October 10, 2019 Revised

Biocon Limited: [ICRA]AA+ (Stable) and [ICRA]A1+ reaffirmed

Summary of rated instruments

Instrument*	Previously Rated Amount(Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term non-fund based	200.00	200.00	[ICRA]AA+ (Stable) reaffirmed
Long-term fund based	58.00	58.00	
Long-term unallocated	2.00	2.00	
Long-term/short-term fund based/non-fund based	110.00	110.00	[ICRA]AA+ (Stable)/ [ICRA]A1+ reaffirmed
Short-term non-fund based	80.00	80.00	[ICRA]A1+ reaffirmed
Total	**450.00**	**450.00**	

*Instrument details in Annexure – I

Rationale

The reaffirmation of ratings considers Biocon's integrated operations in the pharmaceutical value chain, its geographically diversified presence across various countries, the company's diversified revenue mix with established market position across segments and Biocon's strong financial profile. The ratings also positively factor in the company's successful biosimilar approvals/launches in FY2019 and YTD FY2020 leading to improvement in margins, the new launches in small molecules and in the branded formulations segments in FY2019 and the healthy revenue visibility over the medium term.

Biocon is an integrated pharma player with presence across the pharma value chain from R&D to manufacturing and marketing. In terms of business profile, the company's revenues are diversified across small molecules (30% of revenues in FY2019), biologics (26%), branded formulations (11%) and research services (31%). The company is also geographically diversified with about 30% of revenues coming from India, 27% from the USA and the remaining 43% from the rest of the world (RoW) in FY2019. Presence across various businesses and geographies mitigates revenue risks arising from competition/slowdown in a segment/region and lends stability to revenues.

Biocon had a healthy portfolio of new launches/approvals in FY2019 and YTD FY2020. In the small molecules segment, Atorvastatin Calcium and Simvastatin Calcium formulations in the USA in FY2019 were launched. Under the branded formulations segment, the company introduced CANHERA® (a biosimilar Trastuzumab in UAE) in FY2019. The company also launched Fulphila™ (Pegfilgrastim) in July 2018 in USA and insulin Glargine, biosimilar Trastuzumab and in-licensed biosimilar Adalimumab in EU in FY2019. Further, Biocon has 11 disclosed and several undisclosed biosimilars/biologics under various stages of development in the oncology, diabetes and autoimmune spaces. In the research services space, the company has had new client additions and won contract extensions/scope expansions with some existing clients. Also, Syngene is expected to commence commercial scale manufacturing of intermediates/APIs. These, and Biocon's well-entrenched market position across segments provide strong revenue visibility over the medium term.

ICRA positively factors in Biocon's healthy consolidated financial profile characterized by healthy profit margins, conservative debt metrics and strong liquidity. Biocon reported a strong revenue growth of 33.7% in FY2019 and 30% YoY in Q1 FY2020, and its already-healthy operating profit margin (OPM) witnessed further improvement to 25.3% (FY2018: 20.1%). For Q1 FY2020, the company reported an OPM of 29.8% as against 21.2% for Q1 FY2019. Biocon's net gearing stood at a conservative 0.1 times as on March 31, 2019 while its net debt/OPBDITA was at 0.4 times for FY2019. Despite consolidated repayment obligations of about Rs. 1,600 crore on aggregate basis for FY2020-FY2022 and capex and R&D of about Rs. 2,300 crore in FY2020, ICRA expects Biocon's consolidated financial profile to remain strong over the medium term.

Akin to other industry players, Biocon is also exposed to uncertainties in approval pathway for molecules under development and is bound by strict regulations for clinical trials for regulated markets. Also, with significant revenues from overseas markets, the company's income and margins are susceptible to risks arising from adverse forex movements.

Key rating drivers and their description

Credit strengths

- **Integrated pharmaceutical major with capabilities across the value chain; global presence** – Biocon is present through the pharma value chain, across R&D, manufacturing and marketing. In terms of geographies, the company is fairly diversified with about 30% of revenues from India, 27% from the USA and the remaining 43% from RoW in FY2019.

- **Diversified business mix** – The company has a relatively diversified product portfolio, lending stability to revenues. Small molecules and research services are relatively larger verticals for the company contributing to 30% and 31% of revenues respectively in FY2019. Biologics contributed to 26% of FY2019 revenues for Biocon, while its branded formulations business contributed to 11% of revenues.

- **Biologics segment was a strong performer in FY2019; recent biosimilar launches and healthy development pipeline provides revenue visibility** – Biocon's revenues from the Biologics segment grew by 97% in FY2019. The launch of biosimilar Pegfilgrastim in the U.S. (July 2018) and increasing sales of biosimilar Trastuzumab in the emerging markets were main contributors to this growth. Other key launches in FY2019 include biosimilar Insulin Glargine, biosimilar Trastuzumab and in-licensed biosimilar Adalimumab, by Biocon's partner Mylan in Europe. In addition, Biocon has 11 disclosed and several undisclosed biosimilars/biologics under various stages of development. Given the healthy growth prospects for biosimilars and Biocon's product portfolio (approved and under development) in this space, ICRA's expects the company's biologics/biosimilar revenues to grow at a healthy pace over the medium term.

- **Strong performance of subsidiary Syngene, the largest contract research company in India** – Syngene has strong business profile with integrated presence across discovery and development services, with long-term research contracts with reputed clients like Bristol-Myers Squibb, Baxter International, Amgen Inc and Herbalife Nutrition. It has extended its contract with Baxter till 2024 with expanded scope in FY2019. Syngene also increased its client base by 15 customers to 331 clients in FY2019 with Artelo Biosciences and Zumutor Biologics being some of the new names. The company will forward integrate with commercial scale manufacturing of intermediates/APIs once its upcoming facility in Mangalore is commissioned in Q4 FY2020. The deeper engagements, client additions and commencement of commercial scale manufacturing provide revenue visibility for Syngene over the medium term.

- **Dominant market position for small molecule APIs and various products in the branded formulations segment** – In the small molecules segment, Biocon launched Atorvastatin Calcium and Simvastatin Calcium formulations in the USA in FY2019 after the FY2018 launch of Rosuvastatin Calcium formulation in the USA and select European markets. There are more launches scheduled in the next 2-3 years. Under the branded formulations segment, the company introduced CANHERA® (a biosimilar Trastuzumab in UAE) in FY2019. The company is a reputed player globally in statins and immunosuppressants and has established market position/client relationships for its APIs. Further, In FY2019, five of

Biocon's top ten brands witnessed double-digit growth outpacing the market in their respective categories in India; while in the UAE market, the company's brands were ranked in top three in their respective therapeutic segments. The periodic launches and healthy market position provide stability to Biocon's revenues over the medium term.

- **Strong financial profile** – Biocon's revenues grew by 33.7% in FY2019 to Rs. 5,514.4 crore, while its already-healthy operating margin improved by 520 bps to 25.3% in FY2019 due to stellar growth in the margin-accretive biologic segment. The company's Q1 FY2020 performance was also strong with 30% YoY revenue growth and an OPM of 29.8% (21.2% for Q1 FY2019) with further increase in proportion of revenues from biologics. The company's gearing stood at a conservative 0.4 times while its TOL/TNW was also healthy at 0.8 times as on March 31, 2019. Biocon's interest coverage remained strong at 19.7 times for FY2019 and 26.4 times for Q1 FY2020. ICRA also notes that the company had cash and liquid investments of Rs. 1,886.5 crore as on March 31, 2019; adjusted for this, the company's net debt stood at Rs. 536.5 crore as on March 31, 2019. Biocon's margins and debt metrics are likely to remain healthy over the medium term.

Credit challenges

- **Significant capex plans and repayment obligations over the next two years** – Biocon has consolidated repayment obligations of about Rs. 1,600 crore for FY2020-FY2022 on its existing loans. Further, ICRA expects Biocon to have sizeable capex over the next three years – with approximately Rs. 2,300 crore likely to spent in FY2020. Although the capex is relatively high for Biocon's scale, ICRA draws comfort from the anticipated healthy accruals from the business over the medium term.

- **Relatively high competition in the small molecules and branded formulations segment** – The small molecules segment and branded formulations segment witness high competition because of presence of large number of players for their APIs/formulations. However, geographic diversification of sales in the small molecules segment, increasing revenues from biosimilar segment in branded formulations – where the competitive intensity is lower, and periodic product launches in both segments mitigates the risk to a large extent.

- **Regulatory risks and vulnerability to unfavourable forex movement -** Akin to other industry players, Biocon is also exposed to uncertainties in approval pathway for molecules under development and consequent volatility in launch timelines. Also, Syngene is bound by strict regulations for clinical trials for regulated markets. Further, with significant portion of its revenues from overseas markets, the company's revenues and margins are susceptible to risks arising from adverse forex movements including appreciation of INR against USD. However, the partial hedging mechanisms adopted by the company mitigate the risk to an extent.

Liquidity Position: Superior

Biocon's liquidity position has remained strong with positive retained cash flows and adequate unutilized working capital debt in the last one year. The company had cash and liquid investments of Rs. 1,886.5 crore as on March 31, 2019. The company has a total tangible capex of ~Rs. 2,100 crore (~Rs. 1,400 crore ex-Syngene) and capitalized R&D of about Rs. 200 crore in FY2020, for capacity enhancements and maintenance; part of it is likely to be debt-funded. ICRA expects Biocon's capex to be sizeable for FY2021 and FY2022 as well. Also, Biocon has consolidated repayment obligations of about Rs. 1,600 crore on aggregate basis for FY2020-FY2022. Despite this, the company's liquidity position is expected to remain strong over the medium term, supported by its healthy accruals.

Rating sensitivities

Positive triggers – ICRA could upgrade Biocon's ratings if it achieves material improvement in its scale of operations and significant diversification of a) therapeutic segments in formulations/biosimilar/APIs and b) customer base in contract research, while maintaining its strong credit profile despite the sizeable ongoing capex.

Negative triggers – Negative pressure on Biocon's rating could emerge with sharp deterioration in the earnings or significant rise in net debt, with net debt/OPBDITA greater than 1.5 times.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Pharmaceutical Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	Consolidation

About the company:

Biocon Limited was initially set up as a joint venture between Biocon Biochemicals Limited of Ireland and Indian entrepreneur Ms. Kiran Mazumdar Shaw in 1978 to manufacture and export enzymes. After the JV partner was acquired by Unilever and businesses were restructured, Biocon became an independent entity and the Indian promoters bought the entire stake in 1998. In 2000, the company commissioned its first fully automated submerged fermentation plant to produce specialty biopharmaceuticals and received USFDA approval for lovastatin in 2001. From being a predominantly fermentation-based APIs and enzymes manufacturer, the company has emerged as an R&D-based biotechnology company having developed its own proprietary products as well as offering research services to global pharmaceutical majors.

Key Financial Indicators (audited)

Consolidated	FY2018	FY2019
Operating Income (Rs. crore)	4,123.4	5,514.4
PAT (Rs. crore)	431.8	1,001.7
OPBDIT/OI (%)	20.1%	25.3%
RoCE (%)	9.3%	17.3%
Total Outside Liabilities/ Tangible Net Worth (times)	0.7	0.8
Total Debt/ OPBDIT (times)	2.7	1.7
Interest coverage (times)	13.5	19.7
DSCR	5.6	3.2

Source: Company, ICRA research; OPBDITA: Operating Profit before Depreciation, Interest and Taxes;
PAT: Profit After Tax; RoCE: Return on Capital Employed; DSCR: Debt Service Coverage Ratio

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)					Chronology of Rating History for the past 3 years			
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating 10-Oct 2019	Date & Rating in FY2019 15-Mar 2019	Date & Rating in FY2019 31-Jul 2018	Date & Rating in FY2017 12-Jan 2017	Date & Rating in FY2016 08-Sep 2015
1	Long-term non-fund based	Long Term	200.00		[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	-	-
2	Long-term fund based	Long Term	58.00		[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	-
3	Long-term unallocated	Long Term	2.00					[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
4	Long-term/short-term fund based/non-fund based	Long Term/ Short Term	110.00	NA	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+
5	Short-term non-fund based	Short Term	80.00		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	-
6	Short-term fund based/non-fund based	Short Term	-		-	-	-	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Not applicable	Long-term non-fund based	NA			200.00	[ICRA]AA+ (Stable)
	Long-term fund based				58.00	[ICRA]AA+ (Stable)
	Long-term unallocated				2.00	
	WCDL/PC/LC/BG				110.00	[ICRA]AA+ (Stable)/ [ICRA]A1+
	LC/BG				80.00	[ICRA]A1+

Source: Biocon Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Syngene International Limited, India	70.2%	Full consolidation
Biocon Research Limited, India	100%	
Biocon Academy, India	100%	
Biocon Pharma Limited, India	100%	
Biocon SA, Switzerland	100%	
Biocon Biologics Limited, UK	100%	
Biocon SDN BHD, Malaysia	100%	
Biocon Pharma Inc, USA	100%	
Biocon FZ LLC, UAE	100%	
Biocon Biologics India Limited, India	100%	
Biocon Healthcare SDN BHD, Malaysia	100%	
Bicara Therapeutics Inc.	100%	
Biocon Pharma Ireland Limited	100%	
Biocon Pharma UK Limited	100%	
Syngene USA Inc., USA	100% by Syngene	
NeoBiocon, UAE (JV)	49%	Equity method

Source: Biocon Limited

Corrigendum

Document dated Oct 10, 2019 has been corrected with revisions as detailed below:

Content under section ‘Negative triggers’, on page number 4 has been updated correcting a typographical error.

Earlier negative trigger: Negative pressure on Biocon’s rating could emerge with sharp deterioration in the earnings or significant rise in net debt, with **debt/OPBDITA** greater than 1.5 times.

Current negative trigger: Negative pressure on Biocon’s rating could emerge with sharp deterioration in the earnings or significant rise in net debt, with **net debt/OPBDITA** greater than 1.5 times.

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