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Morgan Stanley India Company
Private Limited+

Sameer Baisiwal, CFA

Sameer.Baisiwal@morganstanley.com
+91 22 6118 2214

Saniel Chandrawat

Saniel.Chandrawat@morganstanley.com
+91 22 6118 2215

January 26, 2013

Stock Rating
Equal-weight

Industry View
In-Line

Biocon Ltd

F3Q13 in Line; Gestating Value Drivers in Progress

What's Changed

Price Target **Rs256.00 to Rs283.00**
FY13/14/15 EPSe **Down 8%/ 10.8%/ 10.5%**

We believe that the commercialization of EU insulin, bio-similars and NBEs will start in 2015. Core earnings growth until then could be modest. We stay EW, and are cutting our F2013-15E EPS by 8.1%, 10.8%, and 10.5%, respectively, due to higher research spending and removal of PFE income.

F3Q13 results in line Biocon reported total revenue of Rs6.3bn, up 23% yoy (7% qoq) driven by branded formulations, research services and favorable currency. OPM contracted 230bp yoy (expanded 270bp qoq), driven by higher material costs (due to INR depreciation) and increased R&D spending. These factors together led to an 8% yoy rise (2.3% qoq) in net profit to Rs917mn (vs. Rs912mn). R&D spending of Rs276mn was adjusted against deferred insulin licensing income.

RH Insulin update: BIOS is currently compiling and analyzing the 12-month data for Phase III trials (part II – immunogenicity test). It targets to file dossiers in the next eight to nine months, and expects approval sometime in 2015 (Malaysian facility ready in F2015). It is exploring options for marketing tie-ups for the regulated markets.

Management's target 18% top-line CAGR until F2018 (over F2012) is largely contributed by insulin and MAbs (20% share), API and insulin in EM (30%), research services (25%), branded formulations (20%) and licensing/ other income (5%). Refer Exhibit 2. **Key highlights from the conference call:** 1) *NCE update:* Itolizumab – launch in India in F2014 and peak sale potential of Rs1bn in year four year. IN105 – global Phase II trials commence in F1H14E (two years to complete). 2) *Biosimilar:* Global Phase III trials for trastuzumab (biosimilar Herceptin) started.

Key Ratios and Statistics

Reuters: BION.NS Bloomberg: BIOS IN

India Pharmaceuticals

| | |
|---------------------------------|-----------------|
| Price target | Rs283.00 |
| Up/downside to price target (%) | 6 |
| Shr price, close (Jan 25, 2013) | Rs267.55 |
| 52-Week Range | Rs352.30-208.10 |
| Sh out, dil, curr (mn) | 200 |
| Mkt cap, curr (mn) | Rs53,510 |
| EV, curr (mn) | Rs45,459 |
| Avg daily trading value (mn) | Rs152 |

| Fiscal Year ending | 03/12 | 03/13e | 03/14e | 03/15e |
|---------------------------|--------|--------|--------|--------|
| ModelWare EPS (Rs) | 16.92 | 16.93 | 18.88 | 22.54 |
| Prior ModelWare EPS (Rs) | - | 18.42 | 21.16 | 25.19 |
| Consensus EPS (Rs)§ | 16.17 | 17.30 | 20.18 | 23.13 |
| Revenue, net (Rs mn) | 20,865 | 23,929 | 27,499 | 31,893 |
| EBITDA (Rs mn) | 5,173 | 5,050 | 5,986 | 7,160 |
| ModelWare net inc (Rs mn) | 3,384 | 3,385 | 3,776 | 4,508 |
| P/E | 14.1 | 15.8 | 14.2 | 11.9 |
| P/BV | 2.1 | 2.1 | 1.9 | 1.7 |
| RNOA (%) | 15.1 | 14.2 | 14.9 | 16.1 |
| Div yld (%) | 2.1 | 1.9 | 1.9 | 2.1 |
| FCF yld ratio (%) | 6.2 | 2.3 | 1.1 | 4.8 |
| Leverage (EOP) (%) | (35.6) | (35.0) | (31.7) | (34.4) |

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).
§ = Consensus data is provided by Thomson Reuters Estimates.
e = Morgan Stanley Research estimates

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Biocon Ltd

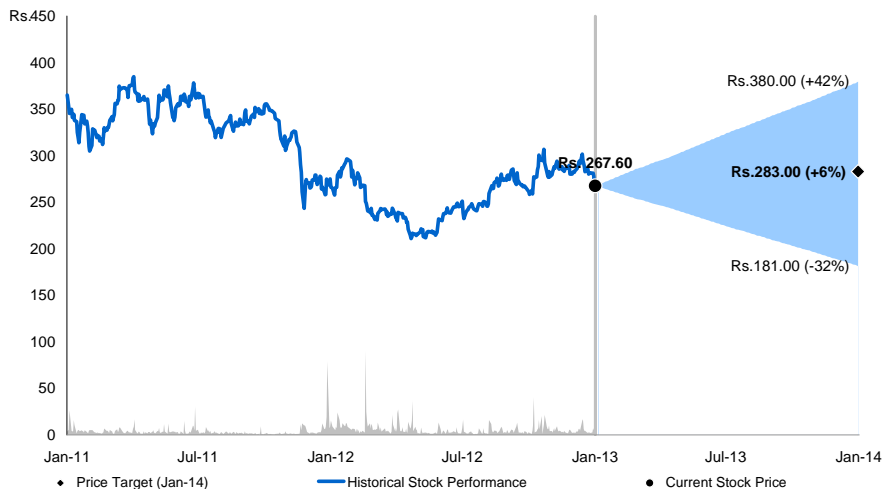
Financial Summary

| Income Statement | | | | | Cash Flow Statement | | | | |
|--|----------------|---------------|---------------|---------------|---------------------------------------|----------------|----------------|----------------|----------------|
| (Rs million) | 2012 | 2013E | 2014E | 2015E | (Rs million) | 2012 | 2013E | 2014E | 2015E |
| Sales | 19,612 | 23,929 | 27,499 | 31,893 | Profit after tax | 3,384 | 3,385 | 3,776 | 4,508 |
| PFE Licensing income | 1253 | - | - | - | Add : Depreciation | 1,744 | 1,887 | 2,327 | 2,547 |
| Cost of Goods Sold | 10,328 | 12,563 | 14,437 | 16,744 | Add : Inc in Def Tax Liability | (575) | - | - | - |
| Gross Profit | 10,537 | 11,366 | 13,062 | 15,149 | Net cash inflow from Pfizer deal | - | - | - | - |
| R&D Expenses | 1,566 | 1,914 | 2,475 | 2,870 | Extraordinary Items | (164) | - | - | - |
| Personnel Costs | 3,076 | 3,445 | 3,859 | 4,322 | Net change in Wrk capital | 1,623 | (2,898) | (1,566) | (2,780) |
| SG&A | 2,288 | 2,872 | 3,217 | 3,668 | Net cash from operations | 6,012 | 2,375 | 4,537 | 4,275 |
| Operating Profit | 5,173 | 5,050 | 5,986 | 7,160 | Capital Expenditure | (2,437) | (553) | (3,380) | (1,120) |
| Non-Operating Income | 618 | 591 | 591 | 591 | Dec/(Inc) in Investments | 3,963 | - | - | - |
| EBITDA | 5,791 | 5,641 | 6,577 | 7,751 | Net cash from Investing | 1,526 | (553) | (3,380) | (1,120) |
| Interest Expenses | 122 | (375) | (355) | (362) | Issue of equity shares | (0) | - | - | - |
| Depreciation & Amortization | 1,744 | 1,887 | 2,327 | 2,547 | Dividends paid including dividend tax | (1,162) | (1,170) | (1,170) | (1,287) |
| Pretax Profit | 3,925 | 4,128 | 4,605 | 5,566 | Net cash from financing | (1,162) | (1,170) | (1,170) | (1,287) |
| Income Tax | 541 | 743 | 829 | 1,057 | Net Inc/(Dec) in Net Debt | (6,376) | (652) | 13 | (1,868) |
| Minority Interest | - | - | - | - | Opening Net Debt | (1,072) | (7,447) | (8,099) | (8,086) |
| Net Profit | 3,384 | 3,385 | 3,776 | 4,508 | Closing Net Debt | (7,447) | (8,099) | (8,086) | (9,954) |
| Effective Tax Rate | 14% | 18% | 18% | 19% | | | | | |
| EPS | 16.9 | 16.9 | 18.9 | 22.5 | | | | | |
| DPS | 5.0 | 5.0 | 5.0 | 5.5 | | | | | |
| Balance Sheet | | | | | Ratio Analysis | | | | |
| (Rs million) | 2012 | 2013E | 2014E | 2015E | | 2012 | 2013E | 2014E | 2015E |
| SOURCES OF FUNDS | | | | | Profitability Ratios | | | | |
| Equity Capital | 1,000 | 1,000 | 1,000 | 1,000 | Gross Margin | 53.7% | 47.5% | 47.5% | 47.5% |
| Reserves & Surplus | 21,724 | 23,939 | 26,545 | 29,767 | Operating Margin | 26% | 21% | 22% | 22% |
| Networth | 22,724 | 24,939 | 27,545 | 30,767 | Pre-tax Margin | 20% | 17% | 17% | 17% |
| Minority Interest | 38 | 38 | 38 | 38 | | | | | |
| Debt | 2,708 | 1,800 | 800 | 300 | Valuation Ratios | | | | |
| Deferred tax | - | 78 | - | 78 | P/E | 15.8 | 15.8 | 14.2 | 11.9 |
| Total | 25,392 | 26,699 | 28,305 | 31,027 | P/BV | 2.4 | 2.1 | 1.9 | 1.7 |
| APPLICATION OF FUNDS | | | | | ROE | 15.7% | 14.2% | 14.4% | 15.5% |
| Net Block | 12,501 | 11,150 | 12,823 | 12,276 | ROCE | 16.2% | 15.9% | 16.7% | 18.8% |
| Capital WIP | 2,863 | 2,880 | 2,260 | 1,380 | EV/EBITDA | 16.3 | 16.6 | 14.3 | 11.9 |
| Intangible assets | 1,235 | 1,235 | 1,235 | 1,235 | | | | | |
| Net Fixed Assets | 16,599 | 15,265 | 16,318 | 14,891 | Leverage Ratios | | | | |
| Investments | 642 | 642 | 642 | 642 | Net Debt/Equity | -0.3 | -0.3 | -0.3 | -0.3 |
| Cash & Cash Equivalents | 10,155 | 9,899 | 8,886 | 10,254 | Total Debt/Equity | 0.1 | 0.1 | 0.0 | 0.0 |
| Inventories | 3,783 | 4,917 | 5,651 | 6,553 | | | | | |
| Receivables | 4,917 | 5,900 | 6,404 | 7,427 | Turnover Ratios | | | | |
| Loans & Advances | 3,276 | 2,872 | 2,750 | 2,870 | Inventory (days of net sales) | 60 | 60 | 60 | 60 |
| Current Assets | 11,976 | 13,689 | 14,804 | 16,851 | Receivables (days of net sales) | 41 | 41 | 41 | 41 |
| Less: Current Liabilities & Provisions | 13,980 | 12,795 | 12,345 | 11,611 | Cash cycle (days of net sales) | 101 | 101 | 101 | 101 |
| Net Current Assets | (2,004) | 895 | 2,460 | 5,240 | Net working capital (x net sales) | -22 | -8 | 22 | 44 |
| Total | 25,392 | 26,700 | 28,306 | 31,027 | | | | | |

e = Morgan Stanley Research estimates Source: Company Data, Morgan Stanley Research

Risk-Reward Snapshot: Biocon Ltd (BION.NS, Rs267.6, EW, PT Rs283)

Risk-Reward View: Interplay Between ST Profit And LT R&D Upside



Investment Thesis

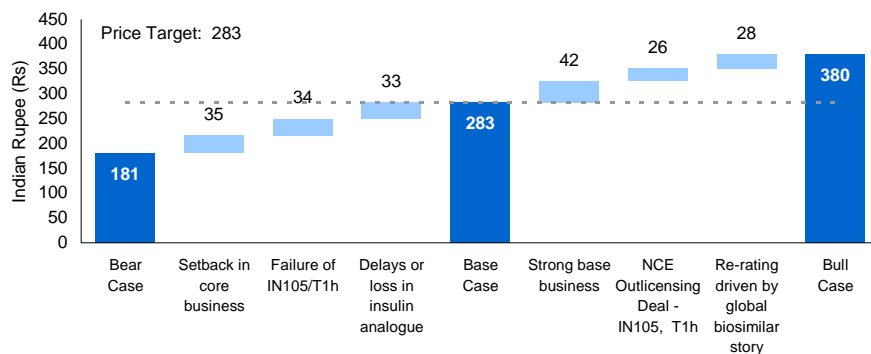
- **We rate Biocon EW:** It has various growth platforms under pipeline including MAbs, insulin and immunosuppressants. There is locked value in the NCE pipeline.
- On the other hand, the near- to medium-term growth outlook is modest, and a large part of the base business is API sales to institutional customers.
- Longer term, Biocon is positioning itself as a key biotechnology player in both the bio-similar and proprietary space.
- Immuno-suppressants, insulin, and bio-similar monoclonal antibodies hold the key to medium-term earnings.

Key Value Drivers

- Statins (30% of overall sales) are a mature portfolio but a cash generator.
- Insulin and immuno-suppressants are the drivers of the biopharm business.
- Contract research services is a growing business.
- Longer-term value will be derived from bio-similar launch in the regulated markets and NCE/ NBE progress.
- Biocon is tied up with Abraxis for GCSF for EU markets and with Mylan for biosimilars.

| Price Target Rs283 | | Base-case scenario, P/E multiple |
|---------------------------|------------------|--|
| Bull Case Rs380 | Sum of the parts | Value unlocking in novel biological pipeline: Bull case assumes stronger base business (Rs42/share), driven by emerging markets and atorvastatin (EU), NCE out-licensing deal for IN105, T1h (Rs26/share), and re-rating driven by global biosimilar story (Rs28/share), which could enrich valuations. |
| Base Case Rs283 | P/E multiple | Gradual base business ramp up, steady IPR build up: Base case assumes 15% sales growth for the base business and 6% earnings growth over two years (F2012-14). We apply a P/E of 15x to our F2014 EPS of Rs18.9. |
| Bear Case Rs181 | Sum of the parts | Commoditization of base business: Bear case assumes setback in core business (Rs35/share), failure of IN105/ T1h (Rs34/share) and delay or loss in insulin analogue (Rs33/ share). |

Bear to Bull: Unlocking Value in Research



Potential Catalysts

- Ramp up in fidaxomicin in US as well as Europe
- Regulatory progress of insulin in EU and US.
- Development progress of bio-similar MAbs.

Source: Thomson Reuters, Morgan Stanley Research

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Biocon Ltd

Investment Case

Retain EW

We retain our EW rating on BIOS in view of:

- Limited growth drivers for the base business in the near term;
- Gestating Value Drivers – Monetization of key value drivers (insulin/MAbs) is two years or more away in the regulated markets. According to management, its launch of human insulin (compilation/ analysis of 12-month data is ongoing and dossier filing is expected over the next eight to nine months) should take place sometime in 2015 and glargine post that.
- Early stages of development of NBE/NCE pipeline for international markets.

Earnings Cut by 8.1% for F2013E, 10.8% for F2014E and 10.5% for F2015E

F2013E EPS down 8.1%, driven largely by marginal increase in revenue due to strong performance in research services and branded formulations in F9M13, offset by a reduction in earnings reflecting given higher R&D spending on generic insulin. We are no longer including any net income from deferred insulin licensing (deal with Pfizer, now terminated). From a reporting perspective, the company is now offsetting licensing income against corresponding (and higher) clinical and regulatory development expenditures.

F2014E and F2015E EPS down 10.8% and 10.5%, respectively, driven by higher base set in F2013, offset by a reduction in earnings due to higher R&D spending for generic insulin (as in F2013, see above).

Exhibit 1

Biocon: What's Changed

| | F13e | | | F14e | | | F15e | | |
|---|---------------|---------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | New | Old | % change | New | Old | % change | New | Old | % change |
| Revenues | 23,929 | 24,180 | -1.0% | 27,499 | 27,327 | 0.6% | 31,893 | 31,193 | 2.2% |
| <i>Growth</i> | 22.0% | 15.9% | 6.1% | 14.9% | 13.0% | 1.9% | 16.0% | 14.1% | 1.8% |
| Operating profits | 5,050 | 5,277 | -4.3% | 5,986 | 6,610 | -9.4% | 7,160 | 7,811 | -8.3% |
| <i>Growth</i> | -2.4% | 2.0% | -4.4% | 18.5% | 25.3% | -6.7% | 19.6% | 18.2% | 1.4% |
| <i>Margins</i> | 21.1% | 23.5% | -2.4% | 21.8% | 26.0% | -4.2% | 22.4% | 26.8% | -4.4% |
| Net profits | 3,385 | 3,685 | -8.1% | 3,776 | 4,232 | -10.8% | 4,508 | 5,038 | -10.5% |
| <i>Growth</i> | 0.0% | 8.9% | -8.8% | 11.5% | 14.8% | -3.3% | 19.4% | 19.0% | 0.3% |
| <i>Margins</i> | 14.1% | 16.4% | -2.3% | 13.7% | 16.6% | -2.9% | 14.1% | 17.3% | -3.2% |
| Core EPS (Ex-insulin licensing income) | 16.9 | 15.7 | 8.0% | 18.9 | 18.1 | 4.5% | 22.5 | 21.2 | 6.4% |

e = Morgan Stanley Research estimates Source: Company Data, Morgan Stanley Research

Earnings call takeaways:

• Generic insulin progress update –

- **Human insulin in Europe:** The company has completed the 12-month study (part II – immunogenicity test). It is currently compiling and analyzing the data, after which it expects to engage in discussions with the regulator. Following the regulatory meetings, the company targets to file the dossier, in about eight to nine months.

Management expects approval to come sometime in 2015 and achieve peak sales by the fifth year of launch.

- **Partnership:** The company is in active discussions for marketing tie-ups for a generic insulin portfolio for Europe as well as the US.
- **EM:** The company has received approval for human insulin in 44 countries and is awaiting approval in 30 countries.

- **Malaysian facility:** Management expects the Malaysian facility (US\$200mn) to commence operations in F2015.
- **Itolizumab approval:** 1) India – Its NCE candidate Itolizumab has received approval from DCGI, India. It targets to launch the product in F2014, subject to manufacturing approval. Management expects peak sales potential of about Rs1bn (with about 30% margins) to be achieved within four years of launch. 2) It expects a pre-IND meeting with the USFDA in the next three to four months, post which it plans to compile the document and file IND.
- **Oral insulin (IN105) option agreement with BMS:** The partners are currently designing global Phase II trials, which according to management will largely be funded by the partner, BMS. It expects Phase II trials to be completed in two years.
- **Biosimilar progress update:** BION commenced global Phase III clinical trials for Trastuzumab (biosimilar Herceptin). Subject to regulatory progress, it expects to launch the product on market formation.
- **Research services:** Gross revenue of Rs1.4bn for F3Q13 was up 25% yoy and 8% qoq. Research services business reported a healthy ~35% operating margin. Currently, the company has gross block of US\$120mn.
- **Branded formulations** reported revenue of Rs855bn, up 22% yoy but down 6.4% qoq. The company has a field force of about 1,700 medical representatives. **National Pharma Pricing Policy, 2012** – Management expects no major impact from NPPP 2012.
- **Insulin licensing income (PFE deal, now terminated):** As of March 31, 2012, the company had deferred revenue of Rs5.4bn. Based on the revised policy (since F2013), the company is netting off the income from corresponding R&D expenses pertaining to generic insulin (i.e., no income recognized in the income statement). For F9M13, the company has netted of Rs276mn in licensing income against corresponding R&D expenses.
- **F2018 top-line growth target of 18% CAGR,** implies total revenue of US\$1.2bn. Management targets F2018 total revenue growth of 18%, which implies total revenue of US\$1.2bn. Refer to Exhibit 2 for management's revenue composition target.

Exhibit 2

Biocon: Management Target - Revenue Composition

| Revenue composition | FY12 | FY15e | FY18e |
|--------------------------------------|------|-------|-------|
| Small molecules (API, insulin in EM) | 55% | 40% | 30% |
| Insulin and MAbs | 5% | 10% | 20% |
| Research services | 20% | 25% | 25% |
| Branded formulations | 10% | 20% | 20% |
| Licensing income/ others | 10% | 5% | 5% |

Source: Company Data

- **Statins portfolio:** The company continues to be a leader in simvastatin and pravastatin API supply to the US market. The company had been supplying atorvastatin API in the US during the quarter.
- **Tax rate** for F2013 should be about 20%, per the company.
- **Net cash** of December 31, 2012, was Rs7.1bn.

Valuation and Price Target Methodology

Biocon trades at 15.8x our F2013 and 14.2x our F2014 EPS estimates, 15-20% discounts to the industry averages.

We arrive at our new price target by applying a P/E multiple of 15x (no change) to our core business F2014 EPS of Rs18.9, (vs. Sept-13 core EPS of Rs16.9 earlier). We are rolling forward our target EPS by six months.

Our target multiple is a 15-20% discount to its historical average (Exhibit 3) and a 15-20% discount to the India pharma group average valuation. We cite the following factors to support our view of a lower target multiple:

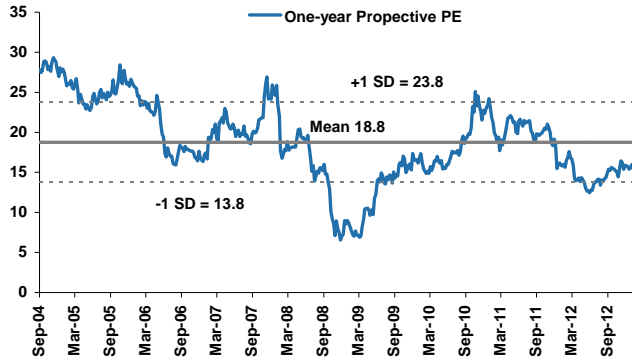
- **Near- to mid-term earnings growth could be modest,** insulin and MAbs launches a few years away.
- **Base business is in large part API sales to institutional customers** (i.e., limited retail branding) and consists of technology license income (10% of the total).

These factors are versus:

- **Diversification of growth platform in the mid to longer term,** including immuno-suppressants, insulin, MAbs and proprietary drug pipeline.
- **Long-term earnings visibility,** driven by insulin pipeline and Mylan deal for MAbs.

Exhibit 3

Biocon: One-year Forward P/E



Source: Company Data, Morgan Stanley Research

Key upside risks to our price target include: Unexpectedly higher pricing/volumes of immuno-suppressants in the US market; quicker rollout from Mylan deal; faster-than-expected regulatory progress on insulin portfolio and progress of residual innovative products in development phase/out-licensing.

Key downside risks include: Unexpected delays in product development – especially insulin and analogs in EU and bio-similars in India and EM; litigation risk on pen devices; and failure of lead compounds in the proprietary pipeline.

Bull and Bear Case Scenarios

Bull case – Value unlocking in novel biological pipeline (Rs380): Key drivers for this scenario include:

- 1) Stronger base business driven by emerging markets and atorvastatin (in EU) (Rs42/ share);
- 2) NCE out-licensing deal for IN105, T1h (Rs26/share); and
- 3) Re-rating driven by global biosimilar story, progress on Mylan deal, which could enrich valuations (Rs28/share).

Bear case – Commoditization of base business (Rs181):

Key drivers for this scenario include:

- 1) Setback in core business (including disappointment in tarcolimus in US) (Rs35/share);
- 2) Failure of IN105/ T1h (Rs34/share); and
- 3) Delay or loss in insulin analogue (Rs33/ share).

Company Description

Traditionally an enzyme player, Biocon climbed the value chain by leveraging its intellectual property to enter the biopharmaceutical, biologicals and contract research businesses. The company focuses on technology-intensive products and processes.

India Pharmaceuticals

Industry View: In-Line

F3Q13 Performance

Exhibit 4

Biocon: F3Q13 Results

| (Rs mn) | F3Q13 | F3Q12 | %chg | F2Q13 | %chg | Comments |
|--|-------------|-------------|--------------|-------------|--------------|---|
| (period ending) | 31-Dec-12 | 31-Dec-11 | YoY | 30-Sep-12 | QoQ | |
| Biopharmaceuticals | 4002 | 3059 | 30.8% | 3720 | 7.6% | Constant currency growth was about 12% |
| Biopharmaceutical - branded formulations | 855 | 701 | 22.0% | 913 | -6.4% | |
| Licensing income | 88 | 292 | -69.9% | 0 | NM | |
| Contract Research fees | 1397 | 1120 | 24.7% | 1291 | 8.2% | |
| Net Sales | 6342 | 5172 | 22.6% | 5924 | 7.1% | |
| Material Cost | 3068 | 2328 | 31.8% | 2913 | 5.3% | Sharp increase driven by INR depreciation |
| Staff Costs | 876 | 732 | 19.7% | 877 | -0.1% | |
| R&D Expenditure | 430 | 330 | 30.3% | 429 | 0.2% | |
| Other Expenditure | 551 | 508 | 8.5% | 540 | 2.0% | |
| Total Expenditure | 4925 | 3898 | 26.3% | 4759 | 3.5% | |
| Operating profit | 1417 | 1274 | 11.2% | 1165 | 21.6% | |
| Other Income | 253 | 150 | 68.7% | 495 | -48.9% | |
| EBITDA | 1670 | 1424 | 17.3% | 1660 | 0.6% | |
| Interest (Net) | 29 | 29 | 0.0% | 11 | 163.6% | Net cash of Rs7.1 bln |
| Depreciation | 461 | 434 | 6.2% | 446 | 3.4% | |
| PBT | 1180 | 961 | 22.8% | 1203 | -1.9% | |
| Tax | 253 | 113 | 123.9% | 304 | -16.8% | Guided to about 20% for FY13 |
| PAT | 927 | 848 | 9.3% | 899 | 3.1% | |
| Minority interest | (10) | - | NM | (3) | NM | |
| Reported PAT | 917 | 848 | 8.1% | 896 | 2.3% | MS e Rs912 mln |
| <i>GPM</i> | 51.6% | 55.0% | -3.4% | 50.8% | 0.8% | |
| <i>OPM</i> | 22.3% | 24.6% | -2.3% | 19.7% | 2.7% | |
| <i>NPM</i> | 14.5% | 16.4% | -1.9% | 15.1% | -0.7% | |
| <i>Effective Tax rate</i> | 21.4% | 11.8% | 9.7% | 25.3% | -3.8% | |

Source: Company Data, Morgan Stanley Research

Exhibit 5

Biocon: Quarterly Revenue Trend

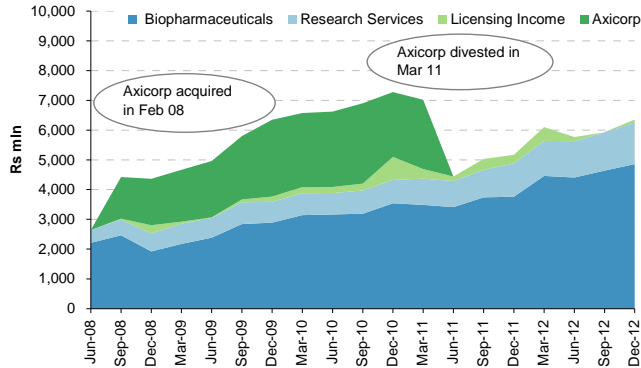
| Rs Mn | Jun-08 | Sep-08 | Dec-08 | Mar-09 | Jun-09 | Sep-09 | Dec-09 | Mar-10 | Jun-10 | Sep-10 | Dec-10 | Mar-11 | Jun-11 | Sep-11 | Dec-11 | Mar-12 | Jun-12 | Sep-12 | Dec-12 |
|--------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Sales | 2,212 | 3,861 | 3,474 | 3,920 | 4,272 | 4,969 | 5,482 | 5,622 | 5,696 | 5,776 | 5,725 | 5,810 | 3,417 | 3,735 | 3,760 | 4,459 | 4,404 | 4,633 | 4,857 |
| Biopharmaceuticals | 2,212 | 2,465 | 1,918 | 2,178 | 2,381 | 2,842 | 2,895 | 3,139 | 3,164 | 3,190 | 3,541 | 3,485 | 3,417 | 3,735 | 3,760 | 4,459 | 4,404 | 4,633 | 4,857 |
| Licensing income | 0 | 30 | 280 | 64 | 24 | 100 | 175 | 206 | 206 | 231 | 768 | 320 | 144 | 365 | 292 | 463 | 139 | 0 | 88 |
| Axicorp | 0 | 1,396 | 1,556 | 1,742 | 1,891 | 2,127 | 2,587 | 2,483 | 2,532 | 2,698 | 2,184 | 2,325 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Research Services | 427 | 532 | 608 | 679 | 663 | 731 | 694 | 740 | 720 | 781 | 788 | 887 | 874 | 932 | 1,120 | 1,180 | 1,224 | 1,291 | 1,397 |
| TOTAL | 2,639 | 4,423 | 4,362 | 4,663 | 4,959 | 5,800 | 6,351 | 6,568 | 6,622 | 6,900 | 7,281 | 7,017 | 4,435 | 5,032 | 5,172 | 6,102 | 5,767 | 5,924 | 6,342 |

Source: Company Data, Morgan Stanley Research

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Exhibit 6

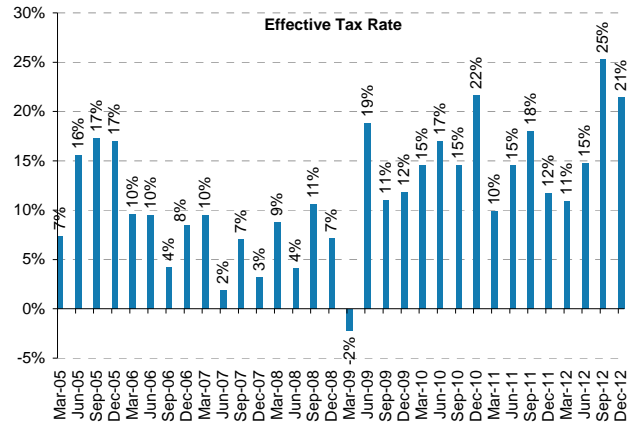
Biocon: Quarterly Revenue Breakdown (Rs mln)



Source: Company Data, Morgan Stanley Research

Exhibit 8

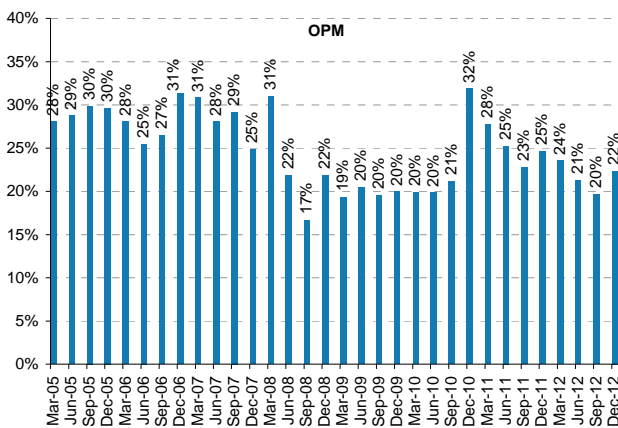
Biocon: Effective Tax Rate (%)



Source: Company Data, Morgan Stanley Research

Exhibit 7

Biocon: Operating Profit Margin (%)



Source: Company Data, Morgan Stanley Research

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Exhibit 9

India Pharma: Valuation Comps

| Company Name | Price (Rs) | Market | EPS | | | | 2-yr EPS | | P/E | | | F2012 P/E |
|------------------------------------|------------|---------------|--------|--------|--------|--------|--------------|-------------|-------------|-------------|-------------|------------|
| | 1/25/2013 | Cap (US\$m) | F2012 | F2013E | F2014E | F2015E | Grth (12-14) | F2012 | F2013E | F2014E | F2015E | to growth |
| BSE Sensex | 20,104 | 569,208 | 1,221 | 1,322 | 1,506 | 1,673 | 11.1% | 16.5 | 15.2 | 13.3 | 12.0 | 1.5 |
| Indian companies | | | | | | | | | | | | |
| large Cap | | | | | | | | | | | | |
| Cipla | 398 | 5,851 | 14.2 | 21.3 | 23.0 | 26.0 | 27.4% | 28.1 | 18.6 | 17.3 | 15.3 | 1.0 |
| Cadila Healthcare | 867 | 3,250 | 31.9 | 40.5 | 50.2 | 56.3 | 25.4% | 27.2 | 21.4 | 17.3 | 15.4 | 1.1 |
| Divi's Laboratories | 1,035 | 2,516 | 40.2 | 50.4 | 61.3 | 70.7 | 23.5% | 25.8 | 20.6 | 16.9 | 14.6 | 1.1 |
| Dr Reddy's Labs | 1,945 | 6,002 | 84.1 | 108.7 | 116.5 | 127.4 | 17.7% | 23.1 | 17.9 | 16.7 | 15.3 | 1.3 |
| Glenmark | 515 | 2,545 | 17.0 | 21.4 | 26.7 | 31.7 | 25.2% | 30.3 | 24.1 | 19.3 | 16.2 | 1.2 |
| Lupin Ltd | 599 | 4,889 | 19.4 | 26.7 | 34.3 | 38.9 | 32.9% | 30.9 | 22.4 | 17.5 | 15.4 | 0.9 |
| Ranbaxy Laboratories* | 456 | 3,509 | (68.7) | 41.0 | 36.7 | 32.2 | NM | (6.6) | 11.1 | 12.4 | 14.1 | NA |
| Sun Pharmaceuticals | 729 | 13,821 | 25.0 | 31.4 | 35.9 | 40.2 | 19.7% | 29.1 | 23.2 | 20.3 | 18.1 | 1.5 |
| Mid cap | | | | | | | | | | | | |
| Aurobindo Pharma | 187 | 916 | 6.8 | 12.2 | 15.7 | 22.2 | 52.0% | 27.6 | 15.4 | 11.9 | 8.4 | 0.5 |
| Biocon | 268 | 980 | 16.9 | 16.9 | 18.9 | 22.5 | 5.6% | 15.8 | 15.8 | 14.2 | 11.9 | 2.8 |
| Dishman | 119 | 176 | 7.0 | 10.9 | 14.0 | 19.8 | 41.0% | 16.9 | 10.9 | 8.5 | 6.0 | 0.4 |
| IPCA | 507 | 1,167 | 22.0 | 29.7 | 36.1 | 43.0 | 28.2% | 23.1 | 17.1 | 14.0 | 11.8 | 0.8 |
| Jubilant Lifesciences | 229 | 668 | 22.7 | 24.5 | 31.5 | 37.9 | 17.7% | 10.1 | 9.4 | 7.3 | 6.0 | 0.6 |
| Piramal Healthcare | 551 | 2,108 | 6.9 | (5.3) | (3.6) | 14.3 | NM | 79.8 | NM | NM | 38.4 | NM |
| Strides Arcolabs | 1,072 | 1,118 | 42.0 | 48.0 | 58.9 | 81.6 | 18.4% | 25.5 | 22.3 | 18.2 | 13.1 | 1.4 |
| Orchid | 89 | 107 | 14.2 | (3.4) | 1.3 | 0.8 | -69.6% | 6.2 | NM | 67.6 | 117.6 | (0.1) |
| MNCs | | | | | | | | | | | | |
| Aventis Pharma* | 2,368 | 999 | 83.1 | 80.4 | 97.0 | 141.4 | 8.0% | 28.5 | 29.4 | 24.4 | 16.7 | 3.6 |
| GlaxoSmithKline Pharma* | 2,070 | 3,211 | 74.4 | 81.4 | 94.5 | 108.4 | 12.7% | 27.8 | 25.4 | 21.9 | 19.1 | 2.2 |
| Novartis | 683 | 400 | 47.6 | 58.4 | N/A | N/A | NM | 14.4 | 11.7 | NA | NA | NM |
| Indian Companies- Large cap | | 42,383 | | | | | 22.0% | 27.2 | 19.6 | 17.6 | 16.0 | 1.2 |
| Indian Companies- mid cap | | 7,240 | | | | | 20.5% | 21.0 | 15.6 | 12.3 | 13.2 | 1.0 |
| MNCs | | 4,610 | | | | | 12.7% | 28.0 | 23.7 | 22.5 | 18.5 | 2.2 |
| ALL | | 54,233 | | | | | 21.2% | 26.2 | 19.4 | 17.1 | 15.7 | 1.2 |

Source: Company Data, Morgan Stanley Research

E = Morgan Stanley Research estimates, except Bloomberg / Thomson estimates Aurobindo, Aventis, Cadila, Divi's Lab, Piramal, Dishman, Jubilant, Orchid, and Novartis.

* F2012 implies year ended Dec 31, 2011 and so on; for all others F2012 implies year ended March 31, 2012, etc. Source: Company data, Bloomberg, Thomson, Morgan Stanley Research

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Exhibit 10

India Pharma: Valuation Comps (contd)

| Company Name | P/ Book value | | | P/Sales | | | ROE | | | ROCE | | |
|------------------------------------|---------------|------------|------------|------------|------------|------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | F2011 | F2012 | F2013E | F2011 | F2012 | F2013E | F2010 | F2011 | F2012 | F2010 | F2011 | F2012 |
| Indian companies | | | | | | | | | | | | |
| large Cap | | | | | | | | | | | | |
| Cipla | 4.8 | 4.2 | 3.5 | 5.1 | 4.6 | 3.9 | 19.9% | 15.4% | 16.7% | 22.4% | 17.7% | 19.4% |
| Cadila Healthcare | 8.2 | 6.7 | 5.5 | 3.5 | 2.8 | 2.4 | 31.0% | 32.7% | 24.5% | 24.2% | 24.3% | 22.7% |
| Divi's Laboratories | 7.6 | 6.5 | 5.3 | 7.4 | 6.0 | 4.9 | 22.4% | 23.9% | 25.2% | 23.0% | 24.2% | 25.7% |
| Dr Reddy's Labs | 7.1 | 5.7 | 4.4 | 4.4 | 3.4 | 2.8 | 2.6% | 24.9% | 30.4% | 15.5% | 19.6% | 18.8% |
| Glenmark | 6.8 | 5.8 | 4.8 | 3.5 | 2.9 | 2.5 | 16.4% | 20.6% | 20.7% | 16.9% | 19.2% | 18.3% |
| Lupin Ltd | 8.2 | 6.6 | 5.3 | 4.6 | 3.8 | 3.1 | 31.5% | 29.5% | 25.1% | 26.2% | 24.2% | 25.7% |
| Ranbaxy Laboratories* | 3.4 | 6.7 | 4.3 | 2.1 | 1.9 | 1.9 | 12.9% | 26.4% | 12.9% | 12.9% | 26.4% | 12.9% |
| Sun Pharmaceuticals | 8.0 | 6.5 | 5.2 | 13.2 | 9.4 | 7.1 | 18.2% | 21.0% | 24.4% | 18.1% | 21.5% | 27.8% |
| Mid cap | | | | | | | | | | | | |
| Aurobindo Pharma | 2.2 | 2.2 | 2.1 | 1.2 | 1.2 | 1.0 | 30.8% | 23.5% | 7.8% | 22.4% | 20.5% | 13.8% |
| Biocon | 2.6 | 2.4 | 2.1 | 2.0 | 2.7 | 2.2 | 18.0% | 19.4% | 15.7% | 16.5% | 19.7% | 16.2% |
| Dishman | 1.1 | 1.1 | 1.0 | 1.0 | 0.9 | 0.7 | 15.0% | 9.1% | 6.3% | 11.8% | 7.5% | 8.1% |
| IPCA | 6.1 | 5.1 | 5.1 | 3.3 | 2.8 | 2.3 | 23.7% | 26.1% | 22.1% | 15.3% | 13.8% | 19.4% |
| Jubilant | 1.7 | 1.6 | 1.4 | 1.1 | 0.9 | 0.7 | 19.3% | 12.5% | 16.0% | 10.9% | 6.6% | 11.7% |
| Piramal Healthcare | 0.6 | 0.7 | 0.5 | 3.7 | 4.6 | 3.0 | 28.6% | 2.3% | 0.9% | 22.4% | 0.0% | 1.0% |
| Strides Arcolabs | 4.2 | 4.6 | 4.6 | 3.9 | 3.1 | 2.7 | 10.8% | 9.5% | 16.4% | 4.3% | 5.6% | 6.3% |
| Orchid | 0.6 | 0.6 | 0.5 | 0.4 | 0.3 | 0.3 | 35.5% | 14.4% | 8.9% | -14.6% | 4.6% | 12.2% |
| MNCs | | | | | | | | | | | | |
| Aventis Pharma* | 4.9 | 4.5 | 3.8 | 3.6 | 3.6 | 3.2 | 15.3% | 17.1% | 15.8% | 37.1% | 34.3% | 31.2% |
| GlaxoSmithKline Pharma* | 9.1 | 9.1 | 8.3 | 8.2 | 7.4 | 6.6 | 30.6% | 31.5% | 32.8% | 45.8% | 46.9% | 47.7% |
| Novartis | 3.1 | 2.5 | 2.1 | 3.1 | 2.6 | 2.3 | 19.5% | 20.9% | 17.5% | 17.3% | 17.0% | 17.6% |
| Indian Companies- Large cap | 6.5 | 5.9 | 4.7 | 5.4 | 4.4 | 3.7 | 16.1% | 23.3% | 13.1% | 15.4% | 21.1% | 22.3% |
| Indian Companies- mid cap | 1.5 | 1.6 | 1.3 | 2.1 | 2.0 | 1.6 | 27.4% | 11.7% | 6.2% | 11.4% | 8.0% | 8.1% |
| MNCs | 7.5 | 9.1 | 8.3 | 6.2 | 5.3 | 4.7 | 25.1% | 29.2% | 28.9% | 39.0% | 38.4% | 37.6% |
| ALL | 4.4 | 4.3 | 3.5 | 4.5 | 3.8 | 3.2 | 19.4% | 19.5% | 10.9% | 15.3% | 17.2% | 17.5% |

Source: Company Data, Morgan Stanley Research

E = Morgan Stanley Research estimates, except Bloomberg / Thomson estimates Aurobindo, Aventis, Cadila, Divi's Lab, Piramal, Dishman, Jubilant, Orchid, and Novartis.

* F2012 implies year ended Dec 31, 2011 and so on; for all others F2012 implies year ended March 31, 2012, etc. Source: Company data, Bloomberg, Thomson, Morgan Stanley Research



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|--------------------------|-------------------|------------|----------------------------------|----------------|----------------------|
| | Count | % of Total | Count | % of Total IBC | % of Rating Category |
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| Equal-weight/Hold | 1301 | 44% | 497 | 46% | 38% |
| Not-Rated/Hold | 108 | 4% | 27 | 3% | 25% |
| Underweight/Sell | 478 | 16% | 111 | 10% | 23% |
| Total | 2,990 | | 1071 | | |

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

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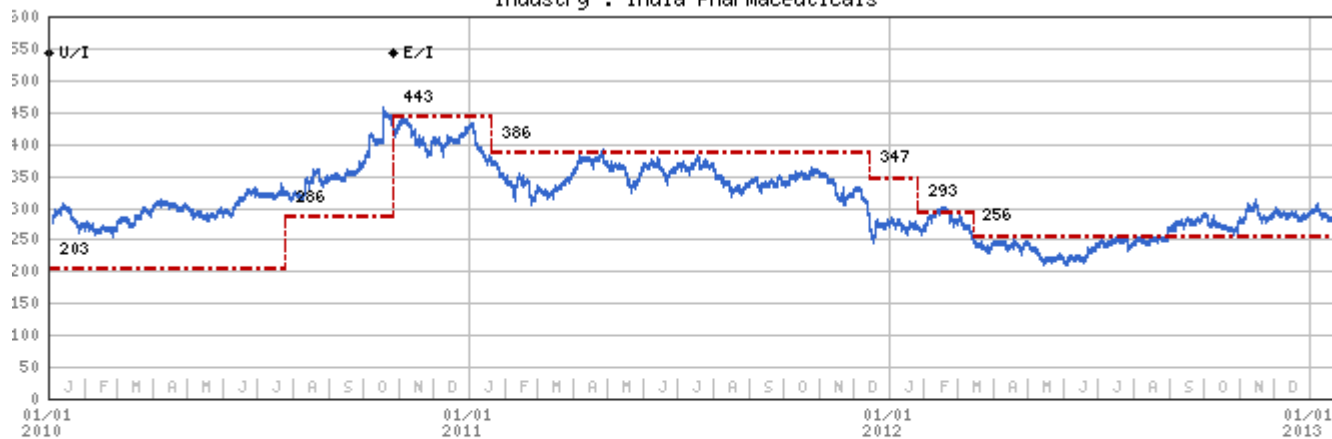
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Stock Price, Price Target and Rating History (See Rating Definitions)

Biocon Ltd (BION.NS) - As of 1/25/13 in INR
Industry : India Pharmaceuticals



Volatility shading indicates "more volatile" (U) flag. As of Nov-14-2008 the U flag has been discontinued.

Stock Rating History: 1/1/10 : U/I; 10/27/10 : E/I

Price Target History: 10/8/09 : 203; 7/26/10 : 286; 10/27/10 : 443; 1/21/11 : 386; 12/16/11 : 347; 1/26/12 : 293; 3/14/12 : 256

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ■
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January 26, 2013

Biocon Ltd

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January 26, 2013

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The Americas

1585 Broadway
New York, NY 10036-8293
United States
Tel: +1 (1) 212 761 4000

Europe

20 Bank Street, Canary Wharf
London E14 4AD
United Kingdom
Tel: +44 (0) 20 7 425 8000

Japan

4-20-3 Ebisu, Shibuya-ku
Tokyo 150-6008
Japan
Tel: +81 (0) 3 5424 5000

Asia/Pacific

1 Austin Road West
Kowloon
Hong Kong
Tel: +852 2848 5200

Industry Coverage: India Pharmaceuticals

| Company (Ticker) | Rating (as of) | Price* (01/25/2013) |
|--|----------------|---------------------|
| Sameer Baisiwala, CFA | | |
| Biocon Ltd (BION.NS) | E (10/27/2010) | Rs267.55 |
| Cipla Ltd. (CIPL.NS) | O (11/15/2011) | Rs397.9 |
| Dr. Reddy's Lab (REDY.NS) | O (09/13/2010) | Rs1,945.15 |
| GlaxoSmithKline Pharma (GLAX.NS) | E (02/21/2010) | Rs2,054.1 |
| Glenmark Pharmaceuticals (GLEN.NS) | O (12/13/2012) | Rs514.95 |
| Lupin Ltd. (LUPN.NS) | O (10/03/2006) | Rs599.45 |
| Ranbaxy Laboratories (RANB.NS) | E (11/09/2012) | Rs455.8 |
| Sun Pharmaceutical Industries (SUN.NS) | O (09/29/2010) | Rs728.7 |
| Saniel Chandrawat | | |
| Fortis Healthcare Limited (FOHE.NS) | E (11/03/2011) | Rs109.55 |

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* Historical prices are not split adjusted.