

Biocon Ltd.

CMP: Rs 302

Target Price: Rs 353

DOLAT CAPITAL



Pharmaceuticals / Acculimate

Biocon Q4FY10 results were in line with our expectations, with growth registered across business verticals. The Biopharmaceutical portfolio (excluding licensing income & Axicorp revenues) grew by 44% YoY. This was mainly driven by 26% growth registered in statins segment and traction in domestic branded formulations (up 36% YoY). Higher revenue contribution from Axicorp and licensing income aided overall growth momentum. The CRO segment grew by 9% YoY. The company's plans to list Syngene during FY11E are on track. Possible outlicensing deals for its product(s) Oral insulin IN105 (Phase III) and antibody T1h (to initiate Phase III shortly) are triggers going ahead.

BSE Sensex	17528
NSE Nifty	5272

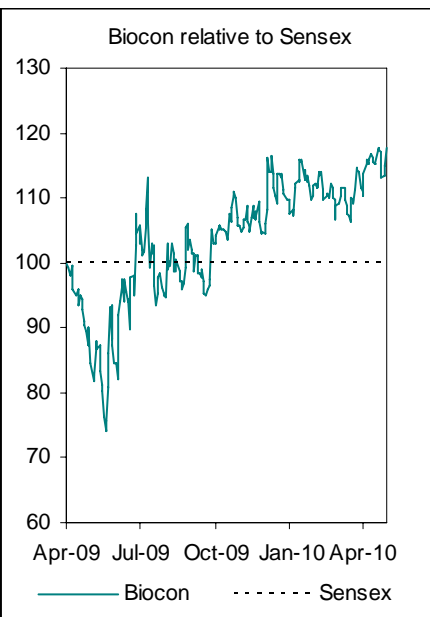
Scrip Details

Equity	Rs.1000mn
Face Value	Rs.5/-
Market Cap	Rs.60.4bn
	US\$1313mn
52 week High/Low	Rs.311 / 140
1-Month Avg. Volume	651949
BSE Code	532523
NSE Symbol	BIOCON
Bloomberg Code	BIOSIN
Reuters Code	BION.BO

Business Group - Indian Private

Shareholding Pattern as on Mar'10(%)

Promoter	60.92
FIs	3.89
MF/Banks/FIs	13.19
Public / Others	22.00



Q4FY10 Result

Particulars - (Rs Mn)	Q4FY10	Q4FY09	Y-o-Y %	FY10	FY09	Y-o-Y %
Income from Operations	6582.1	4680.7	40.6	23747.5	16266.3	46.0
Other Income	74.5	184.9		300.9	465.9	
Total Income	6656.6	4865.6	36.8	24048.4	16732.2	43.7
Total Expenditure	5264.5	3765.1	39.8	18963.3	12853.2	47.5
PBIDT	1392.1	1100.5	26.5	5085.1	3879.0	31.1
PBIDTM-%	20.0%	19.6%		20.1%	21.0%	
Interest	33.2	61.3	-45.8	168.9	176.6	-4.4
Depreciation	366.8	306.2	19.8	1401.4	1102.5	27.1
PBT	992.1	733.0	35.3	3514.8	2599.9	35.2
Tax	143.5	-15.8		486.7	118.4	
Reported Profit After Tax	848.6	748.8	13.3	3028.1	2481.5	22.0
EOI	0.0	414.3		0.0	1471.9	
RPAT (after EOI)	848.6	334.5	153.7	3028.1	1009.6	199.9
Minority Interest	-42.4	-85.7		-95.6	-78.5	
APAT (Excl. Min. Int & EOI)	806.2	663.1	21.6	2932.5	2403.0	22.0

Segment Breakup:-

	Q4FY10	Q4FY09	YOY%	FY10	FY09	YOY%
Revenues:-	6568	4663	40.9	23678	16087	47.2
Biopharma	3139	2178	44.1	11292	9024	25.1
- Licensing Income	206	64	221.9	507	123	312.2
- Axicorp	2483	1742	42.5	9072	4694	93.3
Contract Research	740	679	9.0	2807	2246	25.0

Figure in Rs. mn

Financial Highlights

- Axicorp (Ger) contributed Rs.2483mn during Q4FY10. The company's underlying business (excluding licensing income & Axicorp revenues) has delivered 35.8% revenue growth at Rs. 3879mn during the quarter.

Biopharmaceuticals - Growth registered across therapeutic segments:-

Segments	Growth (YoY%)	Comments
Insulins	11%	Vials & Cartridge registrations in ~40 countries
Immuno.	28%	Tacrolimus API supplies (batch quantities) to customers (awaiting ANDA approval)
Statins	26%	Pick up in Atorvastatin and Rosuvastatin sales.
Domestic formulations	36%	
- Diabetology	24%	Strong sales recorded in Insugen
- Oncology	59%	Key contributors Abraxane brand, BIOMAb EGFR
- Cardiology	26%	Healthy growth in key brands - Clotide and Myokinase
- Nephrology	57%	ERYPRO has recorded 50% growth (EPO segment growing at 16%)

- The company recorded licensing income of Rs.206mn (milestone payments) vis-a-vis Rs.64mn in Q4FY09.
- Operating Margins (pre forex) during Q4FY10 on a standalone basis increased by 170bps YoY at 30.6% led by decline in other expenses (-360bps YoY) and lower R&D costs (-220bps YoY) at 4.7% of sales. However, raw material costs increased by 470bps YoY at 49.5%. On a consolidated basis, margins improved by 50bps to 20%. Axicorp (trading business) has registered 3.9% operating margins during the quarter.
- Syngene is currently operating at ~75% capacity utilisation levels. Gradual scale up over two years will subsequently enhance operating efficiency. The company's plans to list Syngene during FY11E are on track.

Key Updates

- Insulin is in the process of being developed and registered for US& Europe. It has postponed its launch to CY13E on the back of time consuming regulatory processes.
- The company aims to initiate clinical study for Type 1 diabetics under US IND application for Oral Insulin- IN105. Key data from the ongoing trials (Phase III) for Oral Insulin is anticipated to be shared in H2FY11E.
- The company has guided :
 - a) Capex of Rs. 2.5bn for FY11E largely towards expansion of biological facility (BBPL) and Biocon R&D centre
 - b) R&D spend of ~Rs.1.5bn for FY11E.

Valuation

We anticipate Biocon to sustain its growth trajectory with gradual scale up in the domestic formulations segment and ramp up in bulk supplies for products going off patent. Higher contribution from the Contract Research business and certainty over milestone payments, further adds to its growth momentum. **At CMP of Rs.302/- the stock trades at 17.3x FY11E and 15.4x FY12E earnings. We recommend 'Accumulate' with a revised target price of Rs.353 (18x FY12E EPS).**

Financials

Year	Net Sales	Growth-%	EBITDA	OPM-%	Adj. PAT	Growth-%	Adj.EPS (Rs)	Growth-%	PER (X)	ROANW-%	ROACE-%
FY09	16,266	53.8	3,413	21.0	2,403	7.0	12.0	7.0	25.1	15.9	13.2
FY10P	23,748	46.0	4,784	20.1	2,933	22.0	14.7	22.0	20.6	17.0	15.8
FY11E	26,843	13.0	5,485	20.4	3,483	18.8	17.4	18.8	17.3	17.5	16.4
FY12E	30,460	13.5	6,363	20.9	3,928	12.8	19.6	12.8	15.4	17.1	16.5

Figure in Rs. mn, P: Balance sheet figures are projected



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The ratings are based on the absolute upside of our target price from the current price.

Upside

> 25 %
15% - 25%
0% - 15%
< 0 %

Ratings

Buy
Accumulate
Reduce
Sell

DOLAT TEAM

	Sector / Tel. No.	Tel. No.
Principal		
Purvag Shah purvag@dolatcapital.com	+9122 4096 9747	
Research research@dolatcapital.com		
Ankit Babel ankit@dolatcapital.com	<i>Engineering & Textile</i> +9122 4096 9732	
Bhavin Shah bhavin@dolatcapital.com	<i>Pharma & Agro Chemical</i> +9122 4096 9731	
Kapil Yadav kapil@dolatcapital.com	<i>Hospitality, Maritime & Rail</i> +9122 4096 9735	
Nadeem Parkar nadeem@dolatcapital.com	<i>Logistics & Aviation</i> +9122 4096 9736	
Priyank S. Chandra priyank@dolatcapital.com	<i>Telecom, Oil & Gas</i> +9122 4096 9737	
Ram Modi ram@dolatcapital.com	<i>Metals, Mining & Cement</i> +9122 4096 9756	
Ritesh Poladia ritesh@dolatcapital.com	<i>Media, FMCG & Auto*</i> +9122 4096 9753	
Sameer Panke sameer@dolatcapital.com	<i>Construction & Banking*</i> +9122 4096 9757	
* Newly assigned		
Associates		
Jaynee Shah jaynee@dolatcapital.com	+9122 4096 9723	
Namrata Sharma namrata@dolatcapital.com	+9122 4096 9726	
Neha Sarwal neha@dolatcapital.com	+9122 4096 9740	
Support Staff		
Paresh Girkar pareshgirkar@dolatcapital.com	+9122 4096 9742	
Rajesh Shinde rajesh@dolatcapital.com	+9122 4096 9743	
Sales sales@dolatcapital.com		
Mayur Shah mayur@dolatcapital.com	+9122 4096 9796	
R. Sriram rsriram@dolatcapital.com	+9122 4096 9706	
Vikram Babulkar vikram@dolatcapital.com	+9122 4096 9746	
Equity Sales Traders salestrading@dolatcapital.com		
Chandrakant Ware chandrakant@dolatcapital.com	+9122 4096 9707	
Jignesh Shahukar jignesh@dolatcapital.com	+9122 4096 9727	
P. Sridhar sridhar@dolatcapital.com	+9122 4096 9728	
Parthiv Dalal parthiv@dolatcapital.com	+9122 4096 9705	
Derivatives Team		
Vijay Kanchan vijayk@dolatcapital.com	+9122 4096 9704	
Derivatives Sales Traders		
Chirag Makati chiragm@dolatcapital.com	+9122 4096 9702-03	
Mihir Thakar mihir@dolatcapital.com	+9122 4096 9701	
Quantitative Research derivativesinfo@dolatcapital.com		
Prachi Save prachi@dolatcapital.com	<i>Derivatives Research</i> +9122 4096 9733	
Bloomberg Id dolatcapital@bloomberg.net		
Board Lines	+9122 4096 9700	
	+9122 2265 9200	
Fax Lines	+9122 2265 0410	
	+9122 2265 1278	

Dolat Capital Market Pvt. Ltd.

20, Rajabhadur Mansion, 1st Floor, Ambalal Doshi Marg, Fort, Mumbai - 400 001