



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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Event update@ Dalal & Broacha

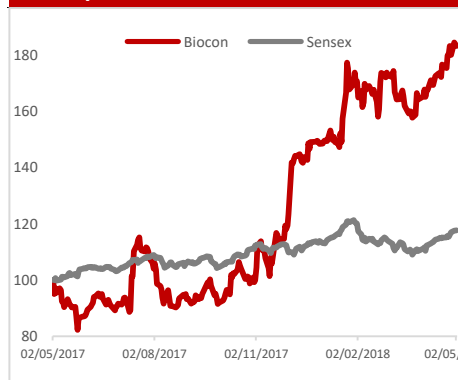
BUY

Current Price	607
Target Price	735
Upside/Downside	21%
52 Week Range	678/295

Key Share Data

Market Cap (Rs.bn)	232
Market Cap (US\$ mn)	3569
No of o/s shares (mn)	600
Face Value	5
Monthly Avg.vol (BSE+NSE) Nos'000	2519
BSE Code	532523
NSE Code	BIOCON
Bloomberg	BIOS IN Equity

Price performance



% Shareholding

	Mar-18	Dec-17
Promoters	60.67	60.67
FII	17.0	16.9
DII	3.60	3.49
Others	18.7	18.94
Total	100	100

Key Financials

Year	Net sales	% Growth	EBIDTA	OPM (%)	PAT ex EI	PAT incl EI	% Growth	EPS*	PE (x)	RoE (%)	RoCE (%)
FY16	33,372.0	8.0	7,240.0	21.7	2,441.0	8,195.0	(37.8)	41.0	14.9	7.9	15.3
FY17	39,216.0	17.5	9,795.0	25.0	6,121.0	6,121.0	150.8	30.6	19.9	13.9	9.5
FY18	41,297.0	5.3	8,354.0	20.2	3,787.0	3,787.0	(39.2)	6.3	96.4	8.5	6.0
FY19E	51,280.0	24.2	11,028.9	21.5	7,811.0	7,811.0	109.7	13.0	46.7	10.7	8.4
FY20E	61,517.7	20.0	14,351.8	23.3	11,442.1	11,442.1	46.5	19.1	31.9	12.6	11.1

*Adjusted for bonus in the proportion of 2:1

On June 4, 2018 Biocon and Mylan received USFDA approval for Pegfilgrastim, as the first biosimilar to Neulasta. The approval is the second success point of Biocon+Mylan after the approval of Trastuzumab in December'17. We are positive on the developments at Biocon. The supplies into the US market will enable improvement in profitability as a manufacturing partner to Mylan, and also bring in its share of profit. The increased asset sweating will also improve operational efficiencies. We recommend investors to BUY Biocon with a target price of Rs 735.

First to file status to Pegfilgrastim, Mylan expects to launch in a month

- The USFDA approved Mylan's Fulphila (Pegfilgrastim), a biosimilar to Neulasta (Pegfilgrastim), co-developed with Biocon.
- Fulphila has been approved to reduce the duration of febrile neutropenia (fever or other signs of infection with a low count of neutrophils, a type of white blood cells) in patients treated with chemotherapy in certain types of cancer.
- Neulasta had U.S. sales of \$4.2 billion for the 12 months ending March 31, 2018, according to IQVIA.
- Fulphila is the second FDA-approved biosimilar through the Mylan-Biocon partnership, after the approval to Trastuzumab in December'17. Trastuzumab is used in the treatment of breast cancer.
- Mylan plans to launch Fulphila over a month's time. Being the first generic, we expect substantial market share in the first year of launch.
- We expect Biocon to receive its first share of profit in Q3FY19.
- Further, biosimilar supplies to US will bring in operational efficiencies leading to an improvement in operating margins. We expect Biocon's EBITDA margins to improve 130 bps to 21.5% by FY19.

EMA clearance to Bengaluru (Trastuzumab), USFDA approval to Glargine key

Biocon + Mylan's Glargine ANDA received a complete response letter (CRL) from the USFDA on June 4 '18. In October'17, Sanofi's litigation on Mylan invoked a 30 month stay on the US launch of Glargine. Biocon + Mylan will need to provide additional clinical data to the USFDA relating to change of manufacturing site from Bengaluru to Malaysia. We have factored in Glargine launch in Europe as a part of Q3FY19 estimates and in US in FY21E.

Outlook & Valuation

We are very positive on Biocon for establishing itself as a leading Indian player in the development of biosimilars. An early launch of Pegfilgrastim in US will enable Mylan to gain market share thereby increasing Biocon's share of profit. We have revised our estimates upwards, after factoring in the share of profit from Pegfilgrastim and a marginal change in the expected launch of Trastuzumab.

Biocon's share price has corrected due to selling pressure in the last week. In view of the proposed launches in US and Europe leading to an improvement in profitability and the rich research pipeline of biosimilars, we recommend investors to BUY Biocon with a target price of Rs 735.



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BIOCON FINANCIALS											
P&L (Rs mn)	FY16	FY17	FY18	FY19E	FY20E	Cash Flow St. (Rs. mn)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	33,372.0	39,216.0	41,297.0	51,280.0	61,517.7	Net Profit	8,195.0	6,121.0	3,724.0	7,811.0	11,442.1
Raw materials	(14,805.0)	(16,109.0)	(16,361.0)	(20,616.1)	(24,324.8)	Add: Dep. & Amort.	2,423.0	2,772.0	3,851.0	4,291.1	4,411.1
Employee costs	(5,582.0)	(6,872.0)	(9,311.0)	(10,987.0)	(12,635.0)	Cash profits	10,618.0	8,893.0	7,575.0	12,102.1	15,853.2
Other Expenses	(3,003.0)	(3,778.0)	(5,111.0)	(6,133.2)	(7,053.2)	(Inc)/Dec in					
Research & Devt	(2,742.0)	(2,662.0)	(2,160.0)	(2,514.8)	(3,152.9)	-Sundry debtors	560.0	(1,687.0)	(1,807.0)	(1,302.9)	(2,384.1)
Cost of sales	(26,132.0)	(29,421.0)	(32,943.0)	(40,251.1)	(47,165.9)	-Inventories	(897.0)	(929.0)	(872.0)	(2,311.0)	(1,863.5)
Operating Profit	7,240.0	9,795.0	8,354.0	11,028.9	14,351.8	-Loans/advances	1,279.0	(1,264.0)	224.0	(853.4)	(1,024.1)
Depreciation	(2,423.0)	(2,772.0)	(3,851.0)	(4,291.1)	(4,411.1)	-Sundry creditors	1,805.0	1,299.0	2,656.0	941.1	1,977.8
PBIT	4,817.0	7,023.0	4,503.0	6,737.8	9,940.7	-Others	(7,500.0)	2,893.0	1,898.0	2,147.0	2,576.4
Other income	1,230.0	1,571.0	2,062.0	2,268.2	2,495.0	Change in WC	(4,753.0)	312.0	2,099.0	(1,379.2)	(717.5)
Interest	(293.0)	(260.0)	(615.0)	(572.5)	(572.5)	CF from Oper. activities	5,865.0	9,205.0	9,674.0	10,723.0	15,135.7
Profit before tax	5,754.0	8,334.0	5,950.0	8,433.5	11,863.2	CF from Inv. activities	(14,330.0)	(11,937.0)	(5,199.0)	(11,406.0)	(3,288.2)
Provision for tax	(2,569.0)	(1,616.0)	(1,569.0)	(2,361.4)	(3,677.6)	CF from Fin. activities	14,476.0	(2,211.0)	(3,277.0)	(2,669.3)	(2,636.2)
Profit after Tax	3,185.0	6,718.0	4,381.0	6,072.1	8,185.6	Cash generated/(utilised)	6,011.0	(4,943.0)	1,198.0	(3,352.3)	9,211.3
Minority Interest	(744.0)	(760.0)	(807.0)	(887.7)	(976.5)	Cash at start of the year	9,375.0	15,386.0	10,443.0	13,228.0	9,875.7
Share of Profit- Trastuzumab	-	163.0	213.0	255.6	306.7	Cash at end of the year	15,386.0	10,443.0	13,228.0	9,875.7	19,086.9
Share of Profit- Trastuzumab	-	-	-	2,370.9	3,926.2	Ratios	FY16	FY17	FY18	FY19E	FY20E
Adjusted PAT	2,441.0	6,121.0	3,787.0	7,811.0	11,442.1	OPM	21.7	25.0	20.2	21.5	23.3
Extraordinary Items	5,754.0	-	-	-	-	NPM	23.7	15.0	8.7	14.6	17.9
Reported PAT	8,195.0	6,121.0	3,787.0	7,811.0	11,442.1	Tax rate	(44.6)	(19.4)	(26.4)	(28.0)	(31.0)
Balance Sheet	FY16	FY17	FY18	FY19E	FY20E	Growth Ratios (%)					
Equity capital *	1,000.0	1,000.0	3,000.0	3,000.0	3,000.0	Net Sales	8.0	17.5	5.3	24.2	20.0
Reserves	39,338.0	47,377.0	48,808.0	53,619.0	62,061.1	Operating Profit	4.1	35.3	(15.4)	33.0	30.1
Net worth	40,338.0	48,377.0	51,808.0	56,619.0	65,061.1	PAT excl. EI	(37.8)	150.8	(39.2)	109.7	46.5
Def. Tax Liab.+Minority Int.	3,623.0	3,761.0	4,677.0	5,144.7	5,659.2	Per Share (Rs.)*					
Secured loans	20,724.0	21,082.0	17,898.0	17,898.0	17,898.0	Net Earnings (EPS)	41.0	30.6	6.3	13.0	19.1
Unsecured loans	3,949.0	972.0	1,303.0	1,303.0	1,303.0	Cash Earnings (CPS)	53.1	44.5	12.7	20.2	26.4
Total debt	24,673.0	22,054.0	19,201.0	19,201.0	19,201.0	Dividend	10.0	10.0	5.0	5.0	5.0
Other liab	3,905.0	3,516.0	3,423.0	4,107.6	4,929.1	Book Value	201.7	241.9	86.3	94.4	108.4
CAPITAL EMPLOYED	72,539.0	77,708.0	79,109.0	85,072.3	94,850.3	Free Cash Flow	(42.3)	(13.7)	7.5	(1.1)	19.7
Gross block	33,113.0	53,269.0	69,519.0	71,519.0	73,519.0	Valuation Ratios					
Accumulated depreciation	(16,302.0)	(17,740.0)	(21,591.0)	(25,882.1)	(30,293.3)	P/E(x)	14.9	19.9	96.4	46.7	31.9
Net block	16,811.0	35,529.0	36,297.0	45,636.9	43,225.7	P/B(x)	3.0	2.5	7.0	6.4	5.6
Capital WIP	20,597.0	5,327.0	7,789.0	5,000.0	5,000.0	EV/EBIDTA(x)	18.1	13.6	15.3	11.9	8.5
Total fixed assets	37,408.0	40,856.0	44,086.0	50,636.9	48,225.7	EV/SALES (x)	3.9	3.4	3.1	2.6	2.0
Intangible Assets	2,470.0	3,787.0	5,937.0	5,937.0	5,937.0	Div. Yield(%)	1.6	1.6	0.8	0.8	0.8
Investments	9,015.0	12,538.0	6,752.0	7,363.4	8,708.5	FCF Yield(%)	(7.0)	(2.2)	1.2	(0.2)	3.2
Other non current assets	2,287.0	2,775.0	3,186.0	3,823.2	4,587.8	Return Ratios (%)					
Inventories	5,424.0	6,353.0	7,225.0	9,536.0	11,399.5	ROE	7.9	13.9	8.5	10.7	12.6
Sundry debtors	7,145.0	8,832.0	10,639.0	11,941.9	14,326.0	ROCE	15.34	9.50	6.05	8.43	11.15
Cash & bank	15,386.0	10,443.0	13,228.0	9,875.7	19,086.9						
Loans & advances	3,227.0	4,491.0	4,267.0	5,120.4	6,144.5						
Other current assets	2,219.0	997.0	1,370.0	1,507.0	1,657.7						
Sundry creditors	(6,098.0)	(7,397.0)	(10,053.0)	(10,994.1)	(12,972.0)						
Acceptances	(5,271.0)	(8,009.0)	(9,777.0)	(11,732.4)	(14,078.9)						
Provisions	(673.0)	(828.0)	(958.0)	(1,149.6)	(1,379.5)						
Working capital	21,359.0	17,752.0	19,148.0	17,311.8	27,391.3						
CAPITAL DEPLOYED	72,539.0	77,708.0	79,109.0	85,072.3	94,850.3						

* Increase in Equity on account of bonus issue in the proportion of 2:1



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