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Company update and
earnings revision

Pharmaceuticals

Target price: Rs353

EBITDA revision

(%)	FY23E	FY24E
Sales	0.4	37.5
EBITDA	(4.6)	21.6

Target price revision

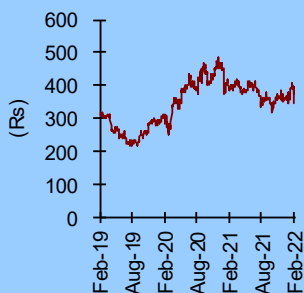
Rs353 from Rs374

Shareholding pattern

	Jun '21	Sep '21	Dec '21
Promoters	60.7	60.7	60.6
Institutional investors	23.4	23.4	23.4
MFs and other	2.5	2.6	2.5
FIs/Insurance	4.1	4.3	4.4
FIIIs	16.8	16.5	16.5
Others	15.9	15.9	16.0

Source: BSE India

Price chart



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Biocon Limited

HOLD

Maintained

Viatrix acquisition – boon or bane?

Rs349

Biocon Limited's (Biocon) biosimilar arm Biocon Biologics Ltd (BBL) acquired Viatrix' biosimilar assets to create a fully integrated global biosimilar enterprise. BBL will get global biosimilars business and rights in all biosimilars assets, including its in-licensed portfolio. In exchange, Viatrix will receive US\$3.3bn in a cash + equity deal. Post the deal, BBL's net debt level will jump to US\$1.5bn and net debt/EBITDA would be ~4x. The transaction is expected to close in H2FY23. Implied deal valuations (excluding intercompany transactions of ~35-40%) would stand at 4.7x-5.1x CY23E sales. While BBL gets access to an established front end in the developed market, it heavily weighs on the near-term financials. Additionally, successful execution is quintessential for the transaction to be accretive. We retain **HOLD** on Biocon with a revised target price of Rs353/share.

- ▶ **What Viatrix gets?** Viatrix will receive US\$3.3bn, including US\$2.3bn of cash (US\$2mn on closing of transaction and US\$335mn in CY24) and US\$1bn of BBL compulsory convertible preference shares (~12.9% equity stake in BBL post conversion), and one seat in the BBL board.
- ▶ **What BBL gets?** 1) Viatrix' global commercial infrastructure, 2) Viatrix' global biosimilars business with an estimated revenue of US\$875mn (includes ~35-40% of intercompany revenues of BBL) and EBITDA of US\$200mn for CY22 (revenue estimated to exceed US\$1.1bn and EBITDA of US\$250mn in CY23), 3) Viatrix' rights in all biosimilars assets, including its in-licensed portfolio and an option to acquire Viatrix' rights in biosimilar *afibercept* and 4) transition services for a two-year period to ensure a seamless transition with partners and continued services to patients and customers at cost plus US\$44mn p.a.. Viatrix will pay US\$50mn to BBL to fund certain capital expenditures. The cash payment of US\$2bn will be funded by an equity infusion of US\$800mn in BBL and the remainder by debt, additional equity infusion or a combination.
- ▶ **What is means for Biocon?** Biocon had diluted its holding in BBL to ~76% before this transaction. Post this transaction, the holding can drop to as low as ~53%. Additionally, debt on the books jumps significantly, pushing net debt/EBITDA to ~2.6x in FY24E from 0.8x in FY21. Biocon intends to list BBL via an IPO in the next 18-24 months to unlock the value it holds.
- ▶ **Valuation and risks:** Our revenue and EBITDA estimates for FY24E have materially changed in order to adjust for this acquisition. Also, we roll over our target valuations to FY24 to fully reflect this acquisition. Maintain **HOLD** with a revised SoTP-based target price of Rs353/share (earlier: Rs374/share). **Key downside risks:** Adverse regulations, higher competition in products **Key upside risks:** higher-than-expected growth in biosimilars.

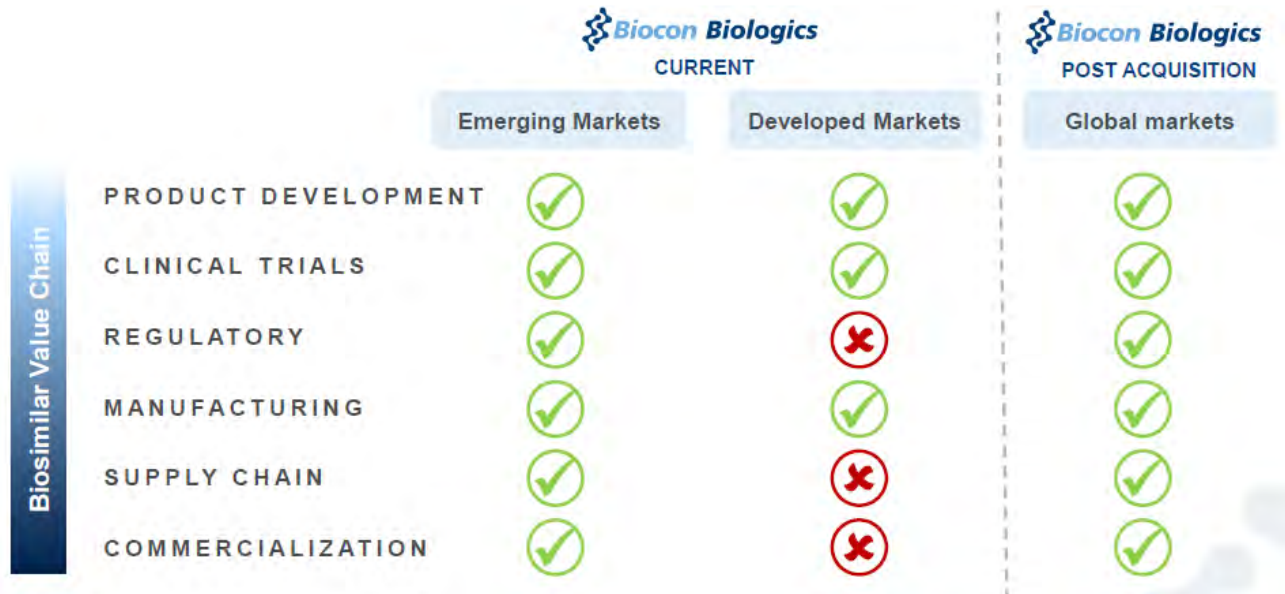
Market Cap	Rs41bn/US\$5.5bn	Year to Mar	FY21	FY22E	FY23E	FY24E
Reuters/Bloomberg	BION.BO/BIOS IN	Revenue (Rs mn)	71,058	78,864	92,870	1,46,135
Shares Outstanding (mn)	1,200.6	Net Income (Rs mn)	6,000	6,256	8,941	18,480
52-week Range (Rs)	484/324	EPS (Rs)	5.0	5.2	7.5	15.4
Free Float (%)	39.4	% Chg YoY	(15.0)	5.3	42.9	106.7
FII (%)	16.5	P/E (x)	70.3	66.7	46.7	22.6
Daily Volume (USD/'000)	14,461	CEPS (Rs)	10.9	11.9	14.9	23.5
Absolute Return 3m (%)	(3.2)	EV/E (x)	26.6	24.8	22.2	13.8
Absolute Return 12m (%)	(10.6)	Dividend Yield (%)	-	0.2	0.2	0.2
Sensex Return 3m (%)	(1.2)	RoCE (%)	4.9	4.5	3.7	5.1
Sensex Return 12m (%)	15.7	RoE (%)	8.3	7.9	5.8	7.9

Key concall highlights

- Post acquisition of the Viatris biosimilar business, BBL would be a global vertical leader in the biosimilar space.
- BBL has signed a non-compete agreement with Viatris.
- There are minimum overlaps in the two entities
- Management expects core EBITDA (exclude R&D and licensing income/expense) of 30-35% for combined entity.
- Post this deal, BBL's net debt is expected to increase from ~US\$300 to ~US\$1500mn and net debt to EBITDA would be <4x which the company expects to come down to <3x in a couple of years.
- Reiterated BBL's IPO in next couple of years.
- Management expects Biocon's stake in BBL to reduce to ~65% from ~76% post the deal. Biocon is also expected to participate in OFS to raise fund for this deal.
- *Aflibercept* has ~US\$8bn global sales and Vialtris has first to file for it.
- Apart of BBL, the company is having net cash in both generic and research businesses.
- The company has two-years transition services agreement, hence as per management this gives sufficient time to BBL for integration of entire transition.
- BBL's developed to emerging (EMs) market ratios would be 60:40. BBL is doing entire frontend of developed market business via Viatris, while majority of EMs business BBL is doing by own.
- The deal will lead to operational efficiencies across the complete value chain and build agile capabilities in development, manufacturing, regulatory, supply chain and commercialization in developed and emerging markets.
- BBL currently has a portfolio of 20 biosimilars, more than half of the portfolio is without a partnership which BBL can launch by own platform across developed and EMs markets.
- The acquisition of biosimilars assets of Viatris significantly strengthens BBL's position in diabetes, oncology, immunology and other non-communicable diseases. It also prepares BBL for greater success with the commercialization of its future pipeline.
- By integrating Viatris' portfolio, BBL will have one of the broadest and deepest commercialised biosimilars portfolio in the industry.
 - Comprehensive biosimilar insulins portfolio, including rh-Insulin, bGlargine and bAspart;
 - A growing biosimilar oncology portfolio, including bTrastuzumab, bBevacizumab, bPegfilgrastim;
 - A significant presence in autoimmune segment through in-licensed products like bAdalimumab, bEtanercept.
- **Selected highlights from Viatris' concall**
 - Biocon biosimilar transaction - Step to unlock value and reshape Viatris

- H2 2022 – Regulatory approval / transaction expected closing
- Q42023 – Biocon Biologics IPO expected
- Q42024 – Exit of transition services agreement
- Biosimilar divestiture – got an attractive valuation. Continue to be involved in biosimilar with 12.9% stake. Use the capital for higher value broad margins NCE
- Some of the divested biosimilar business have lower margins than the overall company margins. Valuation done by third party

Chart 1: BBL’s capabilities further improves post acquisition



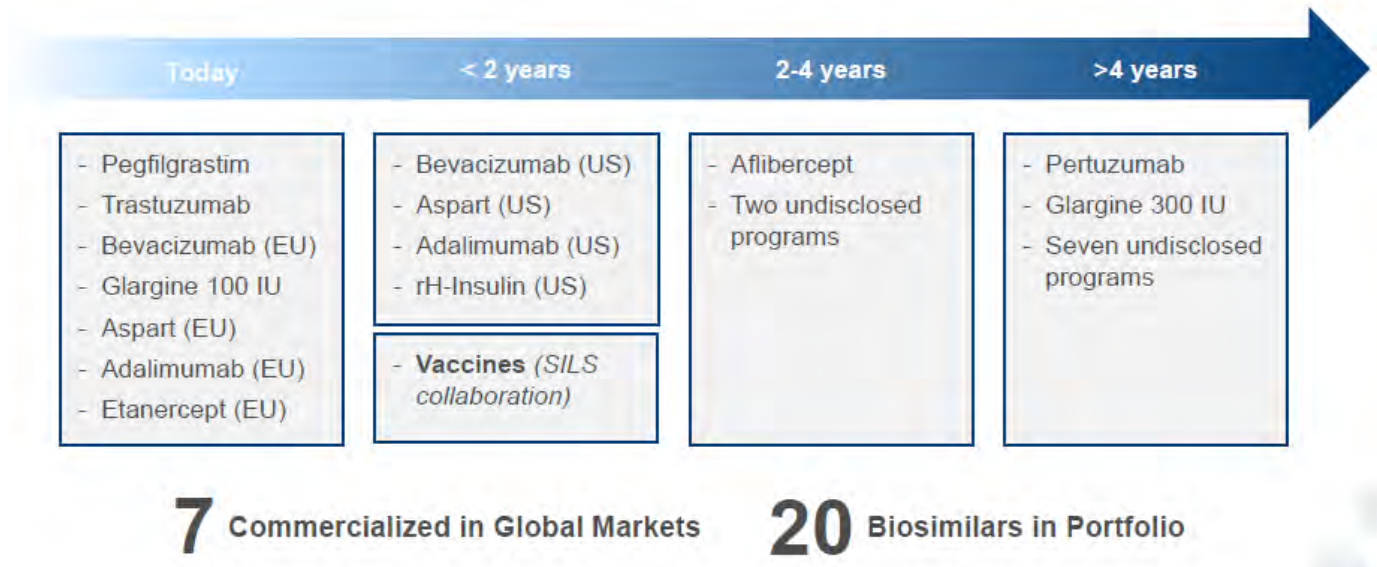
Source: Company data, I-Sec research

Chart 2: All the following Viatris products (excluding Botox) would be part of deal



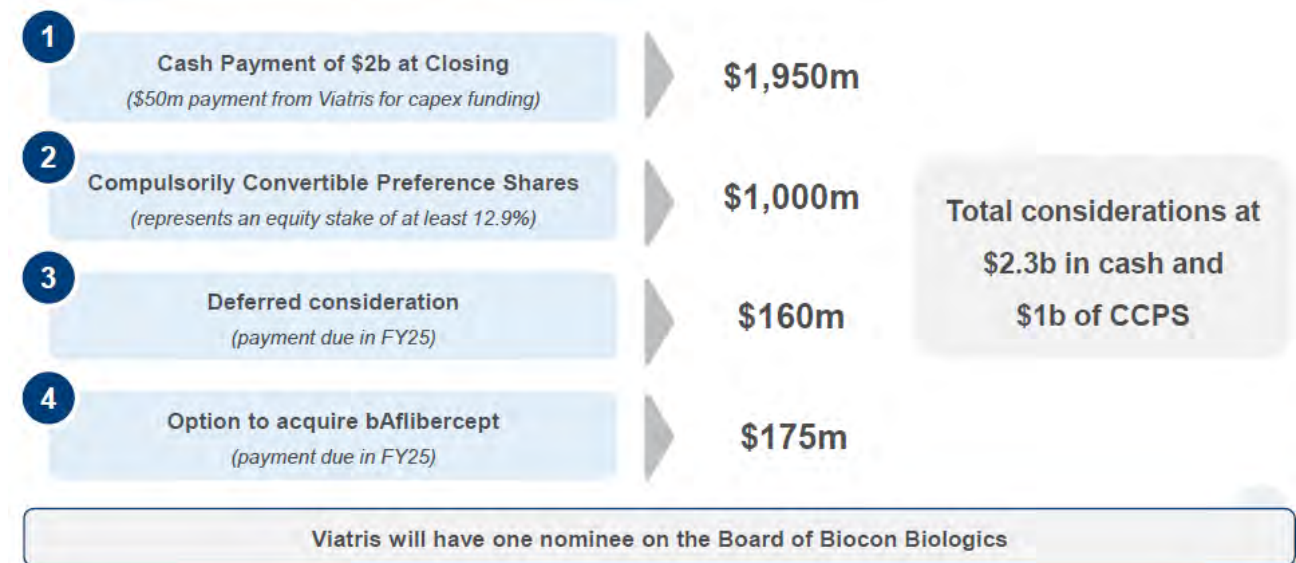
Source: Viatris presentation, I-Sec research

Chart 3: Combined pipeline post acquisition



Source: Company data, I-Sec research

Chart 4: Consideration to Viatrix



Source: Company data, I-Sec research

Valuations

The stock currently trades at 46.7x FY23E and 22.6x FY24E earnings, and 22.2x FY23E and 13.8x FY24E EV/EBITDA. We believe the company is poised for growth, especially in the biosimilars segment, driven by ramp-up in interchangeable *Semglee* and new launches like *Bevacizumab*, *Aspart* and *Adalimumab* in developed as well as emerging markets. Steady performance in other business is also likely to drive overall growth. Vaccine is also likely to start contributing H2FY23 onward. Hence, we remain positive on the long-term outlook of the company. While the acquisition of Viatrix biosimilar assets provides access to an established front end in the developed market, it heavily weighs on the near-term financials. Additionally, healthy successful execution is quintessential for this transaction to be accretive. Hence, we reiterate our **HOLD** rating with a revised target price of Rs353/share (earlier: Rs374/share) based on SoTP valuation, implying an EV/EBITDA of 14.0x in FY24E of base business and assign Rs21 per share NPV to vaccine opportunity.

Table 1: Sum of the parts (SoTP) valuation

Segments	Rs mn	(x)	Biocon's stake	Value (Rs mn)
Generics	4,933	10	100%	49,329
Biosimilars	24,527	20	53%	259,401
Novel biologics	(2,135)	-	100%	-
Research Services (Syngene)	10,841	25	71%	191,589
Total EV				500,319
Less: Net Debt				98,233
Minority Interest (ex-Syngene)				3,708
Implied M-Cap				398,378
Value per share (Rs)				332
Vaccine NPV				21
SOTP Valuation				353

Source: I-Sec research

Financial summary (consolidated)

Table 2: Profit & loss statement

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Total Net Revenue	71,058	78,864	92,870	146,135
YoY Growth%	12.8	11.0	17.8	57.4
Total Op. Exp.	54,532	61,001	68,791	107,960
EBITDA	16,526	17,862	24,079	38,175
Margins %	23.3	22.6	25.9	26.1
YoY Growth%	3.1	8.1	34.8	58.5
Depreciation	7,151	8,062	8,886	9,686
EBIT	9,375	9,800	15,193	28,489
Other Income	106	672	(482)	(361)
Interest	577	695	1,344	2,009
EO Items	1,773	-	-	-
PBT	10,677	9,777	13,367	26,119
Tax	2,215	2,464	3,368	6,582
Tax Rate (%)	20.7	25.2	25.2	25.2
Minority Interest	1,057	1,057	1,057	1,057
Reported PAT	7,405	6,256	8,941	18,480
Adj. PAT	6,000	6,256	8,941	18,480
Net Margins (%)	8.4	7.9	9.6	12.6

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Paid-up Capital	6,000	6,000	6,000	6,000
Reserves & Surplus	70,269	75,895	219,207	237,056
Total Equity	76,269	81,895	225,207	243,056
Minority Interest	8,807	9,864	10,921	11,978
Total Debt	44,811	41,811	125,811	124,811
Deferred Liabilities	(2,754)	(2,754)	(2,754)	(2,754)
Capital Employed	127,133	130,816	359,185	377,091
Current Liabilities	55,013	59,586	64,807	90,009
Total Liabilities	182,146	190,402	423,992	467,100
Net Fixed Assets	93,436	102,374	334,487	339,801
Investments	5,637	5,637	5,637	5,637
Inventory	18,666	20,880	23,547	36,954
Debtors	12,176	13,514	15,914	25,041
Other Current Assets	19,990	21,352	23,796	33,090
Cash and Equivalents	32,241	26,646	20,611	26,578
Total Cur. Assets	83,073	82,391	83,868	121,662
Total Assets	182,146	190,402	423,992	467,100

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
PBT (Adj. for Extraordinary)	10,677	9,777	13,367	26,119
Depreciation	7,151	8,062	8,886	9,686
Net Chg in WC	(2,076)	(1,067)	(3,592)	(11,580)
Taxes	(1,938)	(2,464)	(3,368)	(6,582)
Others	(2,794)	726	1,303	4,954
CFO	11,020	15,035	16,595	22,596
Capex	(17,367)	(17,000)	(241,000)	(15,000)
Net Investments made	(18,512)	-	-	-
Others	(368)	-	-	-
CFI	(36,247)	(17,000)	(241,000)	(15,000)
Change in Share capital	20,993	-	135,000	-
Change in Debts	5,807	(3,000)	84,000	(1,000)
Div. & Div Tax	-	(630)	(630)	(630)
Others	8,595	-	-	-
CFF	35,395	(3,630)	218,370	(1,630)
Total Cash Generated	10,168	(5,595)	(6,035)	5,966
Cash Opening Balance	9,986	20,154	14,559	8,524
Cash Closing Balance	20,154	14,559	8,524	14,491

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY21	FY22E	FY23E	FY24E
Adj EPS	5.0	5.2	7.5	15.4
YoY Growth%	(15.0)	5.3	42.9	106.7
Cash EPS	10.9	11.9	14.9	23.5
EBITDA (%)	23.3	22.6	25.9	26.1
NPM (%)	8.4	7.9	9.6	12.6
Net Debt to Equity (x)	0.2	0.2	0.5	0.4
P/E (x)	70.3	66.7	46.7	22.6
EV/EBITDA (x)	26.6	24.8	22.2	13.8
P/BV (x)	5.5	5.1	1.9	1.7
EV/Sales (x)	6.2	5.6	5.7	3.6
RoCE (%)	4.9	4.5	3.7	5.1
RoE (%)	8.3	7.9	5.8	7.9
RoIC (%)	6.1	5.6	4.1	5.5
Book Value (Rs)	63.6	68.2	187.7	202.5
DPS (Rs)	-	0.5	0.5	0.5
Dividend Payout (%)	-	0.1	0.1	0.0
Div Yield (%)	-	0.2	0.2	0.2
Asset Turnover Ratio	0.8	0.8	0.4	0.4
Avg Collection days	71	66	68	80
Avg Inventory days	111	118	118	102

Source: Company data, I-Sec research

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