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STOCK BROKING PVT. LTD.

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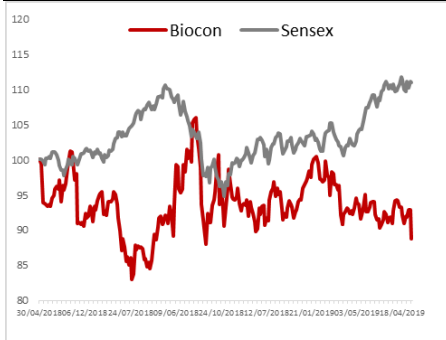
BUY

Current Price	592
Target Price	773
Upside/Downside	31%
52 Week Range	718/343

Key Share Data

Market Cap (Rs.bn)	398.22
Market Cap (US\$ mn)	5600
No of o/s shares (mn)	600
Face Value	5
Monthly Avg.vol (BSE+NSE) Nos'000	1528
BSE Code	532523
NSE Code	BIOCON
Bloomberg	BIOS IN Equity

Price performance



% Shareholding

	Mar-19	Dec-18
Promoters	60.67	60.67
FII	17.90	17.59
DII	4.12	4.12
Others	17.31	17.62
Total	100	100

Biocon Q4FY19 earnings were in line with estimates. Revenues were lower than estimates as the growth in India Branded Formulations offset the degrowth in the UAE. Biocon declared a 1:1 bonus in view of 40 years of operation.

We strongly believe Biocon profits will grow through a higher contribution of biologics, driven by increased market share in FULPHILA (Pegfilgrastim), and launch of OGIVRI (Trastuzumab) in the US in FY20. Going forward, Biocon will have a higher spend on research in view of the ongoing Phase III trials and ANDA filing of Bevacizumab, and Glargine pending USFDA approval. Biocon has a rich pipeline of biosimilars pending approvals in the developed markets. Going by the market share gain of 16% in FULPHILA in FY19, we believe Biocon+ Mylan will be successful in gaining market share in OGIVRI and SEMGLEE going forward. We believe investment in Biocon will give good returns in the future. At Rs 592, Biocon trades at 23x FY21E EPS of Rs 25.9. We recommend investors to BUY Biocon with a target price of Rs 773, reduced from our earlier target of Rs 800.

Scale up in biologics on Pegfilgrastim launch, better mix improves profitability

Q4FY19 revenues increased 31%YoY\ -1% Qoq to Rs 15288 Mn. The growth was driven by Biologics (87% YoY on low base) Rs 4511 Mn, small molecules Rs 4719 mn (11% YoY) and research services Rs 5339 Mn (31% YoY).

The Gross margins were at 68%, +200bps YoY\ +900bps qoq. EBITDA increased 73% YoY, to Rs 4030 mn. The EBITDA margins were at 26.36%, +644bps YoY/ +165 bps qoq. This was mainly due to improved product mix, with increased contribution from Biologics (28% against 20% in Q4FY18). PBT +57% to Rs 2955 mn. PAT after minority interest and share of loss increased 64% to Rs 2137 mn, in view of lower taxes @14%. EPS for the quarter was at Rs 3.6, in line with our estimate.

Key business developments

- In Biologics, Biocon+ Mylan gained 16% market share of Pegfilgrastim in the US. Sequentially the biologics revenue was flat due to a lower component of profit share, the benefit of which will come into Q1FY20. For FY19, Biocon achieved \$ 214 mn revenue, exceeding its guidance of \$200 mn.
- Going forward, Biocon + Mylan expects to launch Trastuzumab in the US in FY20 (Market size \$3 bn), followed by Glargine (Market size \$1.8 bn) in FY21.
- The company expects a gross spend on research & development (14%-15% of biopharmaceutical revenues) in view of the ongoing Phase III trials for Bevacizumab and Glargine pending approval in the US in FY20.
- Biocon has a rich pipeline of biosimilars including Bevacizumab, RH Insulin and Insulin Aspart (DKK 590 mn) for the developed markets.
- The company is in the process of consolidating its biologics business into Biocon Biologics India Ltd.; and plans future listing of the subsidiary.

Key Financials

Year	Net sales	% Growth	EBIDTA	OPM (%)	PAT ex EI	PAT incl EI	% Growth	EPS*	PE (x)	RoE (%)	RoCE (%)
FY17	39,216.0	17.5	9,795.0	25.0	6,121.0	6,121.0	150.8	30.6	19.3	13.9	9.5
FY18	41,297.0	5.3	8,354.0	20.2	3,787.0	3,787.0	(39.2)	6.3	93.8	8.5	6.0
FY19	55,144.0	33.5	13,937.0	25.3	7,107.0	9,053.0	90.8	11.8	50.0	13.2	13.1
FY20E	73,816.0	33.9	19,672.5	26.7	10,609.9	10,609.9	49.3	17.7	33.5	17.0	15.3
FY21E	91,368.8	23.8	26,953.8	29.5	15,514.7	15,514.7	46.2	25.9	22.9	20.6	19.4

*Adjusted for bonus in the proportion of 2:1



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Q4FY19 Results

Particulars	Q4FY19	Q3FY19	Q4FY18	% yoy	% qoq	FY19	FY18	% growth
Net Sales	15288.0	15408.0	11695.0	31%	-1%	55144.0	41297.0	34%
Raw Material Consumed	(4879.0)	(5281.0)	(4752.0)			(18966.0)	(16361.0)	
Employee Expenses	(3206.0)	(2944.0)	(2570.0)			(11653.0)	(9311.0)	
Research & Development Exps	(920.0)	(767.0)	(510.0)			(2900.0)	(2160.0)	
Other Expenses	(2253.0)	(2609.0)	(1533.0)			(7688.0)	(5111.0)	
Total Exp	(11258.0)	(11601.0)	(9365.0)	20%	-3%	(41207.0)	(32943.0)	25%
PBDIT	4030.0	3807.0	2330.0	73%	6%	13937.0	8354.0	67%
<i>OPM (%)</i>	<i>26.4%</i>	<i>24.7%</i>	<i>19.9%</i>			<i>25.3%</i>	<i>20.2%</i>	
Other Income	282.0	256.0	675.0			10194.0	5887.0	
Interest	(159.0)	(186.0)	(169.0)			(709.0)	(615.0)	
Depreciation	(1198.0)	(1167.0)	(953.0)			(4478.0)	(3851.0)	
Profit before tax	2955.0	2710.0	1883.0	57%	9%	10194.0	5887.0	73%
Tax (incl. on exceptional income)	(409.0)	(461.0)	(407.0)			(2123.0)	(1569.0)	
Profit After tax	2546.0	2249.0	1476.0	72%	13%	8071.0	4318.0	
<i>NPM (%)</i>	<i>16.7%</i>	<i>14.6%</i>	<i>12.6%</i>			<i>12.9%</i>	<i>8.5%</i>	
Less: Minority interest	(297.0)	(260.0)	(223.0)			(973.0)	(807.0)	
Adjusted PAT	2249.0	1989.0	1253.0			7098.0	3511.0	102%
Share of Profit	(112.0)	125.0	51.0			201.0	213.0	
Extraordinary Items after tax	0.0	58.0	0.0			1946.0	0.0	
Reported PAT	2137.0	2172.0	1304.0	64%	-2%	9245.0	3724.0	148%
<i>Adj. NPM (%)</i>	<i>14.0%</i>	<i>14.1%</i>	<i>11.2%</i>			<i>16.8%</i>	<i>9.0%</i>	
Other Comprehensive Income	0.0	0.0	0.0					
Total Comprehensive Income	2137.0	2172.0	1304.0					
Equity *	600	600	600			600	600	
EPS without excep. Items	3.6	3.5	2.2			11.8	6.2	
EPS - Diluted (Rs)	3.6	3.6	2.2			15.4	6.2	

* Increase in Equity through bonus issue of 2:1



Conference Call key Takeaways –

1. Dr. Christiane Hamacher has been appointed as CEO of Biocon Biologics, in March 2019 (She holds a Ph.D. in Molecular Biology (Oncology) from the University Clinic Bergmannsheil I University of Bochum, Germany). Dr. Hamacher has more than 20 years of experience in leading biopharmaceutical companies including Roche.
2. Bevacizumab trial progressing well. Expect data to come in Q2FY20 and filing by Q3FY20.
3. Biocon + Mylan's biosimilars are gaining momentum in the developed markets. FULPHILA has gained a market share of 15-16% in the US, in spite of competition from Coherus.
4. The R&D Expense realized in the P&L for the Q4FY19 and full the full year FY19, is Rs. 920mn and Rs, 1900mn respectively. The management also guided that, in the FY20, the gross R&D spends would be around 15% of biopharmaceutical revenues.
5. The R&D capitalization is higher on account of glargine, human insulin (phase1) and trastuzumab. However, the contribution of trastuzumab will be lower going forward.
6. Oral solids plant at Bengaluru is on track and will come up next year and the company is looking for other opportunities for expansion.
7. The forex gain for the entire year was Rs. 280mn.
8. The company guided that R&D (Gross) would be 15% of the Revenue for FY20.
9. The core EBIDTA will be sustainable (net of licensing, impact of forex and R&D) will be at FY19 levels i.e. 32%.
10. The management guided that employee expenses will increase in the FY 20 on account of setting up of immuno- oncology pipeline in Boston. (A subsidiary has been setup in Boston).
11. Regarding statins in the US, the pricing has stabilized compared to a year ago.
12. Small molecules sales are majorly in rupee terms and the growth has been on account of increase in volume and the prices have been stable.
13. The Branded Formulations business, which includes sales in India and UAE, was adversely impacted due to headwinds in UAE. However, the business in India reported a strong performance led by double-digit growth in Metabolics, Critical Care, Immunotherapy and Market Access divisions.
14. During the quarter, Syngene and the Government of India's Biotechnology Industry Research Assistance Council (BIRAC) collaborated to set up a Centre for Advanced Protein Studies (CAPS). The 2000 sq. ft. centre at Syngene's Bengaluru Campus hosts a state-of-the-art, GLP-accredited analytical laboratory which will be available to BIRAC-funded start-ups, SMEs/MMEs and academia in India at an affordable cost.
15. The company plans to consolidate the biologics business into Biocon Biologics India Ltd., and raise funds through an IPO in future.

Revision of estimates: We have revised our estimates in view of the increased research spend due to trials of Bevacizumab and approval pending for Glargine.

Valuation

We have valued Biocon as a weighted average of DISCOUNTED CASH FLOW, 16x EV/EBITDA and 25x FY21E EPS of Rs 25.6. **We recommend investors to BUY Biocon with a target price of Rs 773.**



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BIOCON FINANCIALS											
P&L (Rs mn)	FY17	FY18	FY19	FY20E	FY21E	Cash Flow St. (Rs. mn)	FY17	FY18	FY19	FY20E	FY21E
Net Sales	39,216.0	41,297.0	55,144.0	73,816.0	91,368.8	Net Profit	6,121.0	3,724.0	9,053.0	10,609.9	15,514.7
Raw materials	(16,109.0)	(16,361.0)	(18,966.0)	(25,466.5)	(31,522.2)	Add: Dep. & Amort.	2,772.0	3,851.0	4,478.0	4,951.5	5,495.8
Employee costs	(6,872.0)	(9,311.0)	(11,653.0)	(14,216.7)	(17,060.0)	Cash profits	8,893.0	7,575.0	13,531.0	15,561.4	21,010.4
Other Expenses	(3,778.0)	(5,111.0)	(7,688.0)	(10,378.8)	(11,935.6)	(Inc)/Dec in					
Research & Devt	(2,662.0)	(2,160.0)	(2,900.0)	(4,081.5)	(3,897.1)	-Sundry debtors	(1,687.0)	(1,807.0)	(2,279.0)	(3,260.8)	(3,847.2)
Cost of sales	(29,421.0)	(32,943.0)	(41,207.0)	(54,143.5)	(64,415.0)	-Inventories	(929.0)	(872.0)	(3,091.0)	(2,008.0)	(2,847.4)
Operating Profit	9,795.0	8,354.0	13,937.0	19,672.5	26,953.8	-Loans/advances	(1,264.0)	224.0	(1,475.0)	(1,148.4)	(1,378.1)
Depreciation	(2,772.0)	(3,851.0)	(4,478.0)	(4,951.5)	(5,495.8)	-Sundry creditors	1,299.0	2,656.0	1,930.0	2,811.4	3,518.0
PBIT	7,023.0	4,503.0	9,459.0	14,720.9	21,458.1	-Others	2,893.0	1,898.0	6,057.0	3,358.4	4,030.1
Other income	1,571.0	2,062.0	1,444.0	1,155.2	924.2	Change in WC	312.0	2,099.0	1,142.0	(247.5)	(524.6)
Interest	(260.0)	(615.0)	(709.0)	(721.1)	(721.1)	CF from Oper. activities	9,205.0	9,674.0	14,673.0	15,313.9	20,485.8
Profit before tax	8,334.0	5,950.0	10,194.0	15,155.0	21,661.1	CF from Inv. activities	(10,034.0)	(8,485.0)	(12,263.0)	(8,815.8)	(11,579.0)
Provision for tax	(1,616.0)	(1,569.0)	(2,123.0)	(3,485.7)	(4,982.1)	CF from Fin. activities	(2,466.0)	2,306.0	(3,215.0)	(4,328.5)	(5,817.5)
Profit after Tax	6,718.0	4,381.0	8,071.0	11,669.4	16,679.1	Cash generated/(utilised)	(3,295.0)	3,495.0	(805.0)	2,169.6	3,089.3
Minority Interest	(760.0)	(807.0)	(973.0)	(1,070.3)	(1,177.3)	Cash at start of the year	15,386.0	10,443.0	13,228.0	10,572.0	12,098.8
Share of Profit	163.0	213.0	9.0	10.8	13.0	Cash at end of the year	10,443.0	13,228.0	10,572.0	12,098.8	14,481.1
Adjusted PAT	6,121.0	3,787.0	7,107.0	10,609.9	15,514.7	Ratios	FY17	FY18	FY19	FY20E	FY21E
Extraordinary Items	-	-	1,946.0	-	-	OPM	25.0	20.2	25.3	26.7	29.5
Reported PAT	6,121.0	3,787.0	9,053.0	10,609.9	15,514.7	NPM	15.0	8.7	16.0	14.2	16.8
Balance Sheet	FY17	FY18	FY19	FY20E	FY21E	Tax rate	(19.4)	(26.4)	(20.8)	(23.0)	(23.0)
Equity capital *	1,000.0	3,000.0	3,000.0	3,000.0	3,000.0	Growth Ratios (%)					
Reserves	47,377.0	48,808.0	57,980.0	65,589.9	78,104.6	Net Sales	17.5	5.3	33.5	33.9	23.8
Net worth	48,377.0	51,808.0	60,980.0	68,589.9	81,104.6	Operating Profit	35.3	(15.4)	68.1	41.2	37.0
Def. Tax Liab.+Minority Int.	3,761.0	4,677.0	6,089.0	6,697.9	7,367.7	PAT excl. EI	150.8	(39.2)	90.8	49.3	46.2
Secured loans	21,082.0	17,898.0	15,416.0	15,416.0	15,416.0	Per Share (Rs.)*					
Unsecured loans	972.0	1,303.0	2,612.0	2,612.0	2,612.0	Adj. Net Earnings (EPS)	30.6	6.3	11.8	17.7	25.9
Total debt	22,054.0	19,201.0	18,028.0	18,028.0	18,028.0	Cash Earnings (CPS)	44.5	12.7	22.6	25.9	35.0
Other liab	3,516.0	3,423.0	8,052.0	9,662.4	11,594.9	Dividend	10.0	5.0	5.0	6.0	6.0
CAPITAL EMPLOYED	77,708.0	79,109.0	93,149.0	1,02,978.2	1,18,095.1	Book Value	241.9	86.3	101.6	114.3	135.2
Gross block	53,269.0	57,888.0	68,596.0	78,596.0	91,596.0	Free Cash Flow	(4.1)	2.0	4.0	10.8	14.8
Accumulated depreciation	(17,740.0)	(21,591.0)	(26,069.0)	(31,020.5)	(36,516.3)	Valuation Ratios					
Net block	35,529.0	36,297.0	42,527.0	47,575.5	55,079.7	P/E(x)	19.3	93.8	50.0	33.5	22.9
Capital WIP	5,327.0	7,789.0	12,869.0	12,869.0	12,869.0	P/B(x)	2.4	6.9	5.8	5.2	4.4
Intangible Assets	3,787.0	5,937.0	8,303.0	8,303.0	8,303.0	EV/EBIDTA(x)	13.7	15.4	9.3	6.5	4.7
Investments	12,538.0	6,752.0	10,118.0	12,055.4	15,542.7	EV/SALES (x)	3.4	3.1	2.4	1.7	1.4
Other non current assets	2,775.0	3,186.0	2,131.0	2,557.2	3,068.6	Div. Yield(%)	1.7	0.8	0.8	1.0	1.0
Inventories	6,353.0	7,225.0	10,316.0	12,324.0	15,171.4	FCF Yield(%)	(0.7)	0.3	0.7	1.8	2.5
Sundry debtors	8,832.0	10,639.0	12,918.0	16,178.8	20,026.0	Return Ratios (%)					
Cash & bank	10,443.0	13,228.0	10,572.0	12,098.8	14,481.1	ROE	13.9	8.5	13.2	17.0	20.6
Loans & advances	4,491.0	4,267.0	5,742.0	6,890.4	8,268.5	ROCE	9.50	6.05	13.10	15.29	19.38
Other current assets	997.0	1,370.0	1,488.0	1,636.8	1,800.5						
Sundry creditors	(7,397.0)	(10,053.0)	(11,983.0)	(14,794.4)	(18,312.3)						
Acceptances	(8,009.0)	(9,777.0)	(15,326.0)	(18,391.2)	(22,069.4)						
Provisions	(828.0)	(958.0)	(1,466.0)	(1,759.2)	(2,111.0)						
Working capital	17,752.0	19,148.0	17,201.0	19,618.1	23,232.1						
CAPITAL DEPLOYED	77,708.0	79,109.0	93,149.0	1,02,978.2	1,18,095.1						

* Increase in Equity on account of bonus issue in the proportion of 2:1



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