


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	✗	↔	✗

Reco/View

Reco: Buy	↔
CMP: Rs. 465	
Price Target: Rs. 520	↑

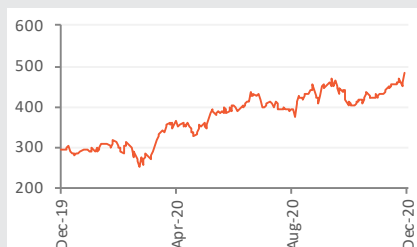
↑ Upgrade ↔ Maintain ↓ Downgrade

Company details

Market cap:	Rs. 55,896 cr
52-week high/low:	Rs. 488 /236
NSE volume: (No of shares)	51.5 lakh
BSE code:	532523
NSE code:	BIOCON
Free float: (No of shares)	47.2 cr

Shareholding (%)

Promoters	60.67
FII	17.76
DII	6.29
Others	15.28

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	8.5	3.4	16.0	59.4
Relative to Sensex	1.2	-21.3	-18.7	45.5

Sharekhan Research, Bloomberg

Summary

- We retain Buy recommendation on the stock of Biocon with a revised PT of Rs. 520.
- Biologics segment is expected to be a significant growth driver and the company is well placed to harness the opportunities emerging in global biosimilars space.
- Sturdy growth prospects, strong earnings visibility, healthy balance sheet position and lower debt-equity augur well for the company.
- The possible listing of its wholly owned subsidiary - Biocon Biologics Limited provides a significant value-unlocking opportunity and this bodes well for the company.

We recently interacted with the team at Biocon Limited (Biocon) and our interaction points towards healthy growth prospects for the company. Going ahead, Biocon sees the biologics segment to be a key growth driver for company. The growth for existing biosimilars - Fulphila, Ogivri in the US is expected to pick up and the company expects the market share in the both these products to improve. The performance is likely to improve attributable to increasing patient inflows as doctors commence OPD's. The same was adversely affected by the pandemic during the lockdown. Further, the recently launched biosimilars - Insulin Glargine (Semglee) too is expected to gain traction going ahead. In addition to the existing biosimilars, Biocon also has a healthy line up of new launches (Insulin Aspart, Bevacizumab and RHI (Recombinant Human Insulin) which are expected to unfold going ahead and drive the revenues growth for the segment. Biocon expects the potential market size for Insulin Aspart and Bevacizumab to be around \$4 bn and \$4.8 bn respectively (across global markets) and this signifies the immense opportunities ahead. The recent deferred action announcement by USFDA for Bevacizumab could result in the marginal delay in the product launch while Insulin Aspart is expected to be launched in FY2022. In addition to this, the expanding geographical reach would also support topline growth. The generic segment is well placed to capitalise on the opportunities in the formulations segment, while the APIs are likely to stage a steady growth. Consequently, strong topline growth and expanding margins (due to favorable mix) would result in a double-digit earnings growth. Biocon's sales and earnings are expected to grow by a CAGR of 24.8% and 45.8% respectively over FY2020-FY2023.

Our Call

Valuation: Retain Buy recommendation with a revised PT of Rs 520: Biocon is well placed to harness the opportunities emerging in global biosimilars space. Biocon's biologics segment offers substantial growth opportunities driven by new launches (such as Semglee), healthy new product pipeline and increasing share of biosimilars in the overall market. Further, the expansion into other geographies would complement the growth. Expected traction in the biosimilars in the US markets could also be a key growth driver going ahead. The generics business too is expected to grow at a healthy pace backed by improved momentum in existing products and new product launches. Recent launch – Tacrolimus capsules (immunosuppressant) has \$300 mn market size which is material and could aid the sales growth. At CMP, the stock is trading at P/E multiple of 35.5x /26.5x its FY2022/FY2023 earnings, which is lower than the last 5 years' average PE multiple. Sturdy growth prospects, Strong earnings visibility, healthy balance sheet position and lower debt-equity augur well for the company. Further, a possible listing of its wholly-owned subsidiary - Biocon Biologics Limited provides a significant value-unlocking opportunity and this bodes well for the company. We retain Buy recommendation on the stock with a revised PT of Rs. 520.

Key risk

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

Valuation

	Rs cr				
Particulars	FY2019	FY2020	FY2021E	FY2022E	FY2023E
Net sales	5514.4	6367.2	8146.0	10136.1	12385.6
Operating Profit	1393.7	1603.1	2168.1	2874.4	3654.1
OPM (%)	25.3%	25.2%	26.6%	28.4%	29.5%
Adj. PAT	729.1	680.7	1154.3	1576.9	2110.9
EPS (Rs)	6.1	5.7	9.6	13.1	17.6
PER (x)	76.7	82.2	48.4	35.5	26.5
EV/Ebitda (x)	40.7	36.1	26.3	19.6	15.1
P/BV (x)	9.2	8.3	7.5	6.2	5.1
ROCE (%)	9.9	9.3	12.3	15.7	18.0
RONW (%)	11.4	10.2	14.8	16.9	18.6

Source: Company; Sharekhan estimates

Key takeaways from management interaction

New product launches; expected traction in existing products to fuel the growth for biosimilars segment:

Biocon's biologics segment is well placed to harness the opportunities arising in the biosimilar space. Going ahead, the biologics segment has a robust outlook. The existing products – Ogivri and Fulphila have been able to hold grounds amid the pandemic and are showing signs of a pick-up gradually. With patient inflows improving as doctors commence OPD's, demand for both the biosimilars is expected to gather pace, especially in the US as well as in other markets. With respect to Ogivri, Biocon is looking for a double digit market share going ahead and estimates the market opportunity for Ogivri in the US and Europe to be around \$2.8 bn and \$ 1 bn respectively which is substantial in size. For Pegfilgrastim, Biocon's market share is around 7 to 8% as of October 2020 which is up from around 6% levels a few quarters ago and the company is looking to improve the same going ahead. Similar to Ogivri, Pegfilgrastim also offers substantial market opportunities with potential of \$2.8bn and \$163mn respectively in the US and Europe markets. The recently launched – biosimilar Insulin Glargine (Semglee) is also gradually gaining traction. Biocon estimates the market size for Semglee to be around \$ 2.1 bn in the US and \$ 655 mn in the European markets. With substantial growth opportunities in the developed markets of the US and Europe coupled with the increasing penetration of biosimilars, bodes well from a growth perspective. In addition to this, a healthy new product pipeline which consists of Bevacizumab, Insulin Aspart and RHI (Recombinant Human Insulin) could boost the topline growth of the biologics segment. Biocon estimates the market size for Insulin Aspart to be around \$1.3 bn and \$1.97 bn in the US and RoW countries respectively, while in Europe it has an addressable market size of \$ 0.85 bn with the launch likely in FY2022. Also Bevacizumab, offers sizeable potential for growth with the company estimating a \$3bn market size in the US and \$1.8bn in the Europe. Cumulatively, healthy new product pipeline offering substantial growth potential provides ample visibility for growth going ahead. This coupled with the increasing penetration of the biosimilars and widening geographic reach are expected to be the key growth drivers for biologics segment, whose revenues is expected to stage a 35% CAGR over FY2020-FY2023.

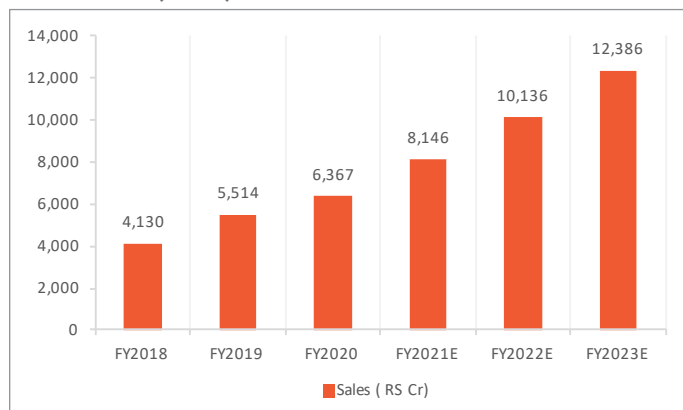
Bevacizumab launch could be delayed following a deferred action by USFDA: The USFDA has informed Biocon Biologics of a deferred action for its Biologics Application License (BLA) for a proposed biosimilar to Avastin (Bevacizumab). Further the regulator has informed about the need for inspection of the manufacturing facility as per the standard review procedure. However due to COVID related uncertainties, the USFDA has a restriction on travel and hence was unable to conduct the inspection in the current review cycle. The company is awaiting dates for the inspection from the regulator. The company is prepared for the inspection and once the inspection is successfully cleared can commence the commercial production shortly.

Formulations to aid the generic segment growth: The company's generic segment comprises the small molecules (API and formulations) has clocked a healthy 12% y-o-y revenue growth for H1FY2021. A chunk of the growth was fuelled by the formulations segment. Of the total small molecule segment sales, more than 80% is constituted by the API's while the balance is from formulations. Going ahead, the formulations business is expected to drive growth of the generics segment, backed by new launches in the US markets. In the API segment, immunosuppressants are witnessing a healthy demand and are expected to sustain the traction. Biocon has announced the launch of Tacrolimus capsules in the US, which is an immunosuppressant used in the treatment of organ transplant patients, which bodes well. The size of market for the said medicine is ~\$300 mn, is healthy. The company is also looking for a healthy product pipeline and has submitted DMF's (Drug Master Files) for 3 API's with USFDA and 7 APIs (as of quarter ending September 2020) in other markets, which would contribute to the growth of the segment going ahead.

Other growth factors for Biosimilars segment: The Biosimilars are fast gaining traction across markets the world over with the share of biosimilars rising. Also the recent tie up with the Christian Social Services Commission, a social organization active in Africa for providing affordable insulins program for low- and middle-income countries (LMICs) would bear fruits for the company in the form of enhancing the visibility as well as increasing the penetration. This in turn would open up growth opportunities for the company going ahead.

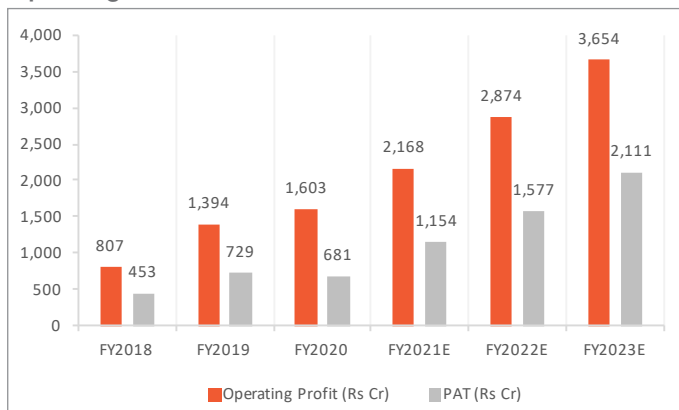
Financials in charts

Sales Trends (RS Cr)



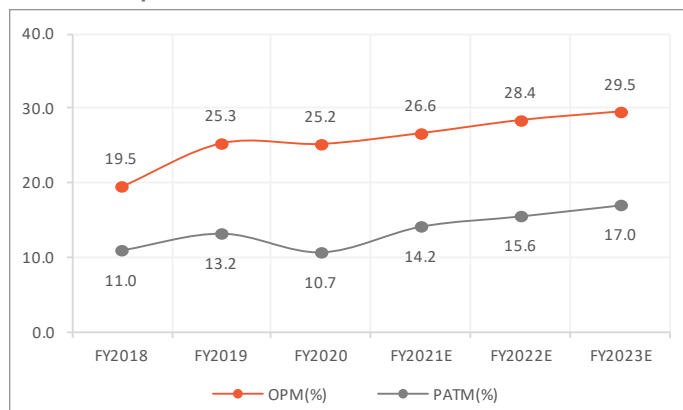
Source: Company, Sharekhan Research

Operating Profit - PAT Trends



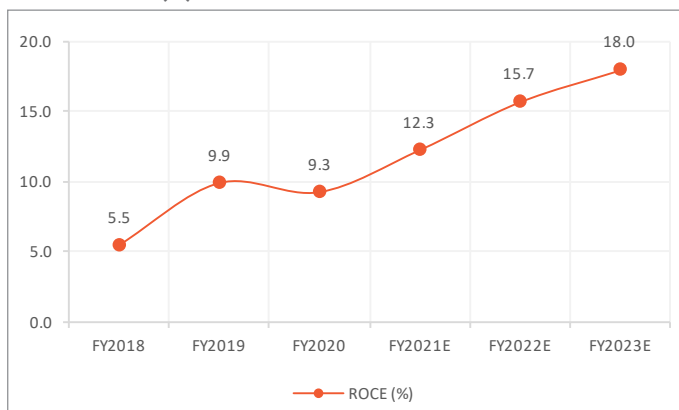
Source: Company, Sharekhan Research

OPM's to improve



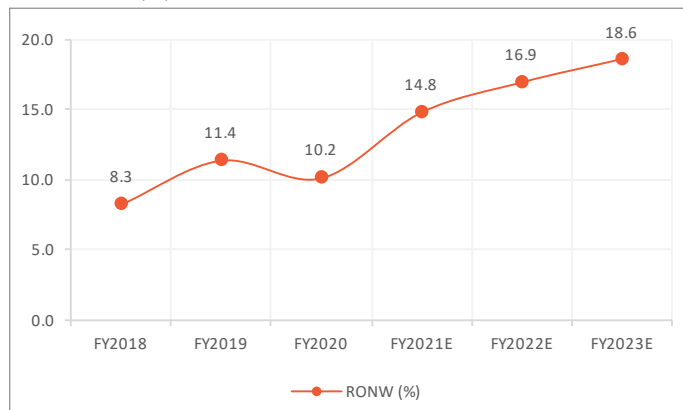
Source: Company, Sharekhan Research

ROCE Trends (%)



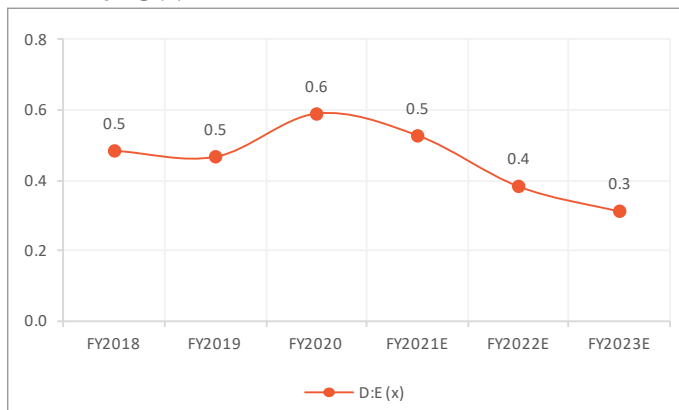
Source: Company, Sharekhan Research

RoE Trends (%)



Source: Company, Sharekhan Research

Debt : Equity (x)



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Improving growth prospects

Indian pharmaceutical companies are better placed to harness opportunities and clock healthy growth going ahead. Indian companies 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 US generics market), rise in product approvals and plant resolutions by the USFDA and 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, 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.

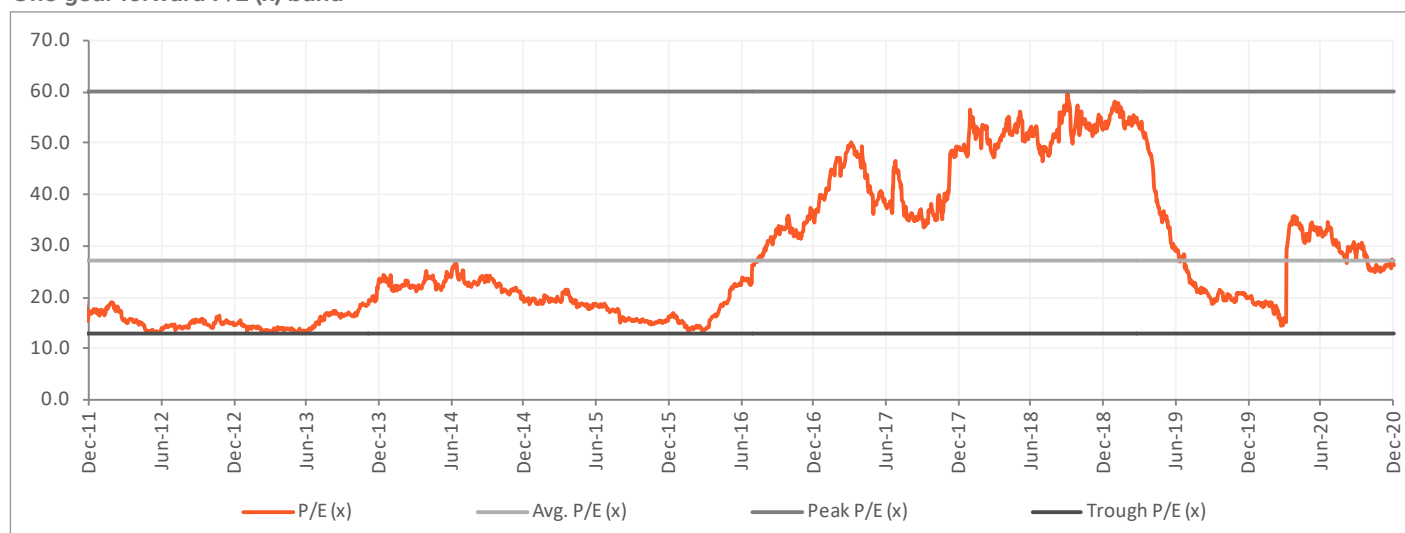
■ Company Outlook – Biologics continues to be a key growth driver

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. The company is expected to benefit substantially from the opportunities emerging in the lucrative biosimilars space. 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 comparatively much lesser than that in the other segments as of now and this works to the advantage of the company. Scientific expertise in developing and manufacturing complex biosimilars together with commercialization strength of partner companies would further strengthen Biocon's presence globally in the biosimilars. Also, with the possible listing of Biocon Biologics, there exists a significant value un-locking opportunity going ahead.

■ Valuation – Retain Buy recommendation with a revised PT of Rs 520

Biocon is well placed to harness the opportunities emerging in global biosimilars space. Biocon's biologics segment offers substantial growth opportunities driven by new launches (such as Semglee), healthy new product pipeline and increasing share of biosimilars in the overall market. Further, the expansion into other geographies would complement the growth. Expected traction in the biosimilars in the US markets could also be a key growth driver going ahead. The generics business too is expected to grow at a healthy pace backed by improved momentum in existing products and new product launches. Recent launch – Tacrolimus capsules (immunosuppressant) has \$300 mn market size which is material and could aid the sales growth. At CMP, the stock is trading at P/E multiple of 35.5x /26.5x its FY2022/FY2023 earnings, which is lower than the last 5 years' average PE multiple. Sturdy growth prospects, Strong earnings visibility, healthy balance sheet position and lower debt-equity augur well for the company. Further, a possible listing of its wholly-owned subsidiary - Biocon Biologics Limited provides a significant value-unlocking opportunity and this bodes well for the company. We retain Buy recommendation on the stock with a revised PT of Rs. 520.

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 / EBITDA (x)			RoE (%)		
				FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
AurobindoPharma	908.0	58.6	53,200	18.3	16.9	14.7	11.5	10.2	8.4	19.0	17.2	16.8
Sun Pharma	588.0	239.9	1,40,969	35.0	25.8	21.8	20.5	16.2	14.0	8.9	11.7	12.4
Biocon	466.0	120.0	55,896	82.2	48.4	35.5	36.1	26.3	19.6	10.2	14.8	16.9

Source: Company, Sharekhan Research

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. 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 comparatively much lesser than that in the other segments as of now and this works to the advantage of the company. Scientific expertise in developing and manufacturing complex biosimilars together with commercialization strength of partner companies would further strengthen Biocon's presence globally in the biosimilars.

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
Dr. Christiane Hamacher	CEO & Managing Director Biocon Biologics
Mr. Anupam Jindal	Chief Financial Officer

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 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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