



(Investment Idea)

Biocon Limited

Biocon, India's premier biotechnology company, has reported excellent performance for Q2 FY 2008.

Consolidated sales (incl. contract research) grew @ 12% to Rs. 279 crore (Rs. 249 crore) mainly led by 80.5% spurt in contract research fees to Rs. 74 crore (Rs. 41 crore). Bio-pharmaceuticals sales inched up by 2.3% to Rs. 180 crore (Rs. 183 crore). Enzymes sales declined to Rs. 25 crore (Rs. 32 crore). It should be recalled that company has divested Enzymes business w.e.f. October, 2007. OPM% enhanced to 28.8% (26.5%) due to licensing income of Rs. 15 crore, higher contribution from insulin business and 52% (?) growth in high margin Syngene / Clinege operations. This was despite significant rise in staff cost (largely due to increased R&D strength for Syngene), higher other expenses because of aggressive bad debts write off of Rs. 4 crore of Enzymes business and appreciating rupee. Consequently, PBT grew @ 20.2% to Rs. 56.3 crore (Rs. 46.9 crore) and PAT (after minority interest) by 19% to Rs. 54 crore (Rs. 45.3 crore).

For H1 FY 2008, consolidated sales grew @ 19.4% to Rs. 549.8 crore (Rs. 461 crore). OPM% improved to 28.5% (26%). As a result, PBT rose by 22.1% to Rs. 109.25 crore (Rs. 89.45 crore). Lower tax rate further boosted PAT (after minority interest) by 26.8% to Rs. 106.79 crore (Rs. 84.25 crore).

Future Outlook

» Biocon entered into an exclusive licensing agreement with a global biopharmaceutical company to develop and market bio-similar version of G-CSF (granulocyte-colony stimulating factor) in North America and the European Union. Under the terms of the agreement, Biocon will receive upfront licensing fee and following approval in licensed territories, royalties from sales.

» Company has signed an exclusive agreement with Invitrogen Corporation, provider of essential life science technologies for disease research and drug discovery, to market pharmaceutical grade insulin to global cell culture market, which is a large opportunity for Biocon's Insulin.

» Biocon has received go ahead for its oral insulin molecule, IN105 to conduct Phase I Clinical Trial in Sweden. Company believes that this product can be out-licensed in next 12 months. Having completed Phase I clinical trials for IN 105 in India, Biocon expects the product to progress to Phase II by end of CY 2007.

» Biocon has filed for registering its Insulin formulation in 25 non-regulated markets and has launched it in 6 countries. Approvals for these registrations are likely to come thru in FY 2008.

» Statin business (accounts for ~ 30% of sales) would do better as prices are expected to remain stable for next 2-3 quarters. Company currently supplies to 4 generic customers in USA and has recently signed up an additional player.

» Company's 100% subsidiary – Syngene, which entered into R&D deal with BMS, is setting up 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. Scope of work for BMS incl. medical chemistry, biology, drug metabolism & development. Management has given guidance of clocking revenues of US \$ 25 million from this centre by FY 2010. Company announced its plan to list Syngene in international market over next 12-24 months, by which time it had achieved good balance of FTEs and CRAMS in its portfolio.

Another 100% subsidiary, Clingene (focusing on Clinical Research) has shifted its operations to new 65,000 sq. ft. facility and hence will witness rapid growth in revenues. Both these subsidiaries will be propelling Biocon's R&D growth.

» To focus on core bio-pharmaceuticals business, company has sold its enzymes business (turnover of Rs. 101 crore in FY 2007 and Rs. 22.5 crore in Q1 FY 2008) to Novozymes for US \$ 115 million w.e.f. October 1, 2007. However, production and formulation will continue at Biocon site under lease and service agreement with Novozymes. Proceeds from sale of this business will be utilized for acquisition, which gives market access / help on research front / adds to product portfolio in bio-pharmaceuticals.

» Company has entered into licensing agreement with Abraxis BioScience Inc. – USA for selling “abraxane” (used in treatment of breast cancer) in India, Pakistan, Bangladesh, Sri Lanka, UAE, Saudi Arabia, Kuwait and certain other South Asian & Persian Gulf countries. Commercial distribution is expected only in 2008 following completion of appropriate importation certification.

At CMP of Rs. 505.60, share (Rs. 5/- paid up) is trading at 21 times FY 2008 expected Consolidated EPS of Rs. 24/- and 16 times FY 2009 Expected Consolidated EPS of Rs. 32/-. In view of excellent long term business prospects, we recommend to “BUY” the share at CMP.

Disclosures:

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