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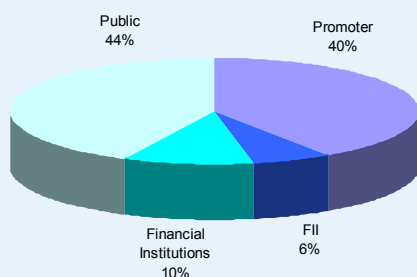
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Price: **Rs.123**
12M Target Price: **Rs.167**
% Upside / (Downside) **35%**

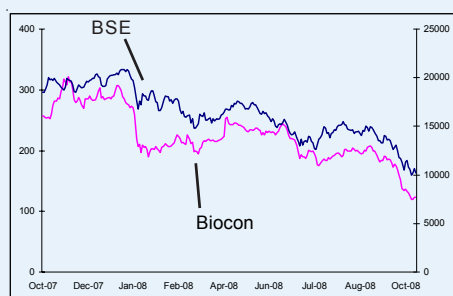
Stock details

BSE Code	532523
NSE Code	BIOCON
Reuters Code	BION.BO
Bloomberg Code	BIOS.IN
Market Cap (Rs bn)	24.7
Free Float (%)	59.6
52-wk Hi/Lo (Rs)	332/118
Avg Daily Vol (BSE)	58014
Avg Daily Vol (NSE)	120078
Shares o/s (mn) FV Rs 5	200.0

Source: Reliance Money Research

Shareholding pattern (30th June 2008)


Source: Reliance Money Research

Stock Performance (Rel to sensx)


Source: Capitaline

BIOCON LTD.
BUY
Q2FY09 Results: Below expectations

Biocon reported 58% growth in its consolidated revenues to Rs.4422.9mn in Q2FY09, coupled with OPM of 16.6% (a sharp fall from 28.8%) and resulted in a flat PBT at Rs 557.1mn. The stronger growth in revenues and sharp fall in OPM was largely due to the consolidation of Axicorp, which is a thin margin (i.e about 4%) business and contributed about 36% of total revenue during the quarter. Subsequently, the forex loss of Rs 254mn has dragged down the net profit by 54% to Rs 250mn. However, Quarterly results are not comparable because Axicorp revenues were not present in the corresponding period last year.

Consolidation Axicorp impacted operating performance

The revenue performance during the quarter was well in line with the expectations (as the company has delivered 17.4% growth in revenues excluding the sold out Enzymes business and recently acquired Axicorp Business) but Biocon has dissatisfied in terms of operating margin and net profit. In fact the consolidation of thin margin trading business of Axicorp (which was impacted by higher petroleum cost) and significantly lower contribution from high margin Licensing income (i.e Rs 30mn in H1FY09, against Rs 322mn in H1FY08) has impacted the margin.

Revise earnings

Biocon's H1FY09 performance was little below expectations, with revenue growth of 28% (against our full year growth expectations of 37%) and OPM at 19.8% (against our full year estimate of 24%). The deviation in revenues were effected by lower than expected growth in the Contract research service and delay in the supply of Tacrolimus API to US. In fact, USFDA has awarded another 7 years of orphan drug exclusivity for Tacrolimus in US. Thus, we have reduced our revenue growth estimate to 30% CAGR (from 33% earlier). On the margin front the management expects improved performance in H2FY09 on the back of stronger licensing income and incremental revenue flowing from Syngene's pact with BMS Q3FY09 onwards. But, looking at the lower than expected performance, we reduce our OPM expectations by 110bps for both FY09E and FY10E. As per our revised estimate, the EPS for FY09E and FY10E stands at Rs 11.8 (down by 9%) and Rs 13.9 (down by 10%), respectively.

Maintain BUY with revised target price Rs. 167

With the lower than expected performance in H1FY09 and sharp correction in the valuations across the sector, we change our valuations model from DCF based to PE multiple and value Biocon at Rs 167 (i.e 12x its FY10 EPS) from earlier DCF based target of Rs 509 per share (that was prior to the 1:1 bonus issue)

Though we have revised down our target price to Rs 167 mainly to capture overall market valuations, we maintain our positive stance on the future earnings backed by strong pipeline of biosimilars and progress in its discovery pipeline. Hence, we maintain our buy recommendation on Biocon with the revised target price of Rs 167.

Financials Summary
Rs. Mn

Year to Mar	FY07	FY08	FY09E	FY10E
Total Revenue	9857.5	10537.9	14414.2	17796.7
Growth %	24.9	6.9	36.8	23.5
EBITDA	2834.3	2986.0	3299.7	3928.9
EBITDA margin %	28.8	28.3	22.9	22.1
Net Profit	2002.8	2245.4	2361.0	2781.7
EPS (Rs)	60.0	100.0	50.0	50.0
CEPS (Rs)	26.7	55.8	16.9	19.7
EV/EBITDA	5.0	4.9	8.1	6.4
EV/Sales	1.4	1.4	1.9	1.4
ROE %	18.7	15.1	14.2	14.8
ROCE %	17.0	13.6	13.1	13.8
P/E (x)	6.1	2.7	10.4	8.8
P/CEPS (x)	4.6	2.2	7.3	6.2

Source: Company / Reliance Money Research

Contd...

H1FY09 Performance

(Rs. Mn)

	Q2FY09	Q2FY08	Change(%)	H1FY09 (Incl AxiCorp)	H1FY08	Change (%)	H1FY09 (without AxiCorp)
Total Revenue	4,422.9	2,789.9	58.5	7062.2	5498.0	28.4	5666.0
Material Cost	2,378.0	1,155.1	105.9	3543.4	2645.0	48.5	2780.0
Power Cost	195.5	203.0	(3.7)	-	-	-	-
Staff Cost	467.6	296.3	57.8	807.1	594.0	25.3	639.0
R&D Expenses				-	211.0	23.2	260.0
Forex Gain/Loss				-	7.0	1,271.4	96.0
Other Expenditure	646.5	331.0	95.3	926.2	470.0	34.7	527.0
Total Expenditure	3,687.6	1,985.4	85.7	5660.7	3927.0	44.1	4302.0
Operating Profits	735.3	804.5	(8.6)	1401.5	1571.0	(10.8)	1364.0
OPM (%)	16.6	28.8		19.8	28.6		24.1
Other Income	154.4	19.2	704.2	280.4	29.0	865.5	267.0
Interest	42.2	26.7	58.1	79.1	54.0	46.3	72.0
Depreciation	290.4	233.6	24.3	542.9	454.0	19.6	518.0
PBT	557.1	563.4	(1.1)	1059.9	1092.0	(2.9)	1041.0
Provision for tax	58.7	37.4	57.0	76.0	52.0	46.2	75.0
Tax Incidence	10.5	6.6		7.2	4.8		7.2
PAT before EO	498.4	526.0	(5.3)	983.9	1040.0	(5.4)	966.0
Exceptional Items	(254.5)	-		(599.6)	-		(599.6)
PAT before Min Int	243.9	526.0	(53.6)	384.3	1040.0	(63.1)	366.4
Minority Interest	6.3	13.6	(53.7)	16.3	28.0	(42.9)	24.0
Adjusted PAT	250.2	539.6	(53.6)	400.6	1068.0	(62.5)	390.4
NPM (%)	5.7	19.3		5.7	19.4		6.9
Equity Capital	1,000.0	1,000.0	-	1000.0	1000.0	-	1000.0
EPS (Rs)	1.3	2.7	(53.6)	2.0	5.3	(62.5)	2.0

Source: company

Net Sales grew by 58.5% Y-o-Y to Rs. 4422mn

PAT fell by 53.6% Y-o-Y to Rs. 250.2 mn

Revenues record a 28.4% rise

Biocon has reported an impressive top line growth of 58.5% to Rs.4422.9mn as against Rs.2789mn largely driven by increased contribution from its Biopharmaceuticals and Contract research segments on a like to like basis excluding the Enzymes business which was present in the corresponding period last year rising by 79.8% and 27.7% respectively. The Q2FY09 numbers also include Axicorp business which was not present in the corresponding period last year.

During H1FY09, Biocon reported a top line recording a 28.4% rise to Rs.7062mn from Rs.5498mn. But, moderate licensing income of Rs.30mn in H1FY09 forms a concern but going ahead the management is confident of generating better revenues from this segment. Axicorp recorded a top line of Rs.1410mn in H1FY09.

OPM slipped by 1.2% to 16.6% for Q2FY09

The company's operating margins for Q2FY09 slipped by about 1.2% to 16.6% from 28.8% largely on account of the consolidation of Axicorp which incurred huge cost on materials reason being higher petroleum prices and increase in the staff cost by 58%. Hence, the company witnessed the resultant slump in the operating profits to Rs.735mn from Rs.805mn falling by about 9% y-o-y.

For H1FY09, the company's operating margins shrunk by about 870bps to 19.9% from 28.6% largely on account of the company realizing foreign exchange loss of Rs.96mn and also the spurt in the raw material cost. Hence, the company witnessed a slump in the operating profits to Rs.1402mn from Rs.1571mn falling by about 11% y-o-y. Also, the management has indicated that, since Axicorp is involved in a trading business, the higher petroleum cost has effected in the rise in the raw material cost which in turn has hit the margins but going ahead Axicorp is expected to perform better.

Biocon has reported an impressive top line growth of 58.5% to Rs.4422.9mn as against Rs.2789mn

The company's operating margins for Q2FY09 slipped by about 1.2% to 16.6% from 28.8%

In Q2FY09, Biocon's net profits before EO fell by 5.3% y-o-y to Rs.498.4mn as compared to Rs.526mn

Net Profit before EO fell by 5.3%

In Q2FY09, Biocon's net profits before EO fell by 5.3% y-o-y to Rs.498.4mn as compared to Rs.526mn owing to higher finance cost which rose due to the spurt in debt and higher tax rate. However, the bottom line recorded a fall of about 53.6% y-o-y to Rs.250.2mn from Rs.539.6mn mainly due to the exceptional provision for mark-to-market loss of Rs.254.5mn which the company incurred on covering its forex exposure at Rs.41.5, while the quarter ended at Rs.47.

During H1FY09, the bottom line witnessed a decline of about 62.5% y-o-y to Rs.400mn from Rs.1068mn in H1FY08 mainly due to the exceptional provision for mark-to-market loss of Rs.599.6mn. However, the net profits before EO fell by 5.4% y-o-y to Rs.984mn as compared to Rs.1040mn in H1FY08.

Segment-Wise Performance

	Q2FY09	Q2FY08	Change (%)	With Axicorp H1FY09	H1FY09	Without Axicorp H1FY08	Change (%)
Segment Revenue							
Biopharmaceuticals	3891.2	2163.6	79.8	6103.0	4707.0	4179.0	12.6
Contract research	557.9	436.8	27.7	959.0	959.0	862.0	11.3
Enzymes	-	224.5	-	-	-	457.0	-
Total Revenue	4422.9	2789.9	58.5	7062.2	5666.0	5498.0	3.1

Source: company

In H1FY09, Biopharmaceutical sales (excluding licensing income and Axicorp) registered 21% growth backed by 36% growth in the retail healthcare business.

Biopharmaceuticals records 21% growth

In H1FY09, Biopharmaceutical sales (excluding licensing income and Axicorp) registered 21% growth backed by 36% growth in the retail healthcare business. The management is confident of generating stabilized income from Statins with the prices stabilizing at current levels. However, the key drivers for the Biopharma business will be the growth in insulin, immunosuppressant as well as the growth in the domestic formulation business.

Biocon has registered its insulin in 31 countries and remains positive on out licensing Glargine. Also, Tacrolimus API is expected to be marketed by Q3FY09 onwards which would be US\$1.3bn opportunity as well as the nephrology formulations business is believed to supplement growth further.

Clinical Trials on molecules advance

Also, with IN 105 (Oral Insulin) set to enter Phase III Clinical Trial and T1h (Anti-CD6 Monoclonal antibody) nearing the completion phase for patient enrollment

Also, with IN 105 (Oral Insulin) set to enter Phase III Clinical Trial and T1h (Anti-CD6 Monoclonal antibody) nearing the completion phase for patient enrollment, the biopharmaceutical business is expected to add significant revenues for Biocon. The company is expected to launch oral insulin by FY10E in the US and European markets. The market size of oral insulin in the US and European market is expected to be around US \$ 2bn.

Syngene to perform better

During H1FY09, Syngene's topline grew by 9% y-o-y, which was driven by increase in volume of sales.

During H1FY09, Syngene's topline grew by 9% y-o-y, which was driven by increase in volume of sales. Biocon's Contract research business grew by 11.3% in H1FY09 recording revenues of Rs.959mn which was mainly on account of strong quarter for Syngene. The contract research revenues include Syngene contributing about Rs.880mn and the remaining Rs.79mn from Clinigene. However, the management has maintained its guidance of 25% growth on the yearly basis backed by the BMS facility which has started contributing from the current quarter.

Abraxine launch to add to onco-therapeutic portfolio

Biocon's JV in Abu Dhabi, NeoBiocon has launched ABRAXANE® in the UAE for the treatment of breast cancer after failure of combination therapy for metastatic disease or relapse within six months of adjuvant chemotherapy. This would strengthen its onco-therapeutic business from which the company believes to gain about Rs.100mn of revenues in FY09.

We change our valuations model from DCF based to PE multiple and value Biocon at Rs 167

Revise earnings

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Valuation

With the lower than expected performance in H1FY09 and sharp correction in the valuations across the sector, we change our valuations model from DCF based to PE multiple and value Biocon at Rs 167 (i.e 12x its FY10 EPS) from earlier DCF based target of Rs 509 per share (that was prior to the 1:1 bonus issue)

Though we have revised down our target price to Rs 167 mainly to capture overall market valuations, we maintain our positive stance on the future earnings backed by strong pipeline of biosimilars and progress in its discovery pipeline. Hence, we maintain our buy recommendation on Biocon with the revised target price of Rs 167.

Consolidated Financials

Profit & loss statement (Rs mn)

Y/E March	FY07	FY08	FY09E	FY10E
Net Sales	9,857.5	10,537.9	14,414.2	17,796.7
% Growth	24.9	6.9	36.8	23.5
EBIDTA	2,834.3	2,986.0	3,299.7	3,928.9
% Growth	23.3	5.4	10.5	19.1
Other Income	38.9	364.1	312.1	304.0
Interest	97.6	101.8	144.2	150.7
Depreciation	665.5	939.2	1,010.1	1,155.5
PBT	2,110.2	2,309.1	2,457.4	2,926.7
% Growth	4.2	9.4	6.4	19.1
Tax	169.1	128.9	147.4	175.6
PAT	2,002.8	2,245.4	2,361.0	2,781.7
% Growth	15.1	131.6	(49.1)	17.8
Extra-ordinary	-	2,393.7	-	-
Reported PAT	2,002.8	4,639.1	2,361.0	2,781.7
% Growth	15.1	131.6	(49.1)	17.8
Dividend (%)	60.0	100.0	50.0	50.0
EPS (Rs)	20.0	22.5	11.8	13.9
BVPS (Rs)	106.8	148.3	83.0	94.0

Balance sheet (Rs mn)

Y/E March	FY07	FY08	FY09E	FY10E
Eqty Cap	500.0	500.0	1000.0	1000.0
Reserves	10186.3	14341.7	15617.7	17814.4
Networth	10686.3	14841.7	16617.7	18814.4
Secured loans	737.3	1350.4	1403.1	1495.8
Unsecured loans	1130.4	1200.1	1308.0	1410.1
Total loans	1867.7	2550.5	2711.1	2905.9
Deffered Tax Liab	448.3	465.0	426.6	511.6
Total Liability	12994.3	17784.0	19805.4	22281.8
Net Block	8437.0	9036.8	10908.8	10730.5
Investments	790.2	4747.7	4747.7	4747.7
Inventory	1613.2	1789.8	2588.3	3229.5
Debtors	3065.2	2591.3	3356.7	4144.4
Cash balance	87.3	96.2	492.5	2448.2
Other CA	530.3	869.2	1009.0	1245.8
Current Liabilities	2324.3	2300.3	3356.7	3900.6
Provisions	425.1	705.0	716.9	739.6
NCA	2546.7	2341.2	3372.9	6427.7
Total Assets	12994.1	17783.8	19805.4	22281.8

Ratio Analysis

Y/E March	FY07	FY08	FY09E	FY10E
OPM %	28.8	28.3	22.9	22.1
NPM %	15.1	12.1	5.1	17.8
ROE %	18.7	15.1	14.2	14.8
ROCE %	17.0	13.6	13.1	13.8
Int. Cover (x)	29.4	32.9	25.0	28.1
D/E (x)	0.2	0.2	0.2	0.2
Asset Turnover (x)	0.6	0.5	0.0	0.0
Debtors Days	113.5	89.8	85.0	85.0
Inventory Days	83.8	86.5	85.0	85.0
Valuation ratios				
P/CF per share (x)	26.7	55.8	16.9	19.7
EV/Cash Profit (x)	3054.5	6691.4	3675.1	4010.5
EV/EBIDTA (x)	5.0	4.9	8.1	6.4
EV/Sales (x)	1.4	1.4	1.9	1.4
Mkt Cap/Sales(x)	1.2	1.2	1.7	1.4
CEPS (Rs)	26.7	55.8	16.9	19.7
P/ BV (x)	1.2	0.8	1.5	1.3

Source: Reliance Money Research

Cash Flow Statement (Rs mn)

Y/E March	FY07	FY08	FY09E	FY10E
PAT	2,002.8	4,639.1	2,361.0	2,781.7
Depreciation	665.5	939.2	1,010.1	1,155.5
Change in WC	(1,491.0)	214.4	(635.4)	(1,099.1)
Operating CF	1,177.3	5,792.7	2,735.7	2,838.2
Capex	(1,526.7)	(2,072.7)	(2,000.0)	(577.2)
Misc Exp	(312.9)	63.5	-	-
Investing CF	(1,839.6)	(2,009.2)	(2,000.0)	(577.2)
Equity	-	-	-	-
Dividends	(300.0)	(500.0)	(500.0)	(500.0)
Debt	817.2	682.8	160.6	194.8
Investments	212.1	(3,957.5)	-	-
Financing CF	729.4	(3,774.7)	(339.4)	(305.2)
Net Change	67.1	8.8	396.3	1,955.7
Opening Cash	20.2	87.3	96.2	492.5
Closing Cash	87.3	96.2	492.5	2,448.2

Reliance Money Stock Rating

Rating	Stock Performance
BUY	Appreciate more than 15% in next 12 months
HOLD	Appreciate upto 15% in next 12 months
REDUCE	Depreciate upto 10% in next 12 months
SELL	Depreciate More than 10% in next 12 months

Reliance Money :

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Equities: Trading through Reliance Securities Limited | NSE SEBI Registration Number Capital Market :- INB 231234833 |
BSE SEBI Registration Number Capital Market :- INB 011234839 | NSE SEBI Registration Number Derivatives :- INF 231234833
Commodities : Trading through Reliance Commodities Limited | MCX member code: 29030 | NCDEX member code: NCDEX-CO-05-00647|
NMCE member code: CL0120 Mutual Funds : Reliance Securities Limited | AMFI ARN No.29889

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