



Biocon – Q4FY11 update

30th April, 2011

CMP: Rs.368.5

FV: Rs. 5/-

Promoter's holding: 60.9%

Equity capital: Rs. 1,000 mn

Market Capitalization: Rs.73.6bn

Margins under pressure, divestment of Axicorp to improve margins

Q4FY11 Financial summary (Rs. in mn)

Particulars	Q4FY11	Q4FY10	% yoy change	Q3FY11	% qoq change
<i>Biopharma</i>	3,480	3,130	11.2	3,540	(1.7)
<i>Contract Services</i>	890	740	20.3	788	12.9
<i>Licensing Income</i>	320	210	52.4	768	(58.3)
<i>Axicorp</i>	2,330	2,490	(6.4)	2,184	6.7
Net Sales	7,032	6,582	6.8	7,298	(3.6)
EBITDA	1,451	1,318	10.1	1,700	(14.7)
EBITDA Margin (%)	20.6	20.0	60 bps	23.3	270bps
EBITDA ex licensing income	1,131	1,108	2.1	932	21.3
EBITDA % (ex licensing income)	16.9	17.4	(50)bps	14.3	260bps
Depreciation	396	367	7.9	406	(2.5)
Other income	133	75	77.3	79	68.4
Gross Interest	57	33	72.7	66	(13.6)
PBT	1,131	992	14	1,308	(13.5)
Reported PAT	1,008	806	25	1,007	0.1
PAT margin (%)	14	12	200bps	14	-
EPS (Rs.)	5	4	25	5	-

Q4FY11 update

The company witnessed yoy growth of 6.8% in Q4FY11 to touch Rs. 3,480 mn. This was mainly contributed by 11.2% yoy growth in Bio Pharmaceutical segment, 20.3% growth in Contract services and 52.4% yoy growth in Licensing income. However, revenues from its subsidiary Axicorp, Germany, declined by 6.4% on yoy basis.

Strong growth in the sales of immunosuppressants, statins and branded formulations resulted in 11.2% yoy growth in Biopharma business. In the immunosuppressants segment, the company proposes to enter some of the ROW markets with its formulations in the immunosuppressants and anti-diabetics categories. The company's statins portfolio witnessed a changing product mix in FY11. Products like Atorvastatin and Rosuvastatin gained market share. Insulin sales have been growing steadily in the Rest of world (ROW) markets. The alliance with Pfizer is expected to add to sales in FY12.

The company registered an improvement of 60 bps on yoy basis to touch 20.6% in Q4FY11. On a qoq basis, EBITDA margins declined by 270 bps. EBITDA margins (excluding licensing income) too declined by 50bps on yoy basis to touch 16.9% in Q4FY11. This can be attributed to higher R&D spending, commodity nature of Biocon business, and higher employee costs.

PAT clocked yoy growth of 25% to touch Rs. 1,008 mn in Q4FY11. PAT margins stood at 14% for Q4FY11, an improvement of 200 bps on yoy basis.

Key development in Q4FY11

The company will divest its stake in its German subsidiary, Axicorp GmbH, to the existing group of promoter shareholders. Axicorp was the licensee for Biocon's biosimilar Insulin and Glargine in Germany and had the sole responsibility for commercializing these products. As a consequence of this divestment, these rights revert to Biocon.

Axicorp accounted for ~35% of Biocon's sales. However, Axicorp being a distribution company contributed 8% to PAT.

Earlier, Biocon had entered into a global alliance with Pfizer in October 2010, for commercializing biosimilar Insulin and Insulin analogs. This divestment has no impact on Biocon's on-going development of biosimilar Insulin and analogs in Europe and elsewhere in collaboration with Pfizer.

Dividend announcement

The company has announced the payment of an interim dividend of Rs.1.5 per share and has recommended a final dividend of Rs. 3 per equity share.

Recommendation

We believe that at CMP, there are limited upsides and our view is "Neutral". We recommend investors not to add any fresh positions.

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