

BSE SENSEX	S&P CNX
29,918	9,304
Bloomberg	BIOS IN
Equity Shares (m)	200
M.Cap.(INR b)/(USD b)	201.2 / 3.0
52-Week Range (INR)	1188 / 570
1, 6, 12 Rel. Per (%)	-4/13/75
Avg Val, (INR m)	907
Free float (%)	39.3

Financials & Valuations (INR b)

Y/E Mar	2017	2018E	2019E
Sales	38.8	48.9	60.2
EBITDA	9.3	11.8	15.4
Net Profit	6.1	6.6	9.0
Adj. EPS (INR)	30.6	33.1	44.9
EPS Gr. (%)	31.7	8.1	35.8
BV/Sh. (INR)	224.4	247.8	279.5
RoE (%)	13.6	13.3	16.1
RoCE (%)	9.3	9.5	15.1

Valuations

P/E (x)	36.1	33.4	24.6
P/BV (x)	4.9	4.5	4.0
EV/EBITDA (x)	23.9	19.2	14.5
Div. Yield (%)	0.7	0.7	1.0

Estimate change



TP change



Rating change



CMP: INR1,105 TP: INR900 (-19%)

Sell

Weak results; monetization of Biosimilars key catalyst

- Revenue (Ind-AS) fell 2% YoY to INR9.3b, driven by lower income from Syngene and Small Molecules. EBITDA fell 1.7% YoY to INR1.8b (est. of INR2.8b), with the margin flat at 19.7%, primarily due to muted revenue and forex loss of INR170m above EBITDA. PAT (Ind-AS) declined 62% YoY to ~INR1.3b (est. of INR1.8b). FY17 revenue grew 14% to INR40.8b, while EBITDA margin expanded to 24.1% (+13bp YoY) led by strong growth in Biologics and Licensing Income. R&D expense stood at INR9,700m in 4Q (including capitalization of INR320m).
- Syngene:** Biologics remained flat YoY in 4Q due to delay in approvals in some emerging markets. In FY17, Biologics sales stood at ~USD75m, with management maintaining its segmental sales guidance of USD200m by FY19E (primarily driven by Ems). Syngene (~29% of revenue) declined 14% YoY due to temporary disruptions led by fire in Dec-16. Small Molecules declined 2% YoY due to pricing pressure, partially offset by launches in new geographies. Branded Formulations delivered ~25% YoY growth, led by recovery in domestic business and pick-up in tender business in the Middle East.
- Malaysia plant commissioning update:** Biocon will stop capitalizing against this plant from 1QFY18. It has spent ~USD250m to develop this plant. Depreciation expense will increase by ~USD18m p.a. from FY18 due to this (a part of this will be borne by Mylan). Operating expense is expected to go up by USD30m p.a. Biocon expects Malaysia plant to incur marginal PAT loss in FY18. Profitability will improve as contribution from developed markets starts.
- Biosimilars pipeline progressing well:** Recent stock price run-up is mainly led by positive developments in Biosimilars. Although the progress is impressive, we believe there are some uncertainties capping upside potential. In the near term, commissioning of Malaysia plant would pressurize profits. Maintain **Sell** with revised a TP of INR900 @ 20x FY19E EPS (v/s INR800 @ 20x 1HFY19E EPS).

Quarterly Performance

Y/E March	(INR Million)											
	FY16				FY17				FY16	FY17	FY17E	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	vs Est
Net Sales	8,105	7,860	8,282	9,450	9,814	9,400	10,290	9,250	34,507	38,760	11,286	-18.0%
YoY Change (%)	12.8	4.9	8.8	13.8	21.1	19.6	24.2	-2.1	12.8	12.3	19.4	
Total Expenditure	6,127	6,270	6,483	7,598	7,276	7,150	7,680	7,430	26,654	29,421	8,514	
EBITDA	1,978	1,590	1,799	1,852	2,538	2,250	2,610	1,820	7,853	9,339	2,772	-34.3%
Margins (%)	24.4	20.2	21.7	19.6	25.9	23.9	25.4	19.7	22.8	24.1	24.6	
Depreciation	591	610	621	647	661	680	710	730	2,423	2,772	714	
Interest	44	30	15	166	57	70	90	50	102	260	35	
Other Income	304	-750	289	3,014	502	520	630	490	1,192	2,024	548	
PBT	1,647	200	1,452	4,053	2,322	2,020	2,440	1,530	6,520	8,331	2,571	-40.5%
Tax	376	290	241	591	552	420	550	110	1,131	1,616	536	
Rate (%)	22.8	145.0	16.6	14.6	23.8	20.8	22.5	7.2	17.3	19.4	20.8	
Minority Interest	33	20	181	159	104	130	180	150	744	597	186	
PAT	1,238	-110	1,030	3,303	1,666	1,470	1,710	1,270	4,646	6,118	1,849	
YoY Change (%)	20.2	-4.9	13.4	-63.2	34.6	51.5	66.0	-61.6	-7.0	31.7	-44.0	
Margins (%)	15.3	12.3	12.4	7.9	17.0	15.6	16.6	13.7	13.5	15.8	16.4	

Muted performance due to de-growth in Syngene

Biocon posted muted growth during the quarter on back of weak performance in small molecules and decline in Syngene sales by 14% YoY to INR2.7bn. Main reason for decline in Syngene was temporary disruptions due to fire in December 2016 which impacted its sales during the quarter. Small molecules business declined 2% YoY on the back of pricing pressure partially offset by launches new geographies. Branded formulation posted robust growth of 25% YoY on back of recovery in domestic business and pick-up in tender business in Middle East.

Exhibit 1: Quarterly performance (sales mix) (IND AS format)

(INR m)	4QFY17	4QFY16	% YoY	3QFY17
Small Molecules	3,870	3,949	-2.0	3,900
% of sales	41.8	41.8		37.9
Biologics	1,190	1,193	-0.3	1,200
% of sales	12.9	12.6		11.7
Branded Formulations	1,310	1,050	24.8	1,230
% of sales	14.2	11.1		12.0
Licensing Income	160	103	55.3	790
% of sales	1.7	1.1		7.7
Research-Syngene	2,720	3,155	-13.788	3,170
% of sales	29.4	33.4		30.8
Total Revenues	9,250	9,450	-2.1	10,290

Source: Company, MOSL

Exhibit 2: Quarterly performance (sales mix) (IGAAP format)

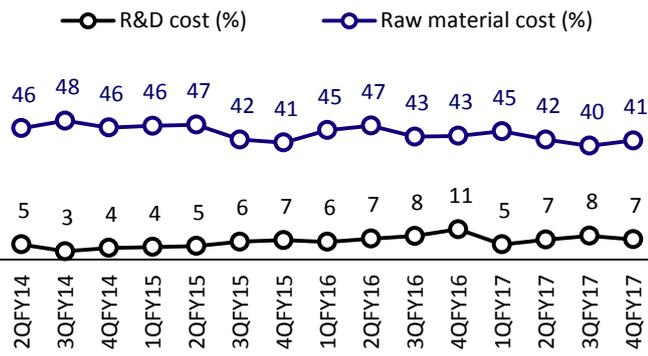
(INR m)	4QFY17	4QFY16	% YoY	3QFY17
Small Molecules	3,810	3,850	-1.0	3,830
% of sales	41.6	39.6		37.5
Biologics	1,190	1,150	3.5	1,200
% of sales	13.0	11.8		11.7
Branded Formulations	1,310	1,320	-0.8	1,230
% of sales	14.3	13.6		12.0
Licensing Income	120	230	-47.8	790
% of sales	1.3	2.4		7.7
Research-Syngene	2,720	3,160	-13.92	3,170
% of sales	29.7	32.5		31.0
Total Revenues	9,150	9,710	-5.8	10,220

Source: Company, MOSL

Higher R&D coupled with commissioning of Malaysia plant to limit margins expansion

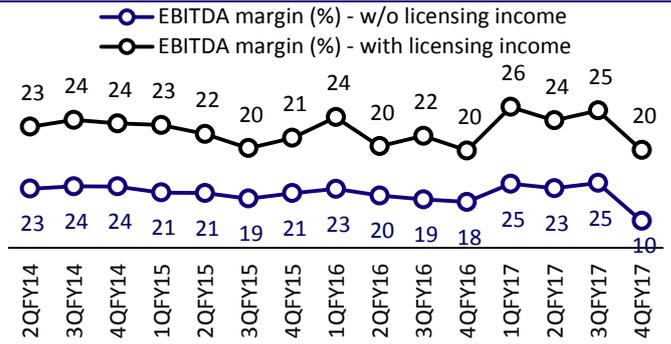
Gross R&D spend for the quarter was INR980 million of which INR650 million was in P&L (~10% of sales excluding Syngene). Going ahead R&D spend will be around 12-15% of revenues on back of novel development programmes and also some of other biosimilar and insulin which will progress further into the clinic.

Exhibit 3: R&D cost as % of sales to increase further



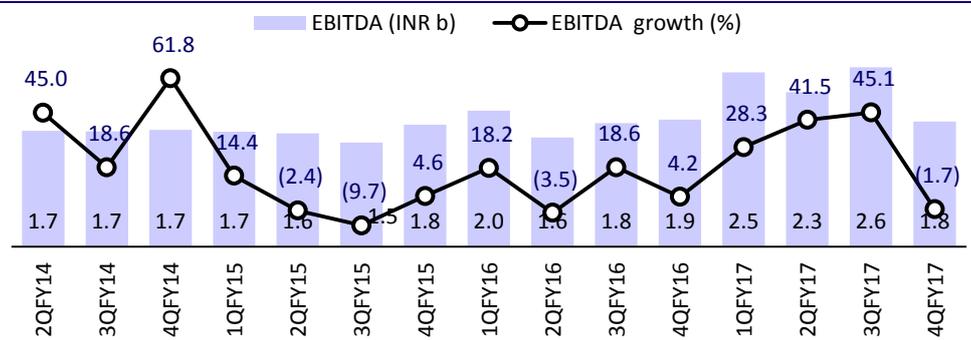
Source: Company, MOSL

Exhibit 4: Core EBITDA margins stood at 23% in 2QFY17



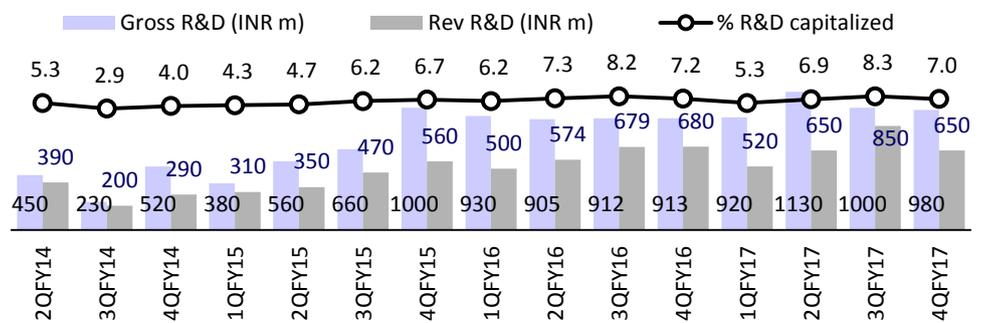
Source: Company, MOSL

Exhibit 5: EBITDA growth quarterly trend (INR b)



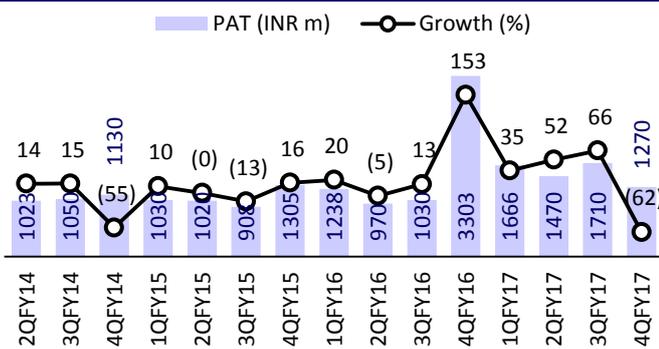
Source: Company, MOSL

Exhibit 6: Higher R&D cost being capitalized



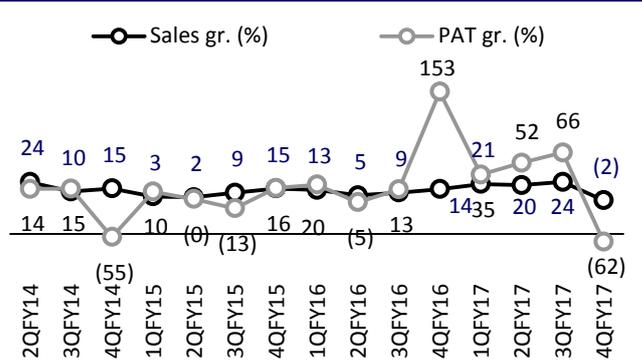
Source: Company, MOSL

Exhibit 7: Quarterly earnings trend



Source: Company, MOSL

Exhibit 8: Sales growth v/s PAT growth



Source: Company, MOSL

Other key highlights

- **Malaysia facility** is commercialized in 3QY17, as it has already received approval from Malaysian authority. Overall capital expenditure incurred is estimated to be at USD250m for this plant.
- **Branded Formulations:** The Company maintained its FY19 revenue guidance of INR10b.
- **Biologics:** The company maintains its FY19E guidance of USD200m of revenue (vs USD75m in FY17). Majority of revenue contribution will come from emerging markets whereas revenue related to initial supply to developed markets can come in FY19.
- **R&D guidance:** Biocon will be spending 12-15% of revenue on R&D. Out of this ~10% will be expensed through P&L whereas rest will be capitalized.
- **Partnered products:** Biocon has target action date of Sep/ Oct-17 for Trastuzumab (Herceptin) and Pegfilgrastim (Neulasta) from US FDA. Biocon is on track to file other 2 key molecules namely Adalimumab (Humira) and Glargine (Lantus) in FY18 in developed markets.
- **Copaxone approval:** Biocon has answered to queries from the USFDA relating to its ANDA for generic Copaxone 20 mg and 40mg. The company does not expect launch of Copaxone in FY18 in US market.

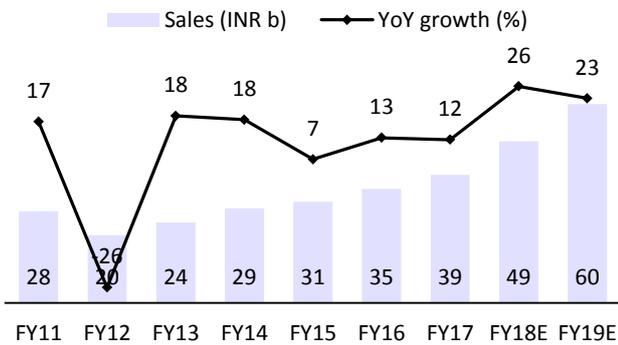
Exhibit 9: Key operating metrics

	4QFY14	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Cost of sales (%)													
Raw material	45.9	46.5	46.9	41.7	40.7	45.0	46.6	42.7	43.0	44.6	41.7	39.6	39.6
Staff cost	15.5	16.2	16.7	17.9	16.4	16.7	16.5	17.6	16.3	16.7	17.7	17.4	17.4
R&D cost	4.0	4.3	4.7	6.2	6.7	6.1	7.3	8.2	10.5	5.2	6.9	8.3	8.3
Other expenses	11.1	9.8	9.7	14.3	14.7	7.8	9.4	9.8	10.6	7.5	9.8	9.4	9.4
Tax Rate	13.8	22.4	16.9	10.3	12.8	22.8	145.0	16.6	14.6	23.8	20.8	22.5	22.5
Margins (%)													
Gross Margins	54.1	53.5	53.1	58.3	59.3	55.0	53.4	57.3	57.0	55.4	58.3	60.4	58.6
EBITDA Margins	23.5	23.3	22.0	19.9	21.4	24.4	20.2	21.7	19.6	25.9	23.9	25.4	19.7
EBIT Margins	16.0	16.1	14.8	12.5	14.4	17.1	12.5	14.2	12.8	19.1	16.7	18.5	11.8
PAT margins	15.6	14.3	13.6	11.9	24.3	15.3	(1.4)	12.4	35.0	17.0	15.6	16.6	13.7

Source: MOSL, Company

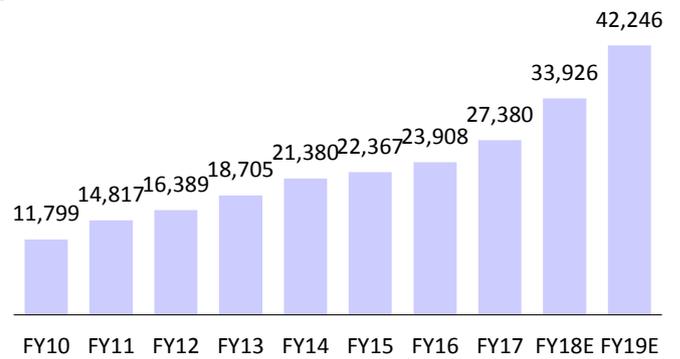
Story in charts

Exhibit 10: Revenue growth to pick up in FY17-19E



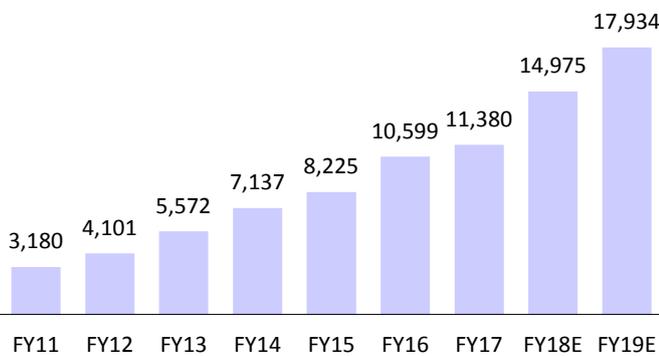
Source: Company, MOSL

Exhibit 11: Biopharma sales trend (In INR m)



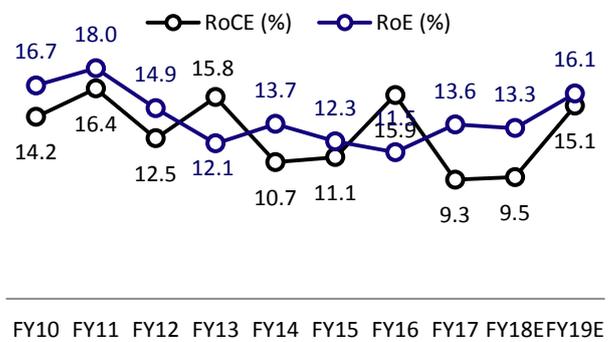
Source: Company, MOSL

Exhibit 12: CRO business ramp-up (sales in INR m)



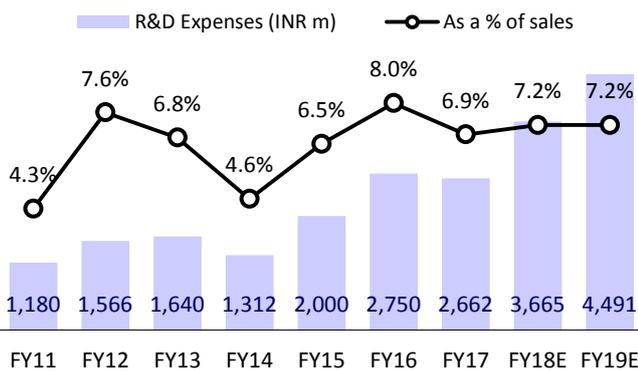
Source: Company, MOSL

Exhibit 13: Return ratios trending lower with high capex



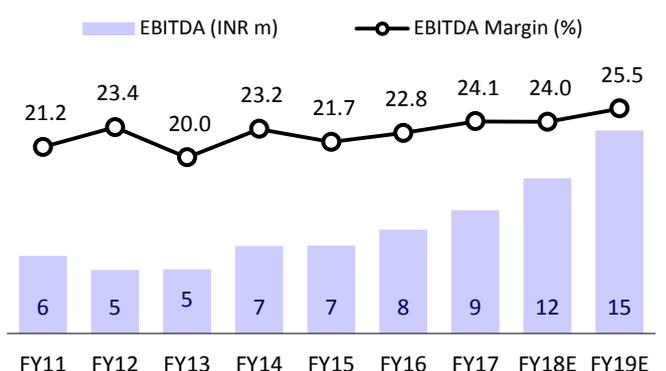
Source: Company, MOSL

Exhibit 14: R&D Expenses (annual trend)



Source: Company, MOSL

Exhibit 15: EBITDA margin trend



Source: Company, MOSL

Financials and Valuations

Income Statement (Consolidated)						(INR Million)	
Y/E March	2013	2014	2015	2016	2017	2018E	2019E
Net Sales	18,704	21,390	22,367	23,908	27,380	33,926	42,246
Contract Research	5,572	7,137	8,225	10,599	11,380	14,975	17,934
Net Income	24,276	28,527	30,592	34,507	38,760	48,901	60,180
Change (%)	18.5	17.5	7.2	12.8	12.3	26.2	23.1
Total Expenditure	19,423	21,902	23,940	26,654	29,421	37,150	44,807
EBITDA	4,853	6,625	6,652	7,853	9,339	11,751	15,373
Change (%)	1.1	36.5	0.4	18.1	18.9	25.8	30.8
Margin (%)	20.0	23.2	21.7	22.8	24.1	24.0	25.5
Depreciation	1,793	2,036	2,210	2,423	2,772	3,843	4,181
EBIT	3,060	4,589	4,442	5,430	6,567	7,908	11,191
Int. & Finance Charges	81	17	89	102	260	267	272
Other Income - Rec.	3,123	805	1,888	6,946	2,024	2,000	2,200
PBT	6,101	5,377	6,241	12,274	8,331	9,641	13,120
Tax	975	1,069	957	2,569	1,616	2,314	3,280
Tax Rate (%)	16.0	19.9	15.3	20.9	19.4	24.0	25.0
Minority Interest	38	170	310	744	597	716	860
Adjusted PAT	3,271	4,137	4,023	4,646	6,118	6,611	8,980
PAT	5,088	4,137	4,974	8,961	6,118	6,611	8,980
Change (%)	50.3	-18.7	20.2	80.2	-31.7	8.1	35.8
Margin (%)	21.0	14.5	16.3	26.0	15.8	13.5	14.9

Consolidated Balance Sheet						(INR Million)	
Y/E March	2013	2014	2015	2016	2017	2018E	2019E
Equity Share Capital	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Revaluation Reserves	9	9	9	9	9	9	9
Other Reserves	25,937	29,258	31,697	39,547	43,875	48,553	54,906
Net Worth	26,946	30,267	32,706	40,556	44,884	49,562	55,915
Loans	2,488	8,497	10,306	24,673	25,673	26,673	27,673
Minority Interest	653	823	1,722	3,112	3,709	4,425	5,285
Deferred liabilities	4689	6558	5934	3849	2409	1069	-155
Capital Employed	34,776	46,145	50,667	72,190	76,675	81,729	88,718
Gross Block	24,961	27,218	29,750	32,873	40,873	48,873	54,373
Less: Accum. Deprn.	9,672	11,711	13,943	16,334	19,106	22,949	27,131
Net Fixed Assets	15,289	15,507	15,807	16,539	21,767	25,924	27,242
Capital WIP	2,054	10,831	14,939	19,989	19,989	19,989	19,989
Investments	5,866	7,649	2,303	4,285	8,408	8,856	9,538
Intangibles	1,290	1,442	2,320	2,573	2,830	3,113	3,425
Curr. Assets	19,662	22,077	28,384	41,430	38,229	41,532	50,288
Inventory	3,984	3,766	4,527	5,114	5,841	7,369	9,068
Account Receivables	5,097	5,998	7,705	8,229	9,026	10,718	13,190
Cash and Bank Balance	6,729	8,044	9,375	19,213	14,867	13,397	16,488
Loans & Advances	3,852	4,269	6,777	8,874	8,495	10,048	11,541
Curr. Liability & Prov.	9,385	11,361	13,087	12,626	14,548	17,685	21,764
Account Payables	6,920	9,595	11,355	11,450	12,212	14,737	18,136
Provisions	2,465	1,766	1,732	1,176	2,336	2,947	3,627
Net Current Assets	10,277	10,716	15,297	28,804	23,681	23,847	28,524
Appl. of Funds	34,776	46,145	50,667	72,190	76,675	81,729	88,718

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	2013	2014	2015	2016	2017	2018E	2019E
Basic (INR)							
EPS	16.4	20.7	20.1	23.2	30.6	33.1	44.9
Cash EPS	34.4	30.9	35.9	56.9	44.5	52.3	65.8
BV/Share	134.7	151.3	163.5	202.7	224.4	247.8	279.5
DPS	7.5	5.0	5.0	5.0	7.6	8.3	11.2
Payout (%)	34.5	28.3	23.5	13.4	29.3	29.3	29.3
Valuation (x)							
P/E	67.6	53.4	54.9	47.6	36.1	33.4	24.6
Cash P/E	32.1	35.8	30.8	19.4	24.9	21.1	16.8
P/BV	8.2	7.3	6.8	5.5	4.9	4.5	4.0
EV/Sales	8.7	7.5	7.2	6.4	5.8	4.6	3.7
EV/EBITDA	43.5	32.3	33.0	28.3	23.9	19.2	14.5
Dividend Yield (%)	0.7	0.5	0.5	0.5	0.7	0.7	1.0
Return Ratios (%)							
RoE	12.1	13.7	12.3	11.5	13.6	13.3	16.1
RoCE	15.8	10.7	11.1	15.9	9.3	9.5	15.1
RoIC	13.7	18.5	17.2	16.3	17.0	16.5	20.4
Working Capital Ratios							
Fixed Asset Turnover (x)	1.7	1.9	2.0	2.1	2.0	2.1	2.3
Debtor (Days)	77	77	92	87	85	80	80
Inventory (Days)	60	48	54	54	55	55	55
Working Capital (Days)	53	34	71	101	83	78	73
Leverage Ratio (x)							
Current ratio	2.1	1.9	2.2	3.3	2.6	2.3	2.3
Debt/Equity	0.1	0.3	0.3	0.6	0.6	0.5	0.5

Consolidated Cash Flow Statement

(INR Million)

Y/E March	2013	2014	2015	2016	2017	2018E	2019E
Oper. Profit/(Loss) before Tax	4,853	6,625	6,652	7,853	9,339	11,751	15,373
Interest/Dividends Recd.	3,123	805	937	2,630	2,024	2,000	2,200
Direct Taxes Paid	-2,040	800	-1,581	-4,654	-3,056	-3,654	-4,504
(Inc)/Dec in WC	-1,910	876	-3,251	-3,668	777	-1,636	-1,586
CF from Operations	4,025	9,106	2,758	2,161	9,084	8,461	11,483
(Incr)/Dec in FA	-3,535	-11,031	-6,618	-8,205	-8,000	-8,000	-5,500
Free Cash Flow	490	-1,925	-3,861	-6,044	1,084	461	5,983
(Pur)/Sale of Investments	-358	-1,935	4,468	-2,235	-4,381	-730	-994
CF from investments	-3,893	-12,966	-2,151	-10,439	-12,381	-8,730	-6,494
Change in Net Worth	2,706	354	-414	4,408	0	0	0
(Inc)/Dec in Debt	494	6,009	2,397	15,013	1,000	1,000	1,000
Interest Paid	-81	-17	-89	-102	-260	-267	-272
Dividend Paid	-1,755	-1,170	-1,170	-1,204	-1,790	-1,934	-2,627
CF from Fin. Activity	1,364	5,175	724	18,116	-1,050	-1,200	-1,898
Inc/Dec of Cash	1,496	1,315	1,331	9,838	-4,346	-1,469	3,090
Add: Beginning Balance	5,233	6,729	8,044	9,375	19,213	14,867	13,397
Closing Balance	6,729	8,044	9,375	19,213	14,867	13,397	16,488

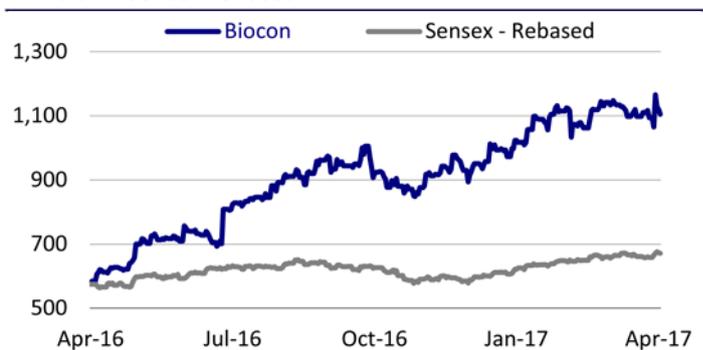
E: MOSL Estimates

Corporate profile

Company description

Biocon is an integrated biotechnology company encompassing all the three critical stages of drug development - drug discovery, development and manufacturing, and commercialization of bio-pharmaceuticals. With over 25 years of expertise in fermentation technology, the company has built a strong presence in lucrative high-growth segments like statins, immuno-suppressants and anti-diabetes.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Mar-17	Dec-16	Mar-16
Promoter	60.7	60.7	60.7
DII	3.7	4.5	5.7
FII	19.5	18.7	15.6
Others	16.1	16.1	18.0

Note: FII Includes depository receipts Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Oppenheimer Developing Markets Fund	2.2
Kiran Mazumdar Shaw	1.8
Franklin Templeton Investment Funds	1.7
Arun Suresh Chandavarkar	1.1

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Kiran Mazumdar Shaw	Chairperson & Managing Direct
John Shaw	Vice Chairman
Arun Suresh Chandavarkar	Joint Managing Director & CEO
Kiran Kumar	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Kiran Mazumdar Shaw	Mary Harney*
John Shaw	Ravi Mazumdar
Arun Suresh Chandavarkar	Russell Walls*
Daniel M Bradbury*	Vijay Kumar Kuchroo*
Jeremy Levin*	M Damodaran*

*Independent

Exhibit 6: Auditors

Name	Type
Rao & Murty	Cost Auditor
S R Batliboi & Associates LLP	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY17	30.6	30.9	-1.1
FY18	33.1	31.9	3.7
FY19	44.9	41.5	8.3

Source: Bloomberg

NOTES

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