



More Challenges Ahead; Gaining Market Share

Est. Vs. Actual for Q4FY24: Revenue – **INLINE**; EBITDA Margin – **INLINE**; PAT – **BEAT**

Changes in Estimates post Q4FY24

FY25E/FY26E: Revenue: 0.7%/0.6%; EBITDA:0.4%/0.1%; PAT: -8.9%/-2.9%

Recommendation Rationale

- Revenue grew by 3.8% YoY, majorly driven by Biosimilars (+12.2% YoY) while Generic and Research Services grew by 0.3% and -7.8% YoY respectively.
- Gross margins improved by 24bps QoQ as the product mix is more favourable towards Biosimilars. The company reported EBITDA margins of 23.4%, improving by 442bps QoQ due to higher operating profitability and lower other expenses.
- Reported PAT stood at Rs 223 Cr, which was better than our expectations.
- Gross margins at 65.8% decreased by 162bps/163bps YOY/QoQ. The company got Rs106 Cr one-time expenses on account of the integration of the Biocon Biologics business across the globe.

Sector Outlook: Positive

Company Outlook & Guidance: Biosimilars are continuously gaining market share across geographies and the launch of products like gLiraglutide in Generics along with a strong pipeline of upcoming Biosimilars like Stellara and YESFILI show a strong outlook for business in the upcoming quarters.

Current Valuation: Blended EV/EBITDA of 9.2x for FY26E earnings.

Current TP: Rs 340/share (Earlier TP: Rs 285/share)

Recommendation: BUY

Financial Performance

Biocon's Reported PAT beat our expectations by 11% YoY while reported Revenue and EBITDA stood mostly in line with expectations. Revenue grew by 3.8% YoY, majorly driven by Biosimilars (+12.2% YoY) while Generic and Research Services grew by 0.3% and -7.8% YoY respectively. Gross margins improved by 24bps QoQ as the product mix is more favourable towards Biosimilars. EBITDA margins at 23.4% improved by 442bps QoQ due to higher operating profitability and lower other expenses. Reported PAT stood at Rs 223 Cr and was better than expectations.

Biocon Biologics is reporting strong tractions after vertical integration of biosimilar business across the geographies, major drugs like gTrastuzumab, gPegfilgrastim and Semglee have gained Market Share to 18%, 21%, and 15% in the US markets respectively in Q4FY24. Hulio and Avebmy Biosimilars are gaining MS in Europe. The company has a strong pipeline to launch bUstekinumab in the US market and YESAFILI in the Canadian Market.

The Generic performance was impacted by pricing and demand challenges in the API business as well as due to the impact of certain regulatory delays. Despite all these factors, formulations business grew 36% YoY, reflecting the prudent investments made in building formulations, capabilities, capacities and product range. Over the past few years. Statin and immunosuppressant formulations led the growth momentum, which was also seen across all major geographies. During the fiscal formulation, the share of product sales increased to ~35% from 25% last year and it is expected to increase and overtake APIs as a share of business mix in the coming years.

Outlook: Biosimilars are continuously gaining market share across the geographies. The launch of products like gLiraglutide in Generics along with a strong pipeline of upcoming Biosimilars like Stellara and YESFILI provides a strong outlook for business in the upcoming quarters. The industry is continuously supporting the Biocon Business. Therefore we change our recommendation to BUY.

Key Financials (Consolidated)

(Rs Cr)	Q4FY24	QoQ (%)	YoY (%)	Axis Est.	Variance %
Net Sales	3,917	8.7%	3.8%	3,850	2%
EBITDA	916	34.0%	-8.2%	900	2%
EBITDA Margin	23.4%	442	-304	23.4%	-
Net Profit	223	-72.7%	330.7%	200	11%
EPS (Rs)	1.9	-72.7%	330.7%	1.7	11%

Source: Company, Axis Research

(CMP as of 16th May 2024)

CMP (Rs)	309
Upside /Downside (%)	10.1%
High/Low (Rs)	321/217
Market cap (Cr)	36,650
Avg. daily vol. (6m)Shrs.	12,00,000
No. of shares (Cr)	120

Shareholding (%)

	Sep-23	Dec-23	Mar-24
Promoter	60.6	60.6	60.6
FII's	9.5	8.0	5.6
MFs / UTI	7.5	8.3	8.6
Others	22.4	23.1	25.2

Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	14,756	16,452	18,235
EBITDA	3,299	3,837	4,368
Net Profit	1,298	1,230	1,650
EPS (Rs)	10.8	10.2	13.7
PER (x)	28.6	30.2	22.5
P/BV (x)	15.5	13.0	11.0
EV/EBITDA (x)	1.5	1.4	1.3
ROE (%)	5.1%	4.7%	5.9%

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	0.7%	0.6%
EBITDA	0.4%	0.1%
PAT	-8.9%	-2.9%

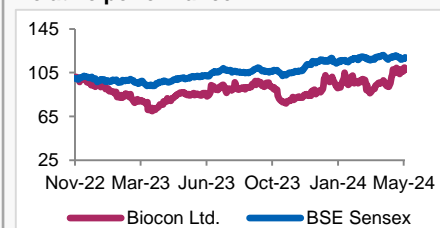
ESG disclosure Score**

Environmental Disclosure	54.6
Social Disclosure Score	52.7
Governance Disclosure Score	89.9
Total ESG Disclosure Score	65.7
Sector Average	N.A.

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 2022 disclosures

Relative performance



Source: ACE Equity, Axis Securities

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Key Risks to our Estimates and TP

- The USFDA inspection and issuing of WL/OAI or 483 observations may impact the revenue growth
- Entry of new players may increase pricing pressure in the injectable portfolio
- Delay in launching new Biosimilars in the market

Valuations: SOTP-based Value Per Share

	EBITDA FY26 (Rs Cr)	Stake (%)	Multiple EV/EBITDA (x)	Valuation (Rs Cr)
Small Molecules	332	100.0%	14	4,654
Biosimilars	2,770	70.0%	16	31,028
Syngene Research	1,267	55.0%	24	16,729
Enterprise Value				52,411
Net debt				11,920
Equity Value				40,491
Share Price				340

Change in Estimates

(Rs Cr)	New		Old		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	16,452	18,235	16,337	18,127	0.7%	0.6%
EBITDA	3,837	4,368	3,820	4,362	0.4%	0.1%
PAT	1,230	1,650	1,350	1,700	-8.9%	-2.9%

Source: Company, Axis Securities

Results Review

Particulars (Rs Cr)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	*Q3FY24	Q4FY24	YoY%	QoQ %
Net Sales	3,774	3,423	3,462	3,954	3,604	3,917	3.8%	8.7%
Growth (%)	56.7%	60.0%	49.3%	34.4%	22.5%	3.8%		
Total Expenditure	2,777	2,708	2,721	3,027	2,920	3,001	8.1%	2.8%
Raw Material Consumed	1,229	1,210	1,127	1,232	1,232	1,330		
Gross margins (%)	67.4%	64.7%	67.4%	68.8%	65.8%	66.1%	-138	24
Employee Expenses	569	579	622	721	721	742		
% of sales	15.1%	16.9%	18.0%	18.2%	20.0%	18.9%		
Other Expenses	979	919	971	1,074	968	930		
% of sales	25.9%	26.9%	28.1%	27.2%	26.9%	23.7%		
EBITDA	997	714	742	927	683	916	-8.2%	34.0%
EBITDAM (%)	26.4%	20.9%	21.4%	23.4%	19.0%	23.4%	-304	442
Interest	249	233	248	267	267	227		
Depreciation	364	358	389	415	415	407	11.9%	-1.8%
Other Income	155	94	158	566	110	49		
Associate P/L	-40	-33	-24	-24	-24	-3		
Exceptional Items	-3	0	-24	21	21	-9		
PBT	497	184	215	808	109	319	-35.8%	193.2%
Tax	82	35	42	55	55	96		
Tax (%)	16.5%	18.9%	19.4%	6.8%	50.6%	30.1%		
Reported PAT	415	149	173	753	54	223	-46.2%	314.3%
Adjusted PAT	418	149	197	54	54	232	330.7%	-72.7%

Source: Company, Axis Securities, *Reported & Adjusted Financials

Revenue Breakup:

Particulars (Rs Cr)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	*Q3FY24	Q4FY24	YoY%	QoQ %
Generics	717	700	676	703	703	718	0.3%	2.1%
Biosimilars	2102	2015	1969	2483	2133	2358	12.2%	10.5%
Research services	994	808	910	854	854	917	-7.8%	7.4%

Source: Company, Axis Securities

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E Mar, Rs. Cr	FY23	FY24E	FY25E	FY26E
Net sales	11,174	14,756	16,452	18,235
Other operating income	36.5%	32.1%	11.5%	10.8%
Net Revenue	8,663	11,457	12,615	13,867
	3,663	4,898	5,314	5,808
Cost of goods sold	67.2%	66.8%	67.7%	68.2%
Contribution (%)	2,181	2,664	2,978	3,301
Other operating costs	19.5%	18.1%	18.1%	18.1%
	1,699	2,741	3,027	3,319
EBITDA	15.2%	18.6%	18.4%	18.2%
Other income	2,512	3,299	3,837	4,368
	22.5%	22.4%	23.3%	24.0%
PBIDT	419	974	887	797
Depreciation	2,093	2,324	2,950	3,572
Interest & Fin Chg.	18.7%	15.8%	17.9%	19.6%
E/o income / (Expense)	1,113	1,569	1,657	1,767
Pre-tax profit	376	866	400	420
Tax provision	-167	-84	-100	-100
(-) Minority Interests	-291	-12	-6	4
Associates	897	1,525	1,587	2,129
Adjusted PAT	28.3%	14.9%	22.5%	22.5%
Other Comprehensive Inc	254	227	357	479
Reported PAT	643	1,298	1,230	1,650

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E Mar, Rs. Cr	FY23	FY24E	FY25E	FY26E
Share Capital	600	600	600	600
Reserves & Surplus	21,889	24,675	25,725	27,194
Shareholders Fund	22,489	25,275	26,325	27,795
Total Debt	18,019	16,277	14,777	13,277
Long Term Provisions	5,544	2,012	2,468	2,735
Total Non Current Liabilities	21,043	15,437	14,393	13,160
Trade Payables	3,983	6,272	5,641	6,245
Other Current Liabilities	2,008	6,235	6,581	7,294
Capital Employed	52,043	56,071	55,791	57,346
Gross Block	12,135	14,061	15,061	16,061
Depriciation	5,074	6,643	8,300	10,067
Net Block	7,061	7,418	6,761	5,995
CWIP	2,588	3,985	2,588	2,588
Fixed Assets	36,706	38,637	36,407	35,640
Deferred Tax Asset(Net)	0	0	0	0
Other Non Current Assets	3,002	2,255	3,948	4,376
Current Investments	1,327	316	1,327	1,327
Inventories	4,244	4,944	5,499	6,095
Trade Receivables	3,573	6,231	5,595	6,195
Cash & Cash Equivalents	2,400	2,259	1,864	2,436
Other Current Assets	791	1,430	1,152	1,276
TOTAL ASSETS	52,043	56,071	55,791	57,346

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E Mar, Rs. Cr	FY23	FY24E	FY25E	FY26E
PBT	897	1,525	1,587	2,129
Add: Depreciation	1,113	1,569	1,657	1,767
Add: Interest	419	974	887	797
Cash flow from operations	2,429	4,068	4,131	4,692
Change in working capital	-259	266	1,164	164
Taxes	254	227	357	479
Miscellaneous expenses	0	0	0	0
Net cash from operations	2,434	3,575	2,610	4,049
Capital expenditure	-27,399	-3,499	573	-1,000
Change in Investments	253	1,011	-1,011	0
Net cash from investing	-27,146	-2,488	-438	-1,000
Increase/Decrease in debt	13,115	-1,742	-1,500	-1,500
Dividends	-72	-180	-180	-180
Proceedings from equity	0	0	0	0
Interest	-419	-974	-887	-797
Others	12,741	1,668	0	0
Net cash from financing	25,365	-1,228	-2,567	-2,477
Net Inc./(Dec.) in Cash	652	-141	-395	572
Opening cash balance	1,748	2,400	2,259	1,864
Closing cash balance	2,400	2,259	1,864	2,436

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E March	FY23	FY24E	FY25E	FY26E
Sales growth %	36.5	32.1	11.5	10.8
OPM (%)	22.5	22.4	23.3	24.0
Oper. profit growth %	27.5	31.3	16.3	13.9
COGS / Net sales %	32.8	33.2	32.3	31.9
Overheads/Net sales %	0.2	0.2	0.1	0.1
Depreciation / G. block %	9.2	11.2	11.0	11.0
Effective interest rate %	28.3	14.9	22.5	22.5
Net wkg.cap / Net sales	0.3	0.3	0.3	0.3
Net sales / Gr block (x)	0.9	1.0	1.1	1.1
RoCE %	4.2	4.3	5.5	6.5
Debt / equity (x)	0.8	0.6	0.6	0.5
Effective tax rate %	28.3	14.9	22.5	22.5
RoE %	2.9	5.1	4.7	5.9
Payout ratio (Div/NP)	11.2	13.9	14.6	10.9
EPS (Rs.)	5.4	10.8	10.2	13.7
EPS Growth %	-16.7	101.8	-5.2	34.1
CEPS (Rs.)	21.1	12.9	12.8	10.9
DPS (Rs.)	0.6	1.5	1.5	1.5

Source: Company, Axis Securities

Biocon Price Chart and Recommendation History



Date	Reco	TP	Research
21-Jan-22	BUY	425	Result Update
29-Apr-22	BUY	425	Result Update
29-Jul-22	HOLD	335	Result Update
15-Nov-22	HOLD	310	Result Update
16-Feb-23	HOLD	260	Result Update
11-Aug-23	BUY	287	Result Update
13-Nov-23	HOLD	260	Result Update
12-Feb-24	HOLD	285	Result Update
17-May-24	BUY	340	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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