

# Retail Equity Research Biocon Limited

Biotechnology

BSE CODE: 532523

NSE CODE: BIOCON

Bloomberg CODE: BIOS:IN

SENSEX: 39,832

**HOLD**

12M Investment period

Rating as per Large Cap

**CMP** Rs. 244 **TARGET** Rs. 260 **RETURN** 7% ↑  
(Closing: 29-10-19)

**KEY CHANGES:**

**TARGET** ↔

**RATING** ↔

**EARNINGS** ↔

## Decent quarter; Focus on R&D

Biocon Limited is an integrated biopharmaceutical company engaged in discovering, developing and producing biologics in chronic therapies. Key products include statins, immunosuppressants, anti-diabetic drugs and specialty enzymes.

- Revenue rose 19.0% YoY to Rs. 1,572cr in Q2FY20, led by robust growth in Biologics (+40.4%) and Small Molecules segments (+22.6%).
- EBITDA margin declined 170bps to 28.1%, primarily impacted by higher operating costs. Overall EBITDA stood at Rs. 441cr (+12.0% YoY).
- Gross R&D spends were Rs. 123cr in Q2FY20 (~11% of revenue ex-Syngene); FY20 R&D guidance at 13-15% of revenues ex-Syngene.
- While fundamentals remain strong, concerns evolve over regulatory approvals for new facilities post recent FDA observations. We rate the stock a HOLD with target price of Rs. 260 based on ~24x FY21E adj. EPS.

## Robust revenue growth across segments

Consolidated operating revenue grew 19.0% YoY to Rs. 1,572cr, primarily driven by growing revenue from Biologics (+40.4% YoY to Rs. 516cr on higher sales in developed and emerging markets) and Small Molecules segments (+22.6% to Rs. 530cr backed by substantial growth in generic formulations business). Revenue from Research Services business stood at Rs. 465cr (+10.9% YoY) aided by continued growth in the Discovery Services business. However, Branded Formulation revenue fell 21.7% YoY to Rs. 128cr impacted by subdued performance in UAE. EBITDA margin fell 170bps to 28.1% due higher employee benefit and R&D expenses. Going forward, management expects growth momentum to continue in Biologics and Small Molecules operations on account of a higher order book and new upcoming projects and product launches.

## Key concall highlights

- Biocon continued to expand its Research footprint by acquiring Pfizer Healthcare India's R&D assets to setup ~60k sq. ft. R&D facility at TICEL Bio Park in Chennai.
- The company has strong product pipeline of ~28 molecules, including 11 with Mylan. Additionally, company plans to launch anti-breast cancer biosimilar trastuzumab in the US by Dec, as well as insulin glargine in FY20.

## Strong pipeline, but concerns evolve with recent FDA observations

Biocon continues to expand its capacity to catch up with higher volume growth, new biosimilar pipeline development and product launches. The company launched new products with its partner Mylan. Moreover, agreement with China Medical Holdings should allow the company to enter Chinese market (USD 0.8bn market size), with three generic formulation products. Separately, Company had multiple FDA inspections at its Biologics Drug Product facilities in Bengaluru during the quarter and recently received a Form 483 with four observations for the new DS facility, three observations for the new DP facility and one general observation. This raises uncertainty around getting necessary regulatory approvals for these facilities.

## Valuation

We expect earnings to grow at healthy 34.6% CAGR over FY19-21E. Increasing R&D investment should support topline with new product launches and continued growth across the segments. However, concerns remain over FDA approvals for new facilities. We provide a HOLD rating on the stock with a target price of Rs. 260 based on ~24x FY21E adj. EPS.

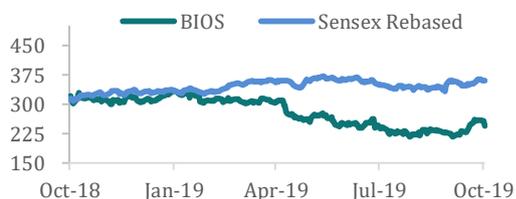
## Company Data

Market Cap (cr)	Rs. 29,286
Enterprise Value (cr)	Rs. 30,793
Outstanding Shares (cr)	120.0
Free Float	39.0%
Dividend Yield	0.4%
52 week high	Rs. 341
52 week low	Rs. 211
6m average volume(lakh)	3.3
Beta	0.7
Face value	Rs. 5

Shareholding %	Q4FY19	Q1FY20	Q2FY20
Promoters	60.7	60.7	60.7
FII's	17.9	16.4	15.6
MFs/Insti	5.8	5.6	6.5
Public	10.6	11.8	12.0
Others	5.0	5.4	5.2
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	2.9%	-60.1%	-62.0%
Absolute Sensex	3.1%	-0.1%	14.7%
Relative Return*	-0.2%	-60.0%	-76.6%

\*over or under performance to benchmark index



Consolidated (Rs. cr)	FY19A	FY20E	FY21E
Sales	5,514	6,924	8,401
Growth (%)	33.5	25.6	21.3
EBITDA	1,538	1,910	2,372
EBITDA Margin (%)	27.9	27.6	28.2
Adj. PAT	711	922	1,288
Growth (%)	90.8	29.7	39.7
Adj. EPS	6.0	7.8	10.9
Growth (%)	90.3	30.3	39.7
P/E	51.1	31.4	22.5
P/B	6.0	4.2	3.6
EV/EBITDA	24.7	16.1	13.0
ROE (%)	14.8	14.2	15.8
D/E	0.3	0.2	0.2

## Quarterly Financials (Consolidated)

### Profit & Loss Account

	Q2FY20	Q2FY19	YoY Growth %	Q1FY20	QoQ Growth %	H1FY20	H1FY19	YoY Growth %
Revenue	1,572	1,321	19.0	1,466	7.3	3,038	2,445	24.3
<b>EBITDA</b>	<b>441</b>	<b>394</b>	<b>12.0</b>	<b>462</b>	<b>(4.4)</b>	<b>903</b>	<b>701</b>	<b>28.9</b>
EBITDA margins	28.1	29.8	(170bps)	31.5	(340bps)	29.7	28.7	100bps
Depreciation	132	112	17.3	124	6.0	256	211	21.1
<b>EBIT</b>	<b>310</b>	<b>282</b>	<b>9.9</b>	<b>337</b>	<b>(8.2)</b>	<b>647</b>	<b>489</b>	<b>32.2</b>
Interest	14	19	(26.6)	17	(16.9)	30	36	(16.5)
Share of profit from Associate	(9)	(1)	nm	(8)	19.0	(17)	(0)	nm
Exceptional Items	68	189	(64.2)	-	-	68	189	(64.2)
<b>PBT</b>	<b>354</b>	<b>451</b>	<b>(21.5)</b>	<b>313</b>	<b>13.1</b>	<b>667</b>	<b>641</b>	<b>4.0</b>
Tax	100	73	36.7	85	17.5	185	125	47.9
Minority Interest	38	23	65.7	21	78.0	60	42	43.0
<b>Reported PAT</b>	<b>216</b>	<b>355</b>	<b>(39.2)</b>	<b>206</b>	<b>4.6</b>	<b>422</b>	<b>474</b>	<b>(11.0)</b>
Adjustments	(68)	(189)	64.2	-	-	(68)	(189)	64.2
<b>Adjusted PAT</b>	<b>148</b>	<b>166</b>	<b>(10.7)</b>	<b>206</b>	<b>(28.2)</b>	<b>354</b>	<b>285</b>	<b>24.1</b>
No. of shares	118.6	119.1	(0.5)	118.6	-	118.6	119.1	(0.5)
<b>EPS (Rs.)</b>	<b>1.2</b>	<b>1.4</b>	<b>(10.3)</b>	<b>1.7</b>	<b>(28.2)</b>	<b>3.0</b>	<b>2.4</b>	<b>24.7</b>

### Segment Revenue

	Q2FY20	Q2FY19	YoY Growth %	Q1FY20	QoQ Growth %	H1FY20	H1FY19	YoY Growth %
Small Molecules	530	432	22.6	480	10.4	1009	832	21.3
Biologics	516	368	40.4	490	5.4	1006	617	62.9
Branded Formulations	128	164	(21.7)	133	(3.8)	262	311	(15.9)
Research Services	465	419	10.9	421	10.4	886	825	7.4
Inter-segment revenue	(66)	(61)	(9.0)	(58)	(15.3)	(124)	(140)	11.6
<b>Total</b>	<b>1,572</b>	<b>1,321</b>	<b>19.0</b>	<b>1,466</b>	<b>7.3</b>	<b>3,038</b>	<b>2,445</b>	<b>24.3</b>

## PROFIT & LOSS

Y.E March (Rs. cr)	FY17A	FY18A	FY19A	FY20E	FY21E
<b>Revenue</b>	<b>3,922</b>	<b>4,130</b>	<b>5,514</b>	<b>6,924</b>	<b>8,401</b>
% change	12.5	5.3	33.5	25.6	21.3
<b>EBITDA</b>	<b>1,124</b>	<b>1,035</b>	<b>1,538</b>	<b>1,910</b>	<b>2,372</b>
% change	24.2	(7.9)	48.6	24.1	24.2
Depreciation	277	385	448	571	645
<b>EBIT</b>	<b>847</b>	<b>650</b>	<b>1,090</b>	<b>1,339</b>	<b>1,727</b>
Interest	26	62	71	54	57
Other Income	18	21	196	42	58
<b>PBT</b>	<b>839</b>	<b>610</b>	<b>1,215</b>	<b>1,327</b>	<b>1,728</b>
% change	(31.7)	(27.3)	99.2	9.3	30.2
Tax	162	157	212	232	302
Tax Rate (%)	19.3	25.7	17.5	17.5	17.5
<b>Reported PAT</b>	<b>612</b>	<b>372</b>	<b>905</b>	<b>989</b>	<b>1,288</b>
Adj*	-	-	(195)	(68)	-
<b>Adj PAT</b>	<b>612</b>	<b>372</b>	<b>711</b>	<b>922</b>	<b>1,288</b>
% change	90.9	(39.2)	90.8	29.7	39.7
No. of shares (cr)	39.5	118.8	119.1	118.6	118.6
<b>Adj EPS (Rs.)</b>	<b>15.5</b>	<b>3.1</b>	<b>6.0</b>	<b>7.8</b>	<b>10.9</b>
% change	93.1	(79.8)	90.3	30.3	39.7
DPS (Rs.)	3.0	1.0	1.0	1.0	1.0
CEPS (Rs.)	22.5	6.4	9.7	12.6	16.3

## CASH FLOW

Y.E March (Rs. cr)	FY17A	FY18A	FY19A	FY20E	FY21E
<b>Net inc. + Depn.</b>	<b>889</b>	<b>758</b>	<b>1,353</b>	<b>1,560</b>	<b>1,933</b>
Non-cash adj.	(135)	17	(277)	161	177
Changes in W.C	(115)	(112)	79	(184)	(237)
<b>C.F. Operation</b>	<b>640</b>	<b>662</b>	<b>1,155</b>	<b>1,537</b>	<b>1,873</b>
Capital exp.	(762)	(913)	(1,492)	(1,398)	(1,694)
Change in inv.	124	169	698	(8)	(8)
Other invest.CF	140	60	79	(0)	(0)
<b>C.F - Investment</b>	<b>(499)</b>	<b>(684)</b>	<b>(714)</b>	<b>(1,406)</b>	<b>(1,702)</b>
Issue of equity	4	17	(69)	-	-
Issue/repay debt	(123)	(114)	8	50	50
Dividends paid	-	(79)	(79)	(120)	(120)
Other finance.CF	(59)	(64)	(101)	(81)	(49)
<b>C.F - Finance</b>	<b>(178)</b>	<b>(240)</b>	<b>(242)</b>	<b>(151)</b>	<b>(119)</b>
Chg. in cash	(36)	(262)	199	(20)	52
Closing cash	710	501	730	710	762

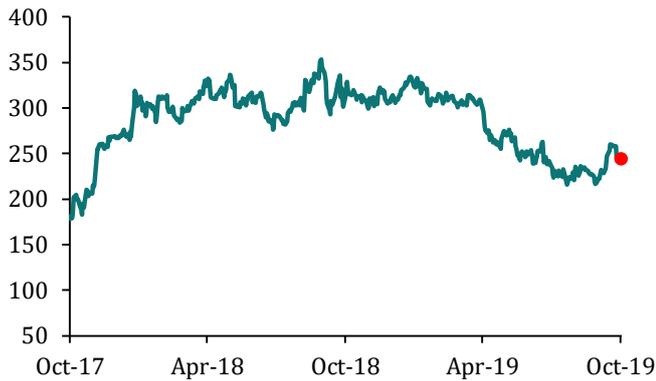
## BALANCE SHEET

Y.E March (Rs. cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	710	501	730	710	762
Accounts Receivable	883	1,064	1,292	1,523	1,806
Inventories	635	723	1,032	1,310	1,618
Other Cur. Assets	1,819	1,861	1,770	1,786	1,802
Investments	189	64	183	183	183
Gross Fixed Assets	5,327	5,753	6,802	8,187	9,867
Net Fixed Assets	3,553	3,630	4,253	5,047	6,077
CWIP	533	779	1,287	1,307	1,312
Intangible Assets	379	594	830	843	857
Def. Tax (Net)	198	193	325	328	331
Other Assets	496	582	493	496	500
<b>Total Assets</b>	<b>9,394</b>	<b>9,990</b>	<b>12,192</b>	<b>13,533</b>	<b>15,247</b>
Current Liabilities	1,581	2,011	2,776	3,117	3,466
Provisions	36	49	66	67	69
Debt Funds	2,206	1,920	1,803	1,853	1,903
Other Liabilities	358	361	840	813	821
Equity Capital	100	300	300	300	300
Reserves & Surplus	4,738	4,881	5,798	6,667	7,835
Shareholder's Fund	4,838	5,181	6,098	6,967	8,135
Minority Interest	376	468	609	715	854
<b>Total Liabilities</b>	<b>9,394</b>	<b>9,990</b>	<b>12,192</b>	<b>13,533</b>	<b>15,247</b>
<b>BVPS (Rs.)</b>	<b>122.4</b>	<b>43.6</b>	<b>51.2</b>	<b>58.8</b>	<b>68.6</b>

## RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	28.7	25.1	27.9	27.6	28.2
EBIT margin (%)	21.6	15.7	19.8	19.3	20.6
Net profit margin (%)	15.6	9.0	16.4	14.3	15.3
ROE (%)	12.7	7.2	14.8	14.2	15.8
ROCE (%)	11.4	8.6	12.8	14.0	15.9
<b>W.C &amp; Liquidity</b>					
Receivables (days)	82.2	94.0	85.5	80.3	78.5
Inventory (days)	157.0	160.6	198.5	200.8	204.4
Payables (days)	182.8	223.4	230.6	233.6	237.3
Current ratio (x)	2.4	1.9	1.6	1.6	1.6
Quick ratio (x)	1.6	1.0	0.9	0.9	0.9
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	0.9	0.7	0.9	0.9	0.9
Total asset T.O (x)	0.4	0.4	0.5	0.5	0.6
Int. coverage ratio (x)	32.6	10.6	15.4	25.0	30.3
Adj. debt/equity (x)	0.4	0.3	0.3	0.2	0.2
<b>Valuation</b>					
EV/Sales (x)	2.4	9.0	6.9	4.4	3.7
EV/EBITDA (x)	8.3	35.8	24.7	16.1	13.0
P/E (x)	12.1	94.4	51.1	31.4	22.5
P/BV (x)	1.5	6.8	6.0	4.2	3.6

## Recommendation Summary



Source: Bloomberg, Geojit research

Dates	Rating	Target
30-Oct-19	HOLD	260

## Investment Rating Criteria

### Large Cap Stocks;

Buy	-	Upside is above 10%.
Hold	-	Upside is between 0% - 10%.
Reduce	-	Downside is more than 0%.
Neutral	-	Not Applicable

### Mid Cap and Small Cap;

Buy	-	Upside is above 15%.
Accumulate	-	Upside is between 10% - 15%.
Hold	-	Upside is between 0% - 10%.
Reduce/Sell	-	Downside is more than 0%.
Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Neutral- The analyst has no investment opinion on the stock under review

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