INVESTOR'S DELIGHT

9TH FEBRUARY, 2011

COMPANY	BIOCON LTD.
NSE Code	**BIOCON**
BSE Code	**532523**
FV	**Rs. 5**
Equity Capital (Rs in mn)	**1,000**
Debt: Equity	**0.3x**
Market Capitalization (Rs in mn)	**64,200**
CMP	**Rs. 321**
Target Price	**Rs. 378**
Upside	**18%**

ABOUT THE COMPANY

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.

INVESTMENT RATIONALE

1) **Impressive Q3FY11 results:** The revenues of the company witnessed yoy growth of 14.6% to touch Rs. 7.3 bn in Q3FY11. EBITDA stood at Rs.1.7 bn (yoy growth of 23.5%). This was attributable to strong growth of 22% in Biopharma and mproving contribution from contract research space. Recent deal with Pfizer provided a boost to Q3FY11 results. The company recognized ~Rs.500 mn of licensing income from Pfizer. R&D costs were to the tune of Rs.350 mn were recorded which resulted in 30% margins from the product development part of the deal.

About Biocon – Pfizer deal: 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. We believe this result in good earnings for Biocon in next two – three years.

2) **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.

3) **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.

4) **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.

Outlook and Valuation

With due consideration to factors like a) impressive Q3FY11 results, b)strong presence in domestic formulation business, c) insulin business to drive growth, d) deal with Pfizer, e) expected upside from its novel pipeline (IN-105), we recommend a 'BUY' with a target price of Rs.378(18x consensus/street FY12 estimated EPS) for investors with a 12 months horizon.

Disclaimer

This document has been prepared by Ajcon Global Services Ltd. and is meant for the recipient for use as intended and not for circulation. This document should not be reported or copied or made available to others. The information contained herein is from the public domain or sources believed to be reliable. While reasonable care has been taken to ensure that information given is at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the very nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as decision such. Ajcon Global, its directors and employees, will not in any way be responsible for the contents of this report. This is not an offer to sell or a solicitation to buy any securities. The securities discussed in this report may not be suitable for all investors. Investors must make their own investment based on their own investment objectives, goals and financial position and based on their own analysis.