


BUY

Target Price

370

Weak Operational Margins

Est. Vs. Actual for Q2FY25: Revenue – **INLINE**; EBITDA Margin – **MISS**; PAT – **MISS**

Changes in Estimates post Q2FY25

FY25E/FY26E: Revenue: 0.0%/0.0%; EBITDA: -22.2%/-5.2%; PAT: -51.2%/-5.9%

Recommendation Rationale

Biocon's Q2FY25 results came in below our expectations. Reported revenue grew by 3.7% YoY and 4.6% QoQ, primarily driven by weak sales in the generics segment, while the biosimilars segment grew by 10.8% YoY.

Gross margins of 67.1% decreased by 39 bps YoY but increased by 150 bps QoQ. EBITDA margins were at 19.1%, reflecting a decline of 233bps YoY and an increase of +102bps QoQ.

Reported PAT of Rs 27 Cr was below expectations due to higher interest and depreciation costs.

Sector Outlook: Positive

Company Outlook: Biocon has a strong product pipeline for the next three years, including five new products such as Aspart, Bevacizumab, Denosumab, and Stelara, which are expected to drive growth. Additionally, revenue recovery is anticipated in H2FY25 from liraglutide and new generics.

Current Valuation: Blended EV/EBITDA on SOTP on FY26E earnings.

Current TP: Rs 370/share (Earlier TP: Rs 390/share)

Recommendation: **BUY**

Financial Performance

Biocon's Q2FY25 results came in below expectations. Reported revenue grew by 3.7% YoY and 4.6% QoQ, primarily driven by weak sales in the generics segment, while the biosimilars segment grew by 10.8% YoY. Gross margins of 67.1% decreased by 39bps YoY and increased by 150bps QoQ. EBITDA margins were at 19.1%, reflecting a decline of 233bps YoY and an increase of 102bps QoQ. Reported PAT at Rs 27 Cr was below expectations due to higher interest and depreciation costs.

The biosimilars business grew by 10.8% YoY, supported by a stable market share in key products: bTrastuzumab (18%), bPegfilgrastim (21%), and Semglee (15%) in the US market.

Market Share Gains and Revenue Trends

In Canada, the company increased its market share in Hulio to 7.5%. Additionally, Biocon achieved double-digit biosimilar revenue growth in Europe and other markets. On a sequential basis, margins increased by 100 bps QoQ. The generics business reported a decline of 7.7% YoY, largely due to heightened price erosion in this segment. The company has already launched liraglutide in Europe and is expected to launch it in the Middle East in H2FY25. Five new products are anticipated to be launched in the generics segment in the second half, which is expected to support margin improvement.

Research services returned to sequential growth and demonstrate strong visibility for further momentum in the coming quarters, driven by discovery services and the bio-manufacturing CMO business. Biocon Biologics successfully refinanced \$1.1 Bn in long-term debt with an \$800 Mn bond and a \$300 Mn syndicated loan facility in the last quarter.

Key Financials (Consolidated)

(Rs Cr)	Q2FY25	QoQ (%)	YoY (%)	Axis Est.	Variance %
Net Sales	3,590	4.6%	3.7%	3,700	-3%
EBITDA	685	10.5%	-7.6%	761	-10%
EBITDA Margin	19.1%	102	-233	20.6%	-
Adjusted Profit	27	-69.0%	-51.8%	44	-38%
EPS (Rs)	0.2	-69.0%	-51.8%	1.7	-38%

Source: Company, Axis Securities Research

(CMP as of 30th October 2024)

CMP (Rs)	320
Upside /Downside (%)	16%
High/Low (Rs)	396/217
Market cap (Cr)	38,467
Avg. daily vol. (6m) Shrs.	12,00,000
No. of shares (Cr)	120

Shareholding (%)

	Mar-24	Jun-24	Sep-24
Promoter	60.6	60.6	60.6
FIIs	5.6	5.9	5.9
MFs / UTI	8.6	8.7	8.0
Others	25.2	24.8	25.4

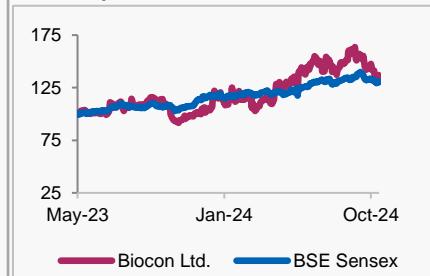
Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	14,756	15,535	18,399
EBITDA	3,299	2,825	4,176
Net Profit	1,298	524	1,576
EPS (Rs)	10.8	4.4	13.1
PER (x)	29.6	73.4	24.4
P/BV (x)	15.9	18.4	12.0
EV/EBITDA (x)	1.5	1.5	1.4
ROE (%)	5.1%	2.0%	5.8%

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	0.0%	0.0%
EBITDA	-22.2%	-5.2%
PAT	-51.2%	-5.9%

Relative performance



Source: ACE Equity

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Outlook:

Biocon has a strong product pipeline for the next three years, including five new products such as Aspart, Bevacizumab, Denosumab, and Stelara, which are expected to drive growth. Additionally, revenue recovery is anticipated in H2FY25 from liraglutide and new generics.

Valuation & Recommendation:

In light of the upcoming pipeline, strong cash flows, and launches like GLP-1 in international markets, we anticipate a positive trajectory on financials. **Therefore, we maintain our BUY rating on the stock with a target price of Rs 370/share, implying a 16% upside potential from CMP.** Valuations are conducted on a SOTP basis.

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	196	100.0%	14	2,742
Biosimilars	2,882	70.0%	18	37,119
Syngene Research	1,099	55.0%	24	14,502
Enterprise Value				54,363
Net debt				11,920
Equity Value				42,443
Share Price				370

Source: Company, Axis Securities Research

Change in Estimates

(Rs Cr)	New		Old		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	15,535	18,399	15,535	18,399	0.0%	0.0%
EBITDA	2,825	4,176	3,633	4,403	-22.2%	-5.2%
PAT	524	1,576	1,072	1,675	-51.2%	-5.9%

Source: Company, Axis Securities Research

Results Review

Particulars (Rs Cr)	Q2FY24	*Q3FY24	Q4FY24	*Q1FY25	Q2FY25	YoY%	QoQ %
Net Sales	3,462	3,604	3,917	3,433	3,590	3.7%	4.6%
Growth (%)	49.3%	22.5%	3.8%	-0.8%	3.7%		
Total Expenditure	2,721	2,920	3,001	2,813	2,905	6.8%	3.3%
Raw Material Consumed	1,127	1,232	1,330	1,183	1,183		
Gross margins (%)	67.4%	65.8%	66.1%	65.5%	67.1%	-39	151
Employee Expenses	622	721	742	755	790		
% of sales	18.0%	20.0%	18.9%	22.0%	22.0%		
Other Expenses	971	968	930	874	933		
% of sales	28.1%	26.9%	23.7%	25.5%	26.0%		
EBITDA	742	683	916	620	685	-7.6%	10.5%
EBITDAM (%)	21.4%	19.0%	23.4%	18.1%	19.1%	-233	102
Interest	248	267	227	236	226		
Depreciation	389	415	407	405	420	13.2%	-0.4%
Other Income	158	110	49	82	33		
Associate P/L	-24	-24	-3	0	0		
Exceptional Items	-24	21	-9	32	26		
PBT	215	109	319	93	98	-49.6%	-71.0%
Tax	42	55	96	21	71		
Tax (%)	19.4%	50.6%	30.1%	22.4%	72.5%		
Reported PAT	173	54	223	72	27	-51.8%	-67.8%
Adjusted PAT	197	54	232	72	27	-51.8%	-69.0%

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

Revenue Breakup

Particulars (Rs Cr)	Q2FY24	*Q3FY24	Q4FY24	*Q1FY25	Q2FY25	YoY%	QoQ %
Generics	676	703	718	659	624	-7.7%	-5.4%
Biosimilars	1969	2133	2358	2083	2182	10.8%	4.7%
Research services	910	854	917	790	891	-2.1%	12.8%

Source: Company, Axis Securities Research

Key Concall Highlight

- **Overall Performance:** Biocon Group's overall performance met expectations, with total revenue of Rs 3,623 crores, remaining flat year-on-year but down 21% quarter-over-quarter. On a like-for-like basis, revenue grew by 7% year-on-year and 3% sequentially, driven by strong growth in the biosimilars segment. This growth occurred despite pressures in the generics segment and a slight revenue decline in Syngene.
- **Segment Performance:** In Q2FY25, the Biosimilars segment reported strong double-digit growth, with revenue reaching Rs 2,182 crores. In contrast, the Generics segment faced continued pressures, declining by 8% year-on-year and 5% sequentially, while Syngene experienced a slight revenue decline of 2% year-on-year but showed a 13% sequential increase to Rs 891 crores, supported by pilot projects in Discovery Services.
- **Future Outlook:** Management anticipates accelerating growth in the second half of the fiscal year, including a rebound in Syngene and growth in the biosimilars sector, driven by the launch of a GLP-1 generic in the UK.

Strategic Developments:

- Debt Refinancing: Successfully refinanced \$1.1 billion in long-term debt, enhancing liquidity and financial flexibility.
- Regulatory Approvals: Secured several approvals from the FDA, with no significant issues reported in recent inspections.
- Market Expansion: Continued growth in the biosimilars segment, particularly in oncology products and emerging markets.

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E Mar, Rs Cr	FY24	FY25E	FY26E	FY27E
Net sales	14,756	15,535	18,399	21,350
Other operating income	32.1%	5.3%	18.4%	16.0%
Net Revenue	11,457	12,710	14,223	16,331
	4,898	5,127	5,888	6,619
Cost of goods sold	66.8%	67.0%	68.0%	69.0%
Contribution (%)	2,664	3,107	3,496	4,057
Other operating costs	18.1%	20.0%	19.0%	19.0%
	2,741	3,262	3,337	3,886
EBITDA	18.6%	21.0%	18.1%	18.2%
Other income	3,299	2,825	4,176	5,020
	22.4%	18.2%	22.7%	23.5%
PBIT	974	887	797	707
Depreciation	2,324	1,938	3,379	4,313
Interest & Fin Chg.	15.8%	12.5%	18.4%	20.2%
E/o income / (Expense)	1,569	1,657	1,767	1,877
Pre-tax profit	866	400	417	422
Tax provision	-84	0	0	0
(-) Minority Interests	-12	-6	4	4
Associates	1,525	676	2,033	2,862
Adjusted PAT	14.9%	22.5%	22.5%	22.5%
Other Comprehensive Inc	227	152	457	644
Reported PAT	1,298	524	1,576	2,218

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E Mar, Rs Cr	FY24	FY25E	FY26E	FY27E
Share Capital	600	600	600	600
Reserves & Surplus	24,675	25,018	26,414	28,452
Shareholders Fund	25,275	25,618	27,014	29,052
Total Debt	16,277	14,777	13,277	11,777
Long Term Provisions	2,012	2,330	2,760	3,203
Total Non-Current Liabilities	15,437	14,255	13,185	12,127
Trade Payables	6,272	5,327	6,301	7,312
Other Current Liabilities	6,235	6,214	7,360	8,540
Capital Employed	56,071	54,266	56,711	59,883
Gross Block	14,061	15,061	16,061	17,061
Depreciation	6,643	8,300	10,067	11,943
Net Block	7,418	6,761	5,995	5,118
CWIP	3,985	2,588	2,588	2,588
Fixed Assets	38,637	36,407	35,640	34,763
Deferred Tax Asset (Net)	0	0	0	0
Other Non-Current Assets	2,255	3,728	4,416	5,124
Current Investments	316	1,327	1,327	1,327
Inventories	4,944	5,193	6,150	7,136
Trade Receivables	6,231	5,283	6,251	7,253
Cash & Cash Equivalents	2,259	1,241	1,640	2,785
Other Current Assets	1,430	1,087	1,288	1,495
TOTAL ASSETS	56,071	54,266	56,711	59,883

Source: Company, Axis Securities Research

Cash Flow

(Rs Cr)

Y/E Mar, Rs Cr	FY24	FY25E	FY26E	FY27E
PBT	1,525	676	2,033	2,862
Add: Depreciation	1,569	1,657	1,767	1,877
Add: Interest	974	887	797	707
Cash flow from operations	4,068	3,219	4,597	5,446
Change in working capital	266	1,080	263	270
Taxes	227	152	457	644
Miscellaneous expenses	0	0	0	0
Net cash from operations	3,575	1,987	3,876	4,532
Capital expenditure	-3,499	573	-1,000	-1,000
Change in Investments	1,011	-1,011	0	0
Net cash from investing	-2,488	-438	-1,000	-1,000
Increase/Decrease in debt	-1,742	-1,500	-1,500	-1,500
Dividends	-180	-180	-180	-180
Proceedings from equity	0	0	0	0
Interest	-974	-887	-797	-707
Others	1,668	0	-0	0
Net cash from financing	-1,228	-2,567	-2,477	-2,387
Net Inc.-(Dec.) in Cash	-141	-1,018	399	1,145
Opening cash balance	2,400	2,259	1,241	1,640
Closing cash balance	2,259	1,241	1,640	2,785

Source: Company, Axis Securities Research

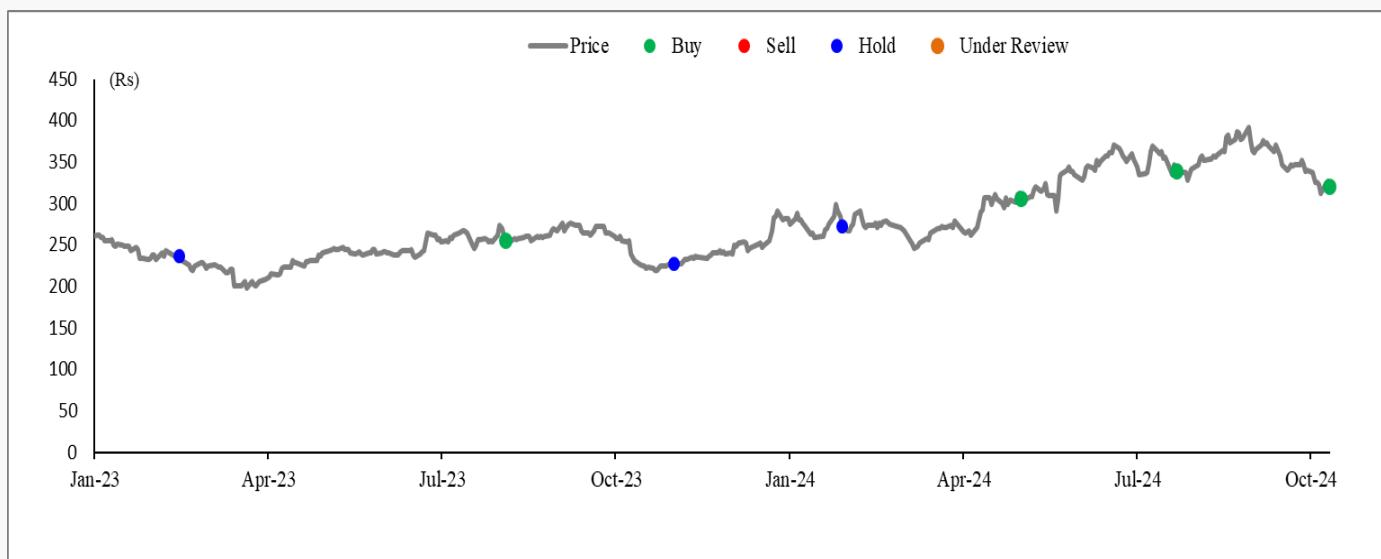
Ratio Analysis

(%)

Y/E March	FY24	FY25E	FY26E	FY27E
Sales growth %	32.1	5.3	18.4	16.0
OPM (%)	22.4	18.2	22.7	23.5
Oper. profit growth %	31.3	-14.4	47.8	20.2
COGS / Net sales %	33.2	33.0	32.0	31.0
Overheads/Net sales %	0.2	0.1	0.1	0.1
Depreciation / G. block %	11.2	11.0	11.0	11.0
Effective interest rate %	14.9	22.5	22.5	22.5
Net wkg.cap / Net sales	0.3	0.3	0.3	0.3
Net sales / Gr block (x)	1.0	1.0	1.1	1.3
RoCE %	4.3	3.7	6.1	7.6
Debt / equity (x)	0.6	0.6	0.5	0.4
Effective tax rate %	14.9	22.5	22.5	22.5
RoE %	5.1	2.0	5.8	7.6
Payout ratio (Div/NP)	13.9	34.4	11.4	8.1
EPS (Rs.)	10.8	4.4	13.1	18.5
EPS Growth %	101.8	-59.7	201.0	40.8
CEPS (Rs.)	14.1	17.6	11.5	9.4
DPS (Rs.)	1.5	1.5	1.5	1.5

Source: Company, Axis Securities Research

Biocon Price Chart and Recommendation History



Date	Reco	TP	Research
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	330	Result Update
09-Aug-24	BUY	390	Result Update
31-Oct-24	BUY	370	Result Update

Source: Axis Securities Research

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