



Business Update @ Dalal & Broacha

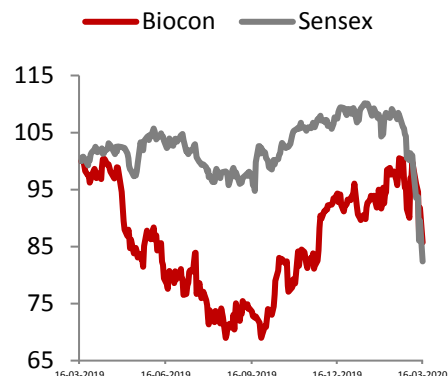
BUY

Current Price	252
LT Target Price	338
Upside/Downside	34%
52 Week Range	211/323

Key Share Data

Market Cap (Rs.bn)	319
Market Cap (US\$ Bn)	4.32
No of o/s shares (mn)	1200
Face Value	5
Monthly Avg.vol (BSE+NSE) Nos'000	5792
BSE Code	532523
NSE Code	BIOCON
Bloomberg	BIOS:IN

Price performance



% Shareholding	Dec -19	Sept-19
Promoters	60.67	60.67
FII	16.09	15.75
DII	5.55	4.85
Others	17.69	18.73
Total	100	100

Key Financials

Year	% Growth	EBIDTA	OPM (%)	PAT ex EI	PAT incl EI	% Growth	EPS*	PE (x)	EV/EBITDA	RoE (%)	RoCE (%)
FY18	5.3	8,354	20.2	3,787	3,787	(39.2)	6.3	39.9	42.7	8.5	5.6
FY19	33.5	13,937	25.3	7,107	9,053	90.8	11.8	21.3	26.0	13.2	11.8
FY20E	23.7	17,639	25.9	8,789	9,464	23.7	7.3	34.4	20.3	12.6	11.2
FY21E	12.6	16,939	22.1	7,688	7,688	(12.5)	6.4	39.3	21.8	11.4	9.3
FY22E	25.5	22,835	23.7	11,541	11,541	50.1	9.6	26.2	16.4	14.9	12.4

*Adjusted for bonus in the proportion of 2:1 in FY18 and 1:1 in FY2

TEVA + Celltrion (Teva) has announced the launch of HERZUMA, a biosimilar to HERCEPTIN (Trastuzumab) today. TEVA has priced its product at \$93.5/ 10 mg, which is 6.25% higher than the price of Mylan+Biocon and 17% higher than Pfizer Inc. The competition has been expected and factored into our estimates. Post OGI VRI launch in December'2019, Mylan+ Biocon expect a scale up in market share in FY21 and FY22, amidst competition.

In view of the current turmoil in global operations, we are considering a BEAR CASE scenario in our estimates and target price. **We maintain our BUY rating on Biocon.**

Trastuzumab now has 5 players in the market

- Teva has launched its biosimilar for Trastuzumab, HERZUMA in the US market today.
- HERZUMA (Teva + Celltrion) is available in 150 mg and 420 mg, and competes with HERCEPTIN (Roche), OGI VRI (Mylan + Biocon) and KAJINTI (Amgen). TRAZIMERA (Pfizer) is available only in 420 mg.
- Currently the trastuzumab market has 4 players in the US namely Roche (innovator), Amgen, Mylan+Biocon and Pfizer. Teva will be the fifth player in the market.
- In terms of pricing in terms of weighted average cost (WAC), Teva has priced HERZUMA at \$93.5/10 mg higher than the competitors at \$88/10 mg for OGI VRI, KAJINTI and TRAZIMERA at \$80.74/ 10 mg.
- **We have built in a 10% discount in price with every additional player in the market. Mylan and Biocon expect an increase in market share of Trastuzumab in FY21 and FY22.**

Outlook & Valuation

Teva + Celltrion's launch has been expected and built into our estimates. We expect Teva's higher pricing to augur well for Mylan +Biocon. The price has corrected 20% from its 52 week high. Fundamentally in both BEAR and BASE case, the demand for affordable biosimilars, its niche APIs and contract research services continues to be robust. However, in view of the trade disruptions over the next 2-3 quarters we have lowered EV/EBITDA multiple for small molecules from 15x to 12x, Biologics at 22x FY22E and 15x Contract Research (Syngene), we arrive at a target price of Rs 338.

At CMP Rs 252, Biocon trades at 26x FY22E EPS of Rs 9.6 and 16x EV/EBITDA for FY22. **We maintain our BUY rating with a target price of Rs 338.**



THE BEAR CASE

In case of Biocon, we believe the Small molecules business is at risk, due to dependence on raw material imports from China.

The Small molecules (33% of sales, 9MFY20 Rs 15.3 bn) business manufactures active pharmaceutical ingredients (APIs) for statins and immunosuppressant's, for captive use as well as sale. While Biocon has received shipments manufactured before the Chinese New Year, there may be a delay in shipments coming in due to the breakdown in manufacturing activity thereafter. The company opines that the manufacturing activity has been restored to the extent of 50-70% and hence does not expect delays. We have lowered our growth estimate for Small molecules from 12% to 5% in FY21, in case of lack of raw material availability due to trade disruption, in a **BEAR CASE scenario**.

In case of Biologics, Biocon exports to US, Europe and the ROW markets. For 9MFY20, the Biologics segment earned revenues of \$226 mn, with the launch of Trastuzumab in December. We do not expect any impact in FY20. In FY21, in a **BEAR CASE** scenario, we have reduced our earlier growth estimate of 48% due to increased market share of existing biosimilars and new launches, to 17% in FY21. We expect lower growth in Q1FY21 and Q2FY21 due to delays in processing at ports, with restored growth thereafter and in FY22.

In the contract research segment (Syngene), the international trade disruptions could lead to slower execution and procurement of projects marginally impacting the topline as well as bottom-line. Further, Syngene's Mangalore plant would have been certified by regulatory authorities in FY21 and may see a lower activity in manufacturing.

Particulars	FY21E	FY21(O)	% Change	FY22E	FY22E (O)	% Change
Biologics	27014	34163	-21%	39361	40,387	-3%
Small Molecules	21407	22834	-6%	23,547	25,117	-6%
Branded Formns	5721	5858	-2%	6,007	6,151	-2%
Contract Research	24913	25993	-4%	29,896	31,609	-5%

For 9MFY20, Biocon revenues grew 20% to Rs 47.9 bn, mainly from Biologics (+50%), Small molecules (+20%) and Contract Research (+9%). The Branded Formulations business de-grew 20%, due to restructuring and degrowth in UAE. EBITDA grew 34% to Rs 12.8 bn, with EBITDA margins at 26.8%. PAT increased 12% to Rs 5.6 bn due to higher taxes.

In the BASE case scenario, we expected topline growth of 27% in FY21, across segments. We expected EBITDA to grow 30% in FY21 and FY22, with EBITDA margins at 26.5% in FY21. We expected 50 bps and 140 bps margin improvements in EBITDA margins in FY21 and FY22, due to higher contribution from biosimilars.



In the **BEAR case**, we expect topline growth of 13% in FY21 to Rs 76.8 bn, and 26% in FY22 to Rs 96.4 bn with a sharp recovery in FY22. We expect EBITDA degrowth of 4% in FY21 to Rs 17 bn, with lower margins of 22.1% due to increased raw material costs. We expect PAT degrowth 12.5% to Rs 7.7 bn in FY21.

Rs Mns	As per Q3Y20 Update			Base Case			Bear Case		
	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22
Particulars									
Revenue	68,367	86,562	1,07,290	68,367	86,562	1,07,290	68,193	76,768	96,380
<i>Growth</i>		<i>26.6%</i>	<i>23.9%</i>		<i>26.6%</i>	<i>23.9%</i>		<i>12.6%</i>	<i>25.5%</i>
EBIDTA	17,744	22,972	29,984	17,744	22,972	29,984	17,639	16,939	22,835
<i>Growth</i>		<i>29.5%</i>	<i>30.5%</i>		<i>29.5%</i>	<i>30.5%</i>		<i>-4.0%</i>	<i>34.8%</i>
PAT	8,869	12,213	16,903	8,869	12,213	16,903	8,789	7,688	11,541
<i>Growth</i>		<i>37.7%</i>	<i>38.4%</i>		<i>37.7%</i>	<i>38.4%</i>		<i>-12.5%</i>	<i>50.1%</i>
EPS	7.4	10.2	14.1	7.4	10.2	14.1	7.4	6.4	9.6
CMP	252								
P/E	34	25	18	34	25	18	35	39	26


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BIOCON FINANCIALS											
P&L (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E	Cash Flow St. (Rs. mn)	FY18	FY19	FY20E	FY21E	FY22E
Net Sales	41,297	55,144	68,193	76,768	96,380	Net Profit	3,724	9,053	9,464	7,688	11,541
Raw materials	(16,361)	(18,966)	(21,822)	(25,334)	(31,805)	Add: Dep. & Amort.	3,851	4,478	4,941	5,341	5,941
Employee costs	(9,311)	(11,653)	(14,566)	(18,208)	(22,760)	Cash profits	7,575	13,531	14,405	13,029	17,482
Other Expenses	(5,111)	(7,688)	(10,379)	(12,974)	(14,920)	(Inc)/Dec in					
Research & Devt	(2,160)	(2,900)	(3,787)	(3,314)	(4,061)	-Sundry debtors	(1,807)	(2,279)	(2,028)	(1,880)	(4,298)
Cost of sales	(32,943)	(41,207)	(50,553)	(59,829)	(73,545)	-Inventories	(872)	(3,091)	(2,034)	(1,537)	(3,503)
Operating Profit	8,354	13,937	17,639	16,939	22,835	-Loans/advances	224	(1,475)	(1,148)	(1,378)	(1,654)
Depreciation	(3,851)	(4,478)	(4,941)	(5,341)	(5,941)	-Sundry creditors	2,656	1,930	694	2,040	3,760
PBIT	4,503	9,459	12,698	11,598	16,893	-Others	(3,665)	1,714	1,377	1,653	1,983
Other income	2,062	1,444	1,155	1,213	1,274	Change in WC	(3,464)	(3,201)	(3,139)	(1,102)	(3,712)
Interest	(615)	(709)	(895)	(1,008)	(1,073)	CF from Oper. activities	4,111	10,330	11,266	11,927	13,769
Profit before tax	5,950	10,194	12,958	11,803	17,094	CF from Inv. activities	(8,485)	(12,263)	(12,361)	(11,967)	(15,851)
Provision for tax	(1,569)	(2,123)	(3,110)	(2,951)	(4,273)	CF from Fin. activities	8,036	961	4,800	(2,037)	(1,673)
Profit after Tax	4,381	8,071	9,848	8,853	12,820	Cash generated/(utilise)	3,662	(972)	3,705	(2,077)	(3,754)
Minority Interest	(807)	(973)	(1,070)	(1,177)	(1,295)	Cash at start of the year	10,443	13,395	10,572	18,995	10,851
Share of Profit	213	9	11	13	16	Cash at end of the year	13,395	10,572	18,995	10,851	6,319
Adjusted PAT	3,787	7,107	8,789	7,688	11,541	Ratios	FY18	FY19	FY20E	FY21E	FY22E
Extraordinary Items	-	1,946	675	-	-	OPM	20.2	25.3	25.9	22.1	23.7
Reported PAT	3,787	9,053	9,464	7,688	11,541	NPM	8.7	16.0	13.6	9.9	11.8
Balance Sheet	FY18	FY19	FY20E	FY21E	FY22E	Tax rate	(26.4)	(20.8)	(24.0)	(25.0)	(25.0)
Equity capital *	3,000	3,000	6,000	6,000	6,000	Growth Ratios (%)					
Reserves	48,808	57,980	72,164	71,492	80,033	Net Sales	5.3	33.5	23.7	12.6	25.5
Net worth	51,808	60,980	78,164	77,492	86,033	Operating Profit	(15.4)	68.1	26.6	(4.0)	34.8
Def. Tax Liab.+Minority	4,677	6,089	6,698	7,368	8,104	PAT excl. EI	(39.2)	90.8	23.7	(12.5)	50.1
Secured loans	17,898	15,256	18,945	22,200	22,239	Per Share (Rs.)*					
Unsecured loans	1,303	2,612	2,274	2,275	2,276	Adj. Net Earnings (EPS)	6.3	11.8	7.3	6.4	9.6
Current maturities	5,730	10,066	10,484	11,008	11,559	Cash Earnings (CPS)	12.7	22.6	12.0	10.9	14.6
Total debt	24,931	27,934	31,703	35,483	36,074	Dividend	5.0	5.0	6.0	6.0	7.0
Other liab	3,423	8,052	9,662	11,595	13,914	Book Value	86.3	101.6	65.1	64.6	71.7
CAPITAL EMPLOYED	84,839	1,03,055	1,26,227	1,31,938	1,44,125	Free Cash Flow	(7.3)	(3.2)	(0.9)	(0.0)	(1.7)
Gross block	57,532	68,019	76,019	89,019	99,019	Valuation Ratios					
Accumulated depreciati	(21,591)	(26,069)	(31,010)	(36,351)	(42,293)	P/E(x)	39.9	21.3	34.4	39.3	26.2
Net block	36,297	42,527	45,009	52,668	56,726	P/B(x)	2.9	2.5	3.9	3.9	3.5
Capital WIP	7,789	12,869	17,339	17,339	17,339	EV/EBIDTA(x)	42.7	26.0	20.3	21.8	16.4
Total fixed assets	44,086	55,396	62,348	70,007	74,065	EV/SALES (x)	8.6	6.6	5.2	4.8	3.9
Intangible Assets	5,937	8,303	9,955	10,343	10,343	Div. Yield(%)	2.0	2.0	2.4	2.4	2.8
Investments	6,752	10,118	12,055	15,543	23,099	FCF Yield(%)	(2.9)	(1.3)	(0.4)	(0.0)	(0.7)
Other non current asset	3,186	2,131	2,557	3,069	3,682	Return Ratios (%)					
Inventories	7,225	10,316	12,350	13,887	17,390	ROE	8.5	13.2	12.6	11.4	14.9
Sundry debtors	10,639	12,918	14,946	16,826	21,124	ROCE	5.6	11.8	11.2	9.3	12.4
Cash & bank	13,395	10,572	18,995	10,851	6,319						
Loans & advances	4,267	5,742	6,890	8,268	9,922						
Other current assets	1,370	1,488	1,637	1,800	1,981						
Sundry creditors	(10,053)	(11,983)	(12,677)	(14,717)	(18,477)						
Acceptances	(4,214)	(5,420)	(6,504)	(7,805)	(9,366)						
Provisions	(958)	(1,466)	(1,759)	(2,111)	(2,533)						
Working capital	24,878	27,107	39,312	32,977	32,935						
CAPITAL DEPLOYED	84,839	1,03,055	1,26,227	1,31,938	1,44,125						

* Increase in Equity on account of bonus issue in FY17 (2:1) and FY19 in the proportion of 1:1



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