

## Price Erosion Impacts Growth in Biosimilars

Biocon reported a weak set of numbers for Q1FY22 which are below expectations. Consolidated revenue grew by 5.3%, majorly supported by Research business (41% YoY) and Biosimilar Business (9.6%). Generic business de-grew by 21.7% as the industry is facing stiff competition and price erosion.

Gross margins decreased by 236bps due to price erosion in generics and biosimilars. EBITDA margins (22.1%) decreased by 262bps majorly impacted by price erosion and high investment in novologics for the clinical trial.

R&D expenses were Rs 120 Cr increased by 13% for the last Q1FY22.

Reported PAT was at Rs 108 Cr decreasing by 35.4% due to low operational performance and high depreciation costs.

**Biocon reported weak numbers from the last 3 quarters, as the industry is facing price erosion challenges. Furthermore, the company is trading at rich valuations therefore we recommend "HOLD" with TP Rs 400.**

## Biosimilars: Biocon Biologics

The growth in the biosimilar segment is impacted due to the following reasons 1.) Price erosion due to increasing competition 2.) Delay in launch of Avastin as USFDA defers visit for inspection and 3.) Covid-19 led delays in launching certain new products in the market.

In the US market, Biocon gained market share slightly but was unable to report a double-digit growth due to stiff competition from competitors such as Kanjiti and Avagen which gained market share by reducing product prices.

In the emerging markets, growth in Biosimilars was led with market share gains for Pegfilgrastim and Trastuzumab biosimilars in the emerging markets and contributions from Insulin Glargine. The marketing authorization approvals for biosimilar Insulin Aspart and biosimilar Bevacizumab in the EU augur well for future business prospects.

## Generics: APIs and Generic Formulations:

In the Generic segment, Q1FY22 revenue de-grew by 21.7% on account of pricing pressure on both APIs and formulations in the US, travel restrictions delaying regulatory approvals, and consequently new product launches. API revenue was also impacted due to supply chain disruptions and stockpiled by the customers.

## Eying \$1 Bn Gross Block over the next 3 years

Biocon is looking to increase Gross block to \$1 Bn from \$450 Mn in the next 3 years by using cash flow (\$400 Mn), debt, and IPO proceeds of Biologics business. The Capex to be incurred in different business verticals is USD\$ 100 Mn for biologics and USD\$ 100 Mn for other businesses. Also spending of Rs 20 Bn over the next 3 years in generics segment and Greenfield project in Vizag.

## Key Financials (Consolidated)

(Rs Cr)	FY20A	FY21E	FY22E	FY23E
Net Sales	6,367	7,106	8,389	9,655
EBITDA	1,603	1,653	2,038	2,513
Net Profit	871	856	1,032	1,384
EPS (Rs.)	7.3	7.1	8.6	11.5
PER (x)	54.3	55.2	45.8	34.2
EV/EBITDA (x)	30.0	29.5	24.3	19.2
P/BV (x)	6.4	5.6	5.0	4.4
ROE (%)	11.8%	10.1%	11.0%	13.0%

Source: Company, Axis Research

(CMP as of July 26, 2021)	
CMP (Rs)	398
Upside /Downside (%)	1.4%
High/Low (Rs)	487/363
Market cap (Cr)	46,900
Avg. daily vol. (6m) Shrs.	13,22,926
No. of shares (Cr)	120

## Shareholding (%)

	Dec-19	Mar-20	Jun-20
Promoter	60.7	60.7	60.7
FIs	16.1	15.0	15.9
MFs / UTI	3.8	5.1	4.7
Banks / FIs	1.3	1.6	1.8
Others	18.2	17.6	16.9

## Financial & Valuations

Y/E Mar (Rs. Cr)	FY21E	FY22E	FY23E
Net Sales	7,106	8,389	9,655
EBITDA	1,653	2,038	2,513
EPS (Rs.)	856	1,032	1,384
RoE (%)	7.1	8.6	11.5
RoCE (%)	55.2	45.8	34.2
PER (x)	29.5	24.3	19.2
P/BV	5.6	5.0	4.4
EV/ EBITDA	10.1%	11.0%	13.0%

## Change in Estimates (%)

Y/E Mar	FY20P	FY21E	FY22E
Revenue growth	7,460	8,876	10,595
EBITDA Mar (%)	1,716	2,139	2,776
EPS Growth (%)	824	1,074	1,484

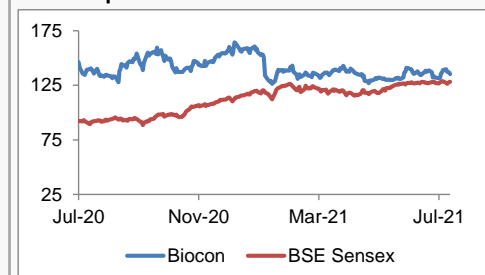
## ESG disclosure Score\*\*

Environmental Disclosure core	NA
Social Disclosure Score	NA
Governance Disclosure Score	NA
Total ESG Disclosure Score	NA

Source: Bloomberg, Scale: 0.1-100

\*\*Note: This score measures the amount of ESG data a company reports publicly, and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

## Relative performance



Source: Capitaline, Axis Securities

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**Biocon Ltd: Q1FY22 results**

Particulars (INR Crore)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	YoY%	QoQ %
<b>Net Sales</b>	<b>1,671</b>	<b>1,745</b>	<b>1,851</b>	<b>1,839</b>	<b>1,761</b>	<b>5.3%</b>	<b>-4.2%</b>
<b>Growth (%)</b>	<b>14.0%</b>	<b>11.0%</b>	<b>7.8%</b>	<b>16.3%</b>	<b>5.3%</b>		
Total Expenditure	1,258	1,353	1,452	1,403	1,371	<b>9.0%</b>	<b>-2.3%</b>
Raw Material Consumed	542	531	560	576	612		
<b>% of sales</b>	<b>32.4%</b>	<b>30.5%</b>	<b>30.2%</b>	<b>31.3%</b>	<b>34.8%</b>		
<b>Gross margins (%)</b>	<b>67.6%</b>	<b>69.5%</b>	<b>69.8%</b>	<b>68.7%</b>	<b>65.2%</b>	-236	-346
Employee Expenses	394	432	463	452	436	<b>10.7%</b>	<b>-3.6%</b>
% of sales	23.6%	24.8%	25.0%	24.6%	24.8%		
Other Expenses	323	390	428	375	323	<b>0.2%</b>	<b>-13.9%</b>
% of sales	19.3%	22.4%	23.1%	20.4%	18.4%		
<b>EBITDA</b>	<b>413</b>	<b>391</b>	<b>400</b>	<b>436</b>	<b>389</b>	<b>-5.8%</b>	<b>-10.7%</b>
<b>EBITDAM (%)</b>	<b>24.7%</b>	<b>22.4%</b>	<b>21.6%</b>	<b>23.7%</b>	<b>22.1%</b>	-262	-159
Interest	13	7	5	34	20		
Depreciation	167	178	186	184	195	<b>16.8%</b>	<b>5.7%</b>
Other Income	18	16	28	205	47		
PBT	252	223	236	423	222	<b>-12.1%</b>	<b>-47.6%</b>
Tax	81	22	49	69	57		
Tax (%)	32.1%	10.0%	20.7%	16.4%	25.8%		
<b>Reported PAT</b>	<b>171</b>	<b>200</b>	<b>187</b>	<b>354</b>	<b>165</b>	<b>-4.0%</b>	<b>-53.5%</b>
Extraordinary Items	0	0	0	-70	0		
Income from Associate	-4	-5	-0	13	-56		
<b>PAT for Company</b>	<b>168</b>	<b>195</b>	<b>187</b>	<b>297</b>	<b>108</b>	<b>-35.4%</b>	<b>-63.5%</b>

Source: Company, Axis Research

**Revenue Breakup**

Particulars	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	YoY%	QoQ %
Generics	621	599	561	578	486	-21.7%	-15.8%
Biosimilars	692	676	769	664	758	9.6%	14.2%
Research services	422	520	585	659	595	41.0%	-9.7%

Source: Company, Axis Research

## Financials (consolidated)

### Profit & Loss

Y/E March	FY19	FY20	FY21E	FY22E	FY23E
<b>Net sales</b>	<b>5,514</b>	<b>6,367</b>	<b>7,106</b>	<b>8,389</b>	<b>9,655</b>
Other operating income	0	0	0	0	0
<b>Net Revenue</b>	<b>5,514</b>	<b>6,367</b>	<b>7,106</b>	<b>8,389</b>	<b>9,655</b>
Cost of goods sold	1,897	2,052	2,209	2,559	2,877
Contribution (%)	34.4%	32.2%	31.1%	30.5%	29.8%
Other operating costs	2,224	2,712	3,245	3,793	4,264
<b>EBITDA</b>	<b>1,393</b>	<b>1,603</b>	<b>1,653</b>	<b>2,038</b>	<b>2,513</b>
Other income	144	161	255	150	160
<b>PBITD</b>	<b>1,538</b>	<b>1,765</b>	<b>1,907</b>	<b>2,188</b>	<b>2,673</b>
Depreciation	448	552	715	763	805
Interest & Fin Chg.	71	65	58	107	107
E/o income / (Expense)	195	68	13	0	0
<b>Pre-tax profit</b>	<b>1,214</b>	<b>1,215</b>	<b>1,147</b>	<b>1,318</b>	<b>1,761</b>
Tax provision	212	315	222	326	437
(-) Minority Interests	0	0	0	0	0
Associates	1	-29	-70	40	60
<b>Adjusted PAT</b>	<b>1,002</b>	<b>871</b>	<b>856</b>	<b>1,032</b>	<b>1,384</b>
Other Comprehensive Income	0	0	0	0	0
<b>Reported PAT</b>	<b>1,002</b>	<b>871</b>	<b>856</b>	<b>1,032</b>	<b>1,384</b>

Source: Company, Axis Securities

### Balance Sheet

(Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E	FY23E
<b>Total assets</b>	<b>12,192</b>	<b>14,444</b>	<b>18,522</b>	<b>17,214</b>	<b>19,097</b>
Net Block	6,413	8,181	9,344	9,054	8,848
CWIP	1,287	1,577	2,254	1,577	1,577
Investments	969	952	1,772	1,421	1,421
Wkg. cap. (excl cash)	1,125	1,335	1,570	1,747	2,010
Cash / Bank balance	1,057	999	2,015	1,269	2,578
Misc. Assets	0	0	0	0	1
<b>Capital employed</b>	<b>12,192</b>	<b>14,444</b>	<b>18,522</b>	<b>17,214</b>	<b>19,097</b>
Equity capital	300.0	600.0	600.0	600.0	600.0
Reserves	6,407	6,783	7,908	8,795	10,035
Pref. Share Capital	0	0	0	0	0
Minority Interests	0	0	0	0	0
Borrowings	0	0	0	0	0
Def tax Liabilities	325	368	308	308	308

Source: Company, Axis Securities

**Cash Flow (Rs Cr)**

Y/E March	FY19	FY20	FY21E	FY22E	FY23E
PBT	1,215	1,186	1,077	1,358	1,821
Add: depreciation	448	552	715	763	805
Add: Interest	71	65	58	107	107
Cash flow from operations	1,733	1,803	1,850	2,228	2,733
Change in working capital	-645	-927	-179	2,275	136
Taxes	212	315	222	326	437
Miscellaneous expenses	0	0	0	0	0
Net cash from operations	2,166	2,415	1,807	-373	2,161
Capital expenditure	-1,795	-2,320	-1,878	-474	-600
Change in Investments	-357	17	-821	351	0
Net cash from investing	-2,152	-2,303	-2,698	-122	-600
Increase/Decrease in debt	-133	103	1,666	0	0
Dividends	-79	-70	-144	-144	-144
Proceedings from equity	0	300	0	0	0
Interest	-71	-65	-58	-107	-107
Others	4	-438	443	0	0
Net cash from financing	-279	-170	1,907	-251	-251
Net Inc./(Dec.) in Cash	-266	-58	1,017	-747	1,309
Opening cash balance	1,323	1,057	999	2,015	1,269
Closing cash balance	1,057	999	2,015	1,269	2,578

Source: Company, Axis Securities

**Ratio Analysis (%)**

Y/E March	FY19	FY20	FY21E	FY22E	FY23E
<b>Sales growth</b>	<b>33.7</b>	<b>15.5</b>	<b>11.6</b>	<b>18.1</b>	<b>15.1</b>
<b>OPM</b>	<b>25.3</b>	<b>25.2</b>	<b>23.3</b>	<b>24.3</b>	<b>26.0</b>
Oper. profit growth	68.0	15.1	3.1	23.3	23.3
COGS / Net sales	34.4	32.2	31.1	30.5	29.8
Overheads/Net sales	40.3	42.6	45.7	45.2	44.2
Depreciation / G. block	6.6	6.6	7.7	7.0	7.0
Effective interest rate	17.5	26.6	20.6	24.0	24.0
Net wkg.cap / Net sales	0.2	0.2	0.2	0.2	0.2
Net sales / Gr block (x)	0.8	0.8	0.8	0.8	0.8
<b>RoCE</b>	<b>11.9</b>	<b>11.4</b>	<b>9.7</b>	<b>12.1</b>	<b>14.6</b>
Debt / equity (x)	0.3	0.3	0.4	0.4	0.3
Effective tax rate	17.5	26.6	20.6	24.0	24.0
<b>RoE</b>	<b>14.9</b>	<b>11.8</b>	<b>10.1</b>	<b>11.0</b>	<b>13.0</b>
Payout ratio (Div/NP)	7.9	8.0	16.9	14.0	10.4
<b>EPS (Rs.)</b>	<b>16.7</b>	<b>7.3</b>	<b>7.1</b>	<b>8.6</b>	<b>11.5</b>
EPS Growth	121.2	(13.1)	(1.7)	20.6	34.1
CEPS (Rs.)	16.3	33.2	30.1	26.3	21.6
DPS (Rs.)	1.3	0.6	1.2	1.2	1.2

Source: Company, Axis Securities

### Biocon Ltd Price Chart and Recommendation History



Date	Reco	TP	Research
03-Aug-20	BUY	474	Top Picks
01-Sep-20	BUY	474	Top Picks
28-Sep-20	BUY	474	Pick of the week
01-Oct-20	BUY	474	Top Picks
26-Oct-20	BUY	474	Result Update
02-Nov-20	BUY	474	Top Picks
02-Nov-20	BUY	474	Pick of the week
01-Dec-20	BUY	470	Top Picks
30-Dec-20	BUY	505	Company Update
01-Jan-21	BUY	505	Top Picks
25-Jan-21	BUY	435	Result Update
30-Apr-21	BUY	430	Result Update
26-Jul-21	HOLD	400	Result Update

Source: Axis Securities

**About the analyst****Analyst:** Ankush Mahajan**Contact Details:** ankush.mahajan@axissecurities.in**Sector:** Midcaps/ Pharma Sector**Analyst Bio:** Ankush Mahajan is MBA (Finance) from SMVDU with over 12 years of research experience in the Midcaps/ Pharma Sector**Disclosures:**

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