (US\$ m)	1,202
3-m daily average vol.	277,673

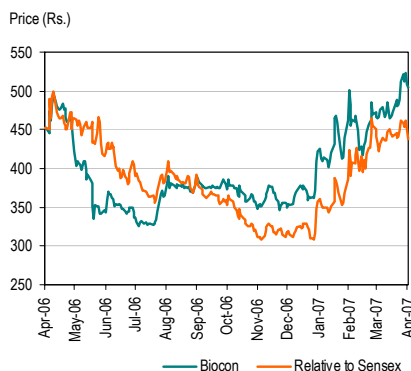
### Price Performance

52-week high/low	Rs532/306		
	-1m	-3m	-12m
Absolute (%)	8.3	19.7	11.5
Rel to Sensex (%)	(1.1)	21.7	(4.0)

### Shareholding Pattern (%)

Promoters	60.90
FII/NRIs/OCBs/GDR	9.38
MFs/Banks/FIs	6.90
Non Promoter Corporate	1.95
Public & Others	20.87

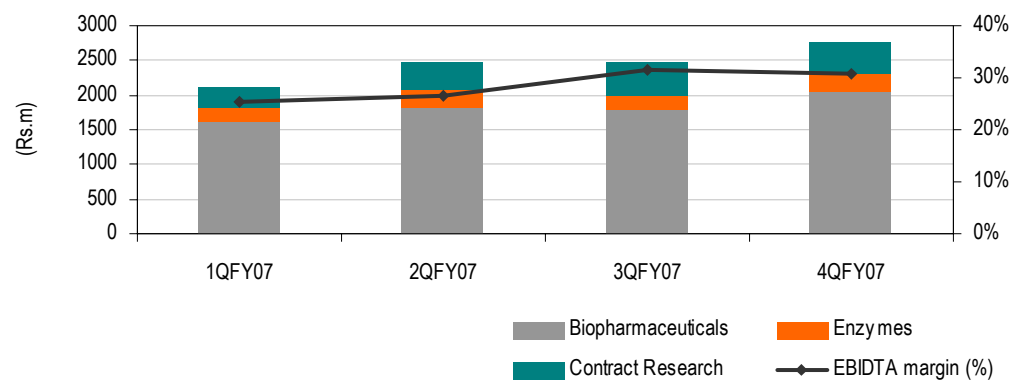
### Stock vs Relative to Sensex



## Highlights

Biocon has posted a strong set of results after having a subdued start for the fiscal. The revenue for FY07 has grown by 25% YoY to Rs.9.8bn mainly aided by revamped statin business and contract research revenue. EBITDA at Rs.2.8bn increased by 24% YoY but shows no change in the margin maintained at 29%. PAT increased moderately by 15% YoY at Rs.2bn due to increased depreciation of 131% YoY related to Biocon park.

Figure 1: Strong margins with increasing revenue



Source: Company reports; IDBI Capital Market Services

### Statis to remain sturdy

Biopharmaceutical business grew by 21% YoY to post revenue of Rs.7.3bn where most of the revenue comes from increased statins sales in USA. Biocon is expected to have a market share of 20% in Simvastatin API supply. It has been drawing better price in USA compared to its counterpart in Europe even though there has been pricing pressure in US market. The number of customers for Simvastatin has increased to 5 and Biocon further plans to add one more customer to its portfolio.

### Insulin – Expansion phase

Insulin Market – Biocon's insulin business has been growing at a rate of 100% on domestic level being in nascent stage.

Biocon sells insulin in two forms –

1. Insulin Crystals (Bulk)
2. *Insugen* (Formulation)

Currently, the insulin formulation has been registered and sold in six countries while insulin crystals are being supplied to many countries. Registration of *Insugen* is expected to increase to 25 countries these fiscal and 75 countries for the next 4-5 years. Bulk insulin is also set to double its revenue in the current fiscal. Insulin along with other biosimilars is responsible for 15% of the revenue. In another development, Biocon's oral insulin program would be entering Phase II clinical trials later this year.

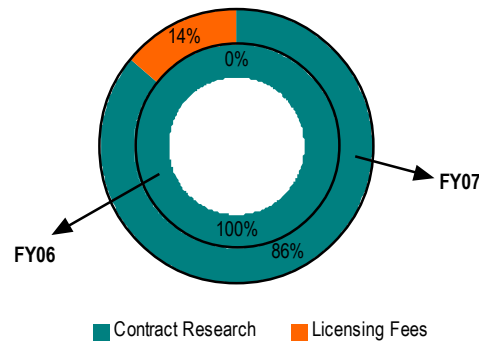
### Enzymes – Stable revenue

Biocon has been supplying industrial enzymes to a range of domains including healthcare, beverage, brewing, baking, fruit juice, starch and alcohol, sugar, animal health, paper and pulp, leather and detergent to over 50 countries. This business looks to be stable throughout the year and is supposed to contribute in the same manner. Though it enjoys good margin, aggressive contribution from biopharmaceuticals and contract research will dilute its effect on total revenue.

## ■ Syngene – Contract research grows

Contract research arm, Syngene has been the fastest growing business segment of Biocon which has grown by 61% YoY amassing a revenue of Rs.1.6bn. It also includes significant amount of licensing fees of Rs.230m, which was a meager part of contract research revenue last year. The licensing revenue would be recurrent appearing in the range of Rs.250m on annual basis.

**Figure 2 - Syngene revenue diversification**



Source: Company reports; IDBI Capital Market Services

Capex planned for Syngene is Rs.2.5bn, which would be spread over next two years. This incorporates building up new facility for the recently signed deal with Bristol Myers Squibb. The company plans to recruit 400 scientists under this arrangement.

## Significant developments in the quarter

### a. Syngene's research partnership with Bristol Myers Squibb

Under the research partnership agreement with Bristol Myers Squibb, Syngene would be providing research and development services for discovery and early drug development. The new research facility for this deal would be set up at Biocon Park, Bangalore which would be housing more than 400 scientists. Syngene currently has human resource strength of 600, most of which are scientists.

### b. Launch of renal therapy products

Biocon recently launched its Nephrology division which includes immunosuppressants like *Renodapt* (Mycophenolate Mofetil), *Tacrograf* (Tacrolimus), *Cyclophilme* (Cyclosporine Micro Emulsion USP), *Rapacan* (Sirolimus) and *Erypro* (rHuEPO). With the launch of this new division, Biocon is now having three branded formulation division –

Cardiology – diabetology

Oncology – inflammation

Nephrology

Currently, the domestic branded formulation business of Biocon comprising the above mentioned divisions contribute 5% of the total revenue. Biocon currently employs around 260 business executives out of which 25 have been dedicated for Nephrology and 27 are working under cardiology division.

### c. Approval and expansion of Bentley's Nasulin Phase II studies in India

Bicon's licencing partner, Bentley Pharmaceuticals received DCGI approval for conducting Phase II clinical evaluation of Nasulin (Nasal Insulin) in Type II diabetic patients. The Phase II studies are expected to get completed by the end of this year. Non-injectable insulin would be a preferred therapeutic class over the classical one due to greater acceptability and convenience. The incidence of Diabetes in India is on rise with a diabetic population of 32m, which is set to go up to 57m. This will constitute 19% of the global diabetic population.

#### d. Launch of *BioMab EGFR* in Pakistan

After launching *BioMab EGFR* in India, Biocon launched the same drug in fast growing Pakistani market. *BioMab EGFR* has been licensed exclusively to Ferozsons Laboratories, Pakistan's leading oncology business company. Market size of oncological products in Pakistan is US\$ 70m and monoclonal antibody market is growing at a CAGR of 30%. *BioMab EGFR* has been launched in India in the month of September 2006 and it has been filed with Indian authorities for label expansion studies.

## Outlook and valuation

Biocon is set to reap benefits from statins market in both US and Europe by increasing its clients. Insulin business is also doing well with its aggressive expansion plans. Syngene's contribution to the overall business should keep increasing gradually and Clinigene may see a turnaround this fiscal with expanded operations. Biocon has planned a capex of Rs.1.25bn out of which Rs.250m would be used for purchasing land for SEZ in Vizag, Andhra Pradesh.

Increased amount of R&D expenditure, which would be in the range of 6-8% of revenue may put some pressure though it may nullified by high margin business of insulin and contract research. The growth rate for top line and bottom line is likely to remain the same for the current fiscal. The stock is currently trading at 25x FY07 EPS of Rs.20 and 22x FY08E EPS of Rs.23.7.

We maintain 'Buy' rating on this stock.

**Table 1: Financial snapshot**

(Rs. m)

Year-end: March	Q1FY07	Q2FY07	Q3FY07	Q4FY07	FY07	FY06
Biopharmaceuticals	1,610	1,830	1,800	2,040	7,280	6,020
Enzymes	220	260	200	270	950	850
Sale of products (Total)	1830	2,090	2,000	2,310	8,230	6,870
Contract research	290	400	470	470	1,630	1,010
Net sales	2,120	2,490	2,470	2,780	9,860	7,880
Raw material (Including R&D)	1,190	1,330	1,210	1,400	5,130	4,340
Staff costs	180	230	250	270	930	620
Other expenses	210	270	230	260	970	630
R&D						
EBIDTA	540	660	780	850	2,830	2,290
EBIDTA margin (%)	25	27	32	31	29	29
Depreciation	110	180	180	200	670	290
EBIT	430	480	600	650	2,160	2,000
Other income	10	10	0	20	40	50
Interest	20	20	20	30	90	20
Profit before tax	420	470	580	640	2,110	2,030
Minority interest	10	10	10	30	60	20
Tax	40	40	20	70	170	310
Net profit	390	440	570	600	2,000	1,740
Number of shares (m)	100	100	100	100	100	100
EPS (Rs.)	3.9	4.4	5.7	6	20	17.4

Source: Company reports; IDBI Capital Market Services

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