

Slowdown in biopharma biz may hit Biocon

HSBC

Biocon reported a net profit of ₹105 crore (+14.4% y-o-y), 4% higher than HSBCe, but below consensus. Sales at ₹700 crore (+10.6% y-o-y) were 6% lower than HSBCe mainly due to lower Biopharma sales. Lower R&D expense and slightly better product mix helped in better Ebitda margins of 24.9% (+150bp y-o-y), 220bps higher than estimates. R&D as a percentage of sales at 2.9% is lowest in last 12 quarters, which Biocon indicated as one-off as some India-based trials did not get regulatory clearance. There is a forex loss of ₹8 crore in the third against a gain of ₹5 crore in the last corresponding quarter. Overall Biopharma sales (including India formulations and licensing income) declined 2% y-o-y in constant currency (cc) term.

Ex-India formulations and ex-licensing income reported a growth of 3.4% y-o-y (-6.7% q-o-q) is one of the lowest in the last few quarters and as per the company is largely due to the absence of certain tenders. The recent launches of Alzumab (itolizumab) and CANMab (biosimilar Herceptin) should pick up India growth strongly in FY15. Contract research revenue remains robust with 31% yoy (15% in cc) growth in 3Q.

We value Biocon at 17x (3-year stock average, earlier 15x) Dec-15 EPS (earlier Sep-15 EPS) of ₹27.8 to arrive at our TP of ₹472 (from ₹390). The key upside risk is outlicensing of psoriasis drug Alzumab for regulated markets. Downside risk is a slowdown in Biopharma business and risk to partnered assets (oral insulin, biosimilar MABs).

Industry