



**ENAM Securities**  
India Research

CMP: Rs 370  
Target Price: Rs 440  
Potential Upside: 19%  
Absolute Rating: **BUY**

# Biocon Ltd

Relative to sector: **Outperformer**

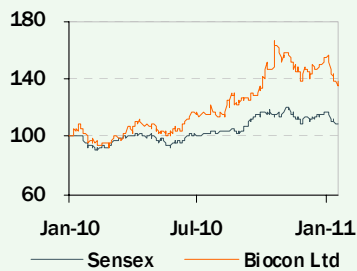
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## Relative Performance



Source: Bloomberg, ENAM Research

## Stock data

No. of shares : 200 mn  
Market cap : Rs 74 bn  
52 week high/low : Rs 465 / Rs 253  
Avg. daily vol. (6mth) : 969,600 shares  
Bloomberg code : BIOS IB  
Reuters code : BION.BO

## Shareholding (%)

	Dec-10	QoQ chg
Promoters	60.9	0.0
FIs	7.1	2.1
MFs / UTI	6.5	(0.8)
Banks / FIs	5.0	0.3
Others	20.5	(1.5)

## 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)
2009	16,087	2,403	-	12.0	7	-	16.0	14.6	-	3.0
2010	23,678	2,932	-	14.7	22	-	17.6	16.9	-	3.5
2011E	28,050	3,691	18.6	18.5	26	20.0	19.1	19.5	12.3	4.0
2012E	31,708	4,050	22.0	20.3	10	18.3	18.2	19.9	10.5	4.5

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

## BETTER REVENUE-MIX DRIVES PROFIT GROWTH

Biocon's Q3FY11 result, excluding licensing income of Rs 768 mn, was largely in-line with expectations. Sales grew 15% to Rs 7.3 bn and net profit was up 25% YoY to Rs 1.0 bn.

## Key Highlights

- **Sales** – Up 15% YoY to Rs 7.3 bn. Biopharma grew 40% to Rs 4.3 bn as: (a) licensing income quadrupled to Rs 768 mn (~Rs 500 mn booked on its deal with Pfizer) and (b) ex-licensing income sales rose 22% (to Rs 3.5 bn) driven by solid growth in domestic branded formulations biz and tacrolimus sales in the US. CRAMS grew 14% to Rs 788 mn. Axicorp declined 16% to Rs 2.2 bn (decline in prices on account of 16% rebate in Germany)
- **EBITDA** – Margin rose 317 bps YoY to 23.1% in Q3, led by: (a) higher licensing income; (b) drop in other expenses (as some expenses are reimbursed by co-developers); and (c) lower contribution from low-margin Axicorp, despite 27% rise in staff cost.
- **PAT** – Up 25% YoY to Rs 1.0 bn owing to better EBITDA margin.

## Other Highlights... (discussed overleaf)

- **IN-105** met its secondary end-point even though it failed to meet its primary end-point, as per the recently announced preliminary efficacy data from Phase-III clinical trials. Biocon would be partnering with a global pharma company for further development of this molecule. It hopes to find a partner over next six months.

## Raise EPS estimates; Upgrade to BUY

We have raised our FY11E EPS estimate by 6% to Rs 18.5 on account of higher licensing income from Pfizer, and better revenue mix. We maintain our TP of Rs 440, valuing the base biz at Rs 405/share (20x FY12E, to capture the upside potential from the Pfizer deal), and ~ Rs 35/share, for the USD 200 mn payment received from Pfizer. The stock looks attractive at CMP. **Upgrade to BUY.**

## Results update

(Rs mn)	Quarter ended					12 months ended		
	Dec-10	Dec-09	% Chg	Sep-10	% Chg	Mar-11E	Mar-10	% Chg
<b>Net Sales</b>	<b>7,280</b>	<b>6,351</b>	<b>14.6</b>	<b>6,788</b>	<b>7.3</b>	<b>28,050</b>	<b>23,678</b>	<b>18.5</b>
<b>EBITDA</b>	<b>1,683</b>	<b>1,267</b>	<b>32.8</b>	<b>1,436</b>	<b>17.2</b>	<b>5,988</b>	<b>4,715</b>	<b>27.0</b>
Other income	96	64	50.0	89	7.7	363	370	(1.9)
<b>PBIDT</b>	<b>1,780</b>	<b>1,331</b>	<b>33.7</b>	<b>1,525</b>	<b>16.7</b>	<b>6,351</b>	<b>5,085</b>	<b>24.9</b>
Depreciation	406	360	12.8	390	3.9	1,580	1,401	12.7
Interest	66	27	141.2	65	0.8	270	169	59.8
<b>PBT</b>	<b>1,308</b>	<b>944</b>	<b>38.5</b>	<b>1,070</b>	<b>22.3</b>	<b>4,501</b>	<b>3,515</b>	<b>28.1</b>
Tax	291	112	159.6	156	86.3	720	487	48.0
Minority Interest	10	24	(57.9)	22	(54.2)	90	96	(5.9)
<b>Reported PAT</b>	<b>1,008</b>	<b>809</b>	<b>24.6</b>	<b>892</b>	<b>12.9</b>	<b>3,691</b>	<b>2,932</b>	<b>25.9</b>
No. of shares (mn)	200	200	-	200	-	200	200	-
EBITDA margins (%)	23.1	19.9	317.1	21.2	196.6	21.3	19.9	143.6
PBIDT margins (%)	24.4	21.0	348.3	22.5	197.2	22.6	21.5	116.7
<b>EPS - annualized (Rs.)</b>	<b>20.2</b>	<b>16.2</b>	<b>24.6</b>	<b>17.8</b>	<b>12.9</b>	<b>18.5</b>	<b>14.7</b>	<b>25.9</b>

Source: Company, ENAM Research

## Sales Mix

(Rs mn)	Quarter ended				
	Dec-10	Dec-09	% Chg	Sep-10	% Chg
Biopharmaceuticals	4,308	3,069	40.4	3,401	26.7
Contract Research Fees	788	694	13.5	780	1.0
AxiCorp	2,184	2,588	(15.6)	2,607	(16.2)
<b>Total</b>	<b>7,280</b>	<b>6,351</b>	<b>14.6</b>	<b>6,788</b>	<b>7.3</b>

Source: Company, ENAM Research

## Other Highlights – Q3FY11

- **Axicorp** – Sales declined 16% YoY to Rs 2.2 bn in Q3FY11. This is due to a drop in prices on account of 16% rebate enforced on non-tender business in Germany thereby putting pressure on margins (Rs 80 mn of EBITDA in Q3FY11, ~ 4% margin). Biocon plans to downsize the non-tender based business in order to boost profitability. The company plans to launch insulin products in Germany by 2013.
- **Syngene** reported net profit of Rs 100 mn in Q3FY11. Management plans to get Syngene listed over the next 18 months.
- **Insulin** – Biocon would begin co-marketing insulin with Pfizer in India in FY12. Further, it expects to complete the clinical trials of Recombinant Human Insulin (RHI) in Europe by 2011 and file by mid-2012.
- **R&D expenses** – Biocon recorded ~Rs 350 mn of additional R&D expenses relating to development of bio-similar range of insulin (covered under the Pfizer deal). The management guided for R&D expenses of Rs 1.5-1.6 bn in FY11 (Rs 960 mn in 9MFY11).
- **Tax rate** – In Q3FY11 tax rate was higher at 22% due to one-time transfer of IPR to a 100% subsidiary. Management has guided for 15-16% tax rate for FY11E and ~20% for FY12E.

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