

Biocon (Biocon)

ODAC panel recommendation improves prospect of Trastuzumab approval...

In a significant development that can be termed as a precursor for biosimilar launch in the US, the USFDA Oncologic Drugs Advisory Committee (ODAC) has strongly recommended approval of Biocon/Mylan's proposed biosimilar Trastuzumab, a biologically similar version of Roche's breast-cancer drug Herceptin. Herceptin is indicated to treat certain HER2-positive breast and gastric cancers. The committee voted 16-0 in support of eligible indications of the reference product. During the discussion, ODAC determined that no clinically meaningful differences exist between the biosimilar product and Herceptin in terms of safety, purity and potency. FDA uses advisory committees and panels to obtain independent expert advice on a variety of matters, including product approvals. FDA often follows the advice of ODAC in determining whether a product should come to market although they are not required to follow it. However, the management is confident of receiving final approval from the agency in early September. Annual sales of Herceptin in the US are ~US\$ 2.6 billion. Trastuzumab is also under review by regulatory authorities in Australia, Canada, Europe and several emerging markets.

Biocon, Mylan Partnership

Biocon and Mylan are exclusive partners for biosimilar and insulin products. Trastuzumab is one of the six products co-developed by Biocon and Mylan for global markets. Mylan has exclusive commercial rights for the proposed biosimilar Trastuzumab in the US, Canada, Japan, Australia, New Zealand and Europe. Biocon has co-exclusive commercial rights with Mylan in the rest of the world.

Progress in US likely to nullify French concerns; maintain HOLD

The ODAC recommendation does suggest significant progress towards approval and subsequent launch. Assuming smooth sailing at the USFDA's end, we expect the company to launch the product by end of FY18. The recent ODAC recommendation (a comprehensive one with 16-0 voting in favour) and encouraging developments in the past two years vindicate Biocon's capability in the biosimilar space despite observations from French authority at Bangalore plant. We have assigned NPV value for the US meant Trastuzumab after considering the market and other dynamics. Accordingly, we arrive at our new SOTP target price of ₹ 375 (from ₹ 340 earlier). Given the recent run-up in the stock, the upside is already priced-in. Hence, we maintain our **HOLD** recommendation.

Exhibit 1: Valuation

Particulars	FY19E EPS (₹ cr)	Multiple (x)	Per share (₹)
Biocon (ex Syngene)	8.9	28.0	248.7
Syngene			
Targeted Market Cap			10300
Biocon's Holding			74.6%
Holding Company Discount			20.0%
Syngene valuation			6143
Per share valuation			102
NPV (Trastuzumab)			24
SOTP valuation			375

Source: ICICIdirect.com Research

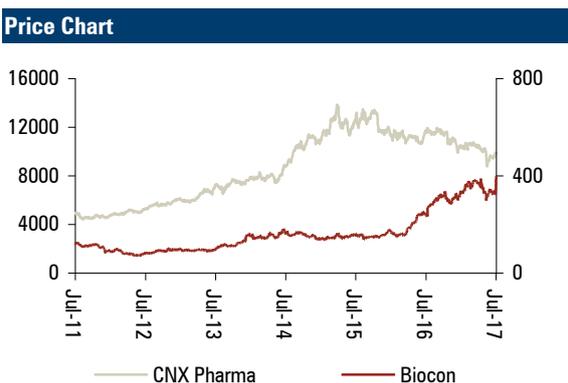
Rating matrix	
Rating	: Hold
Target	: ₹ 375
Target Period	: 12 months
Potential Upside	: -6%

What's Changed?	
Target	Changed from ₹ 340 to ₹ 375
EPS FY18E	Changed from ₹ 8.5 to ₹ 7.5
EPS FY19E	Changed from ₹ 13.6 to ₹ 13.4
Rating	Unchanged

Key Financials				
(₹ Crore)	FY16	FY17E	FY18E	FY19E
Revenues	3485.4	3920.3	4325.0	5371.0
EBITDA	820.0	975.0	931.2	1383.8
Adj. Net Profit	462.9	620.5	447.6	804.7
Adj. EPS (₹)	7.7	10.3	7.5	13.4

Valuation summary				
	FY16	FY17E	FY18E	FY19E
PE(x)	26.2	38.7	53.7	29.9
EV to EBITDA (x)	11.5	12.8	8.7	13.9
Price to book (x)	9.3	11.4	9.5	15.5
RoNW (%)	29.3	24.5	25.7	17.1
RoCE (%)	6.0	5.0	4.6	4.1

Stock data	
Particular	Amount
Market Capitalisation	₹ 24021 crore
Debt (FY17)	₹ 2205 crore
Cash (FY17)	₹ 1044 crore
EV	₹ 25182 crore
52 week H/L	404/230
Equity capital (₹Crore)	₹ 300 crore
Face value (₹)	₹ 5



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Financial summary

Profit and loss statement		₹ Crore			
Year-end March	FY16	FY17E	FY18E	FY19E	
Total Operating Income	3485.4	3920.3	4325.0	5371.0	
Growth (%)	12.8	12.5	10.3	24.2	
Raw Material Expenses	1330.1	1434.2	1618.3	1885.2	
Employee Expenses	636.3	747.0	865.0	1004.4	
R&D Expenditure	275.3	308.3	315.7	399.4	
Other Expenditures	423.7	455.8	594.7	698.2	
Total Operating Expenditure	2665.4	2945.3	3393.7	3987.2	
Operating Profit (EBITDA)	820.0	975.0	931.2	1383.8	
Growth (%)	17.8	18.9	-4.5	48.6	
Depreciation	242.3	277.2	399.7	420.7	
Interest	10.2	26.0	25.6	18.1	
Other Income	84.5	170.0	177.0	212.4	
PBT before Exceptional Items	652.0	841.8	683.0	1157.4	
Less: Exceptional Items	-575.4	0.0	0.0	0.0	
Total Tax	256.9	161.6	153.1	254.6	
PAT before MI	970.5	680.2	530.0	902.7	
Minority Interest	74.4	76.0	82.4	98.0	
Adjusted PAT	462.9	620.5	447.6	804.7	
Growth (%)	13.3	34.1	-27.9	79.8	
EPS (Adjusted)	7.7	10.3	7.5	13.4	

Source: Company, ICICIdirect.com Research

Balance sheet		₹ Crore			
Year-end March	FY16	FY17E	FY18E	FY19E	
Liabilities					
Equity Capital	100.0	100.0	300.0	300.0	
Reserve and Surplus	3933.8	4737.7	4873.4	5509.1	
Total Shareholders funds	4033.8	4837.7	5173.4	5809.1	
Total Debt	2467.3	2205.4	1705.4	1205.4	
Deferred Tax Liability (Net)	-60.2	-190.6	-186.2	-189.8	
Minority Interest	265.8	376.1	367.3	374.6	
Other NCL & LT Provisions	420.4	393.9	384.7	392.3	
Source of Funds	7127.1	7622.5	7444.7	7591.6	
Assets					
Gross Block - Fixed Assets	3377.2	5409.7	5709.7	6009.7	
Accumulated Depreciation	1655.3	1811.0	2210.7	2631.4	
Net Block	1721.9	3598.7	3499.0	3378.3	
Capital WIP	2239.5	839.2	1239.2	1639.2	
Total Fixed Assets	3961.4	4437.9	4738.2	5017.5	
Goodwill on Consolidation	26.4	26.4	26.4	26.4	
Investments	988.7	1382.7	1382.7	1382.7	
Inventory	542.4	635.3	700.9	814.5	
Debtors	714.5	883.2	974.4	1163.6	
Cash	1538.6	1044.3	515.9	308.1	
Other Current Assets	300.7	419.9	410.1	418.2	
Total Current Assets	3096.2	2982.7	2601.2	2704.5	
Creditors	609.8	739.7	816.1	1013.4	
Provisions	37.4	46.8	77.0	107.1	
Other Current Liabilities	527.1	698.2	681.9	695.4	
Total Current Liabilities	1174.3	1484.7	1574.9	1815.9	
Net Current Assets	1921.9	1498.0	1026.3	888.5	
Other Non Current assets	228.7	277.5	271.0	276.4	
Application of Funds	7127.1	7622.5	7444.7	7591.6	

Source: Company, ICICIdirect.com Research

Cash flow statement		₹ Crore			
Year-end March	FY16	FY17E	FY18E	FY19E	
Profit/(Loss) after taxation	896.1	620.5	447.6	804.7	
Add: Depreciation & Amortization	242.3	277.2	399.7	420.7	
Net Increase in Current Assets	-204.5	-380.8	-146.9	-311.0	
Net Increase in Current Liabilities	-159.7	310.4	90.2	241.0	
Other Operating Activities	-247.9	26.0	25.6	18.1	
CF from operating activities	526.4	853.3	816.1	1173.5	
(Increase)/Decrease in Investments	-198.2	-394.0	0.0	0.0	
(Purchase)/Sale of Fixed Assets	-957.7	-632.2	-700.0	-700.0	
Increase/ (Decrease) in Minority Int	139.0	110.3	-8.8	7.2	
Other Investing Activities	-319.8	-72.4	1.7	-1.4	
CF from investing activities	-1336.7	-988.3	-707.0	-694.2	
Proceeds from issues of Equity Sha	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	1432.7	-261.9	-500.0	-500.0	
(Payment) of Dividend and Dividend	-116.5	-71.4	-111.9	-169.0	
Interest Paid	-10.2	-26.0	-25.6	-18.1	
Other Financing Activities	105.4	0.0	0.0	0.0	
CF from financing activities	1411.4	-359.3	-637.5	-687.1	
Net Cash flow	601.1	-494.3	-528.4	-207.8	
Opening Cash	937.5	1538.6	1044.3	515.9	
Closing Cash	1538.6	1044.3	515.9	308.1	
Free Cash Flow	-431.3	221.1	116.1	473.5	

Source: Company, ICICIdirect.com Research

Key ratios		FY16	FY17E	FY18E	FY19E
Per share data (₹)					
Reported EPS		15.3	10.3	7.5	13.4
BV per share		67.2	80.6	86.2	96.8
Dividend per share		2.0	1.2	1.9	2.8
Cash Per Share		25.6	17.4	8.6	5.1
Operating Ratios (%)					
Gross Margin		61.8	63.4	62.6	64.9
EBITDA margin		23.5	24.9	21.5	25.8
EBIT Margin		16.6	17.8	12.3	17.9
PAT Margin		13.3	15.8	10.3	15.0
Inventory days		56.8	59.1	59.1	55.4
Debtor days		74.8	82.2	82.2	79.1
Creditor days		63.9	68.9	68.9	68.9
Asset Turnover		0.5	0.5	0.6	0.7
EBITDA Conversion Ratio		64.2	87.5	87.6	84.8
Return Ratios (%)					
RoE		11.5	12.8	8.7	13.9
RoCE		9.3	11.4	9.5	15.5
RoIC		24.2	15.9	12.2	22.4
Valuation Ratios (x)					
P/E		26.2	38.7	53.7	29.9
EV / EBITDA		29.3	24.5	25.7	17.1
EV / Net Sales		6.9	6.1	5.5	4.4
Market Cap / Sales		6.9	6.1	5.6	4.5
Price to Book Value		6.0	5.0	4.6	4.1
Solvency Ratios					
Debt / EBITDA		3.0	2.3	1.8	0.9
Debt / Equity		0.6	0.5	0.3	0.2
Current Ratio		1.3	1.3	1.3	1.3

Source: Company, ICICIdirect.com Research

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