

Biocon plays its Syngene card

Companies like to put their best forward in the run-up to a listing. **Biocon Ltd's** research services subsidiary, **Syngene International Ltd**, has posted a rather good performance in the March quarter. The weak stock market sentiment at present is a dampener, no doubt.

A successful listing matters to Biocon. Since it is selling a part of its stake through the offer, a good price will fetch it a good return and cash to fund its capital investments and research. Also, Biocon's 72.6% post-issue stake in Syngene could become a significant variable to include in its valuation.

In the March quarter, Biocon's sales rose 14.9%, with the research services business growing 27% from a year ago. This business contributed to 29% of total revenue, with the rest being accounted for by the biopharmaceuticals segment.

The biopharmaceuticals segment further splits into branded formulations and the much larger biopharma products. Branded formulations' sales grew by only 6%, as a portfolio rationalization, designed to increase margins, resulted in slower growth.

The biopharma business did well, with sales rising by 12% during the quarter, doing much better than the full year growth of 3%. Biocon had said that it is attempting to move lost sales from the conflict-affected Middle East and North Africa region to other countries. Though growth has improved, the process is taking time. Also, the lower sales of speciality active pharmaceutical ingredients (APIs)

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and insufficient capacity in insulin are affecting growth. API is the key ingredient in a drug. Now, insulin supply is expected to improve due to its Malaysian plant getting ready, and once the approvals are in place, it will supply to the emerging markets first and then to the developed markets.

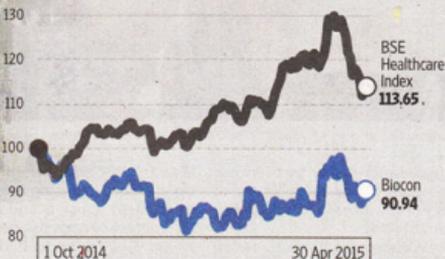
Sales growth during the quarter was healthy at 14.9%. Operating profit margin declined from a year ago but improved sequentially. The decline was attributed to higher expenditure on research and development. It spent 9% of sales during the quarter, compared with 8% during the full year. This is likely to continue as its research programmes advance to the next stage.

What Biocon needs is a combination of higher sales growth and improved profitability so that it can absorb higher expenditure on research, without affecting margins adversely. Sustaining the improvement in sales growth would be a help. If the Syngene listing is a success, it will give Biocon's shareholders something additional to look forward to and also release capital for productive use.



LOSING STEAM

Both Biocon and its peers in the healthcare sector have lost momentum since mid-April.



Base value taken as 100

Source: BSE