



IPO Report

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03rd Aug 21

Snapshot

Windlas Biotech is amongst the top five players in the domestic pharmaceutical formulations contract development and manufacturing organization (“CDMO”) industry in India in terms of revenue. Company provide a comprehensive range of CDMO services ranging from product discovery, product development, licensing and commercial manufacturing of generic products, including complex generics.

VALUATION

Company is bringing the issue at price band of Rs 448-460 per share at p/e multiple of 53 on post issue FY21 eps. Company being top five players in the domestic pharmaceutical formulations contract development and manufacturing organization has Innovative portfolio of complex generic products supported by robust R&D capabilities . Also, company has efficient and quality compliant manufacturing facilities with significant entry barriers with strong clientele. Hence looking after all above, we recommend “Subscribe” on issue .

Price Band (Rs./Share)	448-460
Opening date of the issue	04th August 2021
Closing Date of the issue	06th August 2021
No of shares pre issue	18207419 Eq Shares
Issue size (Rs. Cr)	Rs 401 Cr
Offer For Sale (No)	5142067 Eq Shares
Fresh Issue	Rs 165 Cr
Face Value (Rs/ share)	5
Bid Lot	30

BIDDING DETAILS

QIBs (Including Anchor)	50% of the offer (Approx 4364510 Shares)
Non-Institutional	15% of the offer (Approx. 1309354 Shares)
Retail	35% of the offer (Approx. 3055159 Shares)
Lead managers	DAM Capital , IIFL Securities
	SBI Capital Markets Ltd
Registrar to the issue	Link Intime India Pvt. Ltd.

WHAT WE LIKE

CDMO player with focus on the chronic therapeutic category

With increasing globalization and focus of large pharmaceutical players on cutting costs and optimizing operations, CDMOs have seen significant acceptance in the pharmaceutical industry internationally over the last few years. This increasing use of outsourcing by pharmaceutical companies for launch of new products is resulting in higher growth in the CDMO market and thereby, creating opportunities for Windlas Biotech. Company’s market share was approximately 1.5% in terms of revenue in the domestic formulations CDMO industry in Fiscal 2020.

Efficient and quality compliant manufacturing facilities with significant entry barriers

The high quality, cost-efficiency and complexity requirements from both R&D and manufacturing systems together pose a substantial competitive barrier for the unorganized domestic CDMO players. Further, historically, developing the expertise to comply with stringent regulatory audits and validation requirements has been a challenge for both pharmaceutical companies and CDMOs, and has been seen as a significant barrier to entry for many CDMOs, as facilities can take years to construct and properly validate. In addition, the Indian CDMO industry is highly fragmented with only few organized domestic CDMO players having WHO GMP compliant manufacturing capabilities along with sophisticated and modern technology and data analytics capabilities. Company’s manufacturing facilities are regularly inspected for compliance with current GMP and all of its manufacturing facilities are Schedule M of the Drugs and Cosmetic Act, 1940 (“Schedule M”) compliant. Further, company’s Dehradun Plant – I, Dehradun Plant – II and Dehradun Plant – IV are also compliant with standards set by WHO GMP.

Long-term relationships with Indian pharmaceutical companies

Windlas Biotech have developed relationships with leading Indian pharmaceutical companies, including Pfizer Limited, Sanofi India Limited, Cadila Healthcare Limited/ Zydus Healthcare Limited, Emcure Pharmaceuticals Limited, Eris Lifesciences Limited, Intas Pharmaceuticals Limited and Systopic Laboratories Private Limited. The number of domestic CDMO customers that company have catered to have increased from 97 in Fiscal 2019 to 143 in Fiscal 2020 and to 204 in Fiscal 2021. In Fiscal 2020, company provided CDMO services to seven of the top 10 Indian formulations pharmaceutical companies.



COMPANY BACKGROUND

In addition to providing services and products in the CDMO market, company also sell its own branded products in the trade generics and OTC markets as well as export generic products to several countries. Windlas Biotech have significant experience in developing and manufacturing generic fixed dose combinations. Its focus has currently been on launching new complex generic products in the chronic therapeutic category linked to lifestyle related disorders. Company's complex generic products portfolio primarily comprises fixed dosage combinations, fixed dosage plus modified release combinations, customized generics and chewable or dispersible, which was 69.44% in Fiscal 2019 and was 68.98% in Fiscal 2020 and was 68.48% in Fiscal 2021 of its total product portfolio.

CDMO Services and Products: Company's CDMO Services and Products SBV is focused on providing products and services across a diverse range of pharmaceutical and nutraceutical generic products for Indian and multinational pharmaceutical companies who market such products under their own brand names to the end users.

Domestic Trade Generics and OTC Brands: Company's Domestic Trade Generics and OTC Brands SBV consists of (i) trade generic products; and (ii) OTC brands, which include nutraceutical and health supplement products that do not require prescription and are marketed, distributed and promoted in India under company's own brand names through online and offline channels and majorly manufactured by company. Trade generic products are generic medicines, i.e. drugs for which the patents have expired, which are sold directly to the distributor and not marketed through medical representatives, and are typically used as a substitute for more expensive branded generic medicines in order to offer affordable medicines to patients by the retailers and pharmacies.

Exports: Company's Exports SBV is engaged in identifying high growth markets and opportunities in semi-regulated international markets as well as selected regulated markets, for developing and registering product applications to obtain marketing authorizations for generic medicines and health supplements and subsequently, sell such products to pharmaceutical companies and pharmacies in the respective markets.

Company currently own and operate four manufacturing facilities located at Dehradun in Uttarakhand. As of March 31, 2021, company's manufacturing facilities had an aggregate installed operating capacity of 7,063.83 million tablets/ capsules, 54.46 million pouch/ sachet and 61.08 million liquid bottles. In addition, company have recently received a license to manufacture certain APIs at its Dehradun Plant – I, which will help company with backward integration.

Company have three distinct SBVs: (i) CDMO Services and Products; (ii) Domestic Trade Generics and OTC Brands SBV; and (iii) Exports.

The following table sets forth the revenue from operations contributed by each of company's SBV and the percentage of its total revenue from operations for the periods indicated:

SBVs	Fiscal 2019		Fiscal 2020		Fiscal 2021	
	Revenue from operations (Rs Mn)	As % of total revenue from operations	Revenue from operations (Rs Mn)	As % of total revenue from operations	Revenue from operations (Rs Mn)	As % of total revenue from operations
CDMO services & products	2572.62	83.73%	2872.94	87.0%	3620.16	84.66%
Domestic Trade Generics & OTC Brands	271.66	8.84%	302.50	9.20%	437.17	10.22%
Exports	182.25	5.93%	106.88	3.25%	189.95	4.45%
Total*	3026.53	98.50%	3282.33	99.81%	4047.281	99.33%

*Total excludes sales of services.

Source:RHP



INVESTMENT RATIONALE

Consistent track record of financial performance

Windlas Biotech have been able to continue its growth despite the operating restrictions/ lockdown imposed on account of the COVID-19 pandemic, and company's revenue from operations increased by 30.03% from ₹ 3,288.52 million in Fiscal 2020 to ₹ 4,276.02 million in Fiscal 2021. EBITDA also increased by 60.35% from ₹ 340.00 million in Fiscal 2020 to ₹ 545.19 million in Fiscal 2021.

Windlas Biotech have received [ICRA]A (Stable) and [ICRA]A1 rating from ICRA. As of March 31, 2021, company's Total Debt/ Equity ratio was 0.16, and ROCE was 20.23%. Company have consistently experienced an improvement in its PAT from 4.65% in Fiscal 2019 to 8.70% in Fiscal 2021, on account of cost rationalization strategies, increased focus on complex generic products in the chronic therapeutic category.

Long-term relationships with Indian pharmaceutical companies

As result, company have a history of high customer retention and as of December 31, 2020, company have been associated with (i) Systopic Laboratories Private Limited for 19 years and four months; (ii) Win-Medicare Private Limited for approximately 19 years; (iii) Eris Lifesciences Limited for approximately 12 years; (iv) Intas Pharmaceuticals Limited for 11 years and eight months; (v) Lincoln Pharmaceuticals Limited for 11 years; and (vi) Cadila Healthcare Limited/ Zydus Healthcare Limited for nine years and five months. Company is also the exclusive supplier of certain products to Wallace Pharmaceuticals Private Limited, Intas Pharmaceuticals Limited, Systopic Laboratories Private Limited, Vestige Marketing Private Limited and Lincoln Pharmaceuticals Limited.

Innovative portfolio of complex generic products supported by robust R&D capabilities

Windlas Biotech use its own R&D resources to develop, optimize and standardize its formulation and manufacturing process, and conduct the required stability testing as well as conduct clinical studies through qualified third party contract research organizations to obtain the requisite regulatory licenses required to manufacture such complex generic products. for improving patient benefit, company developed (i) chocolate flavored chewable tablets of microencapsulated iron and vitamin tablets; (ii) dispersible tablets, such as Ivermectin and Clonazepam; and (iii) sustained release products, such as, Rabeprozole Sodium, Glimepiride and combinations that replace several pills with one pill in a 'multi-drug therapy'. Further, in relation to 'first-to-launch' generic products, company launched Vildagliptin within two days of its patent expiry. In addition, in relation to the drug and device combination products, company recently launched a lung therapy food supplement and telemedicine support for respiratory wellness in India under the brand PulmoHeal™ in partnership with a United States oncology company, which is an anti-inflammatory nutraceutical health supplement approved by the Food Safety and Standards Authority of India.

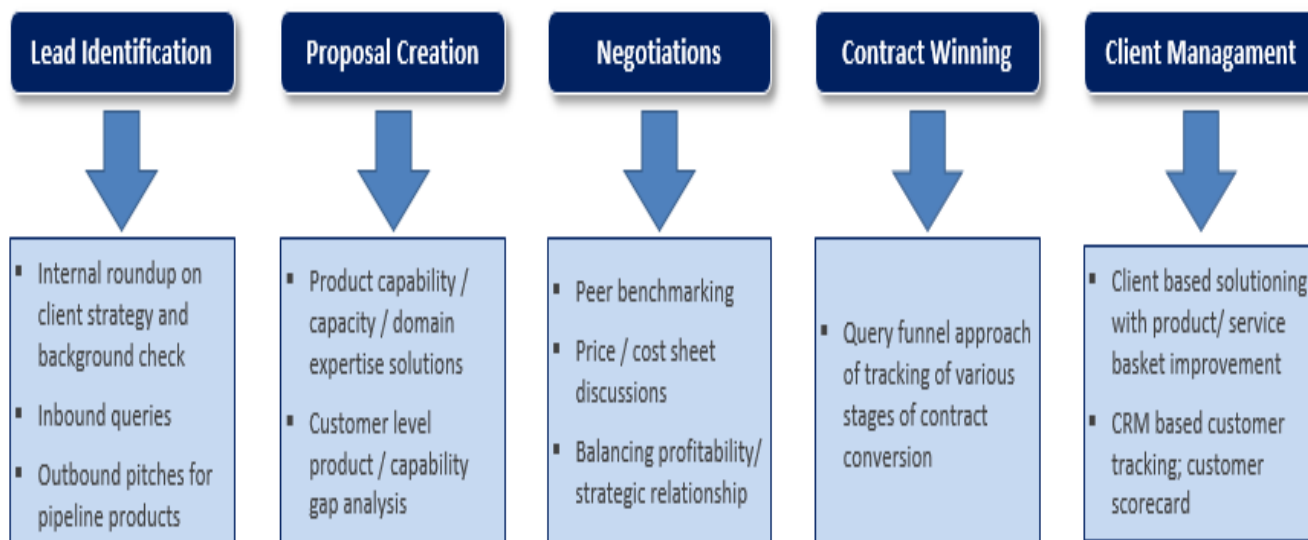
Focus on the chronic therapeutic category

Chronic therapeutics remains company's key focus area and revenue from the sale of products in the chronic segment (including sub-chronic) consist of 51.20%, 46.83% and 59.55% of company's total revenue from operations in Fiscals 2019, 2020 and 2021, respectively. Further, this segment is expected to see a higher growth compared to acute therapeutic segment, and is projected to grow at a CAGR of 16% to 18%, while the acute segment is projected to grow at a CAGR of 11% to 13% between Fiscal 2020 to Fiscal 2025. In addition, the chronic segment typically provides for higher margins in comparison to the acute segment. Company's number of products in the chronic segment (including sub-chronic) have increased from 554 in Fiscal 2019 to 624 in Fiscal 2020 and were 920 in Fiscal 2021.



COMPANY'S END TO END PROCESS

Client Acquisition and Relationship Management



Source : RHP

OBJECTS OF ISSUE

Company proposes to utilise the Net Proceeds towards funding of the following objects:

1. Purchase of equipment required for (i) capacity expansion of company's existing facility at Dehradun Plant – IV; and (ii) addition of injectables dosage capability at company's existing facility at Dehradun Plant-II;
2. Funding incremental working capital requirements of company;
3. Repayment/prepayment of certain of company's borrowings

RISKS

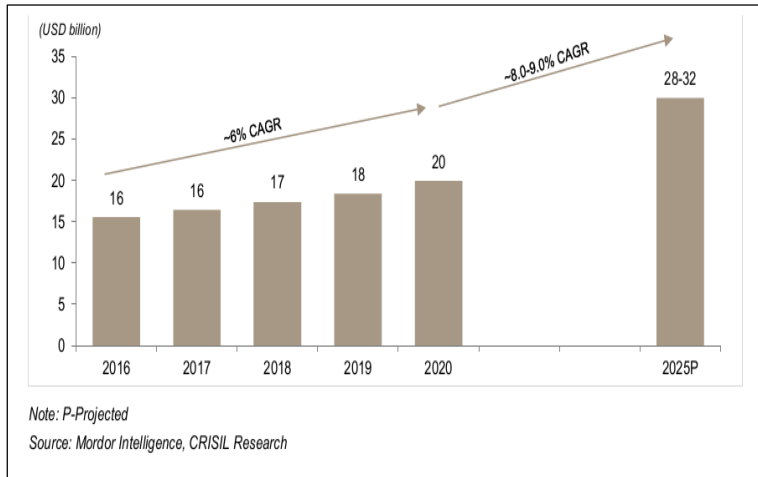
The domestic formulations industry is highly fragmented in terms of both, number of manufacturers and products, with 300 to 400 organised players and approximately 15,000 unorganised players. Contract manufacturing is also characterized by high fragmentation and competition, with large number of organized and unorganized players. As a result, the bargaining power of contract manufacturing players is lowered owing to high competition. The key players in domestic formulations CDMO segment include, Akums Drugs and Pharmaceuticals, Synokem Pharmaceuticals, Theon Pharmaceuticals, Innova Captab and Tirupati Medicare . In addition, in Europe and Asia, there is a large number of privately owned, dedicated outsourcing companies that serve only their local or national markets. Also, large pharmaceutical companies have been seeking to divest portions of their manufacturing capacity, and any such divested businesses may increase competition in CDMO industry.

Source:RHP

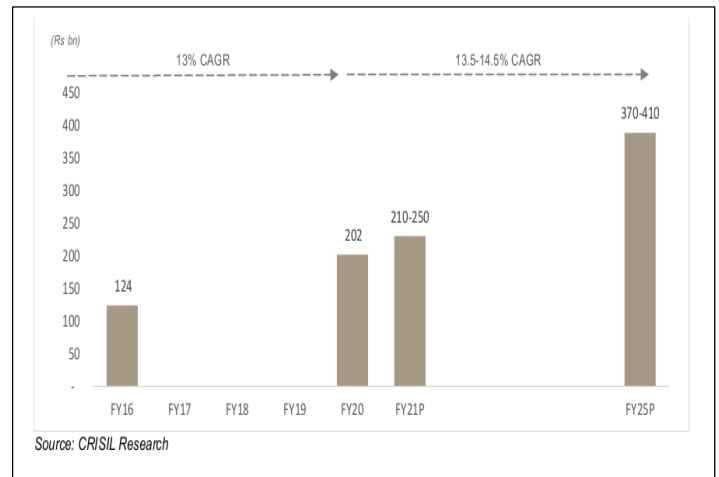


INDUSTRY OVERVIEW

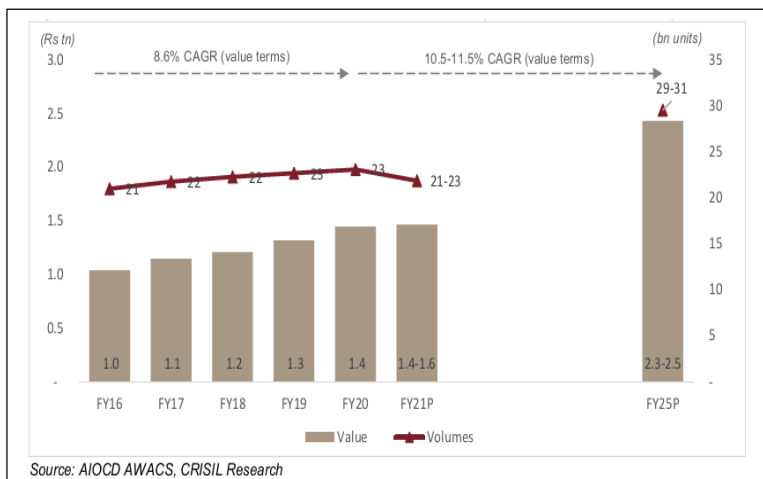
Review and outlook on global formulations outsourcing market



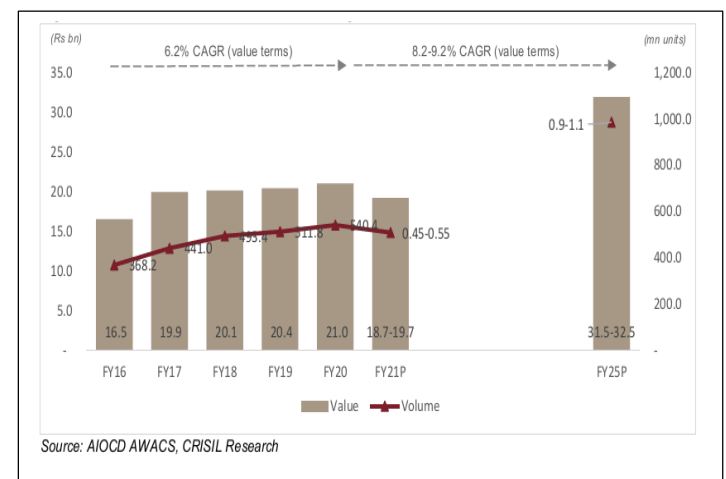
Review and outlook on domestic formulations CDMO market



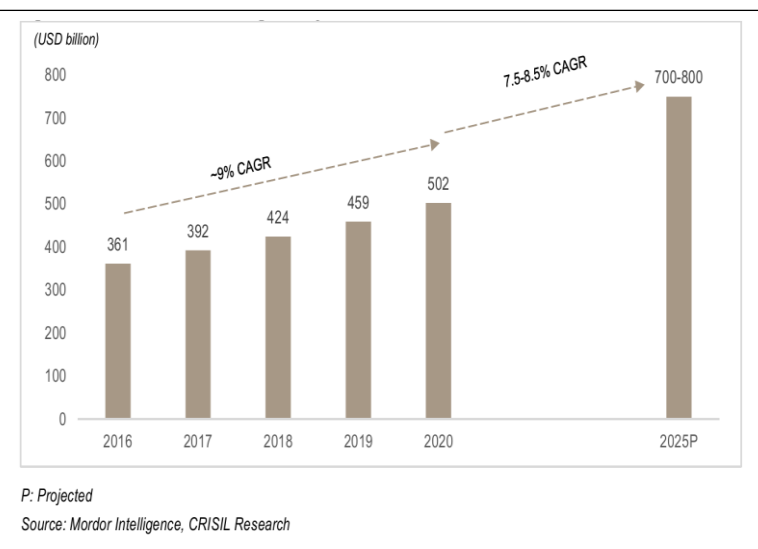
Trend and Outlook on domestic formulations demand (in value & Vol terms)



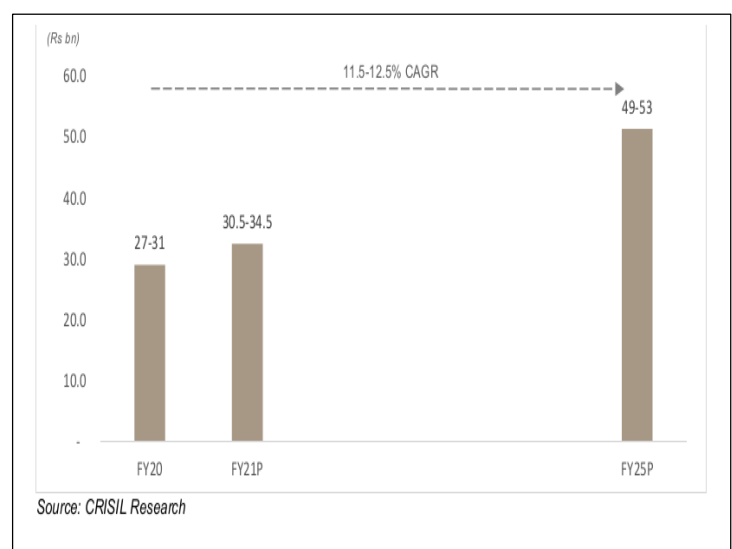
Review and outlook on Indian trade generics market



Review and outlook on global injectables market



Review and outlook on domestic injectables CDMO industry



Source:RHP


(Rs in Mn)

Financials	FY21	FY20	FY19
Total Revenue (A)	4276.02	3288.52	3072.67
Total Expenditure (B)	3729.10	2873.86	2687.17
EBIDTA	546.92	414.66	385.50
EBIDTA Margin	12.79	12.61	12.55
Other Income	30.93	24.87	42.58
Depreciation	129.65	92.93	105.91
EBIT	448.20	346.60	322.17
Interest	12.90	25.26	48.38
PBT	435.30	321.34	273.79
E/O Items	-216.17	0.00	495.45
PBT	219.13	321.34	769.24
Sh of Profit in Associates	-1.73	-74.66	-7.67
PBT	217.40	246.68	761.57
Tax	61.70	84.55	122.93
PAT	155.70	162.13	638.64
NPM	3.64	4.93	20.78
ROE %	7.82	7.73	32.99
EPS	12.14	12.64	49.81
Eq Cap	64.11	64.11	64.11
Net Worth	1,991.19	2,096.59	1,935.85

PEERS ANALYSIS

Following is peer group analysis:

Key financials (FY20)	Operating Income (Rs Mn)	Operating Profit Margin (%)	Net Profit (Rs Million)	Net Profit Margin (%)	ROCE	Asset turnover ratio (times)	Debt –Eq ratio (times)
Akums Drugs & Pharmaceuticals Ltd	24,142	7.2%	436	1.8%	12.7%	2.5	0.3
Synokem Pharmaceuticals Ltd	4,780	13.4%	435	9.1%	26.8%	4.9	0.3
Theon Pharmaceuticals Ltd	4,225	9.1%	433	10.2%	31.0%	3.6	0.1
Innova Captab Ltd	3,702	13.2%	259	7.0%	24.6%	3.1	0.5
Windlas Biotech Ltd	3,289	12.4%	225	6.8%	14.4%	2.5	0.1
Tirupati Medicare Ltd	2,343	7.0%	190	8.1%	10.1%	1.8	0.2

Source: RHP



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