



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	✓	↔	✓

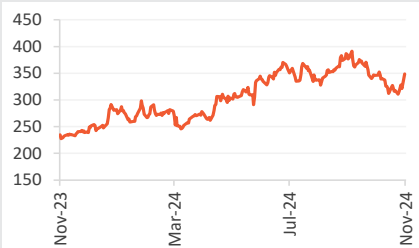
Company details

Market cap:	Rs. 40,922 cr
52-week high/low:	Rs. 396/224
NSE volume: (No of shares)	220.71 lakh
BSE code:	532523
NSE code:	BIOCON
Free float: (No of shares)	39.4 cr

Shareholding (%)

Promoters	60.6
FII	5.9
DII	14.4
Others	19.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-2.9	-0.5	8.1	43.1
Relative to Sensex	-1.1	-0.8	-1.2	20.7

Sharekhan Research, Bloomberg

Biocon Ltd

Soft quarter, expect recovery in H2

Pharmaceuticals

Sharekhan code: BIOCON

Reco/View: Buy



Upgrade



Maintain

CMP: Rs. 349

Price Target: Rs. 400



Downgrade

Summary

- Revenues stood at Rs. 3,590 crore, up 4% y-o-y and a 5% rise q-o-q. EBITDA reached Rs. 730 crore, down 1% y-o-y but up 24% q-o-q. PAT stood at Rs. 27 crore, a decline of 84% y-o-y and 97% q-o-q.
- Demand and pricing challenges, and a scheduled facility shutdown hit quarterly numbers.
- Biocon entered into exclusive licensing agreements with two leading pharmaceutical companies in the Middle East and Brazil for the commercialisation of GLP-1 products.
- We see several positive indicators - 1) Debt reduction to lower finance costs, 2) Rising market share of biosimilars following the successful integration of the Viartis business, and 3) growth in the generic API segment, driven by complex peptide launches. As a result, we maintain a BUY rating on the stock. Our target price for Biocon, based on an SOTP valuation, is Rs. 400.

Revenues stood at Rs. 3,590 crore, reflecting a 4% y-o-y increase and a 5% q-o-q rise. EBITDA stood at Rs. 730 crore, down 1% y-o-y but up 24% q-o-q. PAT was Rs. 27 crore, down 84% y-o-y and 97% q-o-q. Performance was impacted by demand and pricing challenges, along with a planned facility shutdown. Company signed exclusive licensing agreements with two leading pharmaceutical companies in the Middle East and Brazil for the commercialization of GLP-1 products. It also made seven market filings globally, including 1 ANDA in the US, and received 6 approvals, including two ANDAs in the US. In September, the US FDA conducted GMP inspections at the company's API facilities in Bengaluru (Site-1 & Site-2), with CAPA plans submitted. Additionally, EIRs were received for inspections conducted in June at Visakhapatnam (Site-5 and Site-6), which were successfully closed. The company expects a recovery in the second half, with performance in H2FY25 set to improve over the next two quarters, driven by new product launches, including Liraglutide in the UK.

Key positives

- Company has entered into exclusive licensing agreements with two prominent pharmaceutical companies in the Middle East and Brazil for the commercialization of GLP-1 products.
- Recovery in the second half is expected, fuelled by new product launches.
- The company received six approvals, including two ANDAs in the U.S. for Sacubitril and Valsartan tablets, as well as Daptomycin for injection.

Key negatives

- Company continues to experience challenges related to demand and pricing.

Management Commentary

- Generics business is making investments in CapEx projects, with a specific focus on the peptide sector.
- In December last year, the company acquired a biologics manufacturing facility, which is being restructured and is set to begin operations in the second half of this fiscal.
- There was significant demand for the insulin franchise, particularly in Mexico.
- Biocon has been affected by pricing pressures, which have impacted both volume and demand.

Revision in estimates: FY2027E have been introduced.

Our Call

Valuation: Maintain Buy with a PT of Rs. 400: Biocon Biologics is experiencing significant growth, driven by the successful integration of the Viartis business across 120 countries. Since the integration, the company has seen a steady increase in market share across all its products. Looking ahead, we see several positive indicators, including 1) Debt reduction to lower finance costs, 2) Expanded market share of biosimilars following the integration of the Viartis business, 3) Growth in the generic API segment, supported by complex peptide launches, 4) GLP-1 opportunity expected from FY26E, and 5) a collaboration with Eris Life Science to expand its branded formulation business in the domestic market. As a result, we maintain our Buy rating with an SOTP-based PT of Rs. 400.

Key Risks

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

Valuation (Consolidated)

Rs cr

Particulars	FY2023	FY2024	FY2025E	FY2026E	FY2027E
Net sales	11,174	14,756	15,493	17,707	20,894
Operating profit	2,412	3,216	3,254	4,250	5,224
OPM (%)	22%	22%	21%	24%	25%
PAT	463	1,023	421	1,439	2,065
EPS (Rs)	3.85	8.52	3.51	11.98	17.20
PER (x)	90	41	99	29	20
EV/Ebitda (x)	12	11	11	10	10
ROCE (%)	5%	7%	5%	9%	11%
RONW (%)	3%	5%	4%	5%	4%

Source: Company; Sharekhan estimates

Conference call highlights

- ◆ Biocon maintains its forecast for a shift toward accelerated growth in the second half of the fiscal.
- ◆ Syngene is on track to meet its full-year guidance.
- ◆ The company successfully collaborated with partners to remove a Phase 3 clinical trial requirement for insulin development.
- ◆ Biocon Biologics entered into a settlement and license agreement with Janssen and J&J to commercialize Yesintek, a biosimilar of Ustekinumab, in Europe, the UK, Canada, and Japan, pending regulatory approval.
- ◆ The company became the first to receive approval for a generic Liraglutide in the UK, marking the first Liraglutide generic approval in any major market.
- ◆ The Semaglutide opportunity is expected to expand into several markets by calendar year '26.
- ◆ Ogivri, the biosimilar Trastuzumab, has increased its market share to 18% from 11%.
- ◆ Fulphila, the biosimilar Pegfilgrastim, has raised its market share to 21% from 15%.
- ◆ Hulio, the biosimilar Adalimumab, has maintained its market-leading position in Germany with an 18% share and holds an 11% share in France.

Results (Consolidated)

Particulars	Q2FY25	Q2FY24	y-o-y (%)	Q1FY25	q-o-q (%)
Revenue	3,590	3,462	4%	3,433	5%
Total Expenditure	2,860	2,725	5%	2,845	1%
Operating profit	730	738	-1%	588	24%
Other Income	33	158	-79%	1135	-97%
Interest	226	248	-9%	236	-4%
Depreciation	420	389	8%	405	36%
PBT	117	259	-55%	1,081	-89%
Tax	71	42	71%	284	-75%
Adjusted PAT	27	173	-84%	862	-97%
EPS (Rs.)	-0.13	1.05		5.51	
Margins (%)			BPS		BPS
OPM	20%	21%	-96bps	17%	321bps
NPM	1%	5%	-423bps	25%	-2435bps
Tax rate	61%	16%	4465bps	26%	3450bps

Source: Company, Sharekhan Research

SOTP Valuation

Particulars	Mar-27EBITDA	%	EV/EBITDA multiple	Valuation
Generics	673	100%	7	4866
Syngene	1591	55%	17	13403
Biocon Biologics	2959	66%	12	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 spends 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 that market. Moreover, other factors such as faster 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 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 manufacturer of biosimilars in India and is one of the few global companies to receive approvals for products across the regulated markets of U.S., 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 a PT of Rs. 400

Biocon Biologics is experiencing significant growth, driven by the successful integration of the Viatris business across 120 countries. Since the integration, the company has seen a steady increase in market share across all its products. Looking ahead, we see several positive indicators, including 1) Debt reduction to lower finance costs, 2) Expanded market share of biosimilars following the integration of the Viatris business, 3) Growth in the generic API segment, supported by complex peptide launches, 4) GLP-1 opportunity expected from FY26E, and 5) a collaboration with Eris Life Science to expand its branded formulation business in the domestic market. As a result, we maintain our Buy rating with an SOTP-based PT of Rs. 400.

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 quality of life for patients around the world. The company is expected to benefit substantially from the 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 the 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
Peter James Jonathan	CEO
Mukesh Kamath	CFO
Arun Kumar Gupta	COO

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	5.09
2	SBI Funds Management Ltd	2.42
3	Kotak Mahindra Asset Management Co	1.59
4	Vanguard Group Inc/The	1.48
5	ICICI Prudential Asset Management	0.81
6	Blackrock Inc	0.66
7	Norges Bank	0.53
8	HDFC Asset Management Co Ltd	0.5
9	JM Financial Asset Management Ltd	0.44
10	Mirae Asset Financial Group	0.41

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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