

11 August 2024

India | Equity Research | Q1FY25 results review

## Biocon

Pharma

### New launches critical to revive growth

Biocon's Q1FY25 performance was marred by muted performance across segments and the divestment of its India portfolio to Eris Lifesciences. Efforts to cut R&D and boost margins in Q1 was impaired by salary cost of employees from the Viartis acquisition – margins touched a new low of ~18%. While biologics' performance will likely be muted in Q2, revival in H2FY25 is contingent on traction in Hulio in US, and Abevmy and Ogivri in UK. Further, the launch of liraglutide generic in emerging markets may not fetch a sizeable delta in earnings. Biocon has to pay a deferred acquisition consideration of up to USD 335mn to Viartis in FY25, which may spike debt levels in the near term. We cut our EBITDA estimates by 5–6% for FY25–26 to factor in the dismal performance in biologics. Retain **SELL** with a lower target price of INR 235 (earlier INR 245).

### Revenue growth flat; lower R&D supports margins

Q1FY25 revenue was flat YoY (-12.4% QoQ) at INR 34.3bn (I-Sec: INR 38.1bn), led by a dip in biosimilars, generics and research services. Gross margin expanded 90bps YoY (-50bps QoQ) to 65.5%. EBITDA declined 13.2% YoY (-32.3% QoQ) to INR 6.2bn (I-Sec: INR 8bn), margins contracted 280bps YoY (-530bps QoQ) to a new low of 18.1% (I-Sec: 20.9%). Other income of INR 11.3bn included gain from divestment of INR 10.6bn, adjusting for which, PBT stood at INR 562mn (loss from operations at INR 210mn). Adj. PAT at INR 422bn dipped 58.4% YoY (-70.2% QoQ) (I-Sec: INR 1.2bn).

### New launches to revive growth in H2FY25

Biosimilars' revenue dipped 11.6% QoQ (+3.4% YoY) to INR 20.8bn, partially impacted by the divestment of the branded generic biz to Eris Lifesciences. Market share for Ogivri has increased from 11% to 19% YoY. Share of Fulphila increased to 20%, from 16%. Driven by new launches in FY26, we expect 9.1% CAGR over FY24–26E in the biosimilars business. Generic segments declined 5.9% YoY (-8.2% QoQ) to INR 6.6bn. The company has signed a partnership agreement with Handok in South Korea for the commercialisation of the Liraglutide generics business, which should see an uptick in H2FY25 due to the launch of liraglutide for diabetes and obesity in UK and other markets. We expect 7.6% revenue CAGR in generics over FY24–26E. Research services declined 2.3% YoY (-13.9% QoQ) to INR 7.9bn.

### Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	1,11,742	1,44,057	1,54,086	1,74,707
EBITDA	25,117	29,487	31,384	38,763
EBITDA Margin (%)	22.5	20.5	20.4	22.2
Net Profit	6,716	3,634	3,475	7,496
EPS (INR)	5.6	3.0	2.9	6.2
EPS % Chg YoY	(8.7)	(45.9)	(4.4)	115.7
P/E (x)	87.4	39.6	41.1	54.0
EV/EBITDA (x)	23.6	20.2	18.7	14.8
RoCE (%)	3.1	2.7	2.3	3.1
RoE (%)	5.1	1.9	1.7	3.6

#### Abdulkader Puranwala

abdulkader.puranwala@icicisecurities.com  
+91 22 6807 7339

#### Nisha Shetty

nisha.shetty@icicisecurities.com

#### Market Data

Market Cap (INR)	405bn
Market Cap (USD)	4,818mn
Bloomberg Code	BIOS IN
Reuters Code	BION.BO
52-week Range (INR)	377 /218
Free Float (%)	37.0
ADTV-3M (mn) (USD)	28.4

Price Performance (%)	3m	6m	12m
Absolute	12.8	23.2	24.8
Relative to Sensex	2.7	11.9	4.0

#### Previous Reports

17-05-2024: [Q4FY24 results review](#)

11-02-2024: [Q3FY24 results review](#)

## Valuation and risks

Biocon has been able to improve its market share in key biologic products such as Ogiviri and Fulfilla while price erosion in these have taken a toll on overall profitability and growth. The company is set to launch generic liraglutide in UK and other markets; however, the market opportunity may not be substantive enough (EMEA sales of Victoza and Saxenda at USD 900mn in CY23) to create impact on overall earnings of the company. The integration cost of Viartis business and divestment of India branded portfolio to Eris has further taken a toll on margins of the biologics division (Q1FY25 adj. PBT, at INR 75mn, down 92% QoQ) and overall return profile of the company (RoE at 3.6% and RoCE at 3.1% in FY26E). Regulatory issues in Malaysia and CRL from USFDA for Aspart and Bevacizumab have further derailed hopes for a significant recovery in FY25. Efforts towards deleveraging the balance sheet are underway while the company also has to pay a deferred payment consideration of up to USD 335mn to Viartis in FY25, which may spike debt.

We expect Biocon to witness an earnings CAGR of 43.6% over FY24–26E driven by revenue CAGR of 10.1%. EBITDA margin is likely to remain under pressure and hover around ~21–22% with curbs in biosimilars margins and India business divestment. We cut our EBITDA estimates by ~5–6% for FY25–26 to factor in lower sales of biologics. The stock currently trades at 18.7x FY25E and 14.8x FY26E EV/EBITDA. We retain **SELL** on Biocon with a revised SoTP-based target price of INR 235 (INR 245 earlier).

**Key upside risks:** Healthy launches in biosimilars and generics segments; and early recovery in biologic margins.

### Exhibit 1: SoTP-based valuation

SoTP Valuation (EBITDA - Mar'26)	INR mn	(x)	Biocon's stake	Value (INR mn)
Generics	3,473	6	100%	21,532
Biosimilars	23,290	14	70%	2,31,500
Research Services	12,001	22	55%	1,44,653
<b>Total EV</b>				<b>3,97,684</b>
Less: Net Debt				1,15,522
<b>Implied M-Cap</b>				<b>2,82,162</b>
<b>Value per share (INR)</b>				<b>235</b>

Source: Company data, I-Sec research

### Exhibit 2: Quarterly review

Particular (INR mn)	Q1FY25	Q1FY24	YoY % Chg	Q4FY24	QoQ % Chg	FY24	FY23	YoY % Chg
<b>Net Sales</b>	<b>34,329</b>	<b>34,226</b>	<b>0.3</b>	<b>39,171</b>	<b>(12.4)</b>	<b>1,44,057</b>	<b>1,11,742</b>	<b>28.9</b>
Gross Profit	22,502	22,130	1.7	25,876	(13.0)	95,078	75,111	26.6
<b>Gross margins (%)</b>	<b>65.5</b>	<b>64.7</b>	<b>90bps</b>	<b>66.1</b>	<b>-50bps</b>	<b>66.0</b>	<b>67.2</b>	<b>-120bps</b>
EBITDA	6,204	7,144	(13.2)	9,159	(32.3)	29,487	25,117	17.4
<b>EBITDA margins (%)</b>	<b>18.1</b>	<b>20.9</b>	<b>-280bps</b>	<b>23.4</b>	<b>-530bps</b>	<b>20.5</b>	<b>22.5</b>	<b>-200bps</b>
Other income	772	603	28.0	459	68.2	3,513	2,089	68.2
PBIDT	6,976	7,747	(10.0)	9,618	(27.5)	33,000	27,206	21.3
Depreciation	4,054	3,580	13.2	4,070	(0.4)	15,688	11,131	40.9
Interest	2,360	2,330	1.3	2,270	4.0	9,744	4,190	132.6
Extra ordinary income/ (exp.)	10,893	-	-	(88)	(12,478.4)	7,684	(2,914)	(363.7)
<b>PBT</b>	<b>11,455</b>	<b>1,837</b>	<b>523.6</b>	<b>3,190</b>	<b>259.1</b>	<b>15,252</b>	<b>8,971</b>	<b>70.0</b>
Tax	2,837	348	715.2	961	195.2	2,274	2,541	(10.5)
Minority Interest	2,021	475	325.5	874	131.2	2,753	1,803	52.7
<b>Reported PAT</b>	<b>6,597</b>	<b>1,014</b>	<b>550.6</b>	<b>1,355</b>	<b>386.9</b>	<b>10,225</b>	<b>4,627</b>	<b>121.0</b>
<b>Adjusted PAT</b>	<b>422</b>	<b>1,014</b>	<b>(58.4)</b>	<b>1,416</b>	<b>(70.2)</b>	<b>3,634</b>	<b>6,716</b>	<b>(45.9)</b>

Source: Company data, I-Sec research

### Exhibit 3: Business mix (INR mn)

Segment Revenue	Q1FY25	Q1FY24	YoY % Chg	Q4FY24	QoQ % Chg	FY24	FY23	YoY % Chg
Generics	6,593	7,003	(5.9)	7,184	(8.2)	27,985	27,650	1.2
Biosimilars	20,834	20,148	3.4	23,578	(11.6)	84,742	55,838	51.8
Novel Biologics	-	-	-	-	-	-	192	(100.0)
Research Services	7,897	8,081	(2.3)	9,169	(13.9)	34,886	31,929	9.3
Less: Inter-segmental revenue	995	1,006	(1.1)	760	30.9	3,556	3,870	(8.1)
<b>Net Sales</b>	<b>34,329</b>	<b>34,226</b>	<b>0.3</b>	<b>39,171</b>	<b>(12.4)</b>	<b>1,44,057</b>	<b>1,11,739</b>	<b>28.9</b>

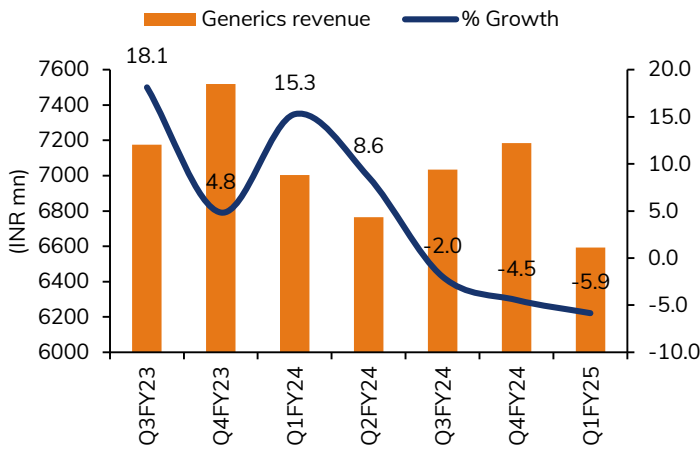
Source: Company data, I-Sec research

### Exhibit 4: Segment PBT (INR mn)

Segment PBT	Q1FY25	Q1FY24	YoY % Chg	Q4FY24	QoQ % Chg	FY24	FY23	YoY % Chg
Generics	169	641	(73.6)	504	(66.5)	2,304	2,644	(12.9)
Biosimilars	75	243	(69.1)	903	(91.7)	2,957	4,030	(26.6)
Novel Biologics	-	(62)	(100.0)	-	-	4,736	318	1,389.3
Research Services	693	1,229	(43.6)	2,090	(66.8)	6,319	5,936	6.5

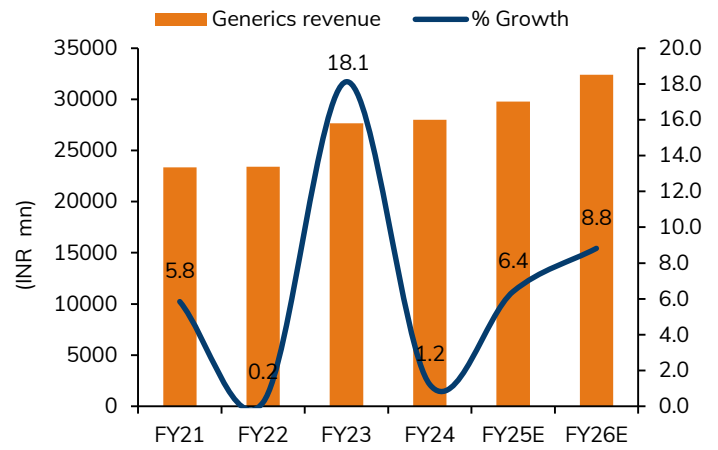
Source: Company data, I-Sec research

### Exhibit 5: Growth impacted due to pricing pressure



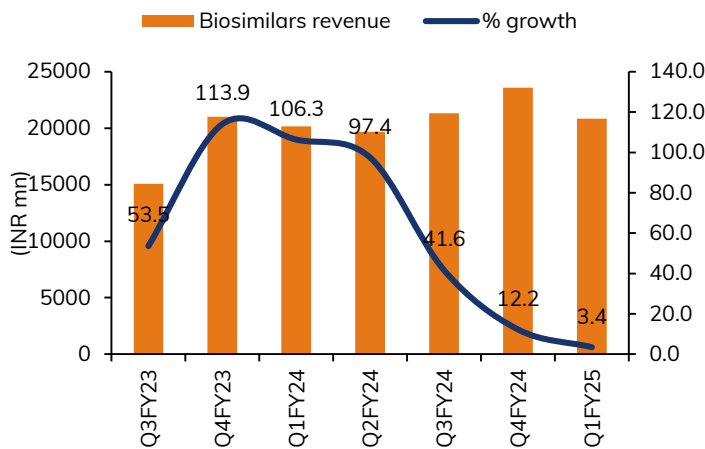
Source: I-Sec research, Company data

### Exhibit 6: Generics likely to grow at a modest pace



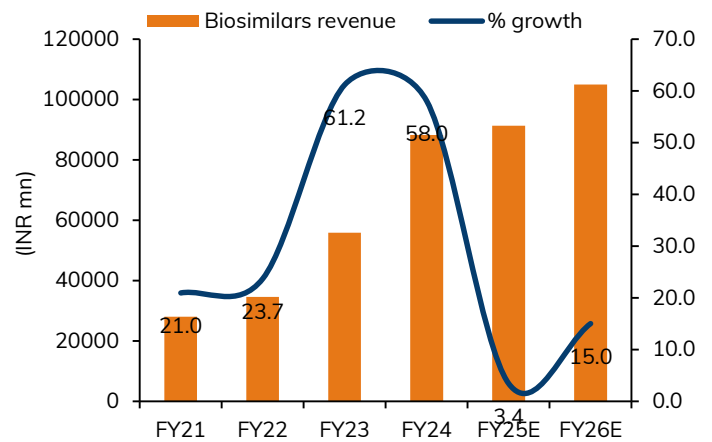
Source: I-Sec research, Company data

### Exhibit 7: Divestment & pricing pressure dent growth



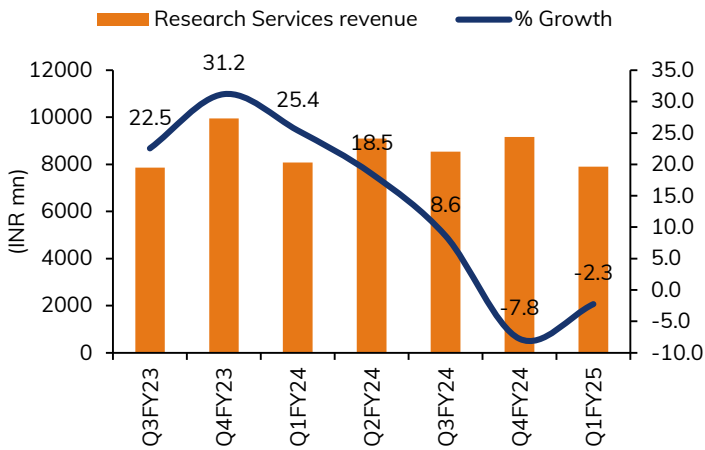
Source: I-Sec research, Company data

### Exhibit 8: Launches to boost traction in biosimilars



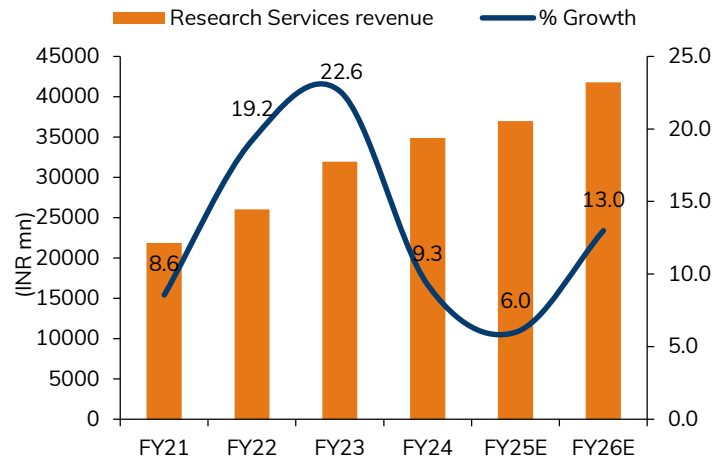
Source: I-Sec research, Company data

**Exhibit 9: Research services revenue declined ~2.3% YoY**



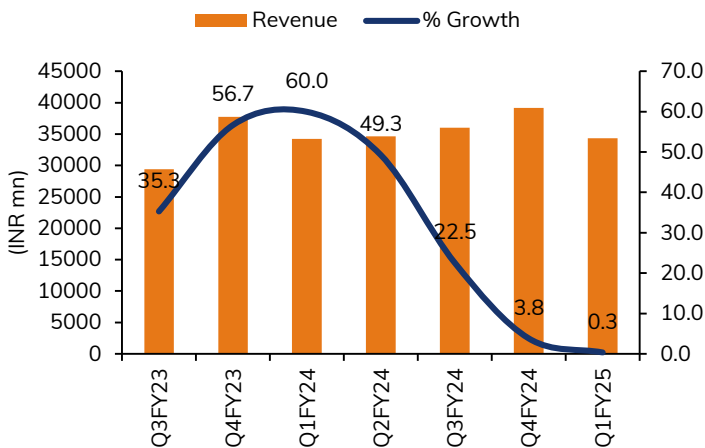
Source: I-Sec research, Company data

**Exhibit 10: Research services CAGR likely at 9.4% over FY24–26E**



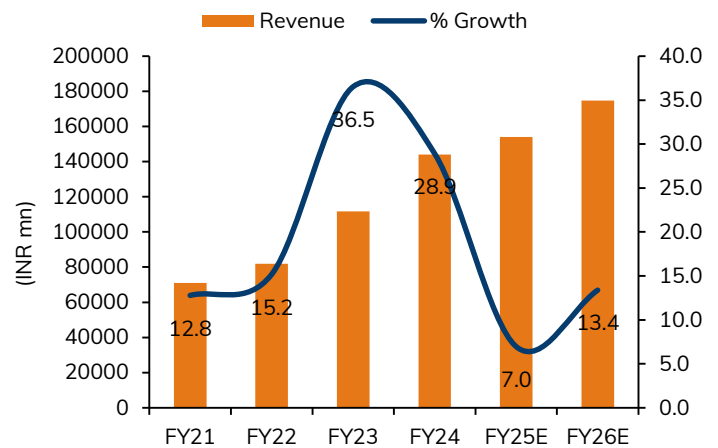
Source: I-Sec research, Company data

**Exhibit 11: Revenue declined due to dip in all segments**



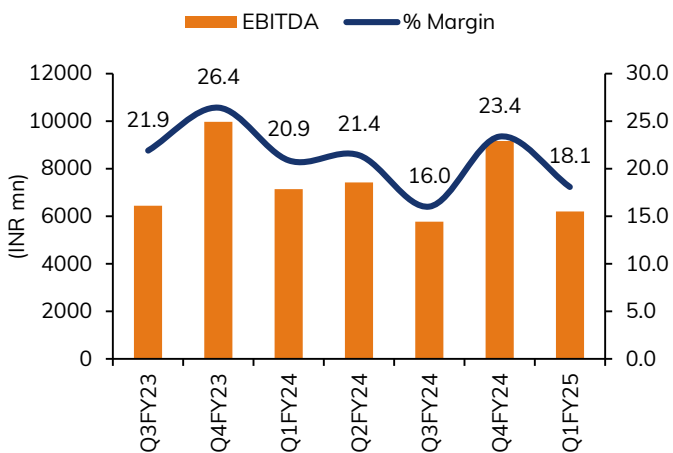
Source: I-Sec research, Company data

**Exhibit 12: Revenue CAGR estimated at 10.1% over FY24–26E**



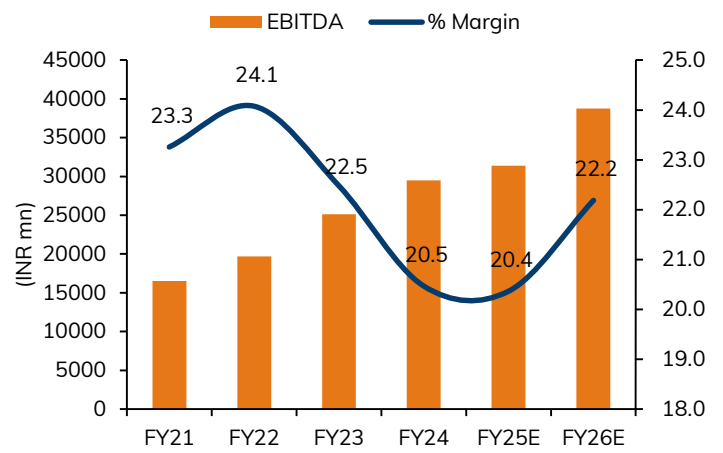
Source: I-Sec research, Company data

**Exhibit 13: Margins contracted due to pricing pressure in biologics**



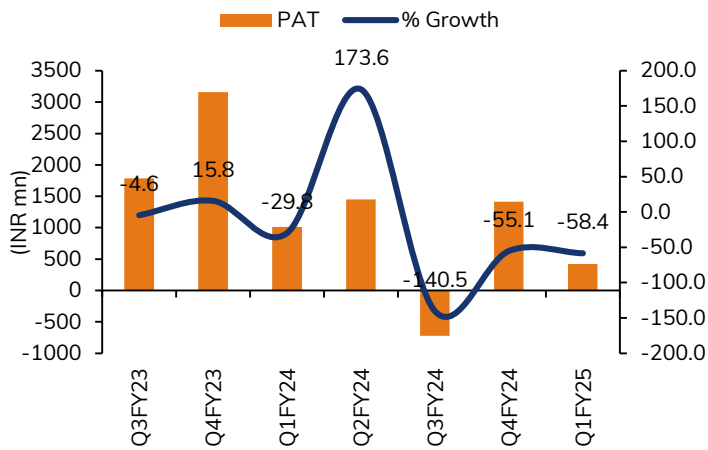
Source: I-Sec research, Company data

**Exhibit 14: EBITDA margin to improve ~170bps on a low base over FY24–26E**



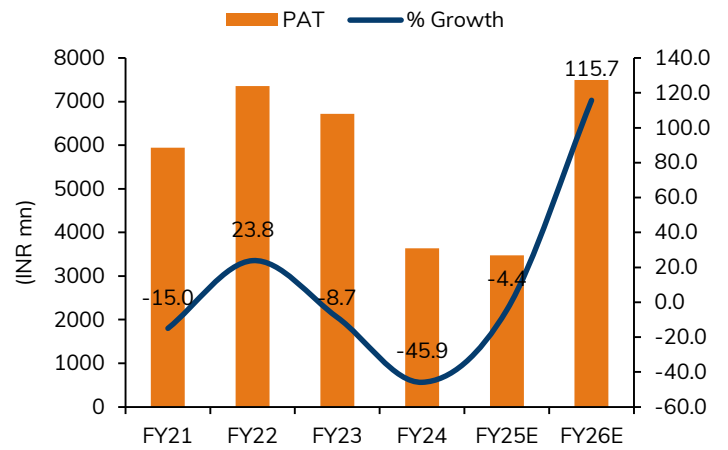
Source: I-Sec research, Company data

**Exhibit 15: Profitability continues to be weak**



Source: I-Sec research, Company data

**Exhibit 16: PAT to register CAGR of 43.6% over FY24–26E**



Source: I-Sec research, Company data

**Exhibit 17: Shareholding pattern**

%	Dec'23	Mar'24	Jun'24
Promoters	60.6	60.6	60.6
Institutional investors	21.1	19.3	20.2
MFs and others	9.3	8.6	8.7
FIs/Banks	-	-	-
Insurance	5.1	5.0	5.5
FIIIs	6.7	5.7	6.0
Others	18.3	20.1	19.2

Source: Bloomberg

**Exhibit 18: Price chart**



Source: Bloomberg

## Financial Summary

### Exhibit 19: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	1,11,742	1,44,057	1,54,086	1,74,707
<b>Operating Expenses</b>	<b>49,994</b>	<b>65,591</b>	<b>71,083</b>	<b>77,941</b>
EBITDA	25,117	29,487	31,384	38,763
<b>EBITDA Margin (%)</b>	<b>22.5</b>	<b>20.5</b>	<b>20.4</b>	<b>22.2</b>
Depreciation & Amortization	11,131	15,688	17,561	19,384
EBIT	13,986	13,799	13,823	19,379
Interest expenditure	4,190	9,744	9,050	8,454
Other Non-operating Income	3,759	4,355	3,920	3,998
Recurring PBT	13,555	8,410	8,692	14,923
<b>Profit / (Loss) from Associates</b>	<b>(1,670)</b>	<b>(842)</b>	<b>(876)</b>	<b>(911)</b>
<b>Less: Taxes</b>	<b>2,541</b>	<b>2,274</b>	<b>4,634</b>	<b>3,531</b>
PAT	11,014	6,136	4,058	11,392
Less: Minority Interest	(1,803)	(2,753)	(3,918)	(2,985)
Extraordinaries (Net)	-	8,012	10,573	-
Net Income (Reported)	4,627	10,225	9,838	7,496
<b>Net Income (Adjusted)</b>	<b>6,716</b>	<b>3,634</b>	<b>3,475</b>	<b>7,496</b>

Source Company data, I-Sec research

### Exhibit 20: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	1,10,075	1,48,636	1,64,851	1,81,791
of which cash & cash eqv.	24,001	22,587	29,960	30,218
Total Current Liabilities & Provisions	59,915	1,25,069	1,32,597	1,49,301
<b>Net Current Assets</b>	<b>50,160</b>	<b>23,567</b>	<b>32,254</b>	<b>32,490</b>
Investments	19,310	9,997	9,997	9,997
Net Fixed Assets	72,769	74,181	71,620	67,235
ROU Assets	2,582	5,745	5,745	5,745
Capital Work-in-Progress	25,875	39,852	39,852	39,852
Total Intangible Assets	2,66,621	2,66,591	2,66,591	2,66,591
Other assets	16,643	8,403	8,403	8,403
Deferred Tax Assets	6,553	7,302	7,302	7,302
<b>Total Assets</b>	<b>4,60,513</b>	<b>4,35,638</b>	<b>4,41,763</b>	<b>4,37,615</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>1,77,707</b>	<b>1,57,296</b>	<b>1,50,296</b>	<b>1,36,296</b>
<b>Deferred Tax Liability</b>	<b>3,818</b>	<b>3,915</b>	<b>3,915</b>	<b>3,915</b>
provisions	2,265	2,376	2,376	2,376
other Liabilities	49,354	13,832	13,832	13,832
Equity Share Capital	1,78,669	1,97,837	2,07,045	2,13,910
Reserves & Surplus	46,219	54,911	58,829	61,814
<b>Total Net Worth</b>	<b>2,24,888</b>	<b>2,52,748</b>	<b>2,65,873</b>	<b>2,75,725</b>
Minority Interest	-	-	-	-
<b>Total Liabilities</b>	<b>4,60,513</b>	<b>4,35,638</b>	<b>4,41,763</b>	<b>4,37,615</b>

Source Company data, I-Sec research

### Exhibit 21: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Operating Cashflow</b>	<b>18,525</b>	<b>29,539</b>	<b>39,053</b>	<b>38,342</b>
Working Capital Changes	4,462	14,745	22,146	21,380
Capital Commitments	(1,39,403)	(24,615)	(15,000)	(15,000)
<b>Free Cashflow</b>	<b>(1,20,878)</b>	<b>4,924</b>	<b>24,053</b>	<b>23,342</b>
<b>Other investing cashflow</b>	<b>(3,415)</b>	<b>14,570</b>	-	-
Cashflow from Investing Activities	(1,42,818)	(10,045)	(15,000)	(15,000)
Issue of Share Capital	12,311	307	-	-
Interest Cost	(4,190)	(9,744)	(9,050)	(8,454)
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(718)	(2,030)	(630)	(630)
Others	1,23,084	(11,860)	(7,000)	(14,000)
Cash flow from Financing Activities	1,30,487	(23,327)	(16,680)	(23,084)
<b>Chg. in Cash &amp; Bank balance</b>	<b>6,194</b>	<b>(3,833)</b>	<b>7,373</b>	<b>259</b>
Closing cash & balance	23,669	20,168	29,960	30,218

Source Company data, I-Sec research

### Exhibit 22: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Per Share Data (INR)</b>				
Reported EPS	3.9	8.5	8.2	6.2
Adjusted EPS (Diluted)	5.6	3.0	2.9	6.2
Cash EPS	14.9	16.1	17.5	22.4
Dividend per share (DPS)	0.6	1.7	0.5	0.5
Book Value per share (BV)	148.8	164.8	172.5	178.2
Dividend Payout (%)	15.5	19.9	6.4	8.4
<b>Growth (%)</b>				
Net Sales	36.5	28.9	7.0	13.4
EBITDA	27.5	17.4	6.4	23.5
EPS (INR)	(8.7)	(45.9)	(4.4)	115.7
<b>Valuation Ratios (x)</b>				
P/E	87.4	39.6	41.1	54.0
P/CEPS	22.7	20.9	19.2	15.0
P/BV	2.3	2.0	2.0	1.9
EV / EBITDA	23.6	20.2	18.7	14.8
P / Sales	3.6	2.8	2.6	2.3
Dividend Yield (%)	0.0	0.0	0.0	0.0
<b>Operating Ratios</b>				
Gross Profit Margins (%)	67.2	66.0	66.5	66.8
EBITDA Margins (%)	22.5	20.5	20.4	22.2
Effective Tax Rate (%)	23.9	28.1	53.3	23.7
Net Profit Margins (%)	6.0	2.5	2.3	4.3
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	0.6	0.5	0.5	0.4
Net Debt / EBITDA (x)	5.7	4.6	3.9	2.8
<b>Profitability Ratios</b>				
RoCE (%)	3.1	2.7	2.3	3.1
RoE (%)	5.1	1.9	1.7	3.6
RoC (%)	3.4	2.9	2.5	3.4
Fixed Asset Turnover (x)	1.7	2.0	2.1	2.5
Inventory Turnover Days	160	141	130	130
Receivables Days	135	178	163	168
Payables Days	150	179	162	165

Source Company data, I-Sec research

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**BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return**

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, E-mail Address : [complianceofficer@icicisecurities.com](mailto:complianceofficer@icicisecurities.com)

For any queries or grievances: [Mr. Bhavesh Soni](mailto:Mr. Bhavesh Soni) Email address: [headservicequality@icicidirect.com](mailto:headservicequality@icicidirect.com) Contact Number: 18601231122

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