

13 August 2023

India | Equity research | Q1FY24 result review

Biocon

Pharma

Chasing growth at cost of margins

Biocon's Q1FY24 performance was dragged by the biologics biz. Profitability of the segment was under pressure owing higher rebates in Fulphila (USD 15mn). Segmental PBT dropped 600bps QoQ to 1.6% in Q1FY24. US market share of Fulphila and Ogvir expanded by 200bps and 100bps QoQ to 16% and 11%, and stable at 12% for bGlargine. Launch of Hulio in the US and new supply agreements are expected to boost growth ahead. Management expects core margins of biologics to return to 30% levels by end of FY24. We remain wary on the costs involved in running the US front end and the challenges pertaining to pricing of biosimilars across US and Europe. We cut our EBITDA estimates for FY24E/FY25E by 13%/12% due to pressure on realisations, and revise the target price to INR 230. Downgrade to **REDUCE** (earlier: **HOLD**).

Higher rebates drag performance

Revenue grew 60% YoY (-9.3% QoQ) to INR 34.2bn, below our expectation of INR 37.7bn due to slowdown in the biologics segment. Gross margin contracted 250bps YoY (-280bps QoQ) to 64.7%. EBITDA margin was up 220bps YoY, but saw a sharp decline of 560bps QoQ to 20.9% (I-Sec: 26.5%) as profitability of the biologics business took a hit due to higher rebates. Adjusted PAT fell 29.8 % YoY (-67.9% QoQ) to INR 1bn (I-Sec: INR 2.1bn).

Strong revenue traction across segments

Biosimilars segment revenue was up 106% YoY (on account of acquisition of Viatris), but down 4.1% QoQ to INR 20.1bn, partially impacted by the phasing of the tender business and higher rebates for Fulphila in the US. We expect the biosimilars business to register a CAGR of 34.7% over FY23-FY25E driven by consolidation of Viatris and launch of Hulio in US. Generics grew 15.3% YoY (-6.9% QoQ) to INR 7bn, driven by new contracts, higher volumes and launches in the MoW markets. Company received a tentative approval for gRevlimid in the US. New launches in the formulations segment and capacity addition in API should support near-term growth. We expect a CAGR of 6.6% in the generics business over FY23-FY25E. Research services was up 25.4% YoY (-18.7% QoQ) to INR 8.1bn led by healthy growth across the board. Company has acquired a facility from Stellis, which is expected to be operational in 2024.

Financial summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	81,840	1,11,742	1,46,794	1,66,494
EBITDA	19,702	25,117	30,291	35,854
EBITDA Margin (%)	24.1	22.5	20.6	21.5
Net Profit	7,356	6,716	6,980	9,391
EPS (Rs)	6.1	5.6	5.8	7.8
EPS % Chg YoY	23.8	(8.7)	3.9	34.5
P/E (x)	47.4	66.5	44.1	32.8
EV/EBITDA (x)	16.4	17.6	14.8	12.3
RoCE (%)	4.9	3.1	2.7	3.1
RoE (%)	9.2	5.1	3.8	5.0

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Market Data

Market Cap (INR)	308bn
Market Cap (USD)	3,717mn
Bloomberg Code	BIOS IN
Reuters Code	BION.BO
52-week Range (INR)	320 /192
Free Float (%)	37.0
ADTV-3M (mn) (USD)	12.6

Price Performance (%)	3m	6m	12m
Absolute	4.7	6.3	(18.4)
Relative to Sensex	6.5	8.7	11.6

ESG Disclosure	2021	2022	Change
ESG score	62.6	65.7	3.1
Environment	54.6	54.6	-
Social	43.3	52.7	9.3
Governance	89.9	89.9	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	(4.4)	(4.1)
EBITDA	(13.3)	(12.0)
EPS	(26.3)	(21.9)

Previous Reports

25-05-2023: [Q4FY23 results review](#)

15-05-2023: [Re-initiating coverage](#)

Valuations and risks

We expect Biocon to witness an earnings CAGR of 18.3% over FY23-FY25E driven by revenue CAGR of 22.1%. EBITDA margin is likely to remain under pressure and hover at ~21-22% with decline in biosimilars margins, recent acquisition of Viatris and increased R&D spend. Return ratios (RoE and RoCE) has also tapered down due to consolidation of the Viatris business.

We cut our revenue estimates by ~4% each year for FY24E/FY25E and lower our EBITDA by ~12-13% for the same period (due to the decline in performance and profitability of the biologics business). The stock currently trades at 14.8x FY24E and 12.3x FY25E EV/EBITDA. While growth in biologics has so far fared better, the space has attracted competition, and volume ramp-up in Semglee, Fulfilla and Ogvir in the US may hit a hurdle. Viatris deal brings access to an established biosimilars front-end in the developed markets, but it heavily weighs on near-term financials. We downgrade the stock to **REDUCE** (from **HOLD**) with a revised SoTP-based target price of INR 230/share (earlier: INR 250/share). **Key upside risks:** Healthy launches in biosimilars and generics segments.

Exhibit 1: Sum of the parts (SoTP) valuation

SoTP Valuation (EBITDA – FY25E)	INR mn	(x)	Biocon's stake	Value (INR mn)
Generics	2,21	8	100%	17,697
Biosimilars	22,679	16	70%	2,59,081
Research Services	10,969	22	55%	1,44,473
Total EV				4,21,252
Less: Net Debt				1,44,777
Implied M-Cap				2,76,474
Value per share (INR)				230

Source: I-Sec research

Exhibit 2: Q1FY24 quarterly review

INR mn	Q1FY24	Q1FY23	YoY % Chg	Q4FY23	QoQ % Chg
Net Sales	34,226	21,395	60.0	37,739	(9.3)
Gross Profit	22,130	14,367	54.0	25,451	(13.0)
Gross margins (%)	64.7	67.2	-250bps	67.4	-280bps
EBITDA	7,144	3,994	78.9	9,973	(28.4)
EBITDA margins (%)	20.9	18.7	220bps	26.4	-560bps
Other income	603	349	72.8	1,148	(47.5)
PBIT	7,747	4,343	78.4	11,121	(30.3)
Depreciation	3,580	2,175	64.6	3,637	(1.6)
Interest	2,330	199	1,070.9	2,488	(6.4)
Extraordinary income/ (exp.)	-	-		(30)	(100.0)
PBT	1,837	1,969	(6.7)	4,966	(63.0)
Tax	348	295	18.0	821	(57.6)
Minority Interest	475	230	106.5	1,013	(53.1)
Reported PAT	1,014	1,444	(29.8)	3,132	(67.6)
Adjusted PAT	1,014	1,444	(29.8)	3,157	(67.9)

Source: Company data, I-Sec research

Exhibit 3: Business mix

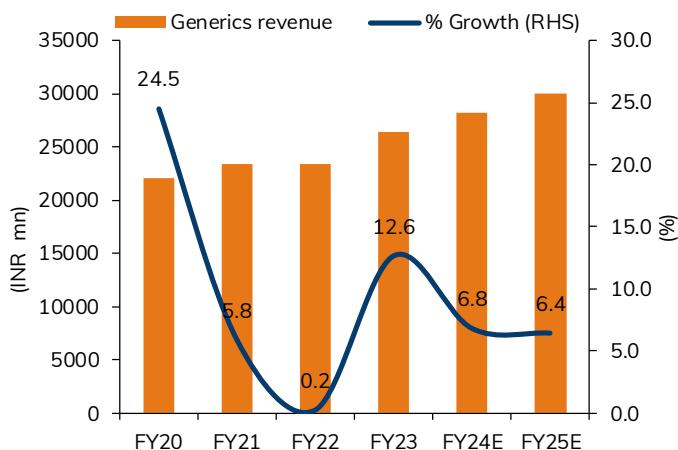
Segment Revenue (INR mn)	Q1FY24	Q1FY23	YoY % Chg	Q4FY23	QoQ % Chg
Generics	7,003	6,074	15.3	7,519	(6.9)
Biosimilars	20,148	9,766	106.3	21,016	(4.1)
Novel Biologics	-	-		192	
Research Services	8,081	6,445	25.4	9,944	(18.7)
Less: Inter-segmental revenue	1,006	890	13.0	932	7.9
Net Sales	34,226	21,395	60.0	37,739	(9.3)

Source: Company data, I-Sec research

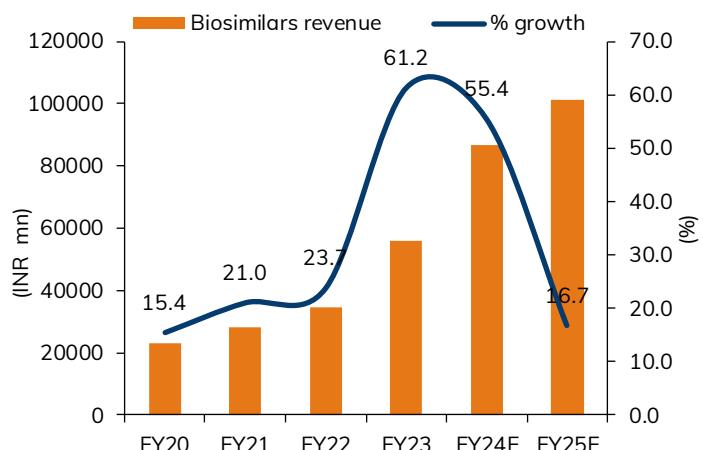
Exhibit 4: Segmental PBT

Segment PBT (INR mn)	Q1FY24	Q1FY23	YoY % Chg	Q4FY23	QoQ % Chg
Generics	641	634	1.1	748	(14.3)
Biosimilars	243	708	(65.7)	1,523	(84.0)
Novel Biologics	(62)	(263)	(76.4)	1,010	(106.1)
Research Services	1,229	929	32.3	2,308	(46.8)

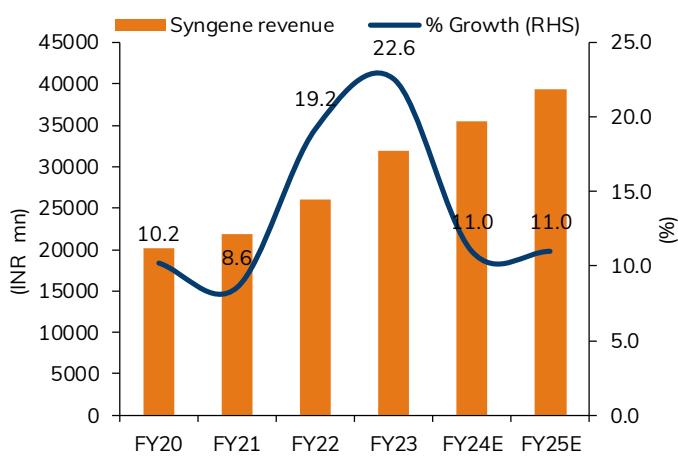
Source: Company data, I-Sec research

Exhibit 5: Generics likely to grow at a modest pace


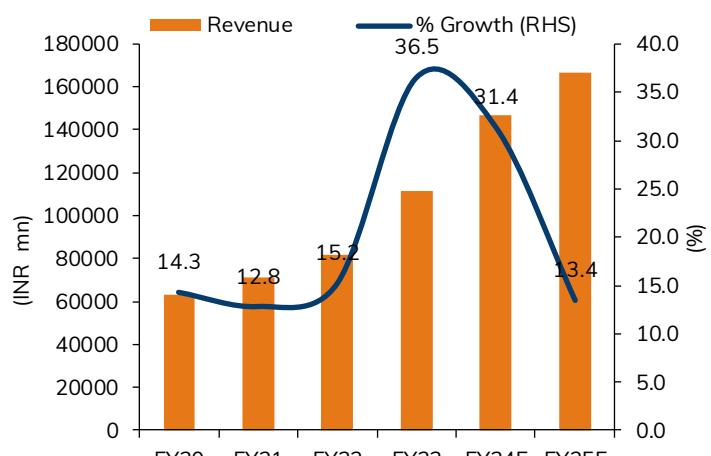
Source: Company data, I-Sec research

Exhibit 6: Launches to boost traction in biosimilars


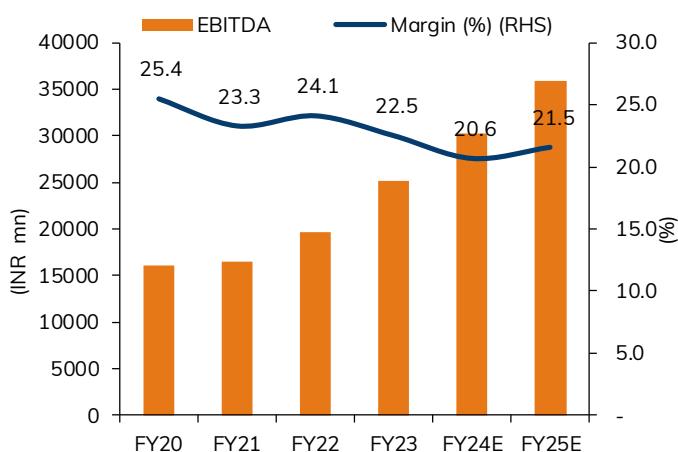
Source: Company data, I-Sec research

Exhibit 7: Syngene CAGR likely at 11 % over FY23-FY25E with growth across segments


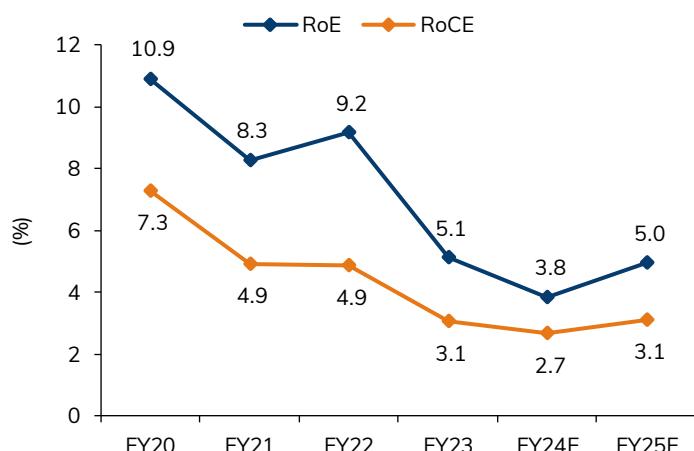
Source: Company data, I-Sec research

Exhibit 8: Revenue CAGR estimated at 22.1% over FY23-FY25E


Source: Company data, I-Sec research

Exhibit 9: EBITDA margin to remain under pressure with decline in margins for biosimilars


Source: Company data, I-Sec research

Exhibit 10: Return ratios to remain depressed due to consolidation of Viatris


Source: Company data, I-Sec research

Exhibit 11: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	60.6	60.6	60.6
Institutional investors	23.1	22.1	22.1
MFs and others	4.0	7.2	7.5
FIs/Banks	-	-	-
Insurance	4.7	4.7	5.1
FIs	14.4	10.2	9.6
Others	16.3	17.3	17.3

Source: Bloomberg

Exhibit 12: Price chart


Source: Bloomberg

Financial summary

Exhibit 13: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	81,840	1,11,742	1,46,794	1,66,494
Operating Expenses	34,954	49,994	69,382	77,695
EBITDA	19,702	25,117	30,291	35,854
EBITDA Margin (%)	24.1	22.5	20.6	21.5
Depreciation & Amortization	8,142	11,131	12,442	13,732
EBIT	11,560	13,986	17,849	22,123
Interest expenditure	676	4,190	7,271	7,389
Other Non-operating Income	2,127	3,759	4,060	4,384
Recurring PBT	13,011	13,555	14,637	19,118
Profit / (Loss) from Associates	(2,069)	(1,670)	(1,670)	(1,670)
Less: Taxes	2,115	2,541	3,268	4,397
PAT	10,896	11,014	11,370	14,721
Less: Minority Interest	(1,232)	(1,803)	(2,720)	(3,660)
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	6,484	4,627	6,980	9,391
Net Income (Adjusted)	7,356	6,716	6,980	9,391

Source Company data, I-Sec research

Exhibit 14: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	71,646	1,10,075	1,36,587	1,60,217
of which cash & cash eqv.	17,475	24,001	22,188	31,199
Total Current Liabilities & Provisions	29,014	59,915	76,916	86,393
Net Current Assets	42,632	50,160	59,671	73,824
Investments	15,799	19,310	19,310	19,310
Net Fixed Assets	56,767	72,769	75,327	76,595
ROU Assets	2,673	2,582	2,582	2,582
Capital Work-in-Progress	34,203	25,875	25,875	25,875
Total Intangible Assets	13,151	2,66,621	2,66,621	2,66,621
Other assets	3,633	16,643	16,643	16,643
Deferred Tax assets	6,068	6,553	6,553	6,553
Total Assets	1,74,926	4,60,513	4,72,583	4,88,004
Liabilities				
Borrowings	49,040	1,77,707	1,80,707	1,83,707
Deferred Tax Liability	523	3,818	3,818	3,818
provisions	917	2,265	2,265	2,265
other Liabilities	27,320	49,354	49,354	49,354
Equity Share Capital	84,325	1,78,669	1,85,019	1,93,780
Reserves & Surplus	10,375	46,219	48,939	52,598
Total Net Worth	94,700	2,24,888	2,33,958	2,46,378
Minority Interest	-	-	-	-
Total Liabilities	1,74,926	4,60,513	4,72,583	4,88,004

Source Company data, I-Sec research

Exhibit 15: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Operating Cashflow	11,766	18,525	18,088	29,126
Working Capital Changes	(2,958)	4,462	5,274	14,229
Capital Commitments	(19,227)	(1,39,403)	(15,000)	(15,000)
Free Cashflow	(7,461)	(1,20,878)	3,088	14,126
Other investing cashflow	2,236	(3,415)	-	-
Cashflow from Investing Activities	(16,991)	(1,42,818)	(15,000)	(15,000)
Issue of Share Capital	425	12,311	-	-
Interest Cost	(676)	(4,190)	(7,271)	(7,389)
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	-	(718)	(630)	(630)
Others	2,797	1,23,416	3,000	2,905
Cash flow from Financing Activities	2,546	1,30,819	(4,901)	(5,114)
Chg. in Cash & Bank balance	(2,679)	6,526	(1,813)	9,011
Closing cash & balance	17,475	24,001	22,188	31,199

Source Company data, I-Sec research

Exhibit 16: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
Reported EPS	5.4	3.9	5.8	7.8
Adjusted EPS (Diluted)	6.1	5.6	5.8	7.8
Cash EPS	12.9	14.9	16.2	19.3
Dividend per share (DPS)	-	0.6	0.5	0.5
Book Value per share (BV)	78.9	187.3	194.9	205.2
Dividend Payout (%)	-	15.5	9.0	6.7
Growth (%)				
Net Sales	15.2	36.5	31.4	13.4
EBITDA	19.2	27.5	20.6	18.4
EPS (INR)	23.8	(8.7)	3.9	34.5
Valuation Ratios (x)				
P/E	47.4	66.5	44.1	32.8
P/CEPS	19.8	17.2	15.8	13.3
P/BV	3.2	1.4	1.3	1.2
EV / EBITDA	16.4	17.6	14.8	12.3
P / Sales	3.8	2.8	2.1	1.8
Operating Ratios				
Gross Profit Margins (%)	66.8	67.2	67.9	68.2
EBITDA Margins (%)	24.1	22.5	20.6	21.5
Effective Tax Rate (%)	17.8	23.9	22.3	23.0
Net Profit Margins (%)	9.0	6.0	4.8	5.6
Net Debt / Equity (x)	0.2	0.6	0.6	0.5
Net Debt / EBITDA (x)	0.8	5.4	4.6	3.7
Profitability Ratios				
RoCE (%)	4.9	3.1	2.7	3.1
RoE (%)	9.2	5.1	3.8	5.0
RoIC (%)	6.0	3.4	2.9	3.4
Fixed Asset Turnover (x)	1.5	1.7	2.0	2.2
Inventory Turnover Days	110	160	161	149
Receivables Days	98	135	133	124
Payables Days	77	150	145	134

Source Company data, I-Sec research

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