

Biocon: Near-term positives priced in

Biosimilars in trial stages; once approved, these can lead to much larger gains

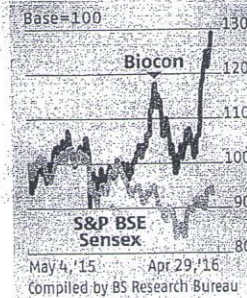
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With growing confidence on Biocon's biosimilar pipeline and a strong performance in the March 2016 quarter, its stock continues hitting new highs on the bourses. On Friday, too, it touched its all-time high of ₹589.50 a share before closing at ₹586.20. Biosimilars are made of living organisms. The DNA of these living organisms is genetically engineered to make it capable of curing ailments. The process is highly complex and technologically advanced.

The March 2016 quarter numbers, which were announced on Wednesday morning, only confirm that Biocon's fortunes continue to improve.

For the quarter, Biocon's consolidated revenues grew 17 per cent both sequentially and year-on-year (y-o-y) to ₹979 crore, led by strong contract research services and biopharma segments, ahead of growth expectations of about five per cent. The contract research services business (33 per cent of revenues) grew a robust 32 per cent y-o-y. The larger biopharma (67 per cent revenue contributor) also did well growing 14 per cent y-o-y against expectations of a single-digit growth.

Among expenses, research & development and employee costs increased 27 per cent y-o-y, leading to a decline in operating margins - by 86 basis points (bps) sequentially and 30 bps y-o-y - to 21.8 per cent. But, Biocon being a research-oriented pharma company, the Street is not much concerned on the firm's R&D spends even as it came in at 10.3 per cent of revenues in the March 2016 quarter, compared to seven per cent in the year-ago period, and estimated to inch up to 12 per cent in the



following quarters.

Net profit was boosted by an exceptional gain of ₹268 crore versus a gain of ₹105 crore in the fourth quarter of FY15. A one-time fee was received from Mylan on achieving certain milestone in the Rh-insulin programme. Thus, net profit at ₹361 crore marked a 79.8 per cent y-o-y growth. Analysts expect the growth momentum to continue. IIFL anticipates a compounded annual growth rate of 17 per cent in revenue and 14 per cent in net profit over FY16-18. While some analysts have target prices of up to ₹680, consensus target price is ₹590, indicating limited near-term upside.

However, if the company's biosimilar pipeline meets with success, it can surprise positively. Biocon has initiated Phase-III clinical trials of biosimilars such as Trastuzumab, Pegfilgrastim, Adalimumab and Insulin Glargine. The company is likely to file for regulatory approvals in FY17 in the US and European Union, which could be a major trigger.

The revenues, however, will be back-ended as analysts at Morgan Stanley estimate the four products to contribute \$244 million by 2020 to revenues and at 30 per cent margins, they say it implies a doubling of current profit. The analysts have a target price of ₹622.

Company