

Biocon beats recession

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Industry experts forecast a business environment recovery only in 2010. But Biocon's first quarter results indicate a quicker upsurge.

Withstanding the economic downturn, Biocon, the Indian biotechnology leader, has performed strongly in the first quarter of the current financial year. The 20th leading global biotech company surprised the market with an unexpected upsurge of 83 percent. This year, the revenue shot to a high of Rs 505 crore in Q1 from Rs 277 crore recorded last year during the same period. Fiscal year 2009 poses one of the most challenging years for Biocon, where foreign currency volatility has made it difficult to manage a sharp depreciating rupee, resulting in a large Market-to-Market (MTM) losses. But considering the last fiscal as a year of learning and reckoning, Biocon is back on the growth track ready to grow aggressively in 2009-10.



Analysis

Biocon's Q1 consolidated revenues stood at Rs 505 crore including the business from its German subsidiary, AxiCorp. It has been a year since the German company came on board as Biocon's subsidiary company, and during this short time, the company has delivered a significant value of Rs 190 crore of the total revenue, which did not figure in last year's financials. AxiCorp is a distribution business with a radically different operating parameters; therefore, it is a top line contributor with minimal addition to bottom line. It will add to bottom line when Biocon's insulin gets marketing authorization in Europe. The company expects this to take place over the next 18-24 months. Registration process

has already started in Europe where it is conducting clinical trials, both phase I and phase III.

In terms of its EBITDA performance, Biocon has grown robustly. This has increased substantially over the last one year to Rs 111 crore, and to exclude AxiCorp, it has actually delivered at over 40 percent profit after tax (PAT). It had to take a huge hit in the first quarter of last year, when Biocon hardly was able to declare a PAT of Rs 15 crore, on account of MTM losses. In this year's first quarter, PAT increased to Rs 58 crore, thus registering a huge jump of 283 percent. During 2008-09, Biocon experienced sharp losses and decline in profit. However, the sudden upswing in business revenue has boosted the confidence of the company and its shareholders.

The market share of the company also increased during the period. Some of its key operational areas, like oncology and diabetic product segment have seen an upsurge. The company is also expanding its network coverage. Last year, it took a giant step towards consolidating its presence in Gulf Cooperation Council (GCC) markets. Its joint venture in Abu Dhabi, NeoBiocon, launched Abraxane in the UAE market for breast cancer treatment.

Commenting on the results, Dr Kiran Mazumdar Shaw, CMD, Biocon says, "Biocon's Q1'10 performance has delivered robust growth across all segments. This, we believe, is a trend that holds good prospects for the year ahead. We are making excellent progress on the research front with several programs approaching a licensing potential. We envisage that this will deliver excellent returns on our R&D investments."

Riding high on services

In the first quarter performance, the company's services sector, namely Syngene and Clinigene have shown strong performance. Syngene contributed significantly to its first quarter's services' numbers. Referring to the services' business performance Dr Shaw says, "Syngene had a particularly strong quarter demonstrating good returns on the investments made over the last two years. We expect our pre-clinical and biological services to expand our customer base and increase business revenues for future quarters." Syngene business grew from Rs 38 crore last fiscal to

Rs 58 crore in Q1 this fiscal. Similarly, Clinigene grew from Rs 6 crore to Rs 9 crore, and collectively registered a boisterous growth. Although PAT is a little muted, mainly due to the interest and depreciation components which Syngene had to carry, the company expects these investments to generate good growth and good return for Biocon. Large part of these investments were made to create a dedicated research facility for BMS (Bristol Myers Squibb). BMS contract services have contributed almost close to 30 percent of Syngene's numbers.

The company's healthcare business too have continued to build a strong portfolio of products for diabetology, oncology, nephrology, and cardiovascular diseases. The diabetology division has grown to an impressive 12th rank in ORG rankings from a starting position of 40 in 2005. Apart from bolstering its existing portfolio, it also had an impressive launch of Insugen 100 and an insulin analog, Basalog, which is a bio-generic insulin Glargine. Biocon's cardiology division has also been steadily building its legacy portfolio of statins and anti-hypertensives with an impressive range of other new launches. The oncotherapeutics division has continued to grow with BioMAb EGFR – a novel monoclonal antibody for the treatment of head and neck cancer, and has been further bolstered with the addition of Abraxane, (in-licensed from Abraxis Biosciences, theUS) and its supportive care portfolio of products like Granulocyte Colony-Stimulating Factor (GCSF) and Erythropoietin (EPO).

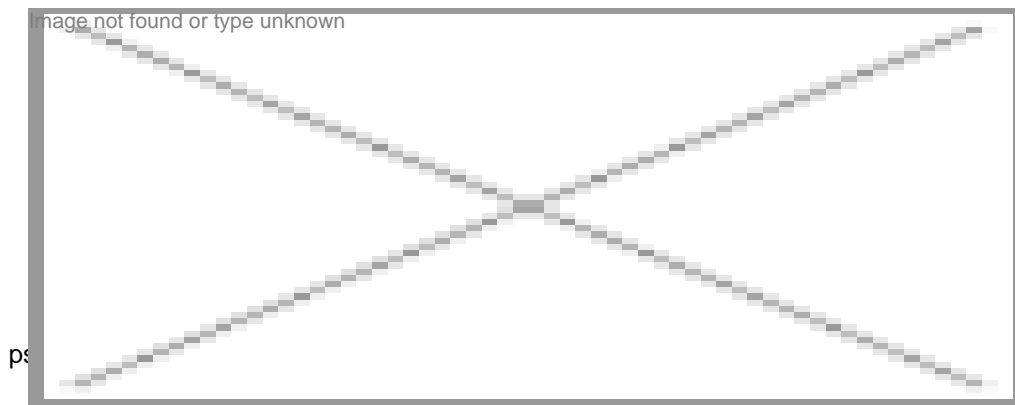
The company's proprietary product BioMAb-EGFR is currently being tried as first line combination therapy in late phase trials in NSCLC (in combination with carboplatin and docetaxel) and Glioma (in combination with temozolomide and radiation therapy). Recruitment for the NSCLC trial is continuing, while accrual for the Glioma trial has reached its target accrual. Other multiple clinical trials led by the global consortium of partners for the development of BioMAb-EGFR are either planned, ongoing or completed. These include trials in head and neck cancers, cervical cancer, esophageal cancer, diffuse intrinsic pontine glioma, pediatric glioma, pancreatic cancer and colorectal cancer.

Focus on biogenerics

Biocon is aggressively focussing on novel biologics and biogenerics. And like many other big biopharma players, Biocon too is betting on the novelty of upcoming US Biosimilar Bill. According to Dr Shaw, the Bill will open up a very lucrative opportunity for Biocon. She states, "Today, we have a very rich pipeline of biosimilars or biogeneric antibodies. And these are antibodies that are going to come off patent in the next few years. So it will give us continuous market opportunity in the short, medium and long term, which makes this whole opportunity very exciting." She continued, "Biocon is in a very unique position to take advantage of this whole thing. We have already started that process with our insulins and glargine. These products will enter that regulatory process quite soon. Our insulin is already there, and our glargine will soon follow. We'll have some special advantages because we have the infrastructure in place to quickly develop biogenerics for this kind of very challenging and highly regulated markets."

Strengthening its position in biogenerics, Biocon recently signed a pact with Mylan, the global generics pharma major. Biocon executed a definitive agreement with Mylan for an exclusive collaboration on the development, manufacturing, supply, commercialization of multiple and high value generic biologic compounds for the global marketplace. The deal between the two giants have brought together highly complementary capabilities that will significantly advance their efforts to secure a

leading position in the emerging generic biologics industry.



In terms of novel biologics, the company is also making a good progress. For instance, its oral insulin or IN-105 program is in phase III clinical development, and patient enrollment is showing a steady progress. The CD6 or the T1h program, which is making a good progress is expected to commence phase III trials in

In terms of its R&D spend, the company is likely to continue its

investment. Apart for the ones that Biocon is developing in collaboration with Mylan, especially in the insulin segment, and novel biologics and biogenerics, the former has also entered a potential licensing and partnering phase.

The sequel of developments and the first quarter results clearly show that the company has managed to recover from the MTM losses that it encountered last year. And on account of the very prudent and cautious approach, Biocon has taken to foreign exchange hedging.

Despite adverse economic climate, Biocon, fueled by a string of pipeline product, remains resilient, poised and confident for a heady growth, both in terms of revenue and profitability.

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