



Market Data	4 <sup>th</sup> Sept 2009
CMP (Rs.)	227
Shares outs (Cr)	20
Equity Cap (Rs. Cr)	100
Mkt Cap (Rs. Cr)	4,540
Face Value (Rs)	5
Bloomberg Code	BIOS IN

## Analyst :

Bhawana Verma

[bhawana.verma@krchoksey.com](mailto:bhawana.verma@krchoksey.com)

☎ 91-22-6696 5568/422

Carrol D'Silva

[carrol.dsilval@krchoksey.com](mailto:carrol.dsilval@krchoksey.com)

☎ 91-22-6696 5570

*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.*

*MTM losses led the margins shrink.*

## Management Discussion & Analysis

- The global pharmaceutical market was \$770 billion in 2008 (IMS data) and biotechnology drugs/biologics accounted for \$120 billion and generics for \$80 billion of the global market.
- In biologics the top three categories in 2008 were monoclonal antibodies at \$33 billion, Vaccines at \$24 billion and TNF inhibitors at \$18 billion.
- Going forward the global pharmaceutical sales is expected to rise at a lower rate of 4.5%-5.5% this year to top \$820 billion with pharmerging" markets - China, Brazil, India, South Korea, Mexico, Turkey and Russia expected to grow at a combined rate of 14%-15%, producing overall sales of \$105-\$115 billion.
- Key opportunities for the company:
  - 1) The surge in generics together with the expected patent expiry of key immunosuppressant drugs provides Biocon with attractive opportunities in the near to medium term.
  - 2) The opening up of bio-similars in US and Europe is seen as a large opportunity in the medium term.

## Significant Event

- The branded formulations business under the Healthcare umbrella has made rapid strides in garnering market share for key brands in Cardiology, Diabetology, Nephrology and Oncology.
- Patient enrollment is well under way in our Phase III clinical trials for IN105 (Oral Insulin). Our T1h (Anti CD6) monoclonal antibody program has completed patient recruitment for Phase II clinical trials for both Rheumatoid Arthritis as well as Psoriasis.
- In March 2009, Syngene opened a fully dedicated research and development facility for Bristol-Myers Squibb, USA (BMS).

## Financial Scan - Income Statement

- During the year under review, consolidated revenues grew by 53%, whereas EBITDA and PAT before exceptional items grew by 16% and 7% respectively. The robust growth was mainly due to improved performance across its segment.
- The company incurred an MTM loss of Rs 147.2 crore due to volatility in the foreign exchange rates.
- For the year under review statins registered a 12% growth and Immunosuppressants basket grew by 35%.
- For the current financial year, Syngene registered a 29% growth in revenues from Rs 160.4 crore in the previous year to Rs 206.5 crore
- For the year under review, Clinigene registered revenues of Rs 33 crore as against Rs 22.7 crore in the previous year and earned a profit of Rs 4.5 crore as against a profit Rs 2.4 crore in the previous year.
- Biocon Biopharmaceuticals Private Limited (BBPL), earned revenues of Rs 18.6 crore as against Rs 13.7 crore and pared its losses to Rs 5.1 crore from Rs 13.3 crore in the previous year.

Increase in working capital loans led a surge in the debt position.

Financial Scan - Balance Sheet

- The loan funds for the year under review has nearly doubled mainly due to significant increase in working capital loan.
- The asset of the company has shown a significant increase mainly on account of additions in the plant and machinery.

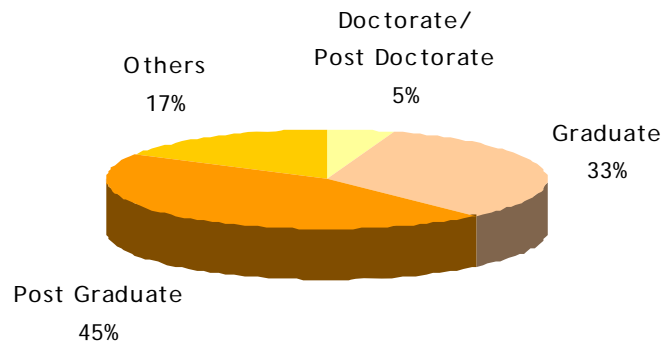
Shareholding Pattern & Fund holding.

Shareholding Pattern

	FY06	FY07	FY08	FY09
Promoter & Promoter Group	60.9	60.9	60.9	60.9
Mutual Funds & FII	14.0	14.1	18.2	18.7
Public and Other	25.1	25.0	20.9	20.4

Source: Company Data, KRC Research

Intellectual profile



Source: Company Data, KRC Research

Biocon's Biologics Pipeline

Drug	Preclinical	Phase I	Phase II	Phase III
PEG GCSF	Oncology			
Bmab 100	Oncology			
Bmab 200	Oncology			
BVX	Oncology			
IN 105 (Oral Insulin)				Diabetes
T1h			Inflammation	
Biomab EGFR (Glioma, NSCLC)				Oncology

Source: Company Data, KRC Research

Strong R&D pipeline in the biologic segment

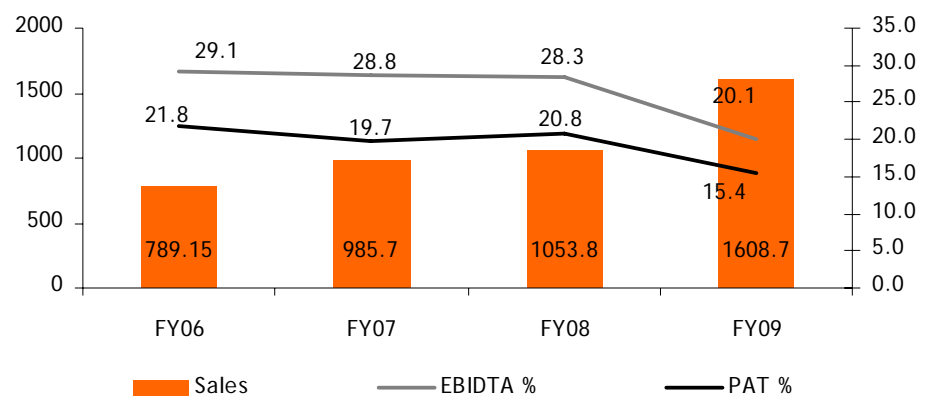
### Fund Holding

Date	Fund House	% Net Asset	Amt inv
Jul 31, 2009	Magnum Pharma	6.14	1.86
Jul 31, 2009	HDFC Long-term Equity	5.12	54.60
Jul 31, 2009	JM Tax Gain	4.46	2.07
Jul 31, 2009	JM Contra	4.24	12.85
Jul 31, 2009	HDFC Capital Builder	3.18	17.94
Jul 31, 2009	Taurus Ethical	2.97	0.20
Jul 31, 2009	HDFC Balanced	2.95	3.50
Jul 31, 2009	HDFC Children's Gift-Inv	2.94	5.38
Jul 31, 2009	UTI Pharma & Healthcare	2.94	1.58
Jul 31, 2009	HDFC Core & Satellite	2.89	11.08
Aug 31, 2009	IDFC Premier Equity Plan B	2.85	29.32
Aug 31, 2009	IDFC Premier Equity Plan A	2.85	29.32
Jul 31, 2009	Taurus Discovery	2.66	0.60
Jul 31, 2009	ING C.U.B.	2.58	0.95
Jul 31, 2009	HDFC Growth	2.31	28.83
Jul 31, 2009	ING Midcap	2.26	0.46
Aug 31, 2009	Sundaram BNP Paribas Equity Multiplier	2.16	11.39
Jul 31, 2009	ING Tax Savings	2.09	0.92
Jul 31, 2009	DSPBR Tax Saver	2.03	12.70
Jul 31, 2009	HDFC Equity	2.02	87.42
Jul 31, 2009	Taurus Tax Shield	1.94	0.47
Jul 31, 2009	HDFC LT Advantage	1.82	15.08
Jul 31, 2009	HDFC Mid-Cap Opportunities	1.82	20.71
Jul 31, 2009	HDFC Multiple Yield	1.79	0.66
Jul 31, 2009	DBS Chola Tax Advantage Series I	1.57	0.04
Jul 31, 2009	Reliance Regular Savings Equity	1.53	21.85

Source: Value Researchonline.com

### Operational Check

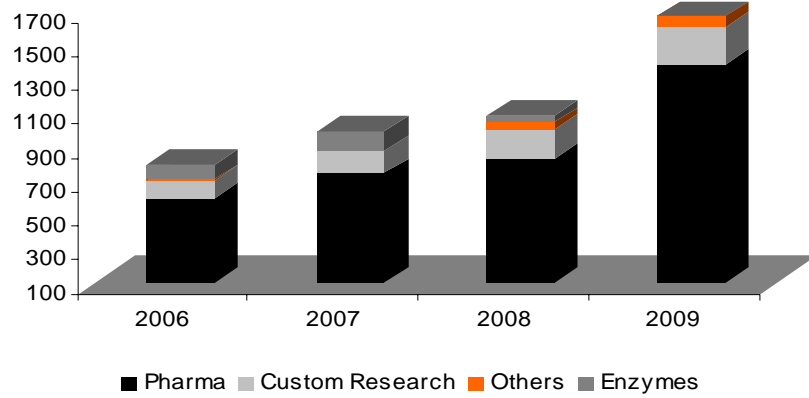
Margins have declined in FY09 mainly due to adverse effect of exchange rate fluctuation



Source: Company Data, KRC Research

Increasing revenue contribution from the pharma segment

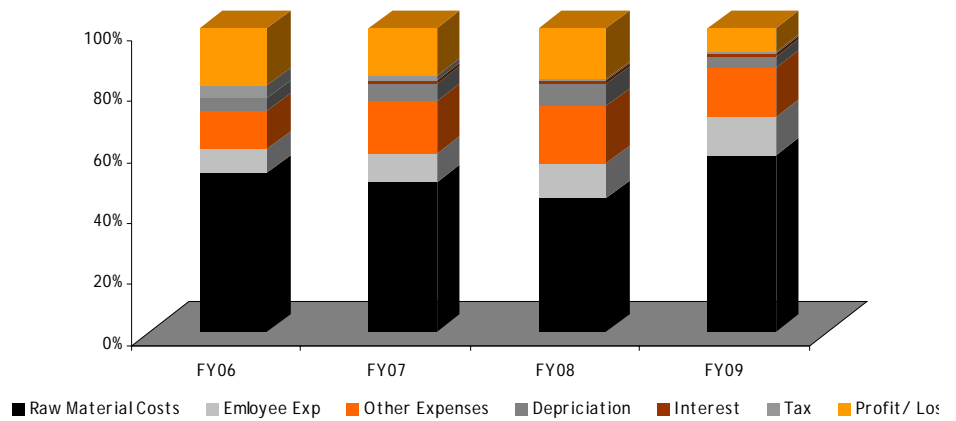
### Revenues by Segment



Source: Company Data, KRC Research

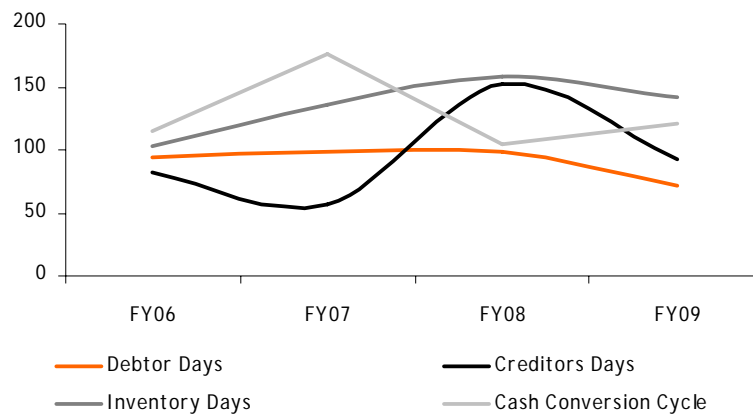
Raw material as well as employee expenses have shown an increasing trend in FY09.

### Income Statement Analysis



Source: Company Data, KRC Research

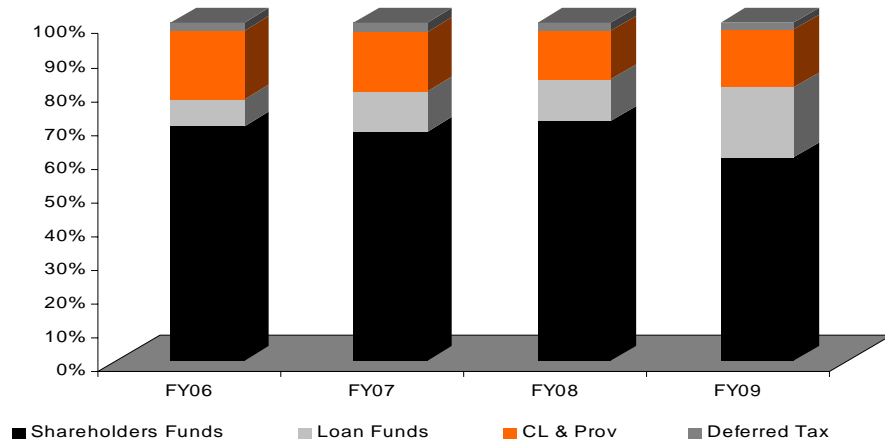
### Working Capital Cycle



Source: Company Data, KRC Research

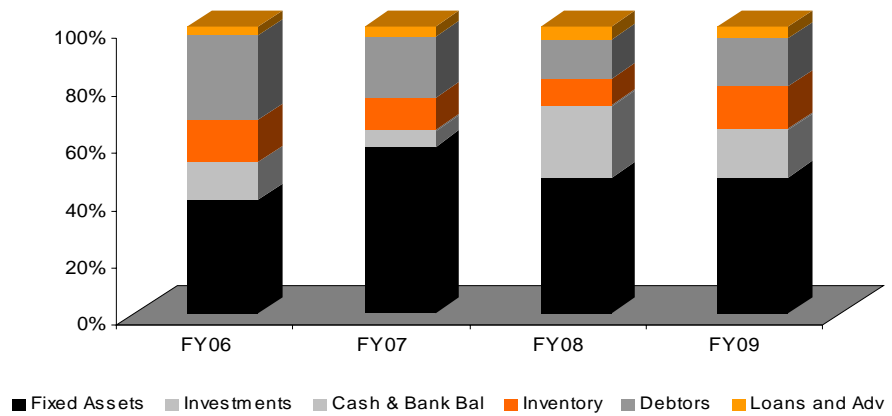
The debt position of the company for FY09 stands at Rs 523.9 crore

Sources of Funds



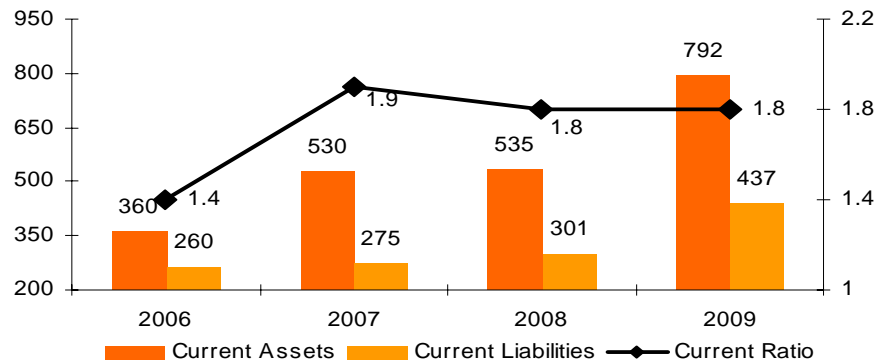
Source: Company Data, KRC Research

Application of Funds



Source: Company Data, KRC Research

Current Ratio



For FY09 the current ratio has stabilize to 1.8x.

Source: Company Data, KRC Research

*We expect strong revenue visibility from the branded formulations business*

### Our View

Biocon has reported a spectacular set of Q1 FY10 numbers. The company 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 bio generics 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 Ratios

Particulars	FY07	FY08	FY09
<b>Per Share Data</b>			
EPS	20.7	46.5	4.7
Book Value	110.6	148.4	75.5
Equity Dividend %	100%	100%	100%
<b>Operating Ratio %</b>			
EBIDTA %	28.8%	28.3%	20.1%
NPM %	19.7%	20.8%	15.4%
Interest Coverage	22.6	23.7	15.7
Debt/Equity	0.2	0.2	0.3
<b>Return Ratios</b>			
RoE	18.7	31.3	6.2
RoCE	17.6	13.9	13.6
Dividend Yield %	1.2	2.3	2.1
<b>Valuation Ratios</b>			
P/E	10.6	5	47
P/BV	2	1	3
P/Cash EPS	8	4	22
EV/EBIDTA	8.1	8.2	15.1
M.Cap/ Sales	2.1	2.1	2.7

Source: Company Data, KRC Research

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Rajiv Choksey	Co-Head Institutional Equities	<a href="mailto:rajiv.choksey@krchoksey.com">rajiv.choksey@krchoksey.com</a>	+91-22-6653 5135
Anuj Choksey	Co-Head Institutional Equities	<a href="mailto:anuj.choksey@krchoksey.com">anuj.choksey@krchoksey.com</a>	+91-22-6696 5500
Maulik Patel	Head Research	<a href="mailto:maulik.patel@krchoksey.com">maulik.patel@krchoksey.com</a>	+91-22-6696 5574

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**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.