



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗
+ Positive		= Neutral	- Negative

What has changed in 3R MATRIX

	Old		New
RS	✗	↔	✓
RQ	✗	↔	✓
RV	✗	↔	✓

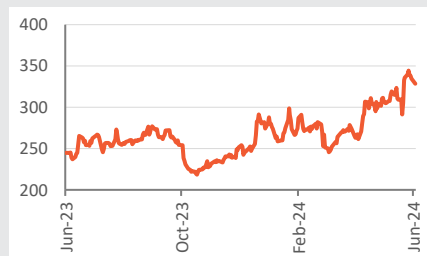
Company details

Market cap:	Rs. 42,351 cr
52-week high/low:	Rs. 353 / 217
NSE volume: (No of shares)	69.3 lakh
BSE code:	532523
NSE code:	BIOCON
Free float: (No of shares)	103.81 cr

Shareholding (%)

Promoters	60.6
FII	10.2
DII	11.9
Others	17.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	14.4	38.3	40.8	42.9
Relative to Sensex	6.4	28.9	28.9	17.0

Sharekhan Research, Bloomberg

Biocon Ltd

GLP product launch a big opportunity

Pharmaceuticals

Sharekhan code: BIOCON

Reco/View: Buy



Upgrade



Maintain



Downgrade

CMP: Rs. 352

Price Target: Rs. 400



Summary

- Biocon recently signed an exclusive licensing and supply agreement with Handok, a South Korean specialty pharma company for commercialization of synthetic liraglutide.
- Biocon has invested more than \$1 billion for development and manufacturing of biosimilars, ahead of its peers through Viartis where it has finished integration in over 120 countries.
- Biocon also got the European Medicines Agency's (EMA's) nod to manufacture biosimilar Bevacizumab at its new, world-class, multi-product monoclonal antibodies (MABs) drug substance facility at Bengaluru.
- We reiterate a Buy on Biocon due to early launches and exclusivity rights on GLP products and a continuous increase in the market share of its biosimilar products.

Biocon recently signed an exclusive licensing and supply agreement with Handok, a specialty pharmaceutical company in South Korea and is also the first company to obtain approval for diabetes drug, Liraglutide in the UK. In the Indian market, the government is expected to introduce a PLI program for domestic manufacturing of GLP-1 drugs. Biocon's Biologics division has successfully completed the transition of acquired business from Viartis in 120 countries across the regulated and emerging markets. Biocon has invested \$1 billion in this acquisition. Biocon is a leader in biosimilars for several products in the regulated and semi-regulated markets. As of March 2024, the company has seven approved biosimilar products in Europe and four in the US. Biocon last launched Hulio (b Adalimumab) in the US, its fourth launch in the market after Semglee (bInsulin Glargine), Fulphila (bPegfilgrastin), and Ogivri (bTrastuzumab) in the US. The company is witnessing market share gain of its key products, including bTrastuzumab, bPegfilgrastin, bGlargine, and bBevacizumab in both US and the European market. As per media sources, Biocon is planning to divest its stake from non-core assets to repay debt. We believe the Viartis integration would aid the company in launching new products followed by de-leveraging of the balance sheet. Hence, we maintain a Buy rating on the stock.

- Sole player to launch of GLP-1 products:** Biocon recently signed an exclusive licensing and supply agreement with Handok, a specialty pharmaceutical company in South Korea, for commercialisation of its vertically integrated, complex drug product, Synthetic Liraglutide. Liraglutide is an injection in pre-filled pen, used to treat chronic weight management as an adjunct to a reduced-calorie diet and increased physical activity. Biocon will undertake the development, manufacturing, and supply of the drug product, and Handok will be responsible for obtaining regulatory approvals and commercialization in the South Korean market. GLP-1 is a decadal opportunity, and the size of Liraglutide in South Korean market is \$47 million T as per IQVIA. Biocon is also the first company to obtain approval for diabetes drug, Liraglutide in the UK market. As per IQVIA, the total addressable market opportunity for GLP-1 in diabetes and weight loss in U.K. was US \$425 million.
- Biocon has invested >\$1bn in biosimilars ahead of peers:** Biocon has invested of more than \$1 billion in biosimilars ahead of its peers to build expertise across multiple platforms and a differentiated portfolio - including insulins, mAbs and fusion proteins. Biocon also finished integration of Viartis in all 120 countries across North America, Europe and emerging markets. Biocon is a leader in biosimilars with several products in the regulated and semi-regulated markets. The company has multiple products in the pipeline and will continue to launch these products in the regulated and semi-regulated markets. Biocon is first to receive bTrastuzumab, bPegfilgrastin and interchangeable bGlargine approval in the US. Biocon is witnessing market share gain of its key products bTrastuzumab, bPegfilgrastin, bGlargine and bBevacizumab in advanced markets. The market share for Fulphila is 21% (versus 18%), Ogivri is 14% (versus 12%), and Semglee is 15% (versus 12%) respectively. These products are gaining traction across markets with integration of Viartis business in all 120 countries.
- Potential stake sale to deleverage balance sheet:** As per media sources, Biocon is likely to divest its non-core assets to repay debt. Historically as well, Biocon reduced its stake to fund the acquisition of Viartis. Biocon invested \$1 billion in the acquisition of Viartis, which led to heavy debt on the books. Biocon's net debt/EBITDA was at 6.2x in FY2024, which is higher due to the acquisition of Viartis. Prior to FY2023, normal net debt/EBITDA for Biocon stood at 1-1.5x. As Biocon has successfully completed transition of Viartis business into its Biologics business, we expect biosimilars to gain market share, thus resulting into healthy operating cash flow. Healthy cash flows and divestment of non-core assets are likely to help Biocon deleverage its balance sheet. We expect net debt/EBITDA should reduce from 6x to ~3x by FY2026E.

Our Call

View – Maintain Buy with increased PT of Rs. 400: After integration of Viartis, the company is seeing a continuous increase in market share across all products. Going forward, we believe there are many green shoots such as 1) Lowering of debt to reduce finance costs, 2) Increased market share of biosimilars post successful integration of Viartis business, and 3) Pick-up in generic API segment driven by complex launches in the peptide space, 4) GLP-1 opportunity from FY26E and 5) Collaboration with Eris Life Science to penetrate its branded formulation business into the domestic market. Hence, we maintain a Buy rating on the stock. We value Biocon on an SOTP basis to arrive at a price target (PT) of Rs. 400 Per share (earlier Rs 350 per share).

Key Risks

Delay in product approvals or the negative outcome of facility inspection by the USFDA can impact product launches.

Valuation (Consolidated)

Particulars	FY22	FY23	FY24	FY25E	FY26E
Sales	8025	10935	14196	15000	17108
EBITDA	1914	2513	3448	4094	4823
EBITDA M (%)	23.4	22.5	23.4	26.2	28.2
PAT	715	644	1459	1800	2215
NPM (%)	10.4	6.8	8.3	10.0	11.0
EPS	7.0	6.2	9.9	12.5	15.7
P/E	54.0	45.1	28.3	22.4	17.8
P/BV	5.9	1.9	1.7	1.7	1.5
EV/EBITDA	27.3	19.0	13.0	10.9	9.1
ROE (%)	10.4	5.6	6.4	7.7	8.9
ROCE (%)	7.9	5.6	5.9	6.2	6.9

Source: Company; Sharekhan estimates

Different biosimilars update

Insulin glargine – The market share now stands at ~15% from 3% earlier at the time of the launch. A large, managed care integrated network has selected bGlargine as the exclusive long-acting insulin for its members in the US, effective July, while another large player has signed up for the product as the exclusive Insulin Glargine for its formulary, effective January 2024.

Pegfilgrastim - Market share for Fulphila in the U.S. stood at 21% as of March'2024. It has become the leading biosimilar in its category.

Trastuzumab – Ogivri continued to hold its position with increasing market share of 15% in March'2024.

Hulio (Adalimumab) - Biosimilar uptake for the whole industry has been slow in the Adalimumab market with all players witnessing slower penetration. Biocon's market share in Adalimumab is constant at 6%.

CVS Caremark has added Biocon Biologics' unbranded Adalimumab – Injection as a formulary option for a select number of its formularies, effective October 1, 2023. Similarly, one of the largest Medicaid managed care organisations in the US has added the unbranded Adalimumab – Injection to its National Preferred Formulary for Medicaid members covering 7 million lives. A large U.S. player covering 100 million lives has added Ogivri and Fulphila to their 2024 referred medical drug list.

Insulin Aspart – Biocon has responded to the CRL received from USFDA and USFDA has accepted the CAPA plan that was submitted for the Malaysia plant. Biocon is expected to use the same strategy as used for Insulin glargine, where it will launch a branded and an unbranded version.

Aflibercept - Biocon Biologics received the European Commission's approval for YESAFILI®, a biosimilar Aflibercept that could make a meaningful difference to patients in the EU impacted by macular degeneration and diabetic retinopathy. EU brand sales of Aflibercept stood at ~\$1.8 billion as per IQVIA.

SOTP Valuation

Particular	Mar'26 EBITDA	%	Gross Multiple	Valuation
Generics	541	100%	9	4866
Syngene	1,459	55%	17	13403
Biocon Biologics	2,827	66%	13	24260
EV				42529
Less: Holding Co. Discount for BBL and Syngene (20%)				8506
Debt				16277
Cash				2259
Equity Valuation				48041
No of shares				120
PT				400

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Multiple growth engines ahead

The Indian Pharmaceutical Market (IPM) is growing with increased consumer spending and awareness. Additionally, Indian pharmaceutical companies with a large market share in IPM and a strong pipeline of speciality products will help them gain market share in the U.S. and thereby partially offset any impact of competitive pricing pressure in the US. Moreover, other factors such as faster product approvals and resolutions by the USFDA regarding plant observations and strong growth prospects in domestic markets and emerging opportunities in the API space would be key growth drivers. This would be complemented by strong capabilities developed by Indian companies (leading to a shift towards complex molecules, biosimilars, and injectables) and the commissioning of expanded capacities by select players in the medium term. Collectively, this indicates a strong growth potential going ahead for Indian pharma companies.

■ Company Outlook – Biologics to be a key growth driver

Biocon is a leading company manufacturing biosimilars in India and one of the few global companies to receive approvals for products across the regulated markets of US, EU, Japan, and other developed markets. A robust opportunity lies ahead in the biosimilars segment for Biocon, as some key global brands would lose patent exclusivity in the medium to long term. Price erosion in biosimilars is much lower than that in the other segments as of now and this works to the company's advantage. Scientific expertise in developing and manufacturing complex biosimilars together with commercialisation strength of partner companies would further strengthen Biocon's presence globally in biosimilars. Moreover, with the possible listing of Biocon Biologics, there exists a significant value-unlocking opportunity going ahead.

■ Valuation – Maintain Buy with increased PT of Rs. 400

After integration of Viatriis, the company is seeing a continuous increase in market share across all products. Going forward, we believe there are many green shoots such as 1) Lowering of debt to reduce finance costs, 2) Increased market share of biosimilars post successful integration of Viatriis business, and 3) Pick-up in generic API segment driven by complex launches in the peptide space, 4) GLP-1 opportunity from FY26E and 5) Collaboration with Eris Life Science to penetrate its branded formulation business into the domestic market. Hence, we maintain a Buy rating on the stock. We value Biocon on an SOTP basis to arrive at a price target (PT) of Rs. 400 Per share (earlier Rs 350 per share).

About company

Established in 1978, Bengaluru-based Biocon is India's premier biotechnology company. Biocon is now a fully integrated biopharma player with API manufacturing facilities, strong capabilities in biologics, innovative drug development, and a branded generics business in India. With over 25 years of expertise in fermentation technology, the company has built a strong presence in lucrative high-growth segments such as statins, immuno-suppressants, and anti-diabetes drugs. Biocon is among the few companies globally to have received approvals for its biosimilars from developed countries such as the U.S., EU, Australia, and Japan.

Investment theme

Biocon has one of the largest global biosimilars portfolios, spanning from recombinant human insulin (rh-Insulin), insulin analogs, monoclonal antibodies, and other biologics for diabetes, oncology, and immunology. Thus, Biocon has the early-mover advantage as global markets have begun to accept biosimilars and the role they are expected to play in increasing access to high-quality and yet affordable drugs and improve the quality of life for patients around the world. The company is expected to benefit substantially from opportunities in the lucrative biosimilars space, as some key global brands would lose patent exclusivity in the medium to long term. Scientific expertise in developing and manufacturing complex biosimilars together with commercialisation strength of partner companies would further strengthen Biocon's presence globally in biosimilars. Moreover, with the possible listing of Biocon Biologics, there exists a significant value-unlocking opportunity going ahead.

Key Risks

Any delay in product approvals, changes in regulatory landscape or negative outcome of the facility inspection by the USFDA can affect future earnings prospects.

Additional Data

Key management personnel

Kiran Mazumdar Shaw	Executive Chairperson – Biocon Limited
Siddharth Mittal	CEO and Managing Director
Indranil Sen	CFO
Mayank Verma	Company Secretary

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp India	4.41
2	SBI Funds Management	2.86
3	ICICI Prudential AMC	1.85
4	Mirae Asset Global Investment Co.	1.50
5	Vanguard Group Inc	1.47
6	UTI AMC	0.82
7	Blackrock Inc	0.62
8	Bank of Montreal	0.46
9	Tata AMC	0.41
10	Aditya Birla Sun Life Insurance co.	0.36

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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