

# 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.

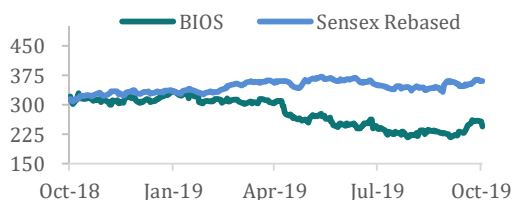
## Company Data

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

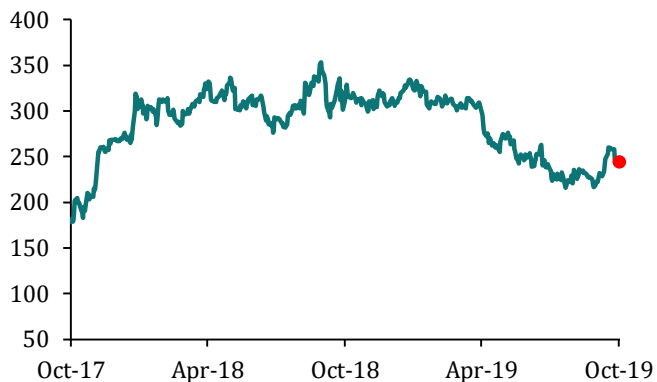
## BALANCE SHEET

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;			Mid Cap and Small Cap;		
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	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

## General Disclosures and Disclaimers

### CERTIFICATION

I, Dilish K Daniel, author of this Report, hereby certify that all the views expressed in this research report reflect our personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

### COMPANY OVERVIEW

Geojit, a publically listed company, is engaged in services of retail broking, depository services, portfolio management and marketing investment products including mutual funds, insurance and properties. GEOJIT is a SEBI registered Research Entity and as such prepares and shares research data and reports periodically with clients, investors, stake holders and general public in compliance with Securities and Exchange Board of India Act, 1992, Securities And Exchange Board Of India (Research Analysts) Regulations, 2014 and/or any other applicable directives, instructions or guidelines issued by the Regulators from time to time.

**DISTRIBUTION OF REPORTS:** This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. GEOJIT will not treat the recipients of this report as clients by virtue of their receiving this report.

**GENERAL REPRESENTATION:** The research reports do not constitute an offer or solicitation for the purchase or sale of any financial instruments, inducements, promise, guarantee, warranty, or as an official confirmation of any transaction or contractual obligations of any kind. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. We have also reviewed the research report for any untrue statements of material facts or any false or misleading information. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

**RISK DISCLOSURE:** GEOJIT and/or its Affiliates and its officers, directors and employees including the analyst/authors shall not be in any way be responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Investors may lose his/her entire investment under certain market conditions so before acting on any advice or recommendation in these material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. This report does not take into account the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved). The price, volume and income of the investments referred to in this report may fluctuate and investors may realize losses that may exceed their original capital.



**FUNDAMENTAL DISCLAIMER:** We have prepared this report based on information believed to be reliable. The recommendations herein 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. The stocks always carry the risk of being upgraded to buy or downgraded to a hold, reduce or sell. The opinions expressed are subject to change but we have no obligation to tell our clients when our opinions or recommendations change. This report is non-inclusive and does not consider all the information that the recipients may consider material to investments. This report is issued by GEOJIT without any liability/undertaking/commitment on the part of itself or any of its entities. We may have issued or may issue on the companies covered herein, reports, recommendations or information which is contrary to those contained in this report. The projections and forecasts described in this report should be evaluated keeping in mind the fact that these are based on estimates and assumptions and will vary from actual results over a period of time. The actual performance of the companies represented in the report may vary from those projected. These are not scientifically proven to guarantee certain intended results and hence, are not published as a warranty and do not carry any evidentiary value whatsoever. These are not to be relied on in or as contractual, legal or tax advice. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

CRISIL has provided research support in preparation of this research report and the investment rational contained herein along with financial forecast. The target price and recommendation provided in the report are strictly Geojit's views and are NOT PROVIDED by CRISIL. Further, CRISIL expresses no opinion on valuation and the associated recommendations. CRISIL has no financial liability whatsoever, to the subscribers / users of this report.

**JURISDICTION:** The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. Distributing/taking/sending/dispatching/transmitting this document in certain foreign jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe any such restrictions. Failure to comply with this restriction may constitute a violation of any foreign jurisdiction laws. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. Investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk.

**REGULATORY DISCLOSURES:** GEOJIT's Associates consists of privately held companies such as Geojit Technologies Private Limited (GTPL- Software Solutions provider), Geojit Credits Private Limited (GCPL- NBFC Services provider), Geojit Investment Services Limited (GISL- Corporate Agent for Insurance products), Geojit Financial Management Services Private Limited (GFMSL) & Geojit Financial Distribution Private Limited (GFDPL), (Distributors of Insurance and MF Units). In the context of the SEBI Regulations on Research Analysts (2014), GEOJIT affirms that we are a SEBI registered Research Entity and in the course of our business as a stock market intermediary, we issue research reports /research analysis etc that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities.

In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

1. Disclosures regarding Ownership\*:

GEOJIT confirms that:

It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein.

It/its associates have no actual beneficial ownership greater than 1% in relation to the subject company (ies) covered herein.

Further, the Analyst confirms that:

He, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company.

He, his associates and his relatives have no actual/beneficial ownership greater than 1% in the subject company covered

2. Disclosures regarding Compensation:

During the past 12 months, GEOJIT or its Associates:

(a) Have not received any compensation from the subject company; (b) Have not managed or co-managed public offering of securities for the subject company (c) Have not received any compensation for investment banking or merchant banking or brokerage services from the subject company (d) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company and is in receipt of compensation from the subject company." (e) Have not received any compensation or other benefits from the subject company or third party in connection with the research report (f) The subject company is / was not a client during twelve months preceding the date of distribution of the research report.

3. Disclosure by GEOJIT regarding the compensation paid to its Research Analyst:

GEOJIT hereby confirms that no part of the compensation paid to the persons employed by it as Research Analysts is based on any specific brokerage services or transactions pertaining to trading in securities of companies contained in the Research Reports.

4. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that I, Dilish K Daniel, Research Analyst(s) of GEOJIT have not served as an officer, director or employee of the subject company

5. Disclosure regarding Market Making activity:

Neither GEOJIT/its Analysts have engaged in market making activities for the subject company.

Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange Board of India before investing.

Geojit Financial Services Ltd. (formerly known as Geojit BNP Paribas Financial Services Ltd.), Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: [www.geojit.com](http://www.geojit.com). For investor queries: [customercare@geojit.com](mailto:customercare@geojit.com), For grievances: [grievances@geojit.com](mailto:grievances@geojit.com), For compliance officer: [compliance@geojit.com](mailto:compliance@geojit.com).

Corporate Identity Number: L67120KL1994PLC008403, SEBI Stock Broker Registration No INZ000104737, Research Entity SEBI Reg No: INH200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, Depository Participant: IN-DP-325-2017, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226

