

BIOCON, Growth Drivers - Long Term and Uncertain, Expenses - Near Term and Certain

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Abstracts

Q3FY13 result of Biocon was moderately better than our estimates. Revenue of the company grew by 24% and EBITDA grew by 18% Y-o-Y. The quarterly outperformance was largely on account of improved performance of Biopharma (ex-licensing income) driven by branded formulations, Atorvastatin launch in US, Stronger insulin in ROW markets and higher research service income.

Going forward we expect Biopharma sales (ex-licensing) to grow moderately by 6-7% despite branded formulations growing by 30% on the back of Itolizumab and growth in existing products. Small molecules contributes majority of Biopharma and are expected to remain flat going forward (2-3% growth) due to lack of new product addition. Atorvastatin launch in US will only arrest the decline in Simvastatin.

As per the company, biosimilars seem to be the biggest growth drivers in the longer term; however we do not see any visibility as of now. Company is expected to file for marketing authorization of biosimilar insulin in EU in the next one year (expected launch in CY2015); however, we are not enthused as sales of reference drugs (Insulatard and Actrapid) in EU is very limited. MABs (Trastuzumab) and oral insulin, IN-105 (licensed to BMS) may take at least 2 to 3 years before any commercial success. In the meantime company will continue to invest in R&D and Capex (for Malaysian facility).

We increase our FY13 and FY14 EPS estimates by 16% and 11% respectively accounting for higher branded formulations and Research Income. We arrive at Target price of `315 by valuing the company at 16x of FY14 EPS (ex-licensing) and valuing cash of `9750m (includes unreported licensing income) at 1x. We retain our Market Perform rating on Biocon.

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