

**BSE SENSEX**

56,247

**S&P CNX**

16,794


**Stock Info**

Bloomberg	BIOS IN
Equity Shares (m)	1,200
M.Cap.(INRb)/(USDb)	418.9 / 5.6
52-Week Range (INR)	424 / 315
1, 6, 12 Rel. Per (%)	-2/0/-25
12M Avg Val (INR M)	1237
Free float (%)	39.4

**Financials and Valuations (INR b)**

Y/E March	FY22E	FY23E	FY24E
Sales	80.9	107.9	150.2
EBITDA	20.0	27.8	40.2
Adjusted PAT	8.2	13.4	20.1
EBIT Margin (%)	14.6	18.0	20.4
Cons. Adj EPS (INR)	6.9	11.2	16.7
EPS Gro. (%)	24.5	62.4	49.8
BV/Sh. (INR)	67.2	137.6	149.5

**Ratios**

Net D-E	0.1	0.6	0.5
RoE (%)	10.5	10.9	11.7
RoCE (%)	7.3	7.0	7.7
Payout (%)	29.3	29.3	29.3

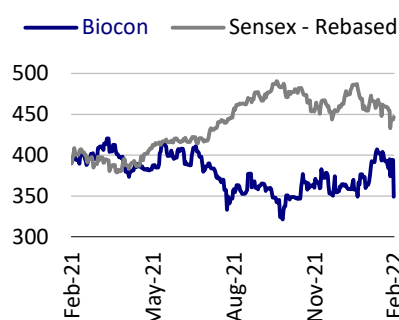
**Valuations**

P/E (x)	50.8	31.3	20.9
EV/EBITDA (x)	23.9	19.7	13.7
Div. Yield (%)	0.4	0.8	1.2
FCF Yield (%)	2.6	2.7	4.5
EV/Sales (x)	5.9	5.1	3.7

**Shareholding pattern (%)**

As On	Dec-21	Sep-21	Dec-20
Promoter	60.6	60.6	60.7
DII	7.4	7.4	6.0
FII	16.7	16.5	18.6
Others	15.3	15.5	14.7

FII Includes depository receipts

**Stock performance (one-year)**

**CMP: INR349**
**TP: INR385 (+10%)**
**Neutral**
**Biosimilar deal with Viatriis completes the value chain in its Biologics business**

- BIOS recently announced that its subsidiary, Biocon Biologics (BBL), has entered into a definitive agreement with Viatriis to acquire its Biosimilar business for USD3.3b.
- The deal enhances BBL's commercial/regulatory capabilities in developed markets and gives it the option to acquire b-Aflibercept (a potential Biosimilar asset).
- The valuation, based on estimates shared by the management, stands at 3.8x/3x CY22/CY23 sales and 16.5x/13.2x CY22/CY23 EBITDA.
- While the deal forward integrates BBL in the Biologics value chain, the valuation paid for acquiring the Viatriis' commercial infrastructure in developed markets is expensive.
- We raise our FY23E/FY24E EPS estimate by 3.4%/15% to factor in Viatriis' business. We value BIOS on a SoTP basis (valuing BBL at 30x EV/EBITDA for its 65% stake post-completion of the deal, valuing its 70.4% stake in Syngene at current market capitalization, value the Small Molecules business at 10x EV/EBITDA, and deducting a net debt of USD1.5b) to arrive at our TP of INR385/share. We remain Neutral given the limited upside from current levels.

**Strategic background**

- BBL (a subsidiary of BIOS) will acquire Viatriis' Biosimilar business to create a vertically integrated company in the Biologics segment. With this acquisition, BBL will acquire the commercial infrastructure in developed/emerging markets, rights for all Biosimilar assets (including the in-licensed portfolio), and the option to acquire rights of b-Aflibercept. This also fills BBL's gap in regulatory development and supply chain management of Biosimilars in the developed market.
- The management pegs the estimated revenue/EBITDA of Viatriis' Biosimilar business at USD875m/USD200m and USD1.1b/USD250m in CY22 and CY23, respectively.

**Financing details**

- Out of the USD3.3b payment, the cash consideration is expected to be USD2b. There will be compulsory issuance of convertible preference shares worth USD1b (effectively 12.9% stake in Biocon Biologics) and an additional payment of USD335m expected in CY24.
- Out of the cash consideration of USD2b, ~USD800m will be from the recent equity infusions into Biocon Biologics and remainder via debt.
- Of the USD335m payment, USD175m is towards the option to acquire b-Aflibercept.
- BBL would receive USD50m from Viatriis for capex funding.
- Viatriis would provide commercial and transition services for a two-year period at cost plus USD44m on a per annum basis. The transaction is expected to close in 2HCY22, subject to regulatory approvals.

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

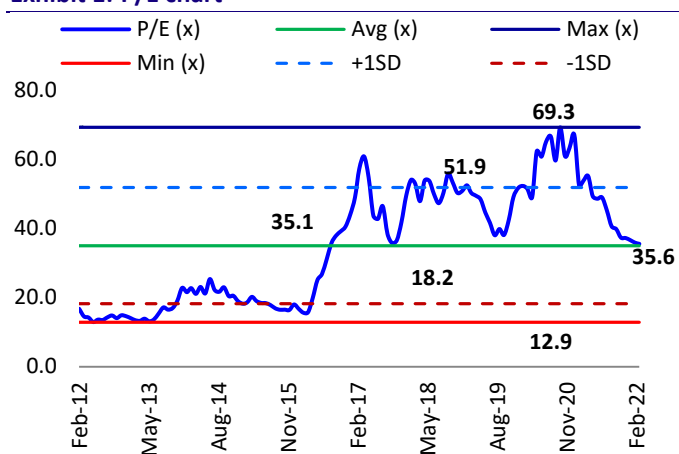
### The deal enables end-to-end capabilities at expensive valuations

- BIOS have built up its development/manufacturing skill set in Biologics over a period of time, with seven commercialized products and an overall portfolio of 20 Biosimilars (with the balance at various stages of development).
- While BIOS has established its presence across the value chain of Biosimilars in emerging markets, it was lacking regulatory/supply chain/commercial capabilities in developed markets. Acquisition of Viatris' Biologics business fills this gap.
- At 3.8x/3x CY22E/CY23E sales and 16.5x/13.2x CY22E/CY23E EBITDA, we believe is expensive for a commercial infrastructure asset.

### Valuation and view

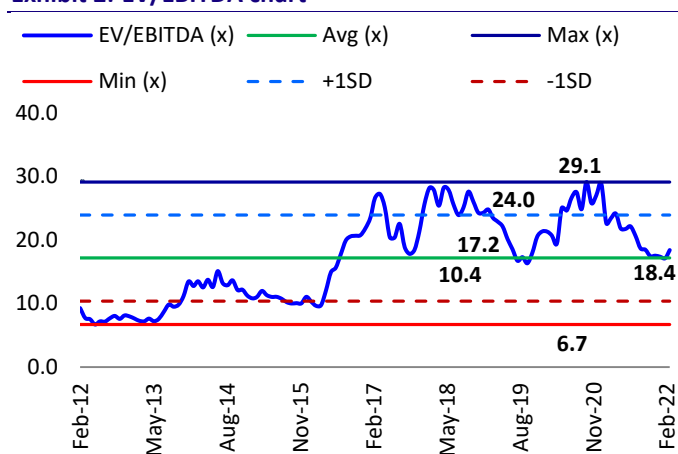
- We raise our FY23E/FY24E EPS estimate by 3.4%/15% to factor in the Viatris business.
- We expect 36%/56% sales/PAT CAGR over FY22-24E, led by better traction in commercialized Biosimilars, launches, addition of Viatris business, and low base of FY22 (excluding the Viatris business). We are factoring in USD1.2b in sales for BBL in FY24E.
- We value BIOS on a SoTP basis: a) valuing BBL at 30x EV/EBITDA for its 65% stake post-completion of the deal, b) valuing its 70.4% stake in Syngene at current m-cap, and c) value the Small Molecules business at 10x EV/EBITDA. Accordingly, we arrive at our TP of INR385/share.
- While the overall outlook on BIOS' Biosimilars/Small Molecules remains encouraging, based on its product pipeline and existing commercial traction, we maintain our Neutral rating as current valuations adequately factor in potential upside in earnings.

Exhibit 1: P/E chart



Source: MOFSL, Bloomberg

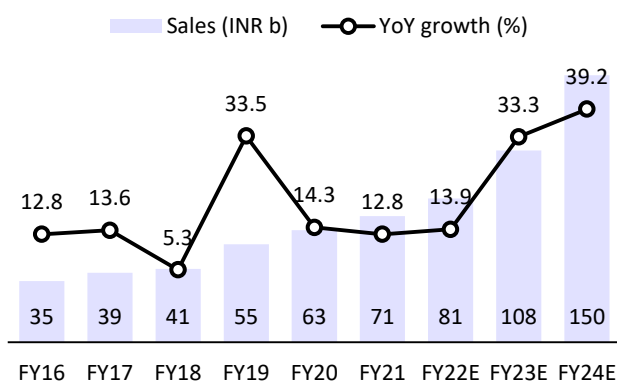
Exhibit 2: EV/EBITDA chart



Source: MOFSL, Bloomberg

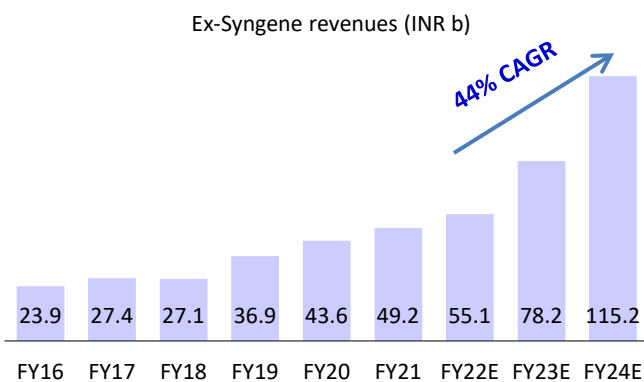
## Story in charts

**Exhibit 3: Expect ~36% revenue CAGR over FY22-24E partly on a low base of FY22**



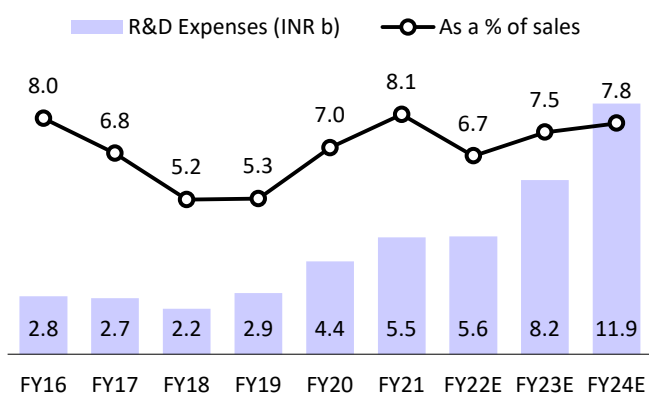
Source: MOFSL, Company

**Exhibit 4: Expect 44% revenue CAGR excluding Syngene**



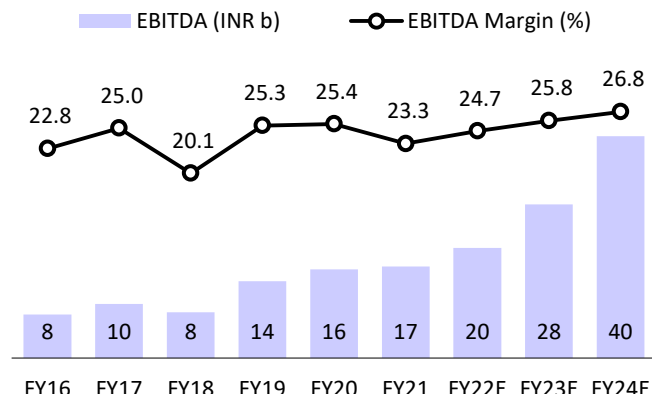
Source: MOFSL, Company

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



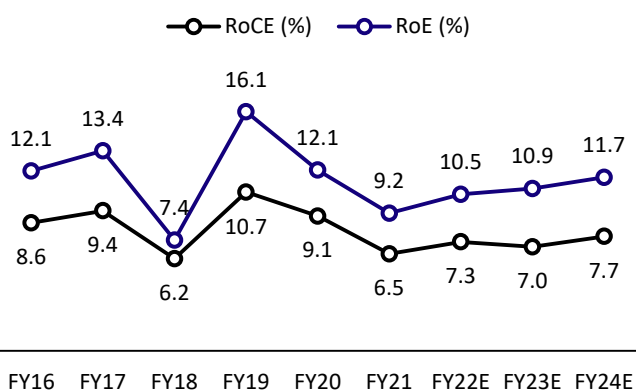
Source: MOFSL, Company

**Exhibit 6: Superior product mix to drive margin**



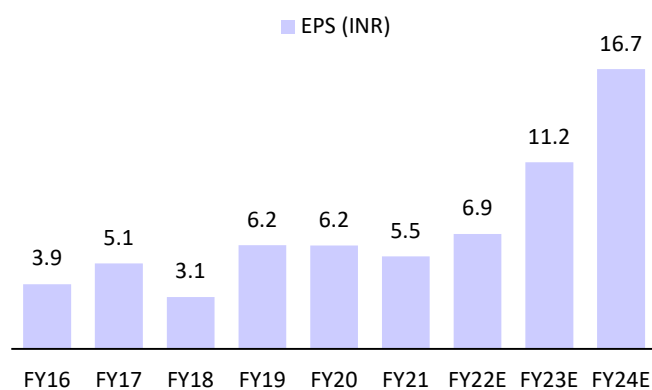
Source: MOFSL, Company

**Exhibit 7: Expect RoE to remain stable over FY22-24E**



Source: MOFSL, Company

**Exhibit 8: Expect 56% EPS CAGR over FY22-24E**



Source: MOFSL, Company

## Financials and valuations

### Consolidated Income Statement

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Net Income</b>	<b>34,507</b>	<b>39,216</b>	<b>41,297</b>	<b>55,144</b>	<b>63,005</b>	<b>71,058</b>	<b>80,903</b>	<b>1,07,879</b>	<b>1,50,183</b>
Change (%)	12.8	13.6	5.3	33.5	14.3	12.8	13.9	33.3	39.2
Total Expenditure	26,654	29,421	33,006	41,211	46,974	54,504	60,943	80,058	1,09,985
<b>EBITDA</b>	<b>7,853</b>	<b>9,795</b>	<b>8,291</b>	<b>13,933</b>	<b>16,031</b>	<b>16,554</b>	<b>19,961</b>	<b>27,821</b>	<b>40,198</b>
Change (%)	18.1	24.7	-15.4	68.0	15.1	3.3	20.6	39.4	44.5
Margin (%)	22.8	25.0	20.1	25.3	25.4	23.3	24.7	25.8	26.8
Depreciation	2,423	2,772	3,851	4,478	5,522	7,145	8,178	8,442	9,500
<b>EBIT</b>	<b>5,430</b>	<b>7,023</b>	<b>4,440</b>	<b>9,455</b>	<b>10,509</b>	<b>9,409</b>	<b>11,783</b>	<b>19,379</b>	<b>30,698</b>
Int. and Finance Charges	102	260	615	709	649	577	1,575	2,341	4,877
Other Income - Rec.	1,192	1,571	2,062	1,444	1,614	1,005	2,400	2,000	1,850
Extraordinary income	5,754	0	0	1,946	675	910	-3,010		
<b>PBT</b>	<b>12,274</b>	<b>8,334</b>	<b>5,887</b>	<b>12,136</b>	<b>12,149</b>	<b>10,747</b>	<b>9,598</b>	<b>19,038</b>	<b>27,670</b>
Tax	2,569	1,616	1,569	2,123	3,151	2,222	2,303	4,379	6,087
Tax Rate (%)	20.9	19.4	26.7	17.5	25.9	20.7	24.0	23.0	22.0
Minority Interest	744	760	594	964	1227	1051	1051	1261	1513
<b>Adjusted PAT</b>	<b>4,646</b>	<b>5,958</b>	<b>3,690</b>	<b>7,441</b>	<b>7,410</b>	<b>6,624</b>	<b>8,249</b>	<b>13,398</b>	<b>20,069</b>
<b>PAT</b>	<b>4,411</b>	<b>5,958</b>	<b>3,724</b>	<b>9,053</b>	<b>7,769</b>	<b>7,438</b>	<b>6,243</b>	<b>13,398</b>	<b>20,069</b>
Change (%)	15.5	28.3	-38.1	101.7	-0.4	-10.6	24.5	62.4	49.8
Margin (%)	12.8	15.2	8.9	16.4	12.3	10.5	7.7	12.4	13.4

### Consolidated Balance Sheet

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	1,000	3,000	3,000	3,000	6,000	6,000	6,000	6,000	6,000
Other Reserves	39,329	45,368	48,808	57,980	61,058	70,269	74,687	1,59,167	1,73,367
<b>Net Worth</b>	<b>40,338</b>	<b>48,377</b>	<b>51,808</b>	<b>60,980</b>	<b>67,058</b>	<b>76,269</b>	<b>80,687</b>	<b>1,65,167</b>	<b>1,79,367</b>
Loans	24,673	22,054	19,201	18,028	19,797	36,783	33,783	1,22,283	1,21,583
Minority Interest	2,658	3,761	4,677	6,089	6,773	8,807	9,858	11,119	12,633
Deferred liabilities	3489	1964	2167	5816	13794	24212	24212	24212	24212
<b>Capital Employed</b>	<b>71,158</b>	<b>76,156</b>	<b>77,853</b>	<b>90,913</b>	<b>1,07,422</b>	<b>1,46,071</b>	<b>1,48,540</b>	<b>3,22,781</b>	<b>3,37,795</b>
Gross Block	33,113	53,269	57,532	68,240	85,167	93,959	98,459	1,04,959	1,10,959
Less: Accum. Deprn.	16,302	17,740	21,235	25,713	31,235	38,386	46,564	55,006	64,506
<b>Net Fixed Assets</b>	<b>16,811</b>	<b>35,529</b>	<b>36,297</b>	<b>42,527</b>	<b>53,932</b>	<b>55,573</b>	<b>51,895</b>	<b>49,953</b>	<b>46,453</b>
Capital WIP	20,597	5,327	7,789	12,869	15,765	22,535	25,035	27,535	30,035
Investments	9,015	12,538	6,752	10,118	9,661	19,519	19,416	30,944	14,107
Intangibles	2,470	3,787	5,937	8,303	11,974	13,533	14,886	1,66,375	1,83,012
<b>Curr. Assets</b>	<b>34,973</b>	<b>34,786</b>	<b>41,188</b>	<b>44,860</b>	<b>49,426</b>	<b>70,986</b>	<b>82,233</b>	<b>1,08,174</b>	<b>1,47,302</b>
Inventory	5,424	6,353	7,225	10,316	14,359	18,666	21,722	28,078	38,266
Account Receivables	7,145	8,832	10,639	12,918	12,237	12,176	15,516	20,098	27,156
Cash and Bank Balance	15,386	10,443	13,228	10,572	9,986	20,154	22,165	29,556	40,323
Loans and Advances	7,018	9,158	10,096	11,054	12,844	19,990	22,830	30,442	41,557
<b>Curr. Liability and Prov.</b>	<b>12,708</b>	<b>15,811</b>	<b>20,110</b>	<b>27,764</b>	<b>33,336</b>	<b>36,075</b>	<b>44,926</b>	<b>60,201</b>	<b>83,115</b>
Account Payables	12,334	15,343	19,645	26,959	32,306	34,981	40,049	53,698	74,063
Provisions	374	468	465	805	1,030	1,094	4,876	6,502	9,052
<b>Net Current Assets</b>	<b>22,265</b>	<b>18,975</b>	<b>21,078</b>	<b>17,096</b>	<b>16,090</b>	<b>34,911</b>	<b>37,307</b>	<b>47,973</b>	<b>64,188</b>
<b>Appl. of Funds</b>	<b>71,158</b>	<b>76,156</b>	<b>77,853</b>	<b>90,913</b>	<b>1,07,422</b>	<b>1,46,071</b>	<b>1,48,540</b>	<b>3,22,781</b>	<b>3,37,795</b>

## Financials and valuations

### Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Basic (INR)</b>									
<b>EPS</b>	<b>3.9</b>	<b>5.1</b>	<b>3.1</b>	<b>6.2</b>	<b>6.2</b>	<b>5.5</b>	<b>6.9</b>	<b>11.2</b>	<b>16.7</b>
Cash EPS	5.7	7.3	6.3	11.3	11.1	12.2	12.0	18.2	24.6
BV/Share	33.6	40.3	43.2	50.8	55.9	63.6	67.2	137.6	149.5
DPS	0.8	1.0	1.0	0.5	1.6	0.0	1.3	2.8	4.2
Payout (%)	25.1	11.8	19.0	7.8	29.3	0.0	29.3	29.3	29.3
<b>Valuation (x)</b>									
P/E	90.2	68.4	112.5	56.3	56.5	63.2	50.8	31.3	20.9
Cash P/E	61.3	48.0	55.5	31.0	31.5	28.7	29.0	19.2	14.2
P/BV	10.4	8.7	8.1	6.9	6.2	5.5	5.2	2.5	2.3
EV/Sales	14.1	12.4	11.7	8.8	7.7	6.8	5.9	5.1	3.7
EV/EBITDA	61.8	49.5	58.5	34.6	30.3	29.1	23.9	19.7	13.7
Dividend Yield (%)	0.2	0.3	0.3	0.1	0.5	0.0	0.4	0.8	1.2
<b>Return Ratios (%)</b>									
RoE	12.1	13.4	7.4	16.1	12.1	9.2	10.5	10.9	11.7
RoCE	8.6	9.4	6.2	10.7	9.1	6.5	7.3	7.0	7.7
RoIC	17.1	15.3	6.7	14.5	12.0	9.6	10.8	9.4	9.8
<b>Working Capital Ratios</b>									
Fixed Asset Turnover (x)	2.1	1.5	1.1	1.4	1.3	1.3	1.5	2.1	3.1
Debtor (Days)	76	82	94	86	71	63	70	68	66
Inventory (Days)	57	59	64	68	83	96	98	95	93
Working Capital (Days)	73	79	69	43	35	76	68	62	58
<b>Leverage Ratio (x)</b>									
Current ratio	2.8	2.2	2.0	1.6	1.5	2.0	1.8	1.8	1.8
Net Debt/Equity ratio	0.2	0.2	0.1	0.1	0.1	0.2	0.1	0.6	0.5

### Consolidated Cash Flow Statement

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Oper. Profit/(Loss) before Tax	6,091	6,881	4,531	10,026	8,709	8,462	19,961	27,821	40,198
Interest/Dividends Recd.	-619	-1,271	-452	-908	-824	-770	2,400	2,000	1,850
Direct Taxes Paid	-2,465	-2,030	-1,971	-2,915	-3,441	-1,938	-2,303	-4,379	-6,087
(Inc.)/Dec. in WC	-1,762	-2,111	-1,065	-291	-1,651	-4,238	-385	-3,275	-5,447
<b>CF from Operations</b>	<b>3,706</b>	<b>6,400</b>	<b>6,621</b>	<b>11,546</b>	<b>12,831</b>	<b>11,597</b>	<b>19,672</b>	<b>22,167</b>	<b>30,514</b>
(Inc.)/Dec. in FA	-8,046	-7,623	-9,199	-14,924	-18,436	-17,559	-7,000	-9,000	-8,500
<b>Free Cash Flow</b>	<b>-4,340</b>	<b>-1,223</b>	<b>-2,578</b>	<b>-3,378</b>	<b>-5,605</b>	<b>-5,962</b>	<b>12,672</b>	<b>13,167</b>	<b>22,014</b>
(Pur.)/Sale of Investments	-4,184	1,239	1,689	6,984	1,844	-18,512	-1,250	-1,63,017	200
<b>CF from investments</b>	<b>-11,417</b>	<b>-4,985</b>	<b>-6,840</b>	<b>-7,138</b>	<b>-15,589</b>	<b>-36,247</b>	<b>-8,250</b>	<b>-1,72,017</b>	<b>-8,300</b>
Change in Net Worth	-51	43	168	-692	25	314	-2,006	75,000	1
(Inc.)/Dec. in Debt	13,429	-1,232	-1,141	75	186	5,872	-3,000	88,500	-700
Interest Paid	-501	-586	-637	-1,007	-912	-1,160	-1,575	-2,341	-4,877
Dividend Paid	-2,201	-	-787	-793	-701	0	-1,825	-3,918	-5,870
Others	0	0	0	0	5,278	20,614	-811		
<b>CF from Fin. Activity</b>	<b>10,676</b>	<b>-1,775</b>	<b>-2,397</b>	<b>-2,417</b>	<b>3,876</b>	<b>25,640</b>	<b>-9,218</b>	<b>1,57,241</b>	<b>-11,446</b>
<b>Inc./Dec. in Cash</b>	<b>2,965</b>	<b>-360</b>	<b>-2,616</b>	<b>1,991</b>	<b>1,118</b>	<b>990</b>	<b>2,204</b>	<b>7,391</b>	<b>10,767</b>
Add: Beginning Balance	4,575	7,575	7,102	4,490	6,593	8,247	9,237	11,441	18,832
<b>Closing Balance</b>	<b>7,540</b>	<b>7,215</b>	<b>4,486</b>	<b>6,481</b>	<b>7,711</b>	<b>9,237</b>	<b>11,441</b>	<b>18,832</b>	<b>29,599</b>
FX	35	-113	4	112	536	71	66	66	66
Bank balances/Overdraft	7,811	3,341	8,738	3,979	1,739	10,846	10,846	10,846	10,846
<b>Total Cash and cash Eq.</b>	<b>15,386</b>	<b>10,443</b>	<b>13,228</b>	<b>10,572</b>	<b>9,986</b>	<b>20,154</b>	<b>22,165</b>	<b>29,556</b>	<b>40,323</b>

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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