



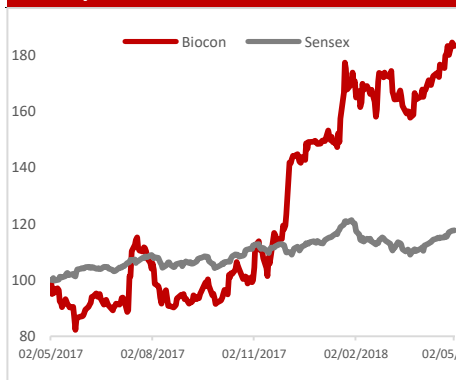
BUY

| | |
|-----------------|------------|
| 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 |

Biocon Q4FY18 results were better than expectations. While revenues were in line with estimates, the earnings were better than expectations.

Robust revenue growth across businesses, higher costs put pressure on profits

Revenues increased 26% yoy (11% qoq) to Rs 1169 crs. The traction in biologics (47%), small molecules (8%) and branded formulations (14%) as well as 40% growth in Syngene revenues resulted in robust revenue growth for Biocon.

EBITDA increased 24% yoy (5% qoq) to Rs 233 crs. EBITDA margins were 20 bps lower yoy (110 bps lower qoq) at 19.9% due to 33% increase in employee costs (Rs 257 crs) and 12% yoy, 29% qoq growth in other expenses (Rs 153 crs).

Both interest (Rs 16.9 crs) and depreciation (Rs 95.3 crs) were higher due to higher debt and operational expenses of the Malaysia plant. PBT increased 23% yoy (31% qoq) to Rs 188 crs. PAT increased 2% yoy (42% qoq) to Rs 130 crs in view of higher minority interest and taxes.

Key business developments

- The biologics business grew due to traction from existing products and new launches i.e.: Glargine in UAE and Bevacizumab in India.
- Small molecules business marked a reversal of trend and grew 8% to Rs 4255 mn during the quarter. Going forward, the company the business to grow 5-6%.
- The company received approval for Glargine from TG Australia and EMA Europe. Biocon + Mylan plan to launch in H2CY18.
- The Malaysia facility incurred expenses of \$48mn and recorded a loss of \$5mn during FY18. With the supplies of Glargine to Australia and Europe, Biocon expects expenses of \$50 mn and break even in FY19.
- Trastuzumab received approval from Brazil and Turkey, apart from US.
- Biocon + Mylan entered into an in-licensing agreement with Fujifilm Kyowa Kirin Biologics for faster launch of Adalimumab in Europe.
- Biocon + Mylan have expanded their collaboration by two next generation biosimilars namely Insulin Glargine 300 units/ml and Pertuzumab.
- Biocon has commenced Phase III trials of IN 105 in India.

USFDA observations for Pegfilgrastim, EMA observations for Trastuzumab

During a pre-approval inspection for Pegfilgrastim, which has a target date of June 4, 2018 the USFDA made 7 observations to Biocon's Bengaluru drug product facility. The EMA also issued 6 observations for Trastuzumab. Biocon will respond to the regulators within the stipulated time. Biocon + Mylan have targeted for EU cGMP approval by CY2018. Biocon believes they will be able to receive approval by target. We have factored in a quarter's delay to the approval with supplies commencing in H2FY20.

Outlook & Valuation

We are positive on the developments at Biocon. The traction in biopharmaceuticals and contract research indicate a change of trend from previous 2-3 quarters. The stock has considerably corrected after the news on regulatory matters. We believe this is a good opportunity for investors and 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 | 39,216.0 | 17.5 | 9,795.0 | 25.0 | 6,121.0 | 6,121.0 | 150.8 | 30.6 | 19.8 | 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 | 96.2 | 8.5 | 6.0 |
| FY19E | 51,280.0 | 24.2 | 11,028.9 | 21.5 | 5,577.8 | 5,577.8 | 49.8 | 9.3 | 65.3 | 11.0 | 8.7 |
| FY20E | 61,517.7 | 20.0 | 14,351.8 | 23.3 | 9,413.9 | 9,413.9 | 68.8 | 15.7 | 38.7 | 13.5 | 11.7 |

*Adjusted for bonus in the proportion of 2:1



Q4FY18 Results

| Particulars | Q4FY18 | Q3FY18 | Q4FY17 | % yoy | % qoq | FY18 | FY17 |
|---|-----------------|-----------------|-----------------|--------------|--------------|------------------|------------------|
| Net Sales | 11695.0 | 10579.0 | 9311.0 | 25.6% | 10.5% | 41297.0 | 39216.0 |
| Raw Material Consumed | (4752.0) | (4238.0) | (3426.0) | | | (16361.0) | (14466.0) |
| Employee Expenses | (2570.0) | (2353.0) | (1939.0) | | | (9311.0) | (7470.0) |
| Research & Development Exps | (510.0) | (579.0) | (650.0) | | | (2160.0) | (2690.0) |
| Other Expenses | (1533.0) | (1192.0) | (1363.0) | | | (5111.0) | (4490.0) |
| Excise | 0.0 | 0.0 | (58.0) | | | | |
| Total Expenses | (9365.0) | (8362.0) | (7436.0) | 25.9% | 12.0% | (32943.0) | (29116.0) |
| PBDIT | 2330.0 | 2217.0 | 1875.0 | 24.3% | 5.1% | 8354.0 | 10100.0 |
| <i>OPM (%)</i> | <i>19.9%</i> | <i>21.0%</i> | <i>20.1%</i> | | | <i>20.2%</i> | <i>25.8%</i> |
| Other Income | 675.0 | 339.0 | 432.0 | | | 5887.0 | 8334.0 |
| Interest | (169.0) | (147.0) | (50.0) | | | (615.0) | (260.0) |
| Depreciation | (953.0) | (974.0) | (725.0) | | | (3851.0) | (2772.0) |
| Profit before tax | 1883.0 | 1435.0 | 1532.0 | 22.9% | 31.2% | 5887.0 | 8334.0 |
| Tax (incl. on exceptional income) | (407.0) | (361.0) | (103.0) | | | (1569.0) | (1616.0) |
| Profit After tax | 1476.0 | 1074.0 | 1429.0 | 3.3% | 37.4% | 4318.0 | 6718.0 |
| <i>NPM (%)</i> | <i>12.6%</i> | <i>10.2%</i> | <i>15.3%</i> | | | <i>8.5%</i> | <i>15.2%</i> |
| Less: Minority interest | (223.0) | (217.0) | (209.0) | | | (807.0) | (760.0) |
| PAT | 1253.0 | 857.0 | 1220.0 | | | 3511.0 | 5958.0 |
| Share of Profit | 51.0 | 62.0 | 55.0 | | | 213.0 | 163.0 |
| Extraordinary Items after tax | 0.0 | 0.0 | 0.0 | | | 0.0 | 0.0 |
| Adjusted PAT | 1304.0 | 919.0 | 1275.0 | 2.3% | 41.9% | 3724.0 | 6121.0 |
| <i>Adj. NPM (%)</i> | <i>11.2%</i> | <i>8.7%</i> | <i>13.7%</i> | | | <i>9.0%</i> | <i>15.6%</i> |
| Other Comprehensive Income | 0.0 | 300.0 | 384.0 | | | | |
| Total Comprehensive Income | 1304.0 | 1219.0 | 1659.0 | | | | |
| Equity * | 600 | 600 | 200 | | | 600 | 200 |
| EPS - Diluted (Rs) | 2.17 | 1.53 | 2.13 | | | 6.21 | 30.61 |
| * Increase in Equity through bonus issue of 2:1 | | | | | | | |



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| P&L (Rs mn) | BIOCON FINANCIALS | | | | | Cash Flow St. (Rs. mn) | BIOCON FINANCIALS | | | | |
|------------------------------|-------------------|-----------------|-----------------|-----------------|-----------------|----------------------------------|-------------------|-------------------|------------------|-------------------|------------------|
| | FY16 | FY17 | FY18 | FY19E | FY20E | | 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 | 5,577.8 | 9,413.9 |
| 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 | 9,868.9 | 13,825.1 |
| 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 | 8,489.8 | 13,107.5 |
| 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) | (2,445.7) | (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 | 5,987.8 | 8,185.6 | Cash generated/(utilised) | 6,011.0 | (4,943.0) | 1,198.0 | (5,585.5) | 7,183.1 |
| 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 | 7,642.5 |
| Share of Profit | - | 163.0 | 213.0 | 255.6 | 306.7 | Cash at end of the year | 15,386.0 | 10,443.0 | 13,228.0 | 7,642.5 | 14,825.6 |
| Share of Profit- Trastuzumab | - | - | - | 222.1 | 1,898.1 | Ratios | FY16 | FY17 | FY18 | FY19E | FY20E |
| Adjusted PAT | 2,441.0 | 6,121.0 | 3,787.0 | 5,577.8 | 9,413.9 | OPM | 21.7 | 25.0 | 20.2 | 21.5 | 23.3 |
| Extraordinary Items | 5,754.0 | - | - | - | - | NPM | 23.7 | 15.0 | 8.7 | 10.4 | 14.7 |
| Reported PAT | 8,195.0 | 6,121.0 | 3,787.0 | 5,577.8 | 9,413.9 | Tax rate | (44.6) | (19.4) | (26.4) | (29.0) | (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 | 51,385.8 | 57,799.7 | Operating Profit | 4.1 | 35.3 | (15.4) | 33.0 | 30.1 |
| Net worth | 40,338.0 | 48,377.0 | 51,808.0 | 54,385.8 | 60,799.7 | PAT excl. EI | (37.8) | 150.8 | (39.2) | 49.8 | 68.8 |
| 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 | 9.3 | 15.7 |
| 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 | 16.4 | 23.0 |
| 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 | 90.6 | 101.3 |
| CAPITAL EMPLOYED | 72,539.0 | 77,708.0 | 79,109.0 | 82,839.1 | 90,589.0 | Free Cash Flow | (42.3) | (13.7) | 7.5 | (4.9) | 16.4 |
| 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) | 14.8 | 19.8 | 96.2 | 65.3 | 38.7 |
| 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 | 6.7 | 6.0 |
| Capital WIP | 20,597.0 | 5,327.0 | 7,789.0 | 5,000.0 | 5,000.0 | EV/EBIDTA(x) | 18.1 | 13.6 | 15.2 | 12.1 | 8.8 |
| 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) | (2.3) | 1.2 | (0.8) | 2.7 |
| 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 | 11.0 | 13.5 |
| Sundry debtors | 7,145.0 | 8,832.0 | 10,639.0 | 11,941.9 | 14,326.0 | ROCE | 15.34 | 9.50 | 6.05 | 8.67 | 11.70 |
| Cash & bank | 15,386.0 | 10,443.0 | 13,228.0 | 7,642.5 | 14,825.6 | | | | | | |
| 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 | 5,973.0 | 7,309.0 | 19,148.0 | 15,078.6 | 23,130.0 | | | | | | |
| CAPITAL DEPLOYED | 57,153.0 | 67,265.0 | 79,109.0 | 82,839.1 | 90,589.0 | | | | | | |

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



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