

BIOCON NEUTRAL

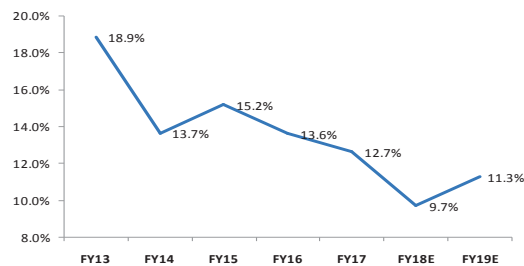
2-May-17

INDUSTRY - BIOTECHNOLOGY
BSE Code - 532523
NSE Code - BIOCON
NIFTY - 9304

Company Data

CMP	1112
Target Price	970
Previous Target Price	15%
Upside	
52wk Range H/L	1188/564
Mkt Capital (Rs Cr)	22,107
Av. Volume (,000)	128

RoE declines to 12.7% in FY17

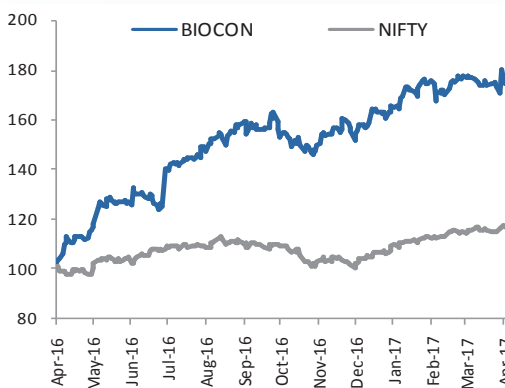


Share Holding patterns %

	4QFY17	3QFY17	2QFY17
Promoters	60.7	60.7	60.7
Public	37.2	37.2	37.2
Others	1.8	1.8	1.8
Total	100.0	100.0	100.0

Stock Performance %

	1Mn	3Mn	1Yr
Absolute	(3.7)	8.5	93.5
Rel.to Nifty	(5.4)	0.7	76.9



Key Highlights of the Report:

- ✓ Marketing Authorization application for Bio-similar Trastuzumab, pegfilgrastim and insulin Glargine were accepted by European Medical agency for review.
- ✓ Discontinuance of Ambraxane drug, and fire broke down at one of its facility in Dec. 2016 has impacted the revenue of the company in the last quarter.
- ✓ Biocon plans to file Marketing Authorization application for Bio-similar Trastuzumab with USFDA in FY18.
- ✓ Biocon has made 5 regulatory filings with USFDA in FY17.
- ✓ Malasiyan facility has been Commercialised and revenue will start coming from 1QFY18.

Financials/Valu

	FY15	FY16	FY17	FY18E	FY19E
Net Sales	3,090	3,347	3,891	5,026	5,964
EBITDA	564	636	851	1,148	1,363
EBIT	343	387	574	604	793
PAT	497	550	612	512	653
EPS (Rs)	25	28	31	26	33
EPS growth (%)	20%	11%	11%	-16%	27%
ROE (%)	15%	14%	13%	10%	11%
ROCE (%)	8%	6%	8%	8%	9%
BV	3,271	4,034	4,838	5,253	5,782
P/B (X)	2.9	2.4	4.6	4.2	3.8
P/E (x)	20.0	20.0	20.0	20.0	20.0

RECENT DEVELOPMENT:

- ✓ Mylan got a nod for breast cancer tablets -Exemestane tablets. U.S. sales of approximately \$100 million for the 12 months ending Jan. 31, 2017, according to IMS Health
- ✓ US FDA accepts Biocon-Mylan biosimilar application for proposed anti-cancer bio-similar. The market size of Trastuzumab injection is valued at about \$6.5 billion, according to IMS data
- ✓ Biocon has partnered with Japanese drug firm Eisai Pharma to market the latter's anti-ulcer drug rabeprazole in India. Market size for rabeprazole and rabeprazole-D is roughly Rs 950 crore in India
- ✓ Mylan has inked a settlement pack with Genentech and Roche in relation to patents for cancer drug Herceptin (Trastuzumab). The settlement gives Mylan global licence to commercialise its Trastuzumab product in various markets around the world.

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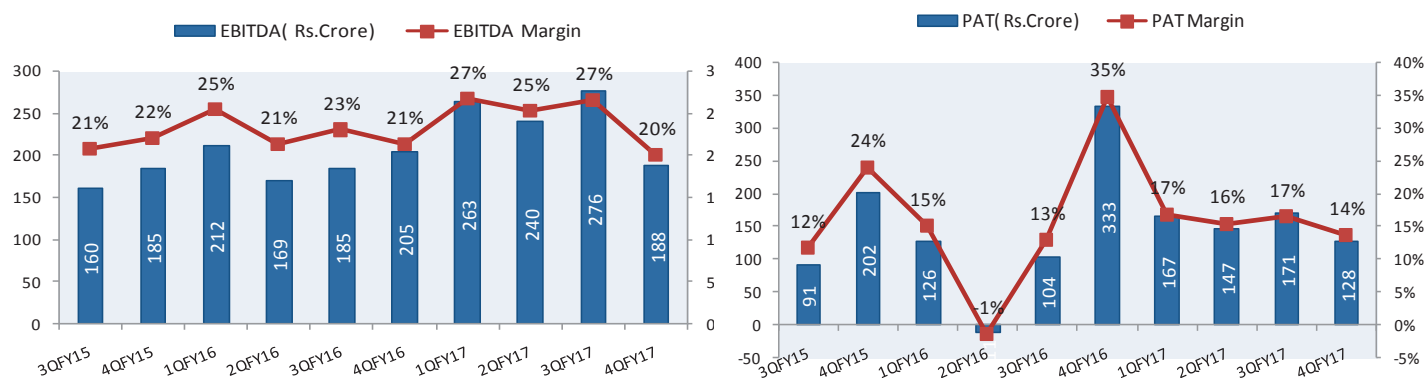
Quarterly Performance

Financials	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY %	QoQ%	FY16	FY17	YoY %
Biopharma(CORE)	531	464	501	582	699	32%	20%	1,879	2,246	20%
India(BRANDED)	101	138	137	123	105.5	4%	-14%	436	503.5	15%
CRAMS	316	263	286	317	363	15%	15%	1,061	1,229	16%
Licensing income	23	17	24	79	23	0%	-71%	76	143	88%
Net Sales	957	982	946	1,038	931	-3%	-10%	3,347	3,891	16%
Other Income	16	41	38	47	43	170%	-9%	79	157	98%
COGS	334	357	301	330	336	0%	2%	1,290	1,447	12%
Employee Cost	167	179	180	194	194	16%	0%	610	747	22%
Other Expenses	251	184	224	237	214	-15%	-10%	811	846	4%
EBITDA	205	263	240	276	188	-8%	-32%	636	851	34%
Depreciation	65	66	68	70	73	12%	3%	249	277	11%
Interest	21	6	7	9	5	-76%	-43%	29	26	-11%
PBT	135	232	204	244	153	13%	-37%	569	833	46%
Tax	55	55	42	54	10	-81%	-81%	142	162	14%
PAT	333	167	147	171	128	-62%	-26%	550	612	11%

Margins under pressure

Margin %	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY(+/-)	QoQ(+/-)	FY15	FY16	YoY(+/-)
Gross Margin	65%	64%	68%	68%	64%	-0.01	-0.04	30%	33%	0.03
EBITDA Margin	21%	27%	25%	27%	20%	-0.01	-0.06	13%	16%	0.02
PAT Margin	35%	17%	16%	17%	14%	-0.21	-0.03	7%	8%	0.01

- ✓ Gross Margin contracted by 100bps YoY and 400bps QoQ due to higher purchase of stock in trade and cost of material consumed.
- ✓ EBITDA degred by 8%YoY to Rs.188 crore. EBITDA Margin also declined by 130bps YoY to 20.1% on account of higher employee cost.
- ✓ PAT degred by 61%YoY to Rs.128 crore. In 4QFY16, there was an exceptional item of Rs. 268 Cr. which has inflated profit in 4QFY16.



Concall Highlights:

- ✓ Biocon Malaysian Insulin plant has started commercial sales, but management refrains from giving any revenue guidance
- ✓ Marketing Authorization application for Bio-similar Trastuzumab, pegfilgrastim and insulin Glargine were accepted by European Medical agency for review.
- ✓ Biocon has received approval for Rosuvastatin Calcium from USFDA. This is the first ANDA approval for Biocon. This will further strengthen the company's API business.
- ✓ Discontinuance of Ambraxane drug, and fire broke down at one of its facility in Dec. 2016 has impacted the revenue of the company in the last quarter.
- ✓ Capex guidance for FY18 is Rs. 700 Cr. This does not include capex planned by Syngene.
- ✓ Biocon Insulin Disposable pens were highly appreciated in the International markets.
- ✓ R&D exp. for 4QFY17 is Rs. 98 Cr. Out of which Rs. 64 Cr is reflected in P&L A/C. Guidance for FY18 is 12-15% of its revenue.
- ✓ Biocon has completed ROW phase-3 clinical trial of its Bio-similar Bevacizumab for metastatic colorectal cancer.
- ✓ Plans to file Marketing Authorization Application with USFDA for insulin Glargine very soon.
- ✓ Biocon has made 5 regulatory filings with USFDA in FY17.
- ✓ Syngene has continued to expand its manufacturing facility by setting up new API facility in Mangalore and new Biologics facility in Bangalore.

Investment Arguments:

- ✓ **Delay in Copaxone approval:** Biocon has received queries from the USFDA relating to its ANDA for generic Copaxone 20 mg and 40mg. The company is yet to respond to these queries
- ✓ **Discontinuance of Ambraxane:** Biocon has discontinued Ambraxane drug from its portfolio which is a major set back for the company.
- ✓ **Waiting for EMA Nod:** Marketing Authorization application for Bio-similar Trastuzumab, pegfilgrastim and insulin Glargine were accepted by European Medical agency for review. Company is still waiting for approval which usually takes 12-18 months.
- ✓ **Commercialization of Malaysian facility :** The facility manufactures the Drug Substance for Biocon's range of rh-insulin and insulin analogs as well as Drug Products in vials, cartridges and devices. This facility supplies drug to the US market. This facility has been set up at an investment of over USD 250 million

View & Valuation

Biocon has discontinued drug Ambraxane from Indian and European markets which impacted 4QFY17's sales. On-going pricing pressure in US market and rupee appreciation are key concerns for the company going forward. In last Dec. 2016, fire broke out at one of its facilities has adversely impacted the EBITDA margin of the company by 130bps. Commercial sales of Insulin to US from Malaysian facility has started but we do not have any clarity on the revenue front in this quarter. We do not expect any sharp improvement in revenue in near term. Currently, the stock is trading at 4.74x FY17 P/BV. Considering the growth un-certainties in near term, we maintain "Neutral" rating in this stock.

Financials Snap Shot

Income Statement				
Rs in Crores				
Y/E March	FY16	FY17E	FY18E	FY19E
Revenue from Operation	3,347	3,891	5,026	5,964
Change (%)	8%	16%	29%	19%
EBITDA	636	851	1,148	1,363
Change (%)	13%	34%	35%	19%
Margin (%)	19%	22%	23%	23%
Depr & Amor.	249	277	544	570
EBIT	387	574	604	793
Int. & other fin. Cost	29	26	30	33
Other Income	79	157	104	105
EBT	569	833	678	864
Exp Item	161	-	-	-
Tax	142	162	166	211
Minority Int & P/L share of Ass.	(59)	(76)	-	-
Reported PAT	550	612	512	653
Adjusted PAT	430	612	512	653
Change (%)	11%	11%	-16%	27%
Margin(%)	16%	16%	10%	11%

Balance Sheet				
Rs in Crores				
Y/E March	FY16	FY17E	FY18E	FY19E
Share Capital	100	100	100	100
Reserves	3,934	4,738	5,153	5,682
Networth	4,034	4,838	5,253	5,782
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	7,780	8,559
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
Non Curr Assets	4,487	5,347	5,598	5,746
Current investments	875	1,065	1,065	1,065
Inventories	542	635	814	966
Trade receivables	715	883	1,073	1,273
Cash and bank balances	761	710	810	815
Other bank balance	777	334	759	1,336
Derivative assets	51	106	106	106
Other financial assets	184	155	155	155
Other current assets	65	159	98	116

Curr Assets	3,971	4,048	4,880	5,832
Creditors	610	740	916	1,086
Provisions	67	83	92	103
Other Curr Liab	316	366	475	564
Curr Liabilities	1,271	1,581	1,876	2,146
Net Curr Assets	2,700	2,467	3,004	3,687
Total Assets	8,458	9,394	10,478	11,578

Cash Flow Statement				
in Rs Crores				
Y/E March	FY16	FY17E	FY18E	FY19E
PBT	1,227	833	678	864
(inc)/Dec in Working Capital	(45)	(186)	(13)	(100)
Non Cash Op Exp	242	277	544	570
Int Paid (+)	10	26	30	33
Tax Paid	(247)	(162)	(166)	(211)
others	(652)	26	30	33
CF from Op. Activities	526	881	1,074	1,156
(inc)/Dec in FA & CWIP	(811)	(754)	(796)	(718)
Free Cashflow	(284)	127	277	438
(Pur)/Sale of Inv	(197)	-	-	-
others	495	-	-	-
CF from Inv. Activities	(954)	(754)	(796)	(718)
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)	(127)	(157)
CF from Fin. Activities	1,087	(404)	194	93
Inc(Dec) in Cash	659	(276)	472	531
Add: Opening Balance	463	761	710	810
Closing Balance	1,127	485	1,182	1,341

Key Ratios				
	FY16	FY17	FY18E	FY19E
ROE	14%	13%	10%	11%
ROCE	6%	8%	8%	9%
Asset Turnover	0.4	0.4	0.5	0.5
Debtor Days	78	78	78	78
Inv Days	59	59	59	59
Payable Days	66	66	66	66
Int Coverage	13.21	22.08	19.91	23.79
P/E	18	36	43	34
Price / Book Value	2.4	4.6	4.2	3.8
EV/EBITDA	17	28	21	18
FCF per Share	(14)	6	14	22
Div Yield	1.0%	0.5%	0.4%	0.5%