

Pandemic impact on generics, robust demand for biosimilars and research services. Profitability lower due to issues at API plants.

- Sales came in at Rs 17606 mn (+4% yoy /-4% qoq), 3% below estimates.
- Sales by business segment, Generics Rs 4863 mn (-22% yoy/-15% qoq), Biosimilars Rs 7581 mn (+10% yoy/+14% qoq) and Research services Rs 5945 mn (+41% yoy/-10% qoq).
- EBITDA came in at Rs 3893 mn (-6% yoy/-11% qoq).
- EBITDA margins 22.1% (-230 bps yoy/-160 bps qoq).
- PBT came in at Rs 2218 mn (-12% yoy/-48% qoq).
- Share of loss towards Bicara Therapeutics at Rs 561 mn.
- Adjusted PAT came in at Rs 844 mn (-44% yoy/-65% qoq). PAT excluding Bicara was at Rs 1420 mn, leading to PAT margins of 8%.
- Adjusted EPS for the quarter was at Rs 0.7.

Key takeaways from the concall

- Generics was impacted due to Covid related supply chain issues and operational challenges at the API plants at Bengaluru and Hyderabad.
- In Biosimilars, the USFDA is working on interchangeability for Glargine, with a goal date end July. On approval to Viatris+Biocon Glargine, the company will secure supply contracts from the Pharmacy Benefit Managers (PBMs). We believe Viatris+Biocon will benefit from affordable pricing for Glargine and gain market share in the long run.
- The management believes the market for FULPHILA (Pegfilgrastim) will open up given the decline in market share for Amgen's Neulasta OnPro kit from 58% to 52%.

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)	33.6	77.8	63.4	70.9	30.2
P/B (x)	3.9	6.6	6.3	5.8	4.8
EV/EBITDA (x)	26.0	23.5	22.4	20.2	13.1
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

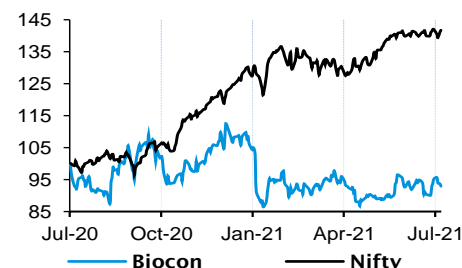
Rating	TP (Rs)	Up/Dn (%)
BUY ON DIPS	470	18

Market data

Current price	Rs	398
Market Cap (Rs.Bn)	(Rs Bn)	478
Market Cap (US\$ Mn)	(US\$ Mn)	6422
Face Value	Rs	5
52 Weeks High/Low	Rs	488/363
Average Daily Volume	('000)	2986
BSE Code		532523
Bloomberg		BIOS:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Jun-21	Mar-21
Promoters	60.63	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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- In generics, Biocon has responded to the Complete Response Letter (CRL) for Copaxone and awaits USFDA approval.
- Biocon has booked the share of loss for its associate Bicara Therapeutics, Boston during the quarter and will continue in FY22. Bicara is seeking external funding for its research projects in trial, which is expected in FY22.

Quarterly Performance Analysis

Particulars	Q1FY22	Q4FY21	Q1FY21	% yoy	% qoq	FY21	FY20	% yoy
Net Sales	17606	18421	16938	4%	-4%	71212	63005	13%
<i>Biosimilars</i>	7581	6636	6916	10%	14%	28002	23151	21%
<i>Generics</i>	4863	5704	6214	-22%	-15%	23513	22070	7%
<i>Research Services</i>	5945	6586	4216	41%	-10%	21843	20119	9%
Raw Material Consumed	(6121)	(5789)	(5628)			(22085)	(20522)	
Employee Expenses	(4360)	(4521)	(3937)			(17410)	(14588)	
Research & Development Exps	(1200)	(1270)	(1070)			(4765)	(4390)	9%
Other Expenses	(2032)	(2484)	(2170)			(10272)	(8141)	
Total Exp	(13713)	(14064)	(12805)	7%	-2%	(54532)	(47641)	14%
PBDIT	3893	4357	4133	-6%	-11%	16680	15364	9%
Depreciation	(1948)	(1843)	(1668)			(7151)	(5522)	
<i>EBIT</i>	1945	2514	2465			9529	9842	-3%
<i>EBIT margins</i>	11.0%	13.6%	14.6%			13.4%	15.6%	
Other Income	472	2054	183			2545	1614	
Interest	(199)	(339)	(125)			(577)	(649)	
Profit before tax	2218	4229	2523	-12%	-48%	11497	10807	6%
Tax (incl. on exceptional income)	(573)	(694)	(809)			(2215)	(3151)	
Profit After tax	1645	3535	1714	-4%	-53%	9282	7656	
<i>NPM (%)</i>	9.3%	19.2%	10.1%			13.0%	12.2%	
Less: Minority interest	(240)	(432)	(184)			(1057)	(1227)	
Share of Profit	(561)	(697)	(36)			(695)	(289)	
Adjusted PAT	844	2406	1494	-44%	-65%	7530	6140	23%
Extraordinary Items after tax	0	126	0			126	675	
Reported PAT	844	2532	1494	-44%	-67%	7656	6815	12%
Number of shares	1200	1200	1200			1200	1200	
EPS without excep. Items	0.7	2.0	1.2			6.3	5.1	
EPS - Diluted (Rs)	0.7	2.1	1.2			6.4	5.7	

Sales growth muted due to impact on generics

Margin impact due to higher spends on materials, employees and R & D

Adjusted PAT lower due to share of loss from Bicara Therapeutics

Margin Analysis	Q1FY22	Q4FY21	Q1FY21	+/- bps	+/- bps	FY21	FY20	% yoy
Gross margin	65.2%	68.6%	66.8%	-154	-334	69.0%	67.4%	156
EBITDA margin	22.1%	23.7%	24.4%	-229	-154	23.4%	24.4%	-96
PBT margin	12.6%	23.0%	14.9%	-230	-1036	16.1%	17.2%	-101
PAT margin	4.8%	13.7%	8.8%	-403	-895	10.8%	10.8%	-7

Source: Dalal & Broacha Research, Company

Generics

- Degrowth (-22% Rs 4863 mn) in sales driven by Covid related operational challenges and supply chain issues.
- Pricing pressure on statin Formulations in the US market.
- New launches in US – Labetalol Hydrochloride tablets and Esomeprazole Magnesium delayed release.
- Gradual ramp up in market share of Tacrolimus capsules during the quarter.
- Commissioning of Biocon's API plant at Visakhapatnam in FY22.

Biosimilars

- Revenue growth +10% Rs 7581 mn, driven by India from Covid related portfolio (Itolizumab).
- Steady market share gain in OGVIRI, FULPHILA and SEMGLEE in US. Steady market sales in ROW.
- Entry into 7 new markets in Europe.

- Marketing Authorisation for bBEVACIZUMAB from TG Australia and UKMHRA.
- Pre-approval USFDA inspection at Malaysia for bASPART scheduled for Q2FY22.

Research Services

- The revenue growth was across dedicated centres, discovery services & development & manufacturing. Sequential revenue de-growth is normal in Q1.
- Albireo Pharma received USFDA and EMA approval for BYLVAY (Odevixibat), as a first approved drug for the treatment of Progressive Familial Intrahepatic Cholestasis (PFIC). There are globally 100,000 patients who have not been treated for PFIC. Albireo has announced plans to commercialize BYLVAY in Europe by September'21.
- In Biologics, Syngene signed a 5-year agreement with IAVI, a non profit scientific research organization, to develop 3 recombinant monoclonal antibodies (mabs) for the treatment of HIV.

Valuation & Outlook

1. We believe Biocon will benefit from the pickup of biosimilars, namely FULPHILA, OGIVRI and SEMGLEE with the easing of the pandemic and USFDA approval to interchangeability for SEMGLEE.
2. The demand for biosimilars, research services and generics is robust.
3. We believe the profitability will improve with the easing of pandemic in US and Europe.
4. At Rs 398, Biocon trades at 31x FY23E EPS of Rs 13.2 and 13x EV/EBITDA.
5. 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.
6. We maintain BUY on Dips.

Change in estimates

We have modified our estimates for FY22 in view of the share of loss of Bicara. We have changed our estimates for Sales/EBITDA/PAT by 1%/-1%/-21% for FY22 and 1%/3%/6% for FY23.

Key Financials	FY22E	FY22E(Old)	Var	FY23E	FY23E(Old)	Var
Net Sales	80,803	80,006	1%	1,08,973	1,07,698	1%
EBITDA	18,236	18,396	-1%	28,387	27,551	3%
PAT	6,737	8,553	-21%	15,826	14,979	6%
EPS	5.6	7.1		13.2	12.5	

Source: Dalal & Broacha Research, Company

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)	33.6	77.8	63.4	70.9	30.2
Accumulated depreciatic	(26,069)	(31,591)	(38,742)	(46,515)	(55,105)	P/B(x)	3.9	6.6	6.3	5.8	4.8
Net block	42,527	53,932	55,573	67,800	71,210	EV/EBIDTA(x)	26.0	23.5	22.4	20.2	13.1
Capital WIP	12,869	15,765	22,535	10,000	10,000	EV/SALES (x)	6.6	5.7	5.2	4.6	3.4
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)	(0.4)	2.0	2.3
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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