

Biocon

CMP : ₹246.60

Target price: ₹382

HP* : Upto 3 years

Our Vriddhi pick for the month of July is Biocon Limited. The company has evolved from manufacturing pharmaceuticals like statins and immunosuppressants to discovering, developing and producing biologics in chronic therapies such as diabetes, oncology and immunology for global markets.

Biocon's business is organised into the following reporting segments - a) Small molecules API & generic formulations, b) Biologics - biosimilars & novel biologics, c) Branded formulations, d) Research services (Syngene).

Strong performance of segments

Small Molecules – Small molecules is the largest segment for the company, contributing 31% of consolidated revenues in FY19. The revenue from this segment came in at Rs 1773 crore in FY19, posting growth of 18% YoY on the back of steady API sales in Latin America, Europe, and the Middle-East markets and robust sales in the generic formulations business in the US. In FY18, the segment had faced headwinds as a result of pricing pressure and channel consolidation faced by its clients in the US.

With stability in pricing of the products, the company is expecting growth in the segment through uptick in the volumes which was visible in FY19 too.

Biologics - FY19 has been a landmark year for the biologics business segment, both for biosimilars as well as novel molecules. It has received multiple approvals and launched some of the biosimilars in developed and emerging markets and received USFDA approval for its partnered novel molecule Itolizumab. The revenue from this segment grew by 97% in FY19 to Rs 1517 crore.

Till the end of FY19, three of its biosimilars have been commercialised in the developed markets, viz., Pegfilgrastim in USA, Trastuzumab in Europe and insulin Glargine in Europe and Japan. Additionally, Trastuzumab has marketing approvals in the US and Australia, Pegfilgrastim has approvals in EU, Canada and Australia, and insulin Glargine has approval in Australia. The global development programmes for biosimilar Bevacizumab and insulin Aspart are progressing well in Phase III clinical studies.

The growth momentum in biologics will continue in FY20, led by new launches and increased penetration of products already launched in various markets. The management expects this segment to deliver robust growth in H2FY20. The market share for Pegfilgrastim in the US is expected to increase going forward.

Branded formulations - In FY19, the branded formulations segment grew 7% to Rs 656 crore, led by a strong performance by business in India, which was offset by a decline in the UAE business. This segment contributed 12% of the total revenue in FY19. The metabolism, nephrology, critical care and market access divisions were the key growth

*HP : Holding Period

Company Details	
Industry	Pharmaceuticals & Drugs
Chairman	Kiran Mazumdar-Shaw
Managing Director	Kiran Mazumdar-Shaw
Company Secretary	
ISIN	INE376G01013
Bloomberg Code	BIOS IN
RBSE Code	532523
Key Market Indicators (Consolidated)	
Latest Date	08-Jul-2019
Latest Price (Rs)	246.60
Previous Close (Rs)	244.85
1 Day Price Var%	0.27
1 Year Price Var%	-24.56
52 Week High (Rs)	359.18
52 Week Low (Rs)	230.00
Beta	0.78
Face Value (Rs)	5.00
Industry PE	24.34
TTM Period	201903
TTM EPS(Rs)	7.54
TTM CEPS(Rs)	12.08
Price/TTM CEPS(x)	19.90
TTM PE (x)	31.87
Price/BV(x)	4.56
EV/TTM EBITDA(x)	19.64
EV/TTM Sales(x)	5.48
Dividend Yield%	0.21
MCap/TTM Sales(x)	5.23
Latest Book Value (Rs)	52.67
Market Cap (Rs. In Crores)	28848.00
EV (Rs. In Crores)	30213.80
Latest no. of shares (In Crores)	120.00
Share Holding Pattern as on 201906	
Promoter No of shares (In Cr.)	72.80
Promoter %	60.67
FII No of Shares (In Crores)	19.82
FII %	16.52
Total No of Shares (In Crores)	120.00
Free Float %	39.33

CONFIDENTIALITY NOTICE : Information contained in this report is intended for the subscribers of this product only. Unauthorized forwarding, printing, copying, distribution, or using the information in a searchable, machine-readable database is strictly prohibited and may be unlawful. **Disclaimer:** The recommendations are purely a view point and there is no guarantee on the returns. Hence all the clients (paid or unpaid) are requested to apply their prudence before acting on any of the recommendations. Neither DSIJ Pvt Ltd nor any of its promoters, members, or employees shall be held responsible for any losses incurred (if any) by acting on the recommendations. Disclosure : Kindly refer to the detailed disclosures as per SEBI (investment advisors) regulations, 2013 placed at www.DSij.in

drivers for the branded formulations business. The top 10 brands grew by 17% and accounted for 80% of total sales in FY19.

Syngene - Syngene is the research services subsidiary of Biocon and recently it announced the opening of its Centre for Advanced Protein Studies, set up in collaboration with the Biotechnology Industry Research. During FY19, Syngene's revenues grew by 28% to Rs 1826 crore, driven by broad-based growth across three verticals - discovery services, dedicated R&D centres, and development and manufacturing services. It contributed one-third of the total revenue of Biocon in FY19. Syngene's upcoming active pharmaceutical ingredient (API) manufacturing facility in Mangalore will boost commercial scale manufacturing capacities for small molecules. The statutory approvals have been received and the construction activities, which began in December 2017, are on schedule and expected to be completed by end of FY20.

Capex guidance

In FY20, Biocon plans to add incremental drug substance and drug product capacities across biosimilars (antibodies, insulins and proteins) as well as small molecules businesses. It will also commence construction work to build a greenfield facility in Visakhapatnam, Andhra Pradesh, to support growing demand of immunosuppressant products in small molecule business. It has been also evaluating construction of the second phase of the Malaysia insulin facility, which will require investment of ~USD 200 million. Excluding Syngene's capex and capitalised R&D/intangible assets, Biocon's capex spend in FY20 would be in the range of USD 150-200 million. Over the medium term, Biocon and Syngene have large capex plans of USD 300 million and USD 200 million, respectively, which will be funded through internal accruals and additional debt.

Financial performance

The company's consolidated revenue for FY19 came in at Rs 5514.4 crore as against Rs. 4129.7 crore in FY18, registering 33.5% yoy increase. The EBITDA for the year rose by 68.1% yoy to Rs. 1393.7 crore as against Rs. 829.1 crore in FY18, with a corresponding margin expansion of 520 bps. EBITDA margin for the year stood at 25.3%. The PAT for FY19 came in at Rs. 905.3 crore as against Rs. 372.4 crore in FY18, an increase of 143.1% yoy.

By the end of FY19, the company's total debt stood at Rs 2423 crore. The debt-equity ratio for FY19 stood at 0.39x. The working capital cycle has improved, with the receivable days reducing to 77.9 days in FY19 from 86.05 days in FY18. The payable days too have reduced marginally from 87.8 days in FY18 to 86.7 days in FY19.

Inc/Exp Statement(Consolidated) (Rs in Crore)

Description	201903	201803	201703	201603	201503
Net Sales	5514.40	4123.40	3891.10	3347.40	3089.80
Total Income	5658.80	4329.60	4048.20	3426.60	3142.90
Total Expenditure	4120.70	3294.30	2911.60	2579.60	2394.00
PBIT	1538.10	1035.30	1136.60	847.00	748.90
PAT	1001.70	431.80	671.80	587.40	528.40
Dividend %	20.00	20.00	60.00	100.00	100.00
Adj. EPS(Rs)	7.54	3.10	5.10	4.59	4.14

Small molecules segment grew led by steady API sales in Latin America, Europe and Middle east markets

In FY19, 3 biosimilars were commercialized namely Pegfilgrastim, Trastuzumab and Insulin Glargine



Metabolics and nephrology are some of the key drivers for branded formulations segment

Quarter On Quarter (Consolidated) (Rs in Crore)					
Particulars	201903	201812	Q on Q Var%	201803	Y on Y Var%
Net Sales	1528.80	1540.80	-0.78	1169.50	30.72
Total Expenditure	1125.80	1160.10	-2.96	936.50	20.21
PBIT (Excl OI)	403.00	380.70	5.86	233.00	72.96
PAT	254.60	230.70	10.36	147.60	72.49
PBITM% (Excl OI)	26.36	24.71	6.68	19.92	32.33
PBITM%	28.21	26.37	6.98	25.69	9.81
PATM%	16.65	14.97	11.22	12.62	31.93
Adj. EPS(Rs)	1.78	1.81	-1.66	1.09	63.30

Valuation

The company is trading at TTM P/E of 31.8x with TTM EPS of Rs 7.54. For FY19, it delivered ROE and ROCE of 18% and 16.1% respectively. On the valuation front, although the company seems to be a bit costly, the expected future growth of the company will justify the cost through higher gains. The small molecules and biologics segments will drive the company's growth in the upcoming years. The new biosimilars launched recently and the ones in process will contribute to the topline going forward. Also, the rupee depreciation is benefitting the company in the international markets. We see potential upside of 56% with target price of Rs 382 over period of three years.

About the company

Biocon Limited is a leading biopharma company in India. In the domestic formulations market, it is a biologics-focused specialty products company, mainly in the chronic therapy areas. The domestic business has multiple divisions such as metabolism, oncology, nephrology, immunotherapy, and comprehensive care. Biocon is among few companies globally to have received approvals for its biosimilars from developed countries like the US, EU, Australia and Japan. Along with partner Mylan, it has become the first globally to get biosimilar Trastuzumab and Pegfilgrastim approved in the US in 2017 and 2018, respectively.

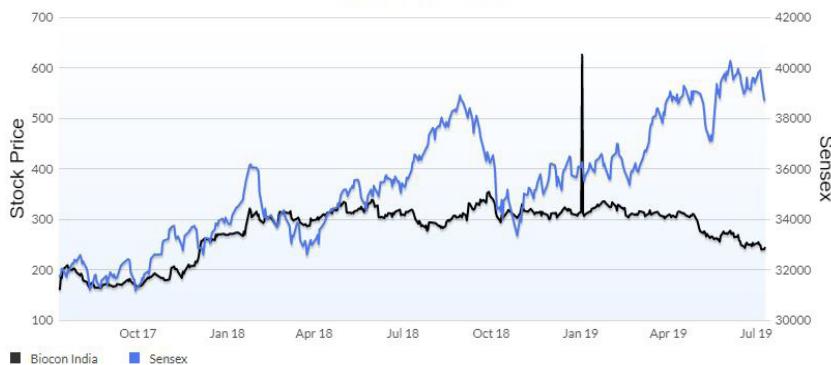


API manufacturing facility in Mangalore will boost commercial scale manufacturing capacities



Capex spend in FY20 to be in range of USD 150-200 million

Stock vs. Index



**Track calls using our new investor app