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3R MATRIX			
	+	=	-
Right Sector (RS)	✓	■	✗
Right Quality (RQ)	✓	■	✗
Right Valuation (RV)	✓	✓	✗
+ Positive	= Neutral	- Negative	

What has changed in 3R MATRIX

	Old	New
RS	■	↔
RQ	■	↔
RV	■	↔

ESG Disclosure Score NEW**ESG RISK RATING** 25.64

Updated Feb 08, 2022

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

Company details

Market cap:	Rs. 44,236 cr
52-week high/low:	Rs. 421 / 315
NSE volume: (No of shares)	28.0 lakh
BSE code:	532523
NSE code:	BIOCON
Free float: (No of shares)	47.2 cr

Shareholding (%)

Promoters	60.6
FII	16.9
DII	7.4
Others	15.12

Price chart**Price performance**

(%)	1m	3m	6m	12m
Absolute	7.2	1.3	5.0	-6.5
Relative to Sensex	8.8	1.6	8.8	-21.1

Sharekhan Research, Bloomberg

Biocon Ltd**Strong quarter; biologics to be a key growth driver****Pharmaceuticals****Sharekhan code: BIOCON****Reco/View: Buy**

Upgrade

CMP: Rs. 368**Price Target: Rs. 420**

↔ Maintain

Downgrade**Summary**

- We retain Buy on the stock of Biocon with an unchanged price target (PT) of Rs 420.
- Biocon reported strong numbers and results were in line with estimates. The Biologics segment drove the strong show, while generics and research services also staged a double digit growth.
- Biocon has laid a strong platform for growth of biosimilars in insulin and oncology franchise across its key markets. Strong growth outlook for biosimilars, expected improvement in generics segment and a healthy growth in the research services segment would be key growth drivers for Biocon.
- Possible listing of Biocon Biologics would provide value unlocking opportunity for the investors.

Biocon Limited (Biocon) reported strong numbers and results were in line with estimates. The Biologics segment drove the strong show, while generics and research services also staged a double digit growth. Revenues grew by 30.7% y-o-y while OPM expanded 80 bps y-o-y and the adjusted PAT stood at Rs 277 crore, in line with estimates. Market share gains in Semglee, biosimilar launches in the US and growth in acquired biosimilar portfolio from partner would drive the Biologics sales higher, making it a key growth driver. Also, an expected pick-up in generics segment and healthy growth in research could add to overall momentum that is well supported by capex plans, providing ample growth visibility.

Key positives

- The biologics segment's revenues grew by 48% y-o-y on a strong rise in revenues from Semglee as well as foray into new markets with existing products
- Receipt of approval for bGlargine from Health Canada
- Backed by a new launches in US, normalization of supply challenges the generic segment posted a strong growth of 26% y-o-y

Key negatives

- Gross margins contract by 270 BPS y-o-y due to elevated costs / raw material prices.

Management Commentary

- The biologics segment is on a strong footing backed by a strong growth and market share gains for Semglee in the US and plans to launch bBevacizumab, Adalimumab and Aspart in the US. Strategic tie up for vaccines and acquisition of biosimilar portfolio from partner bodes well for the growth of biologic segment.
- Generic segment sales grew 26% y-o-y driven by new product launches in US particularly Everolimus, uptick in our API business and a normalization of supply challenges. Also the growth prospects seem brighter.
- Biocon's Malaysia plant has reported a break even in Q4FY22, further due to the elevated costs pressures & mix, management sees gross margins for FY23 to be around the FY22 levels. Further the management sees the operating margins for FY23 to be around 26% levels, which is an improvement over FY22 levels.

Revision in estimates – Biocon reported a strong performance for Q4FY22 and the results were in line with estimates. Further the commentary on the growth outlook was also encouraging. Basis the in line results we have largely retained our estimates for FY23E/FY24E.

Our Call

Valuation – Biologics segment gaining traction; Retain Buy: Biocon has laid a strong platform for growth of biosimilars in insulin and oncology franchise across its key markets. New tie-ups in biologics, entry in new markets and acquisition of biosimilars portfolio would strengthen the presence in biologics space while a tie-up for vaccines opens up new growth avenues and provide visibility on growth. At CMP, the stock is trading at P/E multiples of 30.6x/21.1x its FY2023E/FY2024E earnings. A strong growth outlook, expected traction in biosimilars, improvement in generics and possible listing of biologics segment are the key positives. We retain Buy on the stock with an unchanged price target (PT) of Rs. 420.

Key Risks

A delay in product approvals or the negative outcome of facility inspection by the USFDA can affect future earnings prospects.

Valuation (Consolidated)

Rs cr

Particulars	FY2020	FY2021	FY2022	FY2023E	FY2024E
Net sales	6300.5	7143.7	8184.0	10596.3	13222.5
Operating Profit	1603.1	1679.5	1919.0	2774.0	3678.7
OPM (%)	25.4%	23.5%	23.4%	26.2%	27.8%
Adj. PAT	709.6	610.8	758.0	1443.5	2093.7
EPS (Rs)	5.9	5.1	6.3	12.0	17.4
PER (x)	62.3	72.4	58.3	30.6	21.1
EV/Ebitda (x)	28.8	27.8	24.9	16.5	11.7
P/BV (x)	6.6	5.8	5.2	4.5	3.7
ROCE (%)	9.3	6.5	7.9	11.7	15.0
RONW (%)	10.6	8.0	9.0	14.7	17.7

Source: Company; Sharekhan estimates

Strong quarter; results in line with estimates: Biocon reported strong numbers for the quarter with the results in line with estimates. The performance in the quarter was driven by an impressive performance in the Biologics segment revenues while the generics and research services also staged a double digit growth. Biocon's revenues at Rs. 2,409 crore grew by 30.7% y-o-y and were marginally ahead of estimates. The revenue growth was driven by a strong 48% growth in Biologics segment revenues as the company tapped new markets for existing products, while the generics segment sales and Research services sales grew by 26% and 15% y-o-y respectively. Though OPM, at 24.5% (as against estimated 26%), rose by 80 bps y-o-y largely attributable to the savings in the employee cost. Raw material cost was up 270 bps y-o-y while the R&D expenses also inched up 1% on y-o-y basis. Consequently, the operating profit at Rs 591 crore was up 35.2% y-o-y and was largely in line with the estimates. Depreciation charges rose by 15% y-o-y due to new assets capitalised, while share of JV loss stood at Rs 53 crore for the quarter as compared to 70 crore in Q4FY21. Biocon reported a one-time expenses amounting to Rs 41 crore and adjusting for this the PAT stood at Rs 277 crore and was in line with the estimates. The reported PAT stood at Rs 239 crore decline of 6% y-o-y.

Q4FY2022 Conference Call Highlights

- ◆ **Biologics segment sales grow impressively for Q4; outlook stays strong:** The revenues from the biosimilar segment have staged a strong 48% y-o-y growth to Rs 982 crore for the quarter, while for the full year the growth stood at 24% for Fy22. The strong performance for Q4 could be attributable to the commercialization of key biosimilars in several advanced markets which includes insulin Glargine commercialized in Germany along with pegfilgrastim in Italy. Also the interchangeability status for insulin glargine in the US few months back was one of the key growth drivers for the biologics sales. The growth prospects for the biosimilars segment are bright and would make the segment a key growth driver for Biocon. BGlargine (Semglee) has received a preferred status in the national formularies of two leading U.S. Pharmacy Benefit Managers and the interchangeability status has resulted in the product touching a double digit market share over the past 1-2 quarters. Basis the strong demand traction the management expects further market share gains likely by Semglee in the US markets. In addition to this the recent acquisition of a biosimilar portfolio of its partner is expected to yield synergies over the long term as the acquisition makes Biocon a largest, integrated and cost effective biosimilar players globally. Further Biocon has received an approval from Health Canada for bglargine along with a tender in the Malaysia and collectively these open up new growth avenues. This along with the planned new Biosimilar launches in the US – Aspart, Adalimumab and Bevacizumab would also add up to the growth prospects of the Biologics segment revenues. In addition to this, the multiple drivers exist for Biologics segments which include – strategic tie up for vaccines, and acquisition of a partner companys biologics business. These drivers are expected to yield benefits in the medium term and a meaningfully contribution could be expected in FY24. Basis the above growth drivers, the biosimilar revenues are expected to gain traction going ahead and could be a key growth driver for the company.
- ◆ **Generics:** Revenues from the generic / small molecules segment staged a strong show growing by 26% y-o-y for the quarter, while sequential growth too was strong, thus pointing at a likely improvement. The strong growth can be attributable to new product launches in US particularly Everolimus, an uptick in our API business and a normalisation of supply challenges that had impacted the growth prospects during the pandemic period. Going ahead, prospects for the generics division are bright driven by the entry in the injectables space (API and formulations), expansion or addition of peptides and hi potent oncology API's. Also Biocon plans to commence work on the large-scale synthetic facility in Hyderabad and an injectable facility in Bangalore along with expansion of the fermentation facilities in Bangalore. Collectively, while the new products launches in the US would be a key growth driver for the biologics segment revenues, the expansion of capacities provides ample growth visibility. Further the new launches are also expected to offset the impact of the price pressures to a certain extent and this bodes well for generics division growth. Overall, based on the above triggers, the generic segment sales are expected to grow in double digits for FY23 as compared slightly decline reported in FY22.
- ◆ **Vizag greenfield plant:** Biocon has set up a greenfield facility at Vizag and aims to use the facility for API as well as formulations segment, thus complementing the Bengaluru facility. The work on the said facility is completed as of Q4FY22 and currently the validation rounds are being planned in FY23 post these the commercial supplies could begin.

- ❖ **Novel Biologics:** Biocon's partner is on track to a Pivotal Study for use of Itolizumab in First-Line treatment of Acute Graft Versus Host Disease and the company has initiated a phase III Equator study of Itolizumab for the said patient group.
- ❖ **Capex & R&D:** Based on the strong demand for insulins globally and citing new growth opportunities and avenues, the company has already initiated investments for expansion of its facility. Biocon plans to invest \$300 mn over a span of three years (\$100 million per year). Further with the company's two biosimilars assets entering the clinical trials stage, the R&D expenses (as a % of sales) are likely to inch up and the management has guided for 10-15% range for R&D going ahead.
- ❖ **Gross Margins / Operating Margins:** Biocons Malaysia plant has reported a break even as guided by the management in Q4 and going ahead the performance is expected to improve further. Given the overall existing higher costs pressures, the gross margins for FY23 are expected to be sustained around the FY22 levels. Further the management sees the operating margins for FY23 to be around 26% levels, which is an improvement over FY22 levels.

Results (Consolidated)

Particulars	Q4FY22	Q4FY21	Y-o-Y %	Q3FY21	Rs cr Q-o-Q %
Total Income	2409.0	1843.0	30.7	2174.0	10.8
Operating profit	591.0	437.0	35.2	488.0	21.1
Other income	67.0	45.0	48.9	48.0	39.6
EBIDTA	658.0	482.0	36.5	536.0	22.8
Interest	11.0	34.0	-67.6	15.0	-26.7
Depreciation	212.0	184.0	15.2	206.0	2.9
PBT	435.0	264.0	64.8	315.0	38.1
Adj. PAT after MI	277.0	81.0	242.0	186.0	48.9
Reported PAT	236.0	254.0	-7.1	186.0	26.9
Margins				BPS	BPS
OPM (%)	24.5	23.7	82	22.4	209
EBIDTA margin (%)	27.3	26.2	116	24.7	266
Adj.Net profit margin (%)	11.5	4.4	710	8.6	294

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Improving growth prospects

Indian pharmaceutical companies are better placed to harness opportunities and report healthy growth going ahead. They are among the most competitive globally and hold a sizeable market share in most developed as well as other markets. Moreover, other factors such as easing of pricing pressures (especially in the US generics market), rise in product approvals, plant resolutions by the USFDA, strong growth prospects in domestic markets and emerging opportunities in the API space would be key growth drivers. This would be complemented by strong capabilities developed by Indian companies (leading to a shift towards complex molecules and biosimilars) and commissioning of expanded capacities by select players over the medium term. Collectively, this indicates a strong growth potential going ahead for Indian pharmaceutical companies.

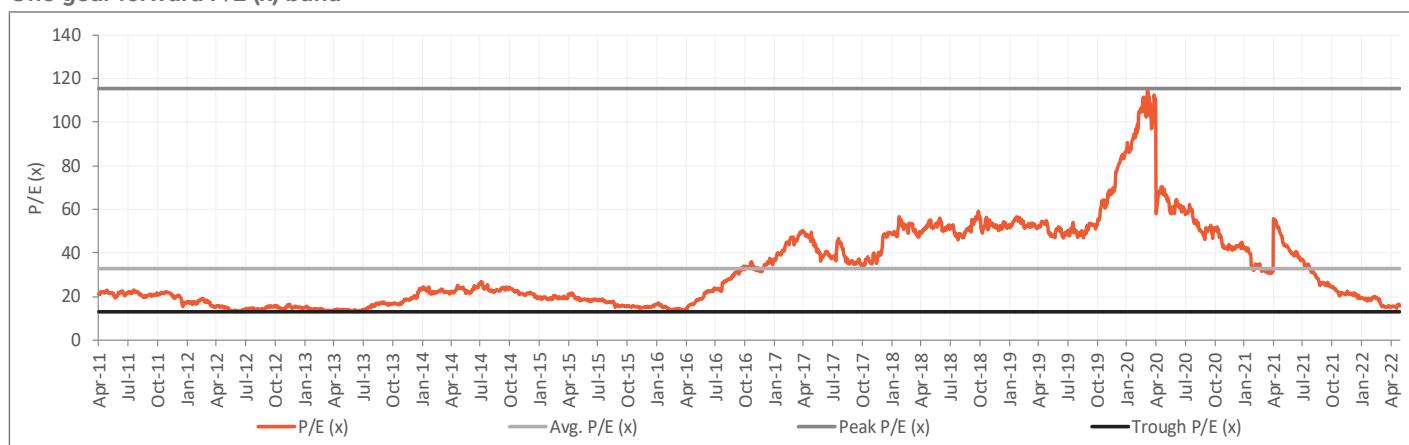
■ Company Outlook – Biologics to be a key growth driver

Biocon is a leading company manufacturing biosimilars in India and one of the few global companies to receive approvals for its products across the regulated markets of – US, EU, Japan, and other developed markets. A robust opportunity lies ahead in the biosimilars segment for Biocon, as some key global brands would lose patent exclusivity in the medium to long term. Price erosion in biosimilars is much lower than that in the other segments as of now and this works to the company's advantage. Scientific expertise in developing and manufacturing complex biosimilars together with commercialization strength of partner companies would further strengthen Biocon's presence in globally in the biosimilars. Moreover, with the possible listing of Biocon Biologics, there exists a significant value unlocking opportunity going ahead.

■ Valuation – Retain Buy with an unchanged PT of Rs 420

Biocon has laid a strong platform for growth of biosimilars in the insulin and oncology franchise across its key markets. Commercialisation of interchangeable Insulin Glargine (Semglee) in US, planned launch of Insulin Aspart would strengthen the insulin franchise further while the launch of bBevacizumab in key markets of EU and US would fortify the presence in the Oncology space. This coupled with the efforts to increase penetration in existing markets and tap new markets and new areas of vaccines (through a strategic partnership) and recent acquisition of biosimilars portfolio from a partner company, could drive growth of Biosimilars. Backed by product launches in the US, uptick in the API business and normalization of supply challenges, the generics segment has staged a strong revival and the same is expected to improve further. As the Q4FY22 was a strong quarter and the results are in line with the estimates, we have retained our estimates for FY23E and FY24E. At CMP, the stock is trading at P/E multiples of 30.6x/21.1x its FY2023E/FY2024E earnings. Strong growth outlook expected traction in biosimilars, improvement in generics and possible listing of the biologics segment are the key positives We retain Buy on the stock with an unchanged price target (PT) of Rs. 420.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer valuation

Particulars	CMP (Rs / Share)	O/S Shares (Cr)	MCAP (Rs Cr)	P/E (x)			EV/EBIDTA (x)			RoE (%)		
				FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Sun Pharma	929.0	239.9	2,22,820.0	29.8	26.2	23.3	20.3	17.4	14.6	14.0	13.9	13.6
Biocon	368.0	120.0	44,236.1	58.3	30.6	21.1	24.9	16.5	11.7	9.0	14.7	17.7

Source: Company, Sharekhan estimates

About company

Established in 1978, Bengaluru-based Biocon is India's premier biotechnology company. Biocon is now a fully integrated biopharma player with API manufacturing facilities, strong capabilities in biologics, innovative drug development, and a branded generics business in India. With over 25 years of expertise in fermentation technology, the company has built a strong presence in lucrative high-growth segments such as statins, immuno-suppressants, and anti-diabetes drugs. Biocon is among the few companies globally to have received approvals for its biosimilars from developed countries such as the US, EU, Australia, and Japan.

Investment theme

Biocon has one of the largest global biosimilars portfolios, spanning from recombinant human Insulin (rh-Insulin), insulin analogs, monoclonal antibodies, and other biologics for diabetes, oncology and immunology. Thus, Biocon has the early-mover advantage as global markets have begun to accept biosimilars and the role they are expected to play in increasing access to high-quality and yet affordable drugs and improve quality of life for patients around the world. The company is expected to benefit substantially from the opportunities in the lucrative biosimilars space, as some key global brands would lose patent exclusivity in the medium to long term. Scientific expertise in developing and manufacturing complex biosimilars together with commercialisation strength of partner companies would further strengthen Biocon's presence in globally in the biosimilars. Moreover, with the possible listing of Biocon Biologics, there exists a significant value unlocking opportunity going ahead.

Key Risks

Any delay in product approvals, change in regulatory landscape or negative outcome of the facility inspection by the USFDA can affect future earnings prospects.

Additional Data

Key management personnel

Ms. Kiran Mazumdar Shaw	Executive Chairperson Biocon Limited
Mr. Siddharth Mittal	CEO & Managing Director – Biocon Limited
Mr Shreehas Tambe	Deputy CEO Biocon Biologics Limited

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Glentec International	19.77
2	Life Insurance Corp of India	1.67
3	ICICI Prudential Asset Management	1.43
4	Jupiter Investment Management Group	1.32
5	NATIONAL WESTMINSTER	1.1
6	Aditya Birla Sun Life Asset Management	1.07
7	Standard Life Aberdeen PLC	1.06
8	Mirae Asset Large Cap fund	1.02
9	Societe Generale SA	1.01
10	Norges Bank	0.86

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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