May 2, 2017

Rating matrix

Rating	:	Hold
Target	:	₹ 1020
Target Period	:	12 months
Potential Upside	:	-7%

What's Changed?

Target	Changed from ₹ 1120 to ₹ 1020
EPS FY18E	Changed from ₹ 34.4 to ₹ 25.5
EPS FY19E	Changed from ₹ 44.2 to ₹ 40.8
Rating	Changed from Buy to Hold

Quarterly Performance

	Q4FY17	Q4FY16	YoY (%)	Q3FY17	QoQ (%)
Revenue	931.1	945.0	-1.5	1,044.4	-10.8
EBITDA	187.5	196.9	-4.8	276.1	-32.1
EBITDA (%)	20.1	20.8	-70 bps	26.4	-630 bps
Net Profit	127.5	62.0	105.6	171.4	-25.6

Key Financials

(₹ Crore)	FY16	FY17E	FY18E	FY19E
Revenues	3485.4	3920.3	4462.0	5510.3
EBITDA	820.0	975.0	1027.7	1411.1
Adj. Net Profit	462.9	620.5	510.7	815.6
Adj. EPS (₹)	23.1	31.0	25.5	40.8

Valuation summary

	FY16	FY17E	FY18E	FY19E
PE(x)	24.0	35.5	43.1	27.0
EV to EBITDA (x)	11.4	13.5	10.2	14.5
Price to book (x)	9.1	11.4	10.4	15.3
RoNW (%)	27.5	23.1	21.9	15.7
RoCE (%)	5.4	4.8	4.4	3.9

Stock data

Particular	Amount
Market Capitalisation	₹ 22000 crore
Debt (FY17)	₹ 2205 crore
Cash (FY17)	₹ 588 crore
EV	₹ 23617 crore
52 week H/L	1163/523
Equity capital (₹Crore)	₹ 100 crore
Face value (₹)	₹ 20

Price performance (%)

	1M	3M	6M	1Y
Biocon	-1.0	9.9	21.7	95.9
Glenmark	0.9	-1.6	-2.0	6.9
Torrent Pharma	0.5	8.6	-1.1	-2.3
Aurobindo Pharma	-9.4	-14.9	-24.9	-20.6

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Biocon (Biocon)

₹ 1100

Subdued Q4; biosimilars progress to hold key

- Revenues declined 1.5% YoY to ₹ 931 crore (I-direct estimate: ₹ 1055 crore) due to elongated approval timelines in emerging markets, discontinuance of in-licensed products and fire incident at Syngene
- EBITDA margins contracted 70 bps YoY to 20.1% (I-direct estimate: 25%) mainly due to higher raw material & employee cost. EBITDA declined 4.8% YoY to ₹ 188 crore (I-direct estimate: ₹ 264 crore)
- Net profit increased 106% YoY to ₹ 127.5 crore (I-direct estimate: ₹ 162 crore) on account of higher other income

Small molecules segment likely to get boost from ANDA launches

Small molecules segment accounts for ~41% of turnover, comprises APIs like statins, immunosuppressants, specialty APIs & also includes generic formulations business. This vertical is seeing pricing pressure in some products. Biocon is exploring fewer opportunities but with higher profitability in this segment like moving into formulations & filing own ANDAs, 505 (b)(2) filing, etc. It has already filed seven or eight ANDAs cumulatively. These include complex generics & injectables. We expect small molecules segment to grow (11% CAGR) to ₹ 1954 crore in FY17-19E.

Well poised to capitalise on global biosimilars opportunity

The biologics segment includes biosimilars, encompassing Rh-insulin, insulin analogs, monoclonal antibodies and recombinant proteins. This segment accounts for ~12% of turnover. Biocon is mainly focusing on following therapies - diabetology, oncology and immunology. The company has invested heavily in this space in the last two or three years, especially the Malaysian facility. So far, the progress has been encouraging with launches in emerging markets, Glargine launch in Japan and filing arrangements in the EU and US. We expect biologics to grow at a CAGR of ~52% to ₹ 1053 crore in FY17-19E.

Research services (Syngene) to maintain growth momentum

Biocon's research arm Syngene contributes ~29% to its turnover. Syngene is the contract research organisation (CRO) arm of Biocon with proven capabilities. The company caters to 256 clients including eight out of global top 10 global players. This segment has consistently been growing at 20%+ rate and has recently been the major growth driver for the company as the biopharma segment is slowing down. We expect revenues to grow at a CAGR of ~20% to ₹ 1626 crore in FY17-19E.

Branded formulations growth space

The branded formulations business includes finished dosages business in India and overseas including UAE. It constitutes 15% of turnover. It comprises Indian domestic formulations. Biocon owns 80+ brands encompassing therapies like diabetology, oncology, nephrology, cardiology, immunotherapy, comprehensive care and bio-products.

Biosimilars progress back loaded; downgrade to HOLD

Q4 was affected by subdued performance across segments, Syngene in particular. Encouraging developments on biosimilars front last year showed Biocon's capability in biosimilars space. It has also provided an extra lever for growth besides Syngene & branded formulations. As for developed markets foray, current institutional acceptance of various biologics assets may provide the launch pad two years hence. That said, the recent run-up in stock price has already captured most of the optimism. The management has guided a cautious outlook for FY18 on the back of delayed approvals for biosimilars in emerging markets. Hence, we downgrade Biocon to **HOLD** with a revised target price of ₹ 1020.

Variance analysis

	Q4FY17	Q4FY17E	Q4FY16	Q3FY17	YoY (%)	QoQ (%)	Comments
Revenue	931.1	1,055.3	945.0	1,044.4	-1.5	-10.8	YoY decline and miss vis-à-vis I-direct estimates were mainly on the back of elongated approval timelines in some emerging markets, discontinuance of some in-licensed products and impact of fire at Syngene
Raw Material cost	348.4	378.6	322.6	374.7	8.0	-7.0	
Employee cost	193.9	198.0	166.5	194.2	16.5	-0.2	
R & D Expenditure	65.0	88.0	100.0	85.0	-35.0	-23.5	
Other Expenditures	136.3	126.6	159.0	114.4	-14.3	19.1	
Total Expenditure	743.6	791.2	748.1	768.3	-0.6	-3.2	
EBITDA	187.5	264.1	196.9	276.1	-4.8	-32.1	
EBITDA (%)	20.1	25.0	20.8	26.4	-70 bps	-630 bps	YoY contraction and miss vis-à-vis I-direct estimates was led by forex loss (₹ 16 crore), higher raw material and employee expenditure, which was partly offset by lower R&D spend
Interest	5.0	6.4	16.6	8.8	-69.9	-43.2	
Depreciation	72.5	70.3	64.8	70.3	11.9	3.1	
Other income	43.2	41.6	21.4	47.5	101.9	-9.1	YoY increase was mainly due to higher interest income in Syngene
EO	0.0	0.0	-268.4	0.0	0.0	0.0	
PBT	153.2	229.1	405.3	244.5	-62.2	-37.3	
Tax	10.3	47.0	59.1	54.4	-82.6	-81.1	
MI	20.9	19.8	21.1	19.5	-0.9	7.2	
PAT	127.5	162.3	62.0	171.4	105.6	-25.6	YoY increase was mainly due to higher other income. Miss vis-a-vis I-direct estimates was mainly due to lower-than-expected operational performance
Key Metrics							
Biopharmaceuticals	387.0	393.9	395.0	390.0	-2.0	-0.8	
Biologics	119.0	132.0	120.0	120.0	-0.8	-0.8	YoY flat growth and miss vis-à-vis I-direct estimates was due to elongated approval timelines in some emerging markets, discontinuance of some in-licensed products
Branded Formulations	131.0	120.8	105.0	123.0	24.8	6.5	Beat vis-à-vis I-direct estimates was mainly due to higher-than-expected sales in the Middle East (MENA) markets
Contract Research	272.0	363.4	316.0	317.0	-13.9	-14.2	Subdued YoY growth and miss vis-à-vis I-direct estimates was due to higher-than-expected impact of fire at Syngene
Licensing income	16.0	30.0	10.0	79.0	60.0	-79.7	

Source: Company, ICICIdirect.com Research

Change in estimates

	FY18E			FY19E			
(₹ Crore)	Old	New	% Change	Old	New	% Change	
Revenues	4,680.1	4,462.0	-4.7	5,657.2	5,510.3	-2.6	
EBITDA	1,196.6	1,027.7	-14.1	1,475.6	1,411.1	-4.4	
EBITDA Margin (%)	26.0	23.0	-297 bps	26.0	25.6	-39 bps	FY18 margins likely to be impacted due to debiting of Malaysian facility expenditure to P&L and front loading of biologics expenses
Net Profit	687.0	510.7	-25.7	884.1	815.6	-7.7	
EPS (₹)	34.3	25.5	-25.7	44.2	40.8	-7.7	Change in sync with EBITDA and increase in tax guidance

Source: Company, ICICIdirect.com Research

Assumptions

		Current			Earlier		
Growth (%)	FY16	FY17E	FY18E	FY19E	FY18E	FY19E	Comments
Biopharmaceuticals	1,729.0	2,044.0	2,346.1	3,006.6	2,408.4	2,924.4	
Branded Formulations	440.0	549.0	563.4	676.1	551.6	661.9	
Contract Research	1,060.0	1,138.0	1,366.6	1,626.2	1,531.0	1,867.2	Change as per management guidance and lower-than-expected sales in FY17
Licensing income	108.0	144.0	120.0	120.0	120.0	120.0	

*Source: Company, ICICIdirect.com Research; * excludes Licensing income*

Company Analysis

Biocon was established in 1978 by first generation entrepreneur Dr Kiran Mazumdar-Shaw. Unlike most pharma companies that are chemical based, Biocon has carved out its niche in the more complex biotechnology field. Over the decades, Biocon has successfully evolved into an emerging global biopharma enterprise, serving its partners and customers in over 75 countries. As a fully integrated biopharma company, it delivers innovative biopharmaceutical solutions, ranging from discovery to development & commercialisation. In 2004, it came out with its maiden IPO.

Four of its biosimilar products (Trastuzumab, Pegfilgrastim, Adalimumab and Insulin Glargine) have already reached the critical milestone of global Phase III clinical trials. The company has initiated filings of biosimilars in the US and EU besides launches in Japan. Biocon entered into a partnership with Mylan for six biosimilar programs (Trastuzumab, Pegfilgrastim, Adalimumab, Bevacizumab, Etanercept and Filgrastim) and three insulin analog programmes (Glargine, Lispro and Aspart).

The company has received approval for its Insulin Glargine from the Japanese regulator in March 2016. Biocon has developed and manufactured Insulin Glargine BS Injection Kit (FFP). FFP in Japan has commercialised it. The company also achieved its first ANDA approval, Rosuvastatin Calcium in US.

Exhibit 1: Biosimilars: Insulin pipeline

Molecule	Type	Status	Market Size (US$ billion)
Rh Insulin	Recombinant Human Insulin	US Development-Preclinical	3.1
Glargine	Long Acting Basal Insulin	Global Phase III, Japan Aprvd.	7.1
Aspart	Rapid Acting Insulin Analog	Preclinical/Scale Up	4.7
Lispro	Rapid Acting Insulin Analog	Preclinical/Scale Up	2.8
		Total Market Size	**18.0**

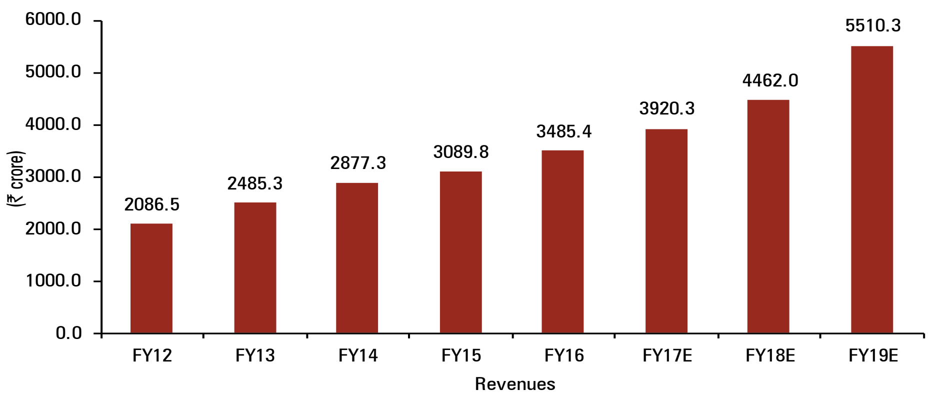
Source: Company, ICICIdirect.com Research

Exhibit 2: Biosimilars: MAbs & biologics pipeline

Molecule	Indication	Status	Market Size (US$ billion)
Adalimumab	Chronic Plaque Psoriasis	Global Phase III	14.0
Trastuzumab	mBreast Cancer	Global Phase III, US,EU U.review	6.8
Pegfilgrastim	Chemo-induced Neutropenia	Under Review in EU	4.7
Bevacizumab	mColorectal Cancer	Global Phase III, RoW Phase III	6.9
Filgrastim	Chemo-induced Neutropenia	Preclinical/Scale Up	1.0
Etanercept	Auto-immune	Preclinical/Scale Up	8.7
		Total Market Size	**42.0**

Source: Company, ICICIdirect.com Research

Exhibit 3: Revenues to grow at CAGR of 18.6% in FY17-19E



Source: Company, ICICIdirect.com Research

Biocon has realigned its segments after the adoption of Ind-As. They are- 1) small molecules, 2) research services (Syngene), 3) branded formulations and 4) biologics.

Small molecules- The small molecules segment accounts for ~41% of the turnover (FY17E) and comprises APIs like statins, immunosuppressants, specialty APIs and also includes generic formulations business. This vertical has been witnessing pricing pressure in some products. The company is exploring fewer opportunities but with higher profitability in this segment such as moving into formulations and filing own ANDAs, 505 (b)(2) filings, etc. It has already filed seven or eight ANDAs cumulatively. These include complex generics and injectables. We expect the small molecules segment to grow at 11%CAGR to ₹ 1954 crore in FY17-19E.

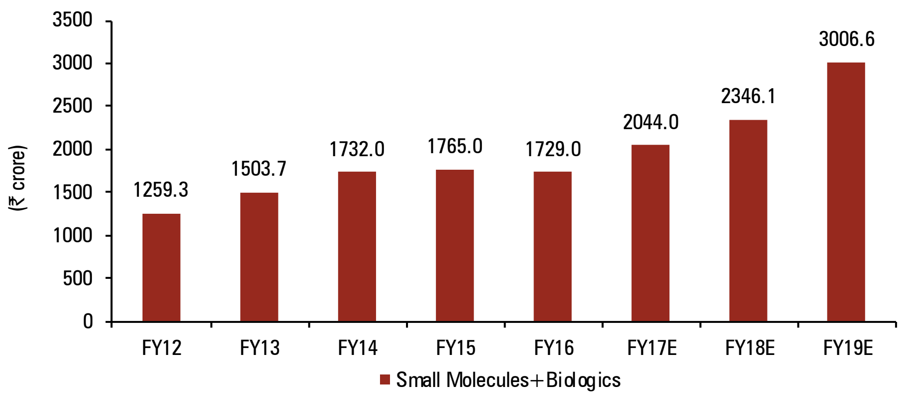
Biologics – The biologics segment include novel biologics and biosimilars, including Rh-insulin, insulin analogs, monoclonal antibodies and recombinant proteins. This segment accounts for ~12% of turnover (FY17E). Biocon is mainly focusing on the following therapies- diabetology, oncology and immunology. This segment has been specifically carved out to tap numerous biosimilar opportunities especially in the next three to five years. Globally, the biosimilar space is still in a nascent state for want of guidelines by most countries including the US. The now defunct Pfizer deal was also based on biosimilar opportunities. Biocon's biosimilar pipeline currently includes 10 products in different phases of completion. Out of these 10 products, the four diabetic products- Rh Insulin, Glargine, Lispro and Aspart were the subject matter of two deals first with Pfizer and then with Mylan (excluding Rh Insulin). The company has invested heavily in this space over the last two to three years, especially the Malaysian facility, which is now functional. The progress, so far, has been encouraging with launches in emerging markets, Glargine launch in Japan and filing arrangements in the EU and US. We expect biologics to grow at ~52% CAGR to ₹ 1053 crore in FY17-19E.

Exhibit 4: Recent Progress in Biosimilar front

Date	Event
Jan-17	USFDA accepts Biocon's biologics licence application for its biosimilar oncology drug Trastuzumab
Aug-16	European Medicines Agency has accepted Biocon-Mylan Proposed Biosimilar Trastuzumab (gHerceptin) for Review
Jul-16	European Medicines Agency has accepted Biocon-Mylan Proposed Biosimilar Pegfilgrastim (gNeulasta) for Review
Jul-16	Biocon's Insulin Glargine Launched in Japan
Jun-16	Biocon and Mylan to present Phase 3 Trastuzumab Biosimilar Data at the American Society of Clinical Oncology (ASCO) Annual Meeting
Mar-16	Biocon's Insulin Glargine Receives Regulatory Approval in Japan
Mar-16	Biocon inks co-development & commercialisation agreement with Lab PiSA for Rh-insulin in US
May-15	Biocon-Mylan's PEG-G-CSF and Adalimumab enter Phase III clinical trials; patient recruitment for one Insulin Glargine Phase III study completed

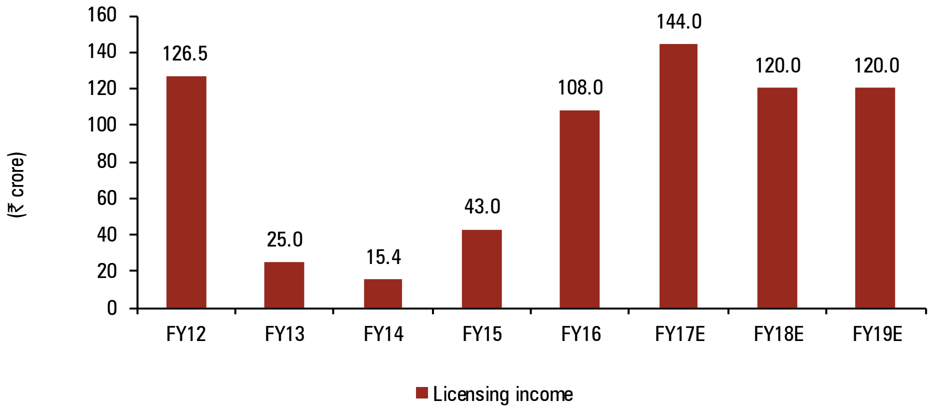
Source: Company, ICICIdirect.com Research

Exhibit 5: Small molecules & biologics to grow at CAGR of 21.3% in FY17-19E



Source: Company, ICICIdirect.com Research

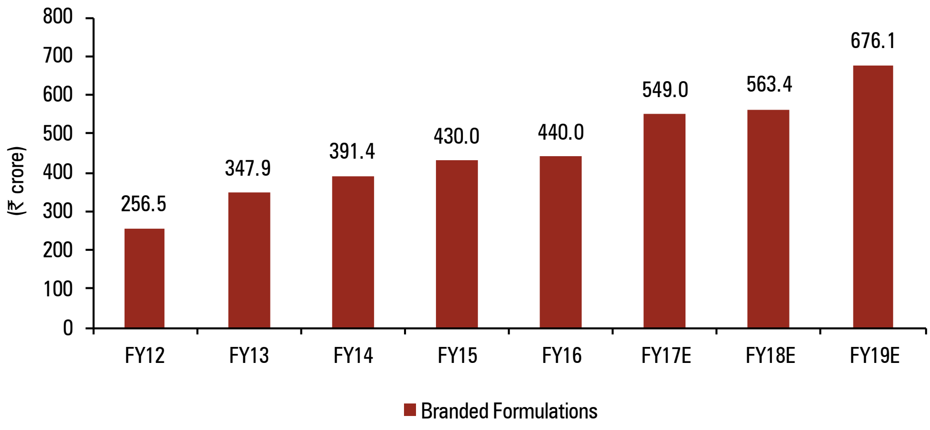
Exhibit 6: Licensing income



Source: Company, ICICIdirect.com Research

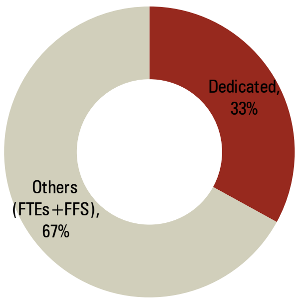
Branded formulations - It comprises Indian domestic formulations. Biocon owns 80+ brands encompassing seven therapeutic segments viz. diabetology, oncology, nephrology, cardiology, immunotherapy, comprehensive care and bio-products. However, with ~0.35% market share (AIOCD MAT March 2017) and 56th rank in the IPM market (AIOCD), the company is still a marginal player in the Indian context. Among therapies, diabetology is the largest therapy, which accounts for 58% of branded formulations. Some of its unique launches are INSUPen (insulin delivery device), Biomab (novel biologic for Oncology) and Alzumab (novel biologic for psoriasis). The pipeline includes CANMAb (biosimilar version of oncology product Herceptin). This segment constitutes ~14% of overall sales (FY17E).

Exhibit 7: Branded formulation sales to grow at CAGR of 11% in FY17-19E



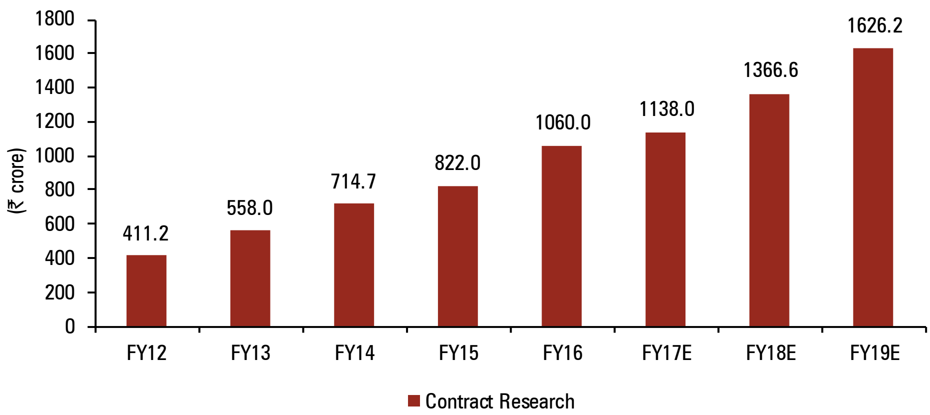
Source: Company, ICICIdirect.com Research

Research services revenues (FY17)



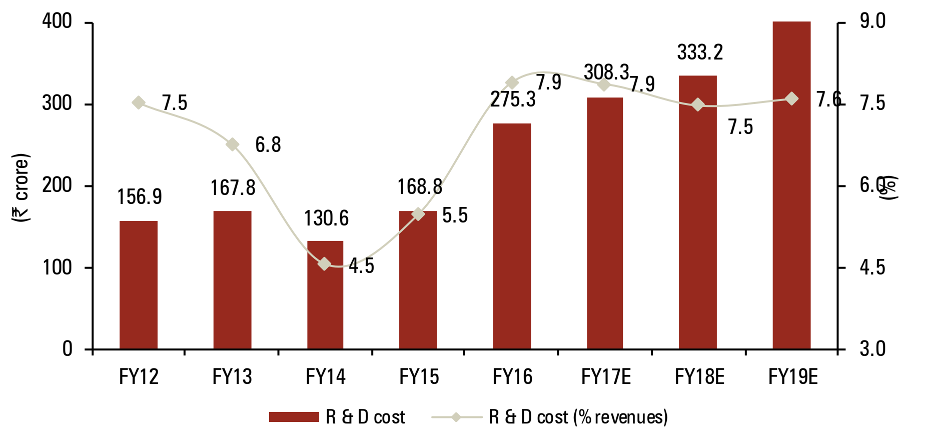
Research services (Syngene) - Biocon's research arm Syngene contributed ~30% to its turnover (FY17E). This is the CRO business of Biocon, which deploys over 2571 scientists (FY16). The company provides end-to-end discovery and development services for novel molecular entities (NMEs) across industrial sectors including pharmaceutical, biotechnology, agrochemicals, consumer health, animal health, cosmetic and nutrition companies under one roof with a distinctive economic advantage. It also provides support for biosimilar and generic molecules development. The company provides variable cost alternative like full-time equivalent (FTE) and fee-for-service (FFS) to the traditionally fixed cost, in-house, resource intensive business model of R&D focused organisations. Currently, the company has 300 clients ranging from large multinational corporations to start-ups, including eight of the top 10 global pharmaceutical companies. The company has developed long-term relationships and has multi-year contracts with its clients, including four long-duration multidisciplinary partnerships with Bristol-Myers Squibb (BMS), Abbott Laboratories (Singapore), Baxter International and Amgen. The company also provides clinical research and clinical trial services through its subsidiary Clinigene. In August 2015, Syngene had raised ₹ 550 crore through an IPO.

Exhibit 8: Contract research to grow at CAGR of 19.5% in FY17-19E



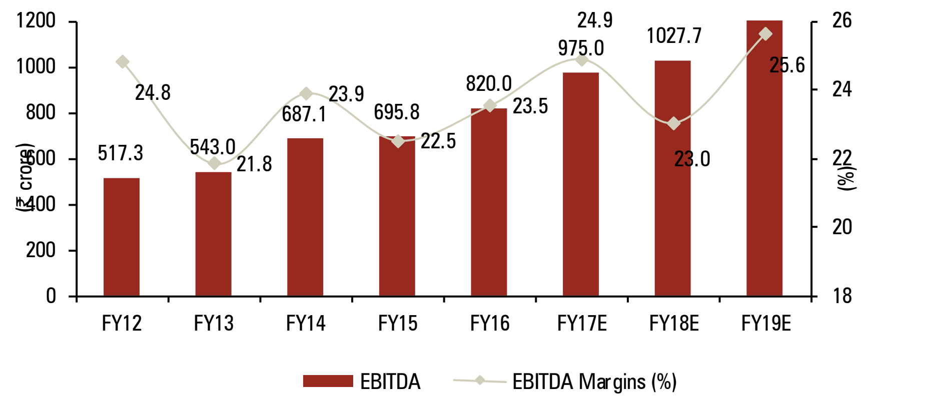
Source: Company, ICICIdirect.com Research

Exhibit 9: Trends in overall R&D cost (Ex Capitalise)



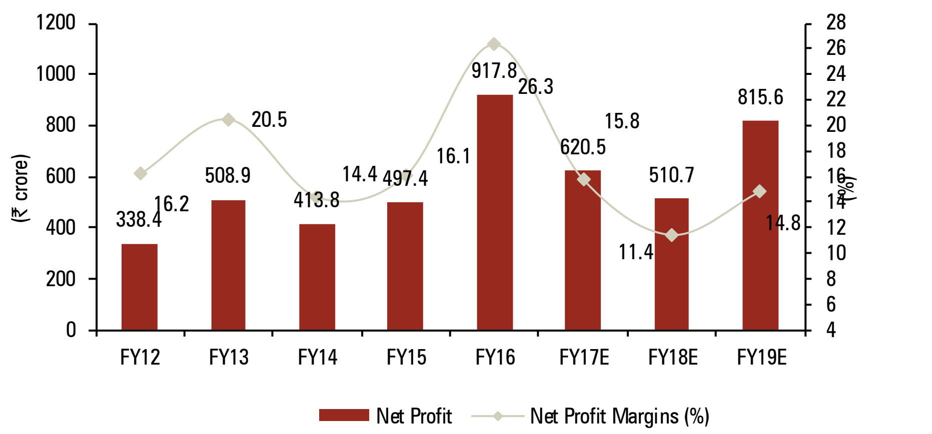
Source: Company, ICICIdirect.com Research

Exhibit 10: Trends in EBITDA margins



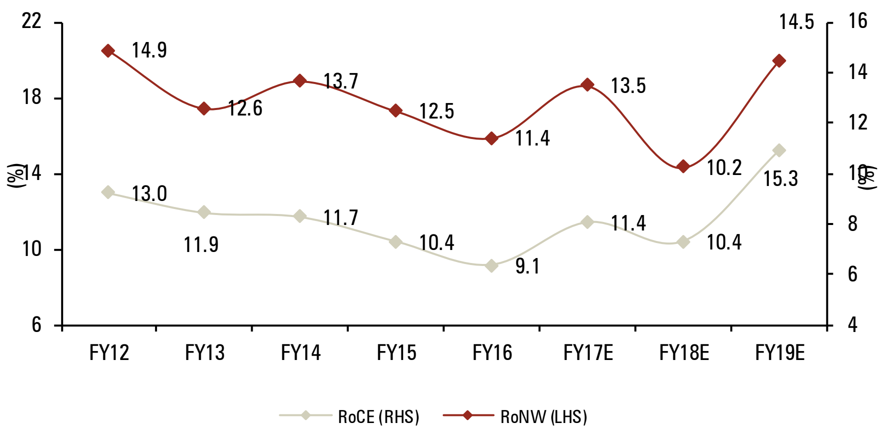
Source: Company, ICICIdirect.com Research

Exhibit 11: Net profit to de-grow at CAGR of 14.6% in FY17-19E



Source: Company, ICICIdirect.com Research

Exhibit 12: Return ratios likely to be under pressure on the back of reduced profitability…



Source: Company, ICICIdirect.com Research

SWOT Analysis

Strengths – It is an early entrant in a more lucrative biotech space with proven track records. The space has high entry barriers due to complexity of the molecules and tougher trials requirement. Four dedicated centres catering to the top global players.

Weakness - Its largest segment i.e. small molecules has been witnessing constant pricing pressure and capacity constraints. Other emerging segments such as biosimilars will take some time to scale up.

Opportunities – A huge opportunity beckons for biosimilars as globally seven out of the top 10 drug brands are biologics. Some of them will lose patent exclusivity in the next five to seven years. The price erosion in biosimilars is much less than that of chemical compound based drugs.

Threats- (i) Backtracking by Mylan may increase the R&D cost sharply, (ii) pricing pressure in branded formulations.

Exhibit 13: Trends in quarterly performance

(₹ Crore)	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	YoY (%)	QoQ(%)
Revenues	728.5	725.3	757.6	769.1	837.3	813.9	796.2	807.1	945.0	982.4	954.1	1044.4	931.1	-1.5	-10.8
Raw Material Cost	292.6	291.1	309.8	317.6	337.5	293.9	326.3	303.1	322.6	357.3	353.8	374.7	348.4	8.0	-7.0
% to revenues	40.2	40.1	40.9	41.3	40.3	36.1	41.0	37.6	34.1	36.4	37.1	35.9	37.4		
Gross Profit	435.9	434.2	447.8	451.5	499.8	520.0	469.9	504.0	622.4	625.1	600.3	669.7	582.7	-6.4	-13.0
Gross Profit Margin (%)	59.8	59.9	59.1	58.7	59.7	63.9	59.0	62.4	65.9	63.6	62.9	64.1	62.6	-328 bps	-154 bps
Employee cost	122.4	125.5	135.4	136.0	136.6	148.3	143.1	152.2	166.5	178.5	180.4	194.2	193.9	16.5	-0.2
% to revenues	16.8	17.3	17.9	17.7	16.3	18.2	18.0	18.9	17.6	18.2	18.9	18.6	20.8	321 bps	223 bps
R & D	29.0	31.0	35.0	46.9	56.0	50.0	57.4	67.9	100.0	93.3	65.0	85.0	65.0		
% to revenues	4.0	4.3	4.6	6.1	6.7	6.1	7.2	8.4	10.6	9.5	6.8	8.1	7.0	-360 bps	-116 bps
Other Expenditure	109.0	103.8	104.3	108.7	122.4	113.4	100.3	99.1	159.0	90.2	114.9	114.4	136.3	-14.3	19.1
% to revenues	15.0	14.3	13.8	14.1	14.6	13.9	12.6	12.3	16.8	9.2	12.0	11.0	14.6	-219 bps	368 bps
Total Expenditure	553.0	551.4	584.5	609.2	652.5	605.6	627.1	622.3	748.1	719.3	714.1	768.3	743.6	-0.6	-3.2
% to revenues	75.9	76.0	77.1	79.2	77.9	74.4	78.8	77.1	79.2	73.2	74.8	73.6	79.9		
EBIDTA	175.6	173.9	173.1	160.0	184.9	208.3	169.1	184.8	196.9	263.1	240.0	276.1	187.5	-4.8	-32.1
EBITDA Margin (%)	24.1	24.0	22.9	20.8	22.1	25.6	21.2	22.9	20.8	26.8	25.2	26.4	20.1	-70 bps	-630 bps
Depreciation	54.0	51.9	54.2	56.3	58.5	59.0	61.0	63.9	64.8	66.1	68.3	70.3	72.5	11.9	3.1
Interest	0.7	0.6	5.0	4.8	0.0	4.4	2.9	1.5	16.6	5.7	6.5	8.8	5.0	-69.9	-43.2
OI	17.2	16.6	15.0	9.8	16.8	19.9	22.7	21.6	21.4	40.9	38.4	47.5	43.2	101.9	-9.1
PBT	138.1	138.1	128.9	108.6	143.2	164.8	127.9	141.0	136.9	232.2	203.6	244.5	153.2	11.9	-37.3
Tax	19.2	30.9	21.8	11.2	21.9	37.6	28.2	21.8	59.1	55.2	41.7	54.4	10.3	-82.6	-81.1
Tax Rate (%)	13.9	22.4	16.9	10.3	15.3	22.8	22.1	15.5	43.2	23.8	20.5	22.2	6.7		
PAT	118.9	107.2	107.1	97.5	121.3	127.2	99.7	119.2	77.8	177.0	161.9	190.1	142.9	83.7	-24.8
PAT Margin (%)	16.3	14.8	14.1	12.7	14.5	15.6	12.5	14.8	8.2	18.0	17.0	18.2	15.3		
Exceptional Items (EI)	0.0	0.0	0.0	0.0	-95.2	0.0	107.8	0.0	-268.4	0.0	0.0	0.0	0.0		
Net Profit before MI	118.9	107.2	107.1	97.5	216.4	127.2	-8.1	119.2	346.2	177.0	161.9	190.1	142.9	-58.7	-24.8
Add/(less) MI	5.8	4.3	5.0	6.6	15.3	7.1	12.5	17.7	21.1	15.8	19.8	19.5	20.9		
Net Profit	113.1	102.9	102.1	90.9	201.2	120.1	-20.6	101.5	325.1	161.2	142.1	170.6	122.0	-62.5	-28.5
Net Profit (excl.EI)	113.1	102.9	102.1	90.9	106.0	120.1	87.2	101.5	56.7	161.2	142.1	170.6	122.0	115.2	-28.5

Source: Company, ICICIdirect.com Research

Conference call Highlights

- The company has stopped capitalisation for Malaysian plant and will start booking depreciation of ~ US$18 million and other costs ~US$30 million from FY18
- The management has guided for double digit revenue growth in FY18. However, increased costs due to now operational Malaysian plant, currency headwinds and likely impact GST implementation may affect margins, going ahead
- The company expects biosimilar approvals in the emerging markets to begin from H2FY17. However, Biocon has guided for a cautious outlook due to likely delay in approvals from agencies in those markets
- The management expects US filing of Insulin Glargine shortly
- The management has guided for five to six ANDA filings in the US each year. R&D expenses are, thus, expected to ramp up in the small molecules segment
- Gross R&D expenses in the near term are expected to be in the range of 12-15%
- The capex guidance for FY18E is ₹ 700 crore which includes, 1) capitalisation of R&D (₹ 150 crore) 2) ~₹ 100 crore of maintenance capex 3) new oral solid facility in Bangalore and 4) additional spending at Malaysian facility
- The company expects capex to remain high for the next two to three years mainly due to 1) development of new biological facility in Bangalore & 2) spending at Phase II of Malaysian facility
- The Bangalore plant has recently been inspected by the USFDA in response to a product filing in the US
- Biosimilars guidance for FY19 (US$200 million) is based on major traction from emerging markets and a small portion from the developed markets
- The tax rate, going ahead, is expected to be around 22-24%
- Biologics License Application (BLA) for a proposed biosimilar Pegfilgrastim accepted for review by the USFDA. This is second Successful BLA filing of the Mylan/Biocon Partnership in the US
- Marketing authorisation application for biosimilar Bevacizumab, post the completion of RoW-focussed Phase III clinical trial in metastatic colorectal cancer, has been submitted for approval in India
- Regulatory submissions for Insulin Glargine were made in the developed markets of Australia and Canada
- The Malaysia government's three-year exclusive offtake agreement for Rh-insulin cartridges and reusable pen provided a fillip to this business in Q4FY17
- Biocon launched INSUPen Pro, a customised Insulin re-usable pen developed in partnership with a Swiss based company Ypsomed, in Malaysia this quarter
- During the quarter, Biocon launched anti-ulcerant Parit (Rabeprazole) and Parit D (Rabeprazole D), which was in-licensed from Japan's Eisai Pharma

Valuation

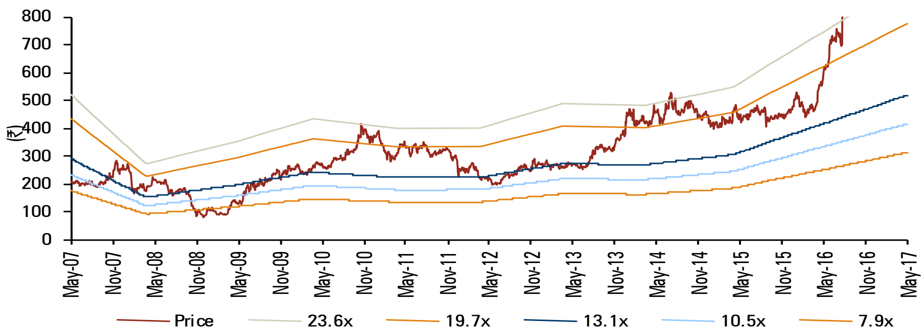
Q4 was affected by a subdued performance across segments, Syngene in particular. Encouraging developments on the biosimilars front in the last year have demonstrated Biocon's capability in the biosimilars space. It has also provided an extra lever for growth besides Syngene and branded formulations. As for developed markets foray, the current institutional acceptance of various biologics assets may provide the launch pad two years hence. That said, the recent run-up in the stock price has already captured most of the optimism. The management has guided for a cautious outlook for FY18 on the back of delayed approvals for biosimilars in emerging markets. Accordingly, we downgrade the stock to **HOLD** (from BUY) with a revised target price of ₹ 1020.

Exhibit 14: Valuation

Particulers		FY19E EPS (₹ cr)	Multiple (x)	Per share (₹)
Biocon (ex Syngene)		26.8	26.0	695.8
Syngene				
	Targeted Market Cap			10300
	Biocon's Holding			74.6%
	Holding Company Discount			20.0%
	Syngene valuation			6143
	Per share valuation			307
SOTP valuation				**1,000**

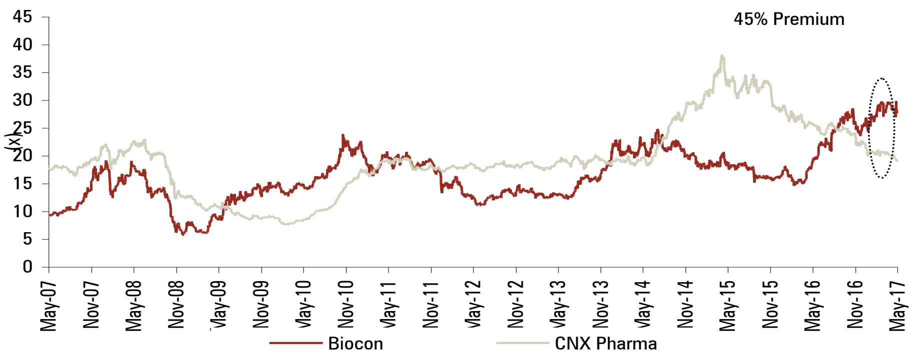
Source: ICICIdirect.com Research

Exhibit 15: One year forward PE



Source: Company, ICICIdirect.com Research

Exhibit 16: One year forward PE of company vs. CNX Pharma Index



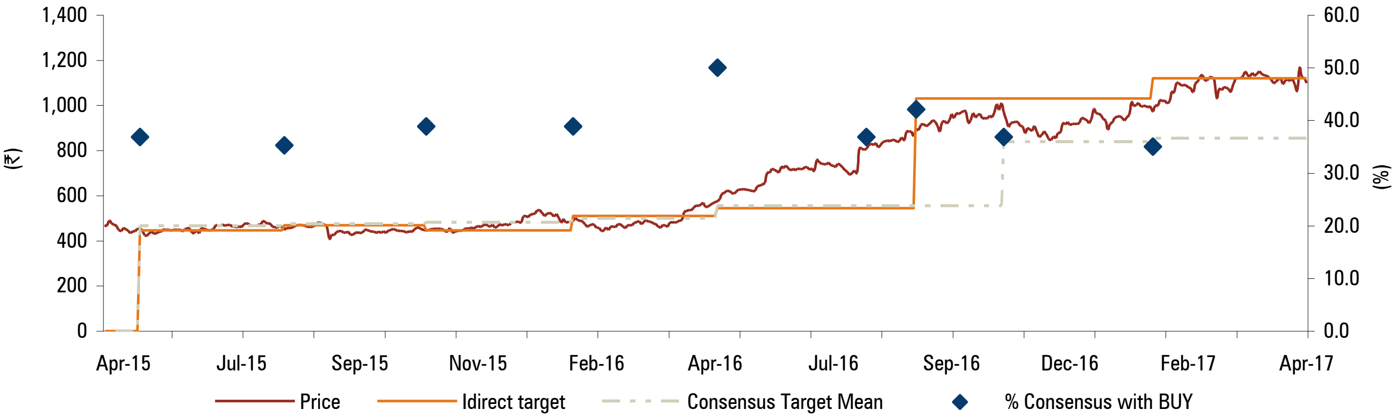
Source: Company, ICICIdirect.com Research

Exhibit 17: Valuation

	Revenues (₹ crore)	Growth (%)	EPS (₹)	Growth (%)	P/E (x)	EV/EBITDA (X)	RoNW (%)	RoCE (%)
FY16	3485	12.8	23.1	13.3	24.0	27.5	11.4	9.1
FY17E	3920	12.5	31.0	34.1	35.5	23.1	13.5	11.4
FY18E	4462	13.8	25.5	-17.7	43.1	21.9	10.2	10.4
FY19E	5510	23.5	40.1	57.2	27.4	15.9	14.3	18.8

Source: Company, ICICIdirect.com Research

Recommendation history vs. Consensus



Source: Reuters, Company, ICICIdirect.com Research

Key events

Date	Event
May-09	Launches long lasting human insulin Basalog in Indian market. The drug is similar to Sanofi's Lantus
Oct-10	Enters into an agreement with Pfizer for worldwide commercialisation of biosimilar versions of insulin and insulin analogue products: Recombinant human insulin, Glargine, Aspart and Lispro
Jan-11	Novel oral insulin IN-105 fails to meet its primary end point of lowering HbA1c levels compared to available drugs in the market (placebo)
Mar-12	Biocon and Pfizer conclude their alliance to commercialise Biocon's biosimilar versions of insulin and insulin analogue products worldwide
Nov-12	Enters into an option agreement with Bristol-Myers Squibb (BMS) for Biocon's IN-105 (oral insulin product candidate)
Feb-13	Out-licenses three insulin analogue products to Mylan. Mylan will have the rights to develop and market Biocon's Glargine, Lispro and Aspart.
Nov-13	Receives marketing approval from Drugs Controller General of India to launch its biosimilar Trastuzumab (anti-cancer) in Indian market.
Jan-14	Biocon launches its biosimilar CanMab in Indian market
Sep-14	Biocon Research buys back the 7.69% stake held by GE Equity International Mauritius valuing Syngene at ₹ 2800 crore.
Jan-15	Silver Leaf Oak acquires 10% stake in Syngene International, Biocon's Research Services Subsidiary at a valuation of ₹ 3800 crore
Jul-15	Syngene IPO starts from July 27, 2015 at a price range of ₹ 240-250
Oct-15	Acquired API unit of Acacia Life Sciences Private Limited at Vizag
Jun-16	Biocon and Mylan to Present Phase 3 Trastuzumab Biosimilar Data at the American Society of Clinical Oncology (ASCO) Annual Meeting
Jul-16	Biocon's Insulin Glargine launched in Japan
Jul-16	European Medicines Agency accepts Biocon-Mylan proposed biosimilar Pegfilgrastim (gNeulasta) for review
Aug-16	European Medicines Agency accepts Biocon-Mylan proposed biosimilar Trastuzumab (gHerceptin) for review
Jan-17	USFDA accepts Biocon's biologics licence application for its biosimilar oncology drug Trastuzumab

Source: Company, ICICIdirect.com Research

Top 10 Shareholders

Rank	Investor Name	Latest Filing Date	% O/S	Position	Position Chan
1	Shaw (Kiran Mazumdar)	31-Dec-16	41.4	82.8m	0.0
2	Glentec International	31-Dec-16	19.8	39.5m	0.0
3	Templeton Asset Management Ltd.	31-Dec-15	4.3	8.6m	0.7
4	OppenheimerFunds, Inc.	28-Feb-17	3.0	6.0m	0.0
5	Biocon India Ltd Employee Welfare Trust	30-Mar-17	1.8	3.6m	-0.2
6	Franklin Templeton Asset Management (India) Pvt. Ltd.	31-Mar-17	1.2	2.3m	0.0
7	Dimensional Fund Advisors, L.P.	31-Jan-17	1.1	2.2m	0.0
8	Chandavarkar (Arun Suresh)	31-Dec-16	1.1	2.2m	0.0
9	Krishnan (Murali K N)	31-Dec-16	1.1	2.1m	0.0
10	ICICI Prudential Asset Management Co. Ltd.	28-Feb-17	0.8	1.7m	-0.2

Source: Reuters, ICICIdirect.com Research

Shareholding Pattern

(in %)	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Promoter	60.7	60.7	60.7	60.7	60.7
Public	39.3	39.3	39.3	39.3	39.3

Recent Activity

BUYS			SELLS		
Investor Name	Value ($ mn)	Shares	Investor Name	Value ($ mn)	Shares
Causeway Capital Management LLC	8.83	0.63	RAM Active Investments S.A.	-7.45	-0.53
Jupiter Asset Management Ltd.	2.55	0.18	Biocon India Ltd Employee Welfare Trust	-2.84	-0.16
Prasad (B S V)	1.20	0.09	ICICI Prudential Asset Management Co. Ltd.	-2.71	-0.16
The Vanguard Group, Inc.	0.67	0.04	IDFC Asset Management Company Private Limited	-1.10	-0.07
BlackRock Institutional Trust Company, N.A.	0.66	0.04	State Street Global Advisors (UK) Ltd.	-0.42	-0.02

Source: Reuters, ICICIdirect.com Research

Financial summary

Profit and loss statement ₹ Crore

Year-end March	FY16	FY17E	FY18E	FY19E
Total Operating Income	3485.4	3920.3	4462.0	5510.3
Growth (%)	12.8	12.5	13.8	23.5
Raw Material Expenses	1330.1	1434.2	1606.3	1934.1
Employee Expenses	636.3	747.0	892.4	1030.4
R&D Expenditure	275.3	308.3	333.2	418.3
Other Expenditures	423.7	455.8	602.4	716.3
Total Operating Expenditure	2665.4	2945.3	3434.3	4099.2
Operating Profit (EBITDA)	820.0	975.0	1027.7	1411.1
Growth (%)	17.8	18.9	5.4	37.3
Depreciation	242.3	277.2	416.0	437.0
Interest	10.2	26.0	25.6	18.1
Other Income	84.5	170.0	175.8	217.2
PBT before Exceptional Items	652.0	841.8	762.0	1173.2
Less: Exceptional Items	-575.4	0.0	0.0	0.0
Total Tax	256.9	161.6	167.6	258.1
PAT before MI	970.5	680.2	594.3	915.1
Minority Interest	74.4	76.0	83.6	99.5
Adjusted PAT	462.9	620.5	510.7	815.6
Growth (%)	13.3	34.1	-17.7	59.7
EPS (Adjusted)	23.1	31.0	25.5	40.8

Source: Company, ICICIdirect.com Research

Cash flow statement ₹ Crore

Year-end March	FY16	FY17E	FY18E	FY19E
Profit/(Loss) after taxation	896.1	620.5	510.7	815.6
Add: Depreciation & Amortization	242.3	277.2	416.0	437.0
Net Increase in Current Assets	-204.5	-371.4	-274.2	-474.7
Net Increase in Current Liabilities	-159.7	166.1	175.0	257.1
Other Operating Activities	-247.9	26.0	25.6	18.1
CF from operating activities	526.4	718.4	853.0	1053.0
(Increase)/Decrease in Investments	-198.2	-782.3	0.0	0.0
(Purchase)/Sale of Fixed Assets	-957.7	-847.2	-700.0	-700.0
Increase/ (Decrease) in Minority Int	139.0	64.9	83.6	99.5
Other Investing Activities	62.9	-111.5	0.0	0.0
CF from investing activities	-954.0	-1676.1	-616.4	-600.5
Proceeds from issues of Equity Sha	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	1432.7	-251.5	-500.0	-500.0
(Payment) of Dividend and Dividenc	-116.5	-71.4	-127.7	-171.3
Interest Paid	-10.2	-26.0	-25.6	-18.1
Other Financing Activities	105.4	0.0	0.0	0.0
CF from financing activities	1411.4	-348.9	-653.2	-689.3
Net Cash flow	983.8	-1306.6	-416.6	-236.8
Opening Cash	937.5	1921.3	614.7	198.1
Closing Cash	1921.3	614.7	198.1	-38.7
Free Cash Flow	-431.3	-128.8	153.0	353.0

Source: Company, ICICIdirect.com Research

Balance sheet ₹ Crore

Year-end March	FY16	FY17E	FY18E	FY19E
Liabilities				
Equity Capital	100.0	100.0	100.0	100.0
Reserve and Surplus	3955.6	4504.7	4887.8	5532.1
Total Shareholders funds	4055.6	4604.7	4987.8	5632.1
Total Debt	2456.9	2205.4	1705.4	1205.4
Deferred Tax Liability (Net)	34.6	34.6	34.6	34.6
Minority Interest	311.2	376.1	459.7	559.3
Other NCL & LT Provisions	380.2	380.2	380.2	380.2
Source of Funds	7238.5	7601.0	7567.7	7811.6
Assets				
Gross Block	3489.1	5642.4	5942.4	6242.4
Accumulated Depreciation	1766.5	2043.7	2459.7	2896.6
Net Block	1722.6	3598.7	3482.7	3345.8
Capital WIP	2161.1	855.0	1255.0	1655.0
Total Fixed Assets	3883.7	4453.7	4737.7	5000.8
Goodwill on Consolidation	26.4	26.4	26.4	26.4
Investments	428.5	1210.8	1210.8	1210.8
Inventory	511.4	635.3	720.7	890.1
Debtors	822.9	883.2	1002.0	1237.4
Loans and Advances	597.6	647.6	697.6	747.6
Cash	1921.3	614.7	198.1	-38.7
Other Current Assets	123.8	261.0	281.0	301.0
Total Current Assets	3977.0	3041.8	2899.4	3137.3
Creditors	547.1	621.8	705.4	871.2
Provisions	87.7	117.9	148.0	178.2
Other Current Liabilities	608.3	669.5	730.7	791.8
Total Current Liabilities	1243.1	1409.2	1584.1	1841.2
Net Current Assets	2733.9	1632.6	1315.3	1296.1
Other Non Current assets	166.0	277.5	277.5	277.5
Application of Funds	7238.5	7601.0	7567.7	7811.5

Source: Company, ICICIdirect.com Research

Key ratios

Year-end March	FY16	FY17E	FY18E	FY19E
Per share data (₹)				
Reported EPS	45.9	31.0	25.5	40.8
BV per share	202.8	230.2	249.4	281.6
Dividend per share	6.0	3.6	6.4	8.6
Cash Per Share	96.1	30.7	9.9	-1.9
Operating Ratios (%)				
Gross Margin	61.8	63.4	64.0	64.9
EBITDA margin	23.5	24.9	23.0	25.6
EBIT Margin	16.6	17.8	13.7	17.7
PAT Margin	13.3	15.8	11.4	14.8
Inventory days	53.6	59.1	59.0	59.0
Debtor days	86.2	82.2	82.0	82.0
Creditor days	57.3	57.9	57.7	57.7
Asset Turnover	0.5	0.5	0.6	0.7
EBITDA Conversion Ration	64.2	73.7	83.0	74.6
Return Ratios (%)				
RoE	11.4	13.5	10.2	14.5
RoCE	9.1	11.4	10.4	15.3
RoIC	18.5	13.8	12.2	19.1
Valuation Ratios (x)				
P/E	24.0	35.5	43.1	27.0
EV / EBITDA	27.5	23.1	21.8	15.7
EV / Net Sales	6.5	5.7	5.0	4.0
Market Cap / Sales	6.3	5.6	4.9	4.0
Price to Book Value	5.4	4.8	4.4	3.9
Solvency Ratios				
Debt / EBITDA	3.0	2.3	1.7	0.9
Debt / Equity	0.6	0.5	0.3	0.2
Current Ratio	1.7	1.7	1.7	1.7

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Healthcare)

Company	I-Direct Code	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)				PE(x)				RoCE (%)				RoE (%)			
						FY16	FY17E	FY18E	FY19E	FY16	FY17E	FY18E	FY19E	FY16	FY17E	FY18E	FY19E	FY16	FY17E	FY18E	FY19E
Ajanta Pharma	AJAPHA	1655	1,960	Buy	14563.9	45.4	57.3	63.7	72.1	36.4	28.9	26.0	23.0	42.9	38.3	34.1	31.0	34.2	32.1	27.7	25.1
Alembic Pharma	ALEMPHA	615	615	Hold	11589.0	38.2	22.1	24.6	30.7	16.1	27.9	25.0	20.0	51.5	26.1	23.2	24.8	44.9	21.9	20.8	22.0
Apollo Hospitals	APOHOS	1230	1,440	Buy	17111.7	22.2	22.5	35.2	50.0	55.4	54.6	35.0	24.6	8.2	8.1	11.1	14.7	8.9	8.4	11.8	14.7
Aurobindo Pharma	AURPHA	608	965	Buy	35598.2	33.9	38.7	39.5	49.1	17.9	15.7	15.4	12.4	23.3	23.6	20.9	22.6	28.1	24.6	20.3	20.5
Biocon	BIOCON	1100	1,020	Hold	22079.0	23.1	31.0	25.5	40.8	47.5	35.5	43.1	27.0	9.1	11.4	10.4	15.3	11.4	13.5	10.2	14.5
Cadila Healthcare	CADHEA	445	425	Hold	45556.5	15.0	12.2	16.9	21.5	29.8	36.4	26.3	20.7	26.7	15.2	20.1	23.0	28.6	19.9	22.9	23.8
Cipla	CIPLA	556	575	Hold	44767.0	18.5	17.2	24.3	31.4	30.1	32.4	22.9	17.7	12.0	10.5	13.9	16.4	12.5	10.6	13.2	14.9
Divi's Lab	DIVLAB	634	700	Hold	16830.7	41.8	41.1	42.8	47.8	15.2	15.4	14.8	13.3	30.7	26.8	24.4	23.7	25.9	21.6	19.3	18.6
Dr Reddy's Labs	DRREDD	2613	2,930	Hold	43291.1	141.4	74.7	114.7	154.5	18.5	35.0	22.8	16.9	17.3	7.0	11.5	15.1	20.6	10.0	13.6	15.8
Glenmark Pharma	GLEPHA	895	1,155	Buy	25263.9	32.2	61.9	54.0	60.4	27.8	14.5	16.6	14.8	16.2	26.9	20.7	21.9	21.2	29.3	20.5	18.8
Indoco Remedies	INDREM	226	235	Hold	2082.6	9.4	8.7	12.7	15.6	24.1	25.9	17.8	14.5	12.9	9.5	13.9	16.1	14.8	12.4	15.8	16.8
Ipca Laboratories	IPCLAB	595	560	Hold	7512.9	10.0	15.0	24.1	31.1	59.4	39.6	24.7	19.2	5.7	9.8	12.7	14.8	5.5	7.8	11.3	13.0
Jubilant Life	JUBLIF	767	810	Buy	12216.9	26.0	37.0	51.1	68.0	29.5	20.8	15.0	11.3	12.0	14.1	15.6	18.5	14.2	17.1	19.4	20.7
Lupin	LUPIN	1341	1,760	Buy	60541.7	50.4	61.7	67.2	83.6	26.6	21.7	19.9	16.0	18.6	20.2	20.8	23.9	20.7	20.9	19.2	19.9
Natco Pharma	NATPHA	926	870	Buy	16140.9	8.5	25.3	14.8	18.2	109.2	36.6	62.8	50.9	16.0	33.0	17.6	19.2	11.9	27.2	14.0	15.0
Sun Pharma	SUNPHA	640	765	Buy	153526.8	23.4	30.3	29.9	35.3	27.3	21.1	21.4	18.1	18.6	19.3	17.3	17.9	18.0	19.4	16.5	16.8
Syngene Int.	SYNINT	510	515	Hold	10200.0	11.1	14.3	14.0	18.4	46.1	35.6	36.4	27.8	13.2	16.6	15.8	19.7	21.0	21.5	17.7	19.1
Torrent Pharma	TORPHA	1408	1,475	Buy	23825.7	107.8	57.0	62.1	77.4	13.1	24.7	22.7	18.2	46.7	21.5	23.7	26.4	53.8	23.5	21.4	22.2
Unichem Lab	UNILAB	278	285	Hold	2527.1	12.3	12.9	17.4	23.5	22.6	21.5	16.0	11.8	13.8	14.3	16.1	18.8	11.7	11.1	13.3	15.6

Source: Company, ICICIdirect.com Research

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Strong Buy: >15%/20% for large caps/midcaps, respectively, with high conviction;
Buy: >10%/15% for large caps/midcaps, respectively;
Hold: Up to +/-10%;
Sell: -10% or more;

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ANALYST CERTIFICATION

We /I, Siddhanth Khandekar**Error! Reference source not found.** CA-INTER, Mitesh Shah MS (Finance) Harshal Mehta MTech (Biotechnology) Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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