

Biocon (BIOCON)

₹ 266

WHAT'S CHANGED...

PRICE TARGET	Changed from ₹ 432 to ₹ 366
EPS (FY12E)	Changed from ₹ 19.3 to ₹ 16.5
EPS (FY13E)	Changed from ₹ 24.0 to ₹ 20.4
RATING	Unchanged

Poor show by Biopharma, negative surprise...

Biocon's Q3FY12 results were far below our expectation. The company posted flat growth of 1% YoY to ₹ 518.5 crore compared to our expectation of ₹ 597 crore, mainly on the back of lower than anticipated growth in the biopharmaceuticals business. Biopharma, excluding licensing income, grew marginally by 6% as against our expectation of 17% on the back of lower production activities. During the quarter, the company has allocated a part of its production facility to development programmes. EBITDA margins declined 734 bps to 24.8% YoY below our expectation of 27.8% on the back of a sharp increase in the raw material cost and employee cost. The net profit grew by 14% to ₹ 84.9 crore as against our expectation of ₹ 94.8 crore. We have reduced our target price in line with revised estimates after accounting for unforeseen delays and a slowdown in the Biopharma space. We, however, maintain BUY after considering the recent sharp correction, which we believe is overdone.

■ Biopharma ex-licensing income posts 6% growth YoY

Biopharma business excluding licensing income grew marginally by 6% to ₹ 376.3 crore. With recent launches including Insupen device, branded formulations business grew 49% to ₹ 70 crore.

■ R&D services business grows by 42% YoY

Research services business witnessed robust 42% growth to ₹ 111.9 crore on the back of expansion by existing clients and favourable currency movement. Growth in constant currency was ~32%.

Valuation

We have cut our revenue and profitability estimates for FY13E by 7% and 15%, respectively, due to 1) delay in anticipated product launches through Pfizer deal in emerging markets and 2) slower offtake of Fidaxomicin API. Lumpiness of licensing income and its reporting is also adding to our concerns. Although positive news from Itolizumab studies holds promise, we will have to wait for the possible commercialisation deal. We have valued the stock at ₹ 366 i.e. 18x FY13E revised EPS of ₹ 20.4.

Exhibit 1: Financial Performance

(₹ Crore)	Q3 FY12	Q3 FY12E	Q3FY11	Q2 FY12	YoY Gr.(%)	QoQ Gr.(%)
Revenues	518.5	597.0	511.4	508.4	1.4	2.0
EBITDA	128.7	165.9	164.2	138.5	-21.6	-7.0
EBITDA Margin (%)	24.8	27.8	32.1	27.2		
Depreciation	43.4	48.4	39.3	42.9	10.5	1.1
Interest	2.9	4.6	6.3	2.0	-54.2	42.3
Reported PAT	84.9	94.8	98.6	85.7	-13.9	-1.0
EPS (₹)	4.2	4.7	4.9	4.3		

Source: Company, ICICIdirect.com Research

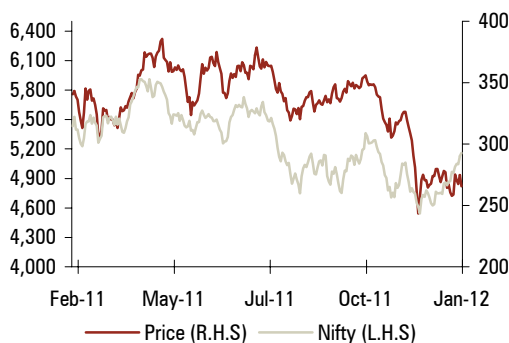
Rating matrix	
Rating	: Buy
Target	: ₹ 366
Target Period	: 12 months
Potential Upside	: 38%

Key Financials				
(₹ Crore)	FY10	FY11	FY12E	FY13E
Net Sales	2368	2770	2022	2488
EBITDA	471	592	546	684
Net Profit	293	368	329	407

Valuation summary				
	FY10	FY11	FY12E	FY13E
EPS (₹)	14.7	18.4	16.5	20.4
PE (x)	18.1	14.5	16.2	13.1
Target PE (x)	25.0	19.9	22.2	18.0
EV to EBITDA (x)	12.1	8.8	9.7	7.9
Price to book (x)	3.0	2.6	2.3	2.1
RoNW (%)	16.7	18.1	14.4	15.7
RoCE (%)	15.6	19.3	15.6	17.5

Stock data	
Market Capitalisation	₹ 5320 crore
Debt (FY11)	₹ 334 crore
Cash (FY11)	₹ 441 crore
EV	₹ 5213 crore
52 week H/L	390/240
Equity capital (₹Crore)	₹ 100 crore
Face value (₹)	₹ 5
MF Holding (%)	10.4
FII Holding (%)	3.5

Price movement



Analyst's name

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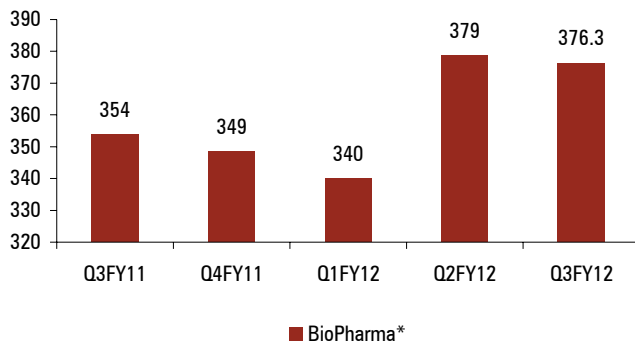
Revenues up 1% YoY

Biocon's revenues posted muted growth of 1% YoY to ₹ 518.5 crore, which were below our expectation of ₹ 597 crore, mainly on the back of lower growth in the biopharmaceutical business. The Biopharma business, excluding licensing income, grew marginally by 6% YoY (to ₹ 376.3 crore) against our expectation of 17%.

The Biopharma business excluding licensing income grew 6% YoY

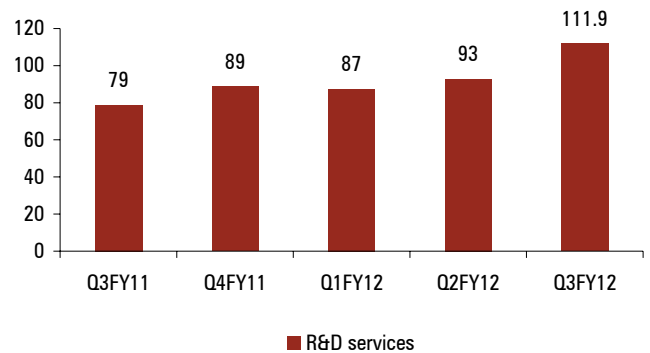
Licensing development fee during the quarter was ₹ 29 crore compared to ₹ 58 crore in the corresponding previous period. During the quarter, Biocon did not receive any licensing income from Mylan or other companies as against ₹ 19 crore last year.

Exhibit 2: Biopharma business up 6% YoY



Source: Company, ICICIdirect.com Research

Exhibit 3: R&D service business grows by 42% YoY



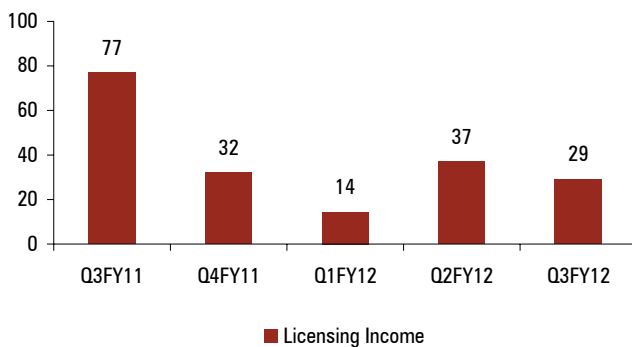
Source: Company, ICICIdirect.com Research

Launch of Insugen Pen device drives branded formulation growth by 49% YoY

With the recent launch of the Insupen device, its branded formulation business in the domestic formulation business grew 49% to ₹ 70 crore. Despite the launch of human Insulin and Glargine in the domestic market by Pfizer, favourable currency movement and Fidaxomicin API supplies to Optimer (although slowly), the biopharmaceutical business (excluding branded formulations and licensing income) remained almost flat at ₹ 306 crore YoY.

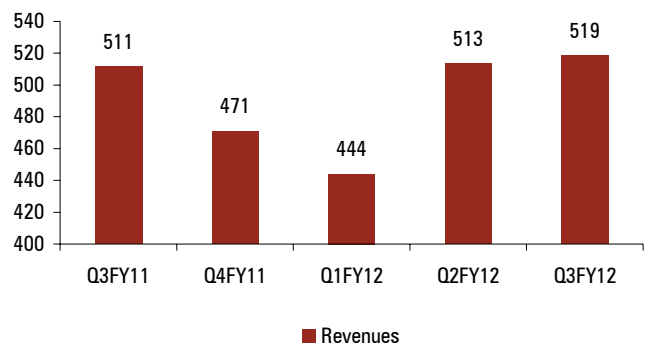
The research services business witnessed robust growth of 42% to ₹ 111.9 crore on the back of expansion by existing clients and favourable currency movement. Growth in constant currency was ~32%. With improving prospects, the management has indicated possible value unlocking via IPO in the next 12-18 months.

Exhibit 4: Licensing income declines sharply



Source: Company, ICICIdirect.com Research

Exhibit 5: Revenues impacted by lower production activities



Source: Company, ICICIdirect.com Research

Biocon is in active discussion with MNC Players for out-licensing Itolizumab

Biocon recently announced Phase III study of Itolizumab for chronic plaque psoriasis in December 2011. Itolizumab has successfully met the primary end point. The results indicate that multiple secondary endpoints after 12 and 28 weeks of treatment have also been met. The management has indicated that the company is in active discussions with MNC players for a possible out-licensing of the molecule.

Optimer has received marketing approval for Dificlir tablets (Fidaxomicin) in the European Union in December 2011. It has given indication of the possible launch of Dificlir tablets in EU markets in the last quarter of FY12. Biocon is the sole supplier of Fidaxomicin.

EBITDA margins fell by 734 bps

EBITDA margins declined 734 bps to 24.8% YoY below our expectation of 27.8% on the back of a sharp increase in the raw material cost and employee cost. The raw material cost as percentage of revenues increased by 410 bps to 40.2% on the back of lower production activities during the quarter. With increase in employees in both the R&D and manufacturing space, the employee cost increased 320 bps to 15.3%. However, R&D cost during the quarter stood at ₹ 33 crore compared to ₹ 55 crore in the corresponding previous period. Lower production activities coupled with lower licensing income led EBITDA to decline by 21.6% to ₹ 128.7 crore as against our expectation of ₹ 166 crore.

Net profit up 14% YoY

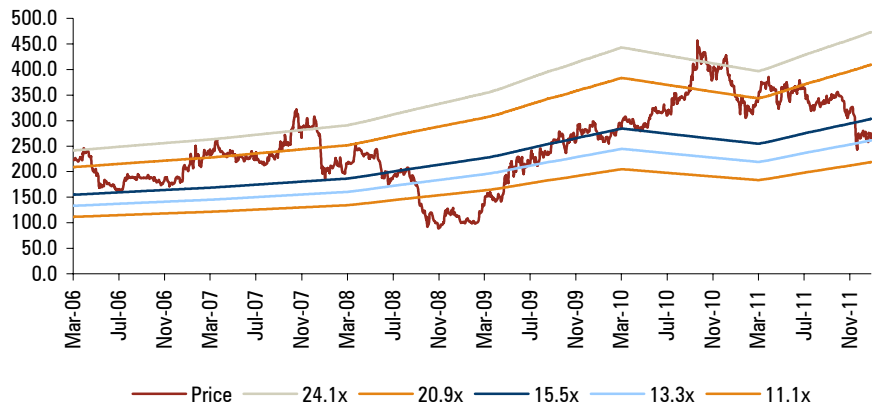
Other income during the quarter was higher by 93.6% to ₹ 13.7 crore on the back of forex gain of ₹ 4 crore during the quarter. Interest cost also declined by 54% to ₹ 2.9 crore. Lower taxation further restricted de-growth in net profit to 14% at ₹ 84.9 crore.

Valuation

Despite some new launches, favourable currency and supply of much talked Fidaxomicin API to Optimer, the biopharma business remained flat, thanks to lumpy licensing income and spikes in production activity to facilitate development activity.

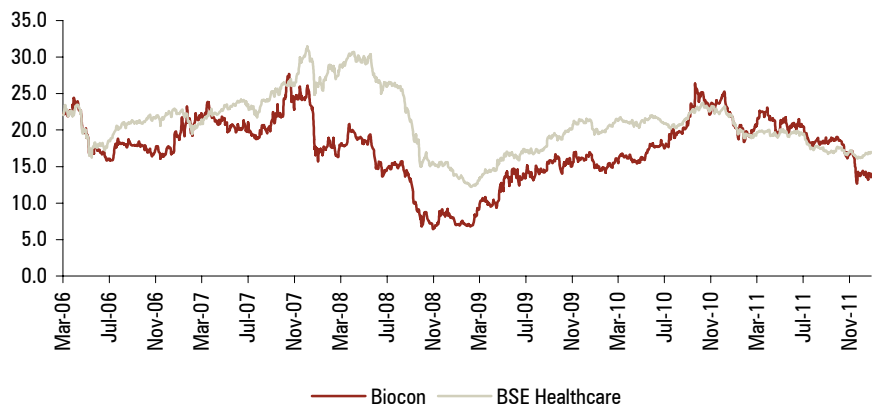
We expect sales and profits (after adjusting Axicorp number in FY11) to grow 18% and 11%, respectively between FY11 and FY13E. We have cut our revenues and profitability for FY13E by 7% and 15%, respectively, due to 1) delay in anticipated product launches through Pfizer deal in emerging markets and 2) slower off-take of Fidaxomicin API. Lumpiness of licensing income and its reporting is also adding to our concerns. Although positive news from Itolizumab studies holds promise, we will have to wait for a possible commercialisation deal. We have valued the stock at ₹ 366 i.e. 18x FY13E revised EPS of ₹ 20.4. We also recommend that investors who bought the stock at the time of our earlier recommendations hold on to the same.

Exhibit 6: One year forward PE Graph



Source: Company, ICICIdirect.com Research

Exhibit 7: One year forward PE Graph of company vs. BSE Healthcare Index



Source: Company, ICICIdirect.com Research

Financial summary

Profit and loss statement

	(₹ Crore)			
(Year-end March)	FY10	FY11	FY12E	FY13E
Revenues	2,367.8	2,776.4	2,032.1	2,492.1
Growth (%)	47.2	17.3	-26.8	22.6
Raw Material Expenses	1405.3	1539.7	850.5	1069.9
Employee Expenses	228.5	307.9	304.1	365.0
R & D Expenditure	78.4	118.0	128.7	199.0
Other expenses	184	218	203	174
Total Operating Expenditure	1896	2184	1486	1808
EBITDA	471.5	592.4	546.1	684.0
Growth (%)	45.8	25.6	-7.8	25.3
Depreciation	140	157	181	219
Interest	17	25	13	8
Other Income	37	37	44	40
PBT	351	447	396	497
EO	0	0	0	0
Taxation	49	72	67	89
PAT	303	375	329	407
MI	-10	-8	0	0
Net Profit	293.1	367.5	329.0	407.2
Growth (%)	212.6	25.4	-10.5	23.8
EPS (₹)	14.7	18.4	16.5	20.4

Source: Company, ICICIdirect.com Research

Cash flow statement

	(₹ Crore)			
(Year-end March)	FY10	FY11	FY12E	FY13E
Profit after Tax	293	368	329	407
Add: Depreciation	140	157	181	219
(Inc)/dec in Current Assets	142	520	-263	21
Inc/(dec) in CL and Provisions	-171	-110	118	-81
Others	0	0	0	0
CF from operating activities	404	934	365	567
(Inc)/dec in Investments	-63	-30	-140	0
Inc/(dec) in Fixed Assets	-170	-334	-233	-586
Inc/(dec) deferred tax liability	4	-1	0	0
Others	0	0	0	0
CF from investing activities	-229	-365	-373	-586
Issue/(Buy back) of Equity	0	0	0	0
Inc/(dec) in loan funds	-10	-179	-88	-41
Dividend paid & dividend tax	-45	-90	-70	-80
Inc/(dec) in Sec. premium	0	0	0	0
Others	8	1	-12	-14
CF from financing activities	-47	-268	-170	-135
Net Cash flow	128	301	-177	-153
Opening Cash	12	140	441	264
Closing Cash	140	441	264	111

Source: Company, ICICIdirect.com Research

Balance sheet

	(₹ Crore)			
(Year-end March)	FY10	FY11	FY12E	FY13E
Liabilities				
Equity Capital	100	100	100	100
Reserve and Surplus	1658	1933	2180	2494
Total Shareholders funds	1758	2033	2280	2594
Total Debt	514	334	247	205
Deferred Tax Liability	51	50	50	50
Minority Interest	34	38	38	38
Source of Funds	2,356	2,454	2,614	2,886
Assets				
Gross Block	1651	1810	2006	2237
Less: Acc Depreciation	486	633	823	823
Net Block	1165	1177	1183	1415
Capital WIP	76	180	225	360
Intangible assets	173	234	234	234
Total Fixed Assets	1413	1591	1642	2009
Investments	431	460	600	600
Inventory	372	414	334	410
Debtors	446	512	379	464
Loans and Advances	134	136	231	150
Cash	140	441	264	111
Total Current Assets	1092	1503	1208	1135
Creditors	491	986	752	751
Provisions	89	114	85	107
Total Current Liabilities	580	1100	837	858
Net Current Assets	512	403	371	277
Others Assets	0	0	0	0
Application of Funds	2,356	2,454	2,614	2,886

Source: Company, ICICIdirect.com Research

Key ratios

(Year-end March)	FY10	FY11	FY12E	FY13E
Per share data (₹)				
EPS	14.7	18.4	16.5	20.4
Cash EPS	21.7	26.2	25.5	31.3
BV	87.9	101.6	114.0	129.7
DPS				
Cash Per Share				
Operating Ratios (%)				
EBITDA Margin	19.9	21.3	26.9	27.4
PBT / Revenues	14.8	16.1	19.5	19.9
PAT Margin	12.4	13.2	16.2	16.3
Inventory days	57	54	60	60
Debtor days	69	67	68	68
Creditor days	76	130	135	110
Return Ratios (%)				
RoE	16.7	18.1	14.4	15.7
RoCE	15.6	19.3	15.6	17.5
RoIC	14.3	19.7	14.5	14.9
Valuation Ratios (x)				
P/E	18.1	14.5	16.2	13.1
EV / EBITDA	12.1	8.8	9.7	7.9
EV / Revenues	2.4	1.9	2.6	2.2
Market Cap / Revenues	2.2	1.9	2.6	2.1
Price to Book Value	3.0	2.6	2.3	2.1
Solvency Ratios				
Debt/EBITDA	1.1	0.6	0.5	0.3
Debt / Equity	0.3	0.2	0.1	0.1
Current Ratio	1.9	1.4	1.4	1.3
Quick Ratio	1.2	1.0	1.0	0.8

Source: Company, ICICIdirect.com Research

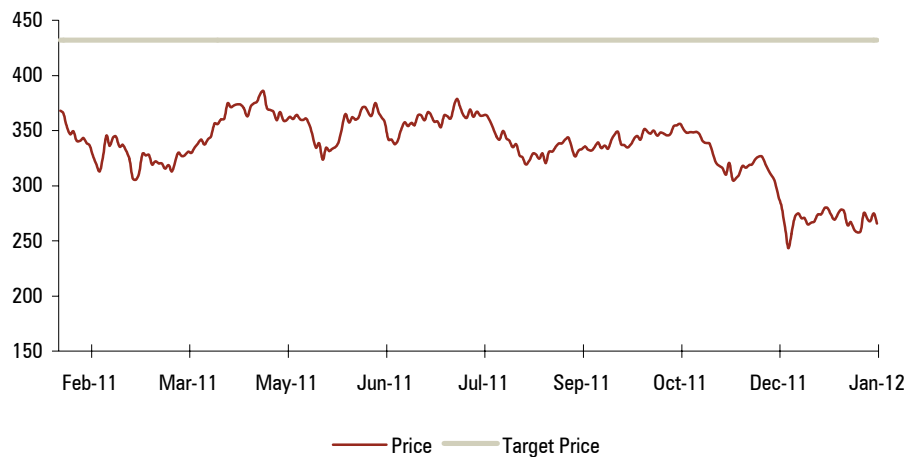
ICICIdirect.com coverage universe (Pharma)

Aurobindo Pharma					Sales (₹ Cr)	EPS (₹)	PE(x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	AURPHA	CMP	110	FY10	3575.4	19.4	5.7	6.4	30.8	16.9
		Target	141	FY11	4381.5	19.4	5.7	5.6	23.0	16.2
Mcap (₹crore)	3208.2	Upside (%)	28	FY12E	4541.9	-5.0	NA	9.1	NA	8.7
				FY13E	5088.3	17.7	6.2	6.2	19.4	13.6
Biocon										
Idirect Code	BIOCON	CMP	266	FY10	2367.8	14.7	18.1	12.1	16.7	15.6
		Target	366	FY11	2770.5	18.4	14.5	8.8	18.1	19.3
Mcap (₹crore)	5311.0	Upside (%)	38	FY12E	2022.5	16.5	16.1	9.7	14.4	15.6
				FY13E	2488.1	20.4	13.0	7.9	15.7	17.5
Cadila Healthcare										
Idirect Code	CADHEA	CMP	636	FY10	3686.8	24.7	25.8	17.2	37.0	25.8
		Target	839	FY11	4582.8	34.7	18.3	14.1	38.7	28.5
Mcap (₹crore)	13029.2	Upside (%)	32	FY12E	5131.6	35.9	17.8	12.6	30.9	26.7
				FY13E	6054.1	46.6	13.6	9.7	31.8	30.5
Divi's Laboratories										
Idirect Code	DIVLAB	CMP	805	FY10	946.7	25.9	31.0	23.9	22.3	24.0
		Target	756	FY11	1318.5	32.8	24.5	20.0	23.8	24.6
Mcap (₹crore)	10678.0	Upside (%)	-6	FY12E	1654.4	36.0	22.3	16.4	22.5	25.5
				FY13E	1938.8	42.4	19.0	13.6	22.5	25.2
Elder Pharma										
Idirect Code	ELDPHA	CMP	346	FY10	721.6	26.2	13.2	9.9	10.3	9.9
		Target	428	FY11	959.5	33.5	10.3	7.9	10.5	9.4
Mcap (₹crore)	710.9	Upside (%)	24	FY12E	1303.7	43.8	7.9	5.8	12.7	12.8
				FY13E	1491.2	61.1	5.7	5.2	15.6	14.7
Glenmark Pharma										
Idirect Code	GLEPHA	CMP	314	FY10	2500.7	12.2	25.7	16.6	14.1	14.8
		Target	396	FY11	2953.6	16.9	18.5	17.5	22.5	16.7
Mcap (₹crore)	8496.6	Upside (%)	26	FY12E	3708.2	19.0	16.6	11.1	21.0	18.9
				FY13E	4026.5	23.3	13.5	10.4	21.5	22.1
Indoco Remedies										
Idirect Code	INDREM	CMP	425	FY10	398.3	34.2	12.4	10.3	13.6	11.5
		Target	429	FY11	478.5	41.6	10.2	8.2	14.6	12.4
Mcap (₹crore)	521.8	Upside (%)	1	FY12E	540.2	41.1	10.3	7.2	13.0	12.6
				FY13E	671.1	53.6	7.9	5.9	15.0	15.2
Ipca Laboratories										
Idirect Code	IPCLAB	CMP	300	FY10	1552.7	21.0	14.3	12.6	23.9	21.4
		Target	358	FY11	1881.1	19.5	15.4	11.4	24.2	19.9
Mcap (₹crore)	3778.6	Upside (%)	19	FY12E	2216.2	21.4	14.0	8.7	21.9	24.1
				FY13E	2526.1	22.7	13.2	7.1	23.4	25.4
Lupin										
Idirect Code	LUPIN	CMP	459	FY10	4870.8	15.3	30.1	21.8	27.2	22.5
		Target	530	FY11	5832.0	19.3	23.8	17.8	26.8	22.2
Mcap (₹crore)	20505.6	Upside (%)	15	FY12E	7033.7	21.4	21.4	14.7	24.0	23.6
				FY13E	8738.6	27.9	16.4	11.2	25.0	26.9
Opto Circuits										
Idirect Code	OPTCIR	CMP	245	FY10	1077.6	14.0	17.6	12.8	24.9	26.3
		Target	309	FY11	1585.6	19.8	12.4	11.7	27.0	17.3
Mcap (₹crore)	4575.2	Upside (%)	26	FY12E	2275.5	24.6	10.0	8.5	26.5	20.7
				FY13E	2567.8	28.1	8.7	7.0	24.6	21.2
Strides Arcolab										
Idirect Code	STRARC	CMP	495	CY09	1328.3	18.3	27.0	20.2	13.2	6.3
		Target	521	CY010	1761.1	20.5	24.2	11.6	9.5	9.2
Mcap (₹crore)	2891.6	% Upside	5%	CY11E	2494.6	35.8	13.8	12.5	14.1	11.2
				CY12E	1940.0	47.4	10.4	8.0	18.1	10.6

ICICIdirect.com coverage universe (Pharma)

					Sales (₹ cr)	EPS (₹)	PE(x)	EV/E (x)	RoNW (%)	RoCE (%)
Sun Pharma										
Idirect Code	SUNPHA	CMP	517	FY10	4019.8	13.0	39.7	37.5	17.3	18.7
		Target	510	FY11	5721.4	17.5	29.5	26.0	19.2	21.4
Mcap (₹crore)	53570.7	% Upside	-1%	FY12E	7140.8	19.8	26.1	20.6	19.2	23.1
				FY13E	8363.4	23.2	22.3	18.1	19.0	21.9
Torrent Pharma										
Idirect Code	TORPHA	CMP	549	FY10	1904.0	27.3	20.1	11.7	31.2	29.1
		Target	620	FY11	2204.9	31.9	17.2	12.2	29.2	22.1
Mcap (₹crore)	4644.3	% Upside	13%	FY12E	2647.0	43.0	12.8	8.7	31.4	26.1
				FY13E	3038.6	47.7	11.5	7.7	27.6	25.4
Unichem Laboratories										
Idirect Code	UNILAB	CMP	141	FY10	747.4	13.6	20.1	11.7	21.9	24.7
		Target	134	FY11	824.0	10.5	17.2	12.2	15.4	18.1
Mcap (₹crore)	1269.0	% Upside	-4%	FY12E	902.1	8.3	12.8	8.7	11.5	13.1
				FY13E	1065.0	13.4	11.5	7.7	16.8	18.4

Exhibit 8: Recommendation History



Source: Company, ICICIdirect.com Research

Exhibit 9: Recent Releases

Date	Event	CMP	Target Price	Rating
8-Apr-11	Q4FY11 Preview	371	432	BUY
29-Apr-11	Q4FY11 Result Update	369	432	BUY
4-Jul-11	Q1FY12 Preview	364	432	BUY
22-Jul-11	Q1FY12 Result Update	361	432	BUY
5-Oct-11	Q2FY12 Preview	337	432	BUY
21-Oct-11	Q1FY12 Result Update	346	432	BUY
6-Jan-12	Q2FY12 Preview	269	432	BUY

Source: Company, ICICIdirect.com Research

RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: > 15%/20% for large caps / midcaps, respectively, with high conviction;

Buy: > 10%/ 15% for large caps / midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;

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