

- ❑ Biocon Limited (BIOS) has reported a growth of 30.4% in its consolidated revenues at ₹14,659 million in Q1-FY20 as against ₹11,238 million in Q1-FY19. The growth was mainly attributable to robust performance by Biologics and Small molecules business segments.
- ❑ On profitability front, the company's consolidated operating margins stood 29.8%, an improvement of ~870 basis points at ₹4.37 million in Q1-FY20 as against 21.2% in Q1-FY19 at ₹2,378 million. Profit after tax margins for the company stood at 14.1% in Q1-FY20 at ₹2,063 million against 10.7% at ₹1,197 million. The improvement in margins was mainly led by sustained higher contribution of Biologics segment driven by biosimilar products portfolio which led to better product mix.
- ❑ On segment basis, The Biologics segment revenue grew 96% to ₹4,900 million driven by the expansion of company's biosimilar products footprint in new markets and increased penetration of products already launched in some developed and emerging markets. *Fulphila*, biosimilar Pegfilgrastim reported strong sales in quarter with 21% volume share of the Pegfilgrastim syringes market in U.S. till May 2019. *Ogivri*, biosimilar Trastuzumab has secured approval in Canada and commercial launch in EU markets.
- ❑ The Small Molecules business reported a growth of 20% at ₹4,800 million in Q1-FY20 led by strong sales of key APIs mainly in India, EU, LATAM, APAC, CIS and NAFTA regions and a robust performance of company's Generic Formulations business with Rosuvastatin and Simvastatin formulations maintaining their market shares, and recently introduced Atorvastatin registering good growth through the acquisition of key accounts in the U.S. market.
- ❑ The Branded Formulations business, which includes sales in India and UAE registered a de growth of 9% at ₹1,330 million in Q1-FY20, the business was adversely impacted due to continued headwinds in UAE. However, the business in India reported a strong performance led by double-digit growth in company's key brands like CANMAb, BIOMAb and KRABEVA.
- ❑ In its Research Services subsidiary (Syngene), the business has reported a growth of 4% in Q1-FY20 revenues at ₹4,410 million as against ₹4,250 million in Q1-FY19. The growth was mainly driven by Discovery Chemistry Services, Discovery Biology while the Development and Manufacturing services witnessed decline owing to project phasing.
- ❑ On future growth front, the company in undertaking construction of a greenfield project for a fermentation-based manufacturing facility initiated at Visakhapatnam, Andhra Pradesh to cater to the volume growth in the Small Molecules APIs and Generic Formulations business. This expansion is expected to enable company to deliver its vertically integrated strategy of developing and commercializing own ANDAs and also service needs of its global API customers. The company expect this facility to be operational over the next three years.
- ❑ Going ahead, we continue to expect company to get benefits of first wave of Biosimilar commercialisation in the next two years which should drive higher revenues and margins. We have updated our financials reflecting latest quarterly numbers and continue to remain positive on the stock and maintain our **BUY** rating with a revised target price of **₹321 per share**.

Q1-FY20 Results (Consolidated)

(In ₹ mn)	Q1-FY20	Q1-FY19	Chg
Net Sales	14,659	11,238	30.4%
Operating Expense	10,284	8,860	16.1%
EBITDA	4,375	2,378	84.0%
Other Income	241	688	
Depreciation	1,242	991	
EBIT	3,374	2,075	62.6%
Interest	166	176	
PBT	3,208	1,899	68.9%
Tax	852	521	
Exceptional Items	-	-	
PAT	2,356	1,378	71.0%
Minority /Other Adj.	(293)	(181)	
Consolidated PAT	2,063	1,197	72.3%

Margins	Q1-FY20	Q1-FY19	ChgBPS
Operating Margin %	29.8%	21.2%	868
Net Margin %	14.1%	10.7%	342

Source: Company, Anand Rathi Research

Consolidated Financials:

(In ₹ Mn.)	FY-18	FY-19	FY-20E	FY-21E
Net Sales	41,234	55,144	70,632	89,982
Operating Expense	32,943	41,207	50,866	63,902
EBITDA	8,291	13,937	19,765	26,080
Other Income	2,062	1,444	1,059	1,350
Depreciation	3,851	4,478	5,101	5,849
EBIT	6,502	10,903	15,723	21,581
Interest	615	709	729	753
Misc. items	-	1,946	-	-
PBT	5,887	12,140	14,995	20,827
Tax	1,569	2,123	2,999	4,165
Minority Interest	(594)	(964)	-	-
PAT	3,724	9,053	11,996	16,662

Margins	FY-18	FY-19	FY-20E	FY-21E
Sales Growth %	6.0%	33.7%	28.1%	27.4%
Operating Margin %	20.1%	25.3%	28.0%	29.0%
Net Margin %	9.0%	16.4%	17.0%	18.5%

Source: Company, Anand Rathi Research

(In ₹ Mn.)	FY-18	FY-19	FY-20E	FY-21E
Liabilities				
Equity Share Capital	3,685	3,772	3,772	3,772
Reserves & Surplus	48,123	57,208	69,204	85,866
Total Shareholder's Funds	51,808	60,980	72,976	89,638
Minority Interest	4,677	6,089	6,089	6,089
Long-Term Liabilities	17,898	15,416	15,416	15,416
Other Long-term Liabilities	4,101	9,063	9,063	9,063
Deferred Tax Liability	(1,934)	(3,247)	(3,247)	(3,247)
Short-term Liabilities	21,413	30,376	38,907	49,566
Total	97,963	1,18,677	1,39,204	1,66,525
Assets				
Net Fixed Assets	50,023	63,699	66,127	71,781
Long-Term L&A	4,372	4,015	-	-
Non Current Investments	638	1,825	1,825	1,825
Other Non-Current Assets	1,444	910	910	910
Current Asset	41,486	48,228	70,342	92,009
Total	97,963	1,18,677	1,39,204	1,66,525

(Key Ratios)	FY-18	FY-19	FY-20E	FY-21E
EPS (₹)	3.1	7.5	10.0	13.9
P/E (x)	72.1	29.6	22.4	16.1
P/B (x)	5.2	4.4	3.7	3.0
ROE	7.2%	14.8%	16.4%	18.6%
ROCE	8.5%	14.6%	15.7%	18.5%

Key Risks:

- The company's business is exposed to regulatory risks.
- Part of the company's business is exposed to foreign exchange risks.

Rating and Target Price history:

BIOCON rating history & price chart



Source: Bloomberg, Anand Rathi Research

NOTE: Prices are as on 1 August 2019.

BIOCON rating details

Date	Rating	Target Price (₹)	Share Price (₹)
02-May-18	BUY	412	333
01-Aug-18	BUY	412	292
01-Nov-18	BUY	412	323
30-Jan-19	BUY	412	324
30-Apr-19	BUY	412	296
01-Aug-19	BUY	321	224

Source: Bloomberg, Anand Rathi Research

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Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>₹300Bn.)	15%	5%-10%	Below 5%
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