

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 Ogivri 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% (l-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 (l-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, l-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 Ogiviri 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        |
| <b>Total EV</b>                 |        |     |                | <b>4,21,252</b> |
| Less: Net Debt                  |        |     |                | 1,44,777        |
| <b>Implied M-Cap</b>            |        |     |                | <b>2,76,474</b> |
| <b>Value per share (INR)</b>    |        |     |                | <b>230</b>      |

Source: I-Sec research

### Exhibit 2: Q1FY24 quarterly review

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

Source: Company data, I-Sec research

### Exhibit 3: Business mix

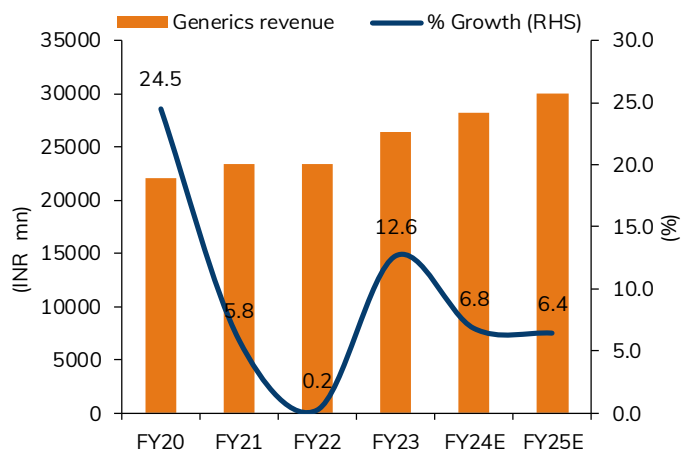
| Segment Revenue ( INR mn)     | Q1FY24        | Q1FY23        | YoY % Chg   | Q4FY23        | QoQ % Chg    |
|-------------------------------|---------------|---------------|-------------|---------------|--------------|
| Generics                      | 7,003         | 6,074         | 15.3        | 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          |
| <b>Net Sales</b>              | <b>34,226</b> | <b>21,395</b> | <b>60.0</b> | <b>37,739</b> | <b>(9.3)</b> |

Source: Company data, I-Sec research

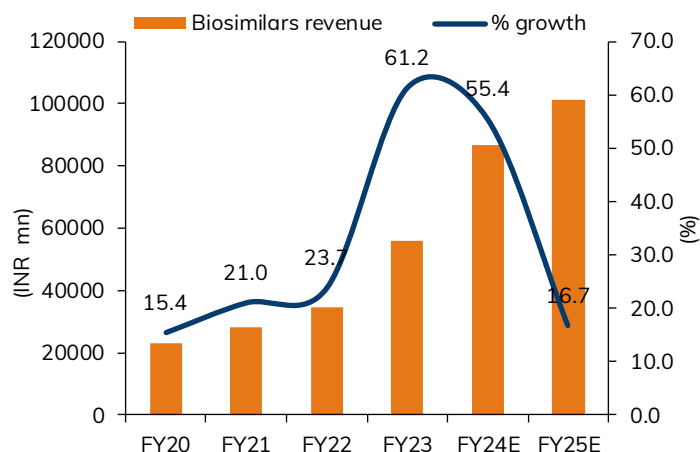
**Exhibit 4: Segmental PBT**

| 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)    |

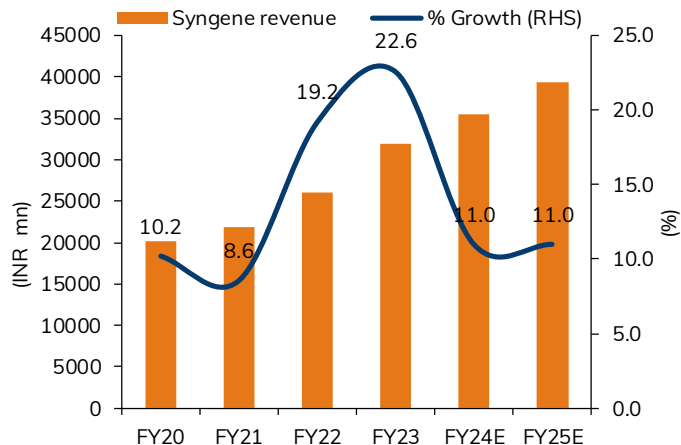
Source: Company data, I-Sec research

**Exhibit 5: Generics likely to grow at a modest pace**

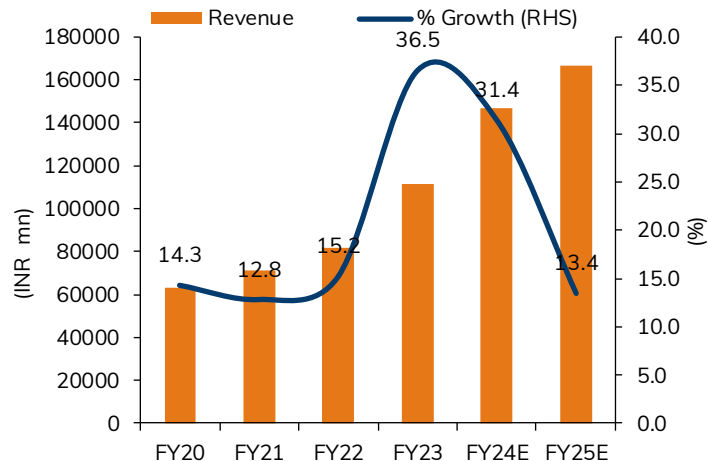
Source: Company data, I-Sec research

**Exhibit 6: Launches to boost traction in biosimilars**

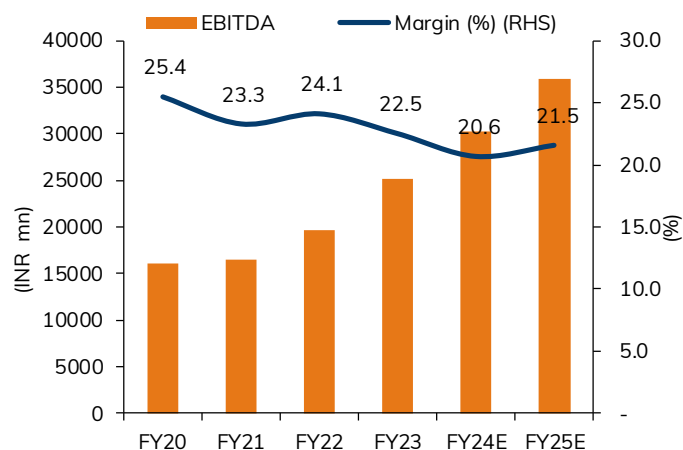
Source: Company data, I-Sec research

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

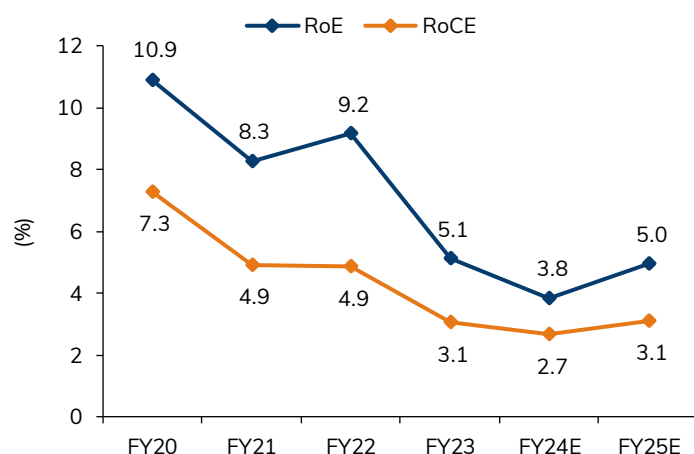
Source: Company data, I-Sec research

**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

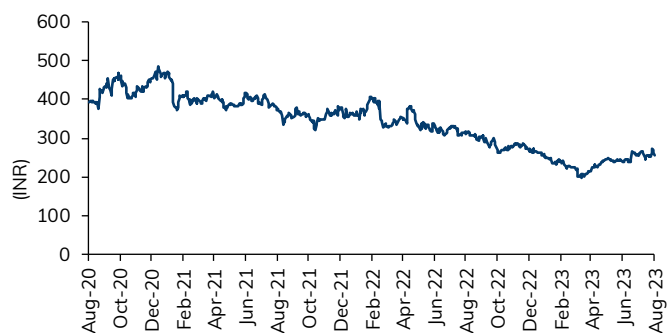
**Exhibit 10: Return ratios to remain depressed due to consolidation of Viatri**


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    |
| FIIIs                   | 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           |
|--|----------------|-----------------|-----------------|-----------------|
| <b>Net Sales</b>                       | <b>81,840</b>  | <b>1,11,742</b> | <b>1,46,794</b> | <b>1,66,494</b> |
| Operating Expenses                     | 34,954         | 49,994          | 69,382          | 77,695          |
| <b>EBITDA</b>                          | <b>19,702</b>  | <b>25,117</b>   | <b>30,291</b>   | <b>35,854</b>   |
| 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           |
| <b>Recurring PBT</b>                   | <b>13,011</b>  | <b>13,555</b>   | <b>14,637</b>   | <b>19,118</b>   |
| <b>Profit / (Loss) from Associates</b> | <b>(2,069)</b> | <b>(1,670)</b>  | <b>(1,670)</b>  | <b>(1,670)</b>  |
| 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)                  | -              | -               | -               | -               |
| <b>Net Income (Reported)</b>           | <b>6,484</b>   | <b>4,627</b>    | <b>6,980</b>    | <b>9,391</b>    |
| <b>Net Income (Adjusted)</b>           | <b>7,356</b>   | <b>6,716</b>    | <b>6,980</b>    | <b>9,391</b>    |

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          |
| <b>Net Current Assets</b>              | <b>42,632</b>   | <b>50,160</b>   | <b>59,671</b>   | <b>73,824</b>   |
| 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           |
| <b>Total Assets</b>                    | <b>1,74,926</b> | <b>4,60,513</b> | <b>4,72,583</b> | <b>4,88,004</b> |
| <b>Liabilities</b>                     |                 |                 |                 |                 |
| <b>Borrowings</b>                      | <b>49,040</b>   | <b>1,77,707</b> | <b>1,80,707</b> | <b>1,83,707</b> |
| <b>Deferred Tax Liability</b>          | <b>523</b>      | <b>3,818</b>    | <b>3,818</b>    | <b>3,818</b>    |
| 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          |
| <b>Total Net Worth</b>                 | <b>94,700</b>   | <b>2,24,888</b> | <b>2,33,958</b> | <b>2,46,378</b> |
| Minority Interest                      | -               | -               | -               | -               |
| <b>Total Liabilities</b>               | <b>1,74,926</b> | <b>4,60,513</b> | <b>4,72,583</b> | <b>4,88,004</b> |

Source Company data, I-Sec research

### Exhibit 15: Cashflow statement

(INR mn, year ending March)

|  | FY22A          | FY23A             | FY24E          | FY25E         |
|--|----------------|-------------------|----------------|---------------|
| <b>Operating Cashflow</b>              | <b>11,766</b>  | <b>18,525</b>     | <b>18,088</b>  | <b>29,126</b> |
| Working Capital Changes                | (2,958)        | 4,462             | 5,274          | 14,229        |
| Capital Commitments                    | (19,227)       | (1,39,403)        | (15,000)       | (15,000)      |
| <b>Free Cashflow</b>                   | <b>(7,461)</b> | <b>(1,20,878)</b> | <b>3,088</b>   | <b>14,126</b> |
| 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)       |
| <b>Chg. in Cash &amp; Bank balance</b> | <b>(2,679)</b> | <b>6,526</b>      | <b>(1,813)</b> | <b>9,011</b>  |
| 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 |
|-----------------------------|-------|-------|-------|-------|
| <b>Per Share Data (INR)</b> |       |       |       |       |
| 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   |
| <b>Growth (%)</b>           |       |       |       |       |
| 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  |
| <b>Valuation Ratios (x)</b> |       |       |       |       |
| 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   |
| <b>Operating Ratios</b>     |       |       |       |       |
| 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   |
| <b>Profitability Ratios</b> |       |       |       |       |
| 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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**BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return**

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