



Investor's Delight

17th January, 2011

Company	Biocon Ltd.
BSE Code	532523
Promoter's holding	60.9%
FV	Rs. 5
Equity Capital (Rs in mn)	1,000
Reserves (Rs in mn)	16,579
Book Value	Rs. 88
Market Capitalization (Rs in mn)	74,400
CMP	Rs. 372
Target Price	Rs. 432
Upside	16.1%

A) About the company

Background

Incorporated in 1978 at Bangalore, the company is Asia's leading R&D based biotechnology company. It has transformed itself from an enzyme manufacturer to a manufacturer of high technology driven products.

Currently, the company has a portfolio of 950 patent applications with 182 applications. Biocon's value chain transverses the entire length of discovery, development and commercialization of novel therapeutics. With successful initiatives in clinical development, bio – processing and global marketing, the company delivers products and solutions to partners and customers in ~75 countries across the globe. Many of these products have USFDA and EMEA acceptance.

Manufacturing capabilities

The company has manufacturing capabilities in the space of mammalian cell culture fermentation, microbial cell culture fermentation, synthetic chemistry, formulation development for solid dosage (tablets and capsules), and injectibles. It has three manufacturing facilities located at Bangalore, Karnataka.

B) Investment Rationale

- 1) Insulin business to drive growth:** It has gradually shifted its focus from low margin statins segment to high margin insulin business. The company strategy is to focus on increasing its commercial presence in emerging markets through strategic alliances. It launched its first insulin BASALOG in India. Both INSUGEN and BASALOG to be registered in European Union (EU) and USA by 2012 – 2016. It has launched its biosimilar insulin products in various emerging markets within South America, North America and East Asia. It is looking to introduce its pen delivery devices by June 2011. The company expects insulin segment to contribute 25-30% to revenues over next 2 years.



- 2) **Key triggers expected:** Expected out licensing of oral insulin in H2FY11, can act as a key trigger to the stock. In H1FY11; the company had an out licensing deal with Pfizer for its recombinant insulin.
- 3) **Pfizer- Biocon deal - key positive:** Recently, Biocon entered into a commercialization deal worth US\$350mn with Pfizer for its biosimilar insulin products. With this, Pfizer gets exclusive global rights to commercialize recombinant human insulin, lantus, novolog and humalog. This event validates Biocon's quality biosimilar product pipeline for commercialization in regulated markets. The deal would also assist Biocon to fund its planned capex of US\$300mn over next 5-6 years. In addition, the company also plans to incur US\$200mn on development or registration costs. This would be funded mainly through upfront payment in Pfizer deal worth US\$200mn (in tranches) and the balance US\$150mn through milestone payments.
- 4) **Domestic formulations business to do well:** It witnessed a 28% yoy topline growth in FY10. Going ahead, management expects to grow at 25-30% over the next 2 years. Biocon's key brands – Clotide and Myokinase - continue to enjoy leading positions in their respective segments. It will be focusing on chronic segments and embark on brand building exercise for its larger brands to achieve its vision of Rs5bn sales by 2015 in domestic formulations business.
- 5) **Recent development on IN - 105:** As per preliminary data from a recently concluded clinical study conducted in India, on IN-105, its novel oral insulin candidate for the treatment of diabetes, demonstrated an excellent overall safety profile with no incidence of serious adverse events, and no occurrences of clinical hypoglycemia. These results are positive for the company.
- 6) **Expected earnings CAGR of 36% over FY10-FY12E:** We expect company to register PAT CAGR of 36% over FY10-12E on the back of revenue CAGR of 15.4% over the same period.

C) Outlook and Valuation

With due consideration to factors like a) strong presence in domestic formulation business, b) insulin business to drive growth, c) deal with Pfizer, c) expected upside from its novel pipeline (IN-105), we recommend a 'BUY' with a target price of Rs.432 (16x at estimated FY12 EPS) for investors with a six months horizon.



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