

USFDA approval for SEMGLEE interchangeability is a major milestone for Viatris+Biocon, in view of scientific capabilities and widening access to biosimilars.

- The USFDA today approved SEMGLEE (Glargine) as an interchangeable insulin with LANTUS from Sanofi.
- SEMGLEE is the first interchangeable biosimilar in the US. Viatris+ Biocon will be eligible for 12 months exclusivity for the product, before the USFDA can approve another biosimilar to Glargine.
- Interchangeability to SEMGLEE allows substitution at the pharmacy counter and widen access to diabetes patients.
- Viatris + Biocon will commence supplies by end 2021.
- Glargine is available through brands LANTUS (Sanofi) and Basaglar (Eli Lilly) in the US.
- Glargine is available in 10 ml vials or 3 ml insulin pens. Insulin pens form a larger part of the market. Lantus is priced at \$33-66 per pen, with copay programs from manufacturers in the US.
- LANTUS sales in the US are currently \$700- 750 mn per annum. We believe SEMGLEE will have a faster ramp up due to affordable pricing benefits to the healthcare payers.

Valuation & Outlook

- We believe Biocon will benefit from the pickup of biosimilars, namely FULPHILA (from lower market share of Onpro kit), OGIVRI (better footfalls with easing of lockdown) and SEMGLEE with the easing of the pandemic and USFDA approval to interchangeability for SEMGLEE.
- The demand for biosimilars, research services and generics is robust. We believe the profitability will improve with the easing of pandemic in US and Europe.
- At Rs 382, Biocon trades at 29x FY23E EPS of Rs 13.2 and 17x EV/EBITDA. We have valued Biocon as a weighted average (33:34:33) of DCF, 20x EV/EBITDA and 35x P/E arrived at a target price of Rs 470. **We revise our rating from BUY on Dips to BUY.**

Y/E Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Net sales	55,144	63,005	71,212	80,803	1,08,973
EBITDA	13,937	15,364	16,680	18,236	28,387
Adjusted net profit	7,107	6,140	7,530	6,737	15,826
Free cash flow	(1,801)	(6,084)	(2,633)	(3,494)	8,187
EPS (Rs)	11.8	5.1	6.3	5.6	13.2
growth (%)	90.8	(13.6)	22.6	(10.5)	134.9
P/E (x)	32.2	74.7	60.9	68.0	29.0
P/B (x)	3.8	6.3	6.0	5.5	4.6
EV/EBITDA (x)	17.7	31.7	29.2	26.2	16.9
D/E	0.5	0.4	0.6	0.5	0.4
RoIC (%)	10.4	7.7	8.8	8.1	17.7
RoE (%)	13.2	10.6	12.2	12.0	17.2
Dividend yield (%)	1.3	0	0	0	1.3

Source: Company

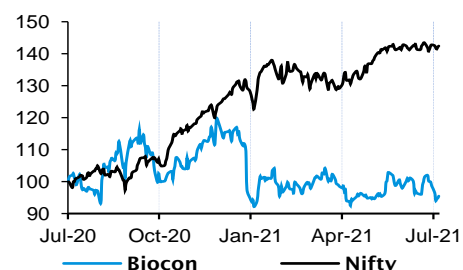
Rating	TP (Rs)	Up/Dn (%)
BUY	470	22

Market data

Current price	Rs	386
Market Cap (Rs.Bn)	(Rs Bn)	464
Market Cap (US \$ Mn)	(US \$ Mn)	6238
Face Value	Rs	5
52 Weeks High/Low	Rs	488/363
Average Daily Volume	('000)	7967
BSE Code		532523
Bloomberg		BIOS:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Jun-21	Mar-21
Promoters	60.64	60.67
FII	15.91	16.30
DII	7.53	7.14
Others	15.93	15.89
Total	100	100

Source: BSE

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Financials

P&L (Rs mn)	FY19	FY20	FY21	FY22E	FY23E	Cash Flow St. (Rs. mn)	FY19	FY20	FY21	FY22E	FY23E
Net Sales	55,144	63,005	71,212	80,803	1,08,973	Net Profit	9,053	6,815	7,656	6,737	15,826
Raw materials	(18,966)	(20,522)	(22,085)	(25,049)	(33,782)	Add: Dep. & Amort.	4,478	5,522	7,151	7,773	8,589
Employee costs	(11,653)	(14,588)	(17,410)	(20,892)	(26,115)	Cash profits	13,531	12,337	14,807	14,511	24,415
Other Expenses	(7,688)	(8,141)	(10,272)	(11,813)	(15,356)	(Inc)/Dec in					
Research & Devt	(2,900)	(4,390)	(4,765)	(4,814)	(5,334)	-Sundry debtors	(2,279)	681	61	(1,675)	(4,829)
Cost of sales	(41,207)	(47,641)	(54,532)	(62,568)	(80,587)	-Inventories	(3,091)	(4,043)	(4,307)	(749)	(6,668)
Operating Profit	13,937	15,364	16,680	18,236	28,387	-Loans/advances	(1,475)	224	(5,908)	-	-
Depreciation	(4,478)	(5,522)	(7,151)	(7,773)	(8,589)	-Sundry creditors	1,930	1,268	1,888	961	5,613
PBIT	9,459	9,842	9,529	10,462	19,797	-Others	1,714	3,439	447	2,154	2,585
Other income	1,444	1,614	2,545	2,927	3,512	Change in WC	(3,201)	1,569	(7,819)	692	(3,298)
Interest	(709)	(649)	(577)	(597)	(608)	CF from Oper. activities	10,330	13,906	6,988	15,203	21,117
Profit before tax	10,194	10,807	11,497	12,792	22,701	CF from Inv. activities	(12,263)	(15,783)	(9,109)	(5,766)	(9,961)
Provision for tax	(2,123)	(3,151)	(2,215)	(2,814)	(5,675)	CF from Fin. activities	961	9,718	21,830	(11,477)	(11,065)
Profit after Tax	8,071	7,656	9,282	9,977	17,026	Cash generated/(utilisec)	(972)	7,841	19,709	(2,039)	92
Minority Interest	(973)	(1,227)	(1,057)	(1,000)	(1,100)	Cash at start of the year	13,395	10,572	15,346	20,154	16,197
Share of Profit	9	(289)	(695)	(2,240)	(100)	Cash at end of the year	10,572	15,346	20,154	16,197	13,906
Adjusted PAT	7,107	6,140	7,530	6,737	15,826	Ratios	FY19	FY20	FY21	FY22E	FY23E
Extraordinary Items	1,946	675	126	-	-	OPM	25.3	24.4	23.4	22.6	26.0
Reported PAT	9,053	6,815	7,656	6,737	15,826	NPM	16.0	10.5	10.4	8.0	14.1
Balance Sheet	FY19	FY20	FY21	FY22E	FY23E	Tax rate	(20.8)	(29.2)	(19.3)	(22.0)	(25.0)
Equity capital *	3,000	6,000	6,000	6,000	6,000	Growth Ratios (%)					
Reserves	57,980	66,418	70,269	77,006	92,832	Net Sales	33.5	14.3	13.0	13.5	34.9
Equity Dilution	-	5,360	-	-	-	Operating Profit	68.1	10.2	8.6	9.3	55.7
Net worth	60,980	72,418	76,269	83,006	98,832	PAT excl. EI	90.8	(13.6)	22.6	(10.5)	134.9
Def. Tax Liab.+Minority I	6,089	7,071	9,130	10,011	10,979	Per Share (Rs.)*					
Secured loans	15,256	12,222	29,616	23,816	23,857	Adj. Net Earnings (EPS)	11.8	5.1	6.3	5.6	13.2
Unsecured loans	2,612	6,676	5,942	2,276	2,277	Cash Earnings (CPS)	22.6	10.3	12.3	12.1	20.3
Current maturities	10,066	12,978	13,069	13,722	14,409	Dividend	5.0	-	-	-	5.0
Total debt	27,934	31,876	48,627	39,815	40,543	Book Value	101.6	60.3	63.6	69.2	82.4
Other liab	8,052	14,857	25,286	25,833	26,941	Free Cash Flow	(3.2)	(1.6)	(1.8)	7.9	9.3
CAPITAL EMPLOYED	1,03,055	1,26,222	1,59,312	1,58,665	1,77,295	Valuation Ratios					
Gross block	68,019	85,523	94,315	1,14,315	1,26,315	P/E(x)	32.2	74.7	60.9	68.0	29.0
Accumulated depreciatic	(26,069)	(31,591)	(38,742)	(46,515)	(55,105)	P/B(x)	3.8	6.3	6.0	5.5	4.6
Net block	42,527	53,932	55,573	67,800	71,210	EV/EBIDTA(x)	17.7	31.7	29.2	26.2	16.9
Capital WIP	12,869	15,765	22,535	10,000	10,000	EV/SALES (x)	4.5	7.7	6.8	5.9	4.4
Total fixed assets	55,396	69,697	78,108	77,800	81,210	Div. Yield(%)	1.3	-	-	-	1.3
Intangible Assets	8,303	10,691	12,000	12,000	12,000	FCF Yield(%)	(0.8)	(0.4)	(0.5)	2.1	2.4
Investments	10,118	9,661	19,519	23,064	35,825	Return Ratios (%)					
Other non current assets:	2,131	1,514	1,756	2,107	2,529	ROE	13.2	10.6	12.2	12.0	17.2
Right of use assets	-	1,283.0	1,533.0	1,533.0	1,533.0	ROCE	11.8	8.8	6.4	7.0	11.9
Assets for sale	-	-	522	522	522	ROIC	10.4	7.7	8.8	8.1	17.7
Inventories	10,316	14,359	18,666	19,415	26,083						
Sundry debtors	12,918	12,237	12,176	13,851	18,679						
Cash & bank	10,572	15,346	20,154	16,197	13,906						
Loans & advances	5,742	5,518	11,426	11,426	11,426						
Other current assets	1,488	3,395	3,638	4,002	4,402						
Sundry creditors	(11,983)	(13,251)	(15,139)	(16,100)	(21,713)						
Acceptances	(5,420)	(8,437)	(8,616)	(10,339)	(12,407)						
Provisions	(1,466)	(1,888)	(2,156)	(2,587)	(3,105)						
Working capital	27,107	33,376	45,874	42,161	44,199						
CAPITAL DEPLOYED	1,03,055	1,26,222	1,59,312	1,58,665	1,77,295						

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

Source: Dalal & Broacha Research, Company

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