



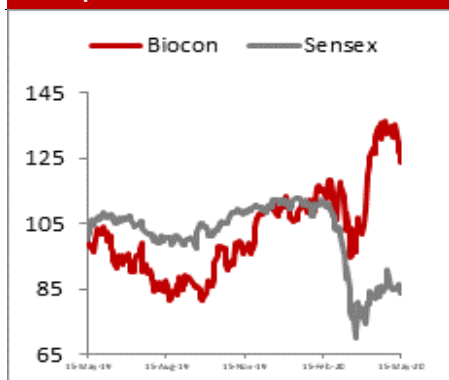
BUY on Dips

Current Price	328
Target Price	377
Upside/Downside	15%
52 Week Range	211/367

Key Share Data

Market Cap (Rs.bn)	394
Market Cap (US\$ Bn)	5.17
No of o/s shares (mn)	1200
Face Value	5
Monthly Avg.vol (BSE+NSE) Nos'000	8351
BSE Code	532523
NSE Code	BIOCON
Bloomberg	BIOS:IN

Price performance



% 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
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	20.2	3,787	3,787	(39.2)	6.3	52.0	42.7	8.5	5.6
FY19	55,144.0	33.5	13,937	25.3	7,107	9,053	90.8	11.8	27.7	26.0	13.2	11.8
FY20	63,672.0	15.5	16,031	25.2	6,807	7,482	(4.2)	5.7	57.8	22.9	11.5	9.8
FY21E	79,928.8	25.5	20,988	26.3	10,717	10,717	57.4	8.9	36.7	17.6	16.1	12.2
FY22E	99,189.1	24.1	27,602	27.8	15,090	15,090	40.8	12.6	26.1	13.2	19.1	15.1

Biocon Q4FY20 results were far below estimates. Revenues were muted (+3%) due to operational challenges and a one time COVID19 impact on Biologics (33% of sales). The 21% de-growth in Biologics was due to operational challenges and lower off take due to issues in treatment of non CoVID patients in the US during the quarter. The company expects the biologics business to normalize by Q2FY21. With changes to Mylan's partners in the US, Mylan has guided for a growth in biosimilar market shares from physicians, payers and hospitals. We believe improvement in Covid19 patients in the US will help restore normalcy.

De-growth in biologics impacts overall profitability

Sales Rs 15810 mn (+3% yoy/-10% qoq) was far below our estimate of Rs 19310 mn. Sales and sales growth by segments were Biologics Rs 3574 mn (-21%), Small molecules Rs 5407 mn (+15%) and Contract Research (Syngene Rs 6073 mn +14%).

Gross Profit degrew 3% to Rs 11708 mn. Gross margins dropped to 63.8% (-430 bps yoy/-320 bps qoq). Employee costs increased 21% to Rs 3884 mn, Other expenses were 14% lower at Rs 1927 mn. EBITDA de-grew 21% to Rs 3186 mn. EBITDA margins fell to 20.2% (-620 bps yoy/-520 bps qoq). Due to higher depreciation (+27%), PBT de-grew 28% yoy/33% qoq to Rs 2125 mn. With taxes at 21%, PAT was at Rs 1234 mn (-42% yoy/ -39% qoq). EPS for the quarter was at Rs 1.

Outlook & Valuation

We believe the impact on Biologics is temporary in nature, and has been fading out. The company expects normalcy by Q2FY21. 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.

At Rs 328, Biocon trades at 26x FY22E EPS of Rs 12.6. We recommend investors to **BUY on DIPS** with a target price of Rs 377.


Q4FY20 Results

Particulars	Q4FY20	Q3FY20	Q4FY19	% yoy	% qoq	FY20	FY19	% growth
Net Sales	15810	17481	15288	3%	-10%	63672	55144	15%
Biologics	3574	5882	4511	-21%	-39%	19513	15169	29%
Small Molecules	5407	5438	4719	15%	-1%	20937	17728	18%
Branded Formulations	1172	1573	1330	-12%	-25%	5362	6564	-18%
Syngene	6073	5191	5339	14%	17%	20119	18256	10%
Raw Material Consumed	(5725)	(5773)	(4879)			(20522)	(18966)	
Employee Expenses	(3884)	(3761)	(3206)			(14588)	(11653)	
Research & Development Exps	(1088)	(1310)	(920)			(3528)	(2900)	
Other Expenses	(1927)	(2195)	(2253)			(9003)	(7688)	
Total Exp	(12624)	(13039)	(11258)	12%	-3%	(47641)	(41207)	16%
PBDIT	3186	4442	4030	-21%	-28%	16031	13937	15%
<i>OPM (%)</i>	<i>20.2%</i>	<i>25.4%</i>	<i>26.4%</i>			<i>25.2%</i>	<i>25.3%</i>	
Depreciation	(1524)	(1440)	(1198)			(5522)	(4478)	
<i>EBIT</i>	<i>1662</i>	<i>3002</i>	<i>2832</i>	<i>-41%</i>	<i>-45%</i>	<i>10509</i>	<i>9459</i>	<i>11%</i>
<i>EBIT margins</i>	<i>10.5%</i>	<i>17.2%</i>	<i>18.5%</i>			<i>16.5%</i>	<i>17.2%</i>	
Other Income	631	358	282			1614	1444	
Interest	(168)	(177)	(159)			(649)	(709)	
Profit before tax	2125	3183	2955	3%	-10%	11474	10194	13%
Tax (incl. on exceptional income)	(450)	(848)	(409)			(3151)	(2123)	
Profit After tax	1675	2335	2546	3%	-10%	8323	8071	
<i>NPM (%)</i>	<i>10.6%</i>	<i>13.4%</i>	<i>16.7%</i>			<i>13.1%</i>	<i>14.6%</i>	
Less: Minority interest	(357)	(275)	(297)			(1227)	(973)	
Share of Profit	(84)	(32)	(112)			(289)	9	
Adjusted PAT	1234.0	2028.0	2137.0	3%	-10%	6807.0	7107.0	-4%
Extraordinary Items after tax						675	1946	
Reported PAT	1234	2028	2137	3%	-10%	7482	9053	-17%
<i>Adj. NPM (%)</i>	<i>7.8%</i>	<i>11.6%</i>	<i>14.0%</i>			<i>11.8%</i>	<i>16.4%</i>	
Equity *	1200	1200	600			1200	600	
EPS without excep. Items	1.0	1.7	3.6			5.7	11.8	
EPS - Diluted (Rs)	1.0	1.7	3.6			6.2	15.1	

* Increase in Equity through bonus issue of 1:1

KTAs from Biocon's concall

1. Biologics faced operational challenges due to Covid19 leading to lower than expected contribution from Mylan. EBIT was 84% lower at Rs 240 mn with margins for the segment dropped to 6.7%.
2. Small molecules grew 15% despite challenges in LATAM. India, APAC and Europe continued to do well. EBIT +27% to Rs 865 mn with margins at 16% (+160 bps yoy/-320 bps qoq).
3. Contract Research grew 14%, with a larger contribution from discovery services improving profitability. EBIT +19% Rs 1530 mn. EBIT margins 25.2% (+110 bps yoy/+500 bps qoq).
4. Delays in biologics shipments of Rs 1030 mn, and lower offtake in hospitals in the US due to challenges in offering services to non Covid patients. Hence a lower share of profit from Mylan.
5. Covid impact in US, with lower channel inventory. Seen pickup in US and other markets, hence the company is confident of restoring normal growth by Q2FY21.
6. Mylan has made changes in commercial strategy and partners. Mylan expects improvement in market shares on all fronts from physicians, payers and hospitals.
7. The company has guided for Biologics ROCE improvement from current levels of 10% to 20% by FY22.
8. The company expects EBITDA break even of its Malaysia facility in FY21, with Glargine supplies to the US from December.
9. The global biosimilars market is expected to grow from \$25 bn to \$55 bn by 2025. Biocon Biologics is confident of achieving its \$ 1bn revenue target by FY22.
10. In small molecules (33% of sales), Biocon expects 10-15% growth going forward.
11. The company plans to exit its JV with NeoBiocon in the Middle East (Annual revenue FY20 Rs 700 mn, loss Rs 200 mn).
12. Gross R & D spends expected at 12-14% of biopharma sales over the next 2-3 years.



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	63,672	79,929	99,189	Net Profit	3,724	9,053	7,482	10,717	15,090
Raw materials	(16,361)	(18,966)	(20,522)	(26,377)	(31,741)	Add: Dep. & Amort.	3,851	4,478	5,522	5,971	6,691
Employee costs	(9,311)	(11,653)	(14,588)	(18,235)	(22,794)	Cash profits	7,575	13,531	13,004	16,688	21,781
Other Expenses	(5,111)	(7,688)	(9,003)	(10,804)	(12,425)	(Inc)/Dec in					
Research & Devt	(2,160)	(2,900)	(3,528)	(3,525)	(4,629)	-Sundry debtors	(1,807)	(2,279)	681	(3,552)	(3,805)
Cost of sales	(32,943)	(41,207)	(47,641)	(58,941)	(71,588)	-Inventories	(872)	(3,091)	(4,043)	(191)	(3,462)
Operating Profit	8,354	13,937	16,031	20,988	27,602	-Loans/advances	224	(1,475)	224	-	-
Depreciation	(3,851)	(4,478)	(5,522)	(5,971)	(6,691)	-Sundry creditors	2,656	1,930	1,268	2,965	3,298
PBIT	4,503	9,459	10,509	15,016	20,910	-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	1,288	(1,490)
Interest	(615)	(709)	(649)	(703)	(763)	CF from Oper. activities	4,111	10,330	14,573	17,976	20,291
Profit before tax	5,950	10,194	11,474	16,089	22,100	CF from Inv. activities	(8,485)	(12,263)	(15,783)	(10,444)	(11,796)
Provision for tax	(1,569)	(2,123)	(3,151)	(4,022)	(5,525)	CF from Fin. activities	8,036	961	3,688	1,056	(7,292)
Profit after Tax	4,381	8,071	8,323	12,067	16,575	Cash generated/(utilised)	3,662	(972)	2,478	8,588	1,203
Minority Interest	(807)	(973)	(1,227)	(1,350)	(1,485)	Cash at start of the year	10,443	13,395	10,572	9,986	12,262
Share of Profit	213	9	(289)	-	-	Cash at end of the year	13,395	10,572	9,986	12,262	18,131
Adjusted PAT	3,787	7,107	6,807	10,717	15,090	Ratios	FY18	FY19	FY20E	FY21E	FY22E
Extraordinary Items	-	1,946	675	-	-	OPM	20.2	25.3	25.2	26.3	27.8
Reported PAT	3,787	9,053	7,482	10,717	15,090	NPM	8.7	16.0	11.5	13.1	14.9
Balance Sheet	FY18	FY19	FY20E	FY21E	FY22E	Tax rate	(26.4)	(20.8)	(27.5)	(25.0)	(25.0)
Equity capital *	3,000	3,000	6,000	6,000	6,000	Growth Ratios (%)					
Reserves	48,808	57,980	66,418	68,775	80,865	Net Sales	5.3	33.5	15.5	25.5	24.1
Net worth	51,808	60,980	72,418	74,775	86,865	Operating Profit	(15.4)	68.1	15.0	30.9	31.5
Def. Tax Liab.+Minority Int	4,677	6,089	7,071	7,748	8,493	PAT excl. EI	(39.2)	90.8	(4.2)	57.4	40.8
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	5.7	8.9	12.6
Current maturities	5,730	10,066	12,978	12,683	13,317	Cash Earnings (CPS)	12.7	22.6	10.8	13.9	18.2
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	62.3	72.4
CAPITAL EMPLOYED	84,839	1,03,055	1,20,859	1,31,074	1,46,862	Free Cash Flow	(7.3)	(3.2)	(1.0)	6.3	7.1
Gross block	57,532	68,019	85,523	99,523	1,11,523	Valuation Ratios					
Accumulated depreciation	(21,591)	(26,069)	(31,591)	(37,562)	(44,254)	P/E(x)	52.0	27.7	57.8	36.7	26.1
Net block	36,297	42,527	53,932	61,961	67,269	P/B(x)	3.8	3.2	5.4	5.3	4.5
Capital WIP	7,789	12,869	15,765	12,000	8,000	EV/EBIDTA(x)	42.7	26.0	22.9	17.6	13.2
Total fixed assets	44,086	55,396	69,697	73,961	75,269	EV/SALES (x)	8.6	6.6	5.8	4.6	3.7
Intangible Assets	5,937	8,303	10,691	12,496	12,496	Div. Yield(%)	1.5	1.5	1.8	1.8	2.1
Investments	6,752	10,118	9,661	11,565	17,276	FCF Yield(%)	(2.2)	(1.0)	(0.3)	1.9	2.2
Other non current assets	3,186	2,131	1,514	1,817	2,180	Return Ratios (%)					
Inventories	7,225	10,316	14,359	14,550	18,012	ROE	8.5	13.2	11.5	16.1	19.1
Sundry debtors	10,639	12,918	12,237	15,789	19,593	ROCE	5.6	11.8	9.8	12.2	15.1
Cash & bank	13,395	10,572	9,986	12,262	18,131						
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)	(16,216)	(19,514)						
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	29,953	38,358						
CAPITAL DEPLOYED	84,839	1,03,055	1,19,579	1,29,791	1,45,579						

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



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