

Aggressive Capital Allocation Led to Suppressed Return Ratios

Est. Vs. Actual for Q3FY23: Revenue – **BEAT**; EBITDA Margin – **BEAT**; PAT – **BEAT**

Changes in Estimates post Q3FY23

FY23E/FY24E: Revenue 11.3%/22.1%; EBITDA Margins 15%/16%; PAT -47%/-7.2%

Recommendation Rationale

- Reported revenue grew by 35.3% YoY and was majorly contributed by Biosimilars (+53.5% YoY) and generics (+18.1% YoY). Adj. PAT of Rs 251 Cr increased by 14.2% YoY after adjusting one-time costs of Rs 271 Cr which arose due to the Viatris deal.
- Existing and new products (bAdalimumab, bBevacizumab, bAspart) in Europe and Emerging Markets added growth in the last quarter.
- In generics, geographical expansions (Liraglutide and Immunosuppressan) and the launch of new products added to the healthy growth.

Sector Outlook: Neutral

Company Outlook & Guidance: The capital allocation on two fronts R&D & acquisition of Viatris has led to a dilution in the return ratios to below ~10% despite growth in the business.

Current Valuation: PE22x for FY25 earnings (Earlier Valuation: PE21x)

Current TP: Rs 260/share (Earlier TP: Rs 310/share)

Recommendation: HOLD

Financial Performance

The company's reported revenue grew by 35.3% YoY, which was majorly driven by the Biosimilars (+53.5% YoY) and generics (+18.1% YoY). The Biosimilars segment included Viatris' Sales in the last quarter. The company's gross margins decreased by 52bps YoY due to changes in the product mix and price erosion in the business while EBITDA margins fell by 55bps due to an increase in the R&D Costs. Adj. PAT stood at Rs 251 Cr, increasing by 14.2% YoY after adjusting for the one-time cost of Rs 271 Cr, which arose due to the Viatris deal.

Outlook: In the US market, Biocon's market share stood stagnant at ~10% in gPegfilgrastim, gTrastuzumab, and gLargine due to stiff competition from peers. However, the company has launched existing and new products (bAdalimumab, bBevacizumab, and bAspart) in Europe and Emerging Markets, adding growth in the last quarter. Biocon has a healthy pipeline of biosimilars like bAdalimumab, bDenosumab and bUstekinumab.

In generics, geographical expansions (Liraglutide & Immunosuppressan) and the launch of new products added healthy growth which is expected to continue in the upcoming quarters. **However, the capital allocation on two fronts R&D & Acquisition of Viatris has diluted return ratios to below ~10% despite growth in the business.**

Valuation & Recommendation: We expect improvement in Return Ratios is the key to re-rate stock in future, therefore, we recommend "HOLD"

Key Financials (Consolidated)

(Rs Cr)	Q3FY23	QoQ (%)	YoY (%)	Axis Est.	Variance %
Net Sales	2,941	26.8%	35.3%	2,436	20.8%
EBITDA	644	36.9%	32.0%	521	23.6%
EBITDA Margin	21.9%	161	-394	21.4%	-
Net Profit	251	14.2%	150.7%	229	9.6%
EPS (Rs)	2.1	14.2%	150.7%	1.9	9.6%

Source: Company, Axis Research

(CMP as of 15 Feb 2023)

CMP (Rs)	238
Upside /Downside (%)	9.0%
High/Low (Rs)	406/229
Market cap (Cr)	28,430
Avg. daily vol. (6m)Shrs.	12,00,000
No. of shares (Cr)	120

Shareholding (%)

	Jun-22	Sep-22	Dec-22
Promoter	60.6	60.6	60.6
FII's	16.3	15.8	14.4
MFs / UTI	3.1	3.2	4.0
Others	20.0	20.4	21.0

Financial & Valuations

Y/E Mar (Rs Cr)	FY23E	FY24E	FY25E
Net Sales	10,770	13,857	15,777
EBITDA	2,197	3,049	3,629
Net Profit	529	1,243	1,565
EPS (Rs)	4.4	10.4	13.0
PER (x)	54.0	23.0	18.3
P/BV (x)	21.0	15.0	12.3
EV/EBITDA (x)	2.0	1.9	1.7
ROE (%)	3.7%	8.1%	9.3%

Change in Estimates (%)

Y/E Mar	FY23E	FY24E	FY25E
Sales	2,489	2,823	3,249
EBITDA	330	347	435
PAT	205	200	263

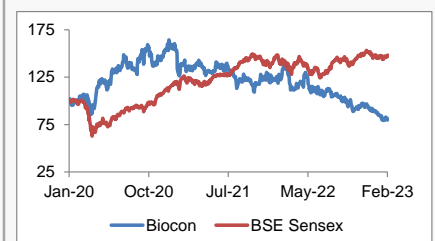
ESG disclosure Score**

Environmental	N.A.
Social Disclosure Score	N.A.
Governance Disclosure	N.A.
Total ESG Disclosure	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 2020 disclosures

Relative performance



Source: Capitaline, Axis Securities

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Key Risks to our Estimates and TP

- 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

Change in Estimates

	New			Old			% Change		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Sales	10,770	13,857	15,777	9,680	11,347	15,000	11.3%	22.1%	5.2%
EBITDA	2,197	3,049	3,629	2,304	2,665	3,500	-4.6%	14.4%	3.7%
PAT	529	1,243	1,565	1000	1,363	1,550	-47.1%	-8.8%	0.9%

Source: Company, Axis Securities

Results Review

Particulars (Rs crore)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	YoY (%)	QoQ (%)
Net Sales	2174.2	2408.8	2139.5	2319.7	2941.1	35.3%	26.8%
Growth (%)	17.5%	31.0%	21.5%	26.0%	35.3%		
Total Expenditure	1686	1816.9	1740.1	1849.2	2296.8	36.2%	24.2%
Raw Material Consumed	712.9	828.3	702.8	752.4	979.6		
Gross margins (%)	67.2%	65.6%	67.2%	67.6%	66.7%	-52	-87
Employee Expenses	495	470.3	512.6	540	558.8	12.9%	3.5%
% of sales	22.8%	19.5%	24.0%	23.3%	19.0%	-377	-428
Other Expenses	478.1	518.3	524.7	556.8	758.4	58.6%	36.2%
% of sales	22.0%	21.5%	24.5%	24.0%	25.8%	495	-52
EBITDA	488.2	591.9	399.4	470.5	644.3	32.0%	36.9%
EBITDAM (%)	22.5%	24.6%	18.7%	20.3%	21.9%	-394	161
Interest	14.7	10.5	19.9	30	120.3		
Depreciation	205.7	212.2	217.5	230.8	301.1	46.4%	30.5%
Other Income	48.3	67.3	77.9	64.5	78.6		
Associate P/L	-47.2	-53	-43	-28.3	-55.6		
Exceptional Items	0	-41	-43	-17	-271.4		
PBT	268.9	342.5	153.9	228.9	-25.5	-109.5%	-111.1%
Tax	49.3	58.6	29.5	147.3	-4.8		
Tax (%)	18.3%	17.1%	19.2%	64.4%	18.8%		
Reported PAT	219.6	283.9	124.4	81.6	-20.7	-109.4%	-125.4%
Adjusted PAT	219.6	324.9	167.4	98.6	250.7	14.2%	154.3%

Source: Company, Axis Securities

Revenue Breakup

Particulars (Rs crore)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	YoY (%)	QoQ (%)
Generics	607.4	717.2	579.7	622.8	717.6	18.1%	15.2%
Biosimilars	981.4	982.3	976.6	997.4	1506.6	53.5%	51.1%
Research services	641.4	758.1	644.5	768.1	785.9	22.5%	2.3%

Source: Company, Axis Securities

Financials (consolidated)

Profit & Loss

(Rs Cr)

Particulars (Rs Cr.)	FY22	FY23E	FY24E	FY25E
Net sales	8,184	10,770	13,857	15,777
Other operating income	15.2%	31.6%	28.7%	13.9%
Net Revenue	6,214	8,573	10,809	12,148
	2,718	3,543	4,504	5,080
Cost of goods sold	66.8%	67.1%	67.5%	67.8%
Contribution (%)	1,880	2,380	3,049	3,471
Other operating costs	23.0%	22.1%	22.0%	22.0%
	1,615	2,649	3,256	3,597
EBITDA	19.7%	24.6%	23.5%	22.8%
Other income	1,970	2,197	3,049	3,629
	24.1%	20.4%	22.0%	23.0%
PBIDT	68	288	400	390
Depreciation	1,903	1,910	2,648	3,239
Interest & Fin Chg.	23.2%	17.7%	19.1%	20.5%
E/o income / (Expense)	814	963	1,135	1,298
Pre-tax profit	213	288	240	178
Tax provision	-207	-180	-150	-100
(-) Minority Interests	-111	-372	0	0
Associates	983	682	1,604	2,019
Adjusted PAT	21.5%	22.5%	22.5%	22.5%
Other Comprehensive Inc	212	154	361	454
Reported PAT	772	529	1,243	1,565

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E Mar, Rs. Cr	FY22	FY23E	FY24E	FY25E
Share Capital	600	600	600	600
Reserves & Surplus	8,870	13,739	14,802	16,186
Shareholders Fund	9,470	14,339	15,402	16,786
Total Debt	4,904	19,829	19,329	18,829
Long Term Provisions	3,098	3,770	4,850	5,522
Total Non Current Liabilities	7,096	18,412	18,992	19,164
Trade Payables	1,609	2,125	2,733	3,112
Other Current Liabilities	1,314	2,154	2,771	3,155
Capital Employed	20,394	42,216	45,086	47,405
Gross Block	10,239	12,039	13,839	15,639
Depreciation	4,563	5,526	6,661	7,959
Net Block	5,677	6,514	7,179	7,681
CWIP	3,420	2,420	1,420	420
Fixed Assets	10,420	30,432	30,097	29,599
Deferred Tax Asset(Net)	293	293	293	293
Other Non Current Assets	936	797	2,025	3,167
Current Investments	1,218	1,218	1,218	1,218
Inventories	2,298	2,951	3,796	4,322
Trade Receivables	2,058	2,656	3,417	3,890
Cash & Cash Equivalents	1,748	2,215	2,214	2,659
Other Current Assets	1,061	1,292	1,663	1,893
TOTAL ASSETS	20,394	42,216	45,086	47,404

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E Mar, Rs. Cr	FY22A	FY23E	FY24E	FY25E
PBT	983	682	1,604	2,019
Add: depreciation	814	963	1,135	1,298
Add: Interest	68	288	400	390
Cash flow from operations	1,865	1,933	3,139	3,707
Change in working capital	1,709	-686	899	937
Taxes	212	154	361	454
Miscellaneous expenses	0	0	0	0
Net cash from operations	-56	2,465	1,879	2,315
Capital expenditure	-1,891	-20,975	-800	-800
Change in Investments	193	-0	-0	-0
Net cash from investing	-1,698	-20,975	-800	-800
Increase/Decrease in debt	1,348	14,925	-500	-500
Dividends	-60	-160	-180	-180
Proceedings from equity	0	0	0	0
Interest	-68	-288	-400	-390
Others	265	4,500	0	-0
Net cash from financing	1,486	18,977	-1,080	-1,070
Net Inc./(Dec.) in Cash	-268	468	-1	445
Opening cash balance	2,015	1,748	2,215	2,214
Closing cash balance	1,748	2,215	2,214	2,659

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E March	FY22A	FY23E	FY24E	FY25E
Sales growth %	15.2	31.6	28.7	13.9
OPM (%)	24.1	20.4	22.0	23.0
Oper. profit growth %	19.2	11.5	38.8	19.0
COGS / Net sales %	33.2	32.9	32.5	32.2
Depreciation / G. block %	8.0	8.0	8.2	8.3
Effective interest rate %	21.5	22.5	22.5	22.5
Net sales / Gr block (x)	0.8	0.9	1.0	1.0
RoCE %	10.2	4.8	6.2	7.2
Debt / equity (x)	0.5	1.4	1.3	1.1
Effective tax rate %	21.5	22.5	22.5	22.5
RoE %	8.1	3.7	8.1	9.3
Payout ratio (Div/NP)	7.8	30.3	14.5	11.5
EPS (Rs.)	6.4	4.4	10.4	13.0
EPS Growth %	-9.9	-31.5	135.0	25.9
CEPS (Rs.)	18.0	19.2	12.0	10.0
DPS (Rs.)	0.5	1.3	1.5	1.5

Source: Company, Axis Securities

Biocon Price Chart and Recommendation History



Date	Reco	TP	Research
01-Jan-21	BUY	505	Top Picks
25-Jan-21	BUY	435	Result Update
30-Apr-21	BUY	430	Result Update
23-Jul-21	HOLD	400	Result Update
22-Oct-21	BUY	370	Result Update
05-Nov-21	BUY	390	AAA
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

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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