

ADD

Biocon

Target Price (INR)

384

Growing emphasis on domestic formulations

Rating

↑

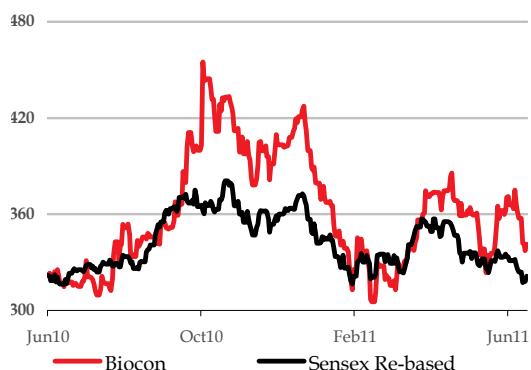
Last Price (INR)

341.4

Bloomberg code	BIOS IN
Reuters code	BION.BO
Avg. Vol. (3m)	449,442
Avg. Val.(3m)(INRmn)	162
52-wk H/L (INR)	473 / 301
Sensex	17,727
MCAP (INRbn/USDbn)	68.27 / 1.52

Shareholding (%)	12/10	03/11
Promoters	60.9	60.9
MFs, FIs, Banks	11.5	11.1
FIIIs	7.1	5.9
Public	12.9	13.2
Others	7.6	8.9

Stock Chart (Relative to Sensex)



Stock Perfm. (%)	1m	6m	1yr
Absolute	5.5	-15.3	6.1
Rel. to Sensex	6.9	-4.0	6.2

Financials (INRmn)	03/11	03/12f	03/13f
Sales	27,707	20,704	24,994
y-o-y (%)	17	-25	21
EBITDA (%)	20.4	26.0	26.5
A.PAT	3,675	3,113	4,029
Sh o/s (diluted)	200	200	200
A.EPS ((INR)	18.4	15.6	20.1
y-o-y (%)	25	(15)	29
D/E (x)	-0.2	-0.1	-0.1
P/E (x)	18.6	21.9	16.9
EV/E (x)	11.2	12.4	9.8
RoCE (%)	16	13	15
RoE (%)	19	15	17

Quarterly Trends	03/10	06/10	12/10	03/11
Sales (INRmn)	6,622	6,787	7,281	7,016
PAT (INRmn)	768	892	1,007	1,008

BIOS' FY11 annual report lays emphasis on the company's ambitions in the branded domestic formulations market. The current contribution of under 15% to sales from the segment is targeted to grow to 25%. We continue to believe the core profitability for BIOS remains weak. On the research services side, revenue scale up is not particularly encouraging. While Clinigene slipped into a loss, Syngene also reported a lower margin during the year. BIOS continues to invest in both fixed assets and human resources; with the exception of fidaxomicin supplies, revenue triggers are unclear. We lower our FY12f/FY13f estimates by 5%/6% and introduce FY14f with top-line growth of 19% and PAT of INR4.9bn, up 23% y-o-y. We roll over our target to Jun12 and maintain it at INR384. Launch of generic atorvastatin could provide an upside to our estimates. Since 14 Jun11, BIOS has lost c10% in value—on which we upgrade our rating on the stock to Add.

FY11 annual report focuses on branded domestic formulations

BIOS' FY11 annual report lays emphasis on the company's ambitions in the branded domestic formulations market. Driven by a field strength of c1,100 MRs, BIOS operates this business under six divisions: diabetology, oncology, nephrology, cardiology and the two new divisions in 2010 – comprehensive care (anti-infectives) and immunotherapy. Domestic formulations recorded c36% growth in FY11, according to the company, and, we estimate, contributed under 15% to sales (ex-Axicorp). BIOS targets a contribution of 25% to revenues in the coming years, though timelines have not been spelt out.

Core profitability remains weak; research services slip a bit

In research services, the revenue scale up is not particularly encouraging. Sales from Clinigene slipped c28% in FY11, while growth in Syngene slowed to c21%. On a low revenue base, Clinigene reported a loss of INR37mn; Syngene's earnings dipped from INR308mn to INR283mn in FY11. In research services, the company is shifting from a fee-based model to integrated R&D and partnered co-development on a risk-sharing platform. We continue to believe the core profitability for BIOS remains weak. Adjusted for licensing income, core OPM for the company, we believe, settled at 16.5% in FY11. With Axicorp's exit, margins would improve, but the base margin, in our view, remains shaky.

Upgrade to Add on price correction

We lower our FY12f/FY13f estimates by 5%/6% and introduce FY14f with top-line growth of 19% and PAT of INR4.9bn, up 23% y-o-y. We build in fidaxomicin supplies to Optimer Pharmaceuticals (OPTR US, NR) from FY12f. However, other than fidaxomicin supplies, revenue triggers are unclear. We roll over our target price to Jun12 and maintain it at INR384, which includes an upside of INR21/share from the Pfizer (PFE US, NR) deal. Launch of generic atorvastatin could provide an upside to our estimates. Since 14 Jun11, BIOS has lost c10% in value—on which we upgrade our rating on the stock to Add.

Monica Joshi, +91 022 66842852
monica.joshi@avendus.com

Some key takeaways from the FY11 annual report

- ▶ BIOS commands c11% market share in insulin vials and 13% share in the Glargine vial segment, in volume terms.
- ▶ Revenues from statins grew 13% y-o-y, despite pricing pressure.
- ▶ Registered Basalog in Russia, New Zealand and Mexico; Insugen was registered in Japan and New Zealand during FY11.
- ▶ Till date, 2,500 patients treated with BIOMAb EGFR (monoclonal antibody for head and neck cancer); BIOS' brand is priced 40% lower than competing products.
- ▶ In nephrology, BIOS' brands Erypro, Renodart and Tacrograf, rank No. 5, No.3 and No.2, respectively, in their respective product categories in India.
- ▶ In novel research, oral insulin IN-105 is undergoing Phase-III clinical trials for Type-II diabetes and is in Phase-I studies for Type-I diabetes. Anti-CD6 molecule T1h is undergoing Phase-III clinical trials for psoriasis.

Exhibit 1: Change in estimates (FY12f/FY13f) and introducing FY14f

(INRmn)	FY12f			FY13f			FY14f
	Old	New	Change (%)	Old	New	Change (%)	
Revenues	21,113	20,704	-2	25,505	24,994	-2	29,716
EBITDA	5,684	5,377	-5	7,017	6,624	-6	8,022
PAT	3,290	3,113	-5	4,267	4,029.2	-6	4,949

Source: Avendus Research

Exhibit 2: One-year forward rolling P/E chart and P/E at target price



Source: Bloomberg, Avendus Research

We value BIOS at 17x Jun13 EPS at c10% discount to its 2-year average forward P/E.

Margin expansion in core business is a key risk

- ▶ We factor in a 50-bp improvement each year in EBITDA margin (excluding licensing income from PFE) from FY12f. Slippage on this front provides a key risk to our earnings.
- ▶ Gains from the launch of generic atorvastatin could provide an upside to our estimates.

We value BIOS at 17x
Jun13 EPS.

Financials and valuations

Income statement (INRmn)

Fiscal year ending	03/11	03/12f	03/13f	03/14f
Total operating income	27,707	20,704	24,994	29,716
Total operating expenses	22,055	15,327	18,370	21,694
EBITDA	5,652	5,377	6,624	8,022
Other income	644	475	495	475
Depreciation	1,568	1,705	1,836	2,035
EBIT	4,729	4,147	5,283	6,461
Interest	257	196	165	171
Recurring PBT	4,472	3,950	5,118	6,290
Net extra ordinary items	0	0	0	0
PBT (reported)	4,472	3,950	5,118	6,290
Total taxes	721	850	1,101	1,353
PAT (reported)	3,750	3,100	4,017	4,937
(+) Share in assoc. earnings	0	0	0	0
Less: Minority interest	75	-13	-12	-12
Prior period items	0	0	0	0
Net income (reported)	3,675	3,113	4,029	4,949
Aventus net income	3,675	3,113	4,029	4,949
Shares outstanding (mn)	200	200	200	200
Aventus dil. shares (mn)	200	200	200	200
Aventus EPS (INR)	18.4	15.6	20.1	24.7

Growth ratios (%)

Total operating income	17.0	-25.3	20.7	18.9
EBITDA	18.4	-4.9	23.2	21.1
EBIT	28.4	-12.3	27.4	22.3
Recurring PBT	27.2	-11.7	29.6	22.9
Aventus net income	25.3	-15.3	29.4	22.8
Aventus EPS	25.3	-15.3	29.4	22.8

Operating ratios (%)

EBITDA margin	20.4	26.0	26.5	27.0
EBIT margin	17.1	20.0	21.1	21.7
Net profit margin	13.0	14.7	15.8	16.4
Other income/PBT	14.4	12.0	9.7	7.5
Effective Tax rate	16.1	21.5	21.5	21.5

Balance sheet (INRmn)

Fiscal year ending	03/11	03/12f	03/13f	03/14f
Equity capital	1,000	1,000	1,000	1,000
Preference capital	0	0	0	0
Reserves and surplus	19,328	21,315	24,174	27,953
Net worth	20,328	22,315	25,174	28,953
Minority interest	377	364	352	339
Total debt	3,342	2,774	2,376	2,098
Deferred tax liability	497	697	955	1,272
Total liabilities	24,544	26,150	28,857	32,663
Gross block	20,630	22,380	24,130	26,780
less: Acc. depreciation	6,519	8,224	10,060	12,095
Net block	14,111	14,156	14,070	14,685
CWIP	1,796	1,700	1,650	350
Goodwill	0	0	0	0
Investments	4,605	4,105	3,605	3,104
Cash	4,414	1,516	3,726	7,440
Inventories	4,137	3,391	4,169	4,859
Debtors	5,124	5,105	6,163	7,327
Loans and advances	1,355	1,702	2,054	2,442
less: Current liabilities	9,855	3,504	4,308	5,021
less: Provisions	1,141	2,020	2,271	2,523
Net working capital	4,033	6,190	9,533	14,524
Total assets	24,544	26,150	28,857	32,663

Cash flow statement (INRmn)

Fiscal year ending	03/11	03/12f	03/13f	03/14f
Net profit	3,675	3,113	4,029	4,949
Depreciation	1,568	1,705	1,836	2,035
Deferred tax	0	0	0	0
Working capital changes	4,102	-5,054	-1,133	-1,277
Less: Other income	644	475	495	475
Cash flow from operations	8,701	-711	4,237	5,232
Capital expenditure	-3,299	-1,654	-1,700	-1,350
Strategic investments	0	0	0	0
Marketable investments	-299	500	500	501
Change in other loans & adv.	0	0	0	0
Goodwill paid	0	0	0	0
Other income	644	475	495	475
Cash flow from investing	-2,953	-680	-705	-374
Equity raised	0	0	0	0
Change in borrowings	-1,794	-568	-398	-279
Dividends paid (incl. tax)	-1,053	-1,170	-1,170	-1,170
Others	114	231	246	305
Cash flow from financing	-2,733	-1,507	-1,322	-1,144
Net change in cash	3,015	-2,898	2,210	3,714

Key Ratios

Fiscal year ending	03/11	03/12f	03/13f	03/14f
Valuation ratios (x)				
P/E (on Aventus EPS)	18.6	21.9	16.9	13.8
P/E (on basic, reported EPS)	18.6	21.9	16.9	13.8
P/CEPS	13.0	14.2	11.6	9.8
P/BV	3.4	3.1	2.7	2.4
Dividend yield (%)	1.3	1.5	1.5	1.5
Market cap. / Sales	2.5	3.3	2.7	2.3
EV/Sales	2.3	3.2	2.6	2.1
EV/EBITDA	11.2	12.4	9.8	7.7
Net Cash / Market cap.	13.2	8.2	10.7	15.4
Per share ratios (INR)				
Aventus EPS	18.4	15.6	20.1	24.7
EPS (Basic, reported)	18.4	15.6	20.1	24.7
Cash EPS	26.2	24.1	29.3	34.9
Book Value	101.6	111.6	125.9	144.8
Dividend per share	4.5	5.0	5.0	5.0
Total assets / equity (x)	1.3	1.2	1.2	1.1
Return ratios (%)				
ROCE	16.2	12.9	15.1	16.5
ROIC	25.2	20.1	21.5	24.4
ROE	19.4	14.6	17.0	18.3
ROA	15.3	12.3	14.6	16.1
OCF/Sales	31.4	-3.4	17.0	17.6
FCF/Sales	19.5	-11.4	10.2	13.1
Turnover ratios (x)				
Asset turnover (x)	1.2	0.8	0.9	1.0
Gross asset turnover	1.3	0.9	1.0	1.1
Inventory / Sales (days)	51.7	66.4	55.2	55.4
Receivables (days)	63.1	90.2	82.3	82.8
Payables (days)	151.2	221.1	105.7	106.4
Working capital cycle (days)	22.0	37.8	76.5	79.2
Solvency ratios (x)				
Gross debt to equity	0.2	0.2	0.1	0.1
Net debt to equity	-0.2	-0.1	-0.1	-0.2
Net debt to EBITDA	0.6	0.5	0.4	0.3
Interest Coverage (on EBIT)	18.4	21.1	32.1	37.7

Analyst Certification

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Biocon	No	No	No
Axicorp	No	No	No
Clinigene	No	No	No
Syngene	No	No	No
Optimer Pharmaceuticals	No	No	No
Pfizer Inc	No	No	No

OUR OFFICES

Corporate office

IL&FS Financial Centre,
B Quadrant, 5th Floor,
Bandra-Kurla Complex
Bandra (E), Mumbai 400051
T : +91 22 66480050
F : +91 22 66480040

Institutional Broking

IL&FS Financial Centre,
B Quadrant, 6th Floor,
Bandra-Kurla Complex
Bandra (E), Mumbai 400051
T : +91 22 66480950

Bangalore

The Millenia , Tower A,
1&2, 10th Floor, Murphy Road,
Ulsoor, Bangalore-8. India.
T : +91 80 66483600
F : +91 80 66483636