

Biocon (BIOCON)

Rs 321

WHAT'S CHANGED...

PRICE TARGET	Unchanged
EPS (FY11E)	Changed from Rs 20.0 to Rs 17.1
EPS (FY12E)	Introducing at Rs 20.2
RATING.....	Changed from Buy to Add

Fairly priced...

Biocon's Q1FY11 results were ahead of our expectations on the topline front. Consolidated net profits jumped ~33% YoY to Rs 76 crore due to ~33% growth in net sales to Rs 662 crore (we expected Rs 627 crore). Strong topline growth was aided by robust performance from biopharma (insulin, immunosuppressant & statins), higher licensing income (~Rs 21 crore) and Axicorp. The Axicorp integration led the consolidated EBITDA margin to fall to ~20%. Excluding Axicorp, Biocon's EBITDA margin stood at ~30% in Q1FY11. The biopharma business grew a robust 36% on a standalone basis to ~Rs 337 crore driven by strong growth in the domestic formulation business while CRAMS grew ~13% YoY to Rs 72 crore. Axicorp grew ~37% YoY to ~Rs 253 crore. However, since most key triggers like the insulin launch in EU and other key markets and biosimilars programmes are still some time away we maintain our target price of Rs 335, with an ADD rating.

■ Highlights for the quarter

During Q1FY11, Biocon received approval from the German regulatory authority for conducting P-III biosimilar insulin trials. The company started its trial on Type-1 diabetes in the US and is actively looking for outlicensing. In domestic branded formulations business, insulin garnered 12% market share. Interest cost increased 24% YoY on an increase in hedging cost. Biocon commissioned its Hyderabad facility for statins.

Valuation

We believe Biocon's strength lies in its strong insulin franchise, position in biosimilars and increasing presence in niche areas like nephrology, diabetes, cardiovascular and oncology. Oral insulin for type-II diabetes is in Phase-III in India. Strong traction in the domestic business, improving performance from Axicorp and better outlook for the contract research business signify good growth prospects for the company. Biocon is currently trading at 15.9x FY12E EPS and 10.3x FY12E EV/EBITDA. We are assigning an **ADD** rating on the stock with a target price of Rs 335.

Exhibit 1: Performance Highlights

(Rs Crore)	Q1FY11A	Q1FY11E	Q1FY10	Q4FY10	YoY Gr.(%)	QoQ Gr.(%)
Net Sales	662.0	628.7	496.0	656.8	33.5	0.8
EBITDA	132.4	130.7	104.0	139.2	27.4	-4.9
EBITDA Margin (%)	20.0	20.8	21.0	21.2		
Depreciation	37.5	42.2	32.4	36.7	15.7	2.3
Interest	7.0	5.7	5.6	3.3	24.0	111.2
Reported PAT	76.5	82.0	54.7	95.2	39.8	-19.6
EPS (Rs)	3.8	4.1	2.7	4.8		

Source: Company, ICICIdirect.com Research

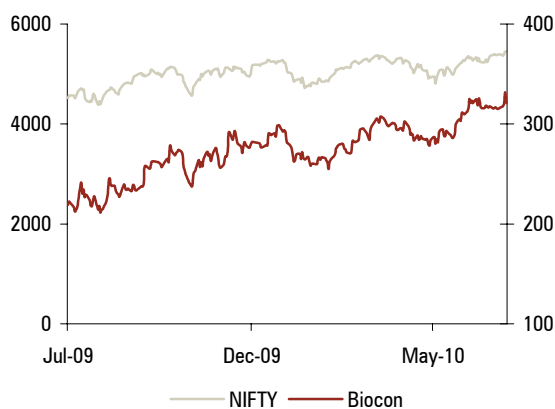
Rating Matrix	
Rating	: Add
Target	: Rs 335
Target Period	: 12-15 months
Potential Upside	: 4%

Key Financials				
(Rs Crore)	FY09	FY10	FY11E	FY12E
Net Sales	1608.7	2367.8	2701.9	3085.7
EBITDA	323.4	471.5	550.6	646.4
Net Profit	93.8	293.1	342.7	403.6

Valuation Summary				
	FY09	FY10	FY11E	FY12E
EPS (Rs)	12.0	14.7	17.1	20.2
PE (x)	26.6	21.9	18.7	15.9
Target PE (x)	27.8	22.9	19.6	16.6
EV to EBITDA (x)	21.4	14.4	12.2	10.3
Price to book (x)	4.2	3.7	3.2	2.7
RoNW (%)	11.4	12.4	13.2	13.9
RoCE (%)	13.2	15.6	16.7	17.5

Stock Data	
Market Capitalisation (Rs Crore)	6420.0
Debt (FY10), (Rs Crore)	513.6
Cash (FY10), (Rs Crore)	140.0
EV (Rs Cr)	6793.6
52 week H/L	336/200
Equity capital (Rs Crore)	100.0
Face value (Rs)	Rs 5
MF Holding (%)	8.4
FII Holding (%)	3.8

Price Movement



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Result Analysis

■ Topline growth above our expectation

Biocon reported a robust 33% YoY growth in consolidated revenues buoyed by ~36% YoY growth in biopharmaceuticals and ~13% YoY growth in contract research. The robust performance in the bio-pharma segment was on account of increasing immunosuppressant and statin sales. The growth in the bio-pharma business was also on account of integration of the Axicorp business. Axicorp contributed Rs 253 crore (~38% to overall revenues and growing by 37% YoY) to the consolidated sales in Q1FY11. Strong growth in the insulin franchise also led the biopharma business to perform better. The second largest revenue grosser for the company, CRAMS, grew at ~13% YoY on account of a further ramp up in execution of the BMS contract in Q1FY11.

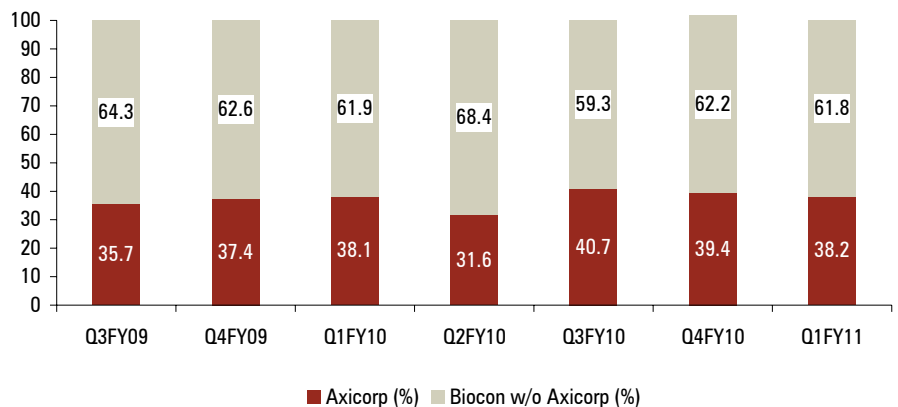
Going ahead, we expect sales to grow at ~13% CAGR on account of ~14% CAGR in biopharma and ~5% CAGR in CRAMS business. We expect the domestic branded formulation business to grow at a robust rate of ~17% through FY10-12E.

Exhibit 2: Business highlight

(Rs Crore)	Q1FY11	Q1FY10	YoY Growth (%)	Q4FY10	QoQ Growth (%)
Biopharma	337.0	247.3	36.3	334.50	0.7
% to sales	50.9	49.9		50.9	
Contract Research	72.0	64.0	12.5	74.00	-2.7
% to sales	10.9	12.9		11.3	
Axicorp	253.0	184.7	37.0	248.30	1.9
% to sales	38.2	37.2		37.8	
Total Sales	662.0	496.0	33.5	656.8	0.8

Source: Company, ICICIdirect.com Research

Exhibit 3: Percentage contribution to consolidated sales



Source: Company, ICICIdirect.com Research

Growth in overall revenues was buoyed by 36% YoY growth in biopharmaceuticals, 13% YoY growth in the contract research business and 37% YoY growth in Axicorp revenues

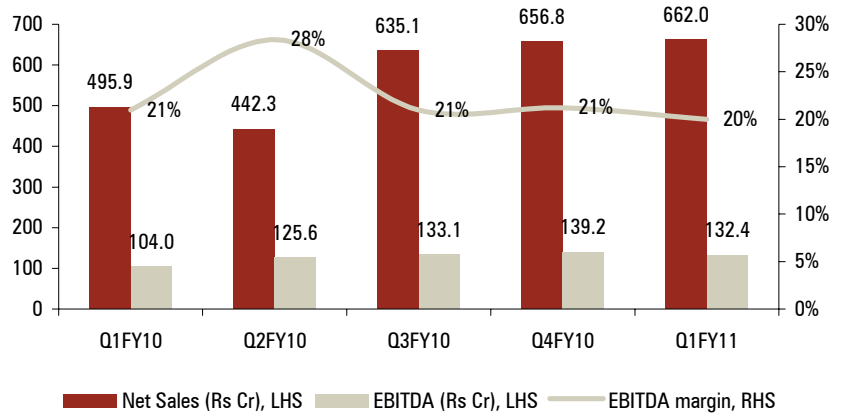
Biocon's operating profit for Q1FY11 grew at a robust rate of ~27% YoY, largely driven by ~36% YoY growth in the biopharma business

Operating margin remains stable at ~20%

Biocon's operating profit for Q1FY11 grew at a robust rate of ~27% YoY, largely driven by ~36% YoY growth in the biopharma business. Consolidation of Axicorp dragged the overall EBITDA margin during Q1FY11 (due to ~38% revenue contribution from the low margin Axicorp subsidiary). Employee costs rose 31% YoY to Rs 74 crore (including Axicorp). Raw material consumption increased ~53% to Rs 421 crore, also dragging the EBITDA margin.

Going ahead, we anticipate some pressure on the operating margin on account of higher guidance of net R&D expenditure (~Rs 150 crore) in FY11E. We expect the operating profit to grow at ~17% CAGR through FY10-12E.

Exhibit 4: EBITDA margin trend



Source: Company, ICICIdirect.com Research

For Q1FY11, Biocon's consolidated net profit was at ~Rs 76 crore, up ~33% YoY on account of lower proportionate growth in depreciation and interest cost which grew by ~16% and ~24% YoY

Net profit improves ~33% YoY

For Q1FY11, Biocon's consolidated net profit was at ~Rs 76 crore, up ~33% YoY on account of lower proportionate growth in depreciation and interest cost which grew by ~16% and ~24% YoY. The higher interest cost was on account of higher hedging related costs. Higher tax incidence (~17% of PBT) prevented further margin expansion. This quarter the company did not incur huge forex losses as witnessed in the previous few quarters as a consequence of entering into an innovative option forward contract.

Going ahead, we expect the bottomline to grow at an FY10-12E CAGR of ~18% to Rs 407 crore.

Exhibit 5: Common size profit and loss account

	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11
Net Sales	100	100	100	100	100
Depreciation	6.5	6.0	5.7	5.6	5.7
Interest	1.1	0.9	0.4	0.5	1.1
PBT	14.7	14.7	14.9	15.1	14.5
Tax (% PBT)	18.8	11.0	11.9	14.5	17.1
Net Profit	11.6	12.8	12.7	12.3	11.5

Source: Company, ICICIdirect.com Research

Valuation

Looking at the current quarter's results, we believe Biocon is on track to generate robust revenues and profits. All business segments are progressing well. Biocon's discovery R&D focus is reflected in its interesting discovery pipeline including two Monoclonal Antibodies (MAb) related to oncology and rheumatoid arthritis along with the oral insulin. The company will start Phase-I trials in the US for its oral insulin (IN-105) for type-1 diabetes. The management remains optimistic about its ability to launch generic insulin in EU by early FY13 against the earlier guidance to launch in FY12. The Axicorp subsidiary will also start contributing meaningfully to the bottomline once the commercialisation of the insulin in EU kicks in.

Clinigene and Syngene are showing a good ramp-up in operations. The immunosuppressant segment is likely to be another growth driver with Biocon looking to scale up the MMF supplies in the US market and Tacrolimus APIs over the next few quarters. An out-licensing deal in the area of insulin and bio-generics may act as a catalyst for the stock. In order to expand the domestic presence in branded formulations, the company is planning to launch two new divisions viz. (1) Dermacare & Immunocare and (2) Comprehensive Care. In the CRAMS segment, the management has guided for lower topline growth and better margin. However, incremental R&D expense of ~Rs 150 crore in FY11E will act as an overhang on the stock in the medium-term.

Biocon is currently trading at ~16x FY12E earnings and ~10x FY12E EV/EBITDA. However, since most key triggers such as the insulin launch in EU and other key markets as well as biosimilars programmes are still some time away we are maintaining our target price of Rs 335, with an **ADD** rating.

Exhibit 6: Valuation Table

	Sales		EPS (Rs)	EPS Gr		EV/EBITDA	RoNW	RoCE
	(Rs Cr)	Sales Gr (%)		(%)	PE (x)			
FY09	1608.7	45.2	12.0	-44.8	26.6	21.4	11.4	13.2
FY10	2367.8	47.2	14.7	21.6	21.9	14.4	12.4	15.6
FY11E	2701.9	14.1	17.1	16.9	18.7	12.2	13.2	16.7
FY12E	3085.7	14.2	20.2	17.8	15.9	10.3	13.9	17.5

Source: Company, ICICIdirect.com Research

ICICIdirect.com Coverage Universe

Alembic					Sales (Rs Cr)	EPS (Rs)	PE(x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	ALECHE	CMP	58	FY08	1003.2	8.0	7.3	8.3	32.6	19.1
		Target	46	FY09	1116.1	3.4*	17.3	10.0	14.0*	11.3
MCap	807.9	Upside (%)	-21	FY10	1138.2	3.0	19.7	10.3	11.7	9.7
				FY11E	1223.9	4.1	14.3	8.8	14.5	11.3
Biocon					Sales (Rs Cr)	EPS (Rs)	PE(x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	BIOCON	CMP	321	FY09	1608.7	12.0	26.6	21.4	11.4	13.2
		Target	335	FY10	2367.8	14.7	21.9	14.4	12.4	15.6
MCap	6420.0	Upside (%)	4	FY11E	2701.9	17.1	18.7	12.2	13.2	16.7
				FY12E	3085.7	20.2	15.9	10.3	13.9	17.5
Dishman					Sales (Rs Cr)	EPS (Rs)	PE(x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	DISHPHA	CMP	218	FY09	1062.4	18.2	12.0	9.3	20.9	13.6
		Target	218	FY10	915.4	14.6	15.0	12.2	15.0	9.1
MCap	1759.2	Upside (%)	0	FY11	1075.3	19.6	11.2	9.3	17.1	11.1
				FY12E	1256.5	21.4	10.2	7.8	16.4	11.9
IPCA Labs					Sales (Rs Cr)	EPS (Rs)	PE(x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	IPCLAB	CMP	282	FY09	1283.8	8.1	35.0	4.5	16.0	19.6
		Target	311	FY10	1559.6	16.4	17.2	3.6	23.7	20.5
MCap	3525.0	Upside (%)	10	FY11E	1878.0	19.9	14.1	2.8	23.1	22.5
				FY12E	2237.2	23.9	11.8	2.2	22.4	24.1
Piramal Health					Sales (Rs Cr)	EPS (Rs)	PE(x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	NICPIR	CMP	488	FY09	3281.1	15.1	32.3	19.7	24.0	17.7
		Target	589	FY10	3671.1	23.1	21.2	15.5	28.3	18.8
MCap	10530.5	Upside (%)	21	FY11E	4102.8	25.3	19.3	13.3	25.4	20.9
				FY12E	4633.3	30.5	16.0	11.3	25.3	22.7
Sun Pharma					Sales (Rs Cr)	EPS (Rs)	PE(x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	SUNPHA	CMP	1760	FY09	4271.4	88.1	20.0	18.8	25.9	28.5
		Target	1644	FY10	4019.8	65.2	27.0	25.4	17.8	19.6
MCap	36452.7	Upside (%)	-7	FY11E	4464.8	71.7	24.6	22.5	16.8	18.8
				FY12E	5151.8	82.2	21.4	18.7	16.7	18.5
Glenmark					Sales (Rs Cr)	EPS (Rs)	PE(x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	GLEPHA	CMP	285	FY09	2093.0	7.7	37.2	21.3	19.4	16.4
		Target	325	FY10	2484.9	12.2	23.4	15.2	13.9	14.6
MCap	7678.2	Upside (%)	14	FY11E	2927.1	15.9	17.9	11.8	18.6	17.7
				FY12E	3390.1	21.7	13.1	9.3	20.9	20.3
Lupin					Sales (Rs Cr)	EPS (Rs)	PE(x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	LUPIN	CMP	1959	FY08	2706.4	49.8	39.4	39.0	31.9	22.2
		Target	2101	FY09	3775.9	61.3	31.9	26.8	35.6	23.6
MCap	17364.1	Upside (%)	7	FY10	4740.5	78.7	24.9	21.4	33.0	25.8
				FY11E	5930.3	93.0	21.1	16.1	27.2	25.4
				FY12E	6997.7	116.7	16.8	12.5	24.9	24.7
Unichem Labs					Sales (Rs Cr)	EPS (Rs)	PE(x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	UNILAB	CMP	443	FY09	735.2	30.0	14.8	11.3	22.3	23.2
		Target	486	FY10	765.5	36.9	12.0	8.6	23.3	25.7
MCap	1595.4	Upside (%)	10	FY11E	895.2	41.6	10.6	6.9	22.1	25.9
				FY12E	1044.4	49.8	8.9	5.7	22.4	26.2
Indoco Remedies					Sales (Rs Cr)	EPS (Rs)	PE(x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	INDREM	CMP	430	FY09	350.6	25.6	16.8	12.0	11.3	10.9
		Target	432	FY10	398.3	34.2	12.6	10.1	13.3	11.1
MCap	528.5	Upside (%)	1	FY11E	461.4	43.3	9.9	7.7	14.5	13.3
				FY12E	530.9	49.1	8.8	6.5	14.3	13.8

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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Strong Buy: 20% or more;
 Buy: Between 10% and 20%;
 Add: Up to 10%;
 Reduce: Up to -10%
 Sell: -10% or more;

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