



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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Result update@ Dalal & Broacha

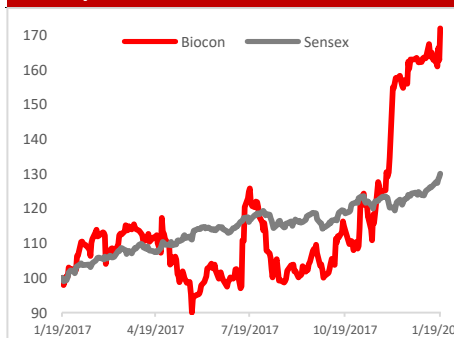
Buy on Dips

Current Price	607
Target Price	735
Upside/Downside	
52 Week Range	658/295

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	2009
BSE Code	532523
NSE Code	BIOCON
Bloomberg	BIOS IN Equity

Price performance



% Shareholding

	Dec-17	Mar-17
Promoters	60.67	60.68
FII	16.9	17.71
DII	3.49	1.57
Others	18.94	20.04
Total	100	100

Biocon Q3FY18 results were in line with expectations. Q3FY17 was an exceptionally good quarter. Pricing pressure in small molecules and capacity constraints due to plant requalification resulted in a muted performance. With USFDA approval to Biocon's plant, biologics performance should see traction Q4FY18 onwards.

India business offsets de-growth in biologics, Contract Research back to growth

Revenues grew 1% to Rs 10579 mn, driven by 5% de-growth in biopharmaceuticals and 17% growth in Contract Research. In Biopharmaceuticals, the 27% growth in branded formulations to Rs 1561 mn was offset by de-growth in biologics and small molecules. During the quarter, biologics de-grew 15% to Rs 1898 mn; small molecules de-grew 9% to Rs 3688 mn. Contract Research (Syngene) grew 17% to Rs 3877 mn indicating recovery to growth track.

Higher costs from Malaysia plant impact profitability

EBITDA de-grew 20% to Rs 2217 mn. EBITDA margins were 540 bps lower at 21% due to lower gross margins and 21% increase in employee costs. PBT de-grew 41% to Rs 1435 mn due to lower other income. PAT de-grew 46% to Rs 919 mn. EPS for the quarter was at Rs 1.5.

Collaboration with Sandoz, USA for nextgen affordable biosimilars

Biocon signed collaboration with Sandoz USA for the development & commercialization of next generation affordable biosimilars in the therapies of oncology and immunology. The collaboration includes end-to-end development by both partners individually with an equal sharing of costs and profits.

Key business developments

- The small molecules business continues to face pricing pressure due to channel consolidation in the US.
- The biologics business faced supply constraints due to disruptions on account of plant requalification.
- Biocon launched Bevacizumab in the Indian market during the quarter.
- During the quarter, Trastuzumab was approved by USFDA and ANVISA, Brazil.

Outlook & Valuation

9MFY18 have faced headwinds of pricing pressures in the US and capacity constraints due to plant requalification in biologics. With the plant approvals in place and USFDA and ANVISA approval to Trastuzumab, Biocon is poised for good growth over the next 2-3 years. At Rs 607, Biocon trades at 25x FY20E EPS of Rs 23.9. We recommend investors to BUY Biocon with a target price of Rs 735.

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	14.8	7.9	15.3
FY17	38,763.0	16.2	9,342.0	24.1	6,121.0	6,121.0	150.8	30.6	19.8	13.9	8.9
FY18E	44,241.2	14.1	10,287.3	23.3	4,469.7	4,469.7	(27.0)	7.4	81.5	10.3	7.1
FY19E	57,142.1	29.2	15,643.7	27.4	8,835.3	8,835.3	97.7	14.7	41.2	16.1	13.3
FY20E	68,749.4	20.3	20,352.4	29.6	14,347.8	14,347.8	62.4	23.9	25.4	17.8	16.3

*Adjusted for bonus in the proportion of 2:1



Q3FY18 Results

Particulars	Q3FY18	Q2FY18	Q3FY17	%		FY17
				% yoy	qoq	
Net Sales	10579.0	9686.0	10444.0	1.3%	9.2%	39216.0
Raw Material Consumed	(4238.0)	(3776.0)	(3679.0)			(14466.0)
Employee Expenses	(2353.0)	(2255.0)	(1942.0)			(7470.0)
Research & Development Exps	(579.0)	(539.0)	(850.0)			(2690.0)
Other Expenses	(1192.0)	(1293.0)	(1143.0)			(4490.0)
Excise	0.0	0.0	(68.0)			
Total Exp	(8362.0)	(7863.0)	(7682.0)	8.9%	6.3%	(29116.0)
PBDIT	2217.0	1823.0	2762.0	19.7%	21.6%	10100.0
<i>OPM (%)</i>	<i>21.0%</i>	<i>18.8%</i>	<i>26.4%</i>			<i>25.8%</i>
Other Income	339.0	508.0	474.0			8334.0
Interest	(147.0)	(138.0)	(88.0)			(260.0)
Depreciation	(974.0)	(936.0)	(703.0)			(2772.0)
Profit before tax	1435.0	1257.0	2445.0	41.3%	14.2%	8334.0
Tax (incl. on exceptional income)	(361.0)	(425.0)	(544.0)			(1616.0)
Profit After tax	1074.0	832.0	1901.0	43.5%	29.1%	6718.0
<i>NPM (%)</i>	<i>10.2%</i>	<i>8.6%</i>	<i>18.2%</i>			<i>15.2%</i>
Less: Minority interest	(217.0)	(203.0)	(195.0)			(760.0)
PAT	857.0	629.0	1706.0			5958.0
Share of Profit	62.0	59.0	8.0			
Extraordinary Items after tax	0.0	0.0	0.0			0.0
Adjusted PAT	919.0	688.0	1714.0	46.4%	33.6%	5958.0
<i>Adj. NPM (%)</i>	<i>8.7%</i>	<i>7.1%</i>	<i>16.4%</i>			<i>15.2%</i>
Other Comprehensive Income	300.0	20.0	201.0			
Total Comprehensive Income	1219.0	708.0	1915.0			
Equity *	600	600	200			200
EPS - Diluted (Rs)	1.53	1.15	2.86			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	FY20E	Cash Flow St. (Rs. mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	33,372.0	38,763.0	44,241.2	57,142.1	68,749.4	Net Profit	8,195.0	6,121.0	4,469.7	8,835.3	14,347.8
Raw materials	(14,805.0)	(16,109.0)	(18,161.8)	(22,985.5)	(27,195.0)	Add: Dep. & Amort.	2,423.0	2,772.0	4,866.3	4,648.7	4,778.7
Employee costs	(5,582.0)	(6,872.0)	(8,246.4)	(9,483.4)	(10,905.9)	Cash profits	10,618.0	8,893.0	9,336.0	13,484.1	19,126.6
Other Expenses	(3,003.0)	(3,778.0)	(4,155.8)	(4,571.4)	(5,028.5)	(Inc)/Dec in					
Research & Devt	(2,742.0)	(2,662.0)	(3,389.9)	(4,458.2)	(5,267.6)	-Sundry debtors	560.0	(1,687.0)	(285.5)	(4,189.6)	(2,703.1)
Cost of sales	(26,132.0)	(29,421.0)	(33,953.9)	(41,498.4)	(48,397.0)	-Inventories	(897.0)	(929.0)	(1,302.2)	(2,976.8)	(2,112.6)
Operating Profit	7,240.0	9,342.0	10,287.3	15,643.7	20,352.4	-Loans/advances	1,279.0	(672.0)	(779.8)	(935.8)	(1,122.9)
Depreciation	(2,423.0)	(2,772.0)	(4,866.3)	(4,648.7)	(4,778.7)	-Sundry creditors	1,805.0	1,299.0	210.4	2,020.4	1,763.2
PBIT	4,817.0	6,570.0	5,421.0	10,995.0	15,573.6	-Others	(7,500.0)	1,866.0	1,562.0	1,874.4	2,249.3
Other income	1,230.0	2,024.0	2,327.6	2,560.4	2,816.4	Change in WC	(4,753.0)	(123.0)	(595.1)	(4,207.3)	(1,926.1)
Interest	(293.0)	(260.0)	(551.4)	(551.4)	(551.4)	CF from Oper. activities	5,865.0	8,770.0	8,740.9	9,276.8	17,200.5
Profit before tax	5,754.0	8,334.0	7,197.3	13,004.0	17,838.7	CF from Inv. activities	(14,330.0)	(11,874.0)	(5,437.2)	(7,339.5)	(2,939.9)
Provision for tax	(2,569.0)	(1,616.0)	(2,087.2)	(4,031.2)	(5,886.8)	CF from Fin. activities	14,476.0	(1,839.0)	(2,782.8)	(2,761.1)	(2,737.2)
Profit after Tax	3,185.0	6,718.0	5,110.1	8,972.8	11,951.9	Cash generated/(utilised)	6,011.0	(4,943.0)	520.9	(823.8)	11,523.3
Minority Interest	(744.0)	(760.0)	(836.0)	(919.6)	(1,011.6)	Cash at start of the year	9,375.0	15,386.0	10,443.0	10,963.9	10,140.1
Share of Profit	-	163.0	195.6	234.7	281.7	Cash at end of the year	15,386.0	10,443.0	10,963.9	10,140.1	21,663.4
Share of Profit- Trastuzumab	-	-	-	547.4	3,125.8	Ratios	FY16	FY17	FY18E	FY19E	FY20E
Adjusted PAT	2,441.0	6,121.0	4,469.7	8,835.3	14,347.8	OPM	21.7	24.1	23.3	27.4	29.6
Extraordinary Items	5,754.0	-	-	-	-	NPM	23.7	15.0	9.6	14.8	20.0
Reported PAT	8,195.0	6,121.0	4,469.7	8,835.3	14,347.8	Tax rate	(44.6)	(19.4)	(29.0)	(31.0)	(33.0)
Balance Sheet	FY16	FY17	FY18E	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	16.2	14.1	29.2	20.3
Reserves	39,338.0	47,377.0	46,846.7	52,682.0	64,029.8	Operating Profit	4.1	29.0	10.1	52.1	30.1
Net worth	40,338.0	48,377.0	49,846.7	55,682.0	67,029.8	PAT excl. EI	(37.8)	150.8	(27.0)	97.7	62.4
Def. Tax Liab.+Minority Int.	3,623.0	4,725.0	5,101.1	5,514.8	5,969.9	Per Share (Rs.)*					
Secured loans	20,724.0	21,082.0	21,082.0	21,082.0	21,082.0	Net Earnings (EPS)	41.0	30.6	7.4	14.7	23.9
Unsecured loans	3,949.0	972.0	972.0	972.0	972.0	Cash Earnings (CPS)	53.1	44.5	15.6	22.5	31.9
Total debt	24,673.0	22,054.0	22,054.0	22,054.0	22,054.0	Dividend	10.0	10.0	5.0	5.0	5.0
Other liab	3,905.0	3,579.0	4,294.8	5,153.8	6,184.5	Book Value	201.7	241.9	83.1	92.8	111.7
CAPITAL EMPLOYED	72,539.0	78,735.0	81,296.6	88,404.6	101,238.2	Free Cash Flow	(42.3)	(15.5)	5.5	3.2	23.8
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)	(22,606.3)	(27,255.1)	(32,033.8)	P/E(x)	14.8	19.8	81.5	41.2	25.4
Net block	16,811.0	35,529.0	46,912.7	44,263.9	41,485.2	P/B(x)	3.0	2.5	7.3	6.5	5.4
Capital WIP	20,597.0	5,327.0	-	5,000.0	5,000.0	EV/EBIDTA(x)	18.1	14.2	12.9	8.5	6.0
Total fixed assets	37,408.0	40,856.0	46,912.7	49,263.9	46,485.2	EV/SALES (x)	3.9	3.4	3.0	2.3	1.8
Intangible Assets	2,470.0	3,787.0	3,787.0	3,787.0	3,787.0	Div. Yield(%)	1.6	1.6	0.8	0.8	0.8
Investments	9,015.0	12,538.0	7,213.0	7,745.5	8,917.0	FCF Yield(%)	(7.0)	(2.6)	0.9	0.5	3.9
Other non current assets	2,287.0	2,775.0	3,330.0	3,996.0	4,795.2	Return Ratios (%)					
Inventories	5,424.0	6,353.0	7,655.2	10,631.9	12,744.6	ROE	7.9	13.9	10.3	16.1	17.8
Sundry debtors	7,145.0	8,832.0	9,117.5	13,307.1	16,010.1	ROCE	15.34	8.88	7.11	13.26	16.35
Cash & bank	15,386.0	10,443.0	10,963.9	10,140.1	21,663.4						
Loans & advances	3,227.0	3,899.0	4,678.8	5,614.6	6,737.5						
Other current assets	2,219.0	1,589.0	1,747.9	1,922.7	2,115.0						
Sundry creditors	(6,098.0)	(7,397.0)	(7,607.4)	(9,627.8)	(11,391.0)						
Acceptances	(5,271.0)	(6,982.0)	(8,378.4)	(10,054.1)	(12,064.9)						
Provisions	(673.0)	(828.0)	(993.6)	(1,192.3)	(1,430.8)						
Working capital	21,359.0	18,779.0	20,053.9	23,612.1	37,253.8						
CAPITAL DEPLOYED	72,539.0	78,735.0	81,296.6	88,404.6	101,238.2						

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



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