

Wednesday, May 02, 2018

RATING **Neutral**

CMP	667
Price Target	600
Previous Target	550
Potential Upside	-10%

Stock Info

52wk Range H/L	674/295
Mkt Capital (Rs Cr)	39597
Free float (%)	39%
Avg. Vol 1M (,000)	3756
No. of Shares (Crore)	60
Promoters Pledged %	0%

Strongest quarter in history

Key Highlights

- ☑ Biocon reported an impressive numbers in 4QFY18 with a growth of 26% YoY in Net Sales. The approval of biosimilars in various countries like US, Europe, Australia, South Korea, Turkey etc. (also includes biosimilar of phase III) and strong performance of Syngene will drive the overall performance in FY19.
- ☑ Insulin Glargine under the partnership with Mylan is expected to launch in the H1FY19.
- ☑ Partner Mylan enters pact with Fujifilm to commercialise Humira biosimilar- world's best selling biologic medication (sales of approx 4.1 USD billion) in Europe.
- ☑ In 4QFY18, there is an increase of 2% in net profit to Rs.130 crore against the net profit of Rs.127 crore in 4QFY17. It was mainly affected by Malaysian Insulin Facility.
- ☑ Going forward, company said filings for key APIs in developed and emerging markets prepare the business for a better performance in future.

4Q FY18 Result:

Net sales grew by 26% YoY to Rs.1170 crore in 4QFY18. The company posted a healthy growth of 14% in Branded Formulation business, 8% in small molecules, 47% in biologics and 45% in Syngene business. During the quarter EBITDA was flat at 24% against the last year. Net profit posted a 2% increase at Rs.130 crore against Rs.127 crore in 4QFY17. Net R&D expenses of the quarter stood at Rs. 51 crore. In ANDA front, few ANDAs submission was being made during the quarter.

View and Valuation

With the strong performance showed in FY18, we expect company to post good set of numbers with a strong pipeline of product launch in various countries. With the significant performance in 4QFY18, we expect company will maintain the momentum in FY20.

We value Biocon at 33 times of FY20 EPS and get a revised target price of Rs600 (Earlier Rs550). We maintain a NEUTRAL rating on Biocon.

Key Risks to our rating and target

- ◆ Malaysian Insulin Facility
- ◆ Launch of Glargine in the Japanese market
- ◆ Increased competition in developed and emerging markets.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	3347	3891	4123	5634	6056
EBITDA	636	851	654	1195	1268
EBIT	387	574	269	773	1268
PAT	550.4	612.1	372.4	643.9	1093.7
EPS (Rs)	9	10	6	11	18
EPS growth (%)	11%	11%	11%	73%	70%
ROE (%)	14%	13%	7%	10%	0.2
ROCE (%)	6%	8%	4%	9%	0.1
BV	4034	4838	86	103	121
P/B (X)	7.2	4.7	6.9	6.4	5.5
P/E (x)	60.0	60.0	95.7	61.3	36.1

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4Q FY 18 Results In line

Stable Performance

Financials	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY %	QoQ%	FY17	FY18	YoY %
Biopharma (CORE BIOPHARMA)	510	547	506	559	667	30.8%	19.4%	2,057	2,140	4.0%
India (BRANDED FORMULATIONS)	131	123	175	156	149	13.7%	-4.5%	529	514	-2.9%
CRAMS	272	291	335	388	409	50.4%	5.5%	1,138	1,166	2.5%
Licensing income	12	8	1	-	-			132	123	-7.0%
Net Sales	931	934	969	1,058	1,170	25.6%	10.5%	3,891	4,123	6.0%
Other Income	43	54	51	34	68	56.3%	99.1%	157	206	31.3%
COGS	43	54	51	34	68	56.3%	99.1%	1,447	1,636	13.1%
Employee Cost	194	213	226	235	257	32.5%	9.2%	747	931	24.6%
Other Expenses	214	200	221	242	240	11.9%	-0.8%	846	902	6.6%
EBITDA	188	192	182	222	233	24.3%	5.1%	851	654	-23.1%
Depreciation	73	99	94	97	95	31.4%	-2.2%	277	385	38.9%
Interest	5	16	14	15	17	238.0%	15.0%	26	62	136.5%
PBT	153	131	126	144	188	22.9%	31.2%	833	589	-29.4%
Tax	10	38	43	36	41	295.1%	12.7%	162	157	-2.9%
PAT	143	94	83	107	148	3.3%	37.4%	612	372	-39.2%

Remarkable quarter in the history of the company

Net sales is increased by 26% YoY and 11% QoQ to Rs.1170 in 4QFY18. Small molecules business reported a revenue growth of 8% for the quarter at Rs.426 crore. Biologies segment also reported a strong growth of 47% at Rs. 241 crore led by insulins and biosimilar monoclonal antibodies (mAbs). Branded Formulation business is grown by 14% YoY at Rs.149 crore including sales of India and UAE. Syngene business also marked a significant growth of 45% YoY at Rs.409 crore driven by Chemical Development segment and good grip in Discovery Services and a strong support from Biologies business.

Biosimilar Approvals

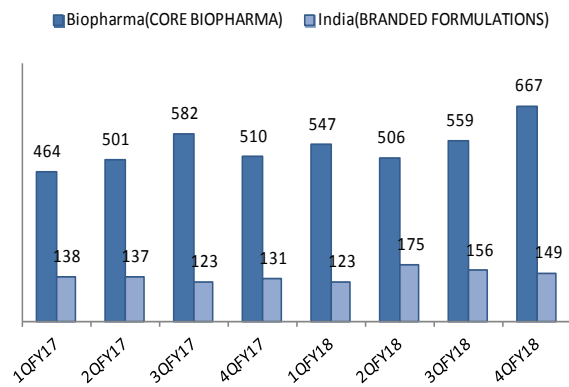
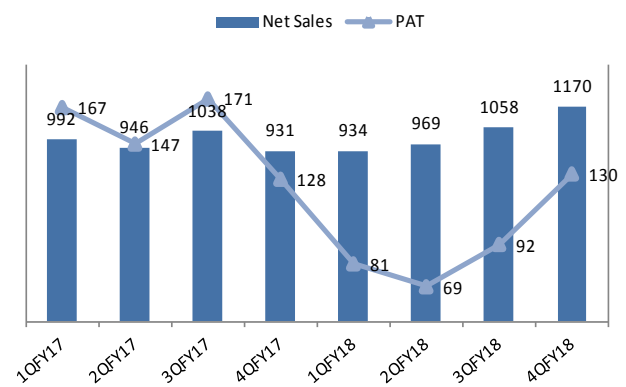
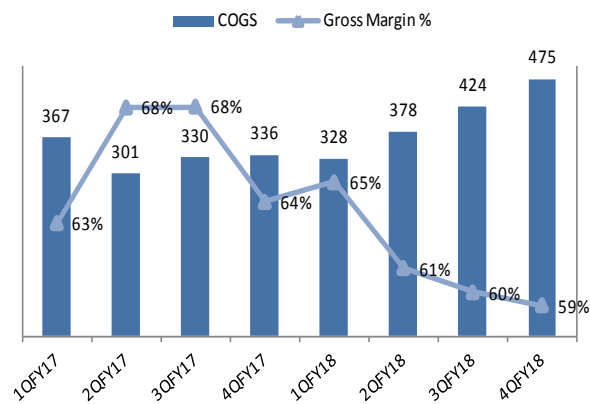
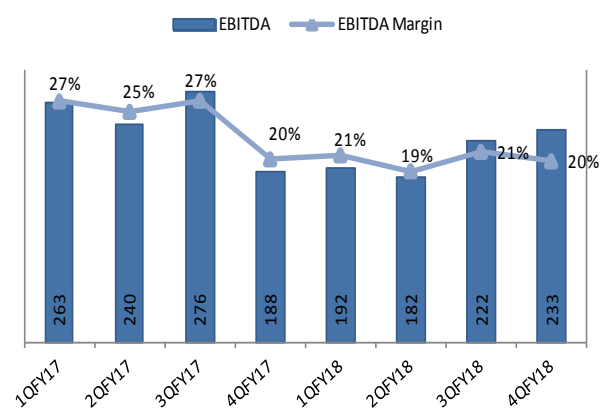
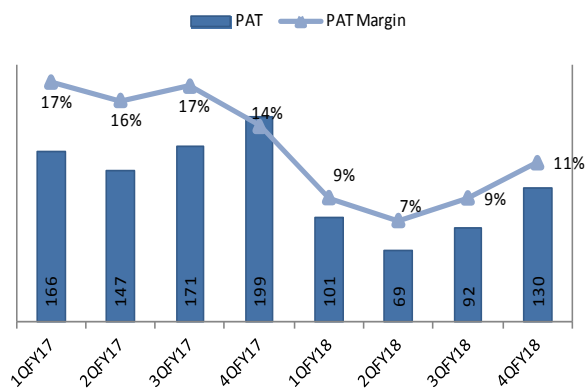
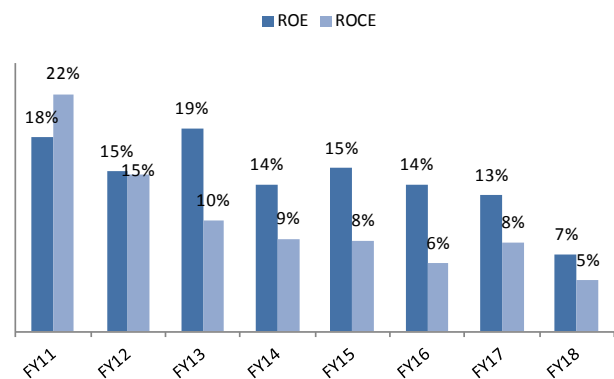
Recent approvals of biosimilars including Phase III one in various countries like Europe, South Korea, Turkey etc. and strong performance by Syngene will drive the margins in FY19. Approval of Trastuzumab in US markets (major approval during the quarter) made Biocon the first pharmaceutical company who got the approval by USFDA.

Overall FY18 ended on a strong note

The Company reported an impressive revenue growth at Rs.4123 in FY18 Vs Rs.3891 in FY17. Licensing Income for the year declined 84% to Rs.23 crore in FY18. Because of planned shut down for plant requalification, inclusion of fixed and operating costs related in Malaysia facility, lower licensing income and pricing pressure in generic business drove the overall profitability of the FY18.

Concall Highlights :

- ✓ The Company has made two ANDA submissions in Q4FY18 and going forward submission rate will increase.
- ✓ Management has a positive outlook for FY19 due to the recent approvals of biosimilars along with the continued strong performance of Syngene.
- ✓ Company has recently invested ~US\$ 25 million in Oral Solid Dosage facility to support its future generic formulations plan.
- ✓ Biocon became the first Indian pharmaceutical company to secured biosimilar approval in US, under the partnership with Mylan, and the progress has been encouraging with Trastuzumab approval by USFDA (launch planned by end of FY19 with a market size of US\$ 6.9 billion)
- ✓ Syngene recently extended its partnership with BMS (its major client) by five years from 2020 to 2025. The company also added additional research capacity and ~120 scientists to the existing pool of dedicated ~450 scientists for BMS.

Exhibit: Biopharma/Branded Formulations

Exhibit: Net Sales/PAT%

Exhibit: COGS/Gross Margin%

Exhibit: EBITDA/EBITDA Margin%

Exhibit: PAT/PAT Margin%

Exhibit: ROCE% / ROE%


Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	100	100	100	100	100	300	300	300
Reserves	2,595	2,927	3,171	3,934	4,738	4,881	5,853	6,939
Networth	2,695	3,027	3,271	4,034	4,838	5,181	6,153	7,239
Debt	249	850	1,031	2,467	2,205	1,920	2,660	2,660
Other Non Cur Liab	457	603	552	371	352	342	352	352
Total Capital Employed	2,943	3,876	4,301	6,501	7,043	7,101	8,813	9,899
Net Fixed Assets (incl CWIP)	1,823	2,731	3,307	3,961	4,438	4,976	4,974	885.0
Non Cur Investments	65	65	-	-	146	-	146	146
Other Non Cur Asst	41	47	137	229	278	319	278	277.5
Goodwill	-	-	-	26	26	26	26	26
Investment in associates & joint ventures	-	-	-	26	42	64	42	42
Derivative assets	-	-	-	61	109	111	109	109
Other financial assets	-	-	-	26	20	25	20	20
Income tax assets	-	-	-	85	90	127	90	90
Non Curr Assets	2,176	3,112	3,813	4,487	5,347	5,841	5,883	1,793.6
Current investments	522	700	230	875	1,065	611	1,295	1,295
Inventories	398	377	453	542	635	723	920	989
Trade receivables	510	600	771	715	883	1,064	1,273	1,369
Cash and bank balances	673	804	938	761	710	501	1,407	1,407
Other bank balance	-	-	-	777	334	822	334	334
Derivative assets	-	-	-	51	106	100	106	106
Other financial assets	-	-	-	184	155	192	155	155
Other current assets	56	76	90	65	159	137	230	247
Other Curr Assets	56	76	90	65	159	137	230	247
Curr Assets	2,240	2,639	2,563	3,971	4,048	4,149	5,720	5,902
Creditors	346	347	429	610	740	1,005	1,072	1,153
Provisions	251	184	173	67	83	96	104	109
Other Curr Liab	313	612	706	316	366	308	530	569
Curr Liabilities	905	1,136	1,294	1,271	1,581	2,011	2,099	2,224
Net Curr Assets	1,335	1,503	1,269	2,700	2,467	2,138	3,622	3,678
Total Assets	4,416	5,751	6,375	8,458	9,394	9,990	11,603	7,696

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	2,485	2,877	3,090	3,347	3,891	4,123	5,634	6,056
Change (%)	19%	16%	7%	8%	16%	6%	37%	7%
EBITDA	475	518	564	636	851	654	1,195	1,268
Change (%)	-8%	9%	9%	13%	34%	-23%	83%	6%
Margin (%)	19%	18%	18%	19%	22%	16%	21%	21%
Depr & Amor.	179.3	203.6	221.0	248.7	277.2	385.1	422.6	-
EBIT	296	315	343	387	574	269	773	1,268
Int. & other fin. Cost	(60)	(167)	(123)	(103)	(102)	(113)	37	37
Other Income	53	56	53	79	157	206	123	228
EBT	408	538	519	569	833	589	859	1,458
Exp Item	202	-	105	161	-	-	-	-
Tax	97.5	106.9	95.7	142.2	161.6	157.0	214.6	364.6
Minority Int & P/L share of Ass.	(4)	(17)	(31)	(37)	(60)	(59)	-	-
Reported PAT	509	414	497	550	612	372	644	1,094
Adjusted PAT	355.2	413.8	411.7	429.9	612.1	372.3	643.9	1,093.7
Change (%)	50%	-19%	20%	11%	11%	-39%	73%	70%
Margin(%)	20%	14%	16%	16%	16%	9%	11%	18%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20
ROE	19%	14%	15%	14%	13%	9%	18%	15%
ROCE	10%	9%	8%	6%	8%	7%	15%	0.2
Asset Turnover	0.6	0.5	0.5	0.4	0.4	0.5	0.5	0.8
Debtor Days	74.9	76.1	91.0	77.9	82.8	82.5	82.5	82.5
Inv Days	58.5	47.8	53.5	59.1	59.6	59.6	59.6	59.6
Payable Days	50.7	44.0	50.7	66.5	69.4	69.5	69.5	69.5
Int Coverage	36.5	185.1	38.5	13.2	22.1	13.2	34.0	34.0
P/E	32.3	61.5	56.6	52.6	37.0	73.5	36.1	36.1
Price / Book Value	6.1	8.4	8.6	7.2	4.7	6.9	6.4	5.5
EV/EBITDA	33.5	48.8	49.7	47.6	28.2	41.2	32.0	31.8
FCF per Share	1.9	(3.8)	(10.5)	(4.7)	0.5	2.3	86.1	86.1
Div Yield	0.91%	0.39%	0.36%	0.35%	0.26%	0.17%	0.15%	1.67%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
PBT	610	538	624	1,227	688	626	859	1,458
(inc)/Dec in Working Capital	(192)	38	(354)	(45)	(227)	(123)	(106)	(56)
Non Cash Op Exp	179	204	221	242	277	442	423	-
Int Paid (+)	8	2	9	10	26	34	37	37
Tax Paid	(94)	(149)	(133)	(247)	(203)	(188)	(215)	(365)
others	(32)	(70)	(147)	(652)	(70)	34	37	37
CF from Op. Activities	471	561	211	526	640	839	998	1,074
(inc)/Dec in FA & CWIP	(359)	(789)	(838)	(811)	(608)	(700)	(700)	4,089
Free Cashflow	113	(228)	(627)	(284)	32	138	297	5,164
(Pur)/Sale of Inv	(29)	(176)	425	(197)	(551)	(230)	-	-
others	12	27	(95)	495	661	-	-	-
CF from Inv. Activities	(376)	(938)	(509)	(954)	(499)	(930)	(700)	4,089
inc/(dec) in NW	120	-	-	-	-	-	-	-
inc/(dec) in Debt	(4)	603	327	1,346	(123)	255	200	-
Int. Paid	8	2	9	10	26	34	37	37
Div Paid (inc tax)	30	30	23	20	16	-	-	-
others	(124)	(177)	(145)	(262)	(59)	(41)	(44)	(37)
CF from Fin. Activities	(9)	426	186	1,087	(178)	413	156	(37)
Inc(Dec) in Cash	87	49	(112)	659	(36)	322	453	5,126
Add: Opening Balance	369	474	557	463	758	710	1,019	1,407
Closing Balance	474	557	463	1,127	710	1,032	1,472	6,533



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