

Biocon (BIOCON)

Rs 302

WHAT'S CHANGED...

PRICE TARGET	Unchanged
EPS (FY10E)	Unchanged at Rs 14.7
EPS (FY11E)	Changed from Rs 19.2 to Rs 20.0
RATING.....	Unchanged

Looking up...

Biocon's Q4FY10 results were ahead of our expectations. Consolidated net profits jumped ~224% YoY to Rs 81 crore on account of ~41% growth in net sales to Rs 657 crore (expected Rs 634 crore). Strong topline growth was aided by robust performance from biopharma and robust sales from Axicorp. The Axicorp integration led the consolidated EBITDA margin to fall by ~994 bps YoY to ~21% and consolidated net margin by ~663 bps YoY to ~12.3%. Excluding Axicorp, Biocon's EBITDA margin stood at 31% in Q4FY10. The biopharma business grew by a robust 49% on a standalone basis to Rs 335 crore on account of strong growth in the domestic formulation business while CRAMS grew ~9% YoY to Rs 74 crore. We are maintaining our target price of Rs 335 with a BUY rating.

■ Highlights for the quarter

During Q4FY10, Biocon reported a strong operating performance on account of a 41% YoY increase in sales. The company bought out the 49% stake of Cuban partner CIMAB in Biocon Biopharmaceuticals. Syngene partnered with Endo Pharma to develop a novel biological therapeutic molecule against cancer. Axicorp's EBITDA margin stood at 4.8% in Q4FY10. This growth came from the restructuring of its sales force and winning the AOK, BKK and DAK tenders for several generics.

Valuation

We believe Biocon's strength lies in its strong insulin franchise, position in biosimilars and increasing presence in niche areas like nephrology, diabetes, cardiovascular and oncology. Oral insulin for type-II diabetes is in Phase-III in India. Strong traction in the domestic business, improving performance from Axicorp and better outlook for the contract research business signify good growth prospects for the company. Biocon is currently trading at 15x FY11E EPS and 11x FY11E EV/EBITDA. We are maintaining a **BUY** rating on the stock along with a target price of Rs 335.

Exhibit 1: Performance Highlights

	(Rs Crore)					
	Q4FY10A	Q4FY10E	Q4FY09	Q3FY10	YoY Gr.(%)	QoQ Gr.(%)
Net Sales	656.8	634.0	466.3	635.1	40.9	3.4
EBITDA	139.2	134.0	110.2	133.1	26.3	4.6
EBITDA Margin (%)	21.2	21.1	23.6	21.0	(244) bps	23.6 bps
Depreciation	36.7	36.0	30.7	36.0	19.5	1.9
Interest	3.3	2.7	6.2	2.7	-46.8	22.2
Reported PAT	80.6	89.0	24.9	80.8	223.7	-0.2
EPS (Rs)	4.0	4.5	1.2	4.0		

Source: Company, ICICIdirect.com Research

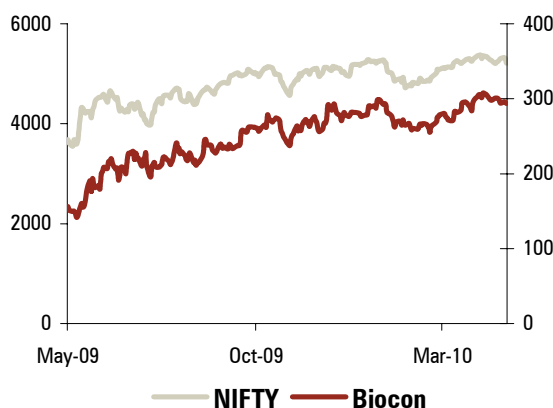
Rating Matrix	
Rating	: Buy
Target	: Rs 335
Target Period	: 12-15 months
Potential Upside	: 11%

Key Financials	(Rs Crore)			
	FY08	FY09	FY10E	FY11E
Net Sales	1108.2	1608.7	2367.8	2819.3
EBITDA	315.9	323.4	471.5	593.3
Net Profit	470.8	93.1	293.1	400.0

Valuation Summary	FY08	FY09	FY10E	FY11E
EPS (Rs)	23.2	12.0	14.7	20.0
PE (x)	13.0	25.1	20.6	15.1
Target PE (x)	14.5	27.9	22.9	16.8
EV to EBITDA (x)	10.1	20.3	13.6	11.5
Price to book (x)	2.0	4.0	3.4	3.9
RoNW (%)	14.8	11.4	12.4	18.8
RoCE (%)	13.8	13.2	15.6	22.8

Stock Data	
Market Capitalisation	Rs 6040 crore
Debt (FY10)	Rs 513 crore
Cash (FY10)	Rs 140 crore
EV	6552.1
52 week H/L	Rs 304/90
Equity capital	Rs 100 crore
Face value	Rs 5
MF Holding (%)	9.4
RI Holding (%)	3.9

Price Movement (Stock vs. Nifty)



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Result Analysis

■ **Topline growth above our expectation**

Biocon reported a robust 41% YoY growth in consolidated revenues buoyed by ~46% YoY growth in biopharmaceuticals and 9% YoY growth in contract research. The robust performance in the bio-pharma segment was on account of increasing immunosuppressant and statin sales. The robust growth in the bio-pharma business was also on account of integration of the Axicorp business. This contributed Rs 248 crore (~38% to the overall revenues and growing by 43% YoY) to the consolidated sales in Q4FY10. Strong growth in the insulin franchise also led the biopharma business to perform better. The standalone bio-pharma business grew ~49% YoY to Rs 335 crore on account of robust performance in the domestic formulation business. The second largest revenue grosser for the company, CRAMS, grew at 9% YoY on account of a further ramp up in execution of the BMS contract in Q4FY10.

Growth in overall revenues was buoyed by 46% YoY growth in biopharmaceuticals, 9% YoY growth in the contract research business and 43% YoY growth in Axicorp revenues

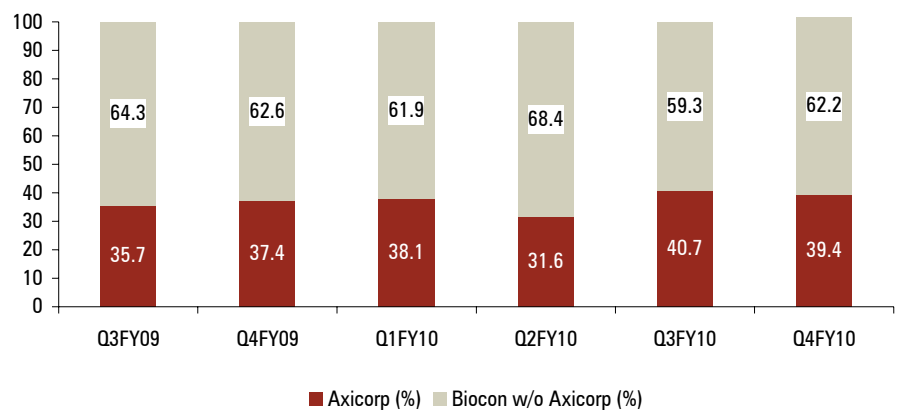
Exhibit 2: Business highlight (Rs Crore)

	Q4FY10	Q4FY09	YoY Growth (%)	Q3FY10	QoQ Growth (%)
Biopharma	334.5	224.2	49.2	307	9.0
% to sales	50.9	48.1		48.3	
Contract Research	74	67.9	9.0	69.4	6.6
% to sales	11.3	14.6		10.9	
Axicorp	248.3	174.2	42.5	258.7	-4.0
% to sales	37.8	37.4		40.7	
Total Sales	656.8	466.3	40.9	635.1	3.4

Source: Company, ICICIdirect.com Research

During FY10, the topline grew 28% YoY to Rs 2368 crore on account of : i) 29% YoY growth in the standalone biopharma business ii) 93% YoY growth in Axicorp revenues and iii) 25% YoY growth in the contract research business. The robust biopharma performance was driven by Insulin (11% YoY growth), immunosuppressant (28% YoY growth) and statins (26% YoY growth).

Exhibit 3: Percentage contribution to consolidated sales

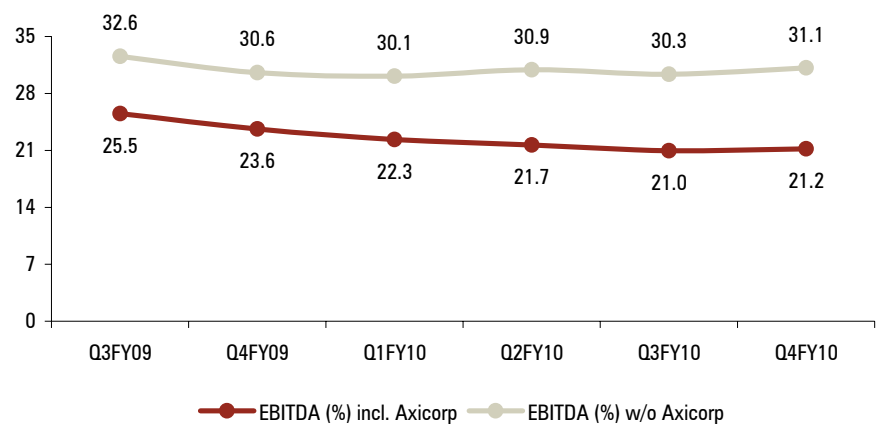


Source: Company, ICICIdirect.com Research

■ Robust operating margin indicates improving business conditions

Biocon's operating profit for Q4FY10 grew at a robust rate of ~26% YoY, largely on account of a 41% rise in topline. However, Biocon's overall EBITDA margin contracted by ~244 bps YoY in Q4FY10 on account of forex loss to the tune of Rs 4.2 crore and rise in depreciation. Consolidation of Axicorp dragged the overall EBITDA margin by ~994 bps during Q4FY10 (due to ~38% revenue contribution from the low margin Axicorp subsidiary). Out of the total expenditure of Biocon of Rs 526 crore in Q4FY10, Axicorp's contribution was ~45%. Rise in employee cost by ~33% YoY signals a possible ramp-up in operations for the BMS contract. Employee cost rose 35% YoY to Rs 60 crore (including Axicorp). The reduction in R&D cost by 5% YoY prevented further margin erosion.

Exhibit 4: EBITDA margin trend



Source: Company, ICICIdirect.com Research

■ Net profit improves 9% YoY (adjusted for MTM)

For Q4FY10, Biocon's consolidated net profit was at Rs 81 crore, up ~223% YoY on a lower base in Q4FY09 due to extraordinary expense of Rs 41 crore. In FY10, the net profit increased ~200% YoY to Rs 303 crore due to an extraordinary expense of Rs 141 crore on account of forex losses in FY09. This quarter the company did not incur huge forex losses as witnessed in the previous few quarters as a consequence of entering into an innovative option forward contract.

Exhibit 5: Common size profit and loss account

	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10
Net Sales	100	100	100	100	100
Depreciation	6.6	6.5	6.0	5.7	5.6
Interest	1.3	1.1	0.9	0.4	0.5
PBT	15.7	14.7	14.7	14.9	15.1
Tax (% PBT)	2.2	18.8	11.0	11.9	14.5
Net Profit	5.3	11.6	12.8	12.7	12.3

Source: Company, ICICIdirect.com Research

Valuation

Looking at the current quarter results, we believe Biocon is on track to generate robust revenues and profits. All business segments are progressing well. Biocon's discovery R&D focus is reflected in its interesting discovery pipeline including two Monoclonal Antibodies (MAb) related to oncology and rheumatoid arthritis along with the oral insulin. The company has filed an investigational new drug application (IND) for its oral insulin (IN-105) in the US market. The management remains optimistic about its ability to launch generic insulin in EU by FY12 against the earlier guidance to launch in FY11. The Axicorp subsidiary will also start contributing meaningfully to the bottomline once the commercialisation of the insulin in EU kicks in.

Clinigene and Syngene are showing a good ramp-up in operations. The immunosuppressant segment is likely to be another growth driver with Biocon looking to scale up the MMF supplies in the US market and Tacrolimus APIs over the next few quarters. We remain bullish on the company regarding its near to medium term prospects. An out-licensing deal in the area of insulin and bio-generics may act as a catalyst for the stock. Biocon is currently trading at 15x FY11E earnings. We are assigning **BUY** rating to the stock and maintaining our target price of Rs 335, 17x FY11E EPS.

Exhibit 6: Valuation Table

	Sales		EPS	EPS Gr		EV/EBITDA		
	(Rs Cr)	Sales Gr (%)	(Rs)	(%)	PE (x)	(x)	RoNW (%)	RoCE (%)
FY08	1108.2	12.4	23.2	15.7	13.0	10.1	14.8	13.8
FY09	1608.7	45.2	12.0	-48.2	18.2*	20.3	11.4	13.2
FY10E	2367.8	47.2	14.7	22.0	20.6	13.6	12.4	15.6
FY11E	2819.3	19.1	20.0	36.4	15.1	11.5	18.8	22.8

* Adjusted EPS

Source: Company, ICICIdirect.com Research

ICICIdirect.com Coverage Universe

					Sales (Rs Cr)	EPS (Rs)	PE(x)	EV/E (x)	RoNW (%)	RoCE (%)
Alembic										
Idirect Code	ALECHE	CMP	50	FY08	1003.2	8.0	6.2	7.5	32.6	19.1
		Target	49	FY09	1116.1	3.4*	14.9	9.1	14.0*	11.3
MCap	686.0	Upside (%)	-1	FY10E	1169.0	4.0	12.3	7.0	11.1	10.8
				FY11E	1251.7	5.4	9.2	5.4	13.5	12.7
Biocon										
Idirect Code	BIOCON	CMP	302	FY08	1108.2	23.2	13.0	10.1	14.8	13.8
		Target	335	FY09	1608.7	12.0	18.2*	20.3	11.4	13.2
MCap	6040.0	Upside (%)	11	FY10E	2367.8	14.7	20.6	13.6	12.4	15.6
				FY11E	2819.3	20.0	15.1	11.5	18.8	22.8
Dishman										
Idirect Code	DISHPHA	CMP	216	FY08	803.1	14.7	14.7	14.7	21.3	9.5
		Target	237	FY09	1062.4	18.2	11.9	9.3	20.8	13.6
MCap	1743.1	Upside (%)	10	FY10E	911.9	15.8	13.7	10.9	18.0	9.5
				FY11E	1075.3	19.8	10.9	7.7	18.4	12.1
IPCA Labs										
Idirect Code	IPCLAB	CMP	265	FY08	1051.3	10.9	24.4	6.0	23.1	15.2
		Target	255	FY09	1284.0	8.1	32.8	4.3	16.0	19.6
MCap	3312.5	Upside (%)	-4	FY10E	1516.3	17.3	15.3	3.1	26.7	24.1
				FY11E	1745.4	18.2	14.5	2.7	22.8	21.9
Piramal Health										
Idirect Code	NICPIR	CMP	540	FY08	2848.3	16.0	33.8	23.0	30.7	24.6
		Target	458	FY09	3281.1	15.1	35.7	21.6	24.0	17.7
MCap	11286.0	Upside (%)	-15	FY10E	3668.8	21.0	25.7	18.1	26.4	17.8
				FY11E	3819.7	26.2	20.6	14.1	25.8	21.8
Sun Pharma										
Idirect Code	SUNPHA	CMP	1587	FY08	3356.7	71.8	22.1	20.3	29.8	30.4
		Target	1600	FY09	4271.4	88.1	18.0	16.8	25.9	28.5
MCap	32869.6	Upside (%)	1	FY10E	3999.3	63.7	24.9	24.1	17.4	17.9
				FY11E	4920.7	84.2	18.9	17.3	19.3	20.8
Glenmark										
Idirect Code	GLEPHA	CMP	263	FY08	2037.4	25.4	10.3	9.2	41.7	34.2
		Target	288	FY09	2093.0	7.7	34.3	21.8	19.4	16.4
MCap	7056.0	Upside (%)	10	FY10E	2373.3	10.9	24.2	14.5	12.8	14.1
				FY11E	2730.8	16.8	15.6	11.1	19.7	20.6
Lupin										
Idirect Code	LUPIN	CMP	1682	FY08	2706.4	49.8	33.8	33.8	31.9	22.2
		Target	1840	FY09	3775.9	61.3	27.4	23.2	35.6	23.6
MCap	14912.6	Upside (%)	9	FY10E	4688.0	71.6	23.5	19.1	30.3	24.4
				FY11E	5968.8	92.2	18.2	14.0	27.3	26.4
				FY12E	7062.1	113.4	14.8	11.0	24.5	25.2
Unichem										
Idirect Code	LUPIN	CMP	408	FY09	735.2	30.0	14.3	10.4	22.3	23.2
		Target	486	FY10E	760.2	28.6	14.3	10.2	18.0	20.1
MCap	1471.0	Upside (%)	19	FY11E	899.4	39.3	10.4	6.9	20.9	23.6
				FY12E	1050.6	47.6	8.6	5.5	21.4	24.5
Indoco Rem										
Idirect Code	LUPIN	CMP	416	FY09	350.6	25.6	16.3	11.6	11.3	10.9
		Target	403	FY10E	398.3	34.2	12.1	9.8	13.3	11.1
MCap	511.3	Upside (%)	-3	FY11E	466.1	42.6	9.8	7.3	14.3	13.5
				FY12E	530.6	49.0	8.5	6.3	14.3	13.8

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 Buy: Between 10% and 20%;
 Add: Up to 10%;
 Reduce: Up to -10%
 Sell: -10% or more;

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