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Biosimilars, research key drivers for Biocon

Weak sentiments, rich valuations will weigh on the scrip in near term

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The clearance of key facilities in Bengaluru by the European drug regulator last week should ease Biocon's concerns on the regulatory front. The clearance will pave the way for future launches.

The company's foray into the European market is progressing well with partner Mylan launching its oncology drug Trastuzumab and insulin Glargine in Europe. The company is expected to launch another oncology product, Pegfilgrastim, by the second half of FY20. Both the products have been already launched in the US market. The Street is awaiting the launch of Glargine in the US to drive growth. The company recently received approval for the launch of Trastuzumab in Canada and is expanding its biosimilar basket in the emerging markets as well.

Hence, it is these launches and progress in the launched portfolio that is being keenly watched by the Street, notably at a time when other pharmaceutical peers are facing competition for their generic portfolio in the developed markets as the US. It was the biologics and research services business that has helped the company clock a 31 per cent year-on-year growth in the March quarter despite some softness in the formulations business. The two segments accounted for about two-thirds of Biocon revenues.

The research services business also holds promise,



given the pricing pressure and competition being faced by pharma majors, which increases the need for cost controls and outsourcing.

Analysts said biosimilar launches in the developed and the emerging markets, along with Syngene, are the key levers.

The stock, however, has seen a 28 per cent correction since its highs this year. Analysts attribute the weakness due to the regulatory overhang faced by the sector as well as rich valuations the stock is trading at. The increased investments and R&D cost are likely to weigh on margins and, in turn, earnings growth, said analysts at Edelweiss Research. Analysts at Axis Securities say growth will continue but margins will stabilize in FY20 before expanding again in FY21. However, many others feel that after the launches in the second half of FY20, margins will expand significantly. Hence, corrections offer an opportunity for investors with a long-term investment horizon.