



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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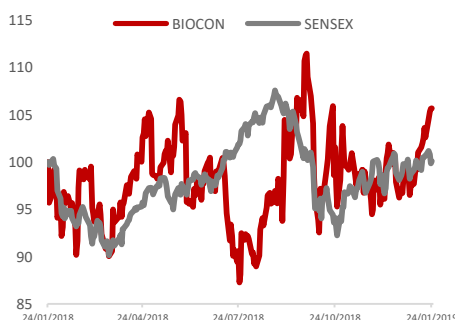
BUY

Current Price	665
Target Price	800
Upside/Downside	20%
52 Week Range	718/343

Key Share Data

Market Cap (Rs.bn)	398.22
Market Cap (US\$ mn)	5600
No of o/s shares (mn)	600
Face Value	5
Monthly Avg.vol (BSE+NSE) Nos'000	1528
BSE Code	532523
NSE Code	BIOCON
Bloomberg	BIOS IN Equity

Price performance



% Shareholding

	Dec-18	Sep-18
Promoters	61.48	60.67
FII	17.59	17.20
DII	2.96	3.24
Others	17.97	18.89
Total	100	100

Key Financials

Year	Net sales	% Growth	EBIDTA	OPM (%)	PAT ex EI	PAT incl EI	% Growth	EPS*	PE (x)	RoE (%)	RoCE (%)
FY17	39,216.0	17.5	9,795.0	25.0	6,121.0	6,121.0	150.8	30.6	21.9	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	106.2	8.5	6.0
FY19E	54,523.7	32.0	12,246.3	22.5	5,909.3	5,909.3	58.7	9.8	68.1	11.7	9.7
FY20E	82,737.0	51.7	21,471.7	26.0	12,624.4	12,624.4	113.6	21.0	31.9	20.2	18.1
FY21E	111,830.7	35.2	30,287.7	27.1	19,024.6	19,024.6	50.7	31.7	21.1	24.1	22.9

*Adjusted for bonus in the proportion of 2:1

Biocon reported excellent Q3FY19 results, above estimates driven by growth across businesses. The quarter saw increased market share of Mylan's Pegfilgrastim in the US, as well as launch of Trastuzumab in UAE and Glargine in EU and South Korea.

Scale up in biologics on Pegfilgrastim launch, better mix improves profitability

Revenues increased 46% to Rs 15408 mn, driven by biologics (+136%), Small molecules (+27%), Branded formulations (+36%) and Contract Research - Syngene (+20%).

Gross profit increased 60% to Rs 10127 mn. Gross margins were at 65.7% (+570 bps yoy/-50 bps qoq). EBITDA increased 72% to Rs 3807 mn. EBITDA margins were at 24.7% (+370 bps yoy/-100 bps qoq). PBT grew 89% to Rs 2710 mn. PAT increased 130% to Rs 2114 mn due to lower taxes and a higher share of profit.

Key business developments

- In Biologics, Biocon gained through an increased market share of Pegfilgrastim in the US, higher insulin sales driven by LATAM, Malaysia and EU.
- The company launched Glargine in South Korea through a local partner.
- The small molecules business increased through better demand for APIs and the launch of Atorvastatin in the US.
- Branded formulations business grew in metabolics, immunotherapy and the launch of trastuzumab in UAE. The growth in the segment was largely due to stocking for the UAE launch.
- Capex for FY19 will be around Rs 5000 mn.
- Biocon incurred a forex loss of Rs 280 mn included in other expenses during the quarter.
- Biocon will explore funding its research trials through the PE route or IPO.

Revision of estimates

We have revised our estimates in view of the recent biosimilar launches and lower tax rates going forward.

Outlook & Valuation

We are positive on the performance of Biocon. Going forward, we expect traction from the increase of market share in FULPHILA (Pegfilgrastim) in the US, launch of OGIVRI (Trastuzumab) and other biosimilars in the developed as well as emerging markets. We have rolled over our estimates to FY21E. At Rs 665, Biocon trades at 21x FY21E EPS of Rs 31.7. We recommend investors to BUY Biocon with a target price of Rs 800.



Q3FY19 Results

Particulars	Q3FY19	Q2FY19	Q3FY18	% yoy	% qoq	FY18	FY17
Net Sales	15408.0	13210.0	10579.0	46%	17%	41297.0	39216.0
Raw Material Consumed	(5281.0)	(4467.0)	(4238.0)			(16361.0)	(16109.0)
Employee Expenses	(2944.0)	(2889.0)	(2353.0)			(9311.0)	(6872.0)
Research & Development Exps	(767.0)	(770.0)	(579.0)			(2160.0)	(2662.0)
Other Expenses	(2609.0)	(1688.0)	(1192.0)			(5111.0)	(3778.0)
Total Exp	(11601.0)	(9814.0)	(8362.0)	39%	18%	(32943.0)	(29421.0)
PBDIT	3807.0	3396.0	2217.0	72%	12%	8354.0	9795.0
<i>OPM (%)</i>	<i>24.7%</i>	<i>25.7%</i>	<i>21.0%</i>			<i>20.2%</i>	<i>25.0%</i>
Other Income	256.0	544.0	339.0			5887.0	8334.0
Interest	(186.0)	(188.0)	(147.0)			(615.0)	(260.0)
Depreciation	(1167.0)	(1122.0)	(974.0)			(3851.0)	(2772.0)
Profit before tax	2710.0	2630.0	1435.0	89%	3%	5887.0	8334.0
Tax (incl. on exceptional income)	(461.0)	(732.0)	(361.0)			(1569.0)	(1616.0)
Profit After tax	2249.0	1898.0	1074.0	109%	18%	4318.0	6718.0
<i>NPM (%)</i>	<i>14.6%</i>	<i>14.4%</i>	<i>10.2%</i>			<i>8.5%</i>	<i>15.2%</i>
Less: Minority interest	(260.0)	(230.0)	(217.0)			(807.0)	(760.0)
Adjusted PAT	1989.0	1668.0	857.0			3511.0	5958.0
Share of Profit	125.0	(9.0)	62.0			213.0	163.0
Extraordinary Items after tax	58.0	1888.0	0.0			0.0	0.0
Reported PAT	2172.0	3547.0	919.0	136%	-39%	3724.0	6121.0
<i>Adj. NPM (%)</i>	<i>14.1%</i>	<i>26.9%</i>	<i>8.7%</i>			<i>9.0%</i>	<i>15.6%</i>
Other Comprehensive Income	0.0	0.0	300.0				
Total Comprehensive Income	2172.0	3547.0	1219.0				
Equity *	600	600	600			600	200
EPS without excep. Items	3.5	2.8	1.5			6.2	30.6
EPS - Diluted (Rs)	3.6	5.9	1.5			6.2	30.6

* Increase in Equity through bonus issue of 2:1



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BIOCON FINANCIALS											
P&L (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E	Cash Flow St. (Rs. mn)	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	39,216.0	41,297.0	54,523.7	82,737.0	111,830.7	Net Profit	6,121.0	3,724.0	7,855.3	12,624.4	19,024.6
Raw materials	(16,109.0)	(16,361.0)	(19,628.5)	(31,440.0)	(43,614.0)	Add: Dep. & Amort.	2,772.0	3,851.0	4,505.7	5,135.7	5,671.1
Employee costs	(6,872.0)	(9,311.0)	(12,104.3)	(15,130.4)	(18,913.0)	Cash profits	8,893.0	7,575.0	12,361.0	17,760.1	24,695.7
Other Expenses	(3,778.0)	(5,111.0)	(7,411.0)	(9,634.2)	(12,042.8)	(Inc)/Dec in					
Research & Devt	(2,662.0)	(2,160.0)	(3,133.6)	(5,060.6)	(6,973.2)	-Sundry debtors	(1,687.0)	(1,807.0)	(2,805.2)	(6,956.7)	(7,173.8)
Cost of sales	(29,421.0)	(32,943.0)	(42,277.4)	(61,265.2)	(81,543.0)	-Inventories	(929.0)	(872.0)	(3,297.8)	(5,292.7)	(5,460.3)
Operating Profit	9,795.0	8,354.0	12,246.3	21,471.7	30,287.7	-Loans/advances	(1,264.0)	224.0	(853.4)	(1,024.1)	(1,228.9)
Depreciation	(2,772.0)	(3,851.0)	(4,505.7)	(5,135.7)	(5,671.1)	-Sundry creditors	1,299.0	2,656.0	702.4	6,472.1	6,670.6
PBIT	7,023.0	4,503.0	7,740.6	16,336.0	24,616.6	-Others	2,893.0	1,898.0	2,147.0	2,576.4	3,091.7
Other income	1,571.0	2,062.0	1,958.9	2,154.8	2,370.3	Change in WC	312.0	2,099.0	(4,107.0)	(4,225.0)	(4,100.7)
Interest	(260.0)	(615.0)	(864.0)	(864.0)	(864.0)	CF from Oper. activities	9,205.0	9,674.0	8,254.0	13,535.1	20,595.0
Profit before tax	8,334.0	5,950.0	8,835.5	17,626.8	26,122.8	CF from Inv. activities	(10,034.0)	(8,485.0)	(10,794.6)	(9,943.1)	(12,931.7)
Provision for tax	(1,616.0)	(1,569.0)	(2,208.9)	(4,230.4)	(6,269.5)	CF from Fin. activities	(2,466.0)	2,306.0	(2,532.3)	(2,485.5)	(2,433.1)
Profit after Tax	6,718.0	4,381.0	6,626.6	13,396.3	19,853.3	Cash generated/(utilised)	(3,295.0)	3,495.0	(5,072.9)	1,106.4	5,230.2
Minority Interest	(760.0)	(807.0)	(887.7)	(976.5)	(1,074.1)	Cash at start of the year	15,386.0	10,443.0	13,228.0	8,018.1	8,973.8
Share of Profit	163.0	213.0	170.4	204.5	245.4	Cash at end of the year	10,443.0	13,228.0	8,018.1	8,973.8	14,038.2
Adjusted PAT	6,121.0	3,787.0	5,909.3	12,624.4	19,024.6	Ratios	FY17	FY18	FY19E	FY20E	FY21E
Extraordinary Items	-	-	1,946.0	-	-	OPM	25.0	20.2	22.5	26.0	27.1
Reported PAT	6,121.0	3,787.0	7,855.3	12,624.4	19,024.6	NPM	15.0	8.7	13.9	14.9	16.7
Balance Sheet	FY17	FY18	FY19E	FY20E	FY21E	Tax rate	(19.4)	(26.4)	(25.0)	(24.0)	(24.0)
Equity capital *	1,000.0	3,000.0	3,000.0	3,000.0	3,000.0	Growth Ratios (%)					
Reserves	47,377.0	48,808.0	53,663.3	63,287.7	79,312.3	Net Sales	17.5	5.3	32.0	51.7	35.2
Net worth	48,377.0	51,808.0	56,663.3	66,287.7	82,312.3	Operating Profit	35.3	(15.4)	47.7	75.3	41.1
Def. Tax Liab.+Minority Int.	3,761.0	4,677.0	5,144.7	5,659.2	6,225.1	PAT excl. EI	150.8	(39.2)	58.7	113.6	50.7
Secured loans	21,082.0	17,898.0	17,898.0	17,898.0	17,898.0	Per Share (Rs.)*					
Unsecured loans	972.0	1,303.0	1,303.0	1,303.0	1,303.0	Net Earnings (EPS)	30.6	6.3	13.1	21.0	31.7
Total debt	22,054.0	19,201.0	19,201.0	19,201.0	19,201.0	Cash Earnings (CPS)	44.5	12.7	20.6	29.6	41.2
Other liab	3,516.0	3,423.0	4,107.6	4,929.1	5,914.9	Dividend	10.0	5.0	5.0	6.0	6.0
CAPITAL EMPLOYED	77,708.0	79,109.0	85,116.6	96,077.0	113,653.3	Book Value	241.9	86.3	94.4	110.5	137.2
Gross block	53,269.0	69,519.0	71,519.0	81,519.0	94,519.0	Free Cash Flow	(4.1)	2.0	(4.2)	6.0	12.8
Accumulated depreciation	(17,740.0)	(21,591.0)	(26,096.7)	(31,232.4)	(36,903.5)	Valuation Ratios					
Net block	35,529.0	36,297.0	45,422.3	50,286.6	57,615.5	P/E(x)	21.9	106.2	51.2	31.9	21.1
Capital WIP	5,327.0	7,789.0	5,000.0	5,000.0	5,000.0	P/B(x)	2.8	7.8	7.1	6.1	4.9
Total fixed assets	40,856.0	44,086.0	50,422.3	55,286.6	62,615.5	EV/EBIDTA(x)	14.9	16.8	11.9	6.7	4.6
Intangible Assets	3,787.0	5,937.0	5,937.0	5,937.0	5,937.0	EV/SALES (x)	3.7	3.4	2.7	1.7	1.2
Investments	12,538.0	6,752.0	6,752.0	6,752.0	6,752.0	Div. Yield(%)	1.5	0.7	0.7	0.9	0.9
Other non current assets	2,775.0	3,186.0	3,823.2	4,587.8	5,505.4	FCF Yield(%)	(0.6)	0.3	(0.6)	0.9	1.9
Inventories	6,353.0	7,225.0	10,522.8	15,815.5	21,275.8	Return Ratios (%)					
Sundry debtors	8,832.0	10,639.0	13,444.2	20,400.9	27,574.7	ROE	13.9	8.5	11.7	20.2	24.1
Cash & bank	10,443.0	13,228.0	8,018.1	8,973.8	14,038.2	ROCE	9.50	6.05	12.11	18.07	22.91
Loans & advances	4,491.0	4,267.0	5,120.4	6,144.5	7,373.4						
Other current assets	997.0	1,370.0	1,507.0	1,657.7	1,823.5						
Sundry creditors	(7,397.0)	(10,053.0)	(10,755.4)	(17,227.4)	(23,898.1)						
Acceptances	(8,009.0)	(9,777.0)	(11,732.4)	(14,078.9)	(16,894.7)						
Provisions	(828.0)	(958.0)	(1,149.6)	(1,379.5)	(1,655.4)						
Working capital	17,752.0	19,148.0	18,182.1	23,513.5	32,844.4						
CAPITAL DEPLOYED	77,708.0	79,109.0	85,116.6	96,077.0	113,654.3						

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



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