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Biosimilars make Biocon stand apart

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Biocon Ltd's shares have outperformed the Nifty Pharma index by about 11% in the past two months. Biosimilars or biologic medical products are making the company stand apart. Revenue from biologics including biosimilars and novel biologics increased as much as 136% year-on-year and contributed 29% of the company's total revenue in the December quarter.

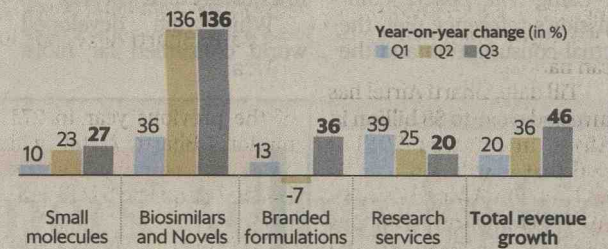
Biocon's strategy of commercializing biosimilars through a large established partner in the developed markets continues to yield benefits. Biosimilar pegfilgrastim, launched by its partner Mylan, continues to gain market share. Sure, the strategy incurs costs for Biocon, in terms of sharing marketing expenses. Still, benefits of the large marketing scale do help earnings.

The upshot is strong growth. "We have delivered the highest ever revenue and profit growth in absolute terms in Q3FY19," said the company. Biocon's revenue increased 46% over the same period last year to ₹1,541 crore. Net profit (adjusted for exceptional items) rose at a much faster 130% to ₹211 crore, as operating costs, finance expenses and depreciation increased at a relatively slower pace than revenues.

It's worth noting that revenue growth from Biocon's

Good health

Biocon's revenue growth remains strong, helped by continuing traction in biosimilar products.



Source: Company

NAVEEN KUMAR SAINI/MINT

other business segments was decent too. The chart alongside shows performance of the other three business segments: small molecules, branded formulations and research services. Revenue at the branded formulation business grew 36%, helped by inventory stocking by a channel partner in the United Arab Emirates. Management expects growth at this segment to return to mid-teens or to the yearly average. For the nine months to December, the segment clocked a revenue growth of 13%.

Growth in the small molecules and generic formulations business was better compared to the earlier quarters. Strong sales in the active pharmaceutical ingredients and successful launch of generic drugs helped Biocon accelerate growth.

For investors, a key growth driver for Biocon remains the biosimilars portfolio. Approval for biosimilar Trastuzumab in the developed markets of the European Union and

Australia has been received. Revenue from this product in these markets will reflect in the current quarter (Q4). With other products such as Fulphila continuing to gain market share in the US, Biocon expects overall growth momentum to continue in the current quarter as well, helping the company end this fiscal year on a strong note.

The growth in this business can help margins improve as well. Product approvals in developing markets, where competition from large global companies is relatively low, will help Biocon derive better realizations, says Ranjit Kapadia, an analyst at Centrum Broking Ltd.

Investors seem to be capturing a good portion of the optimism. Biocon shares currently trade at 37 times estimated earnings for the next fiscal year. While the growth outlook and earnings quality warrant premium valuations, product approvals and market share gains will be a crucial factor to watch out for.