Biocon | BUY

Set for profitable growth

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FY25 has been a transformational year for Biocon, marked by regulatory clearances, bold deleveraging efforts, and strategic positioning for the next phase of growth across its three core businesses. The Generics division is preparing to tap into opportunities in GLP-1 and injectables, while Biocon Biologics has secured three key biosimilar approvals, with the remaining two expected over the next 12 months. Syngene improved its employee attrition rate and is poised for low to mid-teens growth in its base business. Addressing investor concerns around high leverage, the company successfully raised INR 45 bn through a QIP, strengthening its balance sheet. With these developments, Biocon is well-positioned for a material improvement in both operational and financial performance. We project 13%/21%/35% Revenue/EBITDA/PAT CAGR over FY25–28 and maintain a BUY rating on the stock.

- **Overall FY25 Performance:** Biocon reported a strong FY25, driven by strategic product launches, deeper penetration into regulated markets, focused capital allocation, and regulatory successes across all business verticals. Group consolidated revenue crossed USD 1.4 bn, reflecting high-single-digit growth, with biosimilars contributing the majority share.
- **Manufacturing Milestones:** Completed Phase 2 of Cranbury, NJ site expansion, increasing capacity by 30%. Bengaluru injectable plant (Parenteral facility) is expected to be operational by 4QFY26, with capacity of 100 mn vials/ampoules annually. New product approvals in US have been enabled with Malaysia and India facilities receiving Voluntary Action Indicated (VAI) status from US FDA. Malaysia's capacity expansion for phase II will be supported with an expect capex of ~USD 100mn.

Business Unit Highlights

Generics

- **Key Launches:** Launched Liraglutide (GLP-1 receptor agonist) in the UK and received US FDA approvals for Rivaroxaban (anti-coagulant) and Daptomycin (antibiotic). Cumulatively, Biocon now has 25 US ANDA approvals of which 15 are commercialized.
- **Capacity & Supply Chain:** Operated at a manufacturing capacity of 900 metric tons of API and 880 mn oral solid dosages. The Cranbury, NJ facility commercialized 3 statins—Atorvastatin, Rosuvastatin, and Simvastatin.
- **Revenue & Growth:** Generics division delivered USD 125.4 mn in revenue, up 25.2% YoY. US sales now contribute approximately 48% of the generics portfolio.
- **Challenges:** Voluntary recall of 1.8 mn tablets of Atorvastatin in the US due to out-of-specification dissolution results. Corrective actions implemented; regulatory closure expected in FY26.
- **FY26 Focus:** Strategic investments directed toward GLP-1 franchise (Liraglutide, Semaglutide), scaling injectables to 150 mn vials annually, and expanding fermentation API lines.

Biocon Biologics

- **Launches & Approvals:** Yesintek (bStelara) launched in the US, EU, and Japan—among the first Indian biosimilar companies to enter all three regulated markets for an IL-12/23 inhibitor. Jobevne (bBevacizumab) received US FDA approval in Q4 FY25.

- **Legal Settlements:** Settlements with Janssen (Stelara) and Regeneron (Eylea) provided 2–3 years of early market exclusivity for certain biosimilars.
- **Market Share & Sales:** Ogivri (bTrastuzumab): US market share rose to 26% (up from 21% YoY). Fulphila (bPegfilgrastim): Gained 30% US share, supported by oncology demand. European biosimilar sales grew 18% YoY, led by oncology and immunology products.
- **Regulatory Strength:** All six global manufacturing sites (India and Malaysia) received VAI status from the US FDA. Total 24 global biosimilar approvals during FY25 across US, EU, Japan, Australia, and emerging markets.
- **FY26 Outlook;** US entry targeted for 1) bDenosumab (osteoporosis): Market size ~USD 2.6B 2) bAflibercept (Eylea biosimilar): Market size ~USD 5.9B 3) Insulin Aspart: Initial launch volumes set at 15 mn cartridges

Syngene

- **Strategic Expansion:** Acquired a US-based biologics CDMO facility with upstream mAb capacity of 2,000L, enabling access to North American clients. Launched a rapid protein production platform reducing cycle time from 90 days to 45 days.
- **Performance and Outlook:** FY25 revenue stood at approximately INR 32bn (~USD 380M). Base business is expected to grow strong in early teens, however, while considering client inventory adjustments for one of the molecules, the growth is expected to be in mid-single digits.

Bicara Therapeutics (BCAX)

- **IPO Milestone:** Raised USD 362 mn via a NASDAQ IPO in Q1 FY25. Current market cap post-listing is ~USD 1.7 bn. Biocon maintains a 10% strategic equity stake, now valued at USD 170 mn, up nearly 30% since IPO.

Financial Highlights

- **Fundraising and debt structure:** Raised USD 800mn through a high-demand bond issuance (3x oversubscribed) and secured USD 320mn via a syndicated term loan from global banks to refinance debt leading to Debt/EBITDA ratio improving from 3.1x to 2.6x. QIP added a further INR 45bn to support near term liability payouts and use remainder funds to reduce net debt of USD 1.1 bn (FY25)
- **Forex Exposure:** Forex outgo rose by 21% to INR 7.9bn in FY25 vs INR 6.5bn in FY24, with hedging strategies limiting volatility. Forex earnings for FY25 stood at INR 8.9bn vs INR 9bn in FY24.
- **R&D Investments:** Total R&D spend for FY25 was INR 8.6bn (7% of sales), in FY26, R&D spend is expected to be 7-10% range.
- **Capital Expenditure:** FY25 capex was INR 23.43bn (~USD 280 mn) and FY26 planned capex is USD 200–250 mn, to be distributed across generics, biosimilars, and infrastructure upgrades (USD 50-60mn in generics for peptides, HPAPIs and fermentation APIs; USD 100mn on Malaysia expansion; and USD 55mn in Syngene for research services, biologics and small molecules CDMO business.)
- **Dividends:** The company had declared a final dividend of INR 0.5/sh, which would lead to a payout of INR 600mn, maintaining 10% payout ratio.
- **Contingent Liabilities; Outstanding Legal and Tax Matters :** INR 11.76bn outstanding claims not classified as debt and Tax disputes under litigation across jurisdictions total approximately INR 11.4bn, primarily linked to transfer pricing and GST classification.

- **Related party transactions:** There were no significant RPTs during FY25 except a contingent consideration payable of INR 9bn (specific details not provided). Other mentionable considerations were of TSA expenses of INR 536mn and expenses incurred by related party on behalf of the Company for INR 884mn.

Talent and Governance

- **Workforce Trends:** Employee attrition dropped from 26% to 23% YoY with significant decline in attrition among women from 22% to 13%. Notably, women employees in Biologics make up the 35% of the workforce with low attrition, aided by inclusion programs and leadership pipelines
- **Leadership Compensation:** Total KMP remuneration rose to INR 277mn (up from INR 199mn in FY24), driven by performance-linked incentives and ESOP allocations.

APPENDIX I

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Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 bn and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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