



COMPANY NAME	: Biocon
BSE Code	: 532523
Time Duration	: 1 year
CMP	: ₹1117.55 (as on 16 Mar., 2017)
Target Price	: ₹1473

The Mid Bridge for the month of March 2017 is Biocon, a bio-pharma company operating in developing market and finding in roads into developed markets. The company has largest portfolio of biosimilars which caters to the addressable market size of \$60bn. We believe the company has strong portfolio of offerings and is building its capability by investing in facilities in Malaysia and Bangalore. With new filings progressing and robust growth expected in biologics segment, we expect it to company to grow at high single digit to low double digit in the coming years. The diversified mix of research services and contract manufacturing also presents a good growth opportunity to the company. Hence, we recommend BUY on this stock with an upside of 32% over a period of one year. The company's ROCE as of FY16 is ~9.1, which we expect to improve to 16 by FY19.

Biologics segment and Syngene to be growth engines

Biologics segment - This segment which contributes ~11% to revenues includes novel biologics and biosimilars. The company's investment in the last couple of years in its Malaysian facility has paid results with company getting inroads in developed markets of Japan. With increasing filings in emerging markets and Japan, the US and EU, we expect highest growth in this segment. It recently received FDA acceptance of its biosimilar to neulasta (pegfilgrastim) which was developed in partnership with Mylan and will expand its oncology portfolio. The company plans to focus on therapies - oncology, immunology and diabetology. Management expects to reach sales of US \$200mn for this segment by FY2019.

Small Molecules - This segment contributes ~41% of the revenue. We expect the revenue contribution from this segment to shrink eventually. However, this is a high margin segment and the company has moved into formulations and has been filing its own ANDAs. It has about eight ANDAs in the pipeline, which can pull the revenue growth in low double digit in coming years. It has presence in statins, immuno suppressants and other bio-pharma products.

Branded formulations - This segment contributes ~14% to revenues. The company has a strong portfolio of 80-plus owned brands in this finished dosage business. We expect company to see growth due to its exposure to emerging markets and UAE.

Syngene - A contract research services arm of the company, it contributes around 30% to the revenue. Company provides contract manufacturing and research services to top 8 global clients. It also derisks the model and provides diversification when biological segment is down. This has been growing at 16% over last nine months and we expect the movement to continue.

Robust pipeline of drugs

The company is planning to focus on speciality molecules in chronic therapeutic segments. It has a strong pipeline of solid oral and parenteral products in potent and non-potent categories of compounds. It also targets to file ~15-20 dossiers in the next few years.

The company has been making progress towards filing for generic Insulin Glargine in the US and Adalimumab biosimilar for US/EU.

New facility in Bangalore

The company is constructing its first oral solid dosage facility in Bangalore. This is expected to help the company speed up future generic formulations and will be commissioned by CY17. The estimated capex outlay is US\$25mn.

The company has its integrated insulin manufacturing facility in Malaysia. It expects traction in commercial supplies from this facility to emerging markets in FY18. The company has recently received a three-year contract for supplying Rh-Insulin cartridges and re-usable insulin pens by Ministry of Health (MoH), Malaysia, for ~Rs.460 cr.

Financial performance

Q3FY17 and last 9 months - The company achieved 32% yoy revenue growth in the quarter and 25% yoy growth on 9M basis. By segment, highest growth was seen in licensing segment in Q3FY17 which increased by 148% yoy which was followed by 61% growth in biologics segment. The EBITDA also saw a sharp increase of 57% yoy in the quarter and 45% yoy on 9M basis. This led to expansion in EBITDA margins by 500bps. Driven by better product mix, adjusted net profit increased by 65% yoy and by 123% yoy on 9M basis.

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Valuation

The company is trading at TTM P/E of 26.1x and FY19E P/E of 22.4x. We see that due to its unique integrated business model and expectations of growth in biologics segment and Syngene

coupled with additional facility in Bangalore, an upside of 32% from current levels.

We urge investors to invest in three tranches and **BUY** the stock on dips.

Inc/Exp Statement(Consolidated) (Rs in Crore)

Particulars	201603	201503	201403	201303	201203
Net Sales	3485.40	3089.80	2877.30	2485.30	2086.50
Total Income	3574.60	3142.90	2933.20	2542.00	2395.90
Total Expenditure	2670.10	2394.00	2190.20	1946.30	1809.30
PBIDT	904.50	748.90	743.00	595.70	586.60
PAT	970.50	528.40	430.80	512.70	342.50
Dividend %	100.00	100.00	100.00	150.00	100.00
Adj. EPS(Rs)	44.80	24.87	20.69	25.44	17.08

Quarter On Quarter (Consolidated) (Rs in Crore)

Particulars	201612	201609	Q on Q Var%	201512	Y on Y Var%
Net Sales	1022.50	932.10	9.70	789.00	29.59
Total Expenditure	761.50	705.80	7.89	615.10	23.80
PBIDT (Excl OI)	276.10	240.00	15.04	184.80	49.40
PAT	190.00	161.90	17.36	119.20	59.40
PBIDTM% (Excl OI)	26.44	25.15	5.13	22.90	15.46
PBIDTM%	30.97	29.18	6.13	25.57	21.12
PATM%	18.19	16.97	7.19	14.77	23.16
Adj. EPS(Rs)	8.57	7.34	16.76	5.21	64.49

