

BIOCON LTD

BUY

25-Jul-16

Company Update

CMP	822
Target Price	880
Previous Target Price	
Upside	7%
Change from Previous	-

Market Data

BSE Code	532523
NSE Symbol	BIOCON
52wk Range H/L	825.35/395
Mkt Capital (Rs Cr)	16174
Av. Volume(,000)	251.45
Nifty	8541.2

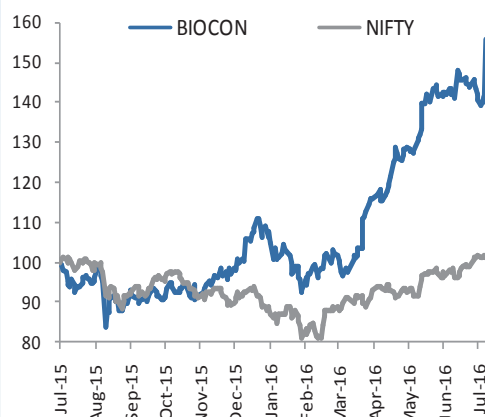
Stock Performance

	1M	3M	12M
Absolute	13.9	74.4	66.0
Rel.to Nifty	8.3	74.3	65.8

Share Holding Pattern-%

	1QFY17	4QFY16	3QFY16
Promoters	60.68	60.7	60.7
Public	37.42	37.4	37.4
Others	1.9	1.9	--
Total	100	100.0	100.0

Company Vs NIFTY



Biocon has shown exemplary performance due to the growth of Revenue in Biologics Business by 53% and 9 % growth in Small Molecules Business. This growth is led by India based customers servicing the needs of the US market and to some key markets in the LATAM and Africa & Middle East regions. Commercialization opportunities in Malaysia will enable company to address the need of nearly 3.3 million diabetes patients in Malaysia. Two new facilities, the first phase of the Syngene Research Centre and a Viral Testing Facility, are now operational and management is optimistic to achieve strong performance in FY17. Considering near term opportunities across EU and US we recommend Buy Rating, though we feel that Valuations at present looks stretched considering the uncertainties hovering around the company's regulatory approvals.

Q1FY17_Result Update

- Reported sales of Rs 982 Cr, growth of 18% YOY .Revenue Improved due to company Biologics business delivered a growth of 53% driven by the sales of biosimilars in emerging markets

- Licensing income stood at INR 17 Cr for the quarter, v/s INR 64 Crs in Q1FY16

- EBITDA at Rs263 Cr EBITDA Margin at 26.8%.Margin decline due to higher R&D and staff expenses

- R&D expenses was Rs92 crore,reflecting the progress of Generic Formulations, Biosimilars and Novel programs.

- The Marketing Authorization Application (MAA) to the European Medicines Agency (EMA) for Mylan and Biocon's proposed biosimilar Pegfilgrastim has been accepted for review

- Reported Net Profit of Rs167 Cr.Net Profit Margin at 31.97%.

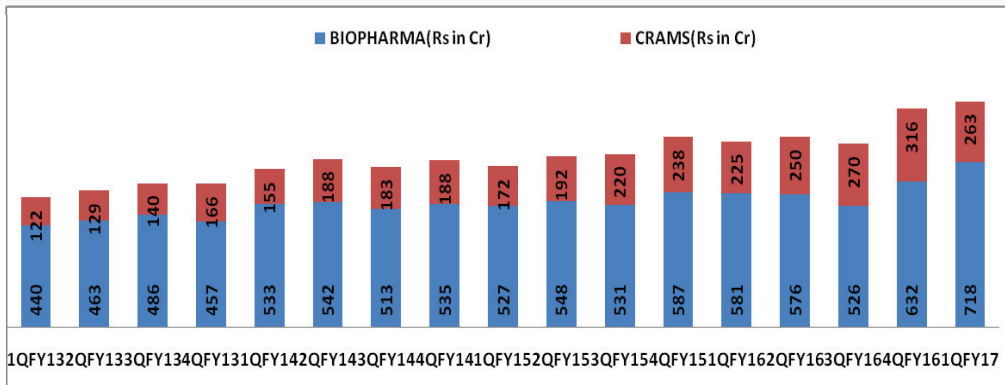
- Biocon's Insulin Glargine was launched in Japan through companies's partner FUJIFILM Pharma

- Biocon wins 'National Award for Excellence in Training & Development 2016' for Best Training Initiatives in the Pharmaceutical Sector

	Rs,Cr				
Financials	2012	2013	2014	2015	2016
Sales	2148	2538	2933	3143	3570
EBITDA	517	475	518	617	784
Net Profit	338	509	414	497	896
EPS	17	25	21	25	30
P/E	14.1	10.8	20.5	18.9	19.0

(Source: Company/Eastwind)

Segment Revenue



1) The biopharma segment accounts for ~74% of the turnover and Biocon's research arm Syngene contributes ~26% to its turnover.

2) Biopharma segment reported revenue of Rs 718 crore, on the back of substantial ramp up in biosimilar portfolio in emerging markets..

Management Speak/ Key take aways From Conference call

- Malaysian plant has received approval from Local authority and will start operating from later FY17
- R&D expenses are going to be in the range of about 12-14 percent of biopharma sales
- Management is optimistic to generate 1000 Cr Revenue from branded formulation segment till FY19
- The results from the trials of Biocon and Mylan's Pegfilgrastim are expected to be presented during the annual congress of European Society of Medical Oncology (ESMO 2016), to be held in October in Copenhagen
- Company is trying to apply multiple applications for marketing in new emerging markets & also in EMA & USFDA for marketing authorisation
- Received approvals for key Small Molecules API DMFs in EU & Emerging Markets
- The company plans to file 20-25 ANDAs over next two to three years

BUSINESS MODEL



For reporting purpose, Biocon classifies its operations into four segments i.e. Small Molecules, Biologics, Branded Formulations and Research Services.

Small Molecules includes API's , immunosuppressants & Generic formulations business

Biologics vertical comprises Novel biologics and Biosimilars, recombinant proteins including rh-insulin, insulin analogs, monoclonal antibodies

Branded Formulations includes finished dosages

Research Services business through Syngene

Financials Snap Shot

INCOME STATEMENT

	FY13	FY14	FY15	FY16
Revenue (Net of Excise D	2,485	2,877	3,090	3,485
Other Income	53	56	53	85
Total Revenue	2,538	2,933	3,143	3,570
COGS	1,045	1,186	1,256	1,330
GPM	42%	41%	41%	38%
Other Expenses	576	707	737	831
EBITDA	475	518	564	688
EBITDA Margin (%)	19%	18%	18%	20%
Depreciation	179	204	221	242
EBIT	296	315	343	446
Interest	8	2	9	10
PBT	408	538	519	652
Tax	98	107	96	257
Tax Rate (%)	24%	20%	18%	39%
Reported PAT	509	414	497	896
Dividend Paid	116	175	119	119
No. of Shares	20	20	20	20

Source: Eastwind/Company

RATIOS

	FY13	FY14	FY15	FY16
EPS	25	21	25	45
Book Value	135	151	164	203
DPS	6	9	6	6
Payout (incl. Div. Tax.)	0.23	0.42	0.24	0.13
Valuation(x)				
P/E	11	21	19	11
Price / Book Value	2	3	3	2
Dividend Yield (%)	2%	2%	1%	1%
Profitability Ratios				
RoE	19%	14%	15%	22%
RoCE	10%	9%	8%	7%
Turnover Ratios				
Asset Turnover (x)	0.56	0.50	0.48	0.41
Debtors (No. of Days)	75	76	91	86
Inventory (No. of Days)	59	48	53	54
Creditors (No. of Days)	51	44	51	57
Net Debt/Equity (x)	0	0	0	1

Source: Eastwind/Company

BALANCE SHEET

	FY13	FY14	FY15	FY16
Share Capital	100	100	100	100
Reserves and surplus	2,595	2,927	3,171	3,956
Shareholders' funds	2,695	3,027	3,271	4,056
Long term Debt	164	606	770	2,072
Total Borrowings	249	850	1,031	2,467
Non Current liabilities	502	656	608	415
Long term provisions	4	8	15	29.9
Short term Provisions	247	177	158	88
Current liabilities	905	1,136	1,294	1,233
Total liabilities	4,416	5,751	6,375	8,482
Net Fixed Assets	1,823	2,731	3,307	3,910
Non Current Investments	65	65	-	-
Other non Current assets	41	47	137	166
Current assets	2,240	2,639	2,563	3,993
Total Assets	4,416	5,751	6,375	8,482

Source: Eastwind/Company

CASH FLOW STATEMENT

	FY13	FY14	FY15	FY16
OP/(Loss) before Tax	610	538	624	1,227
Depreciation	179	204	221	242
Direct Taxes Paid	(94)	(149)	(133)	(247)
Operating profit before v	758	672	698	818
CF from Op. Activity	471	561	211	526
Proceeds from sale of Cu	1,904	1,642	2,943	2,784
Capital expenditure on fi	(359)	(789)	(838)	(811)
CF from Inv. Activity	(376)	(938)	(509)	(954)
Repayment of Long Term	(21)	(19)	(15)	(54)
Interest Paid	(8)	(1)	(1)	(11)
Divd Paid (incl Tax)	(100)	(150)	(100)	(200)
CF from Fin. Activity	(9)	426	186	1,087
Inc/(Dec) in Cash	87	49	(112)	659
Add: Opening Balance	387	508	574	468
Closing Balance	474	557	463	1,127

Source: Eastwind/Company