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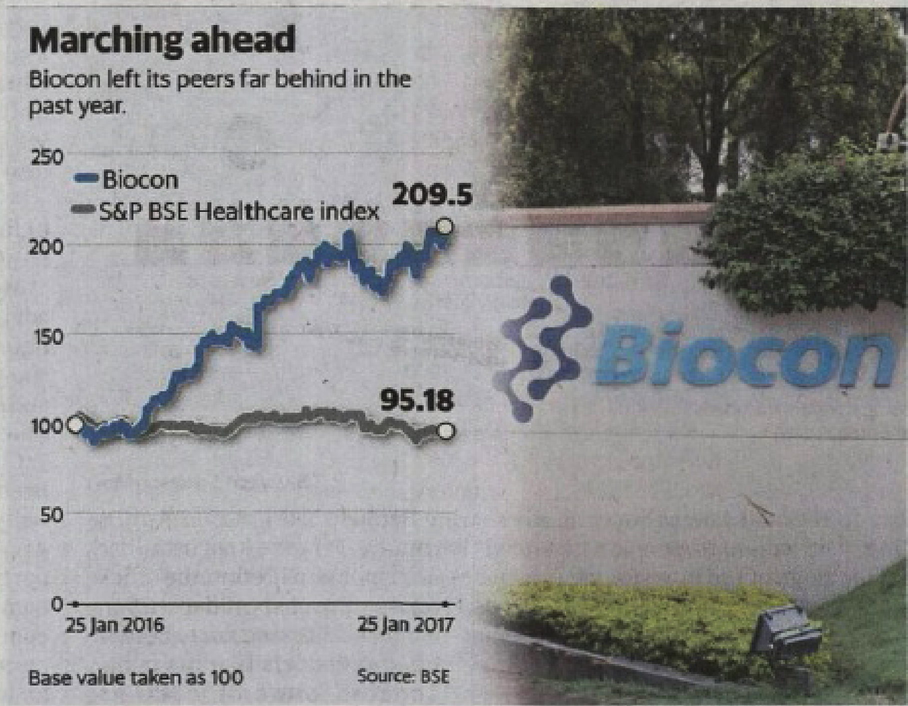
Biocon Q3: all eyes on pot at end of rainbow

Ravi Ananthanarayanan
ravi.a@livemint.com

Biocon Ltd is an anomaly among pharmaceutical companies with its share doubling in the past one year, while some of its larger peers have struggled to notch up any gains. Much of those gains are due to it crossing milestones, on the way to launching biosimilar products in developed markets. That is still work in progress but meanwhile its results too indicate business is good, although it has cautioned that its investment in a Malaysian plant will get capitalized, and may initially affect margins as revenues will take time to ramp up.

Biocon's consolidated income rose by 29% over a year ago to Rs1,022 crore in the December quarter, of which its listed subsidiary Syngene International Ltd contributed to a 17% increase. It contributes about a third of revenue. Biocon's licensing income was Rs79 crore versus Rs32 crore a year ago. Excluding Syngene and licensing income, its revenues rose by 27%. Since expenses grew by 23%, its operating profit rose by 57%. Net profit too rose by 57%.

Biocon's small molecules and biologics divisions did well, with sales up by 24% and 61% while that of branded formulations was relatively lower at 18%. Its Malaysian facility got a large government order to supply recombinant human insulin worth Rs460 crore over a three-year period. The capitalization of this plant means that the revenues earned by it will now be booked as income and expenses and interest on loans to build the plant will also be charged.



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The Biocon management said in a conference call that they expect annually to incur about $18 million as depreciation and $30 million as fixed costs and interest costs. Once its revenues ramp up—as the facility gets approval from more countries and supplies pick up—these costs will be spread over a larger base and it will contribute to profits. Till then, it may pull down profitability as this figure represents about a third of its annualized profit before tax. Overall, the company seems confident that its existing businesses will continue to deliver growth, sustain margins and even improve them in the biosimilar business. While investors will keep one eye on its current performamce, licensing income and new revenue streams, their main attention will be on the major launches it is working towards. Progress on those fronts is what investors will keep looking for. Its share rose on Wednesday as its results were better than estimates, and trade at about 30 times annualized FY17 earnings per share.

The company's application for marketing a proposed biosimilar Trastuzumab has been accepted for review by the US Food and Drug Administration. Also, an application for Insulin Glargine has been accepted for review by the European Medicines Agency. Both are in collaboration with Mylan Inc. While a launch will take time, success on either of these fronts should prove to be a rich feather in its market cap.