

CMP : Rs.347

Reco : ACCUMULATE

STOCK INFO

BSE	532523
NSE	BIOCON
Bloomberg	BIOS IN
Reuters	BION.BO
Sector	Pharmaceutical
Face Value (Rs)	5
Equity Capital (Rs mn)	1000
Mkt Cap (Rs mn)	69,400
52w H/L (Rs)	465/272
Avg Daily Vol (BSE+NSE)	760,013

SHAREHOLDING PATTERN

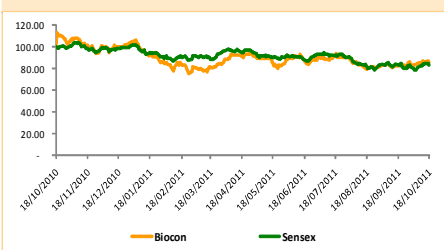
	%
<i>(as on 30th Sep. 2011)</i>	
Promoters	60.91
FII's	4.84
DII's	10.87
Public & Others	23.38

Source: BSE

STOCK PERFORMANCE (%)	1m	3m	12m
BIOCON	4.0	-6.9	-14.3
SENSEX	0.0	-9.5	-17.0

Source: Capitaline; IndiaNivesh Research

BIOCON v/s BSE SENSEX



Source: Capitaline; IndiaNivesh Research

Daljeet S. Kohli

Head of Research

Mobile: +91 77383 93371, 99205 94087

Tel: +91 22 66188826

daljeet.kohli@indianivesh.in

Bhagwan Singh Chaudhary

Research Associate

Mobile: +91 77383 93427

Tel: +91 22 66188835

bhagwan.chaudhary@indianivesh.in

Steady growth in revenue

Biocon's net revenue increased 21% y-o-y & 15% q-o-q to Rs 5.08 billion in Q2 FY12, above street estimate of Rs 4.88 billion. High growth was supported by out licensing income associate with Pfizer deal, which grew 61% y-o-y to Rs 370 million in Q2 FY12. Also, excluding out licensing income, Pharma business grew 18.3% y-o-y to Rs 3.78 billion on the back of branded formulation business which posted revenue growth of 31% y-o-y. Further, CRAMS business reported healthy growth of 19.4% y-o-y to post revenue of Rs 930 million in Q2FY12.

Revenue Mix & Analysis:

in Rs Mn	Q1 FY12	Q1 FY12	Q1 FY12	Y-o-Y	Q-o-Q	FY11
Out Licensing Income	370	230	144	60.9%	156.9%	1525
Pharma Sales (Excl Out License Income)	3,780	3,194	3,399	18.3%	11.2%	13,300
CRAMS	930	779	874	19.4%	6.4%	3,449
Less: Intersegment	-	-	-			272
Net Sales	5,080	4,203	4,417	20.9%	15.0%	18,002
<hr/>						
EBITDA	1,335	1,297	1,204	2.9%	10.9%	5,395
EBITDA(adj from Out License Income)	1,235	1,067	1,084	15.8%	14.0%	3,870
Adj Net profit (adj from Out License Income)	637	516	527	23.6%	20.9%	1,523
				bps	bps	
EBITDA Margin	26.3%	30.9%	27.2%	(458)	(97)	30.0%
EBITDA Margin (adj for Out License Income)	26.2%	26.8%	25.4%	(63)	86	23.5%
Adj Net Margin (adj for Out License Income)	12.5%	12.3%	11.9%	28	61	8.5%

Source: Company Filings; IndiaNivesh Research

Increase in employee cost & R&D cost subdued operating performance

Out of the total out licensing income of Rs 370 million received during the quarter Rs 100 million (i.e 27%) was realized at EBITDA level due to R&D expenditure associated with it, unlike corresponding quarter in the previous year when it was realised fully. However, in Q1 FY12 out of out licensing income of Rs 144 million, Rs 120 million (i.e.83%) was realized at EBITDA level.

Hence, company's EBITDA grew only 2.9% y-o-y & 11% q-o-q to Rs 1.36 billion in Q2 FY12. EBITDA margin declined 636 bps y-o-y & 431 bps sequentially to 26.3% level due to increase in employee cost & other expenditure.

Adj for out licensing Income, adj EBITDA grew 15.8% y-o-y & 14% q-o-q to Rs 1.24 billion in Q2 FY12. However, adj EBITDA margin was down by 63 bps y-o-y to 26.2% level. (See the table given above)

Net Profit

During the quarter, only Rs 60 million, out of out licensing income of Rs 377 million was realized at PAT level, against Rs 50 million (out of out licensing income of Rs 144 million) in Q1 FY12.

Hence, adj net profit (adj for out licensing income & other income) of Biocon increased 23.6% y-o-y & 20.9% sequentially to Rs 637 million. Adj Net Margin was up by 28 bps y-o-y & 61 bps sequentially to 12.5% level.

Company reported adj EPS of Rs 3.19 in Q2 FY12 compared to Rs 2.58 in Q2 FY11.

Key takeaways from con call

During the quarter, Biocon's co-partner Pfizer launched Insulin & Glargine under the brand name Univia & Glarvia at the same price in India.

Biocon launched INSUpen, a reusable insulin delivery device in domestic market on October 17, 2011. This product is likely to add the growth momentum to company's branded formulation business, which grew 31% y-o-y in current quarter.

During the quarter, company inaugurated work on green-field biopharmaceutical facility in Malaysia, which is likely to be completed by the end of FY14 at the investment of \$160 million. This facility is likely to be used for manufacturing of bio-similar products like insulin for emerging market under Pfizer deal.

Increasing R&D cost and increase in head counts & wages is putting pressure on company's margins, which is likely to persist for longer period.

Valuation

At CMP of Rs 347, the stock is trading at PE multiple 19x & 15.5x of FY12E & FY13E street earnings estimates respectively. Company is likely to grow at healthy rate of 18-20% in FY12 & FY113 owing to growth of its product portfolio in branded business & consistent growth in CRAMS business. However, margin may remain under pressure in longer term due to its expansion plan, increase in R&D expenses, head counts & wages. We are of the view that, growth prospects for bio-similar products & company's strong R&D pipeline will provide it an edge over peers going forward. Further, any process or news flow on out licensing deal of oral Insulin molecule for trial III phase will be a trigger for the stock. We advise to accumulate the stock with positive bias. (Target price is under review).

Particulars (Rs Mn except EPS)	Q2 FY12	Q2 FY11	Q1 FY12	Y-o-Y	Q-o-Q	FY11
Pharma	4,150	3,424	3,543			14,825
CRAMS	930	779	874			3,449
Less: Intersegment			-			272
Net Sales	5,084	4,204	4,417	21.0%	15.1%	18,002
Total Income	5,084	4,204	4,417	21.0%	15.1%	18,002
(increase)/Decrease in closing stock	37	(308)	(179)	-112.1%	-120.9%	(246)
Consumption of raw material	1,850	1,981	1,906	-6.6%	-2.9%	7,122
Purchase of finished goods	255	20	165	1205.1%	54.6%	382
Power Cost	227	199	231	13.9%	-1.9%	820
Employee Cost	778	581	693	33.9%	12.4%	2,388
Other Expenditure	603	435	398	38.6%	51.3%	2,140
Total Expenditure	3,750	2,907	3,213	29.0%	16.7%	12,607
EBITDA	1,335	1,297	1,204	2.9%	10.9%	5,395
Depreciation & Ammortization	429	379	451	13.3%	-4.8%	1,516
EBIT	906	918	753	-1.3%	20.3%	3,879
Interest	20	62	57	-67.4%	-64.4%	245
Pre-tax Profit	886	856	697	3.4%	27.2%	3,634
Tax	188	111	119	69.9%	57.7%	586
Net Profit (Recurring)	697	746	577	-6.5%	20.8%	3,048
Other Income	160	74	123	117.0%	29.4%	352
Net profit from Discontinued Operation	-	73				276
Net Profit (Reported)	857	892	701	-3.9%	22.3%	3,675
Adj EPS	3.49	3.73	2.89	-6.5%	20.8%	15.24
O/ Share (In Million)	200	200	200			200

Ratios	Q2 FY12	Q2 FY11	Q1 FY12	bps (y-o-y)	bps (q-o-q)	FY11
Adj EBITDA margin	26.3%	30.8%	27.2%	(63)	86	30.0%
Adj Net Margin	13.7%	17.7%	13.1%	28	61	16.9%
Material cost/Net Sales	41.4%	47.6%	46.9%	(619)	(549)	41.7%
Power Cost/ Net Sales	4.5%	4.7%	5.2%	(28)	(78)	4.6%
Employee Cost/ Net Sales	15.3%	13.8%	15.7%	148	(37)	13.3%
Other Expenditure/ Net Slaes	11.9%	10.3%	9.0%	151	284	11.9%
Tax Rate	18.0%	11.9%	14.6%	609	345	14.7%

Source: Company Filings; IndiaNivesh Research



Trust.....we earn it.

IndiaNivesh Securities Private Limited

601 & 602, Sukh Sagar, N. S. Patkar Marg, Girgaum Chowpatty, Mumbai 400 007.

Tel: (022) 66188800 / Fax: (022) 66188899

e-mail: research@indianivesh.in | Website: www.indianivesh.in

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