

# Biocon Ltd

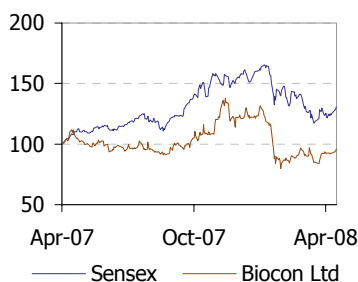
Relative to sector: **Neutral**

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## Relative Performance



Source: Bloomberg, ENAM Research

## Stock data

No. of shares	: 100mn
Market cap	: Rs 51bn
52 week high/low	: Rs 663 / Rs 345
Avg. daily vol. (6mth)	: 214,000 shares
Bloomberg code	: BIOS IB
Reuters code	: BION.BO

## Shareholding (%) Mar-08 QoQ chg

Promoters	: 60.9	0.0
FIIs	: 7.2	(0.4)
MFs / UTI	: 10.2	0.3
Banks / FIs	: 0.9	0.0
Others	: 20.9	0.1

## FLATTISH PERFORMANCE

Biocon reported a lukewarm Q4FY08 performance, with margins in the fast-growing research services divisions Syngene / Clinigene coming under some pressure due to an adverse exchange rate movement and higher capex costs. Overall EBITDA margin was largely unchanged at 31%. While other income was below our expectations due to a forex loss of Rs 151mn on derivative contracts, it was still high enough to deliver a 6% YoY PAT growth.

## Key Highlights

- **Sales:** Down 4% YoY due to non-inclusion of sales from enzymes business (~Rs 413mn). However, contract research fees were robust at Rs 479mn (up 50% YoY) in line with trends in this niche segment.
- **EBITDA:** EBITDA margins were practically unchanged at 31%; however, margins in the contract research segment were lower on an annualized basis.
- **PAT:** Adjusted PAT was up 6% for the quarter, with higher other income offsetting increased depreciation.

## Other Highlights

- Biocon expects to close the AxiCorp GmbH acquisition soon; of the Euro 30mn to be paid for the 70% controlling stake, 50% will be in cash and the rest in technology licensing fees.
- Phase IIa trials on its oral insulin IN-105 have commenced in India and should be completed by August 2008. Label expansion trials for BioMab-EFGR for gliomas have commenced; trials for non-small-cell lung cancer are expected to commence shortly. An anti-CD6 Mab (T1h) has entered Phase II for RA and psoriasis.

## Catalysts

Value unlocking due to a possible listing of Syngene on the Indian bourses and news flow on inorganic growth initiatives.

## Valuations

At CMP of Rs 509 the stock is fairly valued at 21.7x FY09E and 17.6x FY10E. We retain our **Neutral** rating on the stock and retain our target price of Rs 455.

## Financial Summary

Y/E Mar	Sales (Rs.mn)	Adj. PAT (Rs. mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs.)
2007	9,857	2,003	-	20.0	15	24.2	20.4	19.5	18.2	3.0
2008	10,536	2,244	-	22.4	12	19.2	17.6	16.2	13.7	3.3
2009E	12,068	2,342	26.7	23.4	4	21.7	14.9	13.9	15.8	3.5
2010E	14,661	2,889	31.3	28.9	23	17.6	16.2	15.0	12.5	3.8

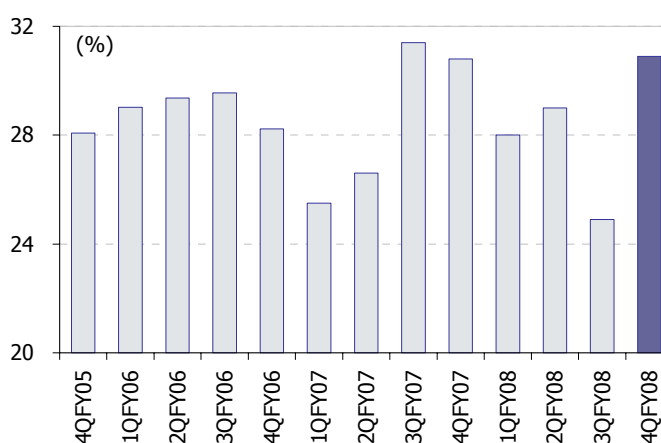
Source: \*Consensus broker estimates, Company, ENAM estimates

## Results Update

(Rs. mn)	Quarter ended					12 months ended		
	Mar-08	Mar-07	% Chg	Dec-07	% Chg	Mar-08	Mar-07	% Chg
<b>Net Sales</b>	<b>2,666</b>	<b>2,782</b>	<b>(4.2)</b>	<b>2,370</b>	<b>12.5</b>	<b>10,536</b>	<b>9,857</b>	<b>6.9</b>
<b>EBITDA</b>	<b>825</b>	<b>857</b>	<b>(3.7)</b>	<b>590</b>	<b>39.8</b>	<b>2,985</b>	<b>2,727</b>	<b>9.5</b>
Other income	126	12	958.0	210	(40.0)	366	136	168.4
<b>PBIDT</b>	<b>951</b>	<b>869</b>	<b>9.5</b>	<b>800</b>	<b>18.9</b>	<b>3,351</b>	<b>2,864</b>	<b>17.0</b>
Depreciation	242	195	23.8	230	5.1	932	665	40.0
Interest	28	35	(19.1)	30	(7.0)	108	99	9.3
<b>PBT</b>	<b>681</b>	<b>639</b>	<b>6.7</b>	<b>540</b>	<b>26.2</b>	<b>2,311</b>	<b>2,099</b>	<b>10.1</b>
Tax	60	65	(8.2)	20	198.5	130	158	(18.1)
Minority Interest	(22)	(33)	-	(10)	123.0	(62)	(62)	0.9
<b>Adjusted PAT</b>	<b>644</b>	<b>607</b>	<b>6.1</b>	<b>530</b>	<b>21.5</b>	<b>2,244</b>	<b>2,003</b>	<b>12.0</b>
Extra ordinary income/ (exp.)	9	-	-	2,390	(99.6)	2,399	-	-
<b>Reported PAT</b>	<b>653</b>	<b>607</b>	<b>7.6</b>	<b>2,920</b>	<b>(77.6)</b>	<b>4,643</b>	<b>2,003</b>	<b>131.8</b>
No. of shares (mn)	100	100	-	100	-	100	100	-
EBITDA margins (%)	30.9	30.8	-	24.9	-	28.3	27.7	-
PBIDT margins (%)	35.7	31.2	-	33.8	-	31.8	29.0	-
<b>EPS - annualized (Rs.)</b>	<b>25.8</b>	<b>24.3</b>	<b>6.1</b>	<b>21.2</b>	<b>21.5</b>	<b>22.4</b>	<b>20.0</b>	<b>12.0</b>

Source: Company, ENAM Research

## EBITDA Margin



Source: Company, ENAM Research

## Sales Mix

(Rs mn)	Quarter ended				
	Mar-08	Mar-07	% Chg	Dec-07	% Chg
Biopharmaceuticals	2,187	2,050	6.7	1,940	12.7
Enzymes*	0	413	(100.0)	0	-
Contract Research Fees	479	319	50.2	430	11.4
<b>Total</b>	<b>2,666</b>	<b>2,782</b>	<b>(4.2)</b>	<b>2,370</b>	<b>12.5</b>

Source: Company, ENAM Research \*Business divested

# Ranbaxy Labs

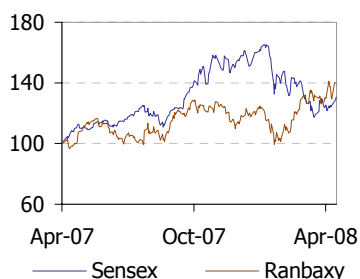
 Relative to sector: **Underperformer**

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## Relative Performance



Source: Bloomberg, ENAM Research

## Stock data

No. of shares	: 373mn
Market cap	: Rs 182bn
52 week high/low	: Rs 501 / Rs 300
Avg. daily vol. (6mth)	: 1.6mn shares
Bloomberg code	: RBXY IB
Reuters code	: RANB.BO

## Shareholding (%) Mar-08 QoQ chg

Promoters	: 34.8	(0.0)
FIIs	: 18.0	4.0
MFs / UTI	: 3.0	(2.0)
Banks / FIs	: 20.3	0.2
Others	: 23.9	(2.1)

## BELOW EXPECTATIONS

Ranbaxy's Q1CY08 results were below our estimates due to lower sales across all regions, though its operating performance was in line.

## Key Highlights

- **Sales:** Up by 7.4% to Rs 16.9bn, inclusive of Rs 849mn other operating income (against Rs 286mn in Q1CY07). In dollar terms, sales rose 15%, with increases in all geographies barring Europe, which saw a 29% sales decline in Romania led by proposed healthcare reforms and re-introduction of branded prescriptions from April 1, 2008.
- **EBITDA:** Margin up to 15.0% in Q1CY08 from 12.1% in Q1CY07 (despite rupee appreciating by 9.8%) led by better gross margins. Pre - R&D margins also improved to 21.5% in Q1CY08 from 17.5% in Q1CY07 (R&D includes Rs 205mn spend on NDDR).
- **PAT:** adjusted for exceptional items i.e. profit of Rs 895mn on sale of land and MTM losses of Rs 798mn (against gain of Rs 595mn in Q1CY07) was up by 77.3% to Rs 1.3bn.

## Other Highlights

- Earlier this month, Ranbaxy announced three manufacturing deals with AstraZeneca for Nexium, Plendil and Prilosec and settled its patent litigation with Astra Zeneca on Nexium. Ranbaxy has 98 ANDAs pending approval, including 19 FTFs (representing ~ USD 27bn in innovator sales)
- It acquired ~15% in Orchid Chemicals through a 100% subsidiary and will likely market some of Orchid's products in future

## Catalysts

NDDR demerger, Imitrex launch targeted in CY08, supply of Nexium API and Valtrex in CY09 and Flomax and Lipitor in CY10.

## Valuations

At CMP of Rs 487, the stock trades at a PER of 28.8x CY08E and 25.4x CY09E. We have revised our CY08 and CY09 estimates downwards by 19% and 24% respectively to Rs 16.9 and Rs. 19.1 and reduce our target price to Rs 395 from Rs 427 (includes Rs 50/share from Nexium CMG deal with AstraZeneca). We maintain sector **Underperformer**.

## Financial Summary

Y/E Dec	Sales (Rs mn)	Adj.PAT (Rs mn)	Consensus EPS* (Rs)	EPS# (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs.)
2006	60,183	5,103	-	12.8	124	30.7	20.1	13.7	20.7	8.5
2007	65,919	7,078	-	17.7	39	24.1	25.0	15.5	20.0	8.5
2008E	72,865	6,763	19.5	16.9	(4)	28.8	21.2	14.1	17.9	8.5
2009E	80,112	7,655	23.6	19.1	13	25.4	21.6	14.6	16.3	8.5

Source: \*Consensus broker estimates, Company, ENAM estimates; # On fully diluted basis equity of 400.5mn shares

## Results Update

(Rs mn)	Quarter ended					12 months ended		
	Mar-08	Mar-07	% Chg	Dec-07	% Chg	Dec-08E	Dec-07	% Chg
<b>Net Sales</b>	<b>16,986</b>	<b>15,815</b>	<b>7.4</b>	<b>19,023</b>	<b>(10.7)</b>	<b>72,865</b>	<b>65,919</b>	<b>10.5</b>
<b>EBITDA</b>	<b>2,552</b>	<b>1,908</b>	<b>33.8</b>	<b>2,977</b>	<b>(14.3)</b>	<b>12,336</b>	<b>9,823</b>	<b>25.6</b>
Other income	85	45	88.9	196	(56.6)	340	2,835	(88.0)
<b>PBIDT</b>	<b>2,637</b>	<b>1,953</b>	<b>35.0</b>	<b>3,173</b>	<b>(16.9)</b>	<b>12,676</b>	<b>12,658</b>	<b>0.1</b>
Depreciation	621	557	11.5	493	26.0	2,321	2,029	14.4
Interest	384	313	22.7	385	(0.3)	1,743	1,443	20.8
<b>PBT</b>	<b>1,632</b>	<b>1,083</b>	<b>50.7</b>	<b>2,295</b>	<b>(28.9)</b>	<b>8,612</b>	<b>9,186</b>	<b>(6.2)</b>
Tax	361	355	1.7	461	(21.7)	1,849	2,070	(10.7)
Minority Interest	-	11	-	-	-	-	38	-
<b>Adjusted PAT</b>	<b>1,271</b>	<b>717</b>	<b>77.3</b>	<b>1,834</b>	<b>(30.7)</b>	<b>6,763</b>	<b>7,078</b>	<b>(4.5)</b>
Extra ordinary income/ (exp.)	97	559	(82.6)	44	120.5	97	826	(88.3)
<b>Reported PAT</b>	<b>1,368</b>	<b>1,276</b>	<b>7.2</b>	<b>1,878</b>	<b>(27.2)</b>	<b>6,860</b>	<b>7,904</b>	<b>(13.2)</b>
No. of shares (mn)	400	400	-	400	-	400	400	-
EBIDTA margins (%)	15.0	12.1	-	15.6	-	16.9	14.9	-
PBIDT margins (%)	15.5	12.3	-	16.7	-	17.4	19.2	-
<b>EPS - annualized (Rs.)</b>	<b>12.7</b>	<b>7.2</b>	<b>77.3</b>	<b>18.3</b>	<b>(30.7)</b>	<b>16.9</b>	<b>17.7</b>	<b>(4.5)</b>

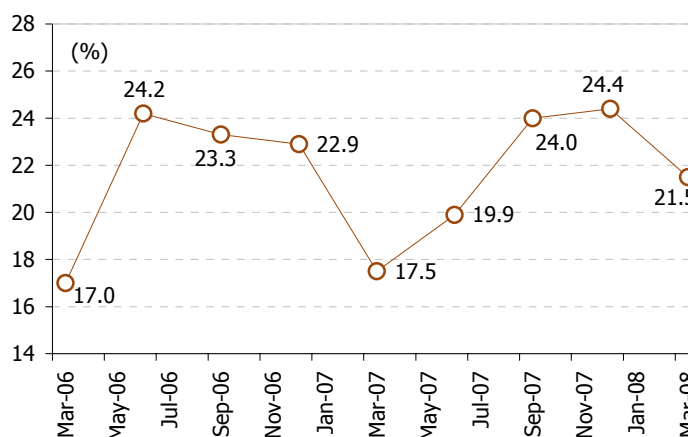
Source: ENAM Research, Company data, # On fully diluted basis equity of 400.5mn shares

## Sales Breakup

(USD mn)	Q1CY08	Q1CY07	% Chg
<b>A) Dosage forms</b>			
India & Middle East	91	78	17
CIS (Russia & Ukraine Belt)	24	18	29
Rest of Asia Pacific	25	18	37
Europe	83	93	(11)
Africa	31	24	(1)
Latin America	16	9	76
North America	110	91	20
<b>Sub-total</b>	<b>379</b>	<b>331</b>	<b>14</b>
<b>B) APIs</b>	<b>30</b>	<b>23</b>	<b>27</b>
<b>Net sales</b>	<b>409</b>	<b>355</b>	<b>15</b>

Source: ENAM Research, Company data

## Pre R&amp;D EBITDA Margin trend



Source: ENAM Research

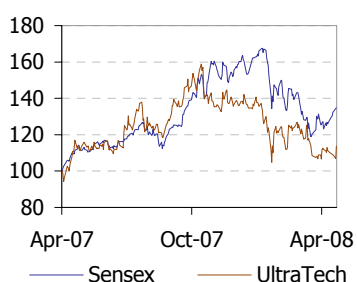
# UltraTech Cement

 Relative to sector: **Outperformer**

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## Relative Performance



Source: Bloomberg, ENAM Research

## Stock data

 No. of shares : 125mn  
 Market cap : Rs 103bn  
 52 week high/low : Rs 1,165/ Rs 731  
 Avg. daily vol. (6mth) : 121,200 shares  
 Bloomberg code : UTCEM IB  
 Reuters code : ULTC.BO

## Shareholding (%) Mar-08 QoQ chg

	Mar-08	QoQ chg
Promoters	54.4	0.3
FII's	6.7	(1.4)
MFs / UTI	1.9	0.1
Banks / FIs	7.0	0.1
Others	30.0	0.9

## STEADY PERFORMANCE

UltraTech Cement reported a revenue growth of 9% YoY at Rs 16bn in Q4FY08 as compared to Rs 14.7bn in Q4FY07. EBITDA at Rs 4.9bn was up 20% YoY driven by improved realizations. Adjusted PAT spurred 22% YoY to Rs 2.8bn.

## Key highlights

- **Volume:** Domestic sales rose 4% YoY to 4.03mn tonnes from 3.86mn tonnes. Export cement sales were down at 0.19mn tonnes from 0.34mn tonnes in the same quarter last year.
- **EBITDA:** EBITDA per tonne increased 19% YoY to ~Rs 1,025 compared to ~Rs 865 driven by higher cement realizations. Net realization (blended) improved to ~Rs 3,365 per tonne compared to ~Rs 3,100 per tonne in Q4FY07.
- UltraTech commissioned the clinkerisation part of its A. P. project in Q4FY08. The cement-grinding part has been delayed and is now expected to commission by Sept 2008. The company is also setting up captive power plants with aggregating capacity of 192MW.

**Outlook:** In FY08, overall cement demand grew by 7.5% YoY, while domestic demand grew ~10%, exports were down ~38%. We expect robust cement demand growth due to a strong emphasis on infrastructure. We expect demand-supply tightness to continue in FY09 as fresh supplies face delays and expect cement prices to remain stable in the short to medium term. We believe any rise in coal prices to USD 150/tonne and USD 200/tonne will be absorbed by price increases of Rs 5/bag or Rs 9/bag respectively.

**Valuations:** We believe steady realizations coupled with significant brownfield capacity additions and energy cost savings from captive power plants should drive earnings growth, going forward. We revise our EPS forecast for FY09E and FY10E downward to Rs 92 (Rs 101) and Rs 104 (Rs 109) respectively to factor in lower clinker sales expected due to a ban on exports announced by the government. At CMP of Rs 825 the stock is trading at 5.9x and 4.7x FY09E and FY10E EV/ EBITDA. We reiterate our sector **Outperformer** rating with a revised price target of Rs 1,162 (8x FY09E EV/ EBITDA).

## Financial summary (Consolidated)

Y/E Mar	Sales (Rs mn)	Adj. PAT (Rs mn)	Consensus EPS* (Rs)	EPS (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs.)
2007	49,314	7,863	-	63.2	247	12.2	55.8	43.2	7.3	4.6
2008	56,238	10,100	-	81.1	28	9.6	45.0	40.6	6.4	5.9
2009E	62,974	11,397	90.3	91.5	13	9.0	35.1	35.4	5.9	5.4
2010E	69,324	12,962	81.3	104.1	14	7.9	29.5	34.0	4.7	5.8

Source: \*Consensus broker estimates, Company, ENAM estimates

## Results update

(Rs mn)	Quarter ended (Standalone)					Year ended (Consolidated)		
	Mar-08	Mar-07	% Chg	Dec-07	% Chg	Mar-09E	Mar-08	% Chg
<b>Net Sales</b>	<b>16,017</b>	<b>14,655</b>	<b>9.3</b>	<b>13,821</b>	<b>15.9</b>	<b>62,974</b>	<b>56,238</b>	<b>12.0</b>
<b>EBITDA</b>	<b>4,885</b>	<b>4,085</b>	<b>19.6</b>	<b>4,685</b>	<b>4.3</b>	<b>20,201</b>	<b>17,308</b>	<b>16.7</b>
Other income	270	195	38.8	201	34.3	950	998	(4.8)
<b>PBIDT</b>	<b>5,155</b>	<b>4,280</b>	<b>20.4</b>	<b>4,886</b>	<b>5.5</b>	<b>21,151</b>	<b>18,306</b>	<b>15.5</b>
Depreciation	650	601	8.2	583	11.5	3,383	2,396	41.2
Interest	193	203	(5.0)	174	10.8	978	757	29.3
<b>PBT</b>	<b>4,312</b>	<b>3,476</b>	<b>24.0</b>	<b>4,129</b>	<b>4.4</b>	<b>16,789</b>	<b>15,153</b>	<b>10.8</b>
Tax	1,483	1,161	27.8	1,334	11.2	5,373	5,038	6.6
Minority Interest	-	-	-	-	-	20	15	37.0
<b>Adjusted PAT after minority interest</b>	<b>2,828</b>	<b>2,315</b>	<b>22.2</b>	<b>2,795</b>	<b>1.2</b>	<b>11,397</b>	<b>10,100</b>	<b>12.8</b>
No. of shares (mn)	124	124	-	124	-	124	124	-
EBITDA margin (%)	30.5	27.9	-	33.9	-	32.1	30.8	-
PBIDT margin (%)	32.2	29.2	-	35.4	-	33.6	32.6	-
<b>EPS - annualized (Rs.)</b>	<b>90.9</b>	<b>74.4</b>	<b>22.2</b>	<b>89.8</b>	<b>1.2</b>	<b>91.5</b>	<b>81.1</b>	<b>12.8</b>

Source: Company, ENAM estimates

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