

28th December 2019

Biocon Ltd. –BUY

CMP : Rs.292
Target Price : Rs.352
Upside : 21%+
Stop Loss : Rs.259 (Closing basis)

Investment Thesis

Unlike most pharma companies that are chemical based, Biocon has carved out its niche in the more complex biotechnology field. Over the decades, Biocon has successfully evolved into an emerging global biopharma enterprise, serving its partners and customers in ~75 countries. As a fully integrated biopharma company, Biocon delivers innovative biopharmaceutical solutions, ranging from discovery to development and commercialisation. Biocon has initiated filings and launches of biosimilars in the US, EU, Australia, Canada, Japan besides some developing markets. It has entered into a partnership with Mylan for six biosimilar programs (Trastuzumab, Pegfilgrastim, Adalimumab, Bevacizumab, Etanercept and Filgrastim) and three insulin analog programmes (Glargine, Lispro and Aspart). Management of Biocon has set an aspirational target of US\$1.0bn of biologics sales by FY22E via the organic route led by future launches as well as development pipeline that included 28 molecules under development.

Recently, Biocon has entered into a partnership with Sandoz, a Novartis division and a global leader in biosimilars, for an exclusive portfolio of next-generation biosimilars in the area of immunology and oncology. This synergistic partnership of Biocon with Sandoz is expected to leverage the capabilities of both partners for an 'end to end' play encompassing development, manufacturing, regulatory approval and commercialisation globally. This collaboration addresses some of the long term biosimilars opportunities beyond the near-term opportunities being addressed by existing partnership with Mylan.

Financials

- During the past 5 years, revenue of Biocon grew at a CAGR of 13.9% while PAT grew at a CAGR of 17.0% in the same period.

| Consol. (Rs. Mn) | FY17 | FY18 | FY19E | FY20E | FY21E |
|------------------|--------|--------|--------|--------|--------|
| Revenue | 38,911 | 41,234 | 55,144 | 63,416 | 72,928 |
| EBITDA | 9,795 | 8,291 | 13,937 | 16,028 | 18,432 |
| % growth | 27.6 | -15.4 | 68.1 | 15.0 | 15.0 |
| PAT | 6,121 | 3,724 | 9,053 | 10,393 | 11,931 |
| EPS (INR) | 5.1 | 3.1 | 7.5 | 8.7 | 9.9 |
| P/E (x) | 55.3 | 90.9 | 37.4 | 32.6 | 28.4 |
| RoE (%) | 11.6% | 6.9% | 14.3% | 15.1% | 15.9% |

- Biocon has reported 19.0% YoY growth in revenue to Rs.15,722mn in Q2FY20 mainly due to strong 40.6% YoY growth in biologics to Rs.5,161mn in Q2FY20.

Stock Data

| | |
|-----------------------|---------------|
| Market Cap (Rs. Mn) | 3,37,980 |
| Market Cap (\$ Mn) | 4,711.2 |
| Shares O/S (in Mn) | 1,200.0 |
| Avg. Volume (3 month) | 43,10,000 |
| 52-Week Range (Rs.) | 341.0 / 211.0 |

Shareholding Pattern

| | |
|-------------------------------|--------|
| Promoters | 60.67% |
| FII's | 15.75% |
| Institutions | 5.01% |
| Others (incl. body corporate) | 18.57% |

| Performance (%) | 1M | 6M | 1Yr |
|-----------------|-------|-------|-------|
| Absolute | 15.4% | 4.0% | -6.5% |
| BSE Pharma | 4.7% | -3.5% | -9.9% |

Key Ratios

| | |
|---------------|-------|
| Div Yield | 0.2% |
| TTM PE | 38.3x |
| ROE | 14.1% |
| TTM EPS (Rs.) | 7.4/- |

- Small Molecules segments of Biocon grew by 22.6% YoY to Rs.5,301mn led by substantial growth in generic formulations business whereas Research Services business grew by 10.9% YoY to stood at Rs.4,650mn aided by continued growth in the discovery services business.
- Biocon's EBITDA grew by 18.6% YoY to Rs.4,028mn in Q2FY20 led by lower raw material cost to sales due to better product mix. However, EBITDA margin declined by 9bps YoY to 25.6% as improvement in gross margins offset by increase in R&D and other expenditure.

Key Business Highlights

- Biocon is an innovation-led global bio-pharmaceuticals company focused on affordable access to complex therapies for chronic conditions like diabetes, cancer and autoimmune.
- Biocon is a leading global player for high quality biosimilars, APIs including statins, immunosuppressants and specialty molecules. It has developed and commercialized novel biologics, biosimilars, and complex small molecule APIs in India and several key global markets as well as generic formulations in the U.S. and Europe.
- Biocon is focused on the path of innovation to develop products that have the potential to benefit a billion lives. Biocon has a pipeline of promising novel assets in immunotherapy under development.

Valuation

- Biocon's Biologics segment, which includes biosimilars and insulin, contributed 28% in total revenue in FY19. The segment grew strongly in the recent quarters led by increase in insulin portfolio, monoclonal antibodies (MABs) and other biologics in both these segments in developed and emerging markets. We believe growth of biologics segment has been encouraging with approvals and launches in the US, EU, Japan, Australia and EMs. Also, these geographies garnered economic benefits from the launch of the biosimilar - Adalimumab in the EU by Biocon-Mylan. Post-merger of Mylan Upjohn with Biocon, the Chinese biosimilar opportunities also got enhanced. We expect biologics to grow at high double-digit growth rate during FY19-22E mainly due to new launches (Pegfilgrastim, Trastuzumab, Glargine, Adalimumab and Bevacizumab) in the US.
- Biocon's Small molecules, which contributed 32% of FY19 revenue, comprise APIs like statins, immunosuppressants, specialty APIs and generic formulations business. Small molecules segment has posted strong growth in past few quarters led by robust API sales in Latin America, Europe and India-based customers that deliver to the US market. Recently, Biocon has launched Atorvastatin Calcium tablets in the US market and increased traction in the already launched Rosuvastatin and Simvastatin formulations. Biocon is further exploring some opportunities with higher profitability in this segment. We expect small molecules segment to grow at double-digit growth in FY19-22E.
- With emerging as a global biopharma enterprise, strong pipeline of 28 molecules, entered into a partnership with Sandoz, growth of biologics segment on approvals and launches in the US, EU, Japan, Australia and Ems and launch of Atorvastatin Calcium tablets in the US market, we value Biocon at 35.37x FY21E EPS of Rs.9.95 to arrive at target price of Rs.352.00, an upside of 21%.

Risk & Concern

- Biocon received several observations from US FDA just like other pharma firms, any observation in future may impact its US business growth going ahead.
- Any delay in approval of key product by the authorities may impacts Biocon's launch of the molecules.
- Biocon's slow restructuring process of making Biologics and Bicara Therapeutics as distinct entities may delay Biocon's value unlocking.

Graphs & Charts

Figure 1: Net Sales Trend

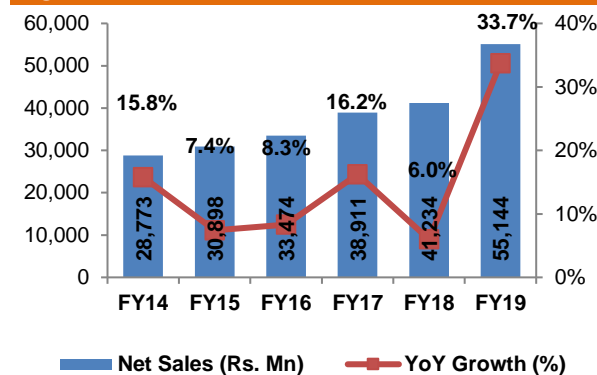


Figure 2: EBITDA & EBITDA Margin Trend

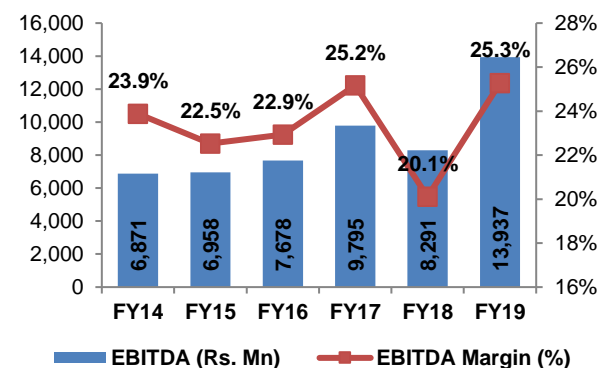


Figure 3: PAT Trend

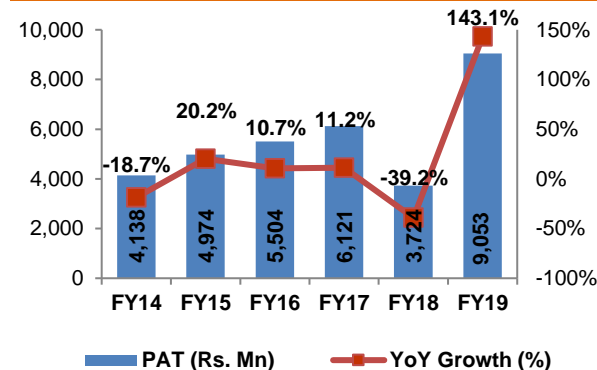
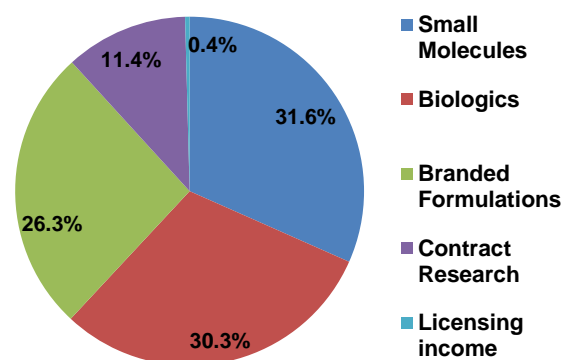


Figure 4: Segment-wise Revenue (FY19)



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