

Biocon - Market Perform, Result Helped By Unsustainable Other Income

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Abstracts

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We reiterate our Market Perform rating on Biocon despite the Q2 FY13 result being higher than our estimates. The quarterly outperformance was only because of the one time growth in other income including compensation for the termination of product development with Amylin. The Biopharma sales growth remained at a modest 11% despite a favorable currency and growth from API fidoximicin and tacrolimus, indicating the pressure on simvastatin API. We do not remained enthused about the positive PhIII data on biosimilar insulin as (1) it is referenced to Insulatard and Actrapid in Europe which has very limited sales and (2) PhIII trials part 2 is yet to be conducted pushing the filing date to end of FY14.

GE Capital buying 7.69% stake in Syngene at Rs.1250m valuing the company at Rs.16250m remains the biggest highlight. The deal values Syngene at ~11x EV/EBITDA – 16% higher than Biocon's market valuation.

We keep our estimate unchanged. We now rollover our target price to FY14 earnings valuing the company at 17x FY14 EPS. We revise our target price to Rs.292 and retain our Market Perform rating.

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