

Biocon Ltd.

INR:141.6



Sales driven by bio-pharma

BUY

Topline in line with expectation: Biocon posted its Q4 FY09 numbers. The topline of the company grew at a robust rate of 76% to Rs 468 crore compared to Rs 266.6 crore. The bio pharma segment of Biocon recorded a growth of 86.6% to Rs 411.4 crore compared to Rs 220.5 crore during the corresponding period last year. The revenue from contract research grew by 49% to Rs 71.6 crore whereas last year it was Rs 47.9 crore.

Particular	Q4 FY09		Variation	FY09		Variation
	Actuals	KRC Est.		Actuals	KRC Est.	
Net sales	468.1	467.0	In Line	1616.5	1513.0	Above
EBITDA	91.6	103.0	Below	331.2	303.0	Above
Net Profit (Pre Exceptional)	74.9	76.0	Inline	248.2	-	-
Net Profit	24.9	-	Below	93.1	146.0	Below

Bleak performance at the Operating level: Biocon though recorded strong growth numbers at the topline, had a dismal performance at the operating level. The operating profit of the company had shown a de growth of 4% Q-o-Q, to Rs 91.5 crore against Rs 95.2 crore. The margins of the company witnessed the heat of increasing expenses and had shrunk by 1157 bps Y-o-Y.

Bottom Line - In line with our expectation: The bottom line of the company was again hit by the forex loss. The net profit before exceptional loss was Rs74.9 crore, but the company suffered the forex loss of Rs41.4 crore and minority interest loss of Rs9 crore thereby reducing the bottom-line to Rs24.8 crore. The bottom-line is also impacted by the increase in depreciation expenses (44% Y-o-Y) and interest cost (187% Y-o-Y).

Our View:

Change in forex hedging policy - way to cap forex losses: Biocon has changed its forex hedging policy to insured options from fixed price forward contracts. According to its new policy, ~25% of Biocon's FY10 export revenues are hedged using a collar option structure which will enable Biocon to gain from the depreciation in the rupee until USD/INR rate of 55 as well as protect it from an appreciation in rupee till Rs 46.

Biocon has also bought put options for the remaining 75% of its FY10 exports at a strike price of Rs50. This will enable Biocon to benefit from the weakening rupee going forward while protecting any downside at Rs50. We believe this policy change is a welcome move for the company, and with this policy the company would be able to reduce any uncertainty related to forex losses.

We expect strong revenue visibility from the branded formulations business of the company coupled with AxiCorp starting with AOK supply of metformine. The robust R&D in the bio generics as well as novel biogenerics program is expected to realize significant returns over the medium to long term. Going forward, we see lucrative opportunities in all the segments of Biocon.

Key Financials

Rs. Crore

Particulars	FY08	FY09	FY10E	FY11E
Revenue	1053.8	1616.5	1891.3	2206.6
EBITDA	298.6	331.2	406.6	496.5
OPM	28.3%	20.5%	21.5%	22.5%
Net Profit	463.5	93.1	303.8	338.3
NPM	44.0%	5.8%	16.1%	15.3%
EPS	23.2	4.7	15.2	16.9
P/E	6.1	30.4	9.3	8.4
ROCE	16.1%	14.7%	16.6%	17.0%
RONW	31.2%	6.1%	18.3%	17.4%

Source: KRC Research

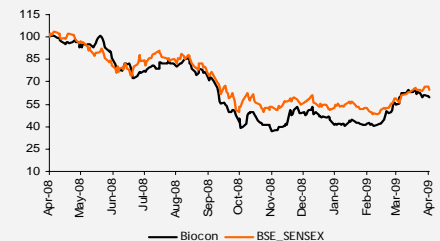
Price Outlook (INR): 200

Market Data	April 29 th , 2009
Shares outs (Cr)	20
Equity Cap (Rs. Cr)	100
Mkt Cap (Rs. Cr)	2,832
52 Wk H/L (Rs)	500/86.55
Avg Vol (1yr avg)	62,775
Face Value (Rs)	5
Bloomberg Code	BIO5 IN

Market Info:

SENSEX	11,403.3
NIFTY	3,474.0

Price Performance



Share Holding pattern (%)

Particulars	31-Mar	31-Dec	Chg
Promoters	60.9	60.9	-
Institutions	12.3	10.53	17.7
FII	6.4	6.52	-0.15
Public/Others	20.4	22.05	-0.1
Total	100.0	100.0	-

Analysts :

Bhawana Verma

bhawana.verma@krchoksey.com

91-22-6696 5571

Carrol D'Silva

carrol.dsilval@krchoksey.com

91-22-6696 5570

www.krchoksey.com

91-22-6696 5555

91-22-6691 9569

Performance highlights (FY09)

- Consolidated revenue (including AxiCorp) increases 53% from Rs 1, 090 crore to Rs 1,673 crore. Whereas revenue excluding AxiCorp increases by 10% from Rs1, 090 crore to Rs 1,194 crore.
- Sales revenue from research services grew 28% to Rs 225 crore from Rs176 crore in FY09.
- The operating profit of Syngene and Clinigene grew 21% to Rs 70 crore, but due to huge MTM loss the profit earnings resulted in a loss of Rs18 crore for the year.
- Operating margins (excluding AxiCorp) maintained at 31% level.
- MTM losses provided at Rs 147 crore for the year.
- R&D Expenditure increases by 27% to Rs 60 crore
- Net Profit after MTM losses declined to Rs 93 crore, whereas Net profit before MTM loss stands at Rs 248.2 crore.
- Oral Insulin IN105 has entered into phase III clinical trials whereas for T1h, a novel monoclonal antibody the recruitment for patients for IIb clinical trials has been completed.

Quarterly Trend

Particulars	Q4 FY09	Q3FY08	% Change	FY09	FY08	% Change
Enzymes*	-	-	-	-	47.72	-
Pharma	411.42	220.48	86.6%	1397.15	832.54	67.8%
<i>% of sales</i>	<i>85.2%</i>	<i>82.1%</i>	<i>-</i>	<i>85.5%</i>	<i>82.2%</i>	<i>-</i>
Contract Research	71.59	47.91	49.4%	236.19	180.78	30.7%
<i>% of sales</i>	<i>14.8%</i>	<i>17.9%</i>	<i>-</i>	<i>14.5%</i>	<i>17.8%</i>	<i>-</i>
Total	483.01	268.39	80.0%	1633.3	1013.32	61.2%

Source: Company, KRC Research

* Enzymes business has been sold off to Novozymes



Q4FY09 Result (Rs In Crore)

Key Financials

	Q4FY08	Q3FY09	Q4FY09	Q-O-Q	Y-O-Y	Comments
Net Sales	268	436	468	7%	74%	Sales mainly driven by excellent growth reported in the bio pharma segment
Total expenditure	184	341	377	10%	104%	
Raw Material Consumed	99	238	199	-16%	102%	
Employee Expenses	25	49	49	-1%	94%	
(Increase)/Decrease in stock	8	(32)	63	-296%	716%	
Other Expenses	53	86	66	-24%	24%	
EBIDTA	84	95	92	-4%	9%	
EBIDTA Margin	31.4%	21.8%	19.6%	-227 bps	-1,185bps	Margins shrink mainly due to low margin business of AxiCorp
Depreciation	24	27	31	13%	27%	
Other Income	11	16	18	14%	72%	
EBIT	71	84	79	-6%	12%	
EBIT Margin	26.4%	19.3%	17.0%	-237bps	-945bps	
Interest	3	4	6	69%	120%	Interest cost higher due to AxiCorp acquisition.
PBT	68	81	73	-9%	8%	
Tax	6	6	(2)	-127%	-126%	
Profit After Tax	62	75	75	0%	20%	
Net Profit Margin	23.2%	17.2%	16.0%	0bps	-716bps	
Exceptional Items	(1)	46	50	9%	-5595%	Biocon recorded an MTM loss of Rs 41.4 crore and minority interest loss of Rs8.3 crore due to loss in Biocon bio pharma, a 51% holding company of Biocon.
Adjusted Net Profit	63	29	25	-15%	-61%	
EPS	3.2	1.5	1.2	-15%	-61%	Earnings impacted due to forex loss.
EPS (Reported Profit)	3.1	3.7	3.7	0%	20%	

Source: Company, KRC Research

Corporate developments

AxiCorp wins German AOK tender for Metformin

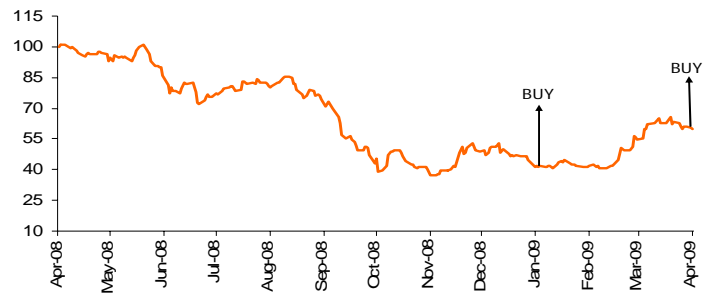
Biocon's German subsidiary AxiCorp has won the AOK tender for the supply of Metformin. The contract is awarded for the entire German territory over the next two years and the supply of the same is expected to start from June 2009. With this tender we expect the presence of AxiCorp would be strengthened in Germany. The company is expecting a revenue inflow of around Rs100 crore from the same in next two years.

Glargine - green signal from DCGI

The basal Insulin analog Glargine has received an approval from DCGI for marketing the drug in India. We expect the drug to be launched in 2 months and the company is targeting at a bigger pie of Rs50 crore markets.

Rajiv Choksey	Co-Head Institutional Equities	rajiv.choksey@krchoksey.com	+91-22-6653 5135
Anuj Choksey	Co-Head Institutional Equities	anuj.choksey@krchoksey.com	+91-22-6696 5500
Alok Agarwal	Institutional Research	alok.agarwal@krchoksey.com	+91-22-6696 5502

Biocon Ltd.



Rating Legend

Our Rating	Upside
Strong Buy	More than 25%
Buy	15% - 25%
Hold	10% - 15%
Reduce	Nil - 10%
Sell	Less than 0%

Other Stocks in the sector under our active coverage: Pharmaceuticals

Ticker	Company	Recommendation	As of	Return	Bmk	Outper	BARR
Summary		Coverage 6	Avg Rating: 4.6		9.97%	-16.98%	26.96%
RBXY	IN Ranbaxy Laboratories Ltd	Buy	04/01/09	30.73%	3.17%	27.56%	
JOL	IN Jubilant Organosys Ltd	Buy	03/03/09	-33.72%	-44.47%	10.75%	
SUNP	IN Sun Pharmaceutical Industries Ltd	Buy	02/07/09	13.24%	-3.67%	16.91%	
GNP	IN Glenmark Pharmaceuticals Ltd	Buy	01/28/09	39.62%	-38.40%	78.01%	4th
DRRD	IN Dr Reddys Laboratories Ltd	Hold	01/21/09	0.00%	-1.56%	1.56%	

Disclaimer:

This publication has been prepared solely for information purpose and does not constitute a solicitation to any person to buy or sell a

security. While the information contained therein has been obtained from sources believed to be reliable, investors are advised to satisfy themselves before making any investments. Kisan Ratilal Choksey Shares & Sec Pvt Ltd., does not bear any responsibility for the authentication of the information contained in the reports and consequently, is not liable for any decisions taken based on the same. Further, KRC Research Reports only provide information updates and analysis. All opinion for buying and selling are available to investors when they are registered clients of KRC Investment Advisory Services. As per SEBI requirements it is stated that, Kisan Ratilal Choksey Shares & Sec Pvt Ltd., and/or individuals thereof may have positions in securities referred herein and may make purchases or sale thereof while this report is in circulation.

Please send your feedback to krc.research@krchoksey.com

Visit us at www.krchoksey.com

Kisan Ratilal Choksey Shares and Securities Pvt. Ltd.

Registered Office:

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai - 400 001.
Phone: 91-22-6633 5000; Fax: 91-22-6633 8060.

Branch Office:

ABHISHEK, 5th Floor, Link Road, Dalia Industrial Estate, Andheri (W), Mumbai - 400 058.
Phone: 91-22-6696 5555; Fax: 91-22-6691 9576.