

## Analysis of Biocon Company

### Submission By

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### Back Ground

The purpose of this study is to analyse Biocon company to understand its financial performance during the period 2013 to 2016, using standalone financial results. This analysis is limited to the parent company Biocon Limited, our study doesn't include the performance of subsidiaries or group companies.

### Study

Based on relevancy of financial ratios, we have provided our analysis in this report answering the following

1. The vision and mission of the company.
2. Whether the company is growing or not
3. Whether the company is making sufficient profit?
4. Whether the company is having sufficient liquidity to meet its current liabilities?
5. Whether the company is a solvent company?
6. How company's share is performing in stock exchange?
7. Understand where company stand now and where it is likely to be.

### Executive Summary

We see company holds a strong position in market in terms of market capitalization and efficiency ratios. Profitability ratios of company are in good position with PAT margins growing from 13% in 2013 to 32.5% in 2016. Current ratios are above 2 from 2013 which indicates a sufficient liquidity ratio. Overall, we see Biocon is attracting investors with its strong position and is expected to reach 1000+ market price market by end of the year. Growth opportunities of company are very positive in its business segments. We expect to see pricing challenge and more R&D expenditures, but this would strengthen the company in market penetration strategy.

Biocon's strengths and opportunities are way ahead of the weaknesses and threats in both short and long term, this would entail more impetus for growth in terms of gross profit margin, Although the dividend-per-share pay-out doesn't show an uptrend over the years, steady growth in EPS and company's surge RoE (Return on Equity) shows shareholder's interest in investing in Biocon's stock would only splurge further in the coming years.

R&D spend which stands at Rs. 2,830 Million in 2016 only show cases the importance company puts in research activities and these investments could give good fight to the competitors in the niche area of biosimilars and biologics.

Market size for General Insulins and Analogs which stands at 17.8 billion US\$ will only give more ammunition to Biocon's growth prospectus in global market as Biocon is trying to leverage cost advantage by pushing affordable and high-quality generics to fight with the top 2 global diabetes majors. This enhances the market capitalization.

Being a solvent company, Biocon has all its leeway to enhance borrowings and create more assets based on dynamic market conditions in biosimilars and biologics. Total debt-to-total assets ratio is stable in the past 4 financial years and implies Biocon is in good control of debt and is very stable in outlook.

The growth pattern observed in the month-on-month water-fall graph shows the increase trend is more significant, this trend gives compelling proposition to investors in investing Biocon's shares. Overall, Biocon's buoyancy in the biologics market with high opportunities, stable outlook in financials, market capitalization, increasing shareholder's trust and foraying investment in to Research capabilities makes very promising for the investors.

### Company Brief

Biocon company commenced its business in 1978, by Kiran Mazumdar-Shaw (Chairperson & MD) with a seeded capital of Indian rupees 10,000. During the period from its inception to till date the company has evolved from manufacturing industrial enzymes to an integrated bio-pharmaceutical company closing with revenues of ₹4079 crores in FY2017, 30% of its revenues are being generated from domestic market and majority 70% are being generated from international markets. Business segments of Biocon are small molecules (APIs and Generic Formulations), biologics (Biosimilars & Novel Biologics) and, branded formulations (Formulation business in India & UAE), research services (Contract research & Manufacturing).

### Findings

#### 1. The vision and mission of the company.

##### Vision

To enhance global healthcare through innovative and affordable biopharmaceuticals for patients, partners and healthcare systems across the globe.

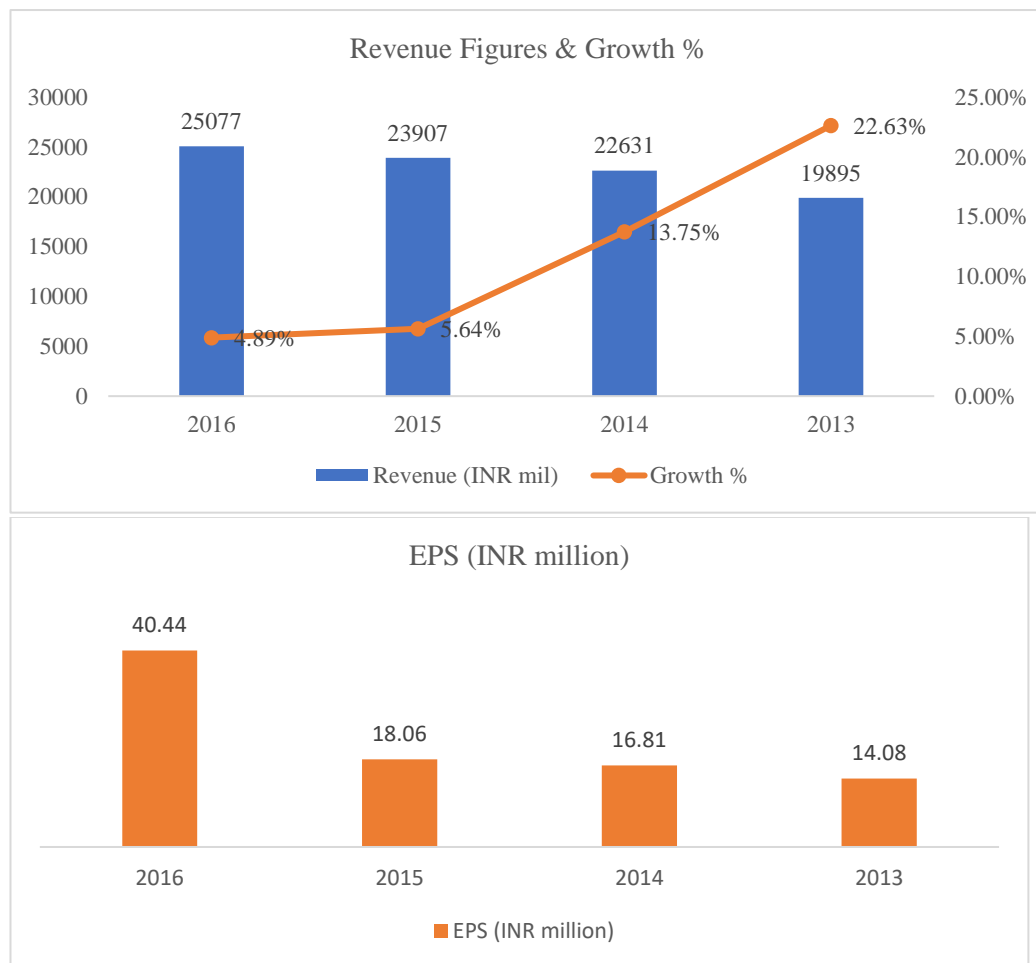
##### Mission

To be an integrated biotechnology enterprise of global distinction Essential to this mission is excellence in:

- Intellectual asset creation through discovery, research and development
  - Interpretation: This mission turns out to emphasize on the investment in Patents filing, research paper publications, new drug discovery and development, royalty payments.
- State-of-the-art manufacturing capabilities
  - Interpretation: This implies investment needed in new plant and Machinery, raw materials and maintenance of the existing machinery and factories.
- Internationally benchmarked quality and regulatory systems
  - Interpretation: Signifies Investment in the quality control processes, auditing and quality certifications etc.
- New medical insight through disease specific clinical research
  - Interpretation: Specifies on the investment towards clinical trials and clinical research and market research activities on new diseases.
- Customer relationship through outstanding products and services
  - Interpretation: This translates to investment needed for Business development, CRM, sales and pre-sales fronts.
- Human resource development through training, mentoring and empowering
  - Interpretation: This map to existing investment on the employee salaries, ESOPs and future investment on the human capital and bonus pay-outs.
- Management of research and business partnerships
  - Interpretation: Investment towards Project Management, Product Management and business development, business partnerships and company acquisitions.

## 2. Whether the company is growing or not?

To find whether the company is growing or not, we investigated y-o-y revenue generations, growth percentage and earning per share (EPS) during the period 2013 to 2016.



**Interpretation:** We observed that there is certainly an increase in revenue figures y-o-y, but the growth of revenue is dipping from 2013 to 2016. There is a high growth of 22.63% between 2012-13 due to approval of some of the game changing drugs, later it has fallen to 13.75% in 2014 and stabilised to 5.64% and 4.89% in 2015 and 2016. According to ICRA rating agency pharma industry average revenue growth for 21 players is posted at 10.1%, but **Biocon is growing at a below average rate of pharma industry**. EPS ratio of Biocon is at a growing trend.

## 3. Whether the company is making sufficient profit?

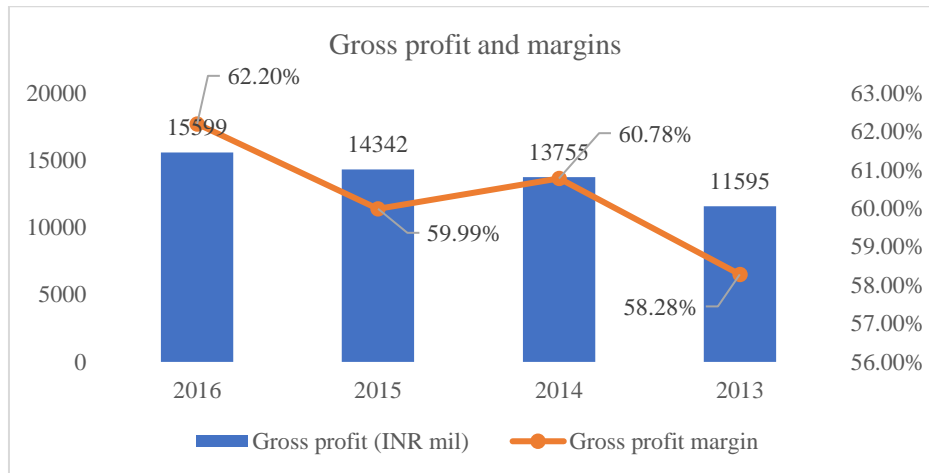
For this analysis we have considered the following ratios and checked whether the values and margins are growing during 2013 to 2016.

**Interpretation:** From the observations as represented below we see there is a growth in all three ratios and we can certainly say that the company is making is sufficient profits.

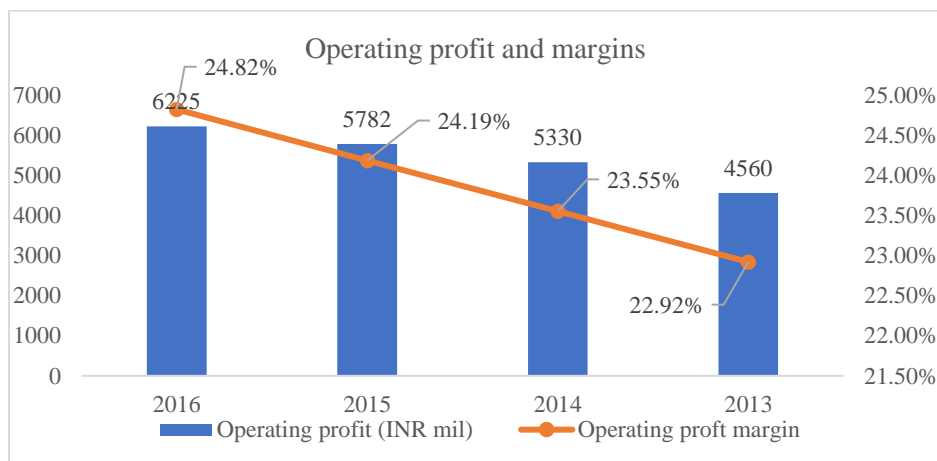
- a) Gross profit margin
- b) Operating profit margin
- c) Net profit margin

## Business Finance Group Assignment - Group 06

- a) Gross profit margin ratio =  $\text{Gross profit} / \text{Income}$   
 Gross profit = Income - cost of raw materials consumed to produce goods

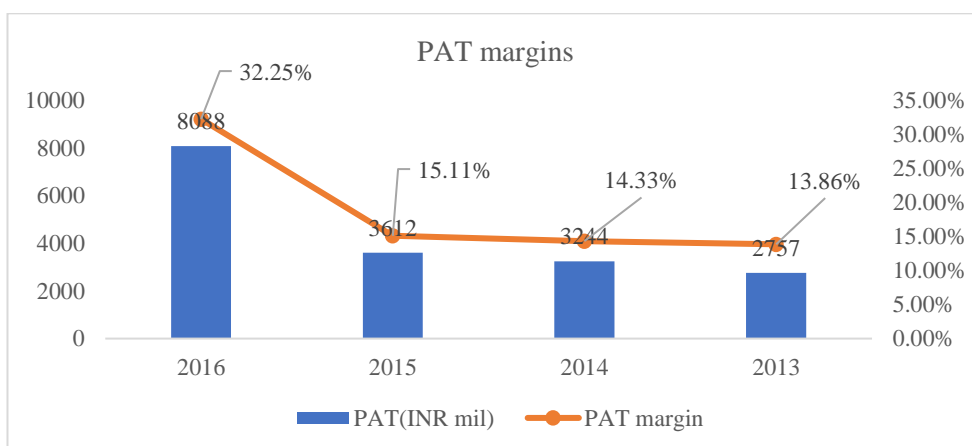


- b) Operating profit margin ratio =  $\text{Operating profit} / \text{Income}$   
 Operating profit = Gross profit - Expenses other than cost of goods



- c) Net profit margin

$$\text{Net profit margin} = \text{PAT} / \text{Income}$$

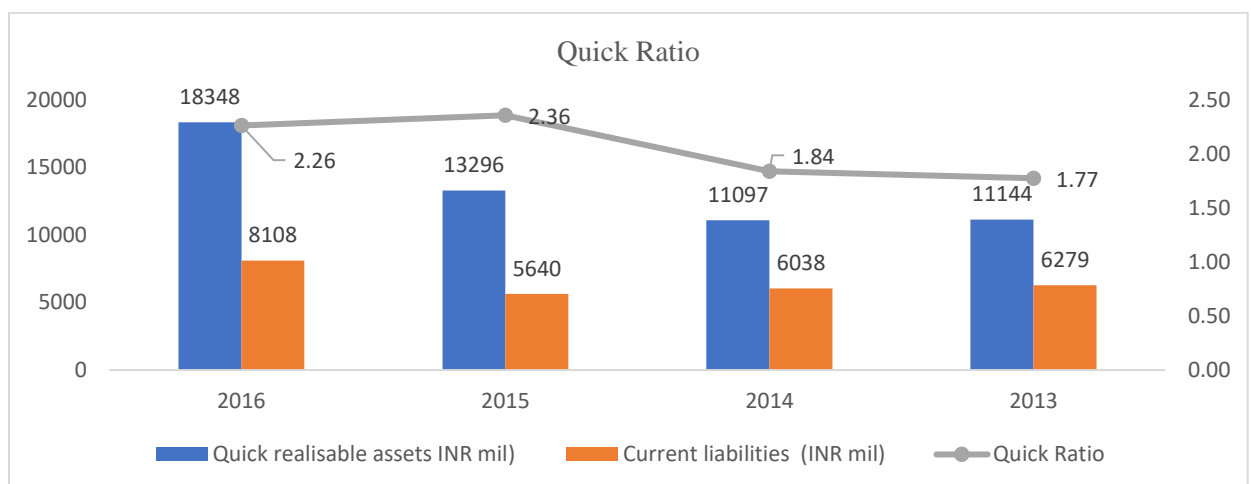
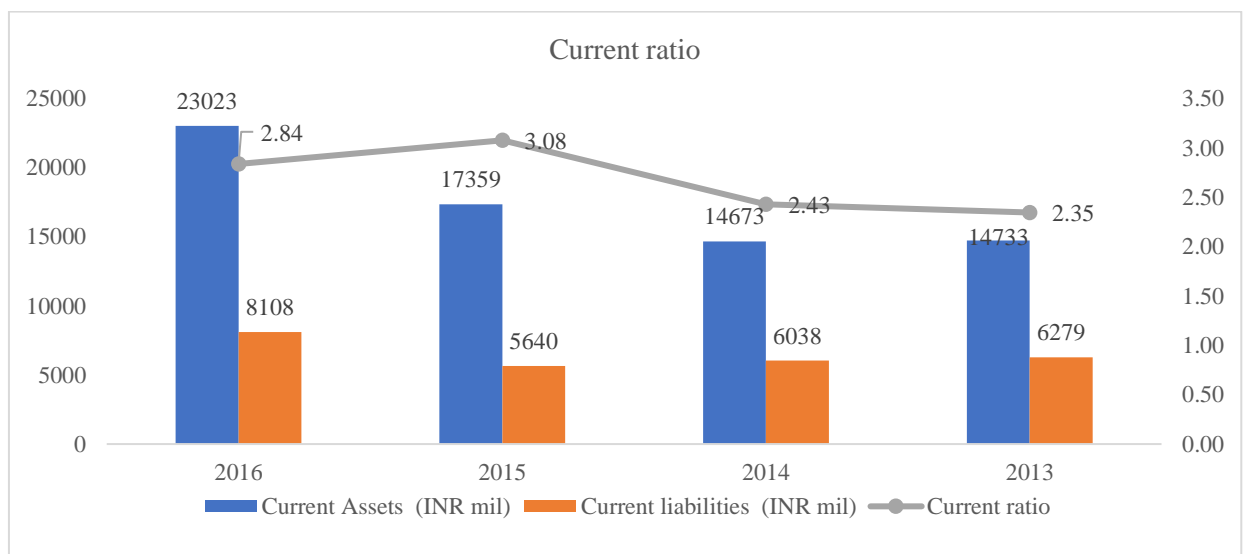


We observe that there is an increase in PAT in 2016 due to additional income from exceptional items.

#### 4. Whether the company is having sufficient liquidity to meet its current liabilities?

**Interpretation:** To answer this, we have analysed two ratios. Current ratio and Quick Ratio. Current ratio tells whether the company can meet its liabilities or not, For Biocon it is observed that the company current assets are 2.5x of its liabilities in 2016. Quick ratio tells whether the company can meet its liabilities quickly in a short time without considering inventories and we observed that Biocon is having current assets of 2.26x times of its liabilities in 2016. So overall Biocon is having sufficient liquidity.

- Current ratio Liquidity ratio = Current Assets / Current Liabilities
- Quick Ratio = (Current assets – Inventories) / Current liabilities



#### 5. Whether the company is a solvent company?

The company's ability to meet its long-term financial obligations is called solvent company. To find whether the company is solvent or not we analysed its Solvency ratio, Debt to Equity ratio and Total Debt to Total Asset ratios

- Solvency Ratio = (Net Income + Depreciation) / (Short term liabilities + Long term liabilities)
- Debt / Equity Ratio = Total Liabilities / Shareholders equity
- Total Debt to Total Assets = (Current liabilities + Non-current liabilities) / Total Assets

	2016	2015	2014	2013	Risk
<b>Solvency Ratio</b>	84.64%	65.36%	56.04%	45.98%	Low
<b>Debt / Equity Ratio</b>	33.77%	28.97%	33.12%	35.67%	Low
<b>Total Debt to Total Assets</b>	0.25	0.22	0.25	0.27	Low

- From the above table we observed that Biocon incomes are being generated at more than 0.8x times to its liabilities which is good sign to the company, as a rule of thumb solvency ratio should be higher than 20%.
- Biocon is having low D/E ratio which is below 40%. which means that the company is not aggressive in financing its growth using debt associated to low levels of risk.
- If Total Debt to Total Asset ratio is above one, then the company is in risk as it indicates low assets and higher debts. But in case of Biocon we see the ratio is far below one mentioning their assets are more than their liabilities.

**Interpretation:** From the above takeaways we interpret that Biocon is a solvent company.

## 6. How company's share is performing in stock exchange?

We observe that Biocon falls in Large cap stock as its market capitalization is in between INR 200 billion to 3500 billion. Overall company share is performing well in the market based on below analysis

**P/E (market price / EPS)** ratio of the company is 98.85 which is trading at 98.85x of EPS TTM – 6.17 (Trailing last twelve months) of the company. P/E of Biocon stands at 12<sup>th</sup> place in pharma market, which means the share price of company is trading at higher value, where as competitors in large cap of pharma industry are mostly trading at a lesser value below 60.

**Interpretation:** This is a good sign as investors see growth in the company

P/C (Put to call ratio) of the company is 70.8 and is standing at 11<sup>th</sup> place in pharma market.

**Interpretation:** This factor indicates that the investors are hedging the shares with the fear of down fall in the share price. This might be due to recent up & downs of the share price.

**Excel files of Biocon share performance and Pharma market data:**



Biocon BSE.csv

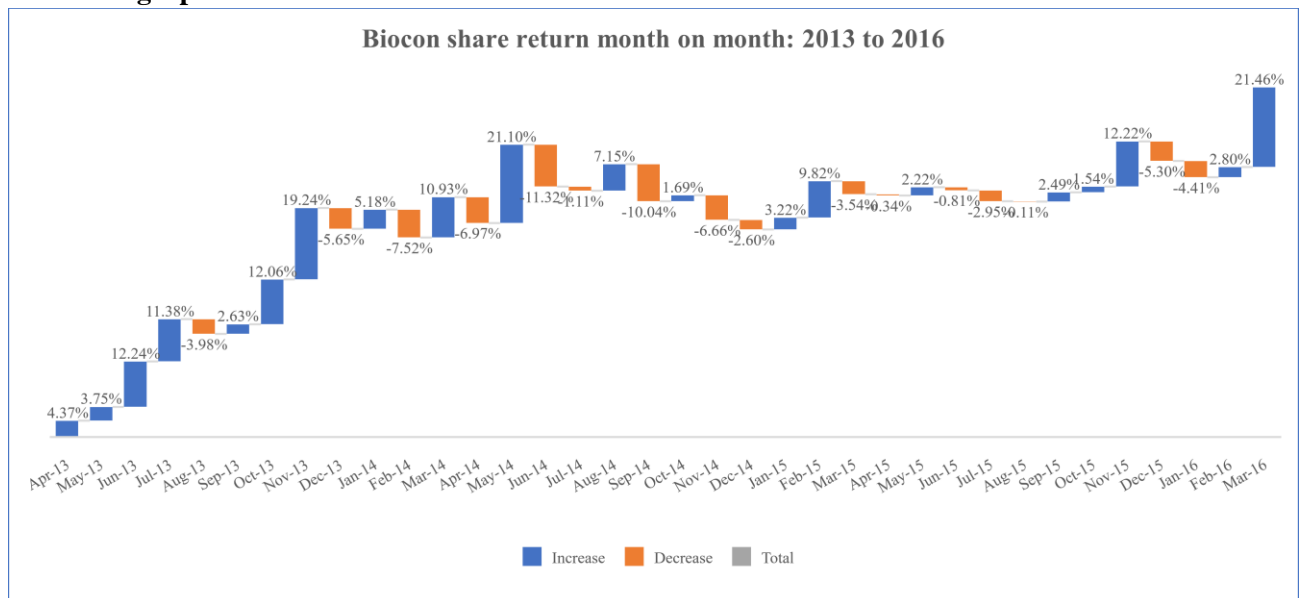


Pharma market  
data.xlsx

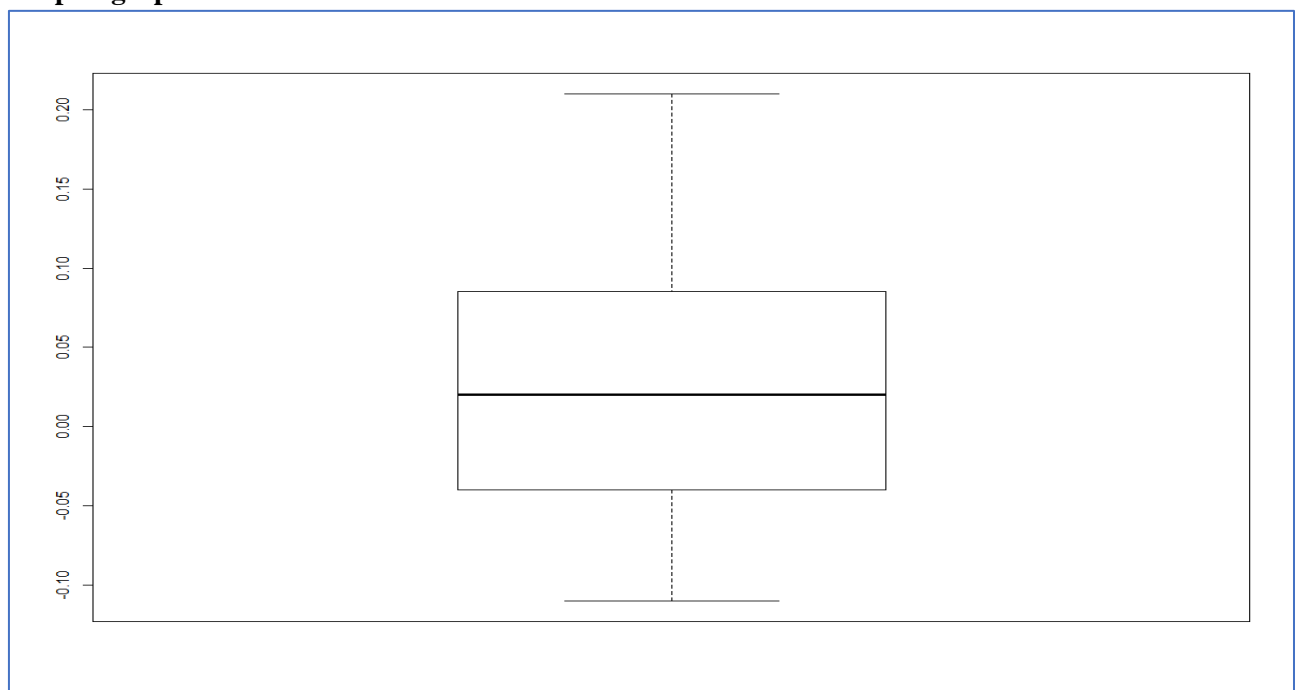
### Summary of Biocon Share during 2013 – 2016

summary(Biocon)							
Month		Open.Price	High.Price	Low.Price	Close.Price	Returns	
Apr-13	: 1	Min. :270.0	Min. :290.5	Min. :264.4	Min. :270.6	Min. :-0.11000	
Apr-14	: 1	1st Qu.:407.8	1st Qu.:449.1	1st Qu.:392.1	1st Qu.:421.6	1st Qu.: -0.04000	
Apr-15	: 1	Median :450.4	Median :475.1	Median :419.0	Median :452.1	Median : 0.02000	
Aug-13	: 1	Mean :424.2	Mean :454.4	Mean :399.8	Mean :429.2	Mean : 0.02556	
Aug-14	: 1	3rd Qu.:464.0	3rd Qu.:496.0	3rd Qu.:436.0	3rd Qu.:465.8	3rd Qu.: 0.07750	
Aug-15	: 1	Max. :532.0	Max. :553.7	Max. :471.6	Max. :530.0	Max. : 0.21000	

### Waterfall graph of returns



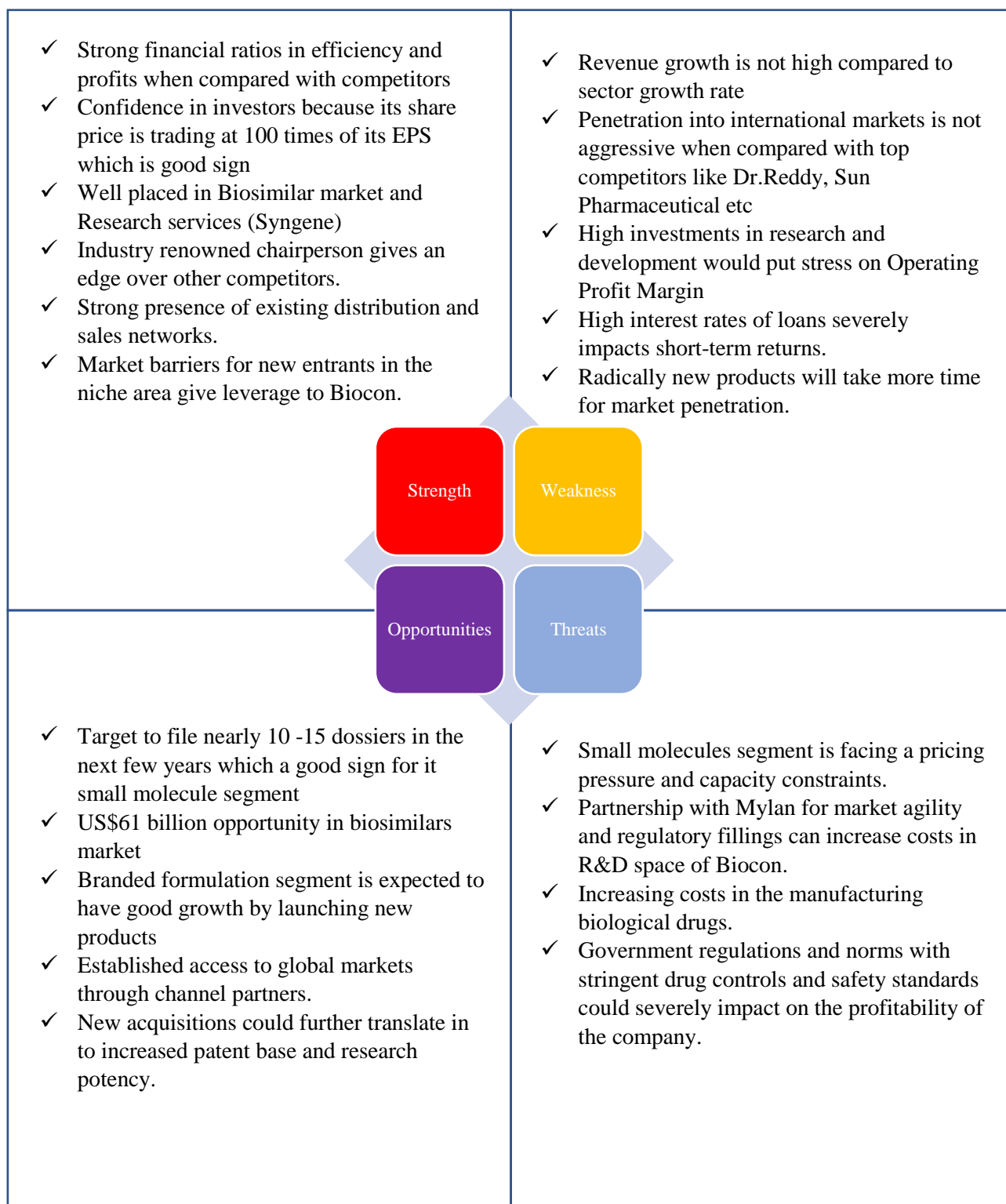
### Boxplot graph of returns



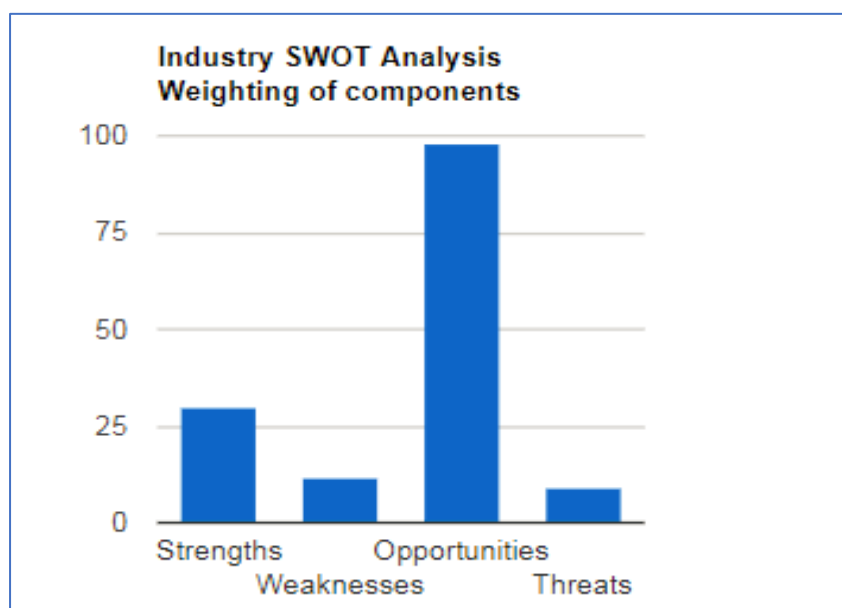


## 7. Understand where company stand now and where it is likely to be.

This SWOT analysis report on Biocon contains comprehensive analysis considering parameters on the Industry specific challenges, company's corporate strategy & governance, business and financial structure, management and day-to-day operations, overall dynamics of global economy. This report also looks in to Biocon's products, services, key competitors as well in addition to the 2013-16 annual reports.



Industry SWOT weighting of components



**Outlook:** As on FY17 company revenues are at US\$627 million and is aspiring to become US\$1000 million in revenues by FY19.