

Biocon Ltd

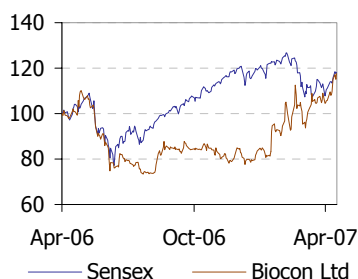
Relative to sector: **Neutral**

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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 100mn
Market cap	: Rs.51bn
52 week high/low	: Rs.532 / Rs.306
Avg. daily vol. (6mth)	: 461,300shares
Bloomberg code	: BIOS IN
Reuters code	: BION.BO

Shareholding (%) Mar-07 QoQ chg

Promoters	: 60.9	0.0
FII's	: 7.2	(3.5)
MFs / UTI	: 5.8	4.1
Banks / FIs	: 1.1	(0.1)
Others	: 25.0	(0.4)

STEADY MARGINS, RISING INVESTMENTS

Biocon's Q4FY07 numbers were ahead of expectations, with net sales at Rs2.8bn (up 30% YoY) and PAT at Rs607mn (up 26.8% YoY). Revenues from contract research and licensing rose 63% YoY in FY07 to Rs1.6bn. EBIDTA margin was up by ~260 bps YoY to 30.8%, with lower raw material costs offsetting higher R&D expenses and pricing pressures in statins. Revenues from biopharmaceuticals were up 30% YoY to Rs2bn, as it ramped up simvastatin API sales in US and Insugen sales in non-regulated markets.

Key highlights

- Volumes in biopharmaceuticals have risen after the expiry of exclusivities on pravastatin and simvastatin in the US market in December 2006. The company has maintained its market share in the US for API supplies of both statins at ~21-22%, with five major buyers (including Dr.Reddy's) currently, and one more prospective buyer in the pipeline.
- EBIDTA margin has improved post commissioning of its new facilities at Biocon Park, as it does not need to outsource key intermediates. The high-margin contract research business reported excellent growth, with Syngene reporting FY07 revenues up 34% YoY to Rs 1.3bn. It also earned ~Rs230mn from technology licensing fees – largely from its recombinant human insulin (Insugen) – which is expected to grow further.
- Insugen is now registered in six countries, and has registrations pending in over 25 other markets. Biocon has filed for approvals in EMEA and China (the latter under an agreement with Bayer HealthCare), and hopes to receive marketing authorizations from both regions during H2CY08.

At CMP (Rs 509) the stock trades at 21.2x FY08E and 18.6x FY09E EPS of Rs24 and Rs27.4, respectively. We reiterate our sector **Neutral** rating on the stock.

Financial summary

Y/E Mar	Sales (Rs.mn)	PAT (Rs. mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBIDTA (x)	DPS (Rs.)
2006	7,881	1,740	-	17.4	(12)	25.6	21.3	22.6	19.6	2.5
2007	9,857	2,003	19.1	20.0	15	24.2	21.0	20.1	17.4	2.5
2008E	11,726	2,398	23.5	24.0	20	21.2	21.5	20.2	13.8	2.5
2009E	13,837	2,740	27.7	27.4	14	18.6	20.7	19.5	11.4	0.0

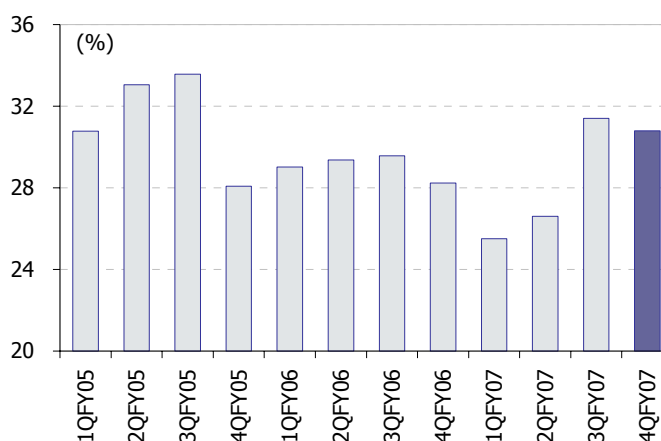
Source: *Consensus broker estimates, Company, ENAM estimates

Results update

(Rs. mn)	Quarter ended					12 months ended		
	Mar-07	Mar-06	% Chg	Dec-06	% Chg	Mar-08E	Mar-07	% Chg
Net Sales	2,782	2,143	29.8	2,465	12.9	11,726	9,857	19.0
EBIDTA	857	605	41.6	775	10.6	3,518	2,842	23.8
Other income	12	4	176.7	9	29.3	48	35	34.8
PBIDT	869	609	42.6	784	10.8	3,565	2,877	23.9
Depreciation	195	77	154.0	183	6.8	896	670	33.8
Interest	35	9	267.0	25	39.7	146	98	49.3
PBT	639	523	22.1	577	10.8	2,524	2,110	19.6
Tax	65	51	26.7	40	64.1	205	169	21.4
Minority Interest	(33)	(7)	389.6	(17)	98.8	(80)	(62)	29.4
Adjusted PAT	607	478	26.8	553	9.6	2,398	2,003	19.8
No. of shares (mn)	100	100	-	100	-	100	100	-
EBIDTA margin (%)	30.8	28.2	-	31.4	-	30.0	28.8	-
PBIDT margin (%)	31.2	28.4	-	31.8	-	30.4	29.2	-
EPS - annualized (Rs.)	24.3	19.1	26.8	22.1	9.6	24.0	20.0	19.8

Source: Company, ENAM Research

EBIDTA margin



Source: Company, ENAM Research

Sales mix

(Rs.mn)	Quarter ended				
	Mar-07	Mar-06	% Chg	Dec-06	% Chg
Biopharmaceuticals	2,040	1,570	29.9	1,800	13.3
Enzymes	273	250	9.2	197	38.6
Contract research and licensing fees	469	323	45.2	468	0.2
Total	2,782	2,143	29.8	2,465	12.9

Source: Company, ENAM Research

Other highlights

- Biocon's custom research arm Syngene is investing over Rs1bn in a dedicated research facility for Bristol-Myers Squibb; the 150,000 sq. ft. facility, which will house over 400 scientists, is to be set up at Biocon Park. The company's manufacturing facilities at this site were inspected and approved by the US FDA recently.
- Biocon is ramping up its domestic cardiology/ diabetology and oncology sales forces to push Insugen and BIOMAb-EGFR, respectively. Its partner Bentley recently received approval from the DCGI to commence Phase II studies on an intranasal insulin delivery system in the country.
- The humanized monoclonal antibody BIOMAb-EGFR has been currently approved for the treatment of head and neck cancers, and is priced at a 30% discount to the competition. Since its launch in September 2006, it has been prescribed by over 50% of oncologists in the country. The company plans to extend clinical trials for BIOMAb-EGFR to other indications – NSCLC, breast, colorectal, pancreatic and glioblastomas - over the next two years. Biocon estimates a potential market of about Rs1bn for the product from all these indications (and across various geographies), five years from now.
- Biocon launched its nephrology division recently with a portfolio of renal care products. It has already filed DMFs for two immunosuppressants – mycophenolate mofetil and tacrolimus - and inspections of its facilities have been triggered, based on ANDAs filed by its collaborators.
- The rising expenditure on clinical trials will result in R&D expenses going up to 8-10% of sales (from about 6% currently). Capex is also estimated to rise significantly to Rs2.5bn for FY08, given the large outlay required for the dedicated BMS-Syngene facility.

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