FOSTERING
Growth

Q&A
WITH THE CFO

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31%

Consolidated Revenue grew 31% to ₹56,588 million in FY19 from ₹43,359 million in FY18.

Q. How will you describe the overall financial performance of Biocon this year?

A. **In FY19, our consolidated revenue grew 31% from ₹43,359 million to ₹56,588 million. Our three strategic business segments Small Molecules, Biologics and Research Services have reported a top-line of over ₹15,000 million each this fiscal.**

We witnessed revenue growth across all segments with Biologics leading the way with 97% growth (₹15,169 million vs. ₹7,702 million in FY18). This was well supported by 28% growth in Research Services (₹18,256 million vs. ₹14,231 million in FY18), 18% in Small Molecules (₹17,728 million vs. ₹15,077 million in FY18) and 7% in Branded Formulations (₹6,564 million vs. ₹6,115 million in FY18).

Earnings before Interest, Depreciation and Amortization (EBITDA) increased 49% (₹15,381 million vs. ₹10,353 million in FY18) A higher share of Biologics revenue boosted profitability as reflected in the consolidated EBITDA margin of 27% for the full year up 3% from FY18.

Reported Net Profit increased 143% to ₹9,053 million (vs. ₹3,724 million in FY18). When adjusted for exceptional items and associated tax, Net Profit for FY19 was ₹7,291 million, a growth of 96% vs. FY18.

Q. Biocon's Biologics segment posted robust YoY revenue growth in FY19, but sequentially between Q3 and Q4 of FY19, the revenue traction was more or less steady, despite new launches in EU. What kind of revenue growth should we expect in FY20 and beyond?

A. We expect the revenue growth momentum in Biologics segment to continue in FY20 driven by new launches and increased penetration of products already launched by our partners in various markets. While the segment revenues will reflect strong growth on a full year basis, a significant part of this growth will be towards the second half of FY20.

Q. What led to the steady increase in R&D expenses in FY19? How much do you expect to spend on R&D in FY20?

A. R&D is an integral part of our business and in order to drive future business growth, we will continue to invest in R&D across all our business segments.

In FY19, gross R&D expenses were ₹4,796 million, corresponding to 13% of revenues ex-Syngene. The increase was on account of higher spends on ANDA programs and biosimilars, driven by the Sandoz collaboration pipeline.

In FY20, we expect R&D expenses to increase compared to FY19 on account of both addition and advancements in our biosimilars, novels and ANDA pipeline. Gross R&D spends are expected to be ~15% of revenues ex-Syngene.

96%

Net Profit (before exceptional items) grew 96% to ₹7,291 million in FY19 from ₹3,724 million in FY18.

Q. You have guided for higher manpower costs in FY20. How do you expect this increase to impact operating margins in FY20?

A. The staff costs will primarily increase on account of annual salary increments and hiring additional manpower for new manufacturing and research capacities. Additionally we will also be hiring employees at various levels to support independent functioning of biosimilars business under Biocon Biologics India Limited (Biocon Biologics) and novel immuno-oncology programs under Bicara Therapeutics, Inc. (Bicara Therapeutics).

We expect that margins from revenue growth will offset increase in operating expenses including higher manpower costs resulting in core EBITDA margin percentage (i.e. EBITDA margins net of licensing, impact of forex and net R&D expenses) to be at similar levels of FY19.

Q. Your Branded Formulations business reported a muted performance in FY19 because of the impact from UAE? When do you expect headwinds in the UAE to recede?

A. The UAE performance for the year was impacted by uncertainty in the local market, including delays in drug registration with the local health authorities and re-pricing of branded generic products mandated by the Ministry of Health. We expect some challenges to continue in the first half of FY20.

On a positive note, we launched our first biosimilar Trastuzumab under the brand name CANHERA, which is aimed at providing an affordable treatment option and increasing access to this medicine for patients suffering from breast cancer. The launch of CANHERA represents our second biosimilar launch in the UAE market, initially having launched Biosimilar Insulin Glargine under the brand name Glaricon®.

Q. What is the capacity utilization of current antibody manufacturing facility? Do you have sufficient capacity to service the developed markets? When will the new antibody manufacturing facility be commissioned?

A. In line with our expectations of biosimilars penetration to be gradual in developed markets, we do have sufficient capacity to support launches of biosimilar antibody products in the developed markets. To address volume growth on account of increased penetration in developed and emerging markets and also to support new biosimilar antibody product development and launches, in FY18 we had initiated construction of a greenfield antibody manufacturing facility in Bengaluru. The construction of this facility is on track and the facility is expected to be commissioned in FY20 followed by qualification and validation activities in FY21. We expect regulatory approvals and subsequent commercialization from this facility to commence in FY22.

We have also started work on expansion of the current R&D facility and additional infrastructure and equipment to support greater R&D capacity requirements for our future pipeline.

49%

EBITDA increased 49% to ₹15,381 million in FY19 vs. ₹10,353 million in FY18.

A higher share of Biologics revenue boosted profitability as reflected in the consolidated EBITDA margin of 27% for the full year up 3% from FY18.

Q. What is your capex guidance for FY20? How do you plan to fund it?

A. The greenfield antibody facility in Bengaluru entails an investment of ~USD 200 million with cash outflow over four years starting FY18. In FY19 we also initiated upgradation of our insulins drug substance facility in Bengaluru. In FY19, we incurred ~USD 100 million largely attributable towards these projects along with recurring maintenance capex across all our verticals.

In FY20, we plan to add incremental drug substance and drug product capacities across biosimilars (antibodies, insulins and proteins) as well as Small Molecules businesses. We will also commence construction work to build a greenfield facility in Visakhapatnam, Andhra Pradesh to support growing demand of immunosuppressant products in Small Molecule business. We are also evaluating construction of the second phase of our Malaysia Insulin facility which will require investment of ~USD 200 million. Excluding Syngene's capex and capitalized R&D/ intangible assets, we expect capex spend in FY20 to be in the range of USD 150-200 million.

We plan to fund the capex through a combination of internal accruals, additional debt, contribution from our co-development partner and a potential equity infusion into our biosimilars business.

Q. Have you achieved breakeven in Malaysia? What has been the progress of your Malaysia facility?

A. In FY19, at an operational level, the Malaysian entity had losses of USD 4 million on account of fixed operating expenses which were partially offset by sales in emerging markets, recovery from co-development partner and R&D activities.

While we expect growth from insulin sales in the emerging markets, primary growth driver will be the launch of Insulin Glargine in the US. Further our partner, Mylan launched Insulin Glargine in the EU in the second half of FY19 and sales are expected to ramp up over the next two years.

Q. What is your outlook for Biocon in FY20?

A. FY19 witnessed a robust growth in revenues led by our biosimilars business which also contributed to the significant margin expansion over FY18. We expect the growth momentum across our business segments to continue in FY20 especially driven by biosimilar launches in the U.S. in the latter part of the year. We expect to sustain the healthy core EBITDA margins witnessed in FY19. We will continue ramping up our R&D investments to support our growing pipeline of biosimilars, novel assets and generics to secure our future growth. We intend to complete the organizational restructuring and strengthening of the human resource required to fully operationalize Biocon Biologics and Bicara Therapeutics as distinct entities with the intent to unlock value in biosimilars and novel immuno-oncology assets respectively in future. Despite a short term impact on costs, we believe that these investments along with the expansion of our manufacturing and R&D infrastructure will position us to be a leading player in providing affordable access to patients globally.

₹4,796 Mn

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