

KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- Revenue at Rs 2,223 Cr for Q3FY22, up 18%; EBITDA at Rs. 537 Cr, up 28%.
- Generics - three new approvals, partnership with Tabuk Pharmaceuticals for expansion into the Middle East and North Africa.
- Biosimilars - interchangeable bGlargine launched in US and received preferred status in the national formularies of two leading U.S. Pharmacy Benefit Managers.
- Novel Biologics - on track to initiate a Pivotal Study in early CY22 for use of Itolizumab in the First-Line treatment of Acute Graft Versus Host Disease.
- Research Services - Discovery Services and the Dedicated Centers were key growth drivers, while Development Services and Manufacturing Services delivered sustained performances

2. MANAGEMENT COMMENTARY:

- Management expect busy FY22Q4 for Research Services and has raised revenue growth guidance for the full year to high teens.
- Initiated expansion of insulin manufacturing facility in Malaysia.
- Few biosimilar molecules are expected to enter the clinic in FY22Q4.

3. SEGMENTAL ANALYSIS:

The company has four segments – Generics, Biosimilars, Novel Biologics and Research Services.

Particulars	Q3FY22	Q2FY22	Q3FY21
Generic	27%	28%	30%
Biosimilars	44%	39%	40%
Novel Biologics	0%	1%	0%
Research Services	29%	32%	30%

4. IMPORTS / EXPORTS:

- The company is a global player with presence across the globe. International markets contribute major part of the revenue.
- The company imports some raw material and also has manufacturing facility at international location.

5. OTHER DEVELOPMENTS:

- Alliance with Serum Institute Life Sciences, which involves a merger of Covishield Technologies Private Ltd into Biocon Biologics, is on track
- Completed a PK-PD study for its biosimilar recombinant human Insulin R with the U.S. licensed Humulin R formulation
- 5-year renewal of the long-standing contract with Amgen, to add a new state-of-the-art dedicated laboratory to accelerate the advancement of Amgen's R&D projects

6. VALUATION AND OUTLOOK:

- Fully integrated global player, with strong product pipeline, is expected to report strong topline and bottomline growth with commercialization of products and market share gain.
- We expect company to deliver strong topline growth for next few years and recommend to ACCUMULATE the stock with price target of Rs. 422.

RECOMMENDATION - ACCUMULATE

CMP - 377
TARGET - 422 (12%)

Industry	Pharmaceuticals & Drugs
NSE CODE	BIOCON
BSE CODE	532523
Market Cap (₹ Cr)	45214.60
Shares Outstanding (in Cr)	120.06
52 wk High/Low (₹)	424.75 / 314.80
P/E	67.93
P/BV	5.52
Face Value (₹)	5.00
Book Value (₹)	67.91
EPS (FY21) (₹)	6.17
Dividend Yield (%)	0.00
Debt / Equity	0.58
Interest Coverage	20.88

SHAREHOLDING PATTERN

	Dec 21	Sep 21	Jun 21
Promoters	60.6	60.6	60.6
Mutual Funds	2.5	2.6	2.6
FII/FPI	16.0	15.7	15.9
Retail & Others	16.0	16.2	15.9
Promoter Pledging	0.0	0.0	0.0

FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2021A	2022E	2023E
Core			
Sales	7106	8172	9806
Sales Gr. (%)	12.8	15.0	20.0
EBITDA	1302	1839	2206
EBITDA mrg. (%)	26.8	22.5	22.5
Adj. PAT	925	1092	1342
Adj. EPS (₹)	6.2	7.3	8.9
EPS Gr. (%)	-1.0	18.0	22.9
BV/Sh. (₹)	62	70	78
Ratios			
RoE (%)	13.2	13.9	15.1
RoCE (%)	11.3	11.9	13.0
Payout (%)	0.0	0.0	0.0
Valuation			
P/E (x)	66.2	61.8	61.5
P/BV (x)	6.6	6.5	7.0
EV/EBITDA (x)	27.0	21.0	21.4

3 Yr. Average

Historical P/E	67.9
Industry P/E	39.1
Historical P/B	5.5
Industry P/B	4.9



QUARTERLY PERFORMANCE

QUARTERLY PERFORMANCE (CONSOLIDATED)

(₹ Cr)

Y/E March	FY21				FY22				FY21	FY22E*
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4E		
Net sales	1,694	1,750	1,857	1,839	1,761	1,840	2,174	2,396	7,106	8,172
YoY change (%)	16.10	11.64	8.19	18.05	3.94	5.18	17.06	30.34	12.8	15.0
EBITDA	413	391	400	436	389	446	488	515	1,302	1,839
Margins (%)	24.4	22.4	21.5	23.7	22.1	24.2	22.5	21.5	18.3	22.5
YoY growth (%)	-5.53	-2.83	-10.00	36.79	-5.81	13.90	22.11	18.25	-18.8	41.2
Depreciation	167	178	186	184	195	202	206	77	715	679
Interest	13	7	5	34	20	23	15	12	58	69
Other income	18	16	28	205	47	105	48	20	267	220
PBT	252	223	237	436	222	257	316	516	1,147	1,310
Tax	81	22	49	69	57	46	49	65	222	218
Rate (%)	32.1	10.0	20.7	15.9	25.8	18.0	15.6	12.7	19.3	20.0
Adjusted PAT	171	200	188	366	165	210	267	450	925	1,092
YoY change (%)	-27.25	-23.86	-19.61	118.63	-4.03	4.94	42.14	22.99	330.3	18.0
Key Performance Indicators										
RM Cost (% of Sales)	29.5	37.2	35.6	33.7	39.9	32.8	35.0	26.3	34.2	33.0
Staff Cost (% of Sales)	23.2	24.7	24.9	24.6	24.8	26.0	22.8	26.4	24.5	25.0
Other Costs (% of Sales)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA Margin (%)	24.4	22.4	21.5	23.7	22.1	24.2	22.5	21.5	18.3	22.5
PAT Margin (%)	10.1	11.5	10.1	19.9	9.3	11.4	12.3	13.3	13.0	11.8

Source: Company, Hem Securities Research.

***Insights into the assumptions:**

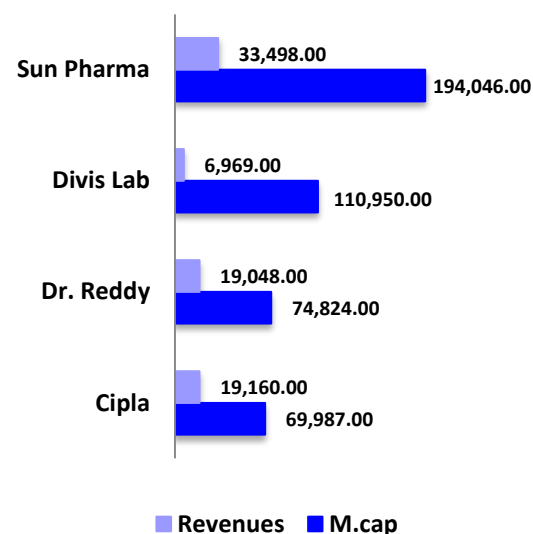
- 1> The topline is expected to growth at 15% for next year.
- 2> We expect EBITDA margin to improve to 22.5%.

INDUSTRY OVERVIEW

- India is the largest provider of generic medicines globally with 20% share by volume and global vaccine supplier with 62% share. India is home to more than 3,000 pharmaceutical companies with a strong network of over 10,500 manufacturing facilities. The sector is significant contributor to India's economic growth and employs over 2.7 million people.
- The Indian pharmaceutical market is currently valued at US\$ 42 billion and expected to grow 3x in the next decade to ~US\$ 120-130 billion by 2030. Exports market stood at US\$ 24.44 billion in FY21. India is the 12th largest exporter of medical goods in the world. The country's pharmaceutical sector contributes 6.6% to the total merchandise exports.
- Medicine spending in India is projected to grow 9-12% over the next five years, leading India to become one of the top 10 countries in terms of medicine spending.
- Indian pharmaceutical companies are expected to play a major role in global market too, being a low cost producer. Rising R&D spend by pharmaceuticals companies, increasing penetration of health insurance, policy support and increasing investment are expected to aid the growth.
- India's biotechnology industry comprises biopharmaceuticals, bio-services, bio-agriculture, bio-industry, and bioinformatics. The Indian biotechnology industry was valued at US\$ 64 billion in 2019 and is expected to reach US\$ 150 billion by 2025.

Source : IBEF

KEY PLAYERS



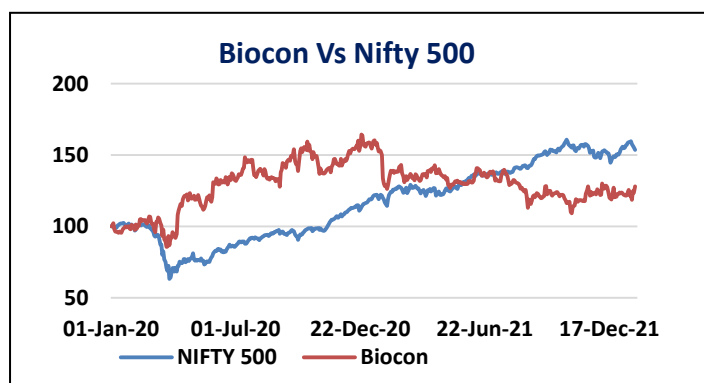
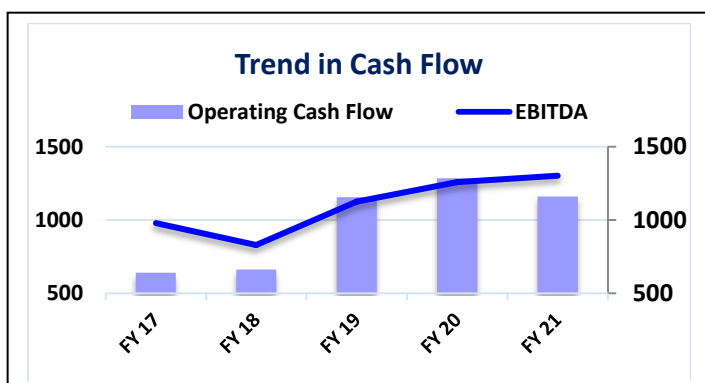
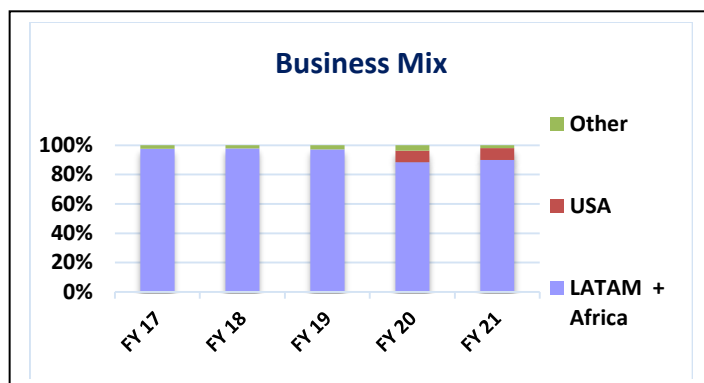
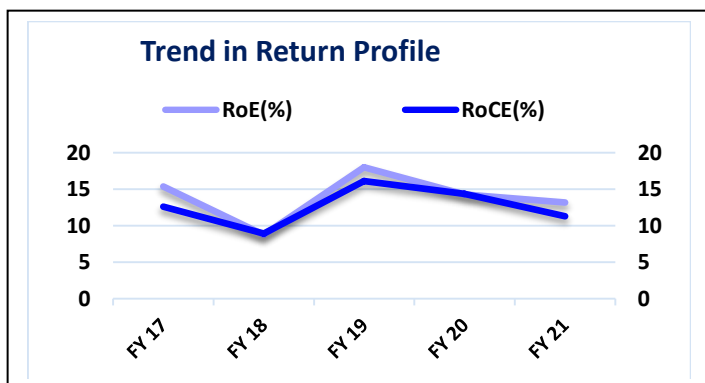
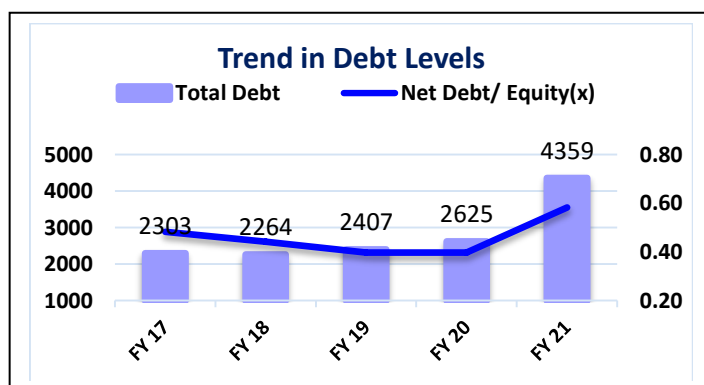
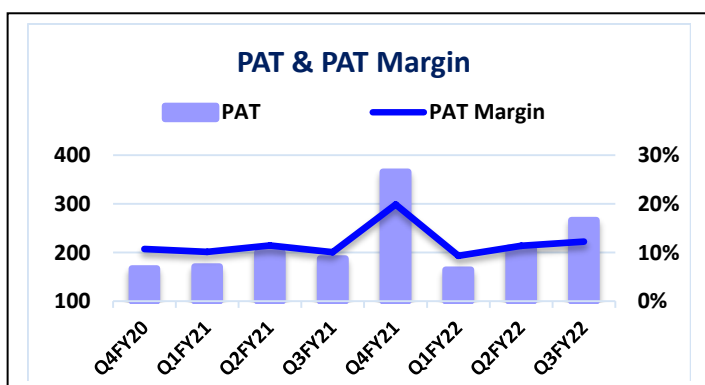
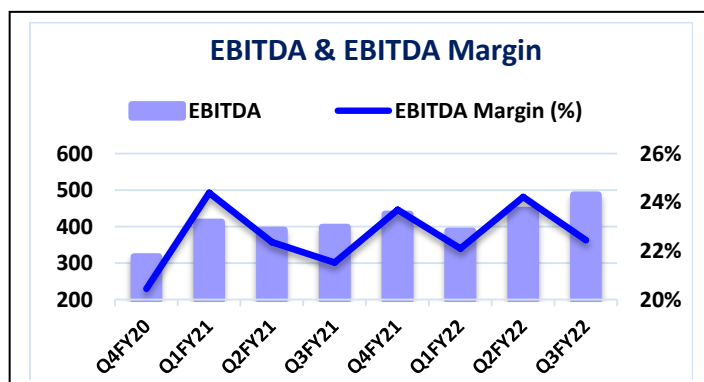
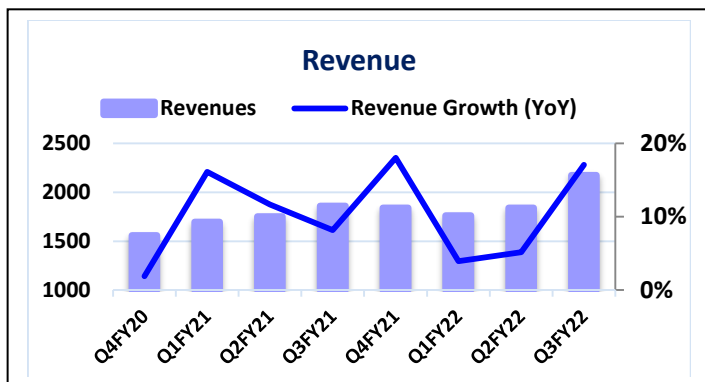
PEER PERFORMANCE

(₹ Cr)

Particulars	Biocon Ltd.	Alkem Laboratories Ltd.	Torrent Pharmaceuticals Ltd.	Dr. Reddy's Laboratories Ltd.
Market Cap	45215	42511	53478	74863
Net Sales	7106	8865	8005	19048
EBITDA	1302	1942	2467	3870
PAT	925	1618	1252	1904
EPS(₹)	6	133	74	117
EBITDA MARGIN %	26.8	16.6	17.1	21.8
PAT MARGIN %	13.0	12.3	8.4	10.0
ROCE %	11.3	22.6	17.6	15.2
ROE %	13.2	23.9	23.5	11.5
P/E TTM	67.9	24.5	42.3	37.9
P/B TTM	5.5	142.5	74.9	117.9
EV / EBITDA	5.5	5.0	8.6	4.0
Dividend Yield %	0.0	0.8	1.1	0.6
MCap/ Sales TTM	5.9	4.2	6.6	3.8

Source: Company, Hem Securities Research.

STORY IN CHARTS



INVESTMENT RATIONALE:

- After year of muted performance, the company is now expected to report strong topline and bottomline growth as the product pipeline commercializes and gain market share.
- The company has robust product pipeline across multiple therapeutic areas and expertise in large scale biologics manufacturing across diverse technology platforms.
- The company has strong local and global partnerships for market expansion and penetration. The partnership provide good platform for launch of company's products.

RISK FACTORS:

- Entry of new player could reduce market share or create pressure on margins or impact growth.
- Regulator actions, audits could adversely impact operations.
- Logistic issues and availability of key raw materials could impact delivery timeline and dent margins.

COMPANY RECAP

- Biocon Ltd manufactures biotechnological products catering to the healthcare segment. Biocon has evolved from manufacturing pharmaceuticals like statins and immunosuppressant, to discovering, developing and producing biologics in chronic therapies such as diabetes, oncology and immunology for global markets. This has translated into a diversified and differentiated pipeline of fermentation-derived complex generics, biosimilars that include insulins and monoclonal antibodies, and novel biologics.
- The company has four segment –
 - **Generics** aims at ensuring access through quality, affordability, reliability
 - **Biologics** is expanding access through innovative, inclusive healthcare solutions
 - **Novel Biologics** is pushing scientific boundaries to deliver impactful innovations
 - **Research Services** partners to deliver innovative scientific solutions
- The company has been focusing on biopharmaceuticals for more than a decade and is poised for global impact with iots biosimilar business.
- The company has over 1200 patents with product availability in more than 120 countries.
- The company has more than 25 cMGP approvals from international regulatory agencies and ranked 5 among Global Biotech Employers by science magazine.

ANNUAL PERFORMANCE

Financials & Valuations

Income Statement							(₹ Cr)	
Y/E March	2017	2018	2019	2020	2021	2022E	2023E	
Revenue from operations	3,891	4,123	5,514	6,301	7,106	8,172	9,806	
<i>Growth YoY (%)</i>	16.2	6.0	33.7	14.3	12.8	15.0	20.0	
Total Expenditure	2,912	3,294	4,391	5,044	5,804	6,333	7,600	
<i>(%) of sales</i>	74.8	79.9	79.6	80.0	81.7	77.5	77.5	
EBITDA	980	829	1,124	1,257	1,302	1,839	2,206	
<i>EBITA Growth (%)</i>	34.2	-8.9	48.6	14.7	8.1	41.2	120.0	
<i>EBITA Margin (%)</i>	29.0	25.1	27.9	28.0	26.8	22.5	22.5	
Depreciation	277	385	448	552	715	679	747	
EBIT	1,111	974	1,467	1,700	1,849	1,159	1,459	
<i>EBIT Growth (%)</i>	13.2	-24.3	97.6	-0.4	-5.9	-37.3	25.9	
Net Interest Expenses	26	62	71	65	58	69	69	
Other Income	157	206	414	508	605	220	220	
Exceptional Items	0	0	195	68	13	0	0	
Earnings before Taxes	833	589	1,214	1,215	1,147	1,310	1,610	
<i>EBT Growth (%)</i>	11.1	-29.4	106.2	0.1	-5.6	14.3	22.9	
<i>EBT Margin (%)</i>	21.3	14.3	22.0	19.3	16.1	16.0	16.4	
Tax-Total	162	157	212	315	222	218	268	
<i>Rate of tax (%)</i>	19.4	26.7	17.5	25.9	19.3	16.7	16.7	
Net Profit	672	432	1,002	900	925	1,092	1,342	
<i>PAT Growth (%)</i>	14.4	-35.7	132.0	-10.2	2.8	18.0	22.9	
<i>PAT Margin (%)</i>	17.1	10.5	18.2	14.3	13.0	13.4	13.7	
Minority Interest	-76	-81	-97	-123	-106	0	0	
Adjusted PAT	672	432	1,002	900	925	1,092	1,342	
EPS	5.1	3.1	7.5	6.2	6.2	7.3	8.9	
<i>EPS Growth (%)</i>	11.2	-39.2	143.1	-17.4	-1.0	18.0	22.9	

Balance Sheet						(₹ Cr)	
Y/E March	2017	2018	2019	2020	2021		
Equity Share Capital	754	709	377	369	168		
Reserves & Surplus	6873	5997	5721	4812	4670		
Total Shareholder's Funds (A)	7627	6706	6098	5181	4838		
Minority Interest	881	677	609	468	376		
Long Term Borrowings	2962	1222	1526	1790	2108		
Deferred Tax Liabilities	-275	-338	-325	-193	-198		
Other Long Term Liabilities	2811	1801	921	410	394		
Total Non Current Liabilities (B)	5497	2685	2122	2007	2305		
Trade Payables	1514	1325	1198	1005	740		
Other Current Liabilities	2696	2683	1840	1136	939		
Total Current Liabilities (C)	4210	4008	3039	2141	1678		
Total Equity and Liabilities (A+B+C)	18215	14076	11868	9796	9197		
Property, Plant & Equipment	6364	5971	4471	3700	3625		
Capital Work in progress	2800	2196	1899	1303	839		
Other Non-Current Assets	1450	584	609	645	685		
Total Non Current Assets (A)	10614	8751	6979	5648	5149		
Inventory	1867	1436	1032	723	635		
Debtors	1218	1224	1292	1064	883		
Cash and Bank Balance	2015	999	1057	1323	1044		
Other Current Assets	2501	1667	1508	1039	1485		
Total Current Assets (B)	7600	5325	4889	4149	4048		
Total Assets(A+B)	18215	14076	11868	9796	9197		

Source: Company, Hem Securities Research.

Ratios					
Y/E March (Basic (INR))	2017	2018	2019	2020	2021
Profitability and return ratios					
Net profit margin (%)	17.1	10.5	18.2	14.3	13.0
EBITDA margin (%)	29.0	25.1	27.9	28.0	26.8
EBIT margin (%)	21.9	15.7	23.3	20.3	17.0
ROE (%)	15.4	8.7	18.0	14.3	13.2
ROCE (%)	12.6	8.9	16.1	14.4	11.3
Working Capital & liquidity ratios					
Payables (Days)	78.7	88.0	82.0	81.6	84.8
Inventory (Days)	54.8	60.0	58.1	71.5	84.8
Receivables (Days)	74.4	86.0	78.0	72.9	62.7
Current Ratio (x)	2.4	1.9	1.6	1.3	1.8
Valuations Ratios					
EV/sales (x)	6.1	8.9	6.9	5.4	7.2
EV/EBITDA (x)	21.1	35.3	24.7	19.3	27.0
P/E (x)	37.0	95.7	40.5	43.4	66.2
P/BV (x)	4.8	7.0	6.1	4.9	6.6
Dividend Yield (%)	0.3	0.2	0.2	0.0	0.0
Return on Assets (%)	7.6	4.5	9.2	6.9	5.7
Leverage Ratio					
Debt/Equity (x)	0.5	0.4	0.4	0.4	0.6

Cash Flow Statement					(₹ Cr)
Y/E March	2017	2018	2019	2020	2021
Profit Before Tax	850	610	1,003	871	846
Adjustments	204	356	473	921	931
Change in Working Capital	-211	-107	-29	-165	-424
CF from Operating activities (A)	640	662	1,155	1,283	1,160
CF from Investing Activities (B)	-499	-684	-714	-1,559	-3,625
CF from Financing Activities (C)	-178	-240	-242	388	2,564
Incr/Decr of Cash (A+B+C)	-36	-262	199	112	99
Add: Opening Bal.	758	710	449	659	825
Closing Balance	710	449	659	825	897

Source: Company, Hem Securities Research.

RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

RECOMMENDATION SUMMARY

DATE	RATING	TARGET
22-Jan-2021	ACCUMULATE	422

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Name of the Research Analyst: PRIYA GUPTA

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2.	Research Analyst or his/her relative or HSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3.	Research Analyst or his/her relative or HSL has any other material conflict of interest at the time of publication of the Research Report	No
4.	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5.	HSL has received any compensation from the subject company in the past twelve months	No
6.	HSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
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8.	HSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9.	HSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10.	Research Analyst or HSL has been engaged in market making activity for the subject company(ies)	No

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