



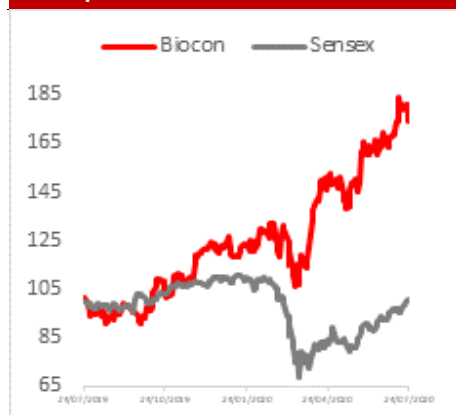
BUY on Dips

Current Price	415
Target Price	440
Upside/Downside	6%
52 Week Range	211/455

Key Share Data

Market Cap (Rs.bn)	498.18
Market Cap (US\$ Bn)	6.66
No of o/s shares (mn)	1200
Face Value	5
Monthly Avg.vol (BSE+NSE) Nos'000	6877
BSE Code	532523
NSE Code	BIOCON
Bloomberg	BIOS:IN

Price performance



% Shareholding	Jun-20	Mar-20
Promoters	60.67	60.67
FII	15.93	14.98
DII	7.19	7.32
Others	16.22	17.03
Total	100	100

Robust revenue growth in Biosimilars and Generics, profitability improves sequentially

- Sales Rs 16713 mn (+14% yoy/+6% qoq) above our estimate of Rs 16420 mn.
- Gross Profit (-3%) to Rs 11297 mn, due to **28% increase in raw material costs. Gross margins 67.6%** (-580 bps yoy/+380 bps qoq), better than our estimate of 65%.
- **EBITDA -27% to Rs 4133 mn** due higher R & D spend (+35% to Rs 1070 mn). EBITDA margins fell to 24.7% (-1080 bps yoy/+450 bps qoq).
- Due to higher depreciation (+34%), PBT de-grew 44% yoy/+19% qoq to Rs 2523 mn.
- With taxes at 32%, PAT was at Rs 1678 mn (-53% yoy/ +19% qoq). EPS for the quarter was at Rs 1.4.

Performance by segment: Biosimilars

- Biosimilar revenues +19% at Rs 6916 mn from Trastuzumab and insulins, **with increased demand from LATAM and AFMET (Africa & Middle East).**
- EBIT was 42% lower yoy at Rs 1074 mn with lower margins at 15.2%, due to larger component of Most of World (MOW) markets.

Generics

- Sales +16% to Rs 5989 mn from US formulations and higher demand for APIs for statins and immunosuppressant's.
- EBIT decreased 4% to Rs 997 mn with margins at 16.6% (-350 bps yoy/+60 bps qoq).

Research services

- Sales were flat, due to temporary suspension of services during the lockdown and steady performance from discovery services and dedicated centres.
- EBIT -24% to Rs 663 mn. EBIT margins 15.7% (-500 bps yoy/-950 bps qoq).

Outlook & Valuation

While biosimilars and generics have returned to growth during the quarter, the profitability is lower due to geographic mix, higher R & D spends and lower performance from Syngene. We believe the situation is temporary and should stabilize in Q2, as patients return to hospitals for oncology treatment. The management is confident of achieving biologics revenue of \$ 1 bn by FY22, through an improvement in market share and new launches in biosimilars in the US, EU and emerging markets.

We maintain BUY on DIPS.

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	65.8	42.7	8.5	5.6
FY19	55,144	33.5	13,937	25.3	7,107	9,053	90.8	11.8	35.0	26.0	13.2	11.8
FY20	63,005	14.3	15,364	24.4	6,140	6,815	(13.6)	5.1	81.1	23.9	10.6	9.2
FY21E	82,782	31.4	21,502	26.0	10,198	10,198	66.1	8.5	48.8	17.4	16.5	12.5
FY22E	1,08,612	31.2	30,246	27.8	17,170	17,170	68.4	14.3	29.0	12.3	21.0	17.1

**KTAs from concall**

1. From April'20, Biocon has **realigned its business segments into Biosimilars (Biologics), Generics (Small molecules), Novel Biologics (new biologics under trials) and Research services (Syngene).**
2. The company launched FULPHILA across several markets in Europe during the quarter.
3. FULPHILA market share steady at 6% in the US despite increasing competition. Expect increased demand going forward due to contracting changes from Mylan in CY2020. OGIVRI (Trastuzumab) market share increasing to 5%.
4. Biocon + Mylan received USFDA approval for SEMGLEE (Glargine) during the quarter. Glargine has a market size of \$2.2 bn with only one generic player in the market. Biocon + Mylan plan to launch the product in the US in Q2FY21.
5. Future biosimilars pipeline:
 - a. BLA for Bevacizumab is under review.
 - b. RH Insulin progressing well under 351(k) pathway
 - c. Insulin Aspart development on track with Mylan.
 - d. Mylan plans to launch Eterncept in Europe in H2CY2020. Biocon has an economic interest in the launch.
 - e. Similarly, Mylan plans to launch Hulio (Adalimumab) in the US in 2023.
6. Biocon has signed an exclusive global collaboration with VOLUNTIS, a leading player in digital therapeutics in the US. The USFDA approved CE Marked app helps control Hb1AC at personalized levels, which can be supplied in combination with Biocon's insulins. The combination is relevant in today's requirement for home care and will help in reducing healthcare costs significantly.
7. The CDSCO has approved the emergency use of Itolizumab in hospitals for patients with moderate to severe Covid19 patients. The company is expanding its facilities for Itolizumab which is expected to be complete in 3-4 months.


Q1FY21 Results

Particulars	Q1FY21	Q4FY20	Q1FY20	% yoy	% qoq	FY20	FY19	% growth
Net Sales	16713	15575	14589	15%	7%	63005	55144	14%
<i>Biosimilars</i>	6916	4332	5818	19%	60%	23151	15169	53%
<i>Generics</i>	5989	5622	5160	16%	7%	22070	17728	24%
<i>Research Services</i>	4216	6073	4209	0%	-31%	20119	18256	10%
Raw Material Consumed	(5416)	(5503)	(4178)			(20522)	(18966)	
Employee Expenses	(3937)	(3884)	(3410)			(14588)	(11653)	
Research & Development Exps	(1070)	(1250)	(790)			(4390)	(2900)	
Other Expenses	(2157)	(1752)	(1836)			(8141)	(7688)	
Total Exp	(12580)	(12389)	(10214)	23%	2%	(47641)	(41207)	16%
PBDIT	4133	3186	4375	-6%	30%	15364	13937	10%
<i>OPM (%)</i>	<i>24.7%</i>	<i>20.5%</i>	<i>30.0%</i>			<i>24.4%</i>	<i>25.3%</i>	
Depreciation	(1668)	(1524)	(1242)			(5522)	(4478)	
<i>EBIT</i>	<i>2465</i>	<i>1662</i>	<i>3133</i>	<i>-21%</i>	<i>48%</i>	<i>9842</i>	<i>9459</i>	<i>4%</i>
<i>EBIT margins</i>	<i>14.7%</i>	<i>10.7%</i>	<i>21.5%</i>			<i>15.6%</i>	<i>17.2%</i>	
Other Income	183	631	241			1614	1444	
Interest	(125)	(168)	(166)			(649)	(709)	
Profit before tax	2523	2125	3208	-21%	19%	10807	10194	6%
Tax (incl. on exceptional income)	(809)	(450)	(852)			(3151)	(2123)	
Profit After tax	1714	1675	2356	-27%	2%	7656	8071	
<i>NPM (%)</i>	<i>10.3%</i>	<i>10.8%</i>	<i>16.1%</i>			<i>12.2%</i>	<i>14.6%</i>	
Less: Minority interest	0	0	0			(1227)	(973)	
Share of Profit	(36)	(84)	(79)			(289)	9	
Adjusted PAT	1678.0	1591.0	2277.0	-20%	33%	6140.0	7107.0	-14%
Extraordinary Items after tax						675	1946	
Reported PAT	1678	1591	2277	-20%	33%	6815	9053	-25%
<i>Adj. NPM (%)</i>	<i>10.0%</i>	<i>10.2%</i>	<i>15.6%</i>			<i>10.8%</i>	<i>16.4%</i>	
Equity *	1200	1200	1200			1200	600	
EPS without excep. Items	1.4	1.3	1.9			5.1	11.8	
EPS - Diluted (Rs)	1.4	1.3	1.9			5.7	15.1	

* Increase in Equity through bonus issue of 1:1



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	63,005	82,782	1,08,612	Net Profit	3,724	9,053	6,815	10,198	17,170
Raw materials	(16,361)	(18,966)	(20,522)	(26,904)	(35,842)	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)	Cash profits	7,575	13,531	12,337	16,667	24,549
Other Expenses	(5,111)	(7,688)	(8,141)	(10,990)	(13,738)	(Inc)/Dec in					
Research & Devt	(2,160)	(2,900)	(4,390)	(3,691)	(4,169)	-Sundry debtors	(1,807)	(2,279)	681	(4,289)	(5,156)
Cost of sales	(32,943)	(41,207)	(47,641)	(61,280)	(78,367)	-Inventories	(872)	(3,091)	(4,043)	(699)	(4,632)
Operating Profit	8,354	13,937	15,364	21,502	30,246	-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	3,290	5,495
PBIT	4,503	9,459	9,842	15,033	22,867	-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	367	(1,815)
Interest	(615)	(709)	(649)	(743)	(1,135)	CF from Oper. activities	4,111	10,330	13,906	17,034	22,734
Profit before tax	5,950	10,194	10,807	16,066	23,685	CF from Inv. activities	(8,485)	(12,263)	(15,783)	(10,444)	(13,796)
Provision for tax	(1,569)	(2,123)	(3,151)	(4,338)	(6,395)	CF from Fin. activities	8,036	961	4,355	(1,944)	(10,292)
Profit after Tax	4,381	8,071	7,656	11,728	17,290	Cash generated/(utilised)	3,662	(972)	2,478	4,646	(1,355)
Minority Interest	(807)	(973)	(1,227)	(1,350)	-	Cash at start of the year	10,443	13,395	10,572	9,986	8,320
Share of Profit	213	9	(289)	(180)	(120)	Cash at end of the year	13,395	10,572	9,986	8,320	11,632
Adjusted PAT	3,787	7,107	6,140	10,198	17,170	Ratios	FY18	FY19	FY20	FY21E	FY22E
Extraordinary Items	-	1,946	675	-	-	OPM	20.2	25.3	24.4	26.0	27.8
Reported PAT	3,787	9,053	6,815	10,198	17,170	NPM	8.7	16.0	10.5	12.1	15.5
Balance Sheet	FY18	FY19	FY20	FY21E	FY22E	Tax rate	(26.4)	(20.8)	(29.2)	(27.0)	(27.0)
Equity capital *	3,000	3,000	6,000	6,000	6,000	Growth Ratios (%)					
Reserves	48,808	57,980	66,418	65,256	76,426	Net Sales	5.3	33.5	14.3	31.4	31.2
Net worth	51,808	60,980	72,418	71,256	82,426	Operating Profit	(15.4)	68.1	10.2	40.0	40.7
Def. Tax Liab.+Minority Int	4,677	6,089	7,071	7,748	8,493	PAT excl. EI	(39.2)	90.8	(13.6)	66.1	68.4
Secured loans	17,898	15,256	12,222	22,200	22,239	Per Share (Rs.)*					
Unsecured loans	1,303	2,612	6,676	2,275	2,276	Adj. Net Earnings (EPS)	6.3	11.8	5.1	8.5	14.3
Current maturities	5,730	10,066	12,978	12,683	13,317	Cash Earnings (CPS)	12.7	22.6	10.3	13.9	20.5
Total debt	24,931	27,934	31,876	37,158	37,832	Dividend	5.0	5.0	-	5.0	7.0
Other liab	3,423	8,052	9,494	11,393	13,671	Book Value	86.3	101.6	60.3	59.4	68.7
CAPITAL EMPLOYED	84,839	1,03,055	1,20,859	1,27,555	1,42,423	Free Cash Flow	(7.3)	(3.2)	(1.6)	5.5	7.4
Gross block	57,532	68,019	85,523	99,523	1,13,523	Valuation Ratios					
Accumulated depreciation	(21,591)	(26,069)	(31,591)	(38,060)	(45,439)	P/E(x)	65.8	35.0	81.1	48.8	29.0
Net block	36,297	42,527	53,932	61,463	68,084	P/B(x)	4.8	4.1	6.9	7.0	6.0
Capital WIP	7,789	12,869	15,765	12,000	8,000	EV/EBIDTA(x)	42.7	26.0	23.9	17.4	12.3
Total fixed assets	44,086	55,396	69,697	73,463	76,084	EV/SALES (x)	8.6	6.6	5.8	4.5	3.4
Intangible Assets	5,937	8,303	10,691	12,496	12,496	Div. Yield(%)	1.2	1.2	-	1.2	1.7
Investments	6,752	10,118	9,661	11,565	17,276	FCF Yield(%)	(1.8)	(0.8)	(0.4)	1.3	1.8
Other non current assets	3,186	2,131	1,514	1,817	2,180	Return Ratios (%)					
Right of use assets	-	-	1,283.0	1,283.0	1,283.0	ROE	8.5	13.2	10.6	16.5	21.0
Inventories	7,225	10,316	14,359	15,058	19,690	ROCE	5.6	11.8	9.2	12.5	17.1
Sundry debtors	10,639	12,918	12,237	16,526	21,682						
Cash & bank	13,395	10,572	9,986	8,320	11,632						
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)	(16,541)	(22,036)						
Acceptances	(4,214)	(5,420)	(8,437)	(10,124)	(12,149)						
Provisions	(958)	(1,466)	(1,888)	(2,266)	(2,719)						
Working capital	24,878	27,107	28,016	26,932	33,104						
CAPITAL DEPLOYED	84,839	1,03,055	1,20,862	1,27,555	1,42,423						

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



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