



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

**Analyst: Charulata Gaidhani**

**Business update@ Dalal & Broacha**

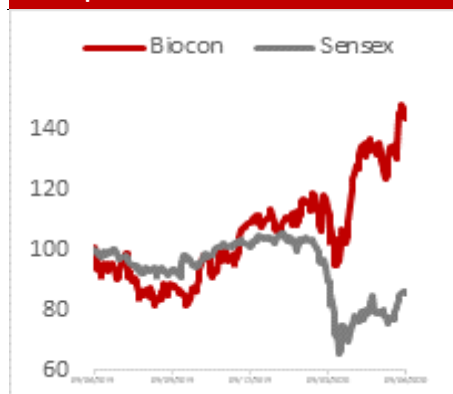
**BUY on Dips**

Current Price	384
Target Price	<b>440</b>
Upside/Downside	15%
52 Week Range	211/400

**Key Share Data**

Market Cap (Rs.bn)	468
Market Cap (US\$ Bn)	6.20
No of o/s shares (mn)	1200
Face Value	5
Monthly Avg.vol (BSE+NSE) Nos'000	11337
BSE Code	532523
NSE Code	BIOCON
Bloomberg	BIOS:IN

**Price performance**



We are positive that Biocon has emerged as a global player in affordable biosimilars. Mylan received favourable ruling from US PTAB (United States Patent Trial and Appeal Board) on Sanofi's four device patents for Lantus Solostar. With the favourable ruling, and USFDA approval to SEMGLEE today, Mylan and Biocon plan to soon (Q2FY21) launch SEMGLEE (Glargine) pens in the US. The launch of SEMGLEE will improve utilisation of its Malaysia plant and be profitable (excluding R & D) in FY21. Biocon expects it's Malaysian step down subsidiary to be profit accretive in FY22, gaining from operational efficiencies. Further, Mylan has guided for improved market shares for FULPHILA (Pegfilgrastim) and OGIVRI (Trastuzumab) in view of changes in its commercial strategy in FY21. We expect the biologics contribution to increase from 30% in FY20 to 52% in FY22, leading to increased EBITDA margins from 25% in FY20 to 28% by FY22. Given the scale up of Biologics, we recommend investors to BUY on Dips with a target price of Rs 440.

**Financial Outlook**

We expect Biocon revenues to grow at 31% CAGR to Rs 110 bn by FY22E. Revenue from Biologics to grow at 76% CAGR to Rs 58 bn by FY22E. Small molecules (11% to Rs 26 bn) and Contract Research (Syngene 17% to Rs 27.3 bn). With EBITDA growth at 39% CAGR to Rs 31 bn by FY22E, we expect EBITDA margins to improve from 25.2% in FY20 to 28.2% in FY22E. We expect PAT to grow 54% CAGR to Rs 17.7 bn by FY22E.

**Outlook & Valuation**

SEMGLEE will be Biocon's third biosimilar hitting the US market, Biocon expects normalcy by Q2FY21. The management is confident of achieving biologics revenue of \$ 1 bn by FY22, through an improvement in market share in biosimilars in the US, EU and emerging markets. At Rs 383, Biocon trades at 26x FY22E EPS of Rs 14.8. We recommend investors to **BUY on Dips** with a target price of **Rs 440**.

% Shareholding	Mar-20	Dec -19
Promoters	60.67	60.67
FII	14.98	16.09
DII	7.32	6.75
Others	17.03	16.49
<b>Total</b>	<b>100</b>	<b>100</b>

**Key Financials**

Year	Net sales	% Growth	EBIDTA	OPM (%)	PAT ex EI	PAT incl EI	% Growth	EPS*	PE (x)	EV/EBITDA	RoE (%)	RoCE (%)
FY18	41,297	5.3	8,354	20.2	3,787	3,787	(39.2)	6.3	60.8	42.7	8.5	5.6
FY19	55,144	33.5	13,937	25.3	7,107	9,053	90.8	11.8	32.4	26.0	13.2	11.8
FY20	63,672	15.5	16,031	25.2	6,807	7,482	(4.2)	5.7	67.7	22.9	11.5	9.8
FY21E	88,139	38.4	24,797	28.1	12,603	12,603	85.2	10.5	36.6	14.9	18.4	14.6
FY22E	1,09,887	24.7	31,036	28.2	17,747	17,747	40.8	14.8	26.0	11.7	19.5	16.6

**Mylan's patent win for 4 insulin devices**

Mylan received favourable ruling from US PTAB on Sanofi's four device patents for Lantus Solostar. Mylan and Biocon have previously obtained a covenant not to sue from Sanofi on the '008 patent and therefore this ruling does not impact Biocon and Mylan's ability to commercialize Semglee® (Insulin Glargine) upon final approval from the USFDA. Sanofi sells the product in vials (Lantus) and as a disposable injection pen (Lantus SoloSTAR®). Sanofi's total IQVIA sales for the 12 months ending March 31, 2020, were approximately USD 1.71 billion for Lantus 100 Units/mL and about USD 4.32 billion for Lantus SoloSTAR.

**Launch of SEMGLEE pens in the US**

Post Mylan's patent win for the devices, Biocon + Mylan are working towards the launch of SEMGLEE (Glargine) pens in the US. Glargine pens is a US\$2.2 billion market in the US. The company has guided for the launch of SEMGLEE in the US in H2CY20. Currently Glargine has two players namely Sanofi (Innovator) and Eli Lilly. The Glargine pen is priced around \$22-25. We have factored in the launch of SEMGLEE pens in the US in Q2FY21, with a market share of 10% by FY21 and 20-25% by FY22. We believe Biocon will generate revenues of \$50-60 mn from SEMGLEE pens in FY21. We have also factored in revenue of \$16 mn from SEMGLEE vials in FY21.

**Malaysia subsidiary to turnaround**

The launch of SEMGLEE in H2CY20 will improve the utilisation levels of Biocon's Malaysia plant in FY21 and achieve operational efficiencies in FY22. In FY20, Biocon's step down Malaysia subsidiary has reported a net loss (excl. R & D) of Rs 1600 mn. With the supplies of Glargine to the US and the resultant improvement in profitability, Biocon expects the Malaysian subsidiary to be profitable, excluding R & D in FY21. Further, with operational efficiencies through Glargine launches in developed markets in FY22, the Malaysian subsidiary will be profit accretive (including R & D) in FY22.

**Higher efficiencies with increased market share in FULPHILA and OGIVRI**

With changes in commercial strategy and partners from Mylan, we expect an improvement in market shares of FULPHILA (Pegfilgrastim) and OGIVRI (Trastuzumab) in FY21. Mylan has guided for increased shares from physicians, payers and hospitals in FY21. We expect biologics revenue to increase at 49% CAGR from FY20 to FY22 to \$770 mn by FY22. Our projections include the increased market shares of FULPHILA, OGIVRI and SEMGLEE pens and vials in the US. We believe Biocon Biologics will be able to achieve its target of \$ 1 bn by FY22.

**Higher proportion of Biologics to improve profitability**

We believe Biocon's profitability will improve with the higher contribution from Biologics from 30% in FY20 to 53% in FY22. We expect EBITDA margins to improve from 25% in FY20 to 28% by FY22.



### Bevacizumab under review

Biocon and Mylan filed the BLA for Bevacizumab in Q4FY20. The BLA is currently under review by USFDA and EMA. Bevacizumab (Avastin) is used in the treatment of lung cancer, colorectal cancer. During CY2019 Avastin (Roche) clocked sales of \$3019 mn in the US. There are three players in the US market namely Roche, Amgen (MVASI) and Pfizer (ZIRABEV). Biocon has a target date of December'20. We assume approval in FY21 and launch in FY22.

### Capex

Capex for Malaysia Phase II and for small molecules at Bengaluru (\$200 mn in FY21 and \$200 mn in FY22, 50% Biologics and 50% Small molecules), has been factored into our estimates.

### Revision of estimates

We have revised our estimates upwards in anticipation of SEMGLEE launch of pens and vials in H2CY20.

Key Financials	FY21E	FY21E(Old)	Var	FY22E	FY22E(Old)	Var
Net Sales	88,139	79,928	10%	1,09,887	99,189	11%
EBITDA	24,797	20,988	18%	31,036	27,602	12%
PAT	12,603	10,707	18%	17,747	15,090	18%
EPS	10.5	8.9		14.8	13.1	

### Valuation

We have valued Biocon as the weighted average of DCF (50%) and 30x P/E, and arrived at a target price of Rs 440. We recommend investors to **BUY on Dips**.



BIOCON FINANCIALS											
P&L (Rs mn)	FY18	FY19	FY20	FY21E	FY22E	Cash Flow St. (Rs. mn)	FY18	FY19	FY20	FY21E	FY22E
Net Sales	41,297	55,144	63,672	88,139	1,09,887	Net Profit	3,724	9,053	7,482	12,603	17,747
Raw materials	(16,361)	(18,966)	(20,522)	(28,645)	(36,263)	Add: Dep. & Amort.	3,851	4,478	5,522	6,469	7,379
Employee costs	(9,311)	(11,653)	(14,588)	(19,694)	(24,617)	<b>Cash profits</b>	<b>7,575</b>	<b>13,531</b>	<b>13,004</b>	<b>19,072</b>	<b>25,126</b>
Other Expenses	(5,111)	(7,688)	(8,141)	(10,990)	(13,738)	(Inc)/Dec in					
Research & Devt	(2,160)	(2,900)	(4,390)	(4,013)	(4,233)	-Sundry debtors	(1,807)	(2,279)	681	(5,174)	(4,296)
Cost of sales	(32,943)	(41,207)	(47,641)	(63,342)	(78,851)	-Inventories	(872)	(3,091)	(4,043)	(1,653)	(3,905)
<b>Operating Profit</b>	<b>8,354</b>	<b>13,937</b>	<b>16,031</b>	<b>24,797</b>	<b>31,036</b>	-Loans/advances	224	(1,475)	224	-	-
Depreciation	(3,851)	(4,478)	(5,522)	(6,469)	(7,379)	-Sundry creditors	2,656	1,930	1,268	4,360	4,683
PBIT	4,503	9,459	10,509	18,328	23,657	-Others	(3,665)	1,714	3,439	2,065	2,478
Other income	2,062	1,444	1,614	1,775	1,953	Change in WC	(3,464)	(3,201)	1,569	(402)	(1,039)
Interest	(615)	(709)	(649)	(743)	(1,135)	<b>CF from Oper. activities</b>	<b>4,111</b>	<b>10,330</b>	<b>14,573</b>	<b>18,671</b>	<b>24,087</b>
Profit before tax	5,950	10,194	11,474	19,360	24,475	<b>CF from Inv. activities</b>	<b>(8,485)</b>	<b>(12,263)</b>	<b>(15,783)</b>	<b>(10,444)</b>	<b>(13,796)</b>
Provision for tax	(1,569)	(2,123)	(3,151)	(5,227)	(6,608)	<b>CF from Fin. activities</b>	<b>8,036</b>	<b>961</b>	<b>3,688</b>	<b>1,056</b>	<b>(7,292)</b>
<b>Profit after Tax</b>	<b>4,381</b>	<b>8,071</b>	<b>8,323</b>	<b>14,133</b>	<b>17,867</b>	<b>Cash generated/(utilised)</b>	<b>3,662</b>	<b>(972)</b>	<b>2,478</b>	<b>9,282</b>	<b>2,998</b>
Minority Interest	(807)	(973)	(1,227)	(1,350)	-	Cash at start of the year	10,443	13,395	10,572	9,986	12,956
Share of Profit	213	9	(289)	(180)	(120)	Cash at end of the year	13,395	10,572	9,986	12,956	20,621
<b>Adjusted PAT</b>	<b>3,787</b>	<b>7,107</b>	<b>6,807</b>	<b>12,603</b>	<b>17,747</b>	<b>Ratios</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>
Extraordinary Items	-	1,946	675	-	-	OPM	20.2	25.3	25.2	28.1	28.2
<b>Reported PAT</b>	<b>3,787</b>	<b>9,053</b>	<b>7,482</b>	<b>12,603</b>	<b>17,747</b>	NPM	8.7	16.0	11.5	14.0	15.9
<b>Balance Sheet</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	Tax rate	(26.4)	(20.8)	(27.5)	(27.0)	(27.0)
Equity capital *	3,000	3,000	6,000	6,000	6,000	<b>Growth Ratios (%)</b>					
Reserves	48,808	57,980	66,418	70,661	85,408	Net Sales	5.3	33.5	15.5	38.4	24.7
<b>Net worth</b>	<b>51,808</b>	<b>60,980</b>	<b>72,418</b>	<b>76,661</b>	<b>91,408</b>	Operating Profit	(15.4)	68.1	15.0	54.7	25.2
Def. Tax Liab.+Minority Int	4,677	6,089	7,071	7,748	8,493	PAT excl. EI	(39.2)	90.8	(4.2)	85.2	40.8
Secured loans	17,898	15,256	12,222	22,200	22,239	<b>Per Share (Rs.)*</b>					
Unsecured loans	1,303	2,612	6,676	2,275	2,276	<b>Adj. Net Earnings (EPS)</b>	<b>6.3</b>	<b>11.8</b>	<b>5.7</b>	<b>10.5</b>	<b>14.8</b>
Current maturities	5,730	10,066	12,978	12,683	13,317	Cash Earnings (CPS)	12.7	22.6	10.8	15.9	20.9
Total debt	24,931	27,934	31,876	37,158	37,832	Dividend	5.0	5.0	6.0	6.0	7.0
Other liab	3,423	8,052	9,494	11,393	13,671	Book Value	86.3	101.6	60.3	63.9	76.2
<b>CAPITAL EMPLOYED</b>	<b>84,839</b>	<b>1,03,055</b>	<b>1,20,859</b>	<b>1,32,961</b>	<b>1,51,405</b>	Free Cash Flow	(7.3)	(3.2)	(1.0)	6.9	8.6
Gross block	57,532	68,019	85,523	99,523	1,13,523	<b>Valuation Ratios</b>					
Accumulated depreciation	(21,591)	(26,069)	(31,591)	(38,060)	(45,439)	P/E(x)	<b>60.8</b>	<b>32.4</b>	<b>67.7</b>	<b>36.6</b>	<b>26.0</b>
Net block	36,297	42,527	53,932	61,463	68,084	P/B(x)	4.4	3.8	6.4	6.0	5.0
Capital WIP	7,789	12,869	15,765	12,000	8,000	EV/EBIDTA(x)	42.7	26.0	22.9	14.9	11.7
<b>Total fixed assets</b>	<b>44,086</b>	<b>55,396</b>	<b>69,697</b>	<b>73,463</b>	<b>76,084</b>	EV/SALES (x)	8.6	6.6	5.8	4.2	3.3
Intangible Assets	5,937	8,303	10,691	12,496	12,496	Div. Yield(%)	1.3	1.3	1.6	1.6	1.8
Investments	6,752	10,118	9,661	11,565	17,276	<b>FCF Yield(%)</b>	<b>(1.9)</b>	<b>(0.8)</b>	<b>(0.3)</b>	<b>1.8</b>	<b>2.2</b>
Other non current assets	3,186	2,131	1,514	1,817	2,180	<b>Return Ratios (%)</b>					
Right of use assets	-	-	1,283.0	1,283.0	1,283.0	ROE	8.5	13.2	11.5	18.4	19.5
Inventories	7,225	10,316	14,359	16,012	19,917	ROCE	5.6	11.8	9.8	14.6	16.6
Sundry debtors	10,639	12,918	12,237	17,411	21,707						
Cash & bank	13,395	10,572	9,986	12,956	20,621						
Loans & advances	4,267	5,742	5,518	5,518	5,518						
Other current assets	1,370	1,488	3,395	3,735	4,108						
Sundry creditors	(10,053)	(11,983)	(13,251)	(17,611)	(22,294)						
Acceptances	(4,214)	(5,420)	(8,437)	(10,124)	(12,149)						
Provisions	(958)	(1,466)	(1,888)	(2,266)	(2,719)						
<b>Working capital</b>	<b>24,878</b>	<b>27,107</b>	<b>28,016</b>	<b>32,337</b>	<b>42,086</b>						
<b>CAPITAL DEPLOYED</b>	<b>84,839</b>	<b>1,03,055</b>	<b>1,20,862</b>	<b>1,32,961</b>	<b>1,51,405</b>						

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



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