

CMP : Rs.364

Reco : ACCUMULATE

STOCK INFO

BSE	532523
NSE	BIOCON
Bloomberg	BIOS IN
Reuters	BION.BO
Sector	Pharmaceutical
Face Value (Rs)	5
Equity Capital (Rs mn)	1000
Mkt Cap (Rs mn)	73,000
52w H/L (Rs)	465/272
Avg Daily Vol (BSE+NSE)	760,013

SHAREHOLDING PATTERN

(as on 30th Jun. 2011)	
Promoters	60.92
FII's	5.62
DII's	11.26
Public & Others	22.20

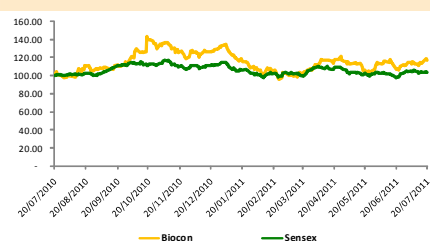
Source: BSE

STOCK PERFORMANCE (%)

	1m	3m	12m
BIOCON	4	-1	17
SENSEX	4	-6	3

Source: IndiaNivesh Research

BIOCON v/s BSE SENSEX



Source: IndiaNivesh Research, Capitaline

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Revenue : ...below street estimates

In Q1 FY12, Biocon's net revenue increased 10.1% y-o-y to Rs 4.42 billion, below street estimate of Rs 5.3 billion. Company's pharma business (*Excluding out license Income*) grew 10.2% to Rs 3.4 billion on the back of new products launched in the domestic formulation market, reflecting 28% y-o-y combined growth across its six therapeutic segments (Diabetology, Oncotherapeutics, Nephro, Cardio, Derma & Comprehensive care). However, overall growth in the Pharma segment was partially offset by slowdown in middle east business (due to the ongoing turmoil). Further, CRAMS business reported healthy growth of 21.3% y-o-y to post revenue of Rs 874 million in Q1FY12. During the quarter, company reported out licensing income of Rs 144 million compared to Rs 206 million in the same quarter of previous year.

Revenue Mix & Analysis

in Rs Mn	Q1 FY12	Q1 FY11	y-o-y	FY11
Out Licensing Income	144	206	-30.1%	1525
Pharma Sales (Excl Out License Income)	3,399	3,084	10.2%	13,300
CRAMS	940	785	19.7%	3,449
Less: Intersegment	66	65		272
Net Sales	4,417	4,011	10.1%	18,002
Other Operating Income	18	14		59
<hr/>				
EBITDA	1,221	1,112	9.8%	5,454
EBITDA(Exc Out License Income)	1,077	906	18.9%	3,929
EBITDA Margin	27.7%	27.7%		30.3%
EBITDA Margin (Excl. Out License Income)	25.2%	23.8%		23.8%

Source: Company Filings; IndiaNivesh Research

Operating Performance: ...below street estimates but margins improved from core business.

In Q1 FY12, EBITDA grew 9.8% y-o-y to Rs 1.22 billion, lower than street estimates of Rs 1.45 billion mainly due to lower out licensing income in current quarter compared to the same quarter in previous year. EBITDA margin was almost flat at 27.7% level in Q1 FY12 compared to Q1 FY11. In the current quarter increase in employee cost was offset by decline in the material cost & other expenditure.

Further, company's EBITDA from core business (excl out licensing income) was up 18.9% y-o-y (EBITDA margin increased 140 bps y-o-y to 25.2%). (See table given above)

Net Profit: .. below street estimates

Biocon reported adj PAT (*adj for other income*) of Rs 595 million in Q1 FY12, up 2 % y-o-y. Higher depreciation & increased tax rate led to 108 bps y-o-y contraction in Q1 FY12 net margins.

Company reported adj EPS of Rs 2.98 in Q1 FY12 compared to Rs 2.92 in Q1 FY11.

Key Con call takeaways

Company has shown good traction in the sale of its immune suppressant, branded formulation segments in the domestic market. However, total Bio-pharma sales was impacted due to turmoil in the middle east. Management has guided to compensate for this loss by exploring opportunities in other emerging markets.

In domestic branded formulation business, key therapeutic segments (*Diabetology, Onco, Nephro, Cardio, Derma & Comprehensive Care*) have reported healthy 28% y-o-y growth. Further, company is likely to maintain the same kind of growth rate in

these divisions on the back of new product launches. Management has guided to expand its field force strength in domestic market from current 1120 level to 1500 by FY12 end.

API Supply of Fidaxamicin to Optimer commenced in June. We expect a good ramp up for the product going forward.

After the divestment of Axixorp business, company's margins from its core business improved 140 bps; however going forward increase in head count may keep a check on the margins.

Valuation

At CMP of Rs 364, the stock is trading at PE multiple 18x & 15x its FY12 & FY13 Bloomberg estimates, respectively. Company is currently in the expansion mode, post Axixorp divestment its margin have improved and this trend is likely to continue in the long term. We expect the company's CRAMS business to continue the growth momentum, going forward. Management expects out-license income for FY12 to be in-line with the FY11 numbers. Accordingly, we are of the view that any news flow on the out-licensing deal of oral Insulin molecule for trial III phase to act as a catalyst for the stock to get re-rated upwards. Hence, we advise to accumulate the stock with positive bias from a long term prospective. Soon we intend to come out with a price target on the stock.

Particulars (Rs Mn except EPS)	Q1 FY12	Q1 FY11	Y-o-Y	FY11
Pharma	3,543	3,290	7.7%	14,825
CRAMS	940	785	19.7%	3,449
Less: Intersegment	66	65		272
Net Sales	4,417	4,011	10.1%	18,002
Other Operating Income	18	14	24.3%	59
Total Income	4,435	4,025	10.2%	18,061
(increase)/Decrease in closing stock	(179)	(147)	21.6%	(246)
Consumption of raw material	1,906	1,793	6.3%	7,122
Purchase of finished goods	165	106	54.8%	382
Power Cost	231	197	17.5%	820
Employee Cost	693	555	24.9%	2,388
Other Expenditure	398	410	-2.8%	2,140
Total Expenditure	3,213	2,913	10.3%	12,607
EBITDA	1,221	1,112	9.8%	5,454
Depreciation & Ammortization	451	363	24.0%	1,516
EBIT	771	749	3.0%	3,938
Interest	57	66	-13.9%	245
Pre-tax Profit	714	683	4.6%	3,693
Tax	119	100	19.8%	586
Net Profit (Recurring)	595	583	2.0%	3,107
Other Income	105	69	NM	292
Net profit from Discontinued Operation		115		276
Net Profit (Reported)	701	767	-9%	3,675
Adj EPS	2.98	2.92	2%	15.5
O/ Share (In Million)	200	200	0%	200

Ratios	Q1 FY12	Q1 FY11	Bps	FY11
EBITDA margin	27.7%	27.7%	(8)	30.2%
Net Margin	13.5%	14.5%	(108)	17.3%
Material cost/Net Sales	46.9%	47.4%	(48)	39.6%
Power Cost/ Net Sales	5.2%	4.9%	33	4.6%
Employee Cost/ Net Sales	15.7%	13.8%	185	13.3%
Other Expenditure/ Net Slaes	9.0%	10.2%	(120)	11.9%
Tax Rate	16.7%	14.6%	212	15.9%

Source: Company Filings; IndiaNivesh Research



Trust.....we earn it.

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