

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 Hulo 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 |
| FII's | 5.6 | 5.9 | 5.9 |
| MF's / UTI | 8.6 | 8.7 | 8.0 |
| Others | 25.2 | 24.8 | 25.4 |

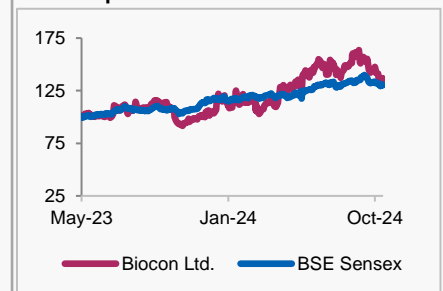
Financial & Valuations

| 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% |
| PBIDT | 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

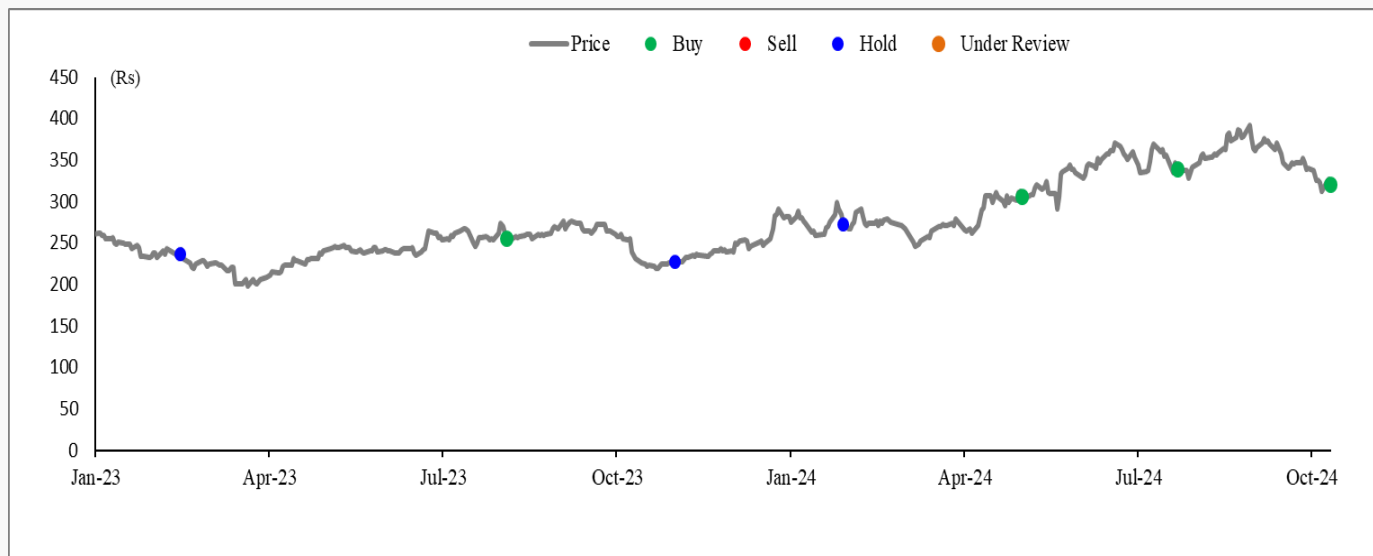
Ratio Analysis

(%)

| 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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| Ratings | Expected absolute returns over 12 – 18 months |
|----------------|--|
| BUY | More than 10% |
| HOLD | Between 10% and -10% |
| SELL | Less than -10% |
| NOT RATED | We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation. |
| UNDER REVIEW | We will revisit our recommendation, valuation and estimates on the stock following recent events |
| NO STANCE | We do not have any forward-looking estimates, valuation or recommendation for the stock |

Note: Returns stated in the rating scale are our internal benchmark.