



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Charulata Gaidhani

Q2FY21 Result update@ Dalal & Broacha

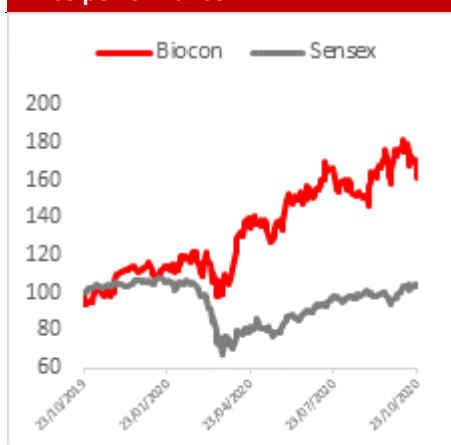
BUY on Dips

Current Price	417
Target Price	440
Upside/Downside	6%
52 Week Range	236/478

Key Share Data

Market Cap (Rs.bn)	500
Market Cap (US\$ Mn)	6781
No of o/s shares (mn)	1200
Face Value	5
Monthly Avg.vol (BSE+NSE) Nos'000	4504
BSE Code	532523
NSE Code	BIOCON
Bloomberg	BIOS:IN

Price performance



% Shareholding

	Sep-20	Jun-20
Promoters	60.67	60.67
FII	16.69	15.93
DII	6.30	7.19
Others	16.35	16.22
Total	100	100

Revenue growth across businesses, biosimilar operational challenges in MOW markets & higher R & D spend impact profitability

Sales Rs 17448 mn (+11% yoy/+4% qoq) were far below our estimates. Sales and sales growth by segments were Biosimilars Rs 6761 mn (+31%), Generics Rs 5988 mn (+13%) and Research Services (Syngene Rs 5196 mn +12%, +10% cc growth).

- Sales +11% yoy/+4% qoq Rs 17448 mn
- EBIDTA -3% yoy/ -5% qoq Rs 3914 mn
- EBIDTA margins 22.4% (-320 bps yoy/ -230 bps qoq) due to higher R & D spend (+42%).
- PBT -25% yoy/-12% qoq Rs 2227 mn, PBTM 12.8% (-600 bps yoy/-230 bps qoq).
- Q2FY20 includes an exceptional income of Rs 675 mn, net of taxes from Syngene.
- Adjusted PAT +14% yoy/+13% qoq Rs 1693 mn.
- EPS Rs 1.41

Key developments

The biosimilars segment was impacted in view of operational challenges faced due to the pandemic. The lower footfalls at hospitals have slowed down biosimilar sales, especially in oncology. We believe it will take a quarter or two to scale up. Biocon + Mylan's discussions are on with USFDA for interchangeability for SEMGLEE.

Outlook & Valuation

We believe the lower biosimilar sales are a temporary phenomenon and will restore to normalcy in a quarter or two. The market share gains in OGIVRI, SEMGLEE and FULPHILA and multiple shift operations at Syngene indicate good growth ahead.

At Rs 417, Biocon trades at 31x FY22E EPS of Rs 13.6.

We maintain BUY on Dips on the stock.

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	66.1	42.7	8.5	5.6
FY19	55,144	33.5	13,937	25.3	7,107	9,053	90.8	11.8	35.2	26.0	13.2	11.8
FY20	63,005	14.3	15,364	24.4	6,140	6,815	(13.6)	5.1	81.5	23.9	10.6	9.2
FY21E	81,975	30.1	19,913	24.3	9,183	9,183	49.6	7.7	54.5	18.8	15.3	11.3
FY22E	1,07,956	31.7	29,011	26.9	16,269	16,269	77.2	13.6	30.8	12.9	20.4	16.4

**By segments Biosimilars:**

1. Growth driven by developed and most of the world (MOW) markets.
2. Increase in market share in FULPHILA (15% of pre-filled syringe market) and OGIVRI (6% of Trastuzumab market) in the US.
3. Launch of SEMGLEE (Glargine pens & vials) in the US market at 65% discounted price and in Spain.
4. Mission 10 cents for affordable RH insulin launched in Philippines.
5. Launch of Etanercept by Mylan in Europe, in which Biocon has an economic interest.
6. Filed BLA for Insulin Aspart under 351(k) pathway in the US, which is currently under review.
7. BLA for Insulin Glargine is currently under review for interchangeability status.
8. Tata Capital Growth Fund invested Rs 225 crs for a 0.85% stake in Biocon Biologics valuing the biosimilars business at an EV of Rs 30,500 crs.
9. BBIL OPM 25% due to higher R & D spend (27%), Q1 28%. Currently lumpy
10. Novel Biologics revenues Itolizumab India – BBIL, Exports has not started
11. Dev : EM currently at 50:50

Generics (APIs and Formulations)

1. Strong formulations growth in US – Rs 120 crs
2. API growth driven by immunosuppressant's and other specialty APIs.
3. Received Complete Response Letter (CRL) for GCopaxone during the quarter.
4. Submitted 3 DMFs to USFDA and 7 filings in other markets.
5. Plans to commercialize Remdesvir in the Indian market.
6. Greenfield facility for manufacturing immunosuppressant's at Vishakhapatnam is facing delays and will be commissioned by CY2022.

Research Services (Syngene)

1. Constant currency +10% driven by discovery services and dedicated centres.
2. Operations near normal with multiple shift operations from June'20.
3. Robust demand for services, expect better growth in H2FY21.

KTAs from the concall

1. During Q2FY21, Biocon incurred a forex loss of Rs 180 mn.
2. Sequentially, biosimilars revenues de-grew 2% due to supply chain logistics disruptions to MOW markets due to Covid19. Should pickup from Q3FY21.
3. OGVRI (Trastuzumab) has garnered 10% market share to date from its launch in December'19. For Q2FY21, OGVRI earned a market share of 6%, 4% in the 150 mg segment and 10% in the 420 mg segment.
4. OGVRI also leads the market in Australia & Canada.
5. Improvement in Malaysia, should see break even (ex R & D) in Q3FY21.
6. BBIL has opened up offices in Brazil, Malaysia, UAE and Saudi Arabia to strengthen presence in MOW markets.
7. Growth in generics from new launches in the US.
8. Growth in Syngene driven by discovery services and dedicated centres. Syngene is currently operating in multiple shifts to improve project execution, leading to operational efficiencies.
9. Biocon plans to incur capex of \$300 mn (\$100 mn per segment) towards:
 - a. Antibody facility, Bengaluru – FY23E
 - b. Monoclonal antibody facility, Bengaluru – FY24E
 - c. Peptide API facility in Bengaluru
 - d. API Vishakhapatnam
 - e. Injectable facility – CY2021.



Particulars	Q2FY21	Q1FY21	Q2FY20	% yoy	% qoc	H1FY21	H1FY20	% growth
Net Sales	17448	16713	15722	11%	4%	34161	30311	13%
<i>Biosimilars</i>	6761	6916	5161	31%	-2%	13677	10979	25%
<i>Generics</i>	5988	5989	5296	13%	0%	11977	10456	15%
<i>Research Services</i>	5196	4216	4646	12%	23%	9412	8855	6%
Raw Material Consumed	(5314)	(5416)	(4779)			(10730)	(8957)	
Employee Expenses	(4319)	(3937)	(3533)			(8256)	(6943)	
Research & Development Exp	(1480)	(1070)	(1040)			(2550)	(1830)	39%
Other Expenses	(2421)	(2157)	(2342)			(4578)	(4178)	
Total Exp	(13534)	(12580)	(11694)	16%	8%	(26114)	(21908)	19%
PBDIT	3914	4133	4028	12%	23%	8047	8403	-4%
<i>OPM (%)</i>	<i>22.4%</i>	<i>24.7%</i>	<i>25.6%</i>			<i>23.6%</i>	<i>27.7%</i>	
Depreciation	(1777)	(1668)	(1316)			(3445)	(2558)	
<i>EBIT</i>	<i>2137</i>	<i>2465</i>	<i>2712</i>	<i>12%</i>	<i>23%</i>	<i>4602</i>	<i>5845</i>	<i>-21%</i>
<i>EBIT margins</i>	<i>12.2%</i>	<i>14.7%</i>	<i>17.2%</i>			<i>13.5%</i>	<i>19.3%</i>	
Other Income	155	183	384			338	625	
Interest	(65)	(125)	(138)			(190)	(304)	
Profit before tax	2227	2523	2958	12%	23%	4750	6166	-23%
Tax (incl. on exceptional inco)	(223)	(809)	(1001)			(1032)	(1853)	
Profit After tax	2004	1714	1957	12%	23%	3718	4313	
<i>NPM (%)</i>	<i>11.5%</i>	<i>10.3%</i>	<i>12.4%</i>			<i>10.9%</i>	<i>14.2%</i>	
Less: Minority interest	(261)	(184)	(381)			(445)	(381)	
Share of Profit	(50)	(36)	(94)			(86)	(173)	
Adjusted PAT	1693	1494	1482	12%	23%	3187	3759	-15%
Extraordinary Items after tax	0	0	675			0	675	
Reported PAT	1693	1494	2157	-20%	33%	3187	4434	-28%
<i>Adj. NPM (%)</i>	<i>9.7%</i>	<i>8.9%</i>	<i>13.7%</i>			<i>9.3%</i>	<i>14.6%</i>	
Equity *	1200	1200	1200			1200	600	
EPS without excep. Items	1.4	1.2	1.2			2.7	6.3	
EPS - Diluted (Rs)	1.4	1.2	1.8			2.7	7.4	

* Increase in Equity through bonus issue of 1:1



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P&L (Rs mn)	BIOCON FINANCIALS					Cash Flow St. (Rs. mn)	FY18	FY19	FY20	FY21E	FY22E
	FY18	FY19	FY20	FY21E	FY22E						
Net Sales	41,297	55,144	63,005	81,975	1,07,956	Net Profit	3,724	9,053	6,815	9,183	16,269
Raw materials	(16,361)	(18,966)	(20,522)	(26,642)	(35,625)	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	15,652	23,648
Other Expenses	(5,111)	(7,688)	(8,141)	(10,990)	(13,738)	(Inc)/Dec in					
Research & Devt	(2,160)	(2,900)	(4,390)	(4,736)	(4,964)	-Sundry debtors	(1,807)	(2,279)	681	(4,128)	(5,186)
Cost of sales	(32,943)	(41,207)	(47,641)	(62,062)	(78,944)	-Inventories	(872)	(3,091)	(4,043)	(556)	(4,658)
Operating Profit	8,354	13,937	15,364	19,913	29,011	-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	3,129	5,523
PBIT	4,503	9,459	9,842	13,444	21,632	-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	511	(1,844)
Interest	(615)	(709)	(649)	(743)	(1,135)	CF from Oper. activities	4,111	10,330	13,906	16,163	21,804
Profit before tax	5,950	10,194	10,807	14,477	22,450	CF from Inv. activities	(8,485)	(12,263)	(15,783)	(10,444)	(13,796)
Provision for tax	(1,569)	(2,123)	(3,151)	(3,764)	(6,062)	CF from Fin. activities	8,036	961	4,355	(1,944)	(10,292)
Profit after Tax	4,381	8,071	7,656	10,713	16,389	Cash generated/(utilised)	3,662	(972)	2,478	3,774	(2,284)
Minority Interest	(807)	(973)	(1,227)	(1,350)	-	Cash at start of the year	10,443	13,395	10,572	9,986	7,448
Share of Profit	213	9	(289)	(180)	(120)	Cash at end of the year	13,395	10,572	9,986	7,448	9,831
Adjusted PAT	3,787	7,107	6,140	9,183	16,269	Ratios	FY18	FY19	FY20	FY21E	FY22E
Extraordinary Items	-	1,946	675	-	-	OPM	20.2	25.3	24.4	24.3	26.9
Reported PAT	3,787	9,053	6,815	9,183	16,269	NPM	8.7	16.0	10.5	11.0	14.8
Balance Sheet	FY18	FY19	FY20	FY21E	FY22E	Tax rate	(26.4)	(20.8)	(29.2)	(26.0)	(27.0)
Equity capital *	3,000	3,000	6,000	6,000	6,000	Growth Ratios (%)					
Reserves	48,808	57,980	66,418	64,241	74,510	Net Sales	5.3	33.5	14.3	30.1	31.7
Net worth	51,808	60,980	72,418	70,241	80,510	Operating Profit	(15.4)	68.1	10.2	29.6	45.7
Def. Tax Liab.+Minority Int	4,677	6,089	7,071	7,748	8,493	PAT excl. EI	(39.2)	90.8	(13.6)	49.6	77.2
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	7.7	13.6
Current maturities	5,730	10,066	12,978	12,683	13,317	Cash Earnings (CPS)	12.7	22.6	10.3	13.0	19.7
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	58.5	67.1
CAPITAL EMPLOYED	84,839	1,03,055	1,20,859	1,26,540	1,40,507	Free Cash Flow	(7.3)	(3.2)	(1.6)	4.8	6.7
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)	66.1	35.2	81.5	54.5	30.8
Net block	36,297	42,527	53,932	61,463	68,084	P/B(x)	4.8	4.1	6.9	7.1	6.2
Capital WIP	7,789	12,869	15,765	12,000	8,000	EV/EBIDTA(x)	42.7	26.0	23.9	18.8	12.9
Total fixed assets	44,086	55,396	69,697	73,463	76,084	EV/SALES (x)	8.6	6.6	5.8	4.6	3.5
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(%)	(1.7)	(0.8)	(0.4)	1.1	1.6
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	15.3	20.4
Inventories	7,225	10,316	14,359	14,915	19,573	ROCE	5.6	11.8	9.2	11.3	16.4
Sundry debtors	10,639	12,918	12,237	16,365	21,551						
Cash & bank	13,395	10,572	9,986	7,448	9,831						
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)	(16,380)	(21,903)						
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	25,917	31,187						
CAPITAL DEPLOYED	84,839	1,03,055	1,20,862	1,26,540	1,40,507						

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



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