



Research



RESEARCH :: COMPANY :: BIOCON LIMITED

10th February, 2010

LONG TERM BUY

Approx price	= Rs.258.25
Target price	= Rs.375
Estimated EPS	= Rs 17
Projected PE	= 22.05
Investment period	= 12 months
Potential Upside	= 45%

STOCK INFO (TTM Basis)

Sector	Pharma
Market cap	Rs.5165 cr.
Face value	Rs.5
Book value	Rs.75.49
EPS	Rs.12.55
Cash EPS	Rs.19.25
Dividend	60%
Sales Growth	54.5%
RONW	6.68%
Debt to equity	0.11
52 week H/L	304.5/90.1
Avg Daily Vol	213856
Sensex	15922.17
BSE code	532523
Promoter Holding	60.92%
Chairman	Kiran Mazumdar
Incorporation	Shaw
Listed	BSE/NSE
FII/MFs	4.29/9.02

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COMPANY PROFILE

Biocon, promoted by Kiran Mazumdar Shaw, in 1978, is India's largest biotechnology company (by revenue). It is a research-driven, global healthcare company focusing on domestic and global unmet medical needs in cancer, diabetes and inflammatory diseases. It develops and delivers novel therapeutics.

Its presence in biopharmaceuticals, custom research, clinical development and biological provide multiple revenue streams to balance risk, drive innovation, deliver products and accelerate growth. Biocon Park (SEZ), Asia-Pacific's largest integrated biotech hub worth US\$20bn, is meant to meet escalating global demand for generics and biopharmaceutical products and symbolizes high value innovation.

Future Valuations:

	FY09	FY10E*	FY11E*
Sales	1608.67	2378.38	2741.03
PBIDT	232.99	522.08	590.73
Interest	17.66	17.37	19.75
Depreciation	110.25	142	158.20
PBT	105.08	362.71	412.78
TAX	4.11	54.40	66.04
PAT	100.97	308.3	346.74
EPS	5.04	15.41	17.33
CEPS	10.56	22.51	25.24

*estimated

At a current price of Rs 258.25, the stock is trading at 16.75x of FY10E earnings and at 14.9x of its FY11E earning. Its biosimilars, contract research business (contribution from BMS contract) and acquired businesses of Axicorp, Mylan partnership will boost the revenues of Biocon from next fiscal year. However, higher R&D expenses, large capex expenditure and risk of forex losses will impact the short term profits but will give larger contribution in the long term profits of the company.

They are focusing on strategic licensing partnerships which will provide them wider global access and greater market penetration.

BUSINESSES OF BIOCON:

✓ **Syngene:**

It is a wholly owned subsidiary, provides pharmaceutical and biotechnology major customized solutions in the areas of synthetic chemistry and molecular biology. It has the largest market share in India for providing drug discovery services in the areas of Synthetic Chemistry, Medicinal Chemistry and Biology.

In FY09, it registered a 29% growth in revenues from Rs160.4 crores in the previous year to Rs206.5 crores. Operational margin (EBITDA) increased from Rs51.7 crores to Rs60.6 crores representing a 17% increase.

✓ **Clinigene:**

It specializes in Phase I-IV clinical trials and studies, using well-characterized clinical databases in diabetes, oncology, lipidemia and cardiovascular diseases.

In FY09, Clinigene registered revenues of Rs33 crores as against Rs22.7 crores in the previous year and earned a profit of Rs4.5 crores as against a profit Rs2.4 crores in the previous year.

✓ **Biocon Biopharmaceuticals Private Limited (BBPL):**

It is a 51:49 JV with CIMAB SA, to manufacture monoclonal antibodies and other recombinant therapeutics. Recently it had commenced fully fledged operations and has primarily been engaged in the manufacturing of BIOMAb-EGFR™ for oncology application.

In FY09, it earned revenues of Rs18.6 crores as against Rs13.7 crores and pared its losses to Rs5.1 crores from Rs13.3 crores in the previous year.

✓ **Biocon SA:**

It is a wholly owned subsidiary in Switzerland, primarily engaged in development and marketing of biopharmaceuticals in the European region and has commenced Clinical Development of Insulin in the European markets. In FY09, it recorded profit of Rs2.9 crores.

✓ **NeoBiocon FZ LLC:**

Incorporated in January 2008, it is a 50:50 joint venture with Dr. B.R.Shetty of NeoPharma. It is a research and marketing pharmaceutical company based in Abu Dhabi. It has successfully commenced marketing of oncology products in the GCC markets and is in the process of obtaining regulatory approvals for an entire range of formulations.

✓ **Biocon Research Limited:**

In the FY09, the Company formed a wholly owned subsidiary M/s. Biocon Research Limited to undertake discovery led development research work in biologics, antibody molecules and proteins.

Highlights of some of the partnerships and the areas where Biocon is focusing on:

✚ **Biocon acquires Hyderabad-based bulk manufacturer IDL Specialty for API opportunities.**

This acquisition gives them speed and cost-effective solution in terms of expanding their API manufacturing capabilities.

✚ **Biocon makes Strategic Collaboration with Mylan.**

Mylan Inc. provides products to customers in more than 140 countries and is the world's third largest active pharmaceutical ingredient (API) manufacturer and operates a specialty business focused on respiratory and allergy therapies. Around Rs.10.6 crores of licensing income is earned during the year.

✚ **Biocon's pact with Amylin** for peptide therapeutics is in support of potential treatment of diabetes. Amylin is known and recognized as a leader in diabetes research.

✚ **Syngene partners with Sapient Discovery to expand integrated drug discovery offerings.**

✚ **Biocon acquires Axicorp for the marketing and distribution of a range of pharmaceuticals in Germany and Europe.**

On a consolidated basis AxiCorp has contributed 29% to the group revenues, 7.5% to the group net profit and 30% to its top line growth.

✚ **Biocon deals with Malaysian Biotechnology Firm** to manufacture Bio-pharmaceutical products and formulation.

Upcoming Events to watch out for:

1. IN 105 (Oral Insulin) which is an anti-diabetic drug, will contribute significantly to the total revenues of the company if its results are positive. The results are to be disclosed in the mid of the CY10.
2. Planning for listing the contract research business will unlock large value to the business.

RESULT ANALYSIS: BIOCON LIMITED (In Rs. Crores):-

	Quarterly			TTM Basis		
	Dec'09	Dec'08	Y-O-Y%	Dec'09 (12 months)	Dec'08 (12 months)	Y-O-Y %
Net Sales	635.12	436.19	45.61	2177.24	1409.04	54.52
Other Income	6.42	16.22	-60.42	48.59	57.76	-15.88
Total Income	641.54	452.41	41.80	2225.83	1466.8	51.75
Expenditure	508.42	387.21	31.30	1788.2	1197.39	49.34
PBIDT	133.12	65.2	104.17	437.63	269.41	62.44
Interest	2.72	3.63	-25.07	19.7	14.32	37.57
Profit Before Depreciation & Tax	130.4	61.57	111.79	417.93	255.09	63.84
Depreciation	35.96	27.09	32.74	134.08	105.56	27.02
Profit Before Tax	94.44	34.48	173.90	283.85	149.53	89.83
Tax	11.2	5.8	93.10	32.74	19.37	69.02
Profit After Tax	83.24	28.68	190.24	251.11	130.16	92.92
Operating Profit Margin(%)	20.96	14.95	228.42	20.10	19.12	114.53
Net Profit Margin(%)	13.11	6.58	417.13	11.53	9.24	170.44

In Q3FY10, sales grew by 45.61% to Rs 635.12 cr on y-o-y basis as compared to previous year and PAT grew by around 190% to Rs 83.24. This is mainly due to a major contribution by Axicorp (66% y-o-y growth), around 40% growth in biopharma business (all segments in biopharma – insulin, immunosuppressant, and statin had shown very good results) and decent growth led by contract research business.

During the Q3FY10, API registered robust sales in developed markets. Branded formulations and insulin contributed significantly to the total revenues while capturing major share in the domestic market.

Operating Profits decreased due to forex losses of Rs.9.7 crores. Investments increased on account of drugs expansion and novel programmes.

On a TTM basis, sales increased by 54.52%, operating profit by 62.44% and PAT by 92.92% for twelve months ending Dec'09 as compared to same period previous year. This is due to income received from various launches of new drugs and licensing income. Operating profits decreased due to increase in R&D expenses and input costs.

Overall, the company has performed tremendously till date.

FINANCIALS: BIOCON LIMITED (In Rs. crores)

	2008-09	2007-08	2006-07	2006-05	2005-04
Net Sales	1608.7	1054.22	985.72	789.14	712.56
Other Income	121.25	368.68	15.33	11.83	23.56
Total Income	1729.95	1422.9	1001.05	800.97	736.12
Expenditure	1496.96	795.01	735.53	586.92	498.99
EBITDA	232.99	642.76	287.42	234.85	240.17
Interest	17.66	10.17	9.88	2.64	2.73
Profit Before Depreciation and Tax	215.33	632.59	277.54	232.21	237.44
Depreciation	110.25	93.92	66.55	29.65	22.34
Profit Before Tax	105.08	538.67	210.99	202.56	215.1
Tax	4.11	81.28	16.91	30.57	18.6
Profit After Tax	100.97	457.39	194.08	171.99	196.5
Equity Share Capital	100	50	50	50	50
Basic EPS	5.05	22.87	9.70	8.60	9.83
Cash EPS	10.56	27.57	13.03	10.08	10.94
Operating Profit Margins	0.14	0.61	0.29	0.30	0.34
Net Profit Margins	0.06	0.43	0.20	0.22	0.28

During FY09, consolidated revenues of the Company increased 53% as compared to previous year. Profits (EBITDA) and Profit after Tax (before exceptional items) grew by 14% and 6% respectively. The Net Profit for the year was impacted by loss under exceptional item of Rs147.2 crores, on account of Mark to Market (MTM) loss incurred due to volatility in the foreign exchange rates.

In the BioPharma segment, Statins registered a 12% growth and Immunosuppressant's grew by 35%. Branded Formulations account for about 12% of the overall revenues.

BALANCE SHEET: BIOCON LIMITED (In Rs. crores)

	2008-09	2007-08	2006-07	2005-06	2004-05
Net worth	1535.51	1476.83	1067.81	891.32	741.4
Loans- term	128.18	127.01	128.04	37.29	27.01
Loans - working capital	395.73	128.04	58.73	67.75	49.33
Deferred tax liability	46.62	46.5	44.84	29.73	23.44
TOTAL	2106.04	1778.38	1299.42	1026.09	841.18
Net block including WIP	1383.58	1069.49	965.72	827.01	578.18
Investments	367.62	474.77	79.09	100.23	234.96
Net working capital	354.84	234.12	254.61	98.85	28.04
Deferred revenue expenses	0	0	0	0	0
TOTAL	2106.04	1778.38	1299.42	1026.09	841.18

ANALYSIS & REPORT

Why to invest in Biocon Limited?

SECTOR:

Globally, the market for Biotech Drugs is estimated at \$100bn and is growing at 18% every year. The global market comprises US Market (\$60bn), EU Market (\$30bn) and ROW Markets (\$10bn).

There is a big opportunity arising in this industry as it deals with innovating medicines for crucial diseases.

Opportunities are arising for companies as \$25bn worth of biologics are losing patent protection by 2016. Globally, the insulin market is expected to be \$10bn by 2010. Also, it is expected that the share of Indian Crams player in the global manufacturing market would increase from an approx 15 percent in 2005 to 22 percent by 2010.

About bio-generic drugs, in emerging markets total value is more than billion dollars and is expected to grow at 20% per annum. Government has also taken some important measures to reduce the health care cost, they have reduced custom duty from 10% to 5% on influenza vaccine and nine life saving drugs and they have reduced excise duty from 8% to 4%.

COMPANY:

Biocon has a niche business model i.e. biotech plus high-end custom research which keeps it separate from competitors. Its major facilities are approved for exports by various agencies.

During the year, Biocon was selected among 20 Indian companies in Forbes 'Best under a billion' list. The Syngene Vivarium received an official accreditation by AAALAC. It won the BioSingapore Award for 'Best Listed Biotechnology Company in Asia-Pacific', 2009. Biocon's Cardiology ranking increased from 91st in 2005 to 39th in 2009 with a CAGR of above 100% and its Diabeatology ranking rose from 40th in 2005 to 12th in 2009 (Flagship brand INSUGEN is ranked 3rd in the vital market). In Oncotherapeutics, BIOMAb EGFR (for head & neck cancer) got rights to market in GCC and SAARC countries. Syngene (subsidiary) has over 50 clients including six of the top 10 global pharma companies as its customer. Syngene contributes almost 90% of Biocon's CRO businesses. And it has a strong drug pipeline.

FUNDAMENTALS:

- "IN 105" (Oral Insulin), an anti-diabetic drug, has shown positive results in India. This is a great opportunity for Biocon as it is the first one to launch the drug with unique effect. An application had been filed to USFDA for Phase 3 Clinical trials in US. It is expected that it will fetch great value while out-licensing it. It is valued at around Rs135 crores.
- Biocon is planning to list its contract research business through its subsidiaries (Syngene and Clinigene). Thus, there is a lot of potential to unlock the Value through their listing.
- Company received a milestone (licensing income) payment from Mylan in the quarter which is increased to Rs.17.5 crore and expects to receive same amount for next 4-5 quarters.
- Bristol-Myers Squibb deal is likely to make a significant contribution of around Rs112.5 crores in FY10. Revenues from the BMS deal have already commenced and peak revenues are expected next year. Currently, Biocon achieved 75% potential from its BMS deal and it has already contributed 30% to Syngene's revenue.
- Biocon launched its immunosuppressant, mycophenolate mofetil, post its patent expiry on May 9, 2009, this provides them to enter into a Rs225 crore market. Biocon is supplying the product to three customers and it has already captured a 20% market share. 57% of the market has converted into generics in the first six months.
- INSUGEN 100 IU, INSULIN Glargine brand, BASALOG were launched in 1st quarter of 2009-10. Glargine received approval and is planning for global registration.
- Expectations of new launches in the US, EU and ROW markets. EU insulin market is worth \$2bn and approval is expected by FY11. Insulin and others share 17% of total sales in FY09.

- T1h has shown good results in Phase II in Rheumatoid Arthritis (RA) as well as Psoriasis. Company plans to commence Phase III trials for Psoriasis by the end of this calendar year and Phase III for RA in the next calendar year. This will fetch huge revenues if commercialized.
- Revenue from branded formulation business contributes 12% of total revenues and expected to increase to 25% over 7-10 years.
- Revenues from IDL Specialty Pharma business would start coming from Q4FY10 but fully fledged impact will be seen from April 2010.

Notes: Figures and graph sourced from www.bseindia.com and capital market.

END

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