



Biocon Ltd.

23 July 2011

Buy

Industry**Media**

CMP (INR)	362
Target (INR)	480
52 week High/Low (INR)	465/302
Market Cap (INR BN)	72.4
3M Avg. Daily Volumes ('000)	430.73
P/E (FY12e)	2.9

Q1FY12 Result Highlights

Biocon Ltd announced its Q1FY12 results which were mainly below the street estimates. The results were impacted by the Middle East crises faced by the company during the quarter and less than expected licensing income.

Biocon reported a topline growth of 10% YoY with the total income at INR. 443 mn. Revenues were affected by the lower licensing income which came in at INR 140 mn. However the biopharma business of the company posted a growth of 8% yoy. Company also reported a strong growth of 22% in its revenue from the CRAMS segment.

Last quarter the company divested its stake in its German subsidiary Axicorp which was a low margin generating arm. This led to the expansion of the operating margins QoQ back to the level of 27.5% from 20% in the last quarter. On yoy basis the operating margins remained almost flat. The operating profit stood at Rs. 1221.4 mn posting a growth of 10% yoy.

The PAT was up by 7.4% yoy and came in at INR 700 mn. It was majorly affected by the higher tax incidence and depreciation expenses.

Going Forward

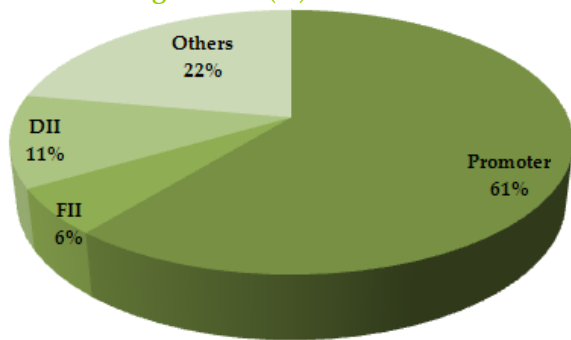
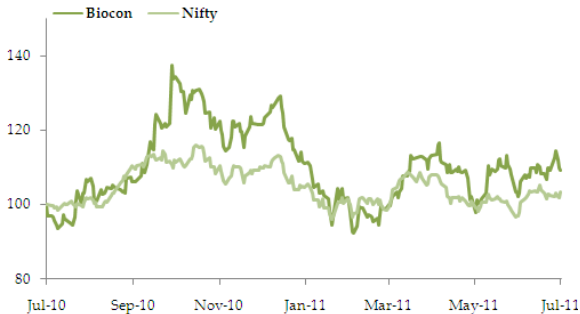
Biocon has initiated supply of its high margin API, Fidaxomicin to Optimer during Q1FY12 which is expected to generate incremental revenue from Q2FY11.

Also its supply pact of Insulin and Glargine with Pfizer is expected to contribute to its revenue in the coming quarters. Biocon is expecting to ramp up its licensing income in the coming quarters of FY12.

Biocon is in discussions with several global players for the partnership for the leading novel assets, Oral Insulin and Itolizumab (Anti-6 monoclonal antibody program). Development in any of these programs can add a good amount to the licensing income generation in the coming quarters.

Outlook and valuation

We expect Biocon to ramp up its revenue going forward in FY12 majorly contributed by expected incremental licensing income and other revenue boosters like Fidaxomicin & Insulin thus maintaining our positive stance on the stock. We reiterate our target value for Biocon at ~17x its FY13E earnings with the price objective of INR 480 implying a potential upside of 33%.

Shareholding Pattern (%)**Stock Performance****Performance (%)**

	1 Month	3 Months	1 Year
Biocon	7.1	-3.5	9.1
Nifty	6.7	-4.3	3.5

* Source: Bloomberg, Unicon Research

Biocon Ltd.

Financials

(INR in mn)

Particulars	Q1 FY12	Q1 FY11	% Growth YoY	Q4 FY11	% Growth QoQ
Total Income from Operations	4434.7	4025.0	10.2	7032.3	-36.9
Raw Materials	1891.1	1751.7	8.0	3931.6	-51.9
<i>% of sales</i>	42.6	43.5		55.9	
Employee Expense	692.6	554.6	24.9	819.7	-15.5
<i>% of sales</i>	15.6	13.8		11.7	
Power Cost	231.3	196.8	17.5	218.3	
<i>% of sales</i>	5.2	4.9		3.1	
Other Expenses	398.3	409.8	-2.8	611.4	-34.9
<i>% of sales</i>	8.9	10.2		8.7	
Total expenditure	3213.3	2912.9	10.3	5581.0	-42.4
Operating Profit	1221.4	1112.1	9.8	1451.3	-15.8
OPM %	27.5	27.6		20.6	
Other Income	105.4	68.7	53.4	132.7	-20.6
Interest	56.5	65.6	-13.9	56.6	-0.2
Depreciation	450.5	363.4	24.0	396.1	13.7
PBT	819.8	751.8	9.0	1131.3	-27.5
Tax	119.3	99.6	19.8	110.6	7.9
<i>Tax Incidence</i>	14.6	13.3		9.8	
PAT	700.5	652.2	7.4	1020.7	-31.4
PATM %	15.8	16.2		14.5	
EPS	3.50	3.84		5.04	

Source: Company, Unicon Research

*Consolidated



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Unicon Investment Ranking Methodology

Rating	Buy	Accumulate	Hold	Reduce	Sell
Return Range	>= 20%	10% to 20%	-10% to 10%	-10% to -20%	<= -20%

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