

Biocon Ltd

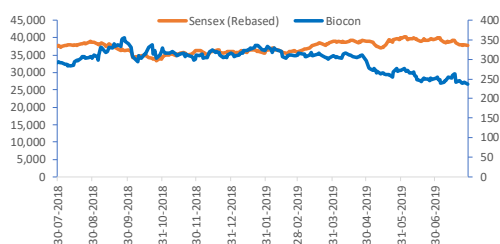
Analyst Recommendation: **BUY**

BSE Code: 532523 NSE: BIOCON Reuters Code: BION.NS Bloomberg Code: BIOS:IN

CMP: Rs 224
2 Year Target - Rs 274

Face Value	5.0
Market Cap (Rs cr)	26,886
52 week high/low	359/222.8
Beta	0.9
Shares O/S (Cr)	120
Book Value per Share (Rs)	51
Sensex	36,958
Nifty	10,925

1 yr. Price Chart of Stock and BSE

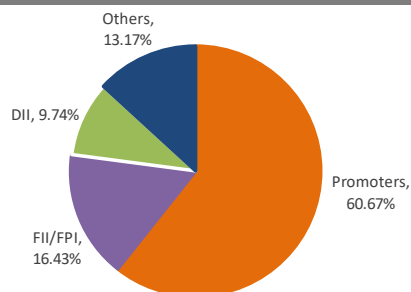


Investor's Rationale

- **Strong operational mix:** The annual revenues grew 34% to Rs 5,514 Crore and Net Profit soared 132% to Rs 1,002 Crore. FY19 remained a landmark year for the Biologics business, which reported a growth of 97%, thus emerging as a key driver for Biocon's incremental growth. It's three strategic business segments Small Molecules, Biologics and Research Services have reported a top-line of over Rs 1,500 Crore each this fiscal. A higher share of Biologics revenue boosted profitability as reflected in the consolidated EBITDA margin of 27% for the full year despite a 34% increase in Net R&D expenses.
- **Margin expansion led by an enhanced product portfolio:** The During FY19, overall EBITDA margins expanded by 280 bps due to higher contribution from biologics business, and lower input cost. However, elevated R&D cost capped EBITDA margins to some extent. Management guided to maintain current margin levels in FY20, despite of upsurge in employee cost due to increase in headcounts for biologics India entity and increase in R&D spending. We believe increase in contribution from biologics business will be a positive contributor to margins however increased costs will taper down the EBITDA margin to 25% for FY20-21. Also, lower tax rate led to higher-than-expected net profit margins of 18.2%, however the same is set to be stabilised going forward which will bring down margins to a certain extent.
- **Higher R&D spend may weigh over margins:** Biocon expects to maintain higher growth momentum led by biologics segment. EBITDA margins are expected to get stable around 25% levels going ahead in FY21. This can be attributed to higher R&D expenses as well as capex. Apart from this, staff cost and depreciation will remain at elevated levels in FY20 due to further investment in Biocon biologics India unit and Bicara Therapeutics.

Valuation: We have a BUY rating on Biocon, given its earnings visibility, strong revenue growth momentum in biologics segment, healthy pipeline of biosimilars and small molecules coupled with monetization of key biologics assets in the medium term. The marketing tie-up with Mylan for selected products is likely to benefit it. We value Biocon at 30x FY21E EPS, with a target price of Rs 274 representing a potential upside of 22% from CMP.

Shareholding pattern as on 30th June 2019



	FY19	FY20E	FY21E	FY22E
Revenue (Rs.Cr)	5,514.4	7,279.0	8,734.8	10,481.8
EBITDA (Rs. cr)	1,393.7	1,819.8	2,227.4	2,672.9
Adj. profit (Rs.Cr)	1,001.7	939.8	1,211.0	1,521.1
Adj. EPS (Rs.)	7.5	6.9	9.1	11.6
P/E (x)	31.4	34.1	26.0	20.4
P/BV (x)	4.7	4.1	3.5	3.0
EV/EBITDA (x)	28.0	19.0	15.9	12.6
ROE (%)	8.3	17.8	14.4	16.1
ROCE (%)	9.2	14.5	15.6	17.8

Increased traction in generic formulations and steady API sales to lead small molecules segment

The Small Molecules revenue stood at Rs 1,773 Crore in FY19 reporting a growth of 18% on the back of steady API sales in global markets and robust sales in the Generic Formulations business in the U.S. of its core APIs including Statins & Immunosuppressants to customers in India, Latin America and Europe. The Generic Formulations business in the U.S. recorded a multi-fold growth off a low base, in its first full year of commercial operations, reflecting the success of vertical integration strategy in the Small Molecules business. The company successfully commercialized Atorvastatin and Simvastatin formulations in the U.S. in FY19 and recorded market share gains in the previously launched Rosuvastatin formulations.

Biosimilars remain a key growth area

Biosimilars business has doubled over the year led by the launch of key biosimilars in the U.S. and Europe and ramp up of sales in the emerging markets. The launch of Fulphila (biosimilar Pegfilgrastim) in the U.S. by its partner Mylan contributed significantly to the Biologics segment's growth. Mylan also launched Semglee (biosimilar Insulin Glargine) and Ogivri (biosimilar Trastuzumab) in Europe along with the in-licensed biosimilar Adalimumab, where Biocon retains its economic interest. Biologics business was able to address the needs of nearly 2 million patients in FY19. Also, the global development programs for biosimilar Bevacizumab and Insulin Aspart are progressing well in Phase III clinical studies.

Branded formulations may be an area of concern in UAE

The Metabolics, Nephrology, Critical Care and Market Access divisions have been the key growth drivers for the Branded Formulations - India (BFI) business. The Top 10 brands in BFI portfolio grew by 17% and accounted for 80% of total sales in FY19. However, in UAE, business performance for the year was impacted by uncertainty in the local market including delays in product registrations with the local health authorities and repricing of branded generic products by the Ministry of Health.

On the positive side, company launched Canhera™, as the first biosimilar Trastuzumab in UAE this year to enable affordable access to this therapy for breast cancer patients. Glaricon is continuing to gain traction and along with some of the novel in-licensed products has improved Biocon's position in the Top 10 companies in the diabetes segment in UAE.

Syngene has been able to increase its client base and grow successfully

During FY19, Research Services revenue grew 28% to Rs 1,826 Crore driven by robust performances in both Discovery Services and Dedicated R&D Centre business. During the year, Syngene further expanded its customer base as well as extended its existing client relationships taking the total active client base to over 330. The expansion of ongoing strategic collaboration with Baxter Inc. led to the commissioning of additional infrastructure for Baxter. Syngene and GOI's Biotechnology Industry Research Assistance Council (BIRAC) collaborated to set up a Center for Advanced Protein Studies (CAPS). This will be a GLP accredited analytical lab, which will be available to BIRAC funded start-ups.

New developments in Q1FY20

The company has initiated a greenfield project for a fermentation-based manufacturing at Visakhapatnam, Andhra Pradesh with an outlay of Rs 600 crore to cater to the anticipated volume growth in the small molecules APIs and generic formulations business. This facility is likely to on stream over the next three years and will help push Biocon for its next phase of growth post FY 22.

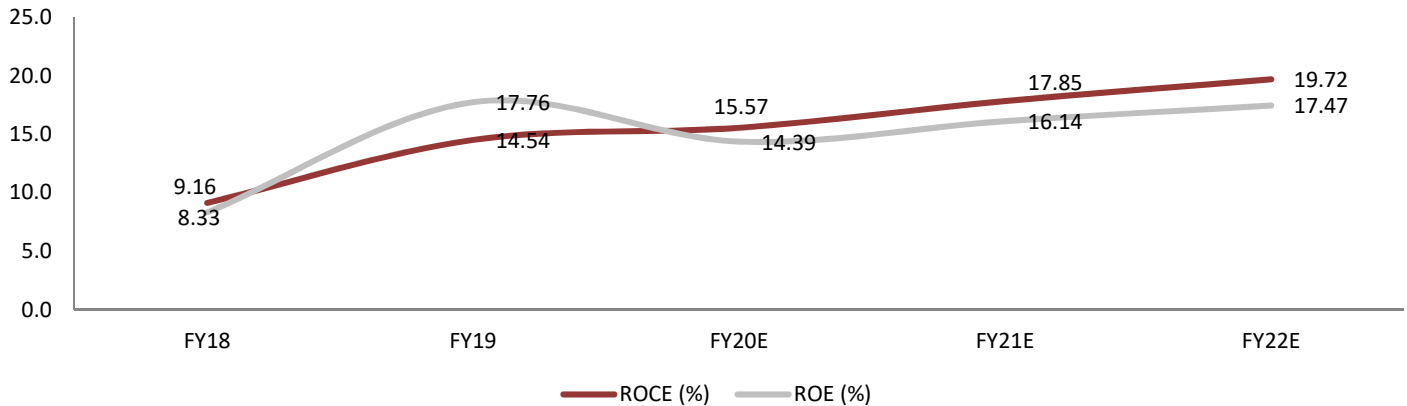
The management does not expect any change to partner Mylan's commercialisation plans for Insulin Glargine in the US despite 12 observations being issued to its Malaysian Insulin facility by the USFDA.

R&D expenses have been growing over years

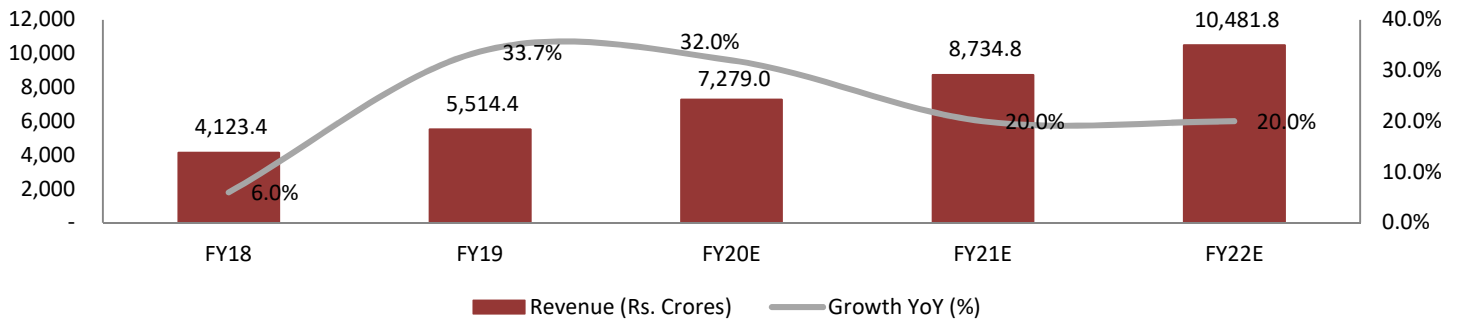
Biocon moving forward in its growth phase has always given a push towards R&D spend. They have steadily increased from Rs 130 crore (approx.) in FY 14 to Rs 290 crore in FY19. Going forward the same is expected to be given a greater thrust and is expected to grow up to Rs 600 crore by FY 21. R&D expenses as a % of sales is expected to grow from 4.6% in FY14 to 5.7% by FY21. This will also have an effect on the overall margins.

Return ratios to improve with growing business

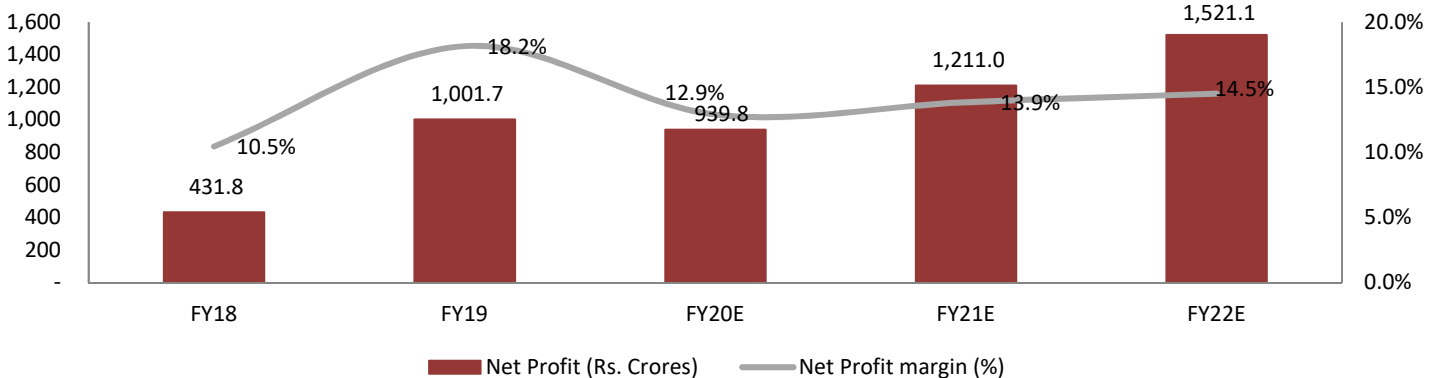
Improving financial metrics and outlook will help company report better return ratios. Biologics business is set to be the key growth driver going ahead. We expect the ROCE and ROE of the company to grow from 14.5% and 17.8% in FY 19 to 19.7% and 17.5% in FY21 respectively.



Revenues to grow at a steady rate



Healthy traction in net profit growth going ahead



Outlook and Valuation

We have a BUY rating on Biocon, given its earnings visibility, strong revenue growth momentum in biologics segment, healthy pipeline of biosimilars and small molecules coupled with monetization of key biologics assets in the medium term. The marketing tie-up with Mylan for selected products is likely to benefit it. We value Biocon at 30x FY21E EPS, with a target price of Rs 274 representing a potential upside of 22% from CMP.

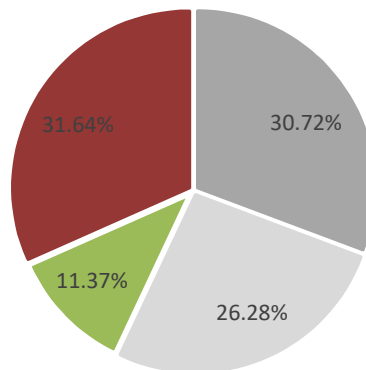
Biocon Ltd - Company Overview

Biocon Limited is an Indian biopharmaceutical company based in Bangalore, India established as a joint venture between Ms. Kiran Mazumdar-Shaw and Biocon Biochemicals Limited, an Ireland based multinational. The Company manufactures generic active pharmaceutical ingredients (APIs) that are sold in over 120 countries across the globe, including the developed markets of the United States and Europe. It also manufactures novel biologics, as well as, biosimilar insulins and antibodies, which are sold in India as branded formulations. Biocon's biosimilar products are also sold in both bulk and formulation forms in several emerging markets. In research services, Syngene International Limited (Syngene), a publicly listed subsidiary of Biocon, is engaged in the business of integrated end-to-end drug discovery and development services.

Biocon's business is organized into the following reporting segments:

- Small Molecules API & Generic Formulations
- Biologics - Biosimilars (Insulins, MABs & other Biologics) & Novel Biologics
- Branded Formulations (currently India & UAE)
- Research Services (Syngene)

Diversified product portfolio with revenues spread across each branch



■ Small Molecules ■ Biologics ■ Branded Formulations ■ Research Services

Source: Company, In-house research

Key Risks

- Delay in the ramp-up of key biosimilars
- Higher-than-expected competition in the biologics products
- Delay in the approval/launch of biologics products
- Unfavourable regulatory outcomes
- Higher-than-expected pricing pressure in the small molecule business

Balance sheet (Consolidated)

(Rs crore)	FY19	FY20E	FY21E	FY22E
Liabilities				
Paid up capital	300	300	300	300
Reserves and Surplus	5721	6587	7667	8995
Net worth	6021	6887	7967	9295
Minority interest	609	716	834	963
Total Debt	1803	1714	1657	1634
Other non-current liabilities	984	1165	1382	1643
Total Liabilities	9416	10481	11840	13536
Assets				
Total fixed assets	4471	5170	5506	5593
Capital WIP	1899	2184	2402	2642
Goodwill	-	-	-	-
Investments	1012	1131	1266	1419
Net Current assets	1,217	1,104	1,690	2,812
Deferred tax assets (Net)	325	364	407	456
Other non-current assets	493	528	568	612
Total Assets	9416	10481	11840	13536

Profit & Loss Account (Consolidated)

(Rs crore)	FY19	FY20E	FY21E	FY22E
Total operating Income	5514	7279	8735	10482
Raw Material cost	1897	2584	3101	3721
Employee cost	1165	1529	1834	2201
Other operating expenses	1059	1347	1572	1887
EBITDA	1394	1820	2227	2673
Depreciation	448	551	613	663
EBIT	946	1269	1614	2010
Interest cost	71	70	67	66
Other Income	144	22	26	31
Profit before tax	1019	1220	1573	1976
Tax	212	281	362	454
Profit after tax	807	940	1211	1521
Minority Interests	-97	-107	-118	-130
P/L from Associates	1	1	1	1
Adjusted PAT	711	834	1094	1393

Cash Flow (Consolidated)

Y.E March (Rs crore)	FY19	FY20E	FY21E	FY22E
Pretax profit	1214	1220	1573	1976
Depreciation	448	551	613	663
Chg in Working Capital	373	96	217	249
Others	73	70	67	66
Tax paid	-212	-281	-362	-454
Cash flow from operating activities	1895	1657	2109	2499
Capital expenditure	-1817	-1535	-1168	-990
Chg in investments	-283	-115	-131	-149
Other investing cashflow	-	-	-	-
Cash flow from investing activities	-2101	-1650	-1299	-1139
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	-117	-89	-57	-23
Dividend paid	-	-	-	-
Other financing activities	-71	-70	-67	-66
Cash flow from financing activities	-188	-159	-125	-89
Net chg in cash	-393	-152	685	1271

Key Ratios & Valuations (Consolidated)

Y.E. March	FY19	FY20E	FY21E	FY22E
Growth (%)				
Net Sales	33.7	32.0	20.0	20.0
EBITDA	68.1	30.6	22.4	20.0
Net profit	132.0	-6.2	28.9	25.6
Margin (%)				
EBITDA	27.9	25.3	25.8	25.8
NPM	18.2	12.9	13.9	14.5
Return Ratios (%)				
RoE	8.3	17.8	14.4	16.1
RoCE	9.2	14.5	15.6	17.8
Per share data (Rs.)				
EPS	7.5	6.9	9.1	11.6
DPS	-	-	-	-
Valuation(x)				
P/E	31.4	34.1	26.0	20.4
EV/EBITDA	28.0	19.0	15.9	12.6
EV/Net Sales	7.0	5.3	4.0	3.3
P/B	4.7	4.1	3.5	3.0
Turnover Ratios (x)				
Net Sales/GFA	0.8	0.9	0.9	1.0
Sales/Total Assets	1.1	1.3	1.3	1.2

Large Cap.	Return	Mid/Small Cap.	Return
Buy	More than equal to 10%	Buy	More than equal to 15%
Hold	Between 10% & -5%	Accumulate*	Upside between 10% & 15%
Reduce	Less than -5%	Hold	Between 0% & 10%
		Reduce/sell	Less than 0%

* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.



Member: BSE, NSE, MCX, MCX-SX, CDSL

Reg. office: PG-4, Rotunda Bldg, Bombay Samachar Marg, Fort, Mumbai - 400001, Maharashtra, India

Corp Office: 24/26 Cama Bldg, 3rd Floor, Dalal Street, Fort Mumbai - 400001, Maharashtra India

Tel: 91-22-67378001 **Fax:** 91-22-22646410

Dealing: 91-22-67378011 **Institutional Dealing:** 91-22-6737833

Email: research@mjpgdirect.com **Website:** www.mjpgdirect.com

Registration Number: NSE- INB/INF230989239; BSE- INB010989233

Disclaimer:

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment. M J Patel Share & Stock Brokers Ltd. its affiliates, directors, its proprietary trading and investment businesses may, from time to time, make investment decisions that are inconsistent with or contradictory to the recommendations expressed herein. The views contained in this document are those of the analyst, and the company may or may not subscribe to all the views expressed within. Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals. The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. M J Patel Share & Stock Brokers Ltd. or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. M J Patel Share & Stock Brokers Ltd. has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While M J Patel Share & Stock Brokers Ltd. endeavours to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly. M J Patel Share & Stock Brokers Ltd. and its affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.

This document disclaims any warranty of any kind imputed by the laws of any jurisdiction, whether express or implied, as to any matter what so ever relating to the service, including without limitation the implied warranties of merchantability, fitness for a particular purpose and non-infringement. Any disputes are subject to the jurisdiction only of the Courts of Republic of India at Mumbai.

M J Patel Share & Stock Brokers Ltd shall not be liable for any misrepresentation, falsification and deception or for any lack of availability of services through website even if the same is advertised on the website.

Neither M J Patel Share & Stock Brokers Ltd. nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.