Biocon

Muted Q4; Biosimilars growth to accelerate from H2FY22

April 29, 2021

Pharmaceuticals | Result Update

ADD (no change)

CMP: Rs 394

Target Price: Rs 430 (Rs 440) ▼

Potential Upside: 9%

- Revenue miss (-14% QoQ in Biosimilars) but EBITDA in line (15% below Street) on cost control. Biosimilars EBIT margin at 10.3%, down 408 bps QoQ.
- Expects higher Biosimilars growth in FY22 (21% in FY21) on market share gain for Peg, Trastu, Glargine in US + Beva, Aspart launch and scale up in EU/ ROW.
- Execution was weak given Covid (volumes, approvals). We remain structurally positive on mid-to-long term growth visibility. Maintain **ADD** with TP Rs 430.

Market Data

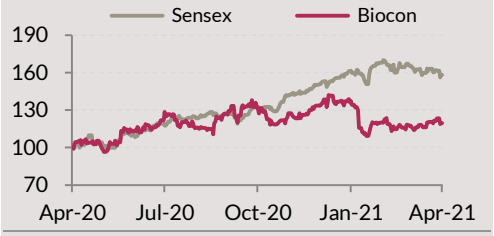
No. of shares	: 1,200 mn
Free Float	: 39%
Market Cap	: Rs 473 bn
52-week High / Low	: Rs 488 / Rs 321
Avg. Daily vol. (6mnth)	: 4.6 mn shares
Bloomberg Code	: BIOS IB Equity
Promoters Holding	: 61%
FII / DII	: 16% / 7%

Key growth driver %	FY21	FY22E	FY23E
Biosimilars	21%	41%	32%
Gross margin	68.9%	70.1%	70.1%
EBITDA margin	23.3%	25.5%	26.7%

Result Update (Rs mn)

Y/E March	Q4'21	YoY	QoQ
Net Sales	18,387	18%	-1%
Gross margin	68.7%	403 bps	-106 bps
EBITDA	4,358	37%	9%
EBITDA margin	23.7%	325 bps	212 bps
Adj. PAT	1,036	8%	-37%
Biosimilars	6,636	53%	-14%

Relative performance



Source: Bloomberg, Axis Capital

Moderate revenue growth

Revenue grew 18% YoY to Rs 18.4 bn (10%/ 12% below our/ consensus) as Biosimilar sales was up 53% YoY (-14% QoQ) led by steady market share of key products (Pegfilgrastim, Trastuzumab) in US and growth in key MoW#. Research services (+9% YoY) and muted Generics sales (+3%) due to pricing pressure.

EBITDA in line on cost control

Gross margin at 68.7% was up 403 bps YoY on better sales mix; declined 106 bps QoQ on lower Biosimilar sales. Higher staff/other expenses offset by muted R&D led to EBITDA at Rs 4.35 bn (+37% YoY), in line with our est (15% below consensus) and margin at 23.7% (+325 bps YoY). Higher depreciation, interest cost offset by higher other income (~Rs 1.64 bn valuation gain in Bicara) which led to PAT of Rs 2.53 bn; PAT (adj for one-time gain, forex) at Rs 1.03 bn, up 8% YoY (-37% QoQ).

Key highlights from management call

(1) In FY22, it expects: (a) higher growth (vs 21% in FY21) in Biosimilar led by traction in MoW and scale-up in US/ EU market, new launches (Beva/ Aspart in EU/ RoW), (b) single digit growth in API, mid-teen in formulations (~5 launches in US), (c) core margin (ex-R&D) to remain stable, (d) R&D (ex-Syngene) to remain at 12-15% of sales, (2) expects Glargine sales ramp up in CY22 (with new contract cycle), (3) in talks with USFDA for remote inspection of facility for Bevacizumab approval; remains hopeful on launch in FY22 and (4) appointed Mr. Indranil Sen as CFO for Biocon Ltd and Mr. Shreehas Tambe as deputy CEO for Biocon Biologics.

Outlook and valuations – maintain ADD

We note improving biosimilars opportunity is unlocking value for biosimilar players globally, as seen in Celltrion^ (30% EPS CAGR CY20-22E, trades at 56x/ 46x CY21/ CY22) and Samsung Biologics^ (40% EPS CAGR CY20-22E, trades at 145x/ 114x CY21/ CY22). Maintain **ADD** with TP of Rs 430 (36x FY23E) given 55% EPS CAGR over FY21-23 led by strong biosimilars portfolio with Mylan (16 products), Sandoz (8), own (4) and value unlocking (PE/ IPO).

Financial Summary (Consolidated)

Y/E March	FY19	FY20	FY21	FY22E	FY23E
Sales (Rs mn)	55,144	63,005	71,058	89,522	1,10,931
EBITDA (Rs mn)	13,937	16,031	16,526	22,807	29,630
Adj. PAT (Rs mn)	7,238	6,628	5,979	10,256	14,350
Con. EPS* (Rs)				9.6	13.3
EPS (Rs)	6.0	5.5	5.0	8.5	12.0
Change YoY (%)	107	(8)	(10)	72	40
RoE (%)	12.8	10.4	8.3	12.9	16.6
RoCE (%)	13.6	13.2	10.1	11.1	14.7
P/E (x)	64.8	69.4	73.9	46.3	32.2
EV/E (x)	34.2	29.9	28.6	20.9	15.8

Source: *Consensus broker estimates, Company, Axis Capital

MoW - Most of the World market

^ Celltrion and Samsung Biologics estimates, as per Bloomberg

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Key concall highlights

Particulars	Comments
Guidance for FY22	• Revenue growth to be higher than 12% in FY21 on higher growth in biosimilars (21% YoY in FY21), generics (6% YoY) and research (9% YoY) • Core EBITDA margin to remain stable at FY21 level • R&D investment (ex-Syngene) in the range of 12-15% of sales, but expected to be higher than FY21 as 3 more biosimilars go into clinical trials • Remains uncertain on timeline to achieve USD 1 bn biosimilar sales; USD 378 mn sales in FY21
Biosimilars	• Sales growth to be higher than 21% YoY in FY21, driven by strong growth in Emerging markets, steady growth in developed markets and new launches • Insulin Glargine to see ramp up in CY22 by participating in formulary cycle • Optimistic on Bevacizumab launch in FY22, in talks with USFDA for remote inspection of facility • Plans to launch Bevacizumab and Aspart in EU market, received approvals in Apr'21 and Feb'21 respectively • QoQ revenue decline in Q4 due to higher price erosion, expect market share ramp up with more price erosion in coming quarters • Net R&D for FY21 was at ~10%, expected to be higher for FY22
Generics	• FY21 revenue grew 6% YoY – in line with company's expectations, led by double digit growth in formulations and a modest single digit growth in APIs • Expects modest growth in FY22 – double digit in formulation with 3-5 launches in US market and expansion to EMs • API growth to remain muted (flat-low single digit) due to capacity constraint • Expects uptake in FY23 with more launches in US and commissioning of additional facilities (Hyderabad and Vizag) • R&D expense for FY21 was at ~8%, expected to be 11% for FY22
Capex	• Biosimilars- USD 125 mn in FY21; expects USD 100 mn for FY22 • Generics - Rs 2.5 bn in FY21, to invest Rs 20 bn in 3 years • Research - USD 65 mn in FY21; expects USD 100-120 mn in FY22
Bicara Therapeutics	• Developing pipeline of bifunctional antibodies that exploit recent advances in immune-oncology • Biocon ceded control over the Board of Directors and operations of the company to enable it to operate independently • Total investment in Bicara amounts to USD 40 mn • Investment in Bicara was fair valued, resulting in a gain of Rs 1.6 bn; reported under other income • Bicara's R&D expenses at Rs 1.8 bn for FY21
Management Appointments	• Mr Susheel Umesh, joined Biocon Biologics as the Chief Commercial Officer - Emerging Markets w.e.f. 1st Mar]21 • Shreehas Tambe, former Chief Operating Officer at Biocon Biologics, has been appointed as the Deputy Chief Executive Officer • Mr. Indranil Sen has been appointed as the Chief Financial Officer with immediate effect as Anupam Jindal resigned from the CFO position due to personal reasons
Malaysian plant	• Continues to operate at loss, PBT was at - USD 33 mn and EBITDA at USD 4 mn for FY21 • Expects insulin Glargine ramp up in CY22 to improve profitability of this plant
Balance sheet highlights	• Net Working Capital days improved to 80 as on Mar'21 vs. 99 days in Mar'20 (vs 75 in Sep'20) led by decline in receivable days to 62 (vs 91 in Mar'20) and inventory days at 95 (vs 107 in Mar'20) offset by decrease in payable days to 77 (vs. 99 in Mar'20) • Gross debt at Rs 35.1 bn (vs. Rs 18.9 bn as on Mar'20 and Rs 25.6 bn as on Sep'20) • Net debt at end of Mar'21 was at Rs 2.86 bn (vs. net debt of Rs 336 mn as on Mar'20 and Rs 3.1 bn as on Sep'20)

Biosimilars and novel molecule pipeline update

Mylan Partnered Program	
Insulin Glargine	• In Sep'20, launched in the US market in both vial and pen presentations at 65% discounted price • Expects share ramp up after next formulary cycle in CY22 • In talks with USFDA for interchangeability designations
Trastuzumab	• Expects gradual pick-up in market share given chronic nature of the drug • Witnessed positive trend in market share, at 8% in overall market by end of Q4'21 vs 7% in Q3'21
Pegfilgrastim	• Market share stagnant at ~16%; ramp up expected on increased production capacity and targeting another 1/3rd of the market (340B segment) coupled with new contracting cycle
Bevacizumab	• Approval from European commission in Apr'21 • In Feb'20, Biocon/Mylan submitted BLA with USFDA in US (USD 3 bn); filing under review; goal date deferred • Awaiting USFDA response on remote inspection of manufacturing facility; management optimistic on launch in FY22
Insulin Aspart	• Received European Commission approval for Europe market (USD 666 mn) in Feb'21; launch timeline not disclosed • Currently in Global Phase 3 trials - BLA under review by USFDA for US market (USD 1.5 bn)
Adalimumab	• USFDA approval in Jul'20; launch will be in Jun'23 (patent settlement)
Etanercept	• Received marketing authorization from EU in Jun'20; launched in Aug'20 • US filing expected in near term

Biocon's Own Programs	
Itolizumab	• Biocon's partner Equillium reported encouraging developments on the clinical advancement of Itolizumab, a first-in-class anti-CD6 monoclonal antibody; expects clinical data from all studies in CY21 • Expects to meet demand for Covid-19 patients in India by Jun'21

Exhibit 1: Revenue growth led by YoY growth in Biosimilars; Research services and Generics growth muted

(Rs mn)	% of Q4'21 sales	Q4'20	Q3'21	Q4'21	YoY chg	QoQ chg	FY20	FY21	YoY chg
Generics	31%	5,622	5,607	5,775	3%	3%	22,070	23,359	6%
Biosimilars	36%	4,332	7,689	6,636	53%	-14%	23,151	28,002	21%
Research Services	36%	6,073	5,845	6,586	8%	13%	20,119	21,843	9%
Licensing fees#	1%	80	110	110	38%	0%	311	429	38%
Less (inter segment revenue)	-3%	-452	-631	-610			-2,335	-2,146	
Total Revenue		**15,575**	**18,510**	**18,387**	**18%**	**-1%**	**65,340**	**73,204**	**12%**
Total (ex-one off & Research Services)		**9,502**	**12,665**	**11,801**	**24%**	**-7%**	**45,221**	**51,361**	**14%**

Source: Company, Axis Capital; # Licensing fees distributed among different business segments

Exhibit 2: Net R&D expenses in Q4 were lower

(Rs mn)	Q4'20	Q3'21	Q4'21	YoY chg	QoQ chg	FY20	FY21	YoY chg
Gross R&D expense	1,390	1,830	1,360	-2%	-26%	5,270	6,270	19%
% of biopharma sales	14.6%	14.4%	11.5%	-310 bps	-292 bps	11.7%	12.2%	55 bps
Revenue (expensed in P&L)	1,250	1,710	1,270	2%	-26%	4,392	5,530	26%
% of biopharma sales	13.2%	13.5%	10.8%	-239 bps	-274 bps	9.7%	10.8%	105 bps
Capital	140	120	90	-36%	-25%	878	740	-16%
% of biopharma sales	1.5%	0.9%	0.8%	-62 bps	-18 bps	1.9%	1.4%	-50 bps

Source: Company, Axis Capital

Exhibit 3: EBITDA growth on better cost controls and sales growth

(Rs mn)	Q4'20	Q3'21	Q4'21	YoY chg	QoQ chg	FY20	FY21	YoY chg
Net Sales	**15,575**	**18,510**	**18,387**	**18%**	**-1%**	**63,005**	**71,058**	**13%**
Gross margin (%)	64.7%	69.8%	68.7%	403 bps	-106 bps	68.4%	68.9%	50 bps
Employee expenses	3,884	4,633	4,521	16%	-2%	14,588	17,410	19%
R&D expenses	1,250	1,710	1,270	2%	-26%	4,392	5,530	26%
R&D expenses (% of biopharma sales)	13.2%	13.5%	10.8%	-239 bps	-274 bps	9.7%	10.8%	105 bps
Net other expenses	1,752	2,573	2,482	42%	-4%	8,099	9,507	17%
EBITDA	**3,186**	**3,995**	**4,358**	**37%**	**9%**	**16,031**	**16,526**	**3%**
EBITDA margins (%)	**20.5%**	**21.6%**	**23.7%**	**325 bps**	**212 bps**	**25.4%**	**23.3%**	**-219 bps**
Adj EBITDA (ex-licensing inc, forex and R&D)	**4,006**	**5,535**	**5,478**	**37%**	**-1%**	**20,423**	**22,056**	**8%**
Adj EBITDA margin (%)	**25.9%**	**30.1%**	**29.9%**	**407 bps**	**-16 bps**	**32.4%**	**31.0%**	**-138 bps**
Other income	631	279	2,054	226%	636%	1,614	2,545	58%
Depreciation	1,524	1,863	1,843	21%	-1%	5,522	7,151	30%
Interest	168	48	339	102%	606%	649	577	-11%
PBT	**2,125**	**2,363**	**4,230**	**99%**	**79%**	11,474	11,343	-1%
Tax rate	21%	21%	16%	-477 bps	-429 bps	27%	20%	-793 bps
Adjusted PAT	**958**	**1,638**	**1,036**	**8%**	**-37%**	**6,628**	**5,979**	**-10%**
Extra ordinary income/ (exp.)	0	48	1,496			854	1,426	
Reported PAT	**1,234**	**1,686**	**2,532**	**105%**	**50%**	**7,482**	**7,405**	**-1%**

Source: Company, Axis Capital,
Note: PAT adjusted for forex gain/loss; Q4FY21 PAT adjusted for one-time valuation gain for Bicara of Rs 1.64 bn.

Exhibit 4: EBIT margin in Biosimilars declined on high R&D spend

Segmental EBIT margin (%)	Q4'20	Q3'21	Q4'21	YoY chg	QoQ chg	FY20	FY21	YoY chg
Generics	12.6	9.6	12.6	-6 bps	294 bps	15.3	12.9	-244 bps
Biosimilars	-1.3	14.4	10.3	NA	-408 bps	18.5	13.0	-544 bps
Novel Biologics	NA	NA	NA	NA	NA	NA	NA	NA
Research Services	25.2	19.9	23.9	-132 bps	394 bps	22.1	19.9	-227 bps
Total	**12.5**	**12.0**	**20.0**	**748 bps**	**798 bps**	**17.0**	**14.8**	**-220 bps**

Source: Company, Axis Capital

Exhibit 5: RoCE declined QoQ

Segmental ROCE (%)	Q4'20	Q3'21	Q4'21	YoY chg	QoQ chg	FY20	FY21	YoY chg
Generics	10.0	5.5	7.8	-223 bps	234 bps	11.9	8.1	-385 bps
Biosimilars	-0.9	28.1	17.2	1809 bps	-1092 bps	17.9	22.9	503 bps
Novel Biologics	NA	NA	NA	NA	NA	NA	NA	NA
Research Services	28.2	17.8	22.3	-587 bps	448 bps	20.5	15.4	-511 bps

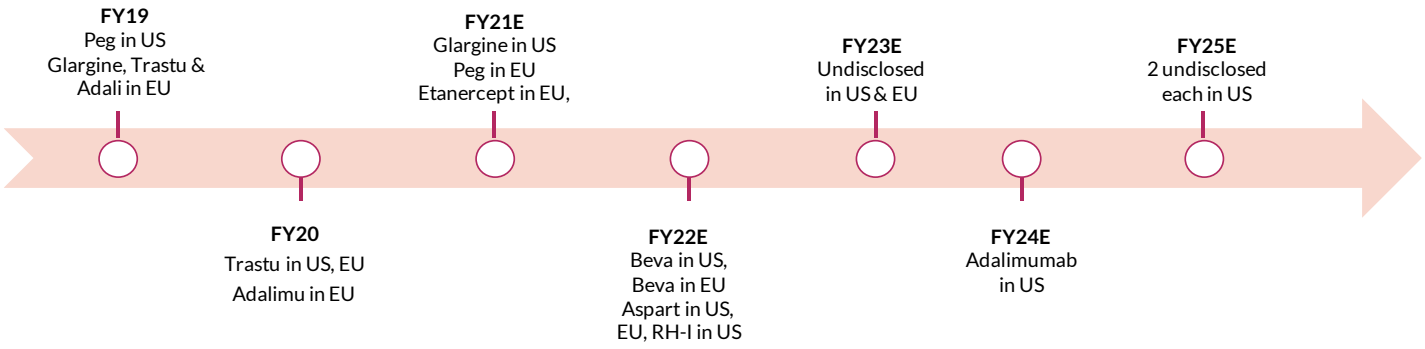
Source: Company, Axis Capital

Exhibit 6: Revenue assumptions; Biosimilars to drive growth

(Rs mn)	% of FY20 sales	FY20	FY21E	FY22E	FY23E	CAGR (FY21-23E)
Generics	34%	22,070	23,359	26,162	29,302	12
Biosimilars*	35%	23,151	28,002	39,505	52,309	37
Novel Molecules	0%	-	-	-	-	NA
Research Svcs	31%	20,119	21,843	26,150	32,165	21
Total	**100%**	**65,340**	**73,204**	**91,817**	**1,13,776**	**25**
EBITDA		**16,031**	**16,526**	**22,807**	**29,630**	**34**
EBITDA margin		**25.4%**	**23.3%**	**25.5%**	**26.7%**	

Source: Company, Axis Capital

Exhibit 7: Biocon Biologics timelines – biosimilars launch visibility every year



Source: Company, Axis Capital

Exhibit 8: Pegfilgrastim market share trend vs. peers

Pegfilgrastim brand name	Player	Mar'20	Jun'20	Sep'20	Dec'20	Jan'21	Feb'21	Mar'21
Fulphila	Biocon/Mylan	12%	14%	15%	16%	16%	17%	16%
Udenyca	Coherus	50%	50%	51%	46%	44%	42%	43%
Neulasta	Amgen	36%	35%	31%	31%	30%	30%	26%
Ziextenzo	Sandoz	2%	2%	3%	7%	9%	12%	14%

Source: Bloomberg

Exhibit 9: TRx count has increased in Q4'21

Pegfilgrastim (TRx Count)	Player	Mar'20	Jun'20	Sep'20	Dec'20	Jan'21	Feb'21	Mar'21
Fulphila	Biocon/Mylan	3,774	3,878	4,325	5,251	4,606	4,762	5,543
Udenyca	Coherus	15,319	14,142	14,475	14,884	12,436	11,887	14,670
Neulasta	Amgen	10,924	9,890	8,901	10,072	8,578	8,497	8,908
Ziextenzo	Sandoz	512	528	922	2,108	2,558	3,304	4,812

Source: Bloomberg

Exhibit 10: Trastuzumab market share trend vs. peers

Trastuzumab brand name	Player	Mar'20	Jun'20	Sep'20	Dec'20	Jan'21	Feb'21	Mar'21
Ogivri	Biocon/Mylan	1%	4%	6%	7%	7%	8%	8%
Kanjinti	Amgen	12%	18%	20%	27%	28%	28%	30%
Herceptin	Roche	87%	78%	72%	62%	60%	59%	55%
Trazimera	Pfizer	-	0%	2%	4%	4%	5%	6%
Ontruzant	Merck/ Samsung	-	-	0.1%	0.3%	0.4%	0.6%	0.8%

Source: Bloomberg

Exhibit 11: Gradual pick up in TRx count

Trastuzumab (TR Count)	Player	Feb'20	Mar'20	Jun'20	Sep'20	Dec'20	Feb'21	Mar'21
Ogivri	Biocon/Mylan	680	1,253	6,401	7,885	9,405	8,722	9,483
Kanjinti	Amgen	16,102	20,668	27,587	27,897	35,187	30,839	35,492
Herceptin	Roche	1,31,988	1,44,281	1,23,614	1,00,961	80,590	64,981	63,939
Trazimera	Pfizer	-	9	708	2,715	4,727	5,031	6,659
Ontruzant	Merck/ Samsung	-	-	7	84	356	616	944

Source: Bloomberg

Exhibit 12: Insulin Glargine market share trend vs. peers

Insulin Glargine brand name	Player	Sep'20	Oct'20	Nov'20	Dec'20	Jan'21	Feb'21	Mar'21
Semglee	Biocon/Mylan	0.02%	0.2%	0.2%	0.2%	0.8%	1%	1%
Lantus	Sanofi	20%	20%	19%	19%	19%	19%	19%
Lantus Solostar	Sanofi	54%	55%	55%	55%	56%	55%	56%
Basaglar	Eli Lilly	26%	26%	25%	25%	24%	25%	24%

Source: Bloomberg

Exhibit 13: Growth visibility remains on key assets

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Glargine	82	154	353	1,232	2,504
Trastuzumab	111	550	2,064	2,782	3,041
Adalimumab	-	-	367	522	489
Pegfilgrastim	1,172	3,751	3,319	4,289	4,507
Etanercept	-	-	160	256	384
Bevacizumab	-	-	-	846	1,692
Insulin Aspart	-	-	-	132	872
Rh-Insulin	-	-	-	-	400
Incremental PAT	**1,365**	**4,455**	**6,263**	**10,059**	**13,889**
Base business PAT	**5,873**	**2,173**	**-284**	**210**	**235**
Total PAT	**7,238**	**6,628**	**5,979**	**10,269**	**14,125**
YoY Growth (%)	**107**	**(8)**	**(10)**	**72**	**38**

Source: Company, Axis Capital

Exhibit 14: Biocon vs. peers in key biosimilar assets

Company	US Filing Status	EU Filing Status
Trastuzumab: Increased competition in both US (USD 3 bn market) and EU (USD 1.9 bn market)		
Mylan/Biocon	**Approved in Dec'17, launched (420 mg & 150 mg) in Dec'19**	**Launched in Q4'19; approved in Dec'18**
Amgen/Allergan	Approved in Jun'19; launched at-risk (420 mg) in Jul'19 at WAC discount of 15% at USD 3,697 per vial	Launched in Jun'18; approved in May'18
Pfizer	Approved in Mar'19; launched in Feb'20	Approved in Jul'18
Celltrion/Teva	Approved in Dec'18; launched in Mar'20	Launched in May'18 by Mundipharma, approved in Feb'18
Biogen/Samsung Biologics	Approved in Jan'19; launched in Apr'20	Launched in Mar'18 by Merck, approved in Nov'17
Hanwha/ Prestige		Filed in EU
Shanghai Henlius/ Accord		Filed in EU
Others	7 players in global Phase 1/3 clinical trials	
Insulin Glargine: Biocon in sweet spot given less competition (US - USD 1.9 bn market, EU - USD 0.8 bn market)		
Mylan/Biocon	**Received second CRL in Aug'19 (first in Jun'18); filed in Sep'17; In Mar'20, got favourable ruling in Lantus device litigation and IP litigation (in May'20); Final approval in Jun'20; launched in Sep'20 in US market**	**Received approval in Mar'18; launched in Nov'18**
Eli Lilly/Boehringer Ingelheim	Received approval. Product launched in Dec'16	Received approval in Sep'14. Product launched in Aug'15
Sandoz/ Gan & Lee	Phase 3 trials	Phase 3 trials
Lannett	Initiated clinical trials in Jun'19; trials showed positive data. Plan to meet USFDA (in Jun20) for advancement of clinical trilas. Targeted BLA submission in CY23, setting up for CY24 launch	
Samsung/Merck	Decided to withdraw from the market after failing to make sufficient headway; Tentative approval in July'17	Received approval in Jan'17
Pegfilgrastim: Biocon currently ahead of the pack in US (US - USD 3.9 bn market, EU - USD 300 mn market)		
Mylan/Biocon	**Approved and launched in Jun'18**	**Received approval in Nov'18**
Coherus	Received approval in Nov'18, launched Udenyca in Jan'19	Received approval in Sep'18
Sandoz	Approval and launch of Ziextenzo in Nov'19 at WAC price of USD 3,925 (~37% discount to Neulasta) vs. 33% discount by Biocon/Mylan & Coherus	Received approval in Nov'18
Apotex/ Intas (Accord)	Filing accepted in Dec'14, Apotex won the patent infringement lawsuit in Sep'16 filed on it by Amgen; No further updates	Received approval in Sep'18
Lupin	Trial in progress; expects to file in FY21/22	
Mundipharma (Cinfa)		Launched in Feb'19; approval in Nov'18
USV (Juta Pharma)		Received approval in Jun'19

Source: Company, Axis Capital; *CRL: Complete Response Letter

Exhibit 15: Biocon's future pipeline landscape vs peers

Company	Current Status
Bevacizumab Market size: US - USD 3 bn, EU - USD 1.9 bn, RoW - USD 2.2 bn	
Mylan/Biocon	BLA submission accepted in Q4'20 by USFDA; Goal Date was in Dec'20 but it got delay from USFDA side as plant inspection was pending due to travel restriction, new Goal date awaited; received approval from European Commission in Apr'21.
Amgen/Allergan	- US approval in Sep'17; launched in Jul'19 (at-risk; at WAC of USD 677.4 (100 mg) and USD 2,709.6 (400 mg vial), 15% discount to Avastin). Has been litigated by Roche; trial to begin on July 13, 2020 - EU approval in Jan'18; not yet launched in EU
Pfizer	US approval in Jun'19 and launched in Jan'20 (~23% discount to Avastin)/ EU approval in Feb'19
Samsung Bioepis	Accepted for review in US in Nov'19; in EU in Jul'19 - in Jun'20 received positive opinion from CHMP
Centus (JV between Fujifilm and AstraZeneca)	In Oct'20, received marketing authorization in EU
Others	6 players in Phase 1, 11 players in Phase 3
Adalimumab Market size: US - USD 13.7 bn, EU - USD 3.1 bn, RoW - USD 3.1 bn	
Mylan/Biocon/ Fujifilm	- Evaluating advanced phase III studies in US - Launched in EU in Oct'18; Mylan/ Fujifilm received approval from USFDA in Jul'20 - launch would be in Jul'23
Amgen	Approved in US in Sept'16. Settled for launch on Jan 31, 2023 / Launched in EU in Oct'18
Biogen/Samsung Biologics	Approved in US in Jul'19; Settled for launch in Jun'23 / Launched in EU in Oct'18
Boehringer Ingelheim	- Approved in US in Aug'17; undertaking interchangeability studies. Settled for launch in Jul'23 - Approved in EU in Nov'17; however, withdrew from all ex-US markets
Sandoz	US approval in Oct'18; settled for launch in Sep'23 / Launched in EU in Oct'18
Pfizer	Approved in US in Nov'19; settled for launch in Nov'23. Filed in EU but withdrew application in Dec'18
Fresenius Kabi	Launched in EU in May'19; approved in Apr'19
Insulin Aspart Market size: US - USD 1.5 bn, EU - USD 666 mn, RoW - USD 814 mn	
Mylan/Biocon	BLA submitted to USFDA under the 351(k) pathway for interchangeability status, and is currently under review in US; Received European commission approval in Feb'21
Sanofi	Filed in EU in Jul'19
Etanercept Market size: US - USD 4.8 bn, EU - ~USD 1 bn, RoW - ~USD 1.3 bn	
Mylan/Biocon/Lupin	Filed in EU in May'18; received positive opinion from CHMP in Mar'20. Received EU approval in Jun'20; launch in Aug'20 under brand name "Nepexto". Expects US filing soon
Sandoz	- US approval in Aug'16; not yet launched due to court injunction. Court's verdict related to patent invalidation is awaited - EU approval in Jun'17
Samsung Bioepis	US approval in Apr'19 / EU approval in Jan'16
Coherus	Currently in Global Phase 3 trials
Hanwha	Currently in Global Phase 3 trials

Source: Company, Axis Capital

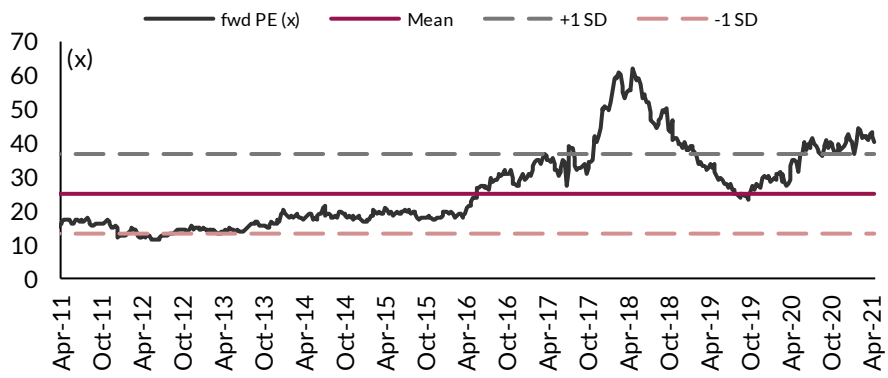
Exhibit 16: Biosimilars assets at fair valuation

Segments	P/E (x)	FY23E EPS (Current)	Value per share (Rs)	Equity value (Rs mn)
Generics	10	3.3	33	39,725
Biosimilars	33	8.6	283	3,39,434
Novel Molecules	-	-	-	-
Research Services	35	4.4	153	1,83,832
Unallocable	9	(4.3)	(39)	(46,450)
SoTP TP (Rs)	**36**	**12.0**	**430**	**5,16,542**
Axis TP	**36**	**12.0**	**430**	**5,16,589**
CMP (Rs)	395			
No. of shares (mn)	1,200			
Market Cap (Rs mn)	4,74,000			

	Equity value (Rs mn)	Eq. value (USD mn)
Biologics: Mkt Cap - Equity value of biz (ex-biologics)*	2,83,849	3,815
Standalone value of Biologics	3,39,434	4,562

Source: Company, Axis Capital; Date as of 29 Apr 2021, *assuming 20% Hold Co discount in research services (Syngene)

Exhibit 17: 1-year forward P/E band



Source: Bloomberg

Financial Summary (Consolidated)

Profit & Loss (Rs mn)

Y/E March	FY19	FY20	FY21	FY22E	FY23E
Net sales	55,144	63,005	71,058	89,522	1,10,931
Total operating income	55,144	63,005	71,058	89,522	1,10,931
Cost of goods sold	(18,966)	(19,895)	(22,085)	(26,767)	(33,168)
Gross profit	36,178	43,110	48,973	62,755	77,763
Gross margin (%)	65.6	68.4	68.9	70.1	70.1
Total operating expenses	(22,241)	(27,079)	(32,447)	(39,948)	(48,133)
EBITDA	13,937	16,031	16,526	22,807	29,630
EBITDA margin (%)	25.3	25.4	23.3	25.5	26.7
Depreciation	(4,478)	(5,522)	(7,151)	(8,373)	(9,380)
EBIT	9,459	10,509	9,375	14,433	20,250
Net interest	(709)	(649)	(577)	(699)	(645)
Other income	1,444	1,614	2,545	950	960
Profit before tax	10,194	11,474	11,343	14,685	20,565
Total taxation	(1,939)	(3,151)	(2,215)	(3,231)	(4,524)
Tax rate (%)	19.0	27.5	19.5	22.0	22.0
Profit after tax	8,255	8,323	9,128	11,454	16,041
Minorities	(973)	(1,227)	(1,057)	(1,348)	(1,841)
Profit/ Loss associate co(s)	9	(289)	(792)	150	150
Adjusted net profit	7,238	6,628	5,979	10,256	14,350
Adj. PAT margin (%)	13.1	10.5	8.4	11.5	12.9
Net non-recurring items	1,815	854	1,426	0	0
Reported net profit	9,053	7,482	7,405	10,256	14,350

Balance Sheet (Rs mn)

Y/E March	FY19	FY20	FY21	FY22E	FY23E
Paid-up capital	3,000	6,000	6,000	6,000	6,000
Reserves & surplus	57,980	61,058	70,269	76,230	85,041
Net worth	60,980	67,058	76,269	82,230	91,041
Borrowing	18,028	19,797	36,783	33,105	29,794
Other non-current liabilities	0	5,363	15,033	15,033	15,033
Total liabilities	85,097	98,991	1,36,892	1,40,523	1,47,865
Gross fixed assets	70,950	90,087	1,00,916	1,30,087	1,44,087
Less: Depreciation	(26,240)	(31,659)	(38,810)	(47,183)	(56,563)
Net fixed assets	44,710	58,428	62,106	82,904	87,524
Add: Capital WIP	18,989	21,960	28,002	7,500	7,500
Total fixed assets	63,699	80,388	90,108	90,404	95,024
Total Investment	10,118	9,661	19,519	12,500	12,500
Inventory	10,316	14,359	18,666	18,650	23,111
Debtors	12,918	12,237	12,176	18,395	22,794
Cash & bank	10,572	9,986	20,154	38,434	40,153
Loans & advances	14,301	17,807	24,600	20,515	25,422
Current liabilities	36,827	45,447	48,331	58,376	71,139
Net current assets	11,280	8,942	27,265	37,619	40,341
Total assets	85,097	98,991	1,36,892	1,40,523	1,47,865

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY19	FY20	FY21	FY22E	FY23E
Profit before tax	10,194	11,474	11,343	14,685	7,710
Depreciation & Amortisation	4,478	5,522	7,151	8,373	2,690
Chg in working capital	(291)	(1,651)	(4,238)	2,201	(4,720)
Cash flow from operations	**11,546**	**12,831**	**11,597**	**21,777**	**2,750**
Capital expenditure	(14,916)	(18,294)	(17,367)	(20,000)	(6,000)
Cash flow from investing	**(7,138)**	**(15,589)**	**(36,247)**	**(20,000)**	**(6,000)**
Equity raised/ (repaid)	0	0	0	0	0
Debt raised/ (repaid)	75	186	5,872	(3,678)	(2,620)
Dividend paid	(793)	(701)	0	(1,444)	(722)
Cash flow from financing	**(2,417)**	**3,876**	**25,640**	**(5,123)**	**(3,342)**
Net chg in cash	1,991	1,118	990	(3,346)	(6,592)

Key ratios

Y/E March	FY19	FY20	FY21	FY22E	FY23E
OPERATIONAL					
FDEPS (Rs)	6.0	5.5	5.0	8.5	12.0
CEPS (Rs)	11.3	10.8	12.1	15.5	19.8
DPS (Rs)	0.5	1.0	1.0	1.0	1.0
Dividend payout ratio (%)	6.6	16.0	16.2	11.7	8.4
GROWTH					
Net sales (%)	33.5	14.3	12.8	26.0	23.9
EBITDA (%)	68.1	15.0	3.1	38.0	29.9
Adj net profit (%)	106.8	(8.4)	(9.8)	71.5	39.9
FDEPS (%)	106.8	(8.4)	(9.8)	71.5	39.9
PERFORMANCE					
RoE (%)	12.8	10.4	8.3	12.9	16.6
RoCE (%)	13.6	13.2	10.1	11.1	14.7
EFFICIENCY					
Asset turnover (x)	0.9	0.8	0.7	0.8	0.8
Sales/ total assets (x)	0.5	0.5	0.4	0.5	0.5
Working capital/ sales (x)	0.1	0.0	0.0	0.0	0.0
Receivable days	86	71	63	75	75
Inventory days	91	112	125	102	104
Payable days	106	103	101	106	106
FINANCIAL STABILITY					
Total debt/ equity (x)	0.3	0.3	0.5	0.4	0.3
Net debt/ equity (x)	0.0	0.0	0.0	(0.2)	(0.2)
Current ratio (x)	1.3	1.2	1.6	1.6	1.6
Interest cover (x)	13.3	16.2	16.2	20.7	31.4
VALUATION					
PE (x)	64.8	69.4	73.9	46.3	32.2
EV/ EBITDA (x)	34.2	29.9	28.6	20.9	15.8
EV/ Net sales (x)	8.6	7.5	6.4	5.3	4.2
PB (x)	7.8	7.0	6.5	6.1	5.4
Dividend yield (%)	0.1	0.3	0.3	0.3	0.3
Free cash flow yield (%)	(0.7)	(1.2)	(1.1)	(1.9)	(0.7)

Source: Company, Axis Capital

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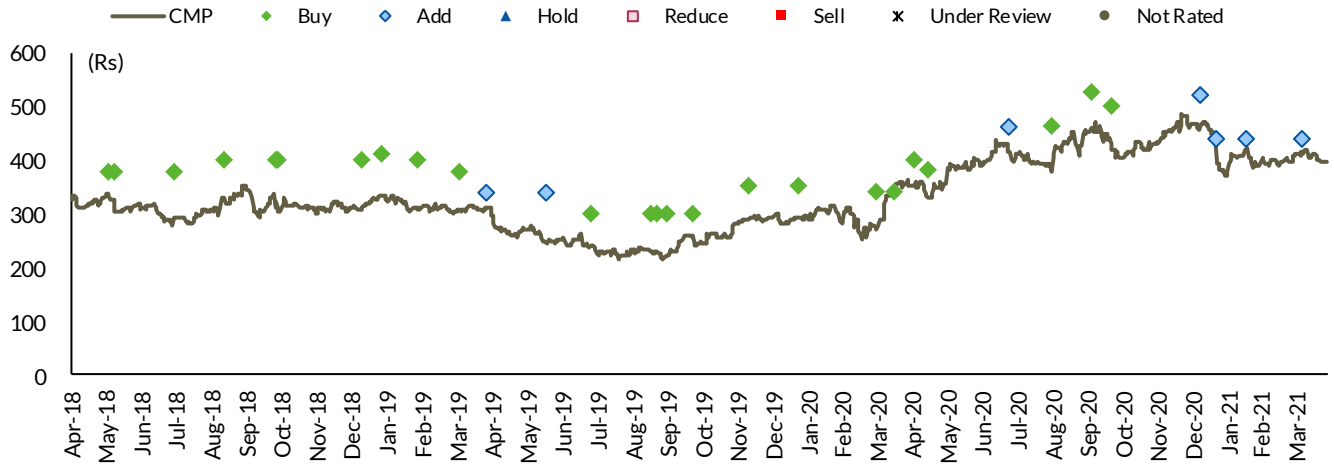
DEFINITION OF RATINGS	
Ratings	**Expected absolute returns over 12 months**
BUY	More than 15%
ADD	Between 5% to 15%
REDUCE	Between 5% to -10 %
SELL	More than -10%

Biocon (BION.BO, BIOS IN) Price and Recommendation History



Date	Target Price	Reco	Date	Target Price	Reco	Date	Target Price	Reco
1-Jun-18	375	Buy	26-Jul-19	300	Buy	1-Sep-20	460	Buy
5-Jun-18	375	Buy	17-Sep-19	300	Buy	6-Oct-20	525	Buy
27-Jul-18	375	Buy	23-Sep-19	300	Buy	23-Oct-20	500	Buy
10-Sep-18	400	Buy	1-Oct-19	300	Buy	8-Jan-21	520	Add
24-Oct-18	400	Buy	23-Oct-19	300	Buy	22-Jan-21	440	Add
26-Oct-18	400	Buy	12-Dec-19	350	Buy	16-Feb-21	440	Add
7-Jan-19	400	Buy	24-Jan-20	350	Buy	6-Apr-21	440	Add
25-Jan-19	410	Buy	1-Apr-20	340	Buy			
25-Feb-19	400	Buy	17-Apr-20	340	Buy			
3-Apr-19	375	Buy	4-May-20	400	Buy			
26-Apr-19	340	Add	16-May-20	380	Buy			
17-Jun-19	340	Add	24-Jul-20	460	Add			

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