



(Investment Idea)

BIOCON LIMITED

Biocon, India's premier biotech company, has put up excellent performance for Q4 FY 2007. Consolidated sales (incl. contract research fees) grew @ 30.1% to Rs. 278.24 crore led by 71.8% increase in contract research fees of Rs. 47 crore (Rs. 27.3 crore). Biopharmaceuticals and Enzymes segment also registered strong 24% growth in sales of Rs. 231.7 crore (Rs. 187 crore). OPM% enhanced to 30.7% (28.2%) due to increased contribution of high margin Research business. Despite strong sales growth and improved profitability margins, PBT (before extra ordinary items) was up by 22.2% due to substantially higher depreciation of Rs. 19.53 crore (Rs. 7.69 crore) following commencement of Biocon's Biotech Park. After accounting for Minority interest (share of loss) of Rs. 3.28 crore (Rs. 67 lakh), PAT (after minority interest) at Rs. 60.7 crore (Rs. 47.8 crore) registered 26.9% increase

For year ending FY 2007, Consolidated Sales were up by 25.1% to Rs. 985.73 crore boosted by 62.1% spurt in contract research fees of Rs. 163 crore (Rs. 100.6 crore). Company was successful in holding OPM% at ~ 28.8% (29%) by focusing on operational efficiencies, entering into branded formulations and aggressively defending its market position. Severe price competition in statins, which had affected company's performance during earlier part of FY 2007, also eased in H2 FY 2007. After accounting for interest of Rs. 9.76 crore (Rs.1.75 crore) and more than doubled depreciation of Rs. 66.55 crore (Rs. 29.65 crore), PBT inched up by 4.2% to Rs. 211 crore (Rs. 202 .5 crore). Nevertheless, company benefited from tax concessions on SEZs (average tax rate almost halved to 8% from 14.8%) leading to 15.1% rise in PAT (after minority interest) of Rs. 200.26 crore (Rs. 173.95 crore).

Future Outlook

© Company's 100% subsidiary – Syngene has entered into R&D deal with BMS, which involves setting up of dedicated R&D facility with 400 scientists for its discovery and early drug development needs involving capital outlay of Rs. 250 crore over next 2 years. New dedicated facility for BMS, which will be ready by Q3 FY 2008, is expected to give revenues worth US \$ 25 million by 2010.

© Other catalysts in the offing are :

- i) Having already signed a licensing deal in USA for Insulin, Biocon is in the process of filing for registration in EU
- ii) Likely out-licensing deal for oral insulin, which is set to enter Phase II Clinical trials in later part of 2007
- iii) Scale-up of insulin & "Insugen" registrations in Asian & Middle East markets
- iv) "Biomab" (head & neck cancer) sales build-up and licensing deals for the same
- v) Increased supply of APIs for statins (cardiovascular), prices of which have stabilized now. Company doesn't expect prices to come down as severely as in FY 2007.

© Biocon is looking at out-licensing ~ 6 products in next 10-12 months.

Thus, Biocon is set to grow topline @ CAGR of ~25% and bottomline @ CAGR of ~30% with increasing contribution from high value added products over next few years.

At CMP of Rs. 509/-, share (Rs. 5/- paid up) is trading at 25.4 times FY 2007 actual Consolidated EPS of Rs. 20/- and 19.3 times FY 2008 Expected Consolidated EPS of Rs. 26.31. In view of excellent long term business prospects, we recommend to "BUY" the share at CMP.

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