

BSE SENSEX
56,747

S&P CNX
16,912

CMP: INR359

TP: INR360

Neutral



Stock Info

Bloomberg	BIOS IN
Equity Shares (m)	1,200
M.Cap.(INRb)/(USDb)	431.3 / 5.7
52-Week Range (INR)	488 / 315
1, 6, 12 Rel. Per (%)	9/-16/-45
12M Avg Val (INR M)	1492
Free float (%)	39.4

Financials Snapshot (INR b)

Y/E MARCH	2021	2022E	2023E
Sales	71.1	79.4	94.9
EBITDA	16.6	18.9	25.0
Adj. PAT	6.6	8.4	12.3
EBIT Margin (%)	13.2	13.1	17.0
Cons. Adj. EPS (INR)	5.5	7.0	10.2
EPS Gr. (%)	-10.6	26.2	46.7
BV/Sh. (INR)	63.6	67.7	74.9

Ratios

Net D:E	0.2	0.1	0.1
RoE (%)	9.2	10.6	14.3
RoCE (%)	6.5	6.6	9.0
Payout (%)	0.0	29.3	29.3

Valuations

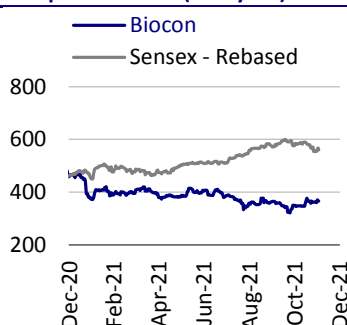
P/E (x)	67.6	53.6	36.5
EV/EBITDA (x)	29.1	25.2	18.8
Div. Yield (%)	0.0	0.4	0.7
FCF Yield (%)	-1.2	2.4	2.6
EV/Sales (x)	6.8	6.0	5.0

Shareholding pattern (%)

As On	Sep-21	Jun-21	Sep-20
Promoter	60.6	60.6	60.7
DII	7.4	7.5	6.3
FII	16.5	16.8	17.7
Others	15.5	15.0	15.3

FII Includes depository receipts

Stock performance (one-year)



On course to revive earnings growth

We recently met with BIOS' management to understand its business outlook in greater detail. Here are the key takeaways:

- After two years (FY20/FY21) of earnings decline, BIOS is well-positioned to revive earnings growth meaningfully.
- In addition to steady traction in already launched Biosimilars, BIOS has Insulin Glargine (Semglee) contracts starting 4QFY22. This would be further supported by b-Aspart, subject to regulatory clearance.
- The recent agreement with the Serum Institute Life Sciences (SILS) to market its COVID-19 vaccine further increases its business prospects from 2HFY23E onwards.
- We expect 36% earnings CAGR over FY21-23E, led by Insulin Glargine, scaling up of the Biologics business in emerging markets, and ramp-up in research services. We are yet to factor in the Vaccine business in our estimates.
- While the earnings outlook remains promising, we maintain our Neutral stance with a TP of INR360 per share (32x 12-month forward earnings) as current valuations factor in an earnings upside over the medium term.

Vaccine – Potential opportunity in the offing

- BIOS has partnered with the SILS to market 100m vaccine doses annually for 15 years, to be manufactured by SILS. The business opportunity is expected to start after the deal's conclusion, likely, in Oct'22
- Considering the rising COVID-19 cases and current global vaccine pricing (USD3-5/dose range), the business potential can be USD300-500m for BIOS. The margin on Vaccines can be in line with its current core EBITDA margin of ~30%.
- BIOS is expected to take advantage of its strong marketing network in emerging markets, which it has built for marketing its own Biosimilars, and thus channeling the vaccine would further enhance its offering. It would also work together with the SILS' team as well.
- The booster dose requirement, in response to rising COVID-19 cases across emerging markets, further creates a favorable opportunity for BIOS/SII. The agreement is not limited to COVID-19 products. It can further funnel the vaccine for malaria and other therapies.

Robust runway for commercial as well as upcoming products

- Semglee's inclusion in the formularies of Express Scripts and Prime Therapeutics provides a boost to its revenue potential as these formularies cover ~60m US lives. The inclusion in Express Scripts is vital as it, along with CVS and United Health, commands 70% market share. Semglee has also been included in Walgreens' loyalty program. The competitive scenario appears favorable to the BIOS/Viatris team as Sandoz and Lannett are yet to file with the USFDA.
- BIOS has submitted a Corrective and Preventive Action Plan (CAPA) with the USFDA in response to a pre-approval inspection of its Malaysia facility. The inspection was conducted for b-Aspart in Sep'21. The wait continues for inspection with respect to b-Bevacizumab.

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- Viatris has gained 5% market share for b-Adalimumab in the EU since its launch in Oct'18. Considering its profit share agreement, a further market share gain would enhance BIOS' income prospects. Viatris is also set to launch in mid-CY23 in the US as well.

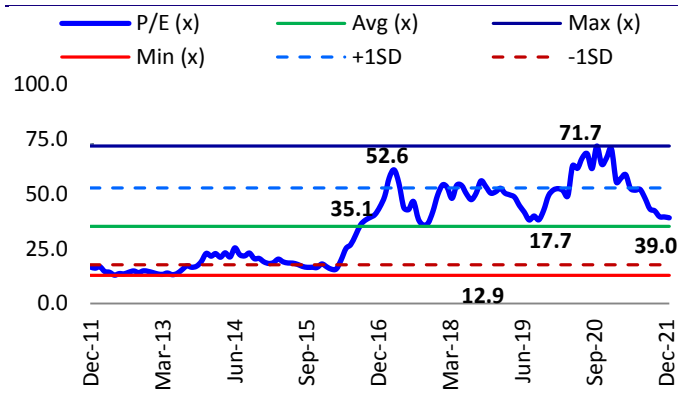
Capex on track to meet the manufacturing requirement of Wave 2 Biosimilars

- BIOS is expected to spend USD100m each on the Generics and Biologics business. In the Biologics segment, capex would be incurred largely towards expanding its drug substance facility at Bengaluru to cater for Wave 2 molecules and maintenance of existing facilities.

Valuation and view

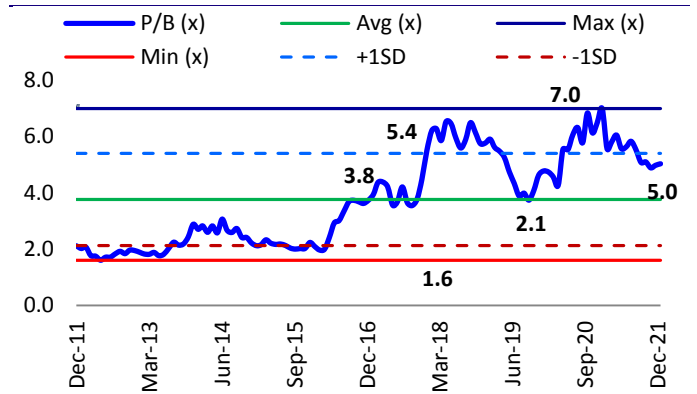
- We expect Semglee to ramp-up with the new formulary listing with Express Scripts. We expect 36% earnings CAGR over FY21-23E, led by a 14%/17% sales CAGR in Biologics/Research Services and 300bp margin expansion.
- We value BIOS at 32x 12-month forward earnings to arrive at our TP of INR360. We maintain our Neutral rating as current valuations adequately captures in potential upsides from a ramp-up in launched Biosimilars in the US.

Exhibit 1: P/E chart



Source: MOFSL, Company, Bloomberg

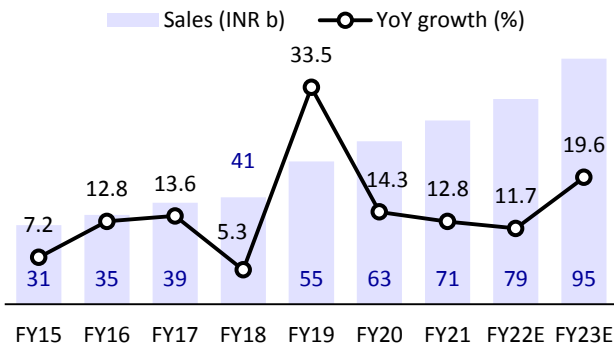
Exhibit 2: P/B chart



Source: MOFSL, Company, Bloomberg

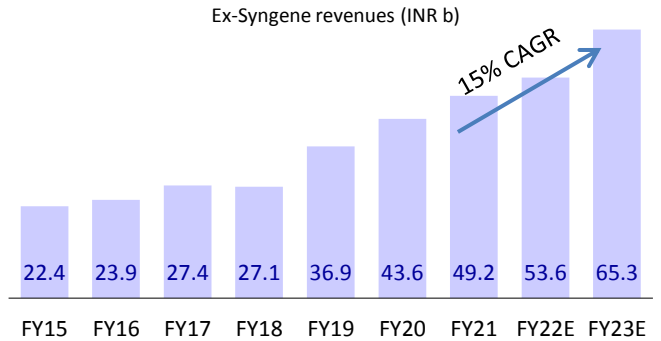
Story in charts

Exhibit 3: Expect ~16% revenue CAGR over FY21-23E



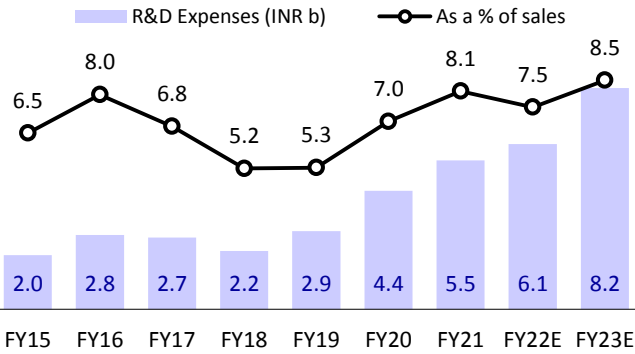
Source: MOFSL, Company

Exhibit 4: New launches/ramp-up to drive revenue, excluding Syngene



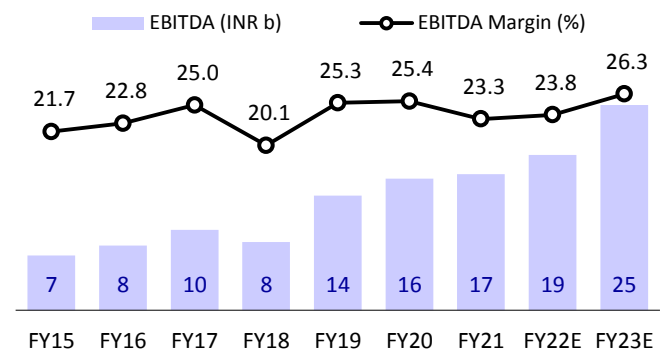
Source: MOFSL, Company

Exhibit 5: R&D spends to inch up for new products



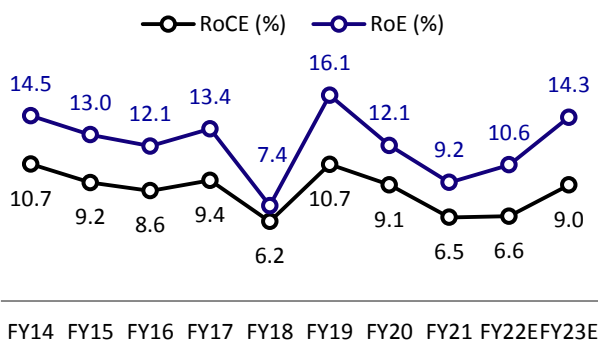
Source: MOFSL, Company

Exhibit 6: Superior product mix to drive margin



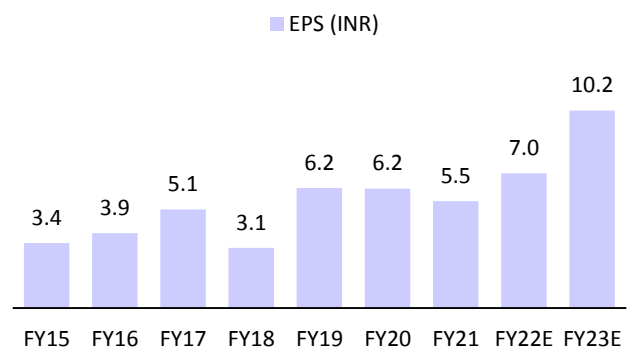
Source: MOFSL, Company

Exhibit 7: RoE to resume its upward trajectory from FY22E



Source: MOFSL, Company

Exhibit 8: Expect 36% EPS CAGR over FY21-23E



Source: MOFSL, Company

Financials and valuations

Consolidated Income Statement

(INR m)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Net Income	28,527	30,592	34,507	39,216	41,297	55,144	63,005	71,058	79,372	94,933
Change (%)	17.5	7.2	12.8	13.6	5.3	33.5	14.3	12.8	11.7	19.6
Total Expenditure	21,902	23,940	26,654	29,421	33,006	41,211	46,974	54,504	60,483	69,934
EBITDA	6,625	6,652	7,853	9,795	8,291	13,933	16,031	16,554	18,890	24,999
Change (%)	36.5	0.4	18.1	24.7	-15.4	68.0	15.1	3.3	14.1	32.3
Margin (%)	23.2	21.7	22.8	25.0	20.1	25.3	25.4	23.3	23.8	26.3
Depreciation	2,036	2,210	2,423	2,772	3,851	4,478	5,522	7,145	8,466	8,817
EBIT	4,589	4,442	5,430	7,023	4,440	9,455	10,509	9,409	10,423	16,182
Int. and Finance Charges	17	89	102	260	615	709	649	577	761	646
Other Income – Rec.	805	837	1,192	1,571	2,062	1,444	1,614	1,005	2,400	1,700
Extraordinary income	0	1,051	5,754	0	0	1,946	675	910	-1,770	
PBT	5,377	6,241	12,274	8,334	5,887	12,136	12,149	10,747	10,292	17,236
Tax	1,069	957	2,569	1,616	1,569	2,123	3,151	2,222	2,470	3,964
Tax Rate (%)	19.9	15.3	20.9	19.4	26.7	17.5	25.9	20.7	24.0	23.0
Minority Interest	170	310	744	760	594	964	1227	1051	841	1009
Adjusted PAT	4,137	4,023	4,646	5,958	3,690	7,441	7,410	6,624	8,358	12,263
PAT	4,137	4,084	4,411	5,958	3,724	9,053	7,769	7,438	6,981	12,263
Change (%)	26.5	-2.8	15.5	28.3	-38.1	101.7	-0.4	-10.6	26.2	46.7
Margin (%)	14.5	13.4	12.8	15.2	8.9	16.4	12.3	10.5	8.8	12.9

Consolidated Balance Sheet

(INR m)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Equity Share Capital	1,000	1,000	1,000	3,000	3,000	3,000	6,000	6,000	6,000	6,000
Other Reserves	29,258	31,697	39,329	45,368	48,808	57,980	61,058	70,269	75,209	83,886
Net Worth	30,267	32,706	40,338	48,377	51,808	60,980	67,058	76,269	81,209	89,886
Loans	8,497	10,306	24,673	22,054	19,201	18,028	19,797	36,783	33,783	30,783
Minority Interest	823	1,722	2,658	3,761	4,677	6,089	6,773	8,807	9,648	10,657
Deferred liabilities	6558	5934	3489	1964	2167	5816	13794	24212	24212	24212
Capital Employed	46,145	50,667	71,158	76,156	77,853	90,913	107,422	146,071	148,852	155,537
Gross Block	27,218	29,750	33,113	53,269	57,532	68,240	85,167	93,959	98,459	104,959
Less: Accum. Deprn.	11,711	13,943	16,302	17,740	21,235	25,713	31,235	38,386	46,852	55,669
Net Fixed Assets	15,507	15,807	16,811	35,529	36,297	42,527	53,932	55,573	51,607	49,290
Capital WIP	10,831	14,939	20,597	5,327	7,789	12,869	15,765	22,535	25,035	27,535
Investments	7,649	2,303	9,015	12,538	6,752	10,118	9,661	19,519	20,722	20,121
Intangibles	1,442	2,320	2,470	3,787	5,937	8,303	11,974	13,533	14,886	16,375
Curr. Assets	22,077	28,384	34,973	34,786	41,188	44,860	49,426	70,986	80,677	95,193
Inventory	3,766	4,527	5,424	6,353	7,225	10,316	14,359	18,666	21,311	24,709
Account Receivables	5,998	7,705	7,145	8,832	10,639	12,918	12,237	12,176	15,222	17,686
Cash and Bank Balance	8,044	9,375	15,386	10,443	13,228	10,572	9,986	20,154	21,746	26,009
Loans and Advances	4,269	6,777	7,018	9,158	10,096	11,054	12,844	19,990	22,398	26,789
Curr. Liability and Prov.	11,361	13,087	12,708	15,811	20,110	27,764	33,336	36,075	44,076	52,976
Account Payables	9,595	11,355	12,334	15,343	19,645	26,959	32,306	34,981	39,292	47,255
Provisions	1,766	1,732	374	468	465	805	1,030	1,094	4,784	5,722
Net Current Assets	10,716	15,297	22,265	18,975	21,078	17,096	16,090	34,911	36,602	42,217
Appl. of Funds	46,145	50,667	71,158	76,156	77,853	90,913	107,422	146,071	148,852	155,537

Financials and valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Basic (INR)										
EPS	3.4	3.4	3.9	5.1	3.1	6.2	6.2	5.5	7.0	10.2
Cash EPS	5.1	5.2	5.7	7.3	6.3	11.3	11.1	12.2	12.9	17.6
BV/Share	25.2	27.2	33.6	40.3	43.2	50.8	55.9	63.6	67.7	74.9
DPS	0.8	0.8	0.8	1.0	1.0	0.5	1.6	0.0	1.5	2.6
Payout (%)	28.3	25.2	25.1	11.8	19.0	7.8	29.3	0.0	29.3	29.3
Valuation (x)										
P/E	108.2	111.3	96.4	73.1	120.2	60.1	60.4	67.6	53.6	36.5
Cash P/E	72.5	71.1	65.5	51.3	59.4	33.1	33.7	30.7	29.0	21.2
P/BV	14.8	13.7	11.1	9.3	8.6	7.3	6.7	5.9	5.5	5.0
EV/Sales	16.8	15.8	14.1	12.4	11.7	8.8	7.7	6.8	6.0	5.0
EV/EBITDA	72.2	72.8	61.8	49.5	58.5	34.6	30.3	29.1	25.2	18.8
Dividend Yield (%)	0.2	0.2	0.2	0.3	0.3	0.1	0.4	0.0	0.4	0.7
Return Ratios (%)										
RoE	14.5	13.0	12.1	13.4	7.4	16.1	12.1	9.2	10.6	14.3
RoCE	10.7	9.2	8.6	9.4	6.2	10.7	9.1	6.5	6.6	9.0
RoIC	18.5	17.2	17.1	15.3	6.7	14.5	12.0	9.6	9.6	15.3
Working Capital Ratios										
Fixed Asset Turnover (x)	1.9	2.0	2.1	1.5	1.1	1.4	1.3	1.3	1.5	1.9
Debtor (Days)	77	92	76	82	94	86	71	63	70	68
Inventory (Days)	48	54	57	59	64	68	83	96	98	95
Working Capital (Days)	34	71	73	79	69	43	35	76	68	62
Leverage Ratio (x)										
Current ratio	1.9	2.2	2.8	2.2	2.0	1.6	1.5	2.0	1.8	1.8
Net Debt/Equity	0.0	0.0	0.2	0.2	0.1	0.1	0.1	0.2	0.1	0.1

Consolidated Cash Flow Statement

(INR m)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Oper. Profit/(Loss) before Tax	6,625	5,284	6,091	6,881	4,531	10,026	8,709	8,462	18,890	24,999
Interest/Dividends Recd.	805	-346	-619	-1,271	-452	-908	-824	-770	2,400	1,700
Direct Taxes Paid	800	-1,334	-2,465	-2,030	-1,971	-2,915	-3,441	-1,938	-2,470	-3,964
(Inc.)/Dec. in WC	876	-3,540	-1,762	-2,111	-1,065	-291	-1,651	-4,238	-99	-1,352
CF from Operations	5,607	2,107	3,706	6,400	6,621	11,546	12,831	11,597	18,721	21,383
(Incr.)/Dec. in FA	-11,031	-9,169	-8,046	-7,623	-9,199	-14,924	-18,436	-17,559	-7,000	-9,000
Free Cash Flow	-5,424	-7,062	-4,340	-1,223	-2,578	-3,378	-5,605	-5,962	11,721	12,383
(Pur.)/Sale of Investments	-1,935	3,602	-4,184	1,239	1,689	6,984	1,844	-18,512	-2,557	-887
CF from investments	-9,381	-5,087	-11,417	-4,985	-6,840	-7,138	-15,589	-36,247	-9,557	-9,887
Change in Net Worth	354	40	-51	43	168	-692	25	314	-1,377	0
(Inc.)/Dec. in Debt	6,009	3,273	13,429	-1,232	-1,141	75	186	5,872	-3,000	-3,000
Interest Paid	-17	-5	-501	-586	-637	-1,007	-912	-1,160	-761	-646
Dividend Paid	-1,170	-1,446	-2,201	-	-787	-793	-701	0	-2,041	-3,586
Others	-915	0	0	0	0	0	5,278	20,614	-200	
CF from Fin. Activity	4,260	1,862	10,676	-1,775	-2,397	-2,417	3,876	25,640	-7,379	-7,233
Inc./Dec. in Cash	486	-1,118	2,965	-360	-2,616	1,991	1,118	990	1,785	4,263
Add: Beginning Balance	4,740	5,570	4,575	7,575	7,102	4,490	6,593	8,247	9,237	11,022
Closing Balance	5,226	4,452	7,540	7,215	4,486	6,481	7,711	9,237	11,022	15,285
FX	344	123	35	-113	4	112	536	71	66	66
Bank balances/Overdraft	2,474	4,800	7,811	3,341	8,738	3,979	1,739	10,846	10,846	10,846
Total Cash and cash Eq.	8,044	9,375	15,386	10,443	13,228	10,572	9,986	20,154	21,746	26,009

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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