

## BIOCON NEUTRAL

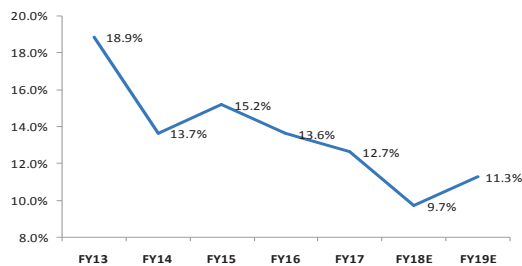
6-Dec-17

INDUSTRY - BIOTECHNOLOGY  
BSE Code - 532523  
NSE Code - BIOCON  
NIFTY - 10118

### Company Data

CMP	512
Target Price	480
Upside	-6%
52wk Range H/L	520/294
Mkt Capital (Rs Cr)	30,768
Av. Volume (,000)	593

### RoE declines to 12.7% in FY17

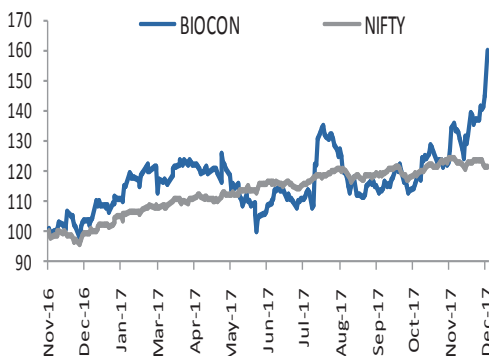


### Share Holding patterns %

	2QFY18	1QFY18	2QFY17
Promoters	61	61	61
Public	38	38	38
Others	2	2	2
Total	100	100	100

### Stock Performance %

	1Mn	3Mn	1Yr
Absolute	28.1	46.9	44.0
Rel.to Nifty	30.2	45.4	68.4



### Key Highlights of the Report:

- ✓ **Biocon received USFDA Approval for Trastuzumab:** As on 1st December 2017 the company and its partner Mylan got the USFDA approval for Ogivri, biosimilar of Herceptin, used as a treatment for breast cancer.
- ✓ **Bengaluru facility gets USFDA clearance:** As on 20th November US FDA has issued an Establishment Inspection Report (EIR) in relation to the cGMP (current good manufacturing practice) inspection of its aseptic drug product facility that was audited between May 25 and June 3, 2017. The FDA has classified the outcome of this inspection as VAI (voluntary action indicated) and the EIR states that the inspection is closed.
- ✓ Also at current level all the positives of the company looks factored we rate the stock neutral with price target of Rs480.

Financials/Valu	FY15	FY16	FY17	FY18E	FY19E
Net Sales	3,090	3,347	3,891	4,581	5,674
EBITDA	564	636	851	940	1,182
EBIT	343	387	574	395	612
PAT	497	550	612	366	551
EPS (Rs)	25	28	31	18	28
EPS growth (%)	20%	11%	11%	-40%	51%
ROE (%)	15%	14%	13%	7%	10%
ROCE (%)	8%	6%	8%	5%	7%
BV	164	202	242	257	279
P/B (X)	2.9	2.4	2.0	4.3	4.0
P/E (x)	18.9	17.5	15.8	18.0	20.0

### Recent Developments:

- ✓ As on 1st December 2017 the European Medicines Agency (EMA) has accepted for review Mylan's Marketing Authorization Applications (MAA) for proposed biosimilar trastuzumab and proposed biosimilar pegfilgrastim.
- ✓ Trastuzumab is used to treat certain HER2-positive breast and gastric cancers. Pegfilgrastim is used to reduce the duration of neutropenia (low count of neutrophils, a type of white blood cells) and the incidence of fever associated with neutropenia in adult patients treated with chemotherapy in certain types of cancer.
- ✓ The current EMA acceptance follows an earlier withdrawal of both applications in response to an audit conducted by the European inspecting authority of Biocon's drug product facility.
- ✓ As on 5th December 2017 company have set up a new subsidiary Biocon Biologics, and all company biosimilar assets are consolidated under this legal entity, as management believe it will enable them to unlock value in the future.

RITIKA JALAN  
ritika.jalan@narnolia.com

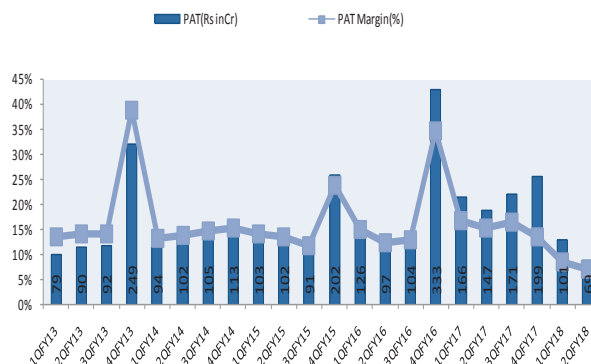
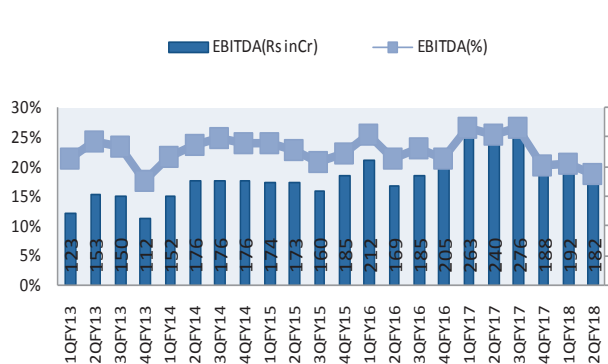
## Quarterly Performance

Financials	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	YoY %	QoQ%	FY16	FY17	YoY %
Biopharma(CORE)	501	582	510	547	506	32%	20%	1,879	2,057	20%
India(BRANDED)	137	123	131	122.7	174.9	4%	-14%	436	529	15%
CRAMS	286	317	272	291	335	15%	15%	1,061	1,138	16%
Licensing income	24	79	12	8	1	0%	-71%	76	132	88%
Net Sales	948	1,101	925	968	1,017	-3%	-10%	3,452	3,856	16%
Other Income	38	47	43	54	51	170%	-9%	79	157	98%
COGS	301	330	336	328	378	0%	2%	1,290	1,447	12%
Employee Cost	180	194	194	213	226	16%	0%	610	747	22%
Other Expenses	224	237	214	200	221	-15%	-10%	811	846	4%
EBITDA	240	276	188	192	182	-8%	-32%	636	851	34%
Depreciation	68	70	73	99	94	12%	3%	249	277	11%
Interest	7	9	5	16	14	-76%	-43%	29	26	-11%
PBT	204	244	153	131	126	13%	-37%	569	833	46%
Tax	42	54	10	38	43	-81%	-81%	142	162	14%
PAT	147	171	128	81	69	-62%	-26%	550	612	11%

## Margins under pressure

Margin %	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY(+/-)
Gross Margin	68%	70%	64%	66%	63%	-0.01	-0.04	63%	62%	0.03
EBITDA Margin	25%	25%	20%	20%	18%	-0.01	-0.06	18%	22%	0.02
PAT Margin	15%	16%	14%	8%	7%	-0.21	-0.03	16%	16%	0.01

- ✓ Gross Margin contracted by 500bps YoY and 300bps QoQ due to higher purchase of stock in trade and pricing pressure in key markets.
- ✓ EBITDA degrew by 7%YoY to Rs.182 crore. EBITDA Margin also declined by 700bps YoY to 18% on account of inclusion of fixed and operating costs relating to Malaysia facility.
- ✓ PAT margin degrew by 9%YoY to 7% on account of higher depreciation (37% YoY) and interest costs(112% YoY) led by commissioning of Malaysia facility paired with higher tax rate.



### Concall Highlights:

- ✓ The branded formulations is expected to normalise, going ahead as in 1HFY18 the business saw channel restocking post GST related disruption.
- ✓ Marketing Authorization application for Bio-similar Trastuzumab, pegfilgrastim and insulin Glargine were accepted by European Medical agency for review.
- ✓ Capex would remain high for the next 2-3 years (new biological facility + ~USD200mn for phase 2 expansion of Insulin facility in Bangalore).Maintenance CAPEX will be 100Cr in FY18.
- ✓ Small molecules segment sales was negatively impacted due to lower offtake of certain products as a result of pricing pressure faced by some of the clients
- ✓ Management expects Syngene growth momentum to continue in the next H2FY18.
- ✓ Biocon Insulin Disposable pens were highly appreciated in the International markets.
- ✓ The company also expects margin improvement from Q3FY18 onwards due to discontinuance of one-time costs related to remediation measures undertaken by the company
- ✓ The company maintained its guidance of revenues US\$ 1 bn by FY19.Majority of revenue contribution will come from emerging markets.
- ✓ Biocon (partner Mylan) filed for Insulin Glargine under the 505 (b) (2) pathway with the USFDA in Q2FY18.
- ✓ The company has guided increase in tax rate as the tax benefit for some of the facilities has expired.

Global Biosimilars Pipeline - US\$61 bn opportunity-				
Type	Molecule	Type	Status	Market Size* (US\$ bn)¶
Insulin	Rh Insulin	Regular Acting Insulin	Pre-clinical (US), Marketed in EM	3.2
Insulin	Glargine	Long Acting Insulin	Filed in EU, Australia & Canada. Marketed in Japan (since Jul-16) & EM	6.4
Insulin	Aspart	Rapid Acting Insulin Analog	Preclinical	4.5
Insulin	Lispro	Rapid Acting Insulin Analog	Preclinical	2.8
Biosimilar	Adalimumab	Auto-Immune	Global Phase III completed	16.1
Biosimilar	Trastuzumab	mBreast Cancer	Filed in US. Marketed in EM	6.9
Biosimilar	Pegfilgrastim	Chemo-induced Neutropenia	Filed in US, Canada, Australia, EM	4.6
Biosimilar	Bevacizumab	Non-Squamous NSCLC, mColorectal Cancer	Global Phase III commenced	6.9
Biosimilar	Filgrastim	Chemo-induced Neutropenia	Early development	0.8
Biosimilar	Etanercept	Auto-immune	Early development	8.9

### View & Valuation

Biocon on-going pricing pressure in US market in the small molecules business and rupee appreciation are key concerns for the company going forward.High depreciation and employee cost due to the commencement of Malaysian facility has adversely impacted the EBITDA margin of the company by 700bps. Recently, USFDA has approved Trastuzumab which is expected to be launch in FY20 and hence we do not expect any sharp improvement in revenue in near term. This product has US sales of US\$2.6 billion (Roche filings MAT September 2017) and we expect that this will help the company to generate significant sales in next 2-3 years. We wait for upside of biologics business in developed market and recovery in its core business.Also at current level all the positives of the company looks factored we rate the stock neutral with price target of Rs480.

## Financials Snap Shot

Income Statement		Rs in Crores			
Y/E March	FY16	FY17	FY18E	FY19E	
<b>Revenue from Operation</b>	3,347	3,891	4,581	5,674	
Change (%)	8%	16%	18%	24%	
EBITDA	636	851	940	1,182	
Change (%)	13%	34%	10%	26%	
Margin (%)	19%	22%	21%	21%	
<b>Depr &amp; Amor.</b>	<b>249</b>	<b>277</b>	<b>544</b>	<b>570</b>	
EBIT	387	574	395	612	
Int. & other fin. Cost	29	26	30	33	
Other Income	79	157	104	105	
EBT	569	833	469	684	
Exp Item	161	-	-	-	
Tax	142	162	91	133	
Minority Int & P/L share of Ass.	(59)	(76)	16	-	
Reported PAT	550	612	366	551	
Adjusted PAT	430	612	366	551	
<b>Change (%)</b>	<b>11%</b>	<b>11%</b>	<b>-40%</b>	<b>51%</b>	
Margin(%)	16%	16%	8%	10%	

Balance Sheet		Rs in Crores			
Y/E March	FY16	FY17	FY18E	FY19E	
Share Capital	100	100	100	100	
Reserves	3,934	4,738	5,034	5,481	
<b>Networth</b>	<b>4,034</b>	<b>4,838</b>	<b>5,134</b>	<b>5,581</b>	
Debt	2467.3	2,205.4	2,527.0	2,777.0	
Other Non Cur Liab	371	352	352	352	
Total Capital Employed	6,501	7,043	7,661	8,358	
Net Fixed Assets (incl CWIP)	3,961	4,438	4,690	4,837	
Non Cur Investments	-	146	146	146	
Other Non Cur Asst	229	278	278	278	
Goodwill	26	26	26	26	
Investment in associates & joint	26	42	42	42	
Derivative assets	61	109	109	109	
Other financial assets	26	20	20	20	
Income tax assets	85	90	90	90	
<b>Non Curr Assets</b>	<b>4,487</b>	<b>5,347</b>	<b>5,598</b>	<b>5,746</b>	
Current investments	875	1,065	1,065	1,065	
Inventories	542	635	742	919	
Trade receivables	715	883	978	1,211	
Cash and bank balances	761	710	810	815	
Other bank balance	777	334	700	1,226	
Derivative assets	51	106	106	106	
Other financial assets	184	155	155	155	
Other current assets	65	159	89	111	

Curr Assets	3,971	4,048	4,645	5,608
Creditors	610	740	834	1,034
Provisions	67	83	87	99
Other Curr Liab	316	366	433	536
Curr Liabilities	1,271	1,581	1,747	2,062
<b>Net Curr Assets</b>	<b>2,700</b>	<b>2,467</b>	<b>2,898</b>	<b>3,546</b>
Total Assets	8,458	9,394	10,243	11,354

Cash Flow Statement		in Rs Crores			
Y/E March	FY16	FY17	FY18E	FY19E	
PBT	1,227	833	469	684	
(inc)/Dec in Working Capital	(45)	(186)	35	(117)	
Non Cash Op Exp	242	277	544	570	
Int Paid (+)	10	26	30	33	
Tax Paid	(247)	(162)	(91)	(133)	
others	(652)	26	30	33	
<b>CF from Op. Activities</b>	<b>526</b>	<b>881</b>	<b>975</b>	<b>1,037</b>	
(inc)/Dec in FA & CWIP	(811)	(754)	(796)	(718)	
Free Cashflow	(284)	127	179	320	
(Pur)/Sale of Inv	(197)	-	-	-	
others	495	-	-	-	
<b>CF from Inv. Activities</b>	<b>(954)</b>	<b>(754)</b>	<b>(796)</b>	<b>(718)</b>	
inc/(dec) in NW	-	-	-	-	
inc/(dec) in Debt	1,346	(262)	322	250	
Int. Paid	10	26	30	33	
Div Paid (inc tax)	20	-	-	-	
others	(262)	(142)	(100)	(138)	
<b>CF from Fin. Activities</b>	<b>1,087</b>	<b>(404)</b>	<b>222</b>	<b>112</b>	
Inc(Dec) in Cash	659	(276)	401	432	
Add: Opening Balance	463	761	710	810	
Closing Balance	1,127	485	1,111	1,242	

Key Ratios		FY16	FY17	FY18E	FY19E
ROE		14%	13%	7%	10%
ROCE		6%	8%	5%	7%
Asset Turnover		0.4	0.4	0.4	0.5
Debtor Days		78	78	78	78
Inv Days		59	59	59	59
Payable Days		66	66	66	66
Int Coverage		13	22	13	18
P/E		17	15	18	20
Price / Book Value		2.4	4.6	4.3	4.0
EV/EBITDA		17	28	25	20
FCF per Share		(14)	6	9	16
Div Yield		1.0%	0.5%	0.3%	0.5%