

**Price:** 345

**Recommendation:** Buy

**Industry:** Pharmaceuticals

**Sector:** Healthcare

**Report Date:** 03-Apr-2025

Biocon is advancing growth through strategic initiatives, focusing on cost optimization and biosimilars. With a 20-product portfolio, including eight approved or commercial, Biocon plans to launch more products, notably in the U.S. and globally. Recent FDA approvals and successful audits highlight its regulatory commitment. Financially, Biocon reported a 10% revenue growth, with a 22% EBITDA margin, aiming for improved margins as new facilities boost sales.

| Sales              |         | Profit & Loss             |           | Profitability Matrix    |          |
|--------------------|---------|---------------------------|-----------|-------------------------|----------|
| Current Year       | 2131 Cr | Operating Profit(Year)    | 166 Cr    | Operating Profit Margin | 7.79 %   |
| Previous Year      | 1993 Cr | Operating Profit(Quarter) | 31.3 Cr   | EBITDA Margin           | 21.26 %  |
| Current Quarter    | 563 Cr  | PAT (Year)                | 106 Cr    | Net Profit Margin       | 4.98 %   |
| Previous Quarter   | 525 Cr  | PAT (Quarter)             | -3.60 Cr  | EPS                     | 5.01     |
| Revenue (QYoY)     | 563 Cr  |                           |           |                         |          |
| Valuation Matrix   |         | Growth(YoY)               |           | Growth(QoQ)             |          |
| Trailing P/E       | 2860    | Sales Growth              | 1.43 %    | Sales Growth            | 7.24 %   |
| PEG Ratio          | -142    | PAT Growth                | -896.99 % | Sales Growth QYoY       | 0.0 %    |
| EV/EBITDA          | 113     | EPS Growth                | 406.06 %  | PAT Growth              | -212.5 % |
| P/B                | 3.81    | Dividend Yield            | 0.15      | PAT Growth QYoY         | -115.0 % |
| Capital Allocation |         | Holdings                  |           | Leverage                |          |
| RoE                | 0.97 %  | Promoter                  | 60.6 %    | Debt/Equity             | 0.20     |
| RoA                | 0.79 %  | FII                       | 5.66 %    | Debt                    | 2185 Cr  |
| RoCE               | 2.64 %  | DII                       | 15.4 %    | Market Cap              | 41463 Cr |
| RoIC               | 8.89 %  | Public                    | 18.1 %    | Enterprise value        | 43429 Cr |
|                    |         | No of Shares              | 120 Cr    | Cash Equivalents        | 219 Cr   |

source : Company filings

## Company's Overview Based on Recent Concall and Performance:

In the recent earnings call, Biocon highlighted several strategic initiatives and business strategies aimed at enhancing growth and operational efficiency. The company has embarked on a journey of cost optimization and raw material cost reduction, which has started yielding results. This is evident from the uptick in API sales and the momentum is expected to continue with lower raw material costs and improved processes contributing to margin improvement. Biocon's focus on biosimilars is particularly noteworthy, with a large 20-product portfolio, eight of which are approved or commercial. The company plans to introduce more products into the market, including five in the U.S. within the next 12 months, and three globally. This strategic expansion is expected to drive significant growth in the coming years.

Biocon's diversification schemes include expanding its biosimilar business, which presents a significantly larger opportunity than seen in the past five to six years. The company is bullish about its future prospects, with a focus on bringing more products to market. The recent FDA approvals and successful audits across multiple sites underscore Biocon's commitment to maintaining high regulatory standards. The company has also completed all deferred milestones under the acquisition agreement with Viartis, marking a significant step in its strategic growth plan. The integration of new facilities and the launch of key products like Liraglutide in the UK and EU are expected to further bolster Biocon's market position.

Looking ahead, Biocon is poised for robust growth, driven by new product launches and increased capacity utilization. The company expects to see mid-teen growth, with significant contributions from products like Liraglutide and Semaglutide starting in FY 2026 and FY 2027, respectively. The expansion of API capacities and the introduction of new products are anticipated to drive growth over the next two to three years. Biocon's strategic focus on biosimilars, coupled with its strong pipeline and regulatory achievements, positions it well for future success. The company is also working on cost improvements to enhance margins, which have been impacted by increased R&D; expenses and new facility costs.

From a financial perspective, Biocon reported a 10% year-on-year operating revenue growth, driven by sustained growth in biosimilars and a return to growth in research services. The company's EBITDA margin stood at 22%, excluding a non-cash Forex translation loss. While the margins have been affected by increased expenses, Biocon expects them to improve as sales from new facilities ramp up. The company's strategic initiatives and strong pipeline provide a positive outlook, though challenges such as competitive pressures in the generics market and cost management remain. Overall, Biocon's strategic focus and operational execution are expected to drive continued growth and market expansion.

BIOCON Daily Closing One Year Price Chart



| Name             | Mar Cap (Rs. Cr.) | P/E   | ROE    | Sales(G) QoQ | Sales(G) QYoY | PAT(G) QoQ | PAT(G) QYoY |
|------------------|-------------------|-------|--------|--------------|---------------|------------|-------------|
| Mankind Pharma   | 99777.98          | 51.63 | 19.71% | -5.26%       | 8.48%         | -30.88%    | -10.01%     |
| Dr Reddy's Labs  | 96066.66          | 17.84 | 21.39% | 4.27%        | 15.81%        | 11.83%     | 1.69%       |
| Lupin            | 95650.37          | 33.31 | 14.14% | 1.67%        | 10.97%        | 0.30%      | 39.48%      |
| Zydus Lifesci.   | 90666.75          | 20.02 | 20.67% | 0.61%        | 16.96%        | 12.39%     | 33.34%      |
| Aurobindo Pharma | 68909.32          | 19.46 | 11.53% | 2.34%        | 8.53%         | 3.50%      | -9.69%      |

| Aspect               | Commentary  |
|----------------------|---|
| Revenue              | The company shows a steady increase in revenue, with a notable rise in the current quarter compared to the previous one. This growth indicates a positive trend in sales performance, suggesting effective market strategies and potential for continued expansion in the near term.        |
| Profit & Loss        | Operating profit remains positive annually, but quarterly figures show a loss, indicating potential short-term challenges. The annual PAT is positive, yet the quarterly PAT reflects a downturn, suggesting the need for strategic adjustments to stabilize short-term profitability.      |
| Profitability Matrix | The company maintains a healthy operating profit margin, with EBITDA and net profit margins indicating efficient cost management. The EPS suggests shareholder value creation, though there is room for improvement in net profit margins to enhance overall profitability.                 |
| Valuation Matrix     | The high trailing P/E ratio suggests market optimism, but the negative PEG ratio indicates potential growth concerns. The EV/EBITDA and P/B ratios reflect a premium valuation, suggesting investor confidence but also highlighting the need for growth to justify valuations.             |
| Growth (YoY)         | Year-over-year sales growth is modest, while PAT growth shows a significant decline, indicating challenges in converting sales into profits. EPS growth is strong, suggesting improved earnings per share, but dividend yield remains low, reflecting limited shareholder returns.          |
| Growth (QoQ)         | Quarter-over-quarter sales growth is positive, indicating effective sales strategies. However, the significant decline in PAT growth suggests challenges in maintaining profitability. The flat sales growth QYoY highlights the need for strategic initiatives to drive consistent growth. |
| Capital Allocation   | The company demonstrates efficient capital allocation with positive RoE, RoA, and RoCE, indicating effective use of equity and assets. The RoIC suggests strong returns on invested capital, highlighting the company's ability to generate value from its investments.                     |
| Holdings             | The promoter holding is strong, indicating confidence in the company's prospects. Institutional holdings reflect moderate interest, while public holdings suggest a balanced ownership structure. The number of shares indicates a substantial equity base, supporting liquidity.           |
| Leverage             | The low debt/equity ratio indicates prudent financial management, with manageable debt levels. The market cap and enterprise value suggest strong market positioning, while cash equivalents provide liquidity. Overall, the leverage position supports financial stability and growth.     |

**Analyst viewpoint:** Biocon Ltd exhibits strong growth potential anchored by strategic initiatives focused on biosimilars and rigorous cost optimization, demonstrated by a robust 7.24% QoQ sales growth. With a 10% YoY increase in operating revenue and a commendable 22% EBITDA margin, the company is equipped to leverage its extensive 20-product biosimilar portfolio, which includes eight that are either approved or commercialized. This strategic portfolio expansion, coupled with anticipated new product launches in the U.S. and global markets, is expected to sustain Biocon's growth trajectory. The company's efficient capital allocation, as reflected in positive ROE, ROA, and strong RoIC, further strengthens its market position amidst competitive pressures.

In the peer arena, Biocon holds its ground with ambitious plans to introduce several products over the next year, aligning with a strategic expansion drive bolstered by recent FDA approvals. While the market sentiment is optimistic with high trailing P/E ratios, it's crucial for growth metrics to catch up with valuation expectations. Despite the competitive challenges in the generics market, Biocon's proactive pursuit of cost improvements and its strong product pipeline provide a compelling narrative for bullish prospects. Nonetheless, it is important to remain aware of the slight decline in PAT growth, indicating potential areas for strategic recalibration to stabilize short-term profitability.

Please read detailed disclosure on next page.

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|-----------------------------------|--|
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| BUY                               | >=15%  |
| SELL                              | <-10%  |
| NEUTRAL                           | >-10% to 15%   |
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