

Biocon Ltd.**₹640****Making you happy...!!!****Accumulate**

Jan 11, 2018

Company Background

Biocon Ltd is India's largest and fully-integrated, innovation-led biopharmaceutical company, incorporated in the year 1978 as a joint venture between Biocon Biochemicals Ltd of Ireland and an Indian entrepreneur Kiran Mazumdar-Shaw. Some of its key brands are INSUGEN, BASALOG, CANMAb, BIOMAb-EGFR, KRABEVAA & ALZUMAb. In 2017, USFDA accepted Biologics License Application for Mylan & Biocon's proposed Biosimilar Pegfilgrastim for review. During 2017, Biocon started commercial operations at its Malaysia facility with MYR 300 million contract from MoH, Malaysia to supply rh-insulin. During the year, USFDA accepted Biologics License Application for Mylan & Biocon's proposed Biosimilar Trastuzumab. On 18 January 2018, Biocon and Sandoz, a Novartis division and a global leader in biosimilars, announced a global partnership to develop, manufacture and commercialize multiple biosimilars in immunology and oncology for patients worldwide. Under the terms of the agreement, both companies will share responsibility for end-to-end development, manufacturing and global regulatory approvals for a number of products and will have a cost & profit share arrangement globally. Worldwide commercialization responsibilities will be divided and each company's strengths will be leveraged within specific geographies. Sandoz will lead commercialization in North America and the EU while Biocon in Rest of the World.

Key Highlights

- ➔ Biocon and its partner Mylan became the first to receive approval for biosimilar Pegfilgrastim from the USFDA, during the Q1FY19.
- ➔ During FY19, company expects to receive additional facility & Insulin product approvals from various regulatory agencies globally. As a result of these approvals, Biocon expects an operational breakeven in Malaysia in FY19, when excluding R&D expenses.
- ➔ One of Syngene's research facility in Bengaluru, which was damaged in a fire incident in December 2016, is expected to become operational in the H1FY19. The under construction API manufacturing facility at Mangalore is scheduled to go live in FY20.

Key Financials

Year Ended 31 st	Mar 16	Mar 17	Mar 18
Revenue (INR mn)	26,146.0	27,172.0	25,502.0
Rev. growth (%)	7.89	3.92	(6.15)
EBITDA (INR mn)	7,010.0	6,906.0	4,429.0
Net profit (INR mn)	3,686.0	5,193.0	2,385.0
Shares outstanding (mn)	200.0	200.0	600.0
EPS (INR)	17.9	26.0	4.0
EPS growth (%)	(0.06)	45.03	(84.67)
P/E (x)	8.98	14.55	149.30
RONW (%)	7.06	8.29	3.21
ROCE (%)	9.79	8.16	4.00

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Info Codes

Reuters	: BION.BO
Bloomberg	: BIOS.IN
NSE	: BIOCON
BSE	: 532523

Market Data

52 Wk Range (₹)	: 526/718
Shares in Issue (mn)	: 600
Market. Cap (bn)	: 384.54
BSE 2 Wk Avg Vol	: 69,000

Share Holding Pattern (%)

Public & Others	: 17.38
Promoters	: 60.67
Foreign Institution	: 17.20
Institutions	: 04.75

Investment Theme

Company's business is organized into four segments namely; Small Molecules API & Generic Formulations, Biosimilars & Novel Biologics, Branded Formulations & Research Services. In Small Molecules segment, more launches are scheduled in the next 2-3 years, which provide a decent growth opportunity to this segment. This segment contributing 35% of consolidated revenues in FY18 as compared to 40% in FY17. Revenues for FY18 were ₹ 15,007 mn. In Biosimilars & Novel Biologics segment revenues grew by 9% to ₹ 6,286 mn as compared to ₹ 5,793 mn in FY17. The growth was led by insulin sales in Malaysia. The Branded Formulations segment is currently operational in India and the UAE. In FY18, the segment grew by 11% from ₹ 5,489 mn to ₹ 6,115 mn, led by strong growth in the UAE business. Research Services revenues grew by 20% to ₹ 13,889 mn driven by broad based growth across three verticals.

Pharmacy for tomorrow...!!!

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 16	Mar 17	% Chg	Mar 18	% Chg
Net Operating Income	23,018.0	25,879.0	12.4	24,192.0	(6.5)
Other Income	2,792.0	988.0	(64.6)	1,247.0	26.2
Change in Stocks	364.0	465.0	27.7	18.0	(96.1)
Fuel Charges	10,239.0	10,817.0	5.6	10,512.0	(2.8)
Employee Exp.	3,219.0	3,650.0	13.4	4,086.0	11.9
Indirect Taxes	336.0	305.0	(9.2)	63.0	(79.3)
Other Exp.	5,370.0	5,654.0	5.3	6,367.0	12.6
Operating Exp.	19,164.0	20,426.0	6.6	21,028.0	2.9
Operating Profit	7,010.0	6,906.0	(1.5)	4,429.0	(35.9)
Total Interest	19.0	38.0	100.0	10.0	(73.7)
Gross Profit	6,991.0	6,868.0	(1.8)	4,419.0	(35.7)
Net Dep.	1,397.0	1,506.0	7.8	1,361.0	(9.6)
Total Taxation	1,908.0	169.0	(91.1)	673.0	298.2
Net Profit/Loss	3,686.0	5,193.0	40.9	2,385.0	(54.1)

4 Years Balance Sheet

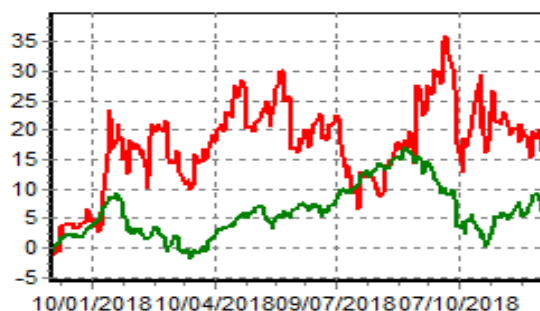
(₹ mn)

Balance Sheet as on 31 st	Mar 15	Mar 16	Mar 17	Mar 18
SOURCES OF FUNDS	28,023.0	64,676.0	67,648.0	69,611.0
Equity Share capital	1,000.0	1,000.0	1,000.0	3,000.0
Equity Application Money	0.0	(577.0)	0.0	0.0
Equity Share Warrants	0.0	0.0	0.0	0.0
Reserves & Surplus	24,844.0	59,543.0	64,411.0	64,386.0
Secured Loans	0.0	1,328.0	1,296.0	1,302.0
Unsecured Loans	2,179.0	3,382.0	941.0	923.0
USES OF FUNDS	28,023.0	64,676.0	67,648.0	69,611.0
Gross Block	18,321.0	19,344.0	21,289.0	22,286.0
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	9,178.0	10,406.0	11,909.0	13,260.0
Net Block	9,143.0	8,938.0	9,380.0	9,026.0
Capital Work in Progress	576.0	1,723.0	2,408.0	3,185.0
Investments	1,647.0	38,528.0	38,882.0	41,990.0
Current Assets	16,516.0	17,728.0	18,538.0	16,039.0
Less : Current Liabilities	4,939.0	6,296.0	7,041.0	7,658.0
Total Net Current Assets	11,577.0	11,432.0	11,497.0	8,381.0
Misc. Expenses not writtenoff	5,080.0	4,055.0	5,481.0	7,029.0
NOTE				
Book Value of Unquoted Investments	1,647.0	10,937.0	8,164.0	11,320.0
Market Value of Quoted Investments	0.0	55,800.0	75,622.0	86,724.0
Contingent Liabilities	10,827.0	15,329.0	16,685.0	16,925.0
Dividend (%)	100.0	100.0	60.0	20.0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Dec 17	Mar 18	Jun 18	Sep 18
Net Sales	5,921.0	6,481.0	6,722.0	7,089.0
Cost Of Sales	5,362.0	5,606.0	5,901.0	6,176.0
Operating Profit	559.0	875.0	821.0	913.0
Other Income	374.0	312.0	2,045.0	910.0
Adjusted PBDIT	933.0	1,187.0	2,866.0	1,823.0
Financial Expenses	1.0	(2.0)	0.0	12.0
Depreciation	332.0	323.0	317.0	402.0
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	600.0	866.0	2,549.0	1,409.0
Tax Charges	163.0	147.0	252.0	211.0
Reported Profit	437.0	719.0	2,297.0	1,198.0
Extra Ordinary Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Adjusted Net Profit	437.0	719.0	2,297.0	1,198.0

52 Week Index Relative Percentage Appreciation

Biocon vs SENSEX
Risks Associated

- ➔ In FY18, its manufacturing sites in India and Malaysia underwent several inspections by various regulatory agencies as a part of the drug product approval process. Some of these audits led to regulatory observations that were largely procedural and aimed at continuous improvement but some also required remedial measures. If regulatory issues are not satisfy, that hamper the production process.
- ➔ Pharmaceutical companies struggle to globally enforce IP protection, particularly in some emerging markets. Enhanced regulatory scrutiny is set against a backdrop of increasing patient advocacy, social media and affiliate marketing programmes.

Scope of Growth

- ➔ During the Q1FY19, It received Establishment Inspection Report from the US health regulator on the closure of inspection of its sterile drug product manufacturing facility in Bengaluru.
- ➔ During the Q2FY19, Biocon received the US drug regulator's nod for its first biosimilar of cancer medicine Fulfila in early June, plans to launch its Insulin Glargine drug in Europe and Australia by the year-end.
- ➔ As part of generic formulations foray, It launched Rosuvastatin Calcium formulation in the US & some European markets in FY18. More launches are scheduled for the next 2-3 years, which will help a decent growth opportunity in the future.
- ➔ During the FY18, It's API manufacturing facility in Vishakhapatnam, was successfully completed a USFDA audit without any observations. The plant will add some products to its existing portfolio.
- ➔ During FY18, Biocon launched biosimilar Insulin Glargine in UAE under the brand name Glaricon, which was its first biosimilar launch in the UAE market. It also in-licensed two more innovator brands which will fortify its position in the UAE market.

In a Nutshell

Biocon Ltd is India's largest biopharmaceutical company, incorporated in the year 1978 as a joint venture between Biocon Biochemicals Ltd of Ireland and an Indian entrepreneur Kiran Mazumdar-Shaw. It has twelve subsidiaries and one Joint venture, all are performing well. Mylan and Biocon on 28 March 2018 announced that their co-developed biosimilar insulin glargine Semglee has received marketing authorization approval from the European Commission. Semglee 100 units/mL 3 mL prefilled disposable pen for people with diabetes, is the first biosimilar from Biocon and Mylan's joint portfolio to be approved in Europe. The EC approval of Semglee applies to all 28 European Union member states and the European Economic Area member states of Norway, Iceland and Liechtenstein. During the year, the company launched KRABEVA, a biosimilar Bevacizumab and its second oncology biosimilar launch in India under formulations and also launched biosimilar Insulin Glargine in UAE under the brand name Glaricon, which was its first biosimilar launch in the UAE market. One of Syngene's research facility in Bengaluru, which was damaged in a fire incident in December 2016, is expected to become operational in the current year. The under construction API manufacturing facility at Mangalore is scheduled to operate in FY20. Net sales down by 6.5% to ₹ 24,192 million, operating profit declined by 35.9% to ₹ 4,429 million and net profit also trim by 54.1% to ₹ 2,385 million. Dividend has been announced ₹ 1 per share for FY18. Biopharmaceutical business is a big advantage for the company. And newly launched products will improve the margins for future.

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Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months	Reduce : Expected to depreciate up to 10% over 12-months
Accumulate : Expected to appreciate 10% to 20% over 12-months	Sell : Expected to depreciate 10% or more over 12-months
Trade Buy : Expected to appreciate more than 10% over 45-days	Trade Sell : Expected to depreciate more than 10% over 45-days

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