



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Charulata Gaidhani (022) 67141446

Result update@ Dalal & Broacha

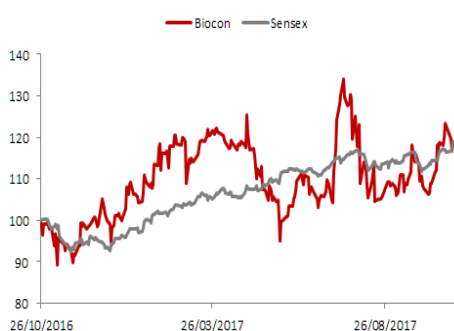
Buy on Dips

Current Price	399
Target Price	
Upside/Downside	
52 Week Range	424/225

Key Share Data

Market Cap (Rs.bn)	213
Market Cap (US\$ mn)	3295
No of o/s shares (mn)	600
Face Value	5
Monthly Avg.vol (BSE+NSE) Nos'000	2127
BSE Code	532523
NSE Code	BIOCON
Bloomberg	BIOS IN Equity

Price performance



% Shareholding

	Sep-17	Jun-17
Promoters	60.67	60.67
FII	15.42	15.07
DII	3.46	3.37
Others	20.45	20.89
Total	100	100

Biocon Q2FY18 results were far below estimates. Plant modifications undertaken to comply with regulatory requirements led to disruptions in production, leading to de-growth in biopharmaceuticals.

Muted revenue growth, profits fall due to Malaysia plant overheads

Revenues grew 2% to Rs 9686 mn due to 2% de-growth in biopharmaceuticals and 11% growth in contract research services (Syngene). Gross Profit declined 3% to Rs 5910 mn. GPM was 280 bps lower at 61%.

EBITDA declined 24% to Rs 1823 mn. EBITDA margins were 640 bps lower at 18.8% in view of higher overheads from the Malaysia plant. PBT declined 38% to Rs 1257 mn. PAT declined 53% to Rs 688 mn due to higher taxes. EPS for the quarter was at Rs 1.1.

Key business developments

- In biopharmaceuticals, the small molecules business was impacted due to lower off-take due to pricing pressure faced by clients. Revenues from small molecules de-grew 13% to Rs 3505 mn.
- The Biologics business was flat at Rs 1557 mn, whereas Branded Formulations (India and UAE) grew 29% to Rs 1759 mn.
- Contract Research services (Syngene) grew 11% to Rs 3352 mn.
- Biocon + Mylan have filed for Glargine under 505 (b)(2) with the USFDA during the quarter.
- The company also launched Rosuvastatin tablets in the US during Q2FY18.
- Biocon received a Complete Response Letter (CRL) for its Pegfilgrastin ANDA for additional CMC data requested by the USFDA. The company is working towards an expedited submission of the data.
- Biocon is on track to complete its Corrective Action and Preventive Measures (CAPA) and does not expect any delays in launch timings.
- The Glargine (EU) dossier review is in late stage progress.

Outlook & Valuation

The production discrepancies were not anticipated at Biocon. However, during our meeting with the management in September, Biocon indicated that all regulatory matters have been dealt with. We believe H1FY18 is an exception due to regulatory hiccups and additional overheads from Malaysia plant. Biocon is on its way to scale up with Glargine launch in EU and US, Trastuzumab close to receiving approval in December and many more to follow. At Rs 365, Biocon trades at 28x FY19E EPS of Rs 13.1. The stock may see a correction due to lower than anticipated earnings. We recommend investors to BUY ON DIPS with a target price of Rs 420.

Key Financials

Year	Net sales	% Growth	EBIDTA	GPM (%)	PAT ex EI	PAT Incl EI	% Growth	EPS*	PE (x)	RoE (%)	RoCE (%)
FY16	33,372.0	8.0	7,740.0	21.7	7,441.0	8,195.0	(37.8)	41.0	8.9	7.9	15.3
FY17	38,763.0	16.2	9,347.0	24.1	6,121.0	6,121.0	150.8	30.6	11.9	13.9	8.9
FY18F	46,188.9	19.2	10,615.0	23.0	4,702.3	4,702.3	(73.2)	7.8	46.6	10.7	7.5
* FY19F	58,980.9	27.7	15,410.6	26.1	7,871.6	7,871.6	67.4	13.1	27.8	15.6	13.1

Adjusted for bonus in the proportion of 2:1



Q2FY18 Results

Particulars	Q2FY18	Q1FY18	Q2FY17	%		FY17
				% yoy	qoq	
Net Sales	9686.0	9337.0	9541.0	1.5%	3.7%	39216.0
Raw Material Consumed	(3776.0)	(3595.0)	(3455.0)			(14466.0)
Employee Expenses	(2255.0)	(2133.0)	(1804.0)			(7470.0)
Research & Development Exps	(539.0)	(582.0)	(670.0)			(2690.0)
Other Expenses	(1293.0)	(1043.0)	(1129.0)			(4490.0)
Excise	0.0	(63.0)	(83.0)			
Total Exp	(7863.0)	(7416.0)	(7141.0)	10.1%	6.0%	(29116.0)
PBDIT	1823.0	1921.0	2400.0	24.0%	-5.1%	10100.0
<i>OPM (%)</i>	<i>18.8%</i>	<i>20.6%</i>	<i>25.2%</i>			<i>25.8%</i>
Other Income	508.0	540.0	384.0			8334.0
Interest	(138.0)	(161.0)	(65.0)			(260.0)
Depreciation	(936.0)	(988.0)	(683.0)			(2772.0)
Profit before tax	1257.0	1312.0	2036.0	38.3%	-4.2%	8334.0
Tax (incl. on exceptional income)	(425.0)	(376.0)	(417.0)			(1616.0)
Profit After tax	832.0	936.0	1619.0	48.6%	11.1%	6718.0
<i>NPM (%)</i>	<i>8.6%</i>	<i>10.0%</i>	<i>17.0%</i>			<i>15.2%</i>
Less: Minority interest	(203.0)	(164.0)	(198.0)			(760.0)
PAT	629.0	772.0	1421.0			5958.0
Share of Profit	59.0	41.0	46.0			
Extraordinary Items after tax	0.0	0.0	0.0			0.0
Adjusted PAT	688.0	813.0	1467.0	53.1%	15.4%	5958.0
<i>Adj. NPM (%)</i>	<i>7.1%</i>	<i>8.7%</i>	<i>15.4%</i>			<i>15.2%</i>
Other Comprehensive Income	20.0	19.0	316.0			
Total Comprehensive Income	708.0	832.0	1783.0			
Equity *	600	600	200			200
EPS - Diluted (Rs)	1.15	1.36	2.45			10.20

* Increase in Equity through bonus issue of 2:1



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BIOCON FINANCIALS									
P&L (Rs mn)	FY16	FY17	FY18E	FY19E	Cash Flow St. (Rs. mn)	FY16	FY17	FY18E	FY19E
Net Sales	33,377.0	38,763.0	46,188.9	58,980.9	Net Profit	8,195.0	6,121.0	4,702.3	7,871.6
Raw materials	(14,805.0)	(16,109.0)	(19,891.8)	(25,231.9)	Add: Dep. & Amort.	2,423.0	2,772.0	4,866.3	4,648.7
Employee costs	(5,587.0)	(6,872.0)	(7,902.8)	(9,088.2)	Cash profits	10,618.0	8,893.0	9,568.6	12,520.3
Other Expenses	(3,003.0)	(3,778.0)	(4,155.8)	(4,571.4)	(Inc)/Dec in				
Research & Devt	(2,742.0)	(2,662.0)	(3,623.6)	(4,678.8)	-Sundry debtors	560.0	(1,687.0)	(3,189.8)	(3,329.4)
Cost of sales	(26,132.0)	(29,421.0)	(35,573.9)	(43,570.4)	-Inventories	(897.0)	(929.0)	(1,622.3)	(2,141.1)
Operating Profit	7,240.0	9,342.0	10,615.0	15,410.6	-Loans/advances	1,279.0	(672.0)	(779.8)	(935.8)
Depreciation	(2,423.0)	(2,772.0)	(4,866.3)	(4,648.7)	-Sundry creditors	1,805.0	1,299.0	232.7	2,048.3
PBIT	4,817.0	6,570.0	5,748.6	10,761.8	-Others	(7,500.0)	1,866.0	1,562.0	1,874.4
Other income	1,230.0	2,024.0	2,377.6	2,560.4	Change in WC	(4,753.0)	(123.0)	(3,797.2)	(2,483.6)
Interest	(293.0)	(260.0)	(551.4)	(551.4)	CF from Oper. activities	5,865.0	8,770.0	5,771.4	10,036.7
Profit before tax	5,754.0	8,334.0	7,524.9	12,770.8	CF from Inv. activities	(15,416.0)	(9,440.0)	(5,598.0)	(5,065.0)
Provision for tax	(2,569.0)	(1,616.0)	(2,182.2)	(4,214.4)	CF from Fin. activities	14,476.0	(1,839.0)	(2,782.8)	(2,761.1)
Profit after Tax	3,185.0	6,718.0	5,342.7	8,556.5	Cash generated/(utilised)	4,925.0	(2,509.0)	(2,609.4)	2,210.7
Minority Interest	(744.0)	(760.0)	(836.0)	(919.6)	Cash at start of the year	9,375.0	15,386.0	10,443.0	7,994.4
Share of Profit	-	163.0	195.6	234.7	Cash at end of the year	15,386.0	10,443.0	7,994.4	10,398.1
Adjusted PAT	2,441.0	6,121.0	4,702.3	7,871.6	Ratios	FY16	FY17	FY18E	FY19E
Extraordinary Items	5,754.0	-	-	-	GPM	21.7	24.1	23.0	26.7
Reported PAT	8,195.0	6,121.0	4,702.3	7,871.6	NPM	23.7	15.0	9.7	12.8
Balance Sheet	FY16	FY17	FY18E	FY19E	Tax rate	(44.6)	(19.4)	(29.0)	(33.0)
Equity capital *	1,000.0	1,000.0	3,000.0	3,000.0	Growth Ratios (%)				
Reserves	39,338.0	47,377.0	47,079.3	51,950.9	Net Sales	8.0	16.2	19.2	27.7
Net worth	40,338.0	48,377.0	50,079.3	54,950.9	Operating Profit	4.1	29.0	13.6	45.2
Def. Tax Liab.+Minority Int.	3,623.0	4,725.0	5,101.1	5,514.8	PAT excl. FI	(37.8)	150.8	(23.2)	67.4
Secured loans	20,724.0	21,082.0	21,082.0	21,082.0	Per Share (Rs.)*				
Unsecured loans	3,949.0	972.0	972.0	972.0	Net Earnings (EPS)	41.0	30.6	7.8	13.1
Total debt	24,673.0	22,054.0	22,054.0	22,054.0	Cash Earnings (CPS)	53.1	44.5	15.9	20.9
Other liab	3,905.0	3,579.0	4,294.8	5,153.8	Dividend	10.0	10.0	5.0	5.0
CAPITAL EMPLOYED	72,539.0	78,735.0	81,529.2	87,673.4	Book Value	201.7	241.9	83.5	91.6
Gross block	33,113.0	53,269.0	69,519.0	71,519.0	Free Cash Flow	(47.8)	(3.4)	0.3	8.3
Accumulated depreciation	(16,302.0)	(17,740.0)	(22,606.3)	(22,255.1)	Valuation Ratios				
Net block	16,811.0	35,529.0	46,912.7	44,263.9	P/E(x)	8.9	11.9	46.6	27.8
Capital WIP	20,597.0	5,327.0	-	2,000.0	P/B(x)	1.8	1.5	4.4	4.0
Total fixed assets	37,408.0	40,856.0	46,912.7	46,263.9	FV/FRIIDTA(x)	11.4	9.1	8.2	5.5
Intangible Assets	2,470.0	3,787.0	3,787.0	3,787.0	FV/SAIFS (x)	2.5	2.2	1.9	1.4
Investments	9,015.0	12,538.0	7,213.0	8,278.0	Div. Yield(%)	2.7	2.7	1.4	1.4
Other non current assets	2,287.0	2,775.0	3,330.0	3,996.0	FCF Yield(%)	(13.1)	(0.9)	0.1	2.3
Inventories	5,424.0	6,353.0	7,975.3	10,116.4	Return Ratios (%)				
Sundry debtors	7,145.0	8,832.0	12,021.8	15,351.2	ROF	7.9	13.9	10.7	15.6
Cash & bank	15,386.0	10,443.0	7,994.4	10,398.1	ROCF	15.34	8.88	2.52	13.10
Loans & advances	3,227.0	3,899.0	4,678.8	5,614.6					
Other current assets	2,219.0	1,589.0	1,747.9	1,922.2					
Sundry creditors	(6,098.0)	(7,397.0)	(7,629.7)	(9,678.0)					
Acceptances	(5,271.0)	(6,982.0)	(8,378.4)	(10,054.1)					
Provisions	(673.0)	(828.0)	(993.6)	(1,192.3)					
Working capital	21,359.0	18,779.0	20,286.5	25,348.5					
CAPITAL DEPLOYED	72,539.0	78,735.0	81,529.2	87,673.4					

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



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Contact	Email ID	Contact No.	Sector
Mr. Kunal Bhatia	kunal.bhatia@dalal-broacha.com	022 67141442	Auto, Auto Ancillary, FMCG
Ms.Charulata Gaidhani	charulata.gaidhani@dalal-broacha.com	022 67141446	Pharma /Healthcare
Mr. Mayank Babla	mayank.babla@dalal-broacha.com	022 67141412	IT, Media, Telecom
Mr. Avinash Kumar	avinash.kumar@dalal-broacha.com	022 67141441	Capital Goods
Ms. Richa.Singh	richa.singh@dalal-broacha.com	022 67141444	Analyst

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021 Tel: 91-22- 2282 2992, 2287 6173, (D) 6630 8667
Fax: 91-22-2287 0092

E-mail: research@dalalbroachaindia.com, equity.research@dalal-broacha.com