

## Q3FY11 Result Update

## Biocon Ltd (BIOS IN)

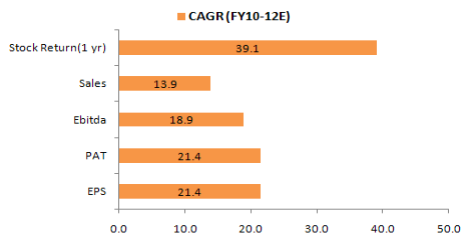
January 21<sup>st</sup>, 2011

Industry **Pharmaceuticals**

Well in line

Buy (CMP: ₹ 370)

Market Cap ₹ 64.0bn; USD: 1.39bn

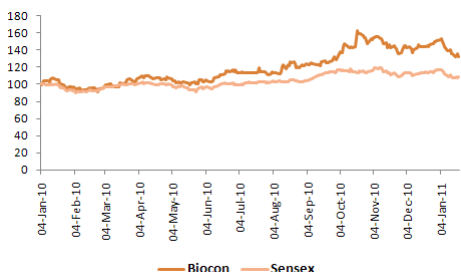


Price	370
Target Price	511
Last Call	BUY (25-10-10 at Rs 444)
Expected share price return	38.11%
Expected dividend yield	1.00%
Expected total return	39.11%

### Market Data

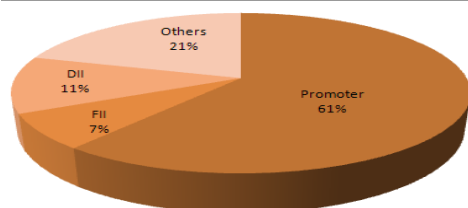
Market Cap.	Rs74.00bn/ US\$1.61bn
Share Cap. (mn)	1000
52 Wk High/Low	365/253
Avg. Vol. (Weekly)	1.99

(Price Performance (RIC: BION.BO, BB: BIOS IN))



### Shareholding Pattern

(As on 30th Dec 2010) (%)



Financials (Rs. Mn)	FY10	FY11E	FY12E
Total Revenue	23678.2	26895.8	30716.2
Growth %	47.2	13.6	14.2
EBITDA	4714.9	5594.3	6665.4
EBITDA margin %	19.9	20.8	21.7
Net Profit	2932.2	3603.0	4324.9
Reported PAT	2932.2	3603.0	4324.9
EPS (Rs)	14.7	18.0	21.6
EPS with forex loss (Rs)	14.7	18.0	21.6
CEPS (Rs)	21.7	25.5	30.1
EV/EBITDA	16.5	13.7	11.4
EV/Sales	3.3	2.8	2.5
ROE %	16.7	18.2	18.5
ROCE %	15.6	18.4	19.6
P/E (x)	25.2	20.5	17.1
P/CEPS (x)	17.1	14.5	12.3

Biocon reported 15% growth in its consolidated revenues to ₹ 7.30bn (v/s our estimate of ₹ 7.36bn), primarily led by 22% growth in the biopharma business and 339% jump in licensing income. With improving product mix towards higher licensing income, the OPM expanded by 310bps to 23.3%, resulting in 25% growth in net profit to ₹ 1.01bn (v/s our estimate of ₹ 1.11mn). The reported profits were a bit lower than our expectations, as Biocon expensed an one-off R&D cost worth ₹ 350mn relating to prior period and provided higher taxes during the quarter. Overall the Q3FY11 performance was in line with our expectations. Hence, we maintain our earning estimates for FY11/FY12 intact and value the base business at ₹412/share (i.e 19x FY12E EPS). On the other hand, Biocon's global commercialisation pact with Pfizer (for a milestone of \$350mn) has brought its R&D capability in the field of biologics on the global radar and has also enlightened its other assets in R&D pipeline for potential global deals in the near future. Getting further details about Biocon's Pfizer deal, we reduced the deal value to ₹99/share (from earlier ₹162), particularly to factor higher cost associated with clinical development and registration of Biosimilar products globally. Hence, our SOTP value for Biocon comes to ₹511. Additionally, we believe Biocon's initiatives for out-licensing/partnering of its self-financed novel projects IN-105 & T1h MAB would unlock value for the stock in the near future. Thus, we reiterate our "BUY" recommendation for Biocon with a revised Target Price of ₹511 (implying 38% upside).

### Q3FY11 results are in line with expectations

Biocon's Q3FY11 performance was in line with our expectations, with 15% growth in revenues to ₹ 7.30bn (v/s our estimate of ₹ 7.36mn), primarily led by 22% growth in the biopharma business and 3-times growth in licensing income. The OPM expanded by 310bps to 23.3% led by 339% jump in licensing income, which resulted in 32% growth in the operating profit to ₹ 1.45bn. Subsequently, the higher tax incidence of 22.2% (v/s 12% in Q3FY10) restricted the net profit growth to 25% at ₹ 1.01bn (v/s our estimate of ₹ 1.11mn). Overall, the Q3FY11 performance was in line with our expectations, considering the one-off R&D cost worth ₹ 350mn relating prior periods.

### Multiple value unlocking triggers in the pipeline

- Biocon's global commercialisation pact with Pfizer certainly adds a new revenue stream Q1FY12 onwards (when Pfizer launches Biocon's insulin products in the emerging market.
- Encouraged by Ph-III trial results (in terms of efficacy and safety) of its novel project - oral insulin IN 105, Biocon expects to license with a potential partner in the next 6 months. Also expects to outlicense its other novel drug T1h shortly.
- Also, the company is in talks to rope in the global pharma innovator for contract research and clinical trial services, any development in this regard would provide better earnings growth in near term.

### Re-iterate "BUY" with revised target price of ₹511/share

Looking at the multiple triggers, in terms of value unlocking of Biocon's R&D pipeline, likely deals in the field of research services and its global commercialisation pact with Pfizer, we value Biocon at ₹511/share (implying an upside of 38%). Accordingly, we reiterate our "BUY" recommendation for Biocon with our revised Target Price of ₹511/share.

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**Table 1: Q3FY11 result at a glance**

₹ Mn Particulars	Q3 FY11 & 9MFY11 result at a glance					
	Q3 FY11	Q3 FY10	% Growth	9M FY11	9M FY10	% Growth
Net Sales	7297.7	6370.0	14.6	20734.3	17165.4	20.8
Raw Materials	3631.8	3544.2	2.5	11299.1	9595.9	17.7
% of sales	49.77%	55.64%		54.49%	55.90%	
Employee Expense	811.1	637.4	27.3	2303.6	1810.9	27.2
% of sales	11.11%	10.01%		11.11%	10.55%	
Other Expenses	1154.4	902.6	27.9	2656.5	2292.0	15.9
% of sales	15.82%	14.17%		12.81%	13.35%	
Total expenditure	5597.3	5084.2	10.1	16259.2	13698.8	18.7
Operating Profit	1700.4	1285.8	32.2	4475.1	3466.6	29.1
OPM %	23.30%	20.19%		21.58%	20.20%	
Other Income	79.1	45.4	74.2	237.3	226.4	4.8
Interest	65.6	27.2	141.2	200.4	135.7	47.7
Depreciation	405.8	359.6	12.8	1171.6	1034.6	13.2
PBT	1308.1	944.4	38.5	3340.4	2522.7	32.4
Tax	290.7	112.0	159.6	610.6	343.2	77.9
Tax Incidence	22.22%	11.86%		18.28%	13.60%	
PAT	1017.4	832.4	22.2	2729.8	2179.5	25.2
Minority Interest	9.9	23.5	-57.9	62.7	53.2	17.9
Reported PAT	1007.5	808.9	24.6	2667.1	2126.3	25.4
NPM %	13.81%	12.70%		12.86%	12.39%	
EPS	5.04	4.04		13.34	10.63	

Source: Company, Systematix shares

**Table 2: Revenue Break-up**

Particulars	Q3 FY11	Q3 FY10	% Growth	9M FY11	9M FY10	% Growth
Axicorp	2184	2588	-15.6	7380	6588	12.0
Licensing Income	768	175	338.9	1220	301	305.3
Other Biopharma	3540	2894	22.3	9801	8154	20.2
Total Biopharma	6492	5657	14.8	18401	15043	22.3
% Contribution	89.2	89.1		88.9	87.9	
Contract Research	788	694	13.5	2290	2067	10.8
% Contribution	10.8	10.9		11.1	12.1	
Total	7280	6351	14.6	20691	17110	20.9

Source: Company, Systematix shares

**Steady revenue growth:** Biocon reported 15% growth in its consolidated revenues to ₹ 7.30bn (v/s our estimate of ₹7.36mn) primarily led by 22% growth in the biopharma business and 3-times growth in licensing income. Infact, the overall sales growth was muted as it's German subsidiary – Axicorp's sales saw 15% fall, following a government policy of compulsory flat 16% discount on the pharma products.

**Margin expanded by 310bps:** The OPM expanded by 310bps to 23.3% led by doubling licensing income and lower R&D expenditure during the period, which resulted in 27% growth in the operating profit to ₹ 1.45bn.

**Net profit was lesser than expected:** Subsequently, the higher tax incidence of 22.2% (v/12% in Q3FY10), restricted the net profit growth to 25% at ₹1.01bn (v/s our estimate of ₹1.11mn). Overall the Q3FY11 performance was in line with our expectations, considering the one-off R&D cost worth ₹ 350mn relating to prior periods.

**Licensing of IN 105 in 6months:** Encouraged by Ph-III trial results (in terms of efficacy and safety) of its novel project - oral insulin IN 105, Biocon expects to license with a potential partner over the next 6 months. It also expects to outlicense it's other novel drug T1h shortly.

**Listing of research services in 12-18months:** Biocon is currently revamping its clinical services business model (from just BA/BE studies to human clinical care operation). Hence it expects to demerge its research services business in 12-18months time.

**Re-iterate “BUY” with revised target price of ₹511/share**

Overall the Q3FY11/YTD performance was in line with our expectations. Hence we maintain our earning estimates for FY11/FY12 intact and value the base business at ₹412/share (i.e 19x FY12E EPS). On the other hand, Biocon’s global commercialisation pact with Pfizer (for a milestone of \$350mn), has brought its R&D capability in the field of biologics on the global radar and also enlightened its other assets in its R&D pipeline for potential global deals in the near future. Getting further details about Biocon’s Pfizer deal, we reduced the deal value to ₹99/share (from earlier ₹162), particularly to factor higher cost associated with clinical development and registration of Biosimilar products globally. Hence, our SOTP value for Biocon comes to ₹511. Additionally, we believe Biocon’s initiatives for out-licensing/partnering of its self-financed novel projects IN-105 & T1h MAB would unlock additional value for the stock in the near future. Thus, we reiterate our “BUY” recommendation for Biocon with a revised Target Price of ₹511 (implying 38% upside).

**Table 3: Valuation**

Particulars	Revised value	Old estimated value
Value of Pfizer deal (in Appendix)	99	162
Value of Base business/share	412	412
Target price/share	511	574

Source: Company, Systematix shares

**Table 4: Valuation of Biocon’s deal with Pfizer**

Financial Implication	Total	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E
Total Milestone receipts	350.0	20.0	62.0	64.0	41.0	41.0	32.0	25.0	25.0	20.0	20.0
Revenue from Bio Similarars											
Rh insulin											
Row	0.0	0.0	34.8	45.9	61.3	65.1	91.6	96.2	100.5	104.7	108.6
Europe	0.0	0.0	0.0	39.8	113.5	143.8	136.6	129.8	123.3	117.1	111.3
US	0.0	0.0	0.0	0.0	0.0	0.0	0.0	119.8	113.8	108.1	102.7
Glargine											
Row	0.0	0.0	0.0	11.1	25.5	58.7	84.3	135.8	135.8	170.7	170.7
Total Pfizer Sales	0.0	0.0	34.8	96.8	200.3	267.5	312.5	481.6	473.4	500.6	493.3
Biocon Sales (\$ mn)	0.0	0.0	26.1	67.8	130.2	173.9	203.1	313.0	307.7	325.4	320.7
Biocon’s PAT (\$ mn)	0.0	0.0	2.4	9.8	25.7	30.6	37.2	58.7	55.7	59.7	58.6
Free Cash Flow (\$ mn)	0.0	7.6	-46.3	-19.4	6.5	12.2	24.8	60.0	59.7	62.1	61.4
Free Cash Flow (₹ mn)	0.0	342.0	-2084.3	-873.8	291.4	548.1	1114.0	2698.5	2686.5	2795.1	2764.7
Terminal cash flow											35687.7
Disc. Cash Flow (₹ mn)	0.0	379.5	-2084.3	-787.4	236.6	401.0	734.4	1602.9	1437.9	1348.0	16710.3
PV of free cash flow from Pfizer deal	19978.9										
<b>PV per share</b>	<b>99.1</b>										

Source: Company, Systematix shares

## PROFIT & LOSS STATEMENT

Y/E March (₹ Mn)	FY09	FY10	FY11E	FY12E
Net Sales	16086.7	23678.2	26895.8	30716.2
% Growth	52.7	47.2	13.6	14.2
EBIDTA	3233.6	4714.9	5594.3	6665.4
% Growth	8.3	-15.7	18.7	19.1
Other Income	645.5	370.0	430.3	460.7
Interest	176.6	169.0	217.8	172.0
Depreciation	1102.5	1401.0	1488.0	1685.6
PBT	2600.0	3514.9	4318.8	5268.6
% Growth	12.6	-18.6	22.9	22.0
Tax	118.4	486.7	820.6	1053.7
PAT	2403.1	2932.2	3603.0	4324.9
% Growth	-79.9	214.9	22.9	20.0
Extra-ordinary	-1471.9	0.0	0.0	0.0
Reported PAT	931.2	2932.2	3603.0	4324.9
% Growth	-79.9	214.9	22.9	20.0
Dividend (%)	60.0	60.0	60.0	75.0
EPS (₹)	4.7	14.7	18.0	21.6
BVPS (₹)	75.5	87.8	98.7	117.1

Source: Company, Systematix Institutional Research

## BALANCE SHEET

Y/E March (₹ Mn)	FY09	FY10	FY11E	FY12E
Eqty Cap	1000.0	1000.0	1000.0	1000.0
Reserves	14107.6	16578.6	18743.9	22430.1
Networth	15107.6	17578.6	19743.9	23430.1
Secured loans	3957.3	3315.0	2151.7	2457.3
Unsecured loans	1281.8	1821.1	1810.0	850.0
Total loans	5239.2	5136.1	3961.7	3307.3
Deferred Tax Liab	466.2	508.0	466.0	467.0
Total Liability	21060.7	23560.6	24614.2	27757.1
Net Block	10484.3	11653.1	12250.5	12273.0
Investments	3676.2	4305.8	4305.8	4305.8
Inventory	3191.8	3716.4	4377.0	4941.9
Debtors	3666.8	4461.3	5158.1	5890.8
Cash balance	118.1	1399.0	1444.2	1477.3
Other CA	947.2	1343.5	1479.3	1689.4
Current Liabilities	3569.7	4909.0	6263.4	7153.1
Provisions	805.8	890.9	918.0	1121.0
NCA	3548.4	5120.3	5277.3	5725.3
Misc Exp	0.0	0.0	0.0	0.0
Total Assets	21059.8	23560.6	24614.2	27757.1

Source: Company, Systematix Institutional Research

## RATIOS

Y/E March	FY09	FY10	FY11E	FY12E
OPM %	20.1	19.9	20.8	21.7
NPM %	5.8	12.4	13.4	14.1
ROE %	15.9	16.7	18.2	18.5
ROCE %	13.2	15.6	18.4	19.6
Int. Cover (x)	22.0	30.1	27.7	41.4
D/E (x)	0.3	0.3	0.2	0.1
Asset Turnover (x)	0.7	0.9	1.1	1.1
Debtors Days	83.2	68.8	70.0	70.0
Inventory Days	90.6	71.5	75.0	75.0
Valuation ratios				
P/CF per share (x)	10.2	21.7	25.5	30.1
EV/Cash Profit (x)	2174.5	4552.0	5264.2	6159.1
EV/EBIDTA (x)	24.5	16.5	13.7	11.4
EV/Sales (x)	4.9	3.3	2.8	2.5
Mkt Cap/Sales(x)	4.6	3.1	2.8	2.4
CEPS (₹)	10.2	21.7	25.5	30.1
P/ BV (x)	4.9	4.2	3.7	3.2

Source: Company, Systematix Institutional Research

## CASH FLOW

Y/E March (₹ Mn.)	FY09	FY10	FY11E	FY12E
PAT	931.2	2932.2	3603.0	4324.9
Depreciation	1102.5	1401.0	1488.0	1685.6
Change in WC	-1185.4	-291.0	-111.7	-415.1
Operating CF	848.4	4042.2	4979.4	5595.4
Capex	-2888.1	-1451.7	-2480.3	-4158.0
Misc Exp	-1098.4	-656.4	0.0	0.0
Investing CF	-3986.5	-2108.1	-2480.3	-4158.0
Equity	0.0	0.0	0.0	0.0
Dividends	-600.0	-600.0	-600.0	-750.0
Debt	2688.6	-103.1	-1174.4	-654.4
Investments	1071.4	-629.6	0.0	0.0
Financing CF	3160.0	-1332.6	-1774.4	-1404.4
Net Change	21.9	601.5	724.7	33.0
Opening Cash	96.2	118.0	719.5	1444.2
Closing Cash	118.0	719.5	1444.2	1477.3

Source: Company, Systematix Institutional Research

For any queries contact us at: Institutional Team

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### Stock Ratings

<b>BUY (B)</b>	The stock's total return is expected to exceed 20% over the next 12 months.
<b>ACCUMULATE (A)</b>	The stock's total return is expected to be within 10-20% over the next 12 months.
<b>HOLD (H)</b>	The stock's total return is expected to be within 0-10% over the next 12 months.
<b>SELL (S)</b>	The stock's is expected to give negative returns over the next 12 months.
<b>NOT RATED (NR)</b>	The analyst has no recommendation on the stock under review.

### Industry Views

<b>ATTRACTIVE (AT)</b>	Fundamentals /Valuations of the sector is expected to be attractive over the next 12-18 months.
<b>NEUTRAL (NL)</b>	Fundamentals /Valuations of the sector are expected to neither improve nor deteriorate over the next 12-18 months.
<b>CAUTIOUS (CS)</b>	Fundamentals /Valuations of the sector is expected to deteriorate over the next 12-18 months.

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