

Transgene Biotek

₹ 4.76

*Time ticks before Something Clicks***Buy**

Oct 31, 2014

Company Background

Transgene Biotek (Transgene) was incorporated in 1990 and is one of the first Biotechnology companies in India. It is an Indian company involved in the development of technologies in the area of new drug delivery systems and in the development of cancer products, among others. Recently, Transgene partnered with several companies and research organisations in US and India to develop and commercialise various biotechnology products in the areas of human vaccines and therapeutics. Apart from these activities, Transgene Biotek operates a chain of clinical diagnostic laboratories in Andhra Pradesh, known as Transgene Medical centres. Each laboratory comprises of auto-analysers, scanners and X-ray machines. A part of Transgenes facilities are leased out to a vaccine producer for the manufacture of Hepatitis B vaccine.

Key Highlights

- ➔ Transgene has basically acted as a Technology discovering company and transfers technology as soon as it reaches a commercialization stage. Its current portfolio contains many novel products like oral insulin, Drugs for Liver Cancer, Breast Cancer and HIV-AIDS. All these drugs have a lot of potential globally and any spark in the research can go well with the share prices.
- ➔ Transgene is having 2 important products in the basket DHA and Tacrolimus both products have a good market potential and we feel that the company basket has had them too early than the market requirement. while the Technology Transfer of Tacrolimus is complete. Transgene has already entered into a definitive licensing and technology transfer agreement with Atral Cipan of Portugal for Tacrolimus. Transgene expects both the products to start generating good revenue in the current FY.
- ➔ Transgene has received excellent data and support on the auto-immune disease platform technology that was acquired in 2011. It is now in the process of integrating that with its own technology that will facilitate the development of several drugs against a variety of auto-immune diseases such as RA, SLE etc. The same platform will also be employed to complement its HIV drug development.

Key Financials

Year Ended 31 st	Mar 11	Mar 12	Mar 13
Revenue (INR mn)	39.8	100.0	150.9
Rev. growth (%)	7.57	151.26	50.90
EBITDA (INR mn)	16.3	23.9	2.4
Net profit (INR mn)	3.8	1.4	(19.9)
Shares outstanding (mn)	15.8	40.8	65.8
EPS (INR)	0.2	0.0	(0.3)
EPS growth (%)	0.00	(85.75)	(981.13)
P/E (x)	153.6	947.9	(6.3)
RONW (%)	0.4	0.1	0.0
ROCE (%)	0.4	0.1	0.0

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Info Codes

Reuters	: TRBL.BO
Bloomberg	: TB@IN
NSE	: -
BSE	: 526139

Market Data

52 Wk Range (₹)	: 3.0 / 7.5
Shares in Issue (mn)	: 65.8
Mkt. Cap (₹ bn)	: 0.31
2Wk Avg. Qty	: 53000

Shareholding

Promoters	: 21.68
FIIs	: 0.00
DIIIs	: 0.00
Others	: 78.32

Investment Theme

Transgene Bio to many looks like a sick company some thing which for the past many years has not pleased its investors. However one should understand that Transgene is not actually a manufacturer. Transgene researches Biotechnology for Healthcare and transfers or liscences. Its products like DHA & Translimus have been ready before the market wave and therefore are finding no takers in India. The company is however carrying out its work at a good pace. The recent products on pipeline are Oral Insulin for Diabetics which is again based on a proprietary Drug Delivery Platform, followed by Drugs for Hepatocarcinoma, Breast Cancer and HIV-AIDS. Needless to say what the market currently requires is a news from the company to raise the share prices to a new level. We feel looking at the overall research base something should be expected soon.

Oral - A better Route!

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 11	Mar 12	% Chg	Mar 13	% Chg
Total Sales + Excise	39.8	99.6	150.25	150.3	50.90
Other Income	0.0	0.2	-	0.0	(100.00)
Change in Stocks	(30.3)	8.9	(129.37)	(4.7)	(152.81)
Raw Material Con.	16.0	18.1	13.13	1.9	(89.50)
Employee Exp.	5.9	4.8	(18.64)	5.5	14.58
Indirect Taxes	0.0	0.0	-	0.0	-
Other Exp.	11.9	75.9	537.82	146.8	93.41
Operating Exp.	64.1	89.9	40.25	158.9	76.75
Operating Profit	(24.3)	9.7	(139.92)	(8.6)	(188.66)
Total Interest	8.5	18.7	120.00	2.0	(89.30)
Gross Profit	(32.8)	(8.8)	(73.17)	(10.6)	20.45
Net Dep.	(37.3)	(10.5)	(71.85)	9.3	(188.57)
Total Taxation	0.7	0.3	(57.14)	0.0	(100.00)
Net Profit/Loss	3.8	1.4	(63.16)	(19.9)	(1521.43)

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 10	Mar 11	Mar 12	Mar 13
SOURCES OF FUNDS	1,303.3	1,309.9	2,352.3	3,445.1
Equity Share capital	157.7	157.7	407.7	657.7
Share Application Money	11.5	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	998.4	1,002.1	1,747.6	2,562.8
Long Term Loans	93.6	108.5	164.3	224.6
Short Term Loans	42.1	41.6	32.7	0.0
USES OF FUNDS	1,303.3	1,309.9	2,352.3	3,445.1
Gross Block	1,143.0	1,143.0	1,149.4	2,091.7
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	72.2	78.9	85.9	113.6
Net Block	1,070.8	1,064.1	1,063.5	1,978.1
Capital Work in Progress	0.0	0.9	633.6	2.9
Investments	0.0	0.0	334.0	922.0
Current Assets	49.1	15.9	115.0	463.6
Less : Current Liabilities	14.1	14.1	65.5	241.4
Total Net Current Assets	35.0	1.8	49.5	222.2
Misc. Expenses not written	197.5	243.1	271.7	319.9
NOTE				
Bk Val Unquoted Investments	0.0	0.0	334.0	922.0
Mkt Val. Quoted Investments	0.0	0.0	0.0	0.0
Contingent Liabilities	0.5	6.4	12.7	881.0
Dividend (%)	0	0	0	0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Sep 13	Dec 13	Mar 14	Jun 14
Net Sales	2.1	1.3	2.8	1.1
Cost Of Sales	5.8	4.0	11.0	5.3
Operating Profit	(3.7)	(2.7)	(8.2)	(4.2)
Recurring Income	0.6	4.6	4.0	0.0
Adjusted PBDIT	(3.1)	1.9	(4.2)	(4.2)
Financial Expenses	0.0	0.0	0.0	0.0
Depreciation	9.1	9.1	144.8	42.9
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	(12.2)	(7.2)	(149.0)	(47.1)
Tax Charges	0.0	0.0	0.0	0.0
Adjusted PAT	(12.2)	(7.2)	(149.0)	(47.1)
Non Recurring Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Net Profit	(12.2)	(7.2)	(149.0)	(47.1)

52 Week Index Relative Percentage Appreciation

Transgene vs SENSEX
Risks Associated

- **Uncertainty** as to the efficacy of a product always lies in the fate of a Healthcare Biotech company. The product may fail in trials or may pass all lab tests and fail at the end in human trials. At any moment of trial this uncertainty would kill the project. Further the product may turn out efficacious but the market may not be ready to absorb it due to its manufacturing costs and after effects.
- **Manufacturing processes** may turn wonderful on a lab scale but may completely fail or turn out unviable in the commercial stage of manufacture. Further collaboration and licencing is also an important part for the company which majorly does research and lets out the product. If there are no takers that would also be a problem as the funding would dry up.
- **Apart from the above** there may be a lot of products in the pipeline stage however no one can predict when a particular product could be mature enough to commercialise.
- **Intellectual Property** forms an important safeguard against these health care products however the naive nature of IP laws in India may not be adequate for the same.
- **A marketed product** may fail post use and the problems in the same may not necessarily be rectifiable immediately which would turn out to be a continuous loss.

In a Nutshell

Founded in 1991 by Dr Koteswara Rao, Transgene Biotek Ltd (Transgene) is one of the first true Biotechnology companies in India. Although Transgene began life manufacturing and selling diagnostic kits, it soon moved on to true biotech research, including the research and development of vaccines. The first major success came when it sold its genetically engineered recombinant Hepatitis B vaccine technology along with its novel and patented process in 1999 to the Serum Institute, Pune, which continues to sell vaccines based on Transgene's technology to this date. Today Transgene has close to two decades of knowledge, experience and success behind it. It is a vastly expanded company with an impressive product portfolio covering Oncology, Auto-Immunity, Drug Delivery and Biogenerics, and passionately strives to bring these technologies to commercialization in the least possible time. Transgene is currently concentrating efforts in not only developing novel drugs against different cancers but also in developing technologies to deliver those and other drugs through painless non-injectable routes. Its newly acquired technology for auto-immune diseases has demonstrated its efficacy and we believe that there is a significant potential for Transgene to develop drugs against auto-immune diseases such as SLE, RA etc in the years ahead. Today, Transgene has a distinct pipeline of novel drugs, novel drug delivery technologies and also a pipeline of bio-generic drugs.

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Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months

Accumulate : Expected to appreciate 10% to 20% over 12-months

Trade Buy : Expected to appreciate more than 10% over 45-days

Reduce : Expected to depreciate up to 10% over 12-months

Sell : Expected to depreciate 10% or more over 12-months

Trade Sell : Expected to depreciate more than 10% over 45-days

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