

Date

13/09/2011

Sensex

16467.44

Nifty

4940.95

Sector

Pharmaceutical

CMP

Rs.332

Face Value

Rs.5/share

Equity Capital

Rs.100 crore

52 Week H/L in Rs.

464.6/301.65

Market cap Rs. Cr.

Rs.6984 crore

Share Holding

	% Holding	No. of shares
Promoters	60.92%	121834976
Institutions	16.82%	33752185
Non - Institutions	22.21%	44412839
Total	100%	200000000

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Biocon Limited

Recently we met the Management of Biocon Ltd., India's first and the largest Biopharma Company with a market capitalization Rs.6984 crore. Our meeting was after their annual general meet to discuss future prospects, Quarter-1 results and divestment of Axicorp GMBH. After analyzing the information given by the Management, we recommend HOLD on the stock.

Recent Developments**Divestment of Axicorp**

- Biocon has sold its 78% stake in its German arm, Axicorp GMBH following its global alliance with Pfizer Inc, world's biggest drug maker. As divestment amount, it received Euro 40 million (Rs.263.2crore) from Axicorp GMBH.
- The impact of this divestment, the revenues are lower in first quarter of Q1 of 2011.
- However, there is an improvement in EBITDA margins from 22% to 29% on back of removal of Axicorp from the P&L, since Axicorp was a low margin trading business.
- We believe that the exit from Axicorp GMBH strategically is a negative for Biocon as it has to re-establish its brand in Axicorp's market like Germany for which they do not have a tie up with Pfizer.

Pfizer Deal

Biocon has inked a \$350 million deal with world's largest drug maker Pfizer Plc. for marketing its Insulin Portfolio. Biocon will receive \$200 million from the Pfizer for the commercialization of Rh- insulin, Glargine, Lispro and Aspart, the remaining \$150 million will come as royalties after reaching certain milestones. This deal enables Pfizer to market drug in 27 nations except Germany, India and Malaysia where it has to share its selling rights with Biocon.

Branded formulation business

The Company has launched 2 new segments in the domestic biopharmaceutical space in 2010, namely Immunotherapy and Comprehensive Care segment. Both of the segments are small and are highly niche and have limited reach in the country. This is the first step by the Company to establish a presence in India and we believe it could take a while before it contributes significantly.

Strategic plans

- For the next 5-7 years, Diabetes will be the driving force for the Company and focus area for the management.
- In diabetology space, Biocon is already working on several projects along with several alliances. One of the marquee projects among them is Oral insulin- IN 105 for which Company is looking for partners to start its clinical trials-1 in US. This is on the back of a minor setback where the product efficacy was below expected levels during patient trials.
- Biocon and Amylin set up a cost sharing JV to develop novel peptides.
- Biocon has also initiated its research on Biosimilar insulin like IN-105, which would be one of the new innovative drugs in the insulin space.
- Along with the mentioned research programs, Biocon has signed marketing deal with Pfizer which will take its insulin portfolio to the global markets.
- Optimer recently got the US FDA approval for the production of Fidaxomicin. Biocon is the sole API supplier of this drug to Optimer.
- With Lipitor going off patent in the regulated markets, Biocon sees scope for its statin business which constitutes 33% of the total sales. Statin makers including Biocon will face a time lag, as Ranbaxy, Indian generic drug maker, enjoys exclusivity for a period of 6 months for this drug in USA with special rights to head start marketing, as soon as Lipitor goes off patent.

Value unlocking

Biocon has a strong R&D setup comprising of Syngene and Clinigene (subsidiaries). Biocon is planning to come up with an IPO of Syngene and Clinigene (clinical research business) in near future, after ensuring stable growth rate of its research and contract manufacturing unit.

New Products launch

Biocon is poised to launch its insulin pen devices in Indian market in the current fiscal year 2011-12.

Quarter -1FY12 Results

For the year FY11, Biopharmaceuticals formed 83% of the total revenue, 11% came from licensing income and rest 6% as other income. Biocon's licensing income trebled during the year, whereas Biopharmaceutical contribution declined from 92% to 83%.

Rs. in crore	Q1CY12 (After sale of Axicorp)	Q4CY11 (Without Axicorp)	Var %
Sales	454	456	-0.4%
Other Income	10.0	8.1	24.2%
Expenditure	315	310	1.7%
EBITDA	133	146	-8.9%
% EBITDA	29%	32%	-8.4%

- On quarterly basis, Sales of the Company were down marginally by 0.45% as compared to the previous quarter without Axicorp's contribution.
- Other income has surged up by 24%, whereas expenditure has gone up by 2%.
- After factoring the sale of Axicorp, there is a slight squeeze in EBITDA margin when compared with previous quarter.
- The current quarter numbers are not comparable on a yoy basis.

Capex plans

Biocon is planning to invest Rs.150-200 crore in Malaysia (Bio Xcell park: SEZ allotted by the Malaysian government for the promotion of Biosimilars and biotechnology industry) in order to expand its manufacturing facility. The new facility will take up production of oral insulin in the future.

Valuation

Rs. in crore	FY10	FY11	FY12E	FY13E
Net Sales	2368	2771	2056	2427
EBITDA	509	630	577	702
EBITDA %	21%	23%	28%	29%
PAT	303	375	291	309
PAT%	13%	14%	14%	13%
No. of Outstanding Shares	20	20	20	20
EPS	14.7	18.4	14.5	15.4
Price	332	332	332	332
P/E	22.6	18.1	22.8	21.5
EV/EBITDA	13.8	10.4	11.4	9.5

- On a Consolidated basis, Biocon is expected to grow at a CAGR of 12% yoy (excluding Axicorp GMBH), and EBITDA margin to be within the range of 28%-30% (back to previous levels).
- Licensing income in our view would be close to Rs.70-80 crores for next 2-3 years, as royalty and payment from Pfizer.
- At current price stock is trading at a PE of 22.8x of 2012 EPS and 21.5x of 2013 EPS.

We expect the Company to show slower growth momentum as many drugs are still in clinical stages. The new segments which have been launched by Biocon are small niche segment and will take time to contribute to the top line. We believe that research and contract services of the Company to deliver improved results on back of long term clients and partners like BMS and Endopharma. We also expect Biocon to realize some synergies from the Pfizer partnership in coming future. With limited near term growth triggers, we expect the stock to underperform its pharma peers. At current market price of Rs.332, we recommend a **HOLD** to this stock.

Projected Financials

Rs. in crore	FY10	FY11	FY12E	FY13E	Rs. in crore	FY10	FY11	FY12E	FY13E
Net Sales	2368	2771	2056	2427	Paid up Capital	100	100	100	100
Growth		17%	-26%	18%	Reserves & Surplus	1596	1851	2020	2235
Expenditure	1896	2211	1514	1746	Shareholder's Fund	1596	1851	2020	2235
EBITDA	509	630	577	702	Total Debt	514	334	341	348
Growth		24%	-8%	22%	Total Liabilities	2305	2405	2547	2773
Depreciation	140	157	178	280	Net Fixed Assets	1338	1411	1542	1737
EBIT	368	473	399	423	Total Current Assets	1094	1504	1935	2040
Interest	16.9	25.7	25.9	26.4	Total Current Liabilities	491	986	1084	1192
Tax	72	72	82	87	Net Current Assets	512	403	992	1002
PAT	303	375	291	309	Total Assets	2305	2405	2547	2773
Growth		24%	-23%	6%					
Rs. in crore	FY10	FY11	FY12E	FY13E	Rs. in crore	FY10	FY11	FY12E	FY13E
EBITDA%	21%	23%	28%	29%	P/B x	4.4	3.6	3.1	2.8
EBIT%	16%	17%	19%	17%	EV/Revenue	2.96	2.36	3.21	2.75
PAT%	13%	14%	14%	13%	Debtor Days	68.8	67.5	65.0	65.0
ROE%	19%	20%	14%	14%	Creditor Days	57.3	54.5	60.0	60.0
ROCE%	14%	17%	12%	12%	Current ratio	1.9	1.4	2.1	2.0
EPS	14.7	18.4	14.5	15.4	Debt/Equity	0.3	0.2	0.2	0.2
P/Ex	22.6	18.1	22.8	21.5	Quick Ratio	1.6	1.0	1.6	1.7
EV/EBITDA	13.8	10.4	11.4	9.5	Book Value per share	75.2	93.2	106.0	116.7

Our team

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