



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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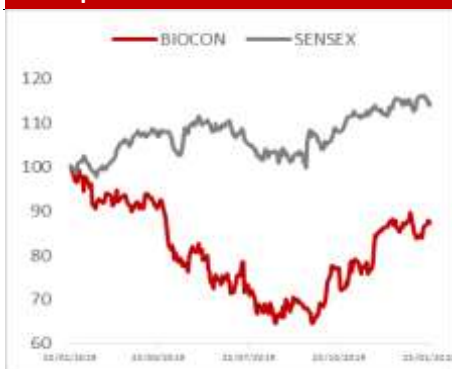
BUY

Current Price	294
Target Price	369
Upside/Downside	26%
52 Week Range	211/341

Key Share Data

Market Cap (Rs.bn)	353
Market Cap (US\$ Bn)	4.98
No of o/s shares (mn)	1200
Face Value	5
Monthly Avg.vol (BSE+NSE) Nos'000	3167
BSE Code	532523
NSE Code	BIOCON
Bloomberg	BIO5:IN

Price performance



% Shareholding	Dec -19	Sept-19
Promoters	60.67	60.67
FII	16.09	15.75
DII	6.75	4.85
Others	16.49	18.73
Total	100	100

Key Financials

Year	Net sales	% Growth	EBIDTA	OPM (%)	PAT ex EI	PAT incl EI	% Growth	EPS*	PE (x)	EV/EBITDA	RoE (%)	RoCE (%)
FY18	41,297.0	5.3	8,354.0	20.2	3,787.0	3,787.0	(39.2)	6.3	46.4	43.4	8.5	5.6
FY19	55,144.0	33.5	13,937.0	25.3	7,107.0	9,053.0	90.8	11.8	24.7	26.5	13.2	11.8
FY20E	68,411.1	24.1	17,770.8	26.0	8,889.1	9,564.1	25.1	7.4	39.5	20.5	12.7	11.3
FY21E	86,820.5	26.9	23,129.2	26.6	12,330.5	12,330.5	38.7	10.3	28.5	16.1	16.4	13.8
FY22E	107,706.9	24.1	30,239.1	28.1	17,094.1	17,094.1	38.6	14.2	20.6	12.3	19.1	16.6

*Adjusted for bonus in the proportion of 2:1 in FY18 and 1:1 in FY20

Biocon Q3FY20 results were in line with estimates. Revenues were in line and earnings were marginally below estimates, due to increased R & D costs. EBIT margins by segment were maintained for Biologics (24.7%), Branded Formulations (11.2%) & Syngene (20.2%), whereas small molecules decreased from 21% to 19.2%.

We believe Biocon has emerged as a global player in research & development and operational efficiencies for biosimilars. 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.

In view of the increasing contribution of the biologics segment to EBIT (43% in 9MFY20 vs 30% in 9MFY19), we have valued Biocon using sum of the parts (SOTP) for each segment, on EV/EBITDA basis. We have revised our target price to Rs 369 per share, indicating an upside of 26%. We re-iterate our BUY rating on Biocon.

Robust sales growth, higher R & D costs dampen earnings growth

Sales increased to Rs 17481 mn (+13% yoy/+11% qoq) against our estimate of Rs 17482 mn. Sales and sales growth by segments were Biologics Rs 5882 mn (+31%), Small molecules Rs 5438 mn (+16%) and Contract Research (Syngene Rs 5191 mn +11%).

Gross Profit Rs 11708 mn (+16% yoy). Gross margins at 67% (+130 bps yoy/-230 bps qoq).

Employee costs Rs 3761 mn +28% yoy, mainly due to increased headcount for Syngene's Hyderabad R & D centre and key senior level recruitments. Other expenses Rs 3505 mn due to higher R & D spend at Rs 1310 mn (+71% yoy/+26% qoq). EBITDA increased to Rs 4442 mn (+17% yoy/+10% qoq). EBITDA margins improved 70 bps yoy to **25.4% (-20 bps qoq)**.

Due to higher depreciation (+23%), PBT Rs 3183 mn (+17% yoy/ +8% qoq). After higher taxes at 27%, PAT Rs 2028 mn (-7% yoy/ -6% qoq). EPS for the quarter was at Rs 1.7, against our estimate of Rs 1.9.

Outlook & Valuation

We strongly believe Biocon is well positioned to benefit from the biosimilar launches in US, Europe, China and other markets. The company has a rich research pipeline of biosimilars under trials.

At CMP, Biocon trades at 20x FY22E EPS of Rs 14.4, and 12x FY22E EV/EBITDA. We have valued Biocon on SOTP basis with EV/EBITDA multiple of 22x FY22E for Biologics, 15x Small Molecules and 15x Syngene.

We maintain our BUY rating on Biocon with a target price of Rs 369.


Q3FY20 Results

Particulars	Q3FY20	Q2FY20	Q3FY19	% yoy	% qoq	9MFY20	9MFY19	% growth
Net Sales	17481	15722	15408	13%	11%	47862	39856	20%
Biologics	5882	5161	4486	31%	14%	15939	10658	50%
Small Molecules	5438	5296	4689	16%	3%	15530	13009	19%
Branded Formulations	1573	1283	2122	-26%	23%	4190	5234	-20%
Syngene	5191	4646	4671	11%	12%	14046	12917	9%
Raw Material Consumed	(5773)	(4779)	(5281)			(14797)	(14087)	
Employee Expenses	(3761)	(3533)	(2944)			(10704)	(8447)	
Research & Development Exps	(1310)	(1040)	(767)			(3140)	(1977)	
Other Expenses	(2195)	(2342)	(2609)			(6376)	(5764)	
Total Exp	(13039)	(11694)	(11601)	12%	12%	(35017)	(30275)	16%
PBDIT	4442	4028	3807	17%	10%	12845	9581	34%
<i>OPM (%)</i>	<i>25.4%</i>	<i>25.6%</i>	<i>24.7%</i>			<i>26.8%</i>	<i>24.0%</i>	
Depreciation	(1440)	(1316)	(1167)			(3998)	(3280)	
<i>EBIT</i>	<i>3002</i>	<i>2712</i>	<i>2640</i>	14%	11%	<i>8847</i>	<i>6301</i>	40%
<i>EBIT margins</i>	<i>17.2%</i>	<i>17.2%</i>	<i>17.1%</i>			<i>18.5%</i>	<i>15.8%</i>	
Other Income	358	384	256			983	1488	
Interest	(177)	(138)	(186)			(481)	(550)	
Profit before tax	3183	2958	2710	17%	8%	9349	7239	29%
Tax (incl. on exceptional income)	(848)	(1001)	(461)			(2701)	(1714)	
Profit After tax	2335	1957	2249	4%	19%	6648	5525	
<i>NPM (%)</i>	<i>13.4%</i>	<i>12.4%</i>	<i>14.6%</i>			<i>13.9%</i>	<i>13.9%</i>	
Less: Minority interest	(275)	(381)	(260)			(870)	(676)	
Share of Profit	(32)	(94)	125			(205)	121	
Adjusted PAT	2028.0	1482.0	2114.0			5573.0	4970.0	12%
Extraordinary Items after tax	0	675	58			675	1946	
Reported PAT	2028	2157	2172	-7%	-6%	6248	6916	-10%
<i>Adj. NPM (%)</i>	<i>11.6%</i>	<i>13.7%</i>	<i>14.1%</i>			<i>13.1%</i>	<i>17.4%</i>	
Equity *	1200	1200	600			1200	600	
EPS without excep. Items	1.7	1.2	3.5			4.6	8.3	
EPS - Diluted (Rs)	1.7	1.8	3.6			5.2	11.5	

* Increase in Equity through bonus issue of 1:1

**Key takeaways from the concall**

1. Launch of Trastuzumab in the US, Canada and many EU markets. Biocon launched Trastuzumab in both the strengths 150 mg & 420 mg. Q3FY20 results include the initial supplies for the launch, whereas the share of profit would come in from Q4FY20.
2. The company is confident of improving market share for both Pegfilgrastim and Trastuzumab, in the US given the increasing penetration of biosimilars. The company aspires to be a major player in Trastuzumab, going forward.
3. The profitability of the Biologics segment was maintained due to increased cost of remediation for Malaysia.
4. During the quarter, Biocon submitted its response to the Complete Response Letter (CRL) for Glargine. The USFDA has indicated inspection of the Malaysia plant in February'20. Biocon has received a target date of June'20 for Glargine.
5. Received USFDA approval for supplemental Biologics License Application for drug substance Pegfilgrastim to be manufactured at Bengaluru. The approval will enable scale up supplies and ease capacity constraints faced earlier.
6. During the quarter, Biocon received approval for Trastuzumab from the Argentinian regulatory authority. Biocon's partner Laboratorios Raffo SA will commercialize the product in the near term.
7. Commenced supply of Glargine to Ministry of Health Malaysia, which has extended its contract for Recombinant Human Insulin.
8. Expanded scope of the agreement with Equillum for Itolizumab to Australia and New Zealand.
9. Key appointments include Ms. Kiran Mazumdar Shaw as Executive Chairman, Mr. Siddharth Mittal as Managing Director of Biocon and Mr. M.B. Chinappa as the Chief Financial Officer of Biocon Biologics India Ltd.
10. Biocon is setting up a new state-of-the-art facility for manufacturing drug substances for monoclonal anti-bodies (MABs) over 250,000 sq.ft at Bengaluru. The facility is expected to be commercialized by FY22.
11. Dilution of 2.44% stake in Biocon Biologics India Ltd., to True North for Rs 536 crs (\$ 75 mn) gives a pre-money valuation of \$ 3 bn for Biocon Biologics. Subsequently, Biocon Biologics India Ltd. has approved the allotment of 50,25,463 equity shares of Rs 10 each to Active Pine LLP, at a price of Rs 1067.07 per equity share. The company also plans to raise an additional \$200-300 mn before its IPO.



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Valuation

We have valued Biocon as sum of the parts namely Biologics, Small + Branded Formulations and Syngene.

Using the **EV/EBITDA** method of valuation, we have applied a multiple of **22x EBITDA for Biologics** and **15x EBITDA for Small+ BFI and 15x EBITDA for Syngene.**

We have arrived at an EV of Rs 379 bn for Biopharmaceuticals by FY22, from its current levels of Rs 300 bn. After adjusting for debt of Rs 27 bn, we arrive at a market capitalization of Rs 372 bn by FY22E from its current levels of Rs 300 bn. We have arrived at a price of **Rs 310 per share for its biopharmaceuticals business.**

As Biocon holds 70.77% of Syngene's equity, we have applied a 30% holding company discount to Biocon's share in Syngene. We have arrived at an EV of Rs 101 bn by FY22E, from Rs 87 bn in FY19. After adjusting for debt and cash in Syngene, we arrive at a market cap of Rs 72 bn by FY22E, compared to Rs 62 bn in FY19. We have arrived at a price per share of Rs 60 per share for Biocon's share of Syngene.

We arrive at a total market cap of Rs 443 bn by FY22, from the current levels of Rs 362 bn. We arrive at a target price of Rs 369 per share, indicating an upside of 26%.

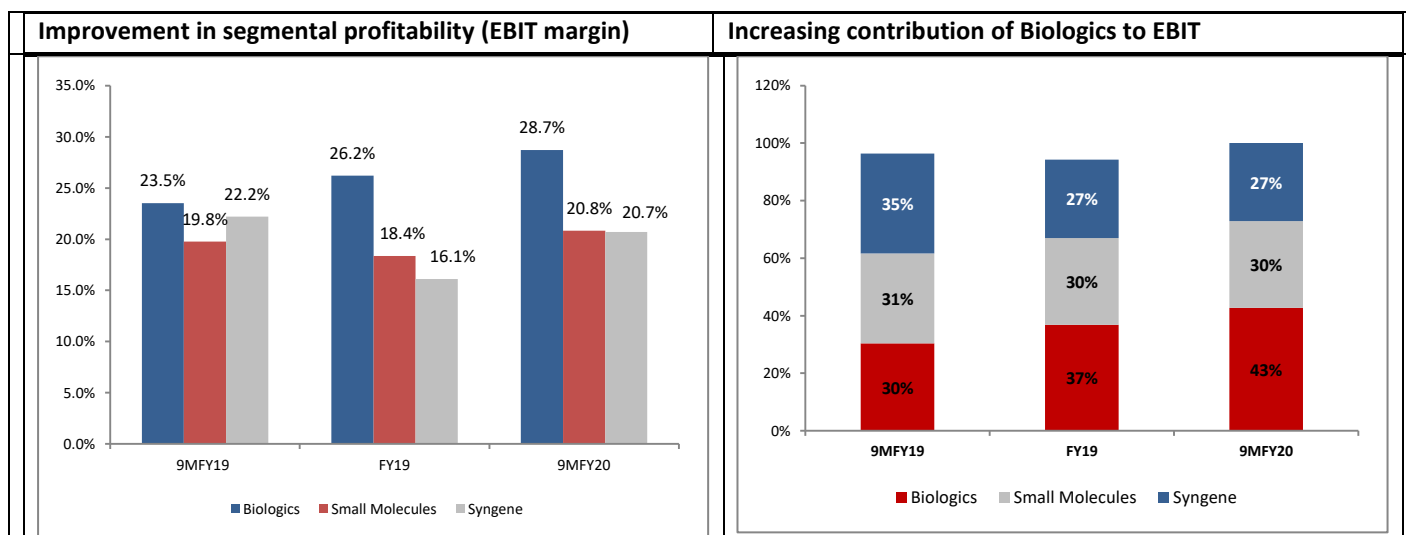
At CMP, Biocon trades at 12x FY22E EV/EBITDA. We recommend investors to BUY Biocon with a target price of Rs 369.

By Segment	FY20 EV/EBITDA multiple	EV			MCAP		
		FY20E	FY21E	FY22E	MCAP FY20E	MCAP FY21E	FY22E
Biologics	26	238400	247078	288429	217100	225778	267129
Debt - Biologics		21300	21300	21300			
Cash - Biologics		0					
Small molecules	13	64587	85105	86215	78379	98897	100007
Debt - Small molecules		5891					
Cash		19683					
BFI		4500	4500	4500	4500	4500	4500
Biopharmaceuticals		307486	336683	379144	299978	329175	371636
Number of equity shares		1200					
Value per share					250	274	310
Syngene	19	122974	110694	142362	125000	112720	144388
Syngene @70.77%		87029			88463	79772	102183
Holding company discount @30%		60920			61924	55841	71528
Value per share					52	47	60
Total Value per share by SOTP (Biopharmaceuticals + Syngene)					302	321	369
% upside						10%	26%



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International Peers operational metrics

Name	Sales Growth (%)	EBITDA Growth (%)	EBITDA Margin	Operating Income Margin	Net Income Growth (%)	Net Profit Margin	Capex/Sales (%)	Return on Invested Capital	Return on Assets	Return on Equity
BIOCON LTD	31	57	27	19	42	13	23	10	7	13
CELLTRION INC	-3	-18	46	31	-23	25	8	7	7	9
SAMSUNG BIOLOGICS CO LTD	15	8	27	10	30	-13	52	-5	-1	-2
ELI LILLY & CO	3	-1	32	26	6	23	5	22	12	63
ROCHE HOLDING AG-GENUSSCHEIN	8	6	41	34	12	26	7	32	19	55
SANOFI	5	20	31	17	-5	13	6	6	4	8
NOVO NORDISK A/S-B	8	15	48	43	1	33	9	79	34	77
CELGENE CORP	15	26	50	46	5	33	2	23	15	67
AMGEN INC	0	-2	52	43	-7	35	3	19	13	64
COHERUS BIOSCIENCES INC			3	1	94	-5		0	-5	-35

Source Bloomberg



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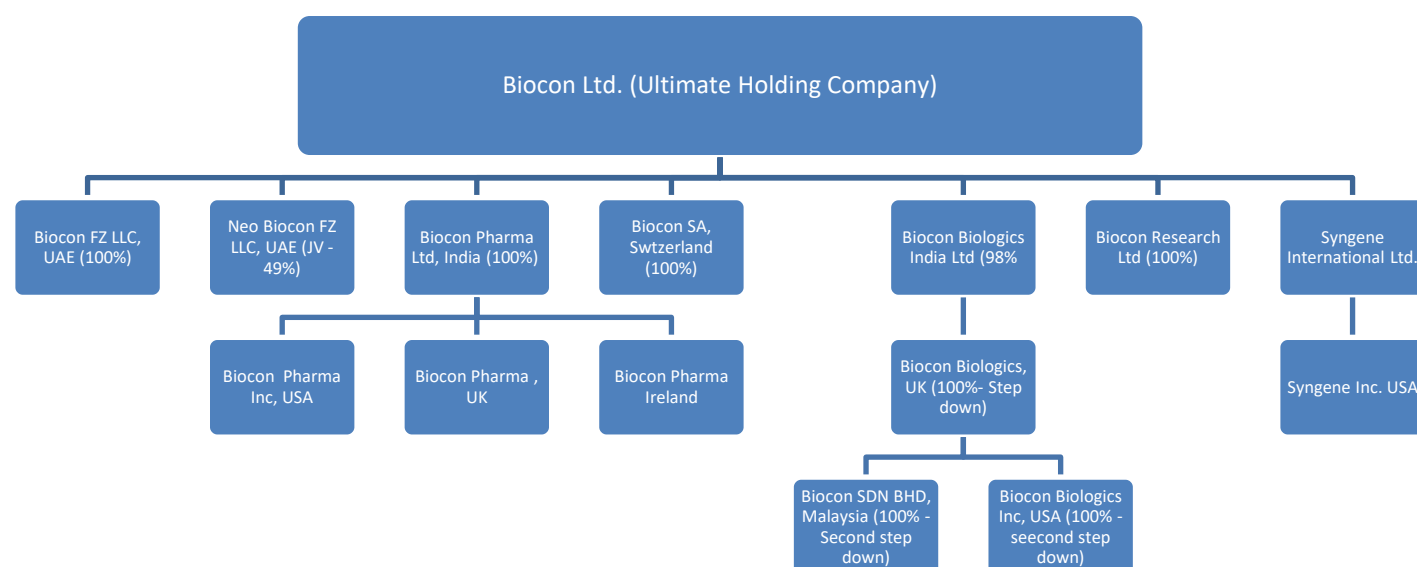
Valuation Metrics – International Peers

Name		Mkt Cap (INR MN)	EV	EV/TTM EBITDA	EV/EBITDA FY21E	EV/EBITDA FY22E	P/E	P/E FY21E	P/E FY22E	P/FCF
BIOCON LTD	India	339,900	355,237	22	19	15	40	35	27	14
CELLTRION INC	South Korea	1,437,954	1,436,310	51	43	33	94	73	53	65
SAMSUNG BIOLOGICS CO LTD	South Korea	1,658,975	1,659,876	218			120			
ELI LILLY & CO	USA	9,141,636	10,170,446	20	19	17	25	23	20	39
ROCHE HOLDING AG-GENUSSCHEIN	Switzerland	20,126,775	20,983,387	12	11	11	23	16	15	17
SANOFI	France	9,133,792	10,717,772	12	12	11	32	15	15	23
NOVO NORDISK A/S-B	Denmark	9,814,381	9,693,938	16	16	15	24	23	20	23
AMGEN INC	USA	10,162,848	10,850,540	12	12	11	18	16	15	16
COHERUS BIOSCIENCES INC	USA	91,911	93,532	181	10	7		13	8	

Source : Bloomberg

Revision of Corporate Structure

The company has recently revised its corporate structure with Biocon Biologics India Ltd. as a 100% subsidiary of Biocon Ltd., and parent to Biocon Biologics, UK.




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BIOCON FINANCIALS											
P&L (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E	Cash Flow St. (Rs. mn)	FY18	FY19	FY20E	FY21E	FY22E
Net Sales	41,297	55,144	68,411	86,820	107,707	Net Profit	3,724	9,053	9,564	12,331	17,094
Raw materials	(16,361)	(18,966)	(21,892)	(28,651)	(35,543)	Add: Dep. & Amort.	3,851	4,478	4,941	5,341	5,941
Employee costs	(9,311)	(11,653)	(14,566)	(18,208)	(22,760)	Cash profits	7,575	13,531	14,505	17,672	23,035
Other Expenses	(5,111)	(7,688)	(10,379)	(12,974)	(14,920)	(Inc)/Dec in					
Research & Devt	(2,160)	(2,900)	(3,804)	(3,859)	(4,245)	-Sundry debtors	(1,807)	(2,279)	(2,076)	(4,035)	(4,578)
Cost of sales	(32,943)	(41,207)	(50,640)	(63,691)	(77,468)	-Inventories	(872)	(3,091)	(2,073)	(3,289)	(3,730)
Operating Profit	8,354	13,937	17,771	23,129	30,239	-Loans/advances	224	(1,475)	(1,148)	(1,378)	(1,654)
Depreciation	(3,851)	(4,478)	(4,941)	(5,341)	(5,941)	-Sundry creditors	2,656	1,930	735	3,927	4,004
PBIT	4,503	9,459	12,830	17,788	24,298	-Others	(3,665)	1,714	1,377	1,653	1,983
Other income	2,062	1,444	1,155	1,213	1,274	Change in WC	(3,464)	(3,201)	(3,185)	(3,122)	(3,975)
Interest	(615)	(709)	(895)	(1,008)	(1,073)	CF from Oper. activities	4,111	10,330	11,320	14,549	19,061
Profit before tax	5,950	10,194	13,090	17,993	24,498	CF from Inv. activities	(8,485)	(12,263)	(12,361)	(11,967)	(15,851)
Provision for tax	(1,569)	(2,123)	(3,142)	(4,498)	(6,125)	CF from Fin. activities	8,036	961	4,800	(2,037)	(1,673)
Profit after Tax	4,381	8,071	9,949	13,495	18,374	Cash generated/(utilised)	3,662	(972)	3,759	546	1,537
Minority Interest	(807)	(973)	(1,070)	(1,177)	(1,295)	Cash at start of the year	10,443	13,395	10,572	19,049	13,527
Share of Profit	213	9	11	13	16	Cash at end of the year	13,395	10,572	19,049	13,527	14,286
Adjusted PAT	3,787	7,107	8,889	12,331	17,094	Ratios	FY18	FY19	FY20E	FY21E	FY22E
Extraordinary Items	-	1,946	675	-	-	OPM	20.2	25.3	26.0	26.6	28.1
Reported PAT	3,787	9,053	9,564	12,331	17,094	NPM	8.7	16.0	13.7	14.0	15.7
Balance Sheet	FY18	FY19	FY20E	FY21E	FY22E	Tax rate	(26.4)	(20.8)	(24.0)	(25.0)	(25.0)
Equity capital *	3,000	3,000	6,000	6,000	6,000	Growth Ratios (%)					
Reserves	48,808	57,980	72,264	76,235	90,329	Net Sales	5.3	33.5	24.1	26.9	24.1
Net worth	51,808	60,980	78,264	82,235	96,329	Operating Profit	(15.4)	68.1	27.5	30.2	30.7
Def. Tax Liab.+Minority Int.	4,677	6,089	6,698	7,368	8,104	PAT excl. EI	(39.2)	90.8	25.1	38.7	38.6
Secured loans	17,898	15,256	18,945	22,200	22,239	Per Share (Rs.)*					
Unsecured loans	1,303	2,612	2,274	2,275	2,276	Adj. Net Earnings (EPS)	6.3	11.8	7.4	10.3	14.2
Current maturities	5,730	10,066	10,484	11,008	11,559	Cash Earnings (CPS)	12.7	22.6	12.1	14.7	19.2
Total debt	24,931	27,934	31,703	35,483	36,074	Dividend	5.0	5.0	6.0	6.0	7.0
Other liab	3,423	8,052	9,662	11,595	13,914	Book Value	86.3	101.6	65.2	68.5	80.3
CAPITAL EMPLOYED	84,839	103,055	126,327	136,681	154,421	Free Cash Flow	(7.3)	(3.2)	(0.9)	2.2	2.7
Gross block	57,532	68,019	76,019	89,019	99,019	Valuation Ratios					
Accumulated depreciation	(21,591)	(26,069)	(31,010)	(36,351)	(42,293)	P/E(x)	46.4	24.7	39.5	28.5	20.6
Net block	36,297	42,527	45,009	52,668	56,726	P/B(x)	3.4	2.9	4.5	4.3	3.6
Capital WIP	7,789	12,869	17,339	17,339	17,339	EV/EBIDTA(x)	43.4	26.5	20.5	16.1	12.3
Total fixed assets	44,086	55,396	62,348	70,007	74,065	EV/SALES (x)	8.8	6.7	5.3	4.3	3.5
Intangible Assets	5,937	8,303	9,955	10,343	10,343	Div. Yield(%)	1.7	1.7	2.0	2.0	2.4
Investments	6,752	10,118	12,055	15,543	23,099	FCF Yield(%)	(2.5)	(1.1)	(0.3)	0.7	0.9
Other non current assets	3,186	2,131	2,557	3,069	3,682	Return Ratios (%)					
Inventories	7,225	10,316	12,389	15,677	19,407	ROE	8.5	13.2	12.7	16.4	19.1
Sundry debtors	10,639	12,918	14,994	19,029	23,607	ROCE	5.6	11.8	11.3	13.8	16.6
Cash & bank	13,395	10,572	19,049	13,527	14,286						
Loans & advances	4,267	5,742	6,890	8,268	9,922						
Other current assets	1,370	1,488	1,637	1,800	1,981						
Sundry creditors	(10,053)	(11,983)	(12,718)	(16,644)	(20,648)						
Acceptances	(4,214)	(5,420)	(6,504)	(7,805)	(9,366)						
Provisions	(958)	(1,466)	(1,759)	(2,111)	(2,533)						
Working capital	24,878	27,107	39,412	37,720	43,231						
CAPITAL DEPLOYED	84,839	103,055	126,327	136,681	154,421						

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



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