



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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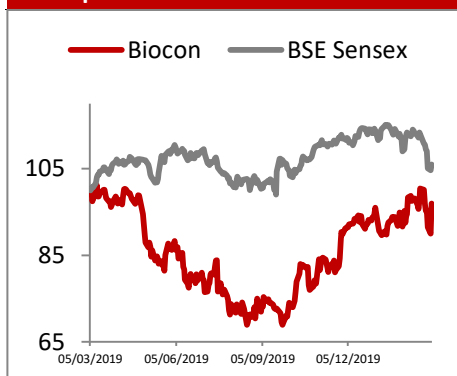
BUY

Current Price	304
Target Price	369
Upside/Downside	21%
52 Week Range	211/323

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	5528
BSE Code	532523
NSE Code	BIOCON
Bloomberg	BIOS: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	48.2	44.4	8.5	6.0
FY19	55,144.0	33.5	13,937.0	25.3	7,107.0	9,053.0	90.8	11.8	25.7	26.7	13.2	13.1
FY20E	68,381.5	24.0	17,753.0	26.0	8,875.5	9,550.5	24.9	7.4	41.1	20.7	12.7	12.4
FY21E	86,820.5	27.0	23,129.2	26.6	12,330.5	12,330.5	38.9	10.3	29.6	16.3	16.4	15.0
FY22E	107,706.9	24.1	30,239.1	28.1	17,094.1	17,094.1	38.6	14.2	21.3	12.4	19.1	18.0

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

We have compiled the relevant comments relating to Biocon from Mylan's CY2019 earnings call. Mylan expects traction from FULPHILA to continue in 2020, and also expects growth from OGI VRI with a mid-year launch of its biosimilar for Glargine.

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.

We maintain our BUY rating on Biocon.

Excerpts from the earnings call are as follows:

- Mylan sales grew 3% cc to \$11.5 bn in CY2019. The company earned \$1 bn from new product launches during the year, of which \$ 800 mn was from the US. The revenue from new launches was mainly from Wixela, Fulphila (Pegfilgrastim) and other launches.
- Regarding **Glargine**
 - Sanofi has sued Mylan for a device patent which Mylan has challenged and awaits decision from the district court. The company expects judgement and IPR proceedings by Q2CY2020.
 - The USFDA has issued 3 observations to Biocon's Malaysia plant. Biocon is in the process of responding to the USFDA and is confident of addressing the procedural issues. Mylan believes that the inspection will not hamper the commercialisation plans for Glargine.
- Mylan+ Biocon have filed the biosimilar for AVASTIN (Bevacizumab) with the USFDA. The USFDA has issued a user fee goal date of December 27, 2020 for the same. AVASTIN (innovator Genentech (Roche) clocked global sales of CHF 5.5 bn for 9MCY2019 (USD 5.7 bn), of which \$ 2.5 bn are from the US. Annually, the global market size for Bevacizumab would be \$7 bn. Bevacizumab will be the third oncology biosimilar from Mylan+ Biocon.
- Mylan+ Biocon have also filed the biosimilar for AVASTIN (Bevacizumab) with the European regulator. The application is currently under validation. AVASTIN clocked sales of \$1.5 bn during 9MCY2019 (annual \$ 2 bn) in Europe.
- The developments are on track to file biosimilar for Insulin ASPART in Q2CY2020.

Outlook & Valuation

At CMP, Biocon trades at 21x FY22E EPS of Rs 14.2, and 12x FY22E EV/EBITDA.

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


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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	41,297.0	55,144.0	68,381.5	86,820.5	107,706.9	Net Profit	3,724.0	9,053.0	9,550.5	12,330.5	17,094.1
Raw materials	(16,361.0)	(18,966.0)	(21,882.1)	(28,650.8)	(35,543.3)	Add: Dep. & Amort.	3,851.0	4,478.0	4,941.2	5,341.1	5,941.1
Employee costs	(9,311.0)	(11,653.0)	(14,566.3)	(18,207.8)	(22,759.8)	Cash profits	7,575.0	13,531.0	14,491.8	17,671.7	23,035.3
Other Expenses	(5,111.0)	(7,688.0)	(10,378.8)	(12,973.5)	(14,919.5)	(Inc)/Dec in					
Research & Devt	(2,160.0)	(2,900.0)	(3,801.4)	(3,859.3)	(4,245.3)	-Sundry debtors	(1,807.0)	(2,279.0)	(2,069.7)	(4,041.4)	(4,577.8)
Cost of sales	(32,943.0)	(41,207.0)	(50,628.5)	(63,691.3)	(77,467.8)	-Inventories	(872.0)	(3,091.0)	(2,067.3)	(3,293.9)	(3,730.3)
Operating Profit	8,354.0	13,937.0	17,753.0	23,129.2	30,239.1	-Loans/advances	224.0	(1,475.0)	(1,148.4)	(1,378.1)	(1,653.7)
Depreciation	(3,851.0)	(4,478.0)	(4,941.2)	(5,341.1)	(5,941.1)	-Sundry creditors	2,656.0	1,930.0	729.1	3,932.2	4,004.1
PBIT	4,503.0	9,459.0	12,811.8	17,788.0	24,297.9	-Others	(3,665.0)	1,714.0	1,377.2	1,652.6	1,983.2
Other income	2,062.0	1,444.0	1,155.2	1,213.0	1,273.6	Change in WC	(3,464.0)	(3,201.0)	(3,179.1)	(3,128.6)	(3,974.6)
Interest	(615.0)	(709.0)	(894.6)	(1,007.8)	(1,073.4)	CF from Oper. activities	4,111.0	10,330.0	11,312.6	14,543.0	19,060.7
Profit before tax	5,950.0	10,194.0	13,072.4	17,993.2	24,498.2	CF from Inv. activities	(8,485.0)	(12,263.0)	(12,360.8)	(11,967.0)	(15,850.6)
Provision for tax	(1,569.0)	(2,123.0)	(3,137.4)	(4,498.3)	(6,124.5)	CF from Fin. activities	8,036.0	961.0	4,800.2	(2,036.8)	(1,673.0)
Profit after Tax	4,381.0	8,071.0	9,935.0	13,494.9	18,373.6	Cash generated/(utilised)	3,662.0	(972.0)	3,752.0	539.3	1,537.1
Minority Interest	(807.0)	(973.0)	(1,070.3)	(1,177.3)	(1,295.1)	Cash at start of the year	10,443.0	13,395.0	10,572.0	19,041.2	13,513.5
Share of Profit	213.0	9.0	10.8	13.0	15.6	Cash at end of the year	13,395.0	10,572.0	19,041.2	13,513.5	-
Adjusted PAT	3,787.0	7,107.0	8,875.5	12,330.5	17,094.1	Ratios	FY18	FY19	FY20E	FY21E	FY22E
Extraordinary Items	-	1,946.0	675.0	-	-	OPM	20.2	25.3	26.0	26.6	28.1
Reported PAT	3,787.0	9,053.0	9,550.5	12,330.5	17,094.1	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 *	3,000.0	3,000.0	6,000.0	6,000.0	6,000.0	Growth Ratios (%)					
Reserves	48,808.0	57,980.0	72,250.5	76,221.1	90,315.2	Net Sales	5.3	33.5	24.0	27.0	24.1
Net worth	51,808.0	60,980.0	78,250.5	82,221.1	96,315.2	Operating Profit	(15.4)	68.1	27.4	30.3	30.7
Def. Tax Liab.+Minority Int.	4,677.0	6,089.0	6,697.9	7,367.7	8,104.5	PAT excl. EI	(39.2)	90.8	24.9	38.9	38.6
Secured loans	17,898.0	15,256.0	18,944.7	22,200.3	22,239.1	Per Share (Rs.)*					
Unsecured loans	1,303.0	2,612.0	2,274.0	2,275.0	2,276.0	Adj. Net Earnings (EPS)	6.3	11.8	7.4	10.3	14.2
Current Maturities	5,730.0	10,066.0	10,484.0	11,008.2	11,558.6	Cash Earnings (CPS)	12.7	22.6	12.1	14.7	19.2
Total debt	24,931.0	27,934.0	31,702.7	35,483.5	36,073.7	Dividend	5.0	5.0	6.0	6.0	7.0
Other liab	3,423.0	8,052.0	9,662.4	11,594.9	13,913.9	Book Value	86.3	101.6	65.2	68.5	80.3
CAPITAL EMPLOYED	84,839.0	103,055.0	126,313.5	136,667.1	154,407.2	Free Cash Flow	(7.3)	(3.2)	(0.9)	2.1	2.7
Gross block	57,532.0	68,019.0	76,019.0	89,019.0	99,019.0	Valuation Ratios					
Accumulated depreciation	(21,591.0)	(26,069.0)	(31,010.2)	(36,351.4)	(42,292.5)	P/E(x)	48.2	25.7	41.1	29.6	21.3
Net block	36,297.0	42,527.0	45,008.8	52,667.6	56,726.5	P/B(x)	3.5	3.0	4.7	4.4	3.8
Capital WIP	7,789.0	12,869.0	17,339.0	17,339.0	17,339.0	EV/EBIDTA(x)	45.1	27.4	21.3	16.7	12.8
Total fixed assets	44,086.0	55,396.0	62,347.8	70,006.6	74,065.5	EV/SALES (x)	9.1	6.9	5.5	4.5	3.6
Intangible Assets	5,937.0	8,303.0	9,955.0	10,343.0	10,343.0	Div. Yield(%)	1.6	1.6	2.0	2.0	2.3
Investments	6,752.0	10,118.0	12,055.4	15,542.7	23,098.6	FCF Yield(%)	(2.4)	(1.1)	(0.3)	0.7	0.9
Other non current assets	3,186.0	2,131.0	2,557.2	3,068.6	3,682.4	Return Ratios (%)					
Inventories	7,225.0	10,316.0	12,383.3	15,677.2	19,407.5	ROE	8.5	13.2	12.7	16.4	19.1
Sundry debtors	10,639.0	12,918.0	14,987.7	19,029.1	23,607.0	ROCE	5.6	11.8	11.3	13.8	16.6
Cash & bank	13,395.0	10,572.0	19,041.2	13,513.5	14,272.8						
Loans & advances	4,267.0	5,742.0	6,890.4	8,268.5	9,922.2						
Other current assets	1,370.0	1,488.0	1,636.8	1,800.5	1,980.5						
Sundry creditors	(10,053.0)	(11,983.0)	(12,712.1)	(16,644.2)	(20,648.3)						
Acceptances	(4,214.0)	(5,420.0)	(6,504.0)	(7,804.8)	(9,365.8)						
Provisions	(958.0)	(1,466.0)	(1,759.2)	(2,111.0)	(2,533.2)						
Working capital	24,878.0	27,107.0	39,398.2	37,706.1	43,217.8						
CAPITAL DEPLOYED	84,839.0	103,055.0	126,313.5	136,667.1	154,407.2						

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



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