



## Weak Operational Performance

**Est. Vs. Actual for Q1FY25:** Revenue – **MISS**; EBITDA Margin – **MISS**; PAT – **MISS**

### Changes in Estimates post Q1FY25

**FY25E/FY26E:** Revenue: -4.9%/1.5%; EBITDA:-4.9%/0.9%; PAT: -20.6%/1.5%

### Recommendation Rationale

Reported revenue of Rs 3,433 Cr remained flat YoY, with biosimilar revenue growing by 11% YoY, while research services and generics experienced declines of 2% and 6%, respectively. After adjusting for Rs 1,057 Cr from the strategic business transfer agreement with Eris Life Sciences, Biocon reported an 18% EBITDA margin and a profit of Rs 70 Cr, which is below expectations.

### Sector Outlook: Positive

**Company Outlook & Guidance:** Despite flat overall results, biosimilars reported an 11% revenue growth YoY, and there was an improvement in gross margins by 100 basis points YoY, indicating that the business is performing well. Additionally, the launch of Liraglutide and Micafungin in the generics segment is expected to add value.

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

**Current TP:** Rs 390/share (Earlier TP: Rs 340/share)

### Recommendation: BUY

**Outlook:** Despite flat overall results, biosimilars reported an 11% revenue growth YoY, and there was an improvement in gross margins by 100 basis points YoY, indicating strong business performance. Additionally, the launch of Liraglutide and Micafungin in the generics segment is expected to add value. Continuous improvement in market share and launches in new geographies will further enhance sales of biosimilars. Research services are also showing positive signs. Considering these factors, we recommend buying Biocon.

**Valuation & Recommendation:** In light of the upcoming pipeline, strong cash flows, and launches such as GLP-1 in international markets promising a positive trajectory for financials, we maintain a BUY rating on the stock with a target price of Rs 390. This implies a 15% upside potential from the current market price (CMP). Valuations are based on a sum-of-the-parts (SOTP) approach.

## Key Financials (Consolidated)

(Rs Cr)	Q1FY25	QoQ (%)	YoY (%)	Axis Est.	Variance %
Net Sales	3,433	-12.4%	0.3%	3,878	-11%
EBITDA	620	-32.3%	-13.2%	863	-28%
EBITDA Margin	18.1%	-531	-280	22.3%	-
Net Profit	72	-69.0%	-51.8%	200	-64%
EPS (Rs)	0.6	-69.0%	-51.8%	1.7	-64%

Source: Company, Axis Securities Research

(CMP as of 8th Aug 2024)

CMP (Rs)	338
Upside /Downside (%)	15%
High/Low (Rs)	377/217
Market cap (Cr)	40,290
Avg. daily vol. (6m)Shrs.	12,00,000
No. of shares (Cr)	120

## Shareholding (%)

	Dec-23	Mar-24	Jun-24
Promoter	60.6	60.6	60.6
FIIs	8.0	5.6	5.9
MFs / UTI	8.3	8.6	8.7
Others	23.1	25.2	0.0

## Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	14,756	15,535	18,399
EBITDA	3,299	3,633	4,403
Net Profit	1,298	1,072	1,675
EPS (Rs)	11	9	14
PER (x)	31	38	24
P/BV (x)	16	15	12
EV/EBITDA (x)	2	2	1
ROE (%)	0	0	0

## Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	-4.9%	1.5%
EBITDA	-4.9%	0.9%
PAT	-20.6%	-1.5%

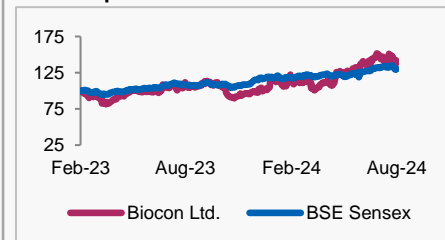
## ESG disclosure Score\*\*

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

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## Financial Performance

Biocon reported a weak set of results, falling below expectations. Reported revenue of Rs 3,433 Cr remained flat YoY, with biosimilar revenue growing by 11% YoY, while research services and generics experienced declines of 2% and 6%, respectively. After adjusting for Rs 1,057 Cr from the strategic business transfer agreement with Eris Life Sciences, Biocon reported an 18% EBITDA margin and a profit of Rs 70 Cr, which is below expectations.

The generics business continues to face significant challenges across both API and formulation. The launch of Liraglutide in the UK and South Korea, along with the launch of Micafungin in the US, is anticipated to provide some uplift. In the biosimilars segment, the oncology portfolio maintains a market share of 19%-20%, while the insulin Glargine franchise holds a 15% market share in the US. Additionally, bAdalimumab and bBevacizumab have double-digit market shares in Europe. Emerging markets are also performing well, with expansion in both products and geography.

The US FDA visited the API facility in Bangalore and reported four procedural observations. The company has submitted a comprehensive response to these observations. However, research services revenue was impacted by a dip in US biotech funding. Positive signs are emerging, as the value of funding to the US biotech market is expected to increase in the first half of CY24, which should generally flow into outsourced demand.

## 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	261	100.0%	14	3,656
Biosimilars	2,976	70.0%	18	38,331
Syngene Research	1,180	55.0%	24	15,577
<b>Enterprise Value</b>				<b>57,563</b>
<b>Net debt</b>				<b>11,920</b>
<b>Equity Value</b>				<b>45,643</b>
<b>Share Price</b>				<b>390</b>

## Change in Estimates

(Rs Cr)	New		Old		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	15,535	18,399	16,337	18,127	-4.9%	1.5%
EBITDA	3,633	4,403	3,820	4,362	-4.9%	0.9%
PAT	1,072	1,675	1,350	1,700	-20.6%	-1.5%

Source: Company, Axis Securities Research

**Results Review:**

Particulars (Rs Cr)	Q1FY24	Q2FY24	*Q3FY24	Q4FY24	*Q1FY25	YoY%	QoQ %	Q1FY24
<b>Net Sales</b>	<b>3,423</b>	<b>3,462</b>	<b>3,604</b>	<b>3,917</b>	<b>3,433</b>	<b>0.3%</b>	<b>-12.4%</b>	<b>3,423</b>
<b>Growth (%)</b>	<b>60.0%</b>	<b>49.3%</b>	<b>22.5%</b>	<b>3.8%</b>	<b>-0.8%</b>			<b>60.0%</b>
Total Expenditure	2,708	2,721	2,920	3,001	2,813	3.9%	-6.3%	2,708
Raw Material Consumed	1,210	1,127	1,232	1,330	1,183			1,210
Gross margins (%)	<b>64.7%</b>	<b>67.4%</b>	<b>65.8%</b>	<b>66.1%</b>	<b>65.5%</b>	<b>89</b>	<b>-51</b>	<b>64.7%</b>
Employee Expenses	579	622	721	742	755			579
% of sales	16.9%	18.0%	20.0%	18.9%	22.0%			16.9%
Other Expenses	919	971	968	930	874			919
% of sales	26.9%	28.1%	26.9%	23.7%	25.5%			26.9%
<b>EBITDA</b>	<b>714</b>	<b>742</b>	<b>683</b>	<b>916</b>	<b>620</b>	<b>-13.2%</b>	<b>-32.3%</b>	<b>714</b>
<b>EBITDAM (%)</b>	<b>20.9%</b>	<b>21.4%</b>	<b>19.0%</b>	<b>23.4%</b>	<b>18.1%</b>	<b>-280</b>	<b>-531</b>	<b>20.9%</b>
Interest	233	248	267	227	236			233
Depreciation	358	389	415	407	405	13.2%	-0.4%	358
Other Income	94	158	110	49	82			94
Associate P/L	-33	-24	-24	-3	0			-33
Exceptional Items	0	-24	21	-9	32			0
<b>PBT</b>	<b>184</b>	<b>215</b>	<b>109</b>	<b>319</b>	<b>93</b>	<b>-49.6%</b>	<b>-71.0%</b>	<b>184</b>
Tax	35	42	55	96	21			35
Tax (%)	18.9%	19.4%	50.6%	30.1%	22.4%			18.9%
<b>Reported PAT</b>	<b>149</b>	<b>173</b>	<b>54</b>	<b>223</b>	<b>72</b>	<b>-51.8%</b>	<b>-67.8%</b>	<b>149</b>
<b>Adjusted PAT</b>	<b>149</b>	<b>197</b>	<b>54</b>	<b>232</b>	<b>72</b>	<b>-51.8%</b>	<b>-69.0%</b>	<b>149</b>

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

**Revenue Breakup:**

Particulars (Rs Cr)	Q1FY24	Q2FY24	*Q3FY24	Q4FY24	*Q1FY25	YoY%	QoQ %	Q1FY24
Generics	700	676	703	718	659	-5.9%	-8.2%	700
Biosimilars	2015	1969	2133	2358	2083	3.4%	-11.6%	2015
Research services	808	910	854	917	790	-2.3%	-13.9%	808

Source: Company, Axis Securities Research

**Financials (consolidated)**
**Profit & Loss**

(Rs Cr)

Y/E Mar, Rs. Cr	FY24	FY25E	FY26E	FY27E
<b>Net sales</b>	<b>14,756</b>	<b>15,535</b>	<b>18,399</b>	<b>21,350</b>
Other operating income	32.1%	5.3%	18.4%	16.0%
<b>Net Revenue</b>	11,457	11,903	13,996	16,138
	4,898	5,018	5,814	6,619
Cost of goods sold	66.8%	67.7%	68.4%	69.0%
Contribution (%)	2,664	2,812	3,330	3,864
Other operating costs	18.1%	18.1%	18.1%	18.1%
	2,741	2,858	3,349	3,886
<b>EBITDA</b>	18.6%	18.4%	18.2%	18.2%
Other income	3,299	3,633	4,403	5,212
	22.4%	23.4%	23.9%	24.4%
<b>PBIDT</b>	974	887	797	707
Depreciation	2,324	2,746	3,607	4,505
Interest & Fin Chg.	15.8%	17.7%	19.6%	21.1%
E/o income / (Expense)	1,569	1,657	1,767	1,877
<b>Pre-tax profit</b>	866	400	417	422
Tax provision	-84	-100	-100	-100
(-) Minority Interests	-12	-6	4	4
Associates	1,525	1,383	2,161	2,955
<b>Adjusted PAT</b>	14.9%	22.5%	22.5%	22.5%
Other Comprehensive Inc	227	311	486	665
<b>Reported PAT</b>	<b>1,298</b>	<b>1,072</b>	<b>1,675</b>	<b>2,290</b>

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	25,567	27,061	29,171
<b>Shareholders Fund</b>	<b>25,275</b>	<b>26,167</b>	<b>27,662</b>	<b>29,771</b>
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	54,814	57,359	60,602
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	1,790	2,288	3,504
Other Current Assets	1,430	1,087	1,288	1,495
<b>TOTAL ASSETS</b>	<b>56,071</b>	<b>54,814</b>	<b>57,359</b>	<b>60,602</b>

Source: Company, Axis Securities Research

**Cash Flow**

(Rs Cr)

Y/E Mar, Rs. Cr	FY24	FY25E	FY26E	FY27E
PBT	1,525	1,383	2,161	2,955
Add: Depreciation	1,569	1,657	1,767	1,877
Add: Interest	974	887	797	707
Cash flow from operations	4,068	3,927	4,724	5,538
Change in working capital	266	1,080	263	270
Taxes	227	311	486	665
Miscellaneous expenses	0	0	0	0
Net cash from operations	3,575	2,535	3,975	4,603
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	-469	498	1,216
Opening cash balance	2,400	2,259	1,790	2,288
Closing cash balance	2,259	1,790	2,288	3,504

Source: Company, Axis Securities Research

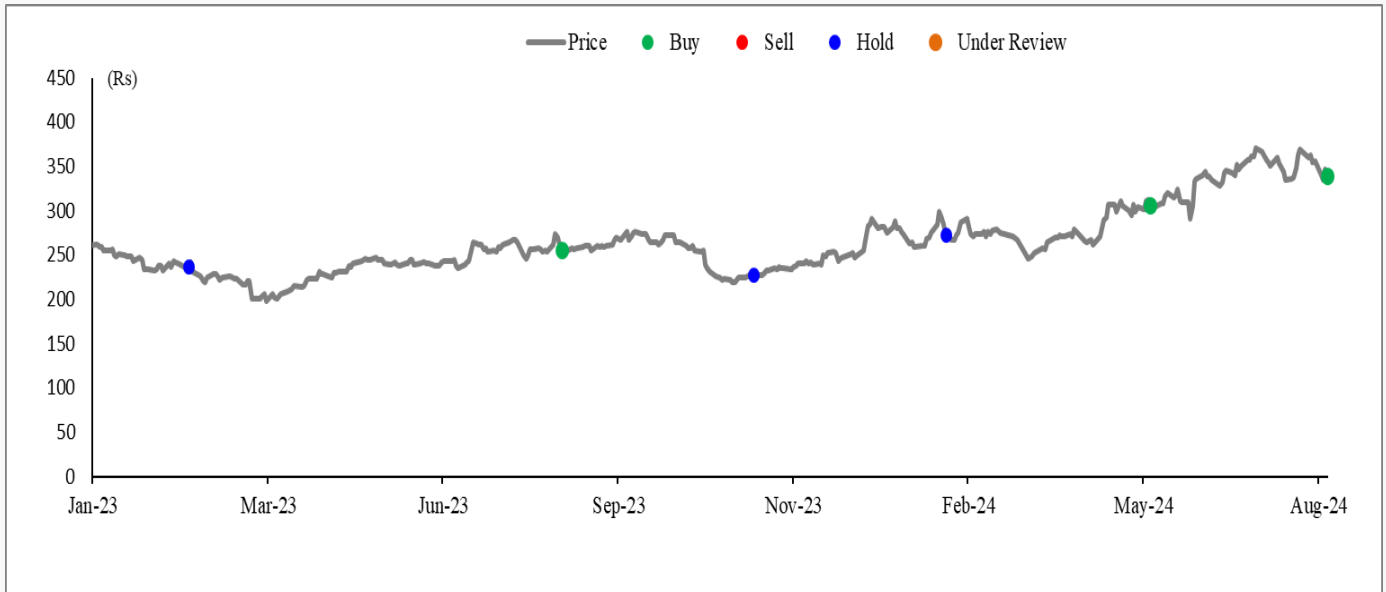
**Ratio Analysis**

(%)

Y/E March	FY24	FY25E	FY26E	FY27E
Sales growth %	32.1	5.3	18.4	16.0
OPM (%)	22.4	23.4	23.9	24.4
Oper. profit growth %	31.3	10.1	21.2	18.4
COGS / Net sales %	33.2	32.3	31.6	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	5.2	6.5	7.9
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	4.1	6.1	7.7
Payout ratio (Div/NP)	13.9	16.8	10.8	7.9
EPS (Rs.)	10.8	8.9	13.9	19.1
EPS Growth %	101.8	-17.4	56.2	36.7
CEPS (Rs.)	14.1	14.8	11.7	9.7
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

Source: Axis Securities Research

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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.

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