

Biocon

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In line quarter, near-term triggers absent

Biocon's Q1FY10 results are in line with estimates. Base business sales growth of 16% is driven by the BMS services contract, which accounted for 30% of Syngene's revenue. Biopharma sales remained weak despite the contribution from API supplies of Mycophenolate Mofetil which begun in May 2009, 50% YoY growth in domestic formulations and favourable currency. Adj PAT witnessed a growth of 17% to Rs 548mn. While Biocon's business is well on its way to emerge as a discovery-led pharma company, its key triggers—business scalability in insulin, domestic formulations and contract services, coupled with benefits from the partnership with Mylan, as well as potential out-licensing of the oral insulin molecule—will only fructify over the next 18-24 months. We believe the stock lacks near-term triggers and is trading at rich valuations of 17x 1-year forward earnings given a muted earnings growth of 8.4% over FY09-FY11. Maintain Sell.

BMS contribution leads base business growth of 16%

BMS recorded sales of Rs 147mn, contributing 30% to Syngene's sales of Rs 580mn for the quarter. Biopharma reported muted sales growth of 9%, while AxiCorp recorded sales of Rs 1.9bn, a growth of 13% QoQ. Base business gross margins improved over 700bps due to better product mix and lower material cost. However, higher depreciation and interest charges restricted consolidated PAT growth to 17% YoY to Rs 548mn.

Contribution from partnership with Mylan and potential out-licensing of the oral insulin molecule at least 18 months away

According to the management, biosimilar partnership with Mylan for emerging markets will start over the next 18-24 months, while benefits from the product supplies to the regulated markets of US and Europe are at least 3-4 years away. The oral insulin molecule IN-105 is likely to conclude its Phase III trials in the middle of next year and would then be considered for out-licensing, an opportunity at least 18 months away from here.

Valuation and key risks to our call

We value Biocon at 15x 1-year forward earnings to arrive at a price target of Rs 191. Key risks to our Sell call are earlier-than-expected out-licensing of oral insulin molecule IN-105 and higher-than-estimated milestone payments from Mylan for FY10 and FY11.

Valuation summary

Y/E Mar, Rs mn	FY2007	FY2008	FY2009	FY2010E	FY2011E
Net Sales	9,857	10,538	16,171	19,648	21,631
Growth, %	25.1	6.9	53.5	21.5	10.1
EBIDTA	2,738	2,968	3,318	3,910	4,456
EBIDTA margins, %	27.8	28.2	20.5	19.9	20.6
Core EBIDTA	2,738	2,968	3,318	3,910	4,456
Net profit	1,976	2,311	2,384	2,457	2,762
Net profit margin, %	20.0	21.9	14.7	12.5	12.8
Net Profit (adjusted)	1,976	2,311	2,384	2,457	2,762
EPS, Rs	9.9	11.6	11.9	12.3	13.8
EPS Growth, %	15.3	17.0	3.1	3.1	12.4
PER, x	22.2	18.9	18.4	17.8	15.9
EV/EBIDTA, x	16.6	15.6	14.7	12.7	11.3
EV/Net Sales, x	4.6	4.4	3.0	2.5	2.3
Price/Book Value, x	4.1	3.0	2.9	2.6	2.3
ROIC, %	23.2	23.1	18.5	19.6	19.4
ROE, %	20.2	18.2	15.8	15.2	15.4
Dividend Yield, %	0.7	1.1	1.4	1.6	1.8

Source: Company, MF Global India Research Estimates

Maintain Sell / Rs 219
Target Rs 191 (-12%)

Sector Rating

OW	N	UW

Stock Rating

Buy	Neutral	Sell
> 15%	-15% to +15%	> -15%

This note should be read for:

- Q1FY10 results review

Bloomberg code :
Reuters code :
www.biocon.com

BIOS IN
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BSE Sensex : 14843
NSE Nifty : 4399

Company data

O/S shares :	200mn
Market cap (Rs) :	44bn
Market cap (USD) :	902mn
52 - wk Hi/Lo (Rs) :	236 / 87
Avg. daily vol. (3mth) :	1.3mn
Face Value (Rs) :	5

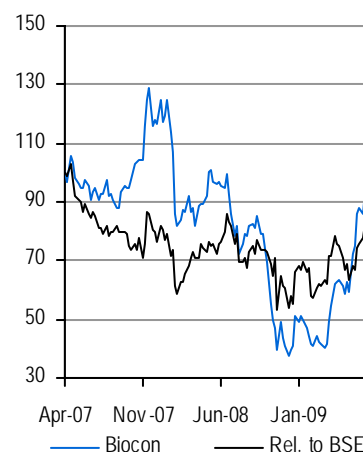
Share holding pattern, %

Promoters :	60.9
FII / NRI :	6.9
FI / MF :	11.0
Non-Promoter Corp. Holdings :	1.3
Public & Others :	19.8

Price performance, %

	1mth	3mth	1yr
Abs	2.8	46.8	16.3
Rel to BSE	-0.8	9.5	11.1

Price vs. Sensex



Source: Bloomberg, MF Global India Research

Revenue Model and Income statement

Income Statement, Rs mn	Q1FY09	Q1FY10	Q1FY10 with AxiCorp	AxiCorp	Growth, %	Growth, %
	without AxiCorp	without AxiCorp			without AxiCorp	
Biopharmaceuticals	2,212	2,405	4,296	1,891	9	94
Contract research	427	667	663	(4)	56	55
Total	2,639	3,072	4,959	1,887	16	88
Enzymes	-	-	-			
Total Sales	2,639	3,072	4,959	1,887	16	88
Expenditure						
Materials and Power costs	1,354	1,352	2,891	1,539	(0)	114
Staff Costs	313	375	526	151	20	68
R&D	109	200	200	-	83	83
Other expenses	223	246	357	111	10	60
Total expenditure	1,999	2,173	3,974	1,801	9	99
EBITDA	640	899	985	86	40	54
<i>EBITDA margin, %</i>	<i>24.3</i>	<i>29.3</i>	<i>19.9</i>	<i>4.6</i>	<i>501bps</i>	<i>-439bps</i>
Depreciation	253	314	324	10	24	28
EBIT, core	387	585	661	76	51	71
Other Income	126	90	94	4	(29)	(25)
EBIT	513	675	755	80	32	47
Interest charges	37	50	56	6	35	51
PBT	476	625	699	74	31	47
Taxes	17	108	137	29	535	706
Minority Interest and loss in asst	(10)	-	14	14	-	-
Adj. PAT	469	517	548	45	10	17
Adjustments						
1. Fx (gain)/loss	319	(26)	(28)	(2)	-	-
Rep. PAT	150	543	576	47	262	284

Source: Company, MF Global India Research

Common size (%)

	Q1FY09	Q1FY10	Q1FY10 with AxiCorp	AxiCorp	Change (bps)	
	without AxiCorp	without AxiCorp			without AxiCorp	Change (bps) with AxiCorp
Materials and Power costs	51	44	58	82	-730	699
Staff Costs	12	12	11	8	35	-125
R&D	4	7	4	-	23	-10
Other expenses	8	8	7	6	-44	-125
Total expenditure	76	71	80	95	-501	439
EBITDA	24	29	20	5	501	-439

Source: Company, MF Global India Research

Adj. profits and adj NPM (%)

	Q1FY09 without AxiCorp	Q1FY10 without AxiCorp	Q1FY10 with AxiCorp	Axicorp	Growth, % without AxiCorp	Growth, % with AxiCorp
Adj. PAT						
Biopharmaceuticals	439	447	478	31	2	9
Contract research	30	70	70	-	133	133
Total	469	517	548	31	10	17

	Q1FY09 without AxiCorp	Q1FY10 without AxiCorp	Q1FY10 with AxiCorp	Axicorp	Change (bps) without AxiCorp	Change (bps) with AxiCorp
Adj. PAT margin, %						
Biopharmaceuticals	20	19	11	2	-126	-872
Contract research	7	10	11	-	347	353
Total	18	17	11	2	-94	-672

Source: Company, MF Global India Research

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Income Statement

Y/E Mar, Rs mn	FY2007	FY2008	FY2009	FY2010E	FY2011E
Net sales	9,857	10,538	16,171	19,648	21,631
<i>Growth, %</i>	25	7	53	22	10
Other income	0	0	0	0	0
Total income	9,857	10,538	16,171	19,648	21,631
Operating expenses	-7,119	-7,570	-12,853	-15,738	-17,175
EBITDA (Core)	2,738	2,968	3,318	3,910	4,456
<i>Growth, %</i>	19.7	8.4	11.8	17.8	14.0
<i>Margin, %</i>	27.8	28.2	20.5	19.9	20.6
Depreciation	-667	-940	-1,103	-1,244	-1,407
EBIT	2,071	2,028	2,215	2,666	3,049
<i>Growth, %</i>	19.7	8.4	11.8	17.8	14.0
<i>Margin, %</i>	27.8	28.2	20.5	19.9	20.6
Interest paid	-98	-102	-177	-244	-270
Other Non-Operating Income	107	376	645	323	304
Non-recurring Items	25	2,334	-1,371	0	0
Pre-tax profit	2,106	4,637	1,306	2,739	3,076
Tax provided	-166	-56	-222	-302	-339
Profit after tax	1,940	4,580	1,084	2,437	2,737
Net Profit	2,001	4,646	1,013	2,457	2,762
MF Net profit	1,976	2,311	2,384	2,457	2,762
<i>Growth, %</i>	15.3	17.0	3.1	3.1	12.4
Net Profit (adjusted)	1,976	2,311	2,384	2,457	2,762
Extraordinary items: Gains/(Losses)	25	2,334	-1,371	0	0
Unadj. shares (m)	200	200	200	200	200
Wtd avg shares (m)	200	200	200	200	200

Cash Flow

Y/E Mar, Rs mn	FY2007	FY2008	FY2009	FY2010E	FY2011E
Pre-tax profit	2,106	4,637	1,306	2,739	3,076
Depreciation	667	940	1,103	1,244	1,407
Chg in working capital	-2,129	909	18	-981	-854
Total tax paid	-27	-6	-203	-357	-295
Other operating activities	0	0	0	0	0
Cash flow from operating activities	617	6,480	2,224	2,644	3,335
Capital expenditure	-1,544	-2,215	-2,890	-2,125	-2,550
Chg in investments	211	-3,957	1,072	500	0
Chg in marketable securities	0	0	0	0	0
Other investing activities	0	0	0	0	0
Cash flow from investing activities	-1,490	-6,613	-2,014	-1,624	-2,550
Free cash flow	-874	-133	210	1,019	0
Equity raised/(repaid)	313	538	149	0	0
Debt raised/(repaid)	907	-10	12	0	0
Dividend (incl. tax)	-301	-385	-602	-600	-805
Other financing activities	0	0	0	0	0
Cash flow from financing activities	941	142	-189	-600	-805
Net chg in cash	68	9	22	419	-20

Balance Sheet

As at 31st Mar, Rs mn	FY2007	FY2008	FY2009	FY2010E	FY2011E
Cash & bank	87	96	118	537	516
Marketable securities at cost	0	0	0	0	0
Debtors	3,065	2,591	3,667	4,932	5,754
Inventory	1,613	1,790	3,192	3,679	4,190
Loans & advances	530	869	947	1,183	1,479
Other current assets	0	0	0	0	0
Total current assets	5,295	5,346	7,924	10,331	11,940
Investments	791	4,748	3,676	3,176	3,176
Gross fixed assets	10,149	11,547	14,098	16,158	18,488
Less: Depreciation	-1,712	-2,511	-3,612	-4,730	-6,087
Add: Capital WIP	708	1,382	1,720	1,660	1,830
Net fixed assets	9,145	10,419	12,206	13,088	14,230
Non-current assets	512	276	1,631	1,904	2,054
Total assets	15,776	20,824	25,437	28,548	31,460
Current liabilities	2,912	3,581	7,526	8,789	9,715
Provisions	425	705	806	979	1,101
Total current liabilities	3,337	4,286	8,332	9,769	10,816
Non-current liabilities	1,761	1,771	1,749	1,791	1,838
Total liabilities	5,098	6,057	10,081	11,560	12,655
Paid-up capital	500	500	1,000	1,000	1,000
Reserves & surplus	10,186	14,341	14,107	15,759	17,601
Shareholders' equity	10,678	14,767	15,356	16,988	18,805
Total equity & liabilities	15,776	20,824	25,437	28,548	31,460

Per-share data

	FY2007	FY2008	FY2009	FY2010E	FY2011E
MF EPS (INR)	9.9	11.6	11.9	12.3	13.8
Growth, %	15.3	17.0	3.1	3.1	12.4
Book NAV/share (INR)	53.4	73.8	76.8	84.9	94.0
FDEPS (INR)	9.9	11.6	11.9	12.3	13.8
CEPS (INR)	13.1	4.6	24.3	18.5	20.8
CFPS (INR)	5.6	25.9	1.3	8.0	10.9
DPS (INR)	1.5	2.5	3.0	3.5	4.0

Financial structure

	FY2007	FY2008	FY2009	FY2010E	FY2011E
Total debt/Equity (%)	17.5	17.3	34.1	36.7	38.5
Net debt/Equity (%)	16.7	16.6	33.3	33.6	35.7

Profitability, Productivity, Liquidity and Valuation Ratios

	FY2007	FY2008	FY2009	FY2010E	FY2011E
Return on assets (%)	14.0	25.4	5.2	9.6	9.7
Return on equity (%)	20.2	18.2	15.8	15.2	15.4
Return on Invested capital (%)	23.2	23.1	18.5	19.6	19.4
RoIC/Cost of capital (x)	2.8	2.8	2.2	2.3	2.2
RoIC - Cost of capital (%)	14.9	14.8	9.9	11.0	10.7
Return on capital employed (%)	18.0	31.8	7.1	14.4	14.7
Cost of capital (%)	8.3	8.3	8.6	8.6	8.6
RoCE - Cost of capital (%)	9.7	23.6	(1.5)	5.8	6.0
Asset turnover (x)	0.9	0.8	1.1	1.1	1.1
Sales/Total assets (x)	0.7	0.6	0.7	0.7	0.7
Sales/Net FA (x)	1.1	1.1	1.4	1.6	1.6
Receivable days	113.5	89.8	82.8	91.6	97.1
Inventory days	59.7	62.0	72.1	68.3	70.7
Payable days	99.3	83.1	59.2	58.8	49.6
Current ratio (x)	1.6	1.3	1.0	1.1	1.1
Quick ratio (x)	1.1	0.9	0.6	0.7	0.7
Interest cover (x)	21.2	19.9	12.5	10.9	11.3
Dividend cover (x)	6.6	4.6	4.0	3.5	3.5
PER (x)	22.2	18.9	18.4	17.8	15.9
PEG (x) - y-o-y growth	1.5	1.1	5.9	5.8	1.3
Price/Book (x)	4.1	3.0	2.9	2.6	2.3
Yield (%)	0.7	1.1	1.4	1.6	1.8
EV/Net sales (x)	4.6	4.4	3.0	2.5	2.3
EV/EBITDA (x)	16.6	15.6	14.7	12.7	11.3
EV/EBIT (x)	16.6	15.6	14.7	12.7	11.3
EV/CE	3.6	2.8	2.8	2.6	2.4
EV/IC (x)	4.2	3.6	3.3	2.8	2.5

Source: Company, MF Global India Research Estimates

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