

## Key Result Highlights

- Consolidated net sales of Biocon increased 23% to Rs. 634 crore in Q3FY13 as against Rs. 517 crore during Q3FY12. Growth was mainly driven by the biopharmaceuticals and research businesses, which grew by 22% and 27% respectively, on y-o-y basis. Biopharmaceutical sales (excluding branded formulation) grew 22% y-o-y driven by favourable exchange rate, improved product mix, sustained momentum from small molecules and immunosuppressants and strong sales of insulin in the emerging markets.
- Improved market share of tacrolimus contributed to the immunosuppressants growth. Fidaxomicin sales continued to grow on the back of launch in Europe. Branded formulation posted tepid growth of 19% yoy, in line with the slow down in the Indian pharma market.
- Contract research business delivered a robust 27% growth in revenue to Rs. 140 crore in Q3FY13. Biocon earned licensing income of Rs. 9 crore during the quarter.
- PBDIT margin contracted by 114 basis points to 26.33% due to 32% increase in the material and power costs led by depreciating rupee, higher oil and solvent price and increased power tariff. R&D cost also increased by 30% y-o-y due to progress of various novel molecule & biosimilar programs in the lab.
- A hefty 124% increase in the tax expenditure restricted the net profit growth to 9% YoY to Rs. 93 crore in the quarter ended December 2012. Tax incidence was higher on account ending of tax benefits of many SEZ and EOU units. The bottomline was also adversely affected due to absence of licensing development fee. Licensing development fee was Rs. 31 crore during the last corresponding year ago quarter.

## Outlook & Recommendation

Despite volatility in the licensing income, the core business of Biocon will continue to post healthy growth. Biocon has started supplying atorvastatin API in small quantity, which will pick up pace as more partners get approvals. Commercialization of insulin in EU, bio-similars and MBE opportunities will materialize by 2015. Riding on these, Biocon aims to be USD 1 billion company by FY18. It has recently received marketing authorization for Itolizumab from Indian Drug regulator for Psoriasis and it will be launched in H2CY13 under the brand Alzumab. Itolizumab is expected to become Rs 100 crore within the 4 years of launch with ~30% margin. However, margin pressure is likely to continue due to elevated R&D costs and higher cost of imported intermediates and solvent due to rupee depreciation.

At the current market price of Rs.283.15, the stock is trading at a P/E of 15.47x FY14E. Considering improved performance in core business and Itolizumab launch, **we recommend the investors to hold the stock for a target price of Rs 320.**

### Recommendation

Rating	Hold
CMP	283.15
Target Price	320.00
Upside	13%

### Market Data

Sector	Pharmaceuticals
Face Value (Rs.)	5.00
Share Outstanding (Cr)	20.00
Market Cap (Rs. Cr)	5663.00
P/E on TTM Earnings (x)	15.82
Book Value (Rs./share)	113.58
Dividend (%)	100
Average 6 months volume	81302
Beta -Sensex	0.7898
52 Week H/L	321.50 / 208.10

### Shareholding Pattern

Promoters	60.96%
Foreign	6.07%
Institutions	10.47%
Non Promoter Corp	4.32%
Public	18.19%

### Price Performance



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## Other Concall Highlights

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- A novel biologic indicated for the treatment of plaque Psoriasis, Alzumab will be marketed by Biocon's immunotherapy division. The company plans to launch the product during second quarter of the current year. The product would be manufactured and formulated as an infusion drug at Biocon's biopharma manufacturing facility at Biocon Park, Bangalore. The company invested nearly Rs 100 crore on developing the product and is confident to recover it.
- The Phase I clinical trial was initiated for BVX 20, Novel Anti CD-20 molecule for Non-Hodgkin's Lymphoma during the quarter. The Part II of the EU Phase III trial for biosimilar rh-Insulin completed, expected launch in 2015. Part 1 of the trial successfully established the efficacy endpoint with comparable safety & efficacy with innovator products. Further, it indicated that it is one of the large market opportunities and expects the approval will be by 2015 and ramp up will happen there after. The Global Phase I trial for Biosimilar Insulin Glargine successfully completed.
- The Company is doing well in the statin market – with the 40% market share in the Simvastatin, with steady market share in Atrovastatin and 5% market share is in Ravastatin US market. Further, in Immunosuppressants it has close to 30% share in the US market.
- The tax rate expected to be 20% for the FY13.
- It expects revenues to grow by 18% CAGR from USD 450 million in FY12, to reach to USD 750 million by FY15 and USD 1 billion by FY18.
- The net cash position as on December 31, 2012 is Rs. 710 crore.



## Latest Results (Consolidated)

<b>Profit &amp; Loss Account</b>						
Rs. In Cr	Q3FY13	Q3FY12	VAR [%]	9MFY13	9MFY12	VAR [%]
<b>Net Sales</b>	<b>634.20</b>	<b>516.90</b>	<b>22.69</b>	<b>1797.50</b>	<b>1460.70</b>	<b>23.06</b>
Other Income	25.30	18.60	36.02	91.50	76.20	20.08
<b>Total Income</b>	<b>659.50</b>	<b>535.50</b>	<b>23.16</b>	<b>1889.00</b>	<b>1536.90</b>	<b>22.91</b>
<b>Expenditure:</b>						
Material & Power Costs	306.80	232.80	31.79	877.10	681.90	28.63
Employee Cost	87.60	73.00	20.00	259.40	210.00	23.52
R&D	43.00	33.00	30.30	121.10	84.00	44.17
Other Expenditure	55.10	54.70	0.73	159.70	137.90	15.81
<b>Total Expenditure</b>	<b>492.50</b>	<b>393.50</b>	<b>25.16</b>	<b>1417.30</b>	<b>1113.80</b>	<b>27.25</b>
<b>EBIDTA</b>	<b>167.00</b>	<b>142.00</b>	<b>17.61</b>	<b>471.70</b>	<b>423.10</b>	<b>11.49</b>
Interest	2.90	2.50	16.00	7.20	9.20	-21.74
Depreciation	46.10	43.40	6.22	133.40	131.30	1.60
Tax	25.30	11.30	123.89	69.40	42.00	65.24
<b>PAT</b>	<b>92.70</b>	<b>84.80</b>	<b>9.32</b>	<b>261.70</b>	<b>240.60</b>	<b>8.77</b>
<b>EPS (Rs)</b>	<b>4.70</b>	<b>4.30</b>	<b>9.30</b>	<b>13.30</b>	<b>12.30</b>	<b>8.13</b>

**Segment Revenue**

Rs. In Cr	Q3FY13	Q3FY12	VAR [%]	9MFY13	9MFY12	VAR [%]
<b>Revenue:</b>						
Biopharmaceuticals	409.00	334.70	22.20	1143.40	974.10	17.38
Branded formulations - India	85.50	72.00	18.75	262.80	194.40	35.19
<b>Total Biopharmaceutical</b>	<b>494.50</b>	<b>406.70</b>	<b>21.59</b>	<b>1406.20</b>	<b>1168.50</b>	<b>20.34</b>
Contract research	139.70	110.20	26.77	391.30	292.20	33.92
<b>Total</b>	<b>634.20</b>	<b>516.90</b>	<b>22.69</b>	<b>1797.50</b>	<b>1460.70</b>	<b>23.06</b>



## Financials (Consolidated)

**Profit & Loss Account**

Rs. In Crore	FY11	FY12	FY13E	FY14E
<b>Net Sales</b>	<b>1806.30</b>	<b>2086.50</b>	<b>2454.99</b>	<b>2929.31</b>
Other Income	51.60	61.80	70.00	81.00
<b>Total Income</b>	<b>1857.90</b>	<b>2148.30</b>	<b>2524.99</b>	<b>3010.31</b>
<b>EXPENDITURE :</b>				
Raw Materials & power cost	808.10	948.60	1141.57	1435.36
Employee Cost	218.80	286.60	338.19	392.30
Other Manufacturing Expenses	139.40	177.30	220.95	263.64
R&D	118.30	156.60	196.40	248.99
<b>Total Expenditure</b>	<b>1284.60</b>	<b>1569.10</b>	<b>1897.11</b>	<b>2340.29</b>
<b>Operating Profit</b>	<b>573.30</b>	<b>579.20</b>	<b>627.88</b>	<b>670.02</b>
Depreciation	151.60	174.40	191.42	201.56
PBIT	421.70	404.80	436.46	468.46
Interest	23.00	12.30	20.00	22.00
Profit Before Tax	398.70	392.50	416.46	446.46
Tax	58.80	54.10	70.80	80.36
Net Profit	339.90	338.40	345.66	366.10
Profit from discontinued (AxiCorp) Operations	27.60	-	-	-
Adjusted Net Profit	367.50	338.40	345.66	366.10
<b>EPS (Rs.)</b>	<b>18.38</b>	<b>16.92</b>	<b>17.28</b>	<b>18.30</b>

**Balance Sheet**

Rs. In Crore	FY11	FY12	FY13E	FY14E
<b>SOURCES OF FUNDS :</b>				
<b>Share Capital</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
Reserves Total	1932.79	2172.40	2350.00	2600.00
<b>Networth</b>	<b>2032.79</b>	<b>2272.40</b>	<b>2450.00</b>	<b>2700.00</b>
Minority Interest	37.73	3.80	4.00	4.00
<b>Total Non Current Liabilities</b>	<b>454.50</b>	<b>653.00</b>	<b>775.00</b>	<b>923.00</b>
<b>Total Current Liabilities</b>	<b>1060.60</b>	<b>1015.80</b>	<b>1110.00</b>	<b>1165.00</b>
<b>Total Liabilities</b>	<b>3585.62</b>	<b>3945.00</b>	<b>4339.00</b>	<b>4792.00</b>
<b>APPLICATION OF FUNDS:</b>				
<b>Non Current Assets</b>				
Fixed assets	1578.30	1660.00	1749.00	1860.00
Non current Investments	60.90	64.20	65.00	65.00
Net Deferred Tax	-	7.80	5.00	5.00
Long-term loans and advances	139.20	189.70	210.00	250.00
Other non-current assets	-	23.60	35.00	42.00
<b>Total Non Current Assets</b>	<b>1778.40</b>	<b>1945.30</b>	<b>2064.00</b>	<b>2222.00</b>
<b>Current Assets</b>				
Current investments	399.50	492.10	580.00	625.00
Inventories	413.70	378.30	450.00	550.00
Sundry Debtors	495.80	491.70	515.00	575.00
Cash and Bank	441.50	523.30	620.00	700.00
Short Term Loans and Advances	40.00	84.70	75.00	75.00
Other current assets	16.70	29.60	35.00	45.00
<b>Total Current Assets</b>	<b>1807.20</b>	<b>1999.70</b>	<b>2275.00</b>	<b>2570.00</b>
<b>Total Assets</b>	<b>3585.60</b>	<b>3945.00</b>	<b>4339.00</b>	<b>4792.00</b>



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