Windlas Biotech

Rating: SUBSCRIBE | Price Band: Rs448-460

August 5, 2021

IPO Note

IPO Fact Sheet

Opening Date:	August 4, 2021
Closing Date:	August 6, 2021
BRLMs:	SBI Capital Markets, DAM Capital, IIFL Securities
Issue Size:	Rs4.0bn
Numbers of Shares:	87,29,024
Face value:	Rs5
Bid lot:	30 Shares

Indicative Timetable

Activity	Date
Finalisation of Basis of Allotment:	Aug11, 2021
Refunds/Unblocking ASBA Fund	Aug12, 2021
Credit of equity shares to DP A/c	Aug13, 2021
Trading commences	Aug17, 2021

Issue Structure

QIB	50%
NIB	15%
Retail	35%

Issue Details

Pre-issue equity shares	1,82,07,419
Post-issue equity shares*	2,17,94,375
Post-issue Market Cap (RsCrs)*	1,002.5
Post-issue Market Cap (RsCrs)#	976.4

** Upper Band / # Lower Band*

Object of the Issue

Capacity expansion atDehradun Plant IV,
To finance incremental working capita need,
Repayment/prepayment of borrowings,
Other general corporate purposes.

Shareholding Pattern

(%)	Pre-Issue	Post-Issue
Promoters	78.00%	65.16%
Public	22.00%	34.84%

Surajit Pal
surajitpal@plindia.com | 91-22-66322259

Akshaya Shinde
akshayashinde@plndia.com |

Direct play on CMO offers alternative opportunity for investors

We recommend 'SUBSCRIBE' to the IPO of Windlas Biotech Ltd. for listing gains. Windlas Biotech is amongst top five players in contract development and manufacturing organization (CDMO/CMO) segment with long list of large clientele from India formulations market. A two-decade old company with experience in manufacturing (solid/ liquid) multiple dosage offers a comprehensive range of CDMO services in India. Over time Windlas evolved as key CDMO players on the back of its 1) presence in Chronic products, 2) knowledge in R&D of process engineering, 3) wide customer base, 4) focus on Trade Generics & OTC Brands in India, 5) entry into injectable segment and 6) strong financial performance with experienced management. It owns four plants at Dehradun with an aggregate installed capacity of 7bn tabs/caps, 55m pouch/sachet and 61m liquid bottles as on Mar'21.

With increasing risk in regulatory, forex and logistics we expect India formulations to be preferred choice of investment destination. Being a CMO supplier to leading domestic players, Windlas is assured of good order volume for India formulations market. Besides, its presence in manufacturing of trade generics will make it indispensable for online pharma retailers. Conventional players are also interested to make it big in upcoming generic market. We expect that, there could be a higher preference for investors with lower risk appetite and steady returns compared to its peers i.e. Suven Pharma and Dishaman Cabogen.

Key Positives about Windlas Biotech: 1) All plants adhere to Schedule M and WHO GMP guidelines. Its Plant-IV is under the process of remediation of US FDA approval, 2) Its CDMO services have focused on fast growing Chronic therapeutic segment with a significant manufacturing experience and 3) Built good long term relationship with domestic pharmaceutical companies.

Valuations: Windlas has an advantage to expand in cash-cow business like CMO of established brands along with growing business in trade generic segment. With distress in economy, we expect more demand and revenues from trade generic segment where operational efficiency will help CMO maintain margins as compared to traditional manufacturers. Considering its foray in injectable, there will be bigger opportunities poised for revenue growth, headline margins and earnings in near term. This has led to its valuation of PE 53.2x of FY21 earnings, as projected sales from healthy order books are likely to be realized in FY23E. Recommend 'SUBSCRIBE' for listing gains.

Key Risks to the Issue:

- Regulatory restrictions: failures of regulatory requirement can largely impact the business.
- Inability of improving current lower margins (due to lower pricing) will remain a concern going forward.
- Industry competition and high dependence on existing CDMO customers.

Windlas Biotech

Windlas Biotech is domestic pharmaceutical formulations company, engaged in CDMO. The company ranks amongst the top five players in India in terms of revenue. Company manufactures both solid as well as liquid pharmaceutical dosage forms with more than two decades of experience. With specialized capabilities company provides comprehensive range of CDMO services ranging from product discovery, product development, licensing and commercial manufacturing of generic products (including complex generics) in compliance with current Good Manufacturing Practices. In addition, company sells its own branded products in the trade generics and OTC markets. Company also exports generic products to several countries and its export contribution was 3.9% of total revenue in FY21. According to CRISIL's report, company holds ~1.5% market share in terms of revenue in the domestic formulations CDMO industry, during the FY20.

At present, company owns four manufacturing facilities situated at Dehradun in Uttarakhand with an aggregate installed capacity of 7,063.83 mn tablets/ capsules, 54.46 mn pouch/sachet and 61.08 mn liquid bottles. Recently Dehradun Plant I has received a license to manufacture certain APIs which will help company in its backward integration. Despite COVID-19 pandemic challenges like limited availability of labour, logistics and supply chain constraints and limited capacity utilization levels in April and May 2020, company's financials have shown improved growth for the period.

Offer Details

Exhibit 1: Offer Details

Offer Period	Opens On: 4th August, 2021 Closes On: 6thAuguste, 2021
Issue Details	Fresh Issue of Rs1.65bn
Issue Size	Rs4.0bn
Price Band	Rs448-460
Bid Lot	30 Shares
QIB	Not more than 50% of net offer
NIB	Not less than 15% of the Net Offer
Retail	Not less than 35% of the Net Offer
BRLM	SBI Capital Markets, DAM Capital, IIFL Securities
Registrar	Link Intime India Pvt. Ltd.
Listings	BSE & NSE

Source: Company, PL

Exhibit 2: Object of the Issue

Objects	Amount (RsMn)
Purchase of equipment required for capacity expansion at Dehradun Plant IV & Plant II	500
Funding incremental working capital requirements	476
Repayment/prepayment of certain of our borrowings	200
General corporate purposes (25% of net proceedings)	1003

Source: Company, PL

Key Business Verticals

CDMO Services and Products SBV: The vertical is focused on providing products and services in various range of pharmaceutical and nutraceutical generic products for Indian and MNC companies, in India. In FY21, this segment has accounted for 84.66% of total revenue from operations. Most of the customers of the company are in early drug development process that provides them long term opportunities through the clinical phase and into commercial manufacturing. Company has developed relationship with various leading Indian pharma companies, including Pfizer Ltd, Sanofi India Ltd, Cadila Healthcare, Emcure, Eris Lifesciences, Intas Pharmaceuticals and Systopic Laboratories.

Domestic Trade Generics and over-the-counter: The trade generics products and OTC brands includes products such as nutraceutical and health supplement which does not required prescription and are marketed, distributed and promoted in India under company's own brand name. This segment of the company accounted for 9.2% of total revenue and it has grown at a CAGR of 26.9% from Rs 271.7 mn in FY19 to Rs 437.2 mn in FY21.

Export: Company 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. The export segment of the company is currently at growing stage & looks at its geographic expansion for the growth. The Exports SBV has accounted for 4.45% of our total revenue in FY21.

Exhibit 3: Details manufacturing facilities as of Mar'21.

Manufacturing Facility	Product Capabilities			Approvals
	Tablets/ Capsules (mn)	Pouch/ Sachet (mn)	Liquid Bottles (mn)	
Dehradun Plant – I	772.12	22.43	23.27	Adheres to WHO GMP and Schedule M guidelines
Dehradun Plant – II	4,277.15	20.39	37.81	Adheres to WHO GMP and Schedule M guidelines
Dehradun Plant – III	992.33	-	-	Adheres to Schedule M guidelines
Dehradun Plant – IV	1,022.24	11.64	-	Adheres to WHO GMP and Schedule M guidelines. US FDA approval is currently under remediation
Capacity Utilisation	**39.2%**	**4.4%**	**39.5%**	**For 204 active customers**

Source: Company, PL

Exhibit 4: Major events and milestones

Year	Event
2021	Approval of Scheme of Amalgamation of our erstwhile subsidiary, Windlas Healthcare, with and into Company
2018	Launched first product in the United States from the Dehradun Plant – IV situated at plot no. 183 and 192, Mohabewala Industrial Area, Dehradun 248 110, Commenced operations at Dehradun Plant – III situated at plot no. 39, Pharmacity, Selaqui, Dehradun 248197
2017	Revenues crossed ₹3,000 million for the FY 2016-17
2015	Investment of ₹750 million from Tano India Private Equity Fund II
2014	Received first USFDA inspection clearance for the WHC Plant, Revenues crossed ₹2,000 million for the FY 2013-14, Commenced operations at Dehradun Plant – II situated at khasra no. 141 to 143 and 145, Mohabewala Industrial Area, Dehradun
2010	Revenues crossed ₹1,000 million for the FY 2009-10
2009	Commenced operations at Dehradun Plant – IV situated at plot no. 183 and 192, Mohabewala Industrial Area, Dehradun 248 11
	Commenced operations at Dehradun Plant – I situated at 40/1, Mohabewala Industrial Area, Dehradun and initiated commercial production

Source: Company, PL

Key Attributes of Windlas Biotech Ltd.

Chronic therapeutic category based focused CDMO player in Indian: The increasing globalization and large players focusing on outsourcing business mainly for cost optimization, CDMOs have seen significant acceptance in pharmaceutical industry across the globe. In the domestic market rate of outsourcing of development and manufacturing of new products have been increased to 13% compare to 8.6% in the last five years. The chronic therapeutic segment is growing faster with rapid changes in lifestyle and food habits mainly aided by higher disposable income as well as rising pollution levels. The segment is expected to grow at a CAGR of 16% to 18% between FY20 to FY25.

Majority of the therapies for the diseases in the chronic segment area involve multiple organs and systems, and are treated with 'multi-drug therapy' and hence it is a most focused area for company for its business. The 'multi-drug' therapy is required specialized teams and rapid prototyping capabilities to develop and manufacture such multi-drugs where company has significant experience in developing and manufacturing such fixed dose combinations which is an additional advantage for company to grow in the segment. Company has already launched few important products in the domestic market namely, Metformin and immediate release Gliptins, Teneligliptin and Vildagliptin, Rabeprazoleand Levosulpiride.

Complex generic product portfolio with superlative R&D and manufacturing capabilities: Company operates with its four manufacturing facilities compliant with standards set by WHO GMP, located at Dehradun in Uttarakhand with aggregate installed operating capacity of 7,063.83 million tablets/ capsules, 54.46 million pouch/sachet and 61.08 million liquid bottles. Company aims to improve cost-efficiencies and increase productivity through use of automation and waste minimization. Complex generic is an important area of business for the company. Complex generic products are generic products that have technical complexity in (i) manufacturing or handling of the active ingredient; or (ii) formulation; or (iii) route of delivery; or (iv) pairing with a device to make a drug-device combo. Company is predominantly focused on developing and launching new complex generic products largely related to the formulation manufacturing process and drug delivery. Company has recently launched a lung therapy food supplement and telemedicine support for respiratory wellness in India under the brand PulmoHealTM in partnership with a United States oncology company, which is approved by the Food Safety and Standards Authority of India.

Company uses its own R&D resources, a team of 40 experts to develop, optimize and standardize its formulation and manufacturing process and conduct the required testing in clinical studies. The R&D laboratories located at Dehradun Plant-I have recognized as an in-house R&D unit by the Department of Scientific and Industrial Research, Ministry of Science and Technology, Government of India. Company's R&D and innovation led capabilities focused on (i) creating novel formulations (ii) low cost 'first-to-launch' generic products (iii) new delivery mechanism with a diagnostic device to bring a 'novel therapy'. Company also looks at specific requirement like chocolate flavored chewable tablets, dispersible tablets and sustained release products.

Strong customer base and long-term relationship with leading pharmaceutical companies in India: The domestic formulations market is largely created by CDMOs and huge number of customers requires deeper product solutions around better products and patient compliance. Windlas Biotech is among the few players who offer wide range of CDMOs with customer-centric additive manufacturing solutions in pharma industry in India. Company believes that incremental outsourcing by pharmaceutical companies will boost the growth opportunities and help in expanding customer base through customized service offering in the future. Company's business development and R&D teams are focused on understanding the requirement of existing and prospective customers, especially in to technology driven competitive environment to develop good relationship.

Company has developed relationships with leading Indian pharmaceutical companies and invested in specialized services and equipment and dedicated infrastructure to support its customers' growing needs which helps in strengthen trust and engagement with customers. With the history of high customer retention and long-term CDMO agreements/contracts company derives major chunk of its revenue from such agreements. Company's long-term relationships and ongoing active engagements with customers allow it to plan its capital expenditure, enhance its ability to benefit from increasing economies of scale with stronger purchasing power for raw materials and a lower cost base which ensures the future sustainability of growth and profitability of the business.

Focus on the Domestic Trade Generics and OTC Brands SBV: Trade generic products are generic medicines i.e. drugs for which the patents have expired, which are sold directly to the distributor & not marketed through medical representatives. The Domestic Trade Generics and OTC Brands SBV segment accounted for 10.2% of total revenue from operations in FY21. Company is focused on distribution, marketing and promotion of it trade generics products and OTC brands under its own brand name majorly to satisfy unmet need of semi-urban and rural locations of India. Distribution channel of the company includes more than 703 stockists and distributors as of Mar'21 from 618 stockists and distributors in Mar'19, spread across (15 states) relatively smaller towns and villages in the semi-urban and rural parts of India. Company also plans to expand its geographical reach by adding new stockists locations.

In India trade generics industry is expected to grow at a CAGR of 8.2% to 9.2% in the next five years on account of Government initiatives and awareness for low cost trade generics and is expected to reach at Rs 31.5bn to Rs 32.5bn by FY25. Further, Government of India has introduced 'Jan Aushadhi Kendras' under the Pradhan Mantri Bhartiya Janaushadhi Pariyojana ("PMBJP") scheme to sell low-cost, unbranded, but quality medicines to all citizens. Company has recently commenced participating in competitive tender process for supply of its products to various government agencies and has received nine tenders, as of 31st March, 2021. Along with domestic market company is also focusing on less-developed regulatory markets include Africa, Latin America, Asia, the Middle East and the rest of Europe comprising Russia and Ukraine with low generic penetration opportunities.

Entering into injectable business and looking for strategic alliances: The domestic injectables CDMO industry is expected to reach ~ Rs 50 bn by FY25 and the segment is expected to account for 13%-14% of domestic formulations CDMO market. The domestic injectables CDMO market is expected to grow at CAGR of 11%-12% in next three to four years on account of growth in chronic therapeutic areas. The margin for contract manufacturers in the injectables segment is more robust as there are fixed contracts for the development and manufacturing of the drugs and there are no selling and general costs for the contract manufacturers. In addition, India is a preferred outsourcing destination for injectables and has potential injectable contract manufacturing players with regulatory approved facilities capable of exporting to developed markets. Company is intended to invest Rs 500mn of proceedings towards capex for capacity expansion of Plant IV at Dehradun and to set up an injectable dosage capability at its Plant II with focus on specializing in developing liquid vials and lyophilized vials to achieve higher margins in the future.

Company also intend to augment its organic growth by pursuing selective acquisitions and strategic alliances that provide it access to better infrastructure, high-value technological and operational capabilities, industry knowledge, technology expertise and geographical reach and allow to expand its product offerings and customer base. expanding through the inorganic route is beneficial for the CDMOs as it increases their customer base and projects as well as provides an opportunity to cross sell. The company is certainly prejudiced that such an acquisitions would support its long-term strategy, particularly in gaining technical expertise, bolstering its competitive position and will provide greater scale to grow its earnings and increase shareholder value.

Strong track record of operational and financial performance along with Experienced Promoters and senior management team: Large companies with outsourcing culture are leaning more towards CDMO partners who can support them in the business process through their discovery and development services. The long-term CDMO agreements and customer relationships have minimized the exposure of payment defaults by customers, and resulted in predictable and stable cash flows. Company is confident about its consistent growth in terms of revenues and profitability. In 9MFY21, company's total revenue was Rs3,208 mn and EBITDA was Rs434mn which is parallel to FY20 revenue and EBITDA. It has been observed that company was able to continue to grow despite the operating restrictions/ lockdown imposed on account of the COVID-19 pandemic. Company's revenue from operations has increased by 30.0% and EBITDA also increased by 31.9% in FY21 as against its FY20 financial numbers. Companies Debt/ Equity ratio was 0.15 and ROCE was 18.2% as of Mar'21. Moreover, company consistently experienced an improvement in its profitability ratios.

Mr. Ashok Kumar Windlass is Chairman of the Confederation of Indian Industries - Uttarakhand State Council and has experience of more than 20 years in the manufacturing and pharmaceutical business in India. Promoter and Managing Director Mr. Hitesh Windlass, plays a significant role in driving the technical operations, quality, R&D, manufacturing strategy and financial strategy of the group, while Manoj Kumar Windlass, Promoter and Joint Managing Director, plays

a significant role in driving the product portfolio decisions and overall commercial operations including business development, supply chain and procurement.

Most of the senior management team including experienced senior executives have been with company for past 10 years, and hence their extensive industry experience enables company to anticipate and address market trends, manage and grow its operations, maintain and leverage customer relationships and respond to changes in customer preferences. Company's employee base has been growing consistently over the years and we had 954 permanent employees, as of Dec'20. As one of the leading CDMO player, company has represented a significant competitive advantage in attracting and retaining high-quality scientists required to successfully differentiate its service and product offerings into the business.

Exhibit 5: Details manufacturing facilities as of Dec'20.

Manufacturing Facility	Product Capabilities			Approvals
	Tablets/ Capsules (mn)	Pouch/ Sachet (mn)	Liquid Bottles (mn)	
Dehradun Plant – I	772.12	22.43	23.27	Adheres to WHO GMP and Schedule M guidelines
Dehradun Plant – II	4,277.15	20.39	37.81	Adheres to WHO GMP and Schedule M guidelines
Dehradun Plant – III	992.33	-	-	Adheres to Schedule M guidelines
Dehradun Plant – IV	1,022.24	11.64	-	Adheres to WHO GMP and Schedule M guidelines. US FDA approval is currently under remediation
Capacity Utilisation	**39.88%**	**4.48%**	**46.28%**	**For 143 active customers**

Source: Company, PL

Exhibit 6: Major events and milestones

Year	Event
2021	Approval of Scheme of Amalgamation of our erstwhile subsidiary, Windlas Healthcare, with and into Company
2018	Launched first product in the United States from the Dehradun Plant – IV situated at plot no. 183 and 192, Mohabewala Industrial Area, Dehradun 248 110, Commenced operations at Dehradun Plant – III situated at plot no. 39, Pharmacity, Selaqui, Dehradun 248197
2017	Revenues crossed ₹3,000 million for the FY 2016-17
2015	Investment of ₹750 million from Tano India Private Equity Fund II
2014	Received first USFDA inspection clearance for the WHC Plant, Revenues crossed ₹2,000 million for the FY 2013-14, Commenced operations at Dehradun Plant – II situated at khasra no. 141 to 143 and 145, Mohabewala Industrial Area, Dehradun
2010	Revenues crossed ₹1,000 million for the FY 2009-10
2009	Commenced operations at Dehradun Plant – IV situated at plot no. 183 and 192, Mohabewala Industrial Area, Dehradun 248 11
	Commenced operations at Dehradun Plant – I situated at 40/1, Mohabewala Industrial Area, Dehradun and initiated commercial production

Source: Company, PL

Impact of Covid - 19

With respect to COVID-19 outbreak in March'20, company did not face significant impact of pandemic on its regular business operations as company was able to operate its manufacturing facilities and able to provide essential services to its customers while global impact of outbreak was rapidly evolving.

Company implemented safety protocols to ensure safety and well-being of its employees and have instituted a work-from-home policy for employees who can perform their job functions offsite. Company also implemented social distancing requirements and other measures to allow manufacturing and other personnel essential to production to continue work within its manufacturing facilities.

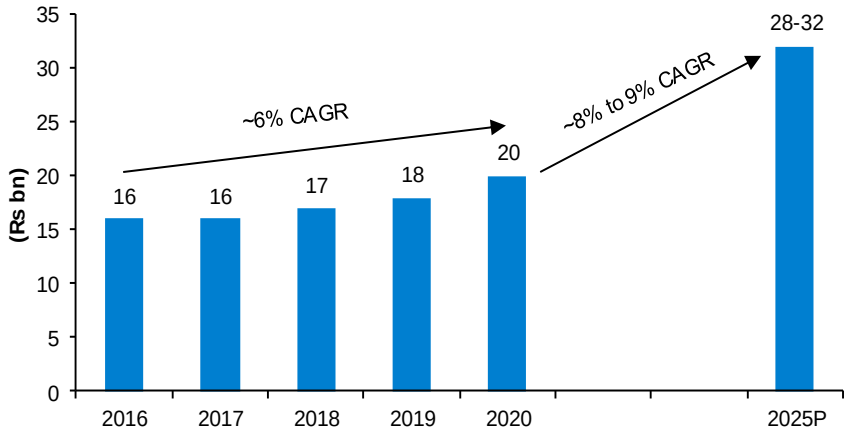
Company assess the impact of COVID-19 on regular intervals as operations of company are depend on future developments regarding to COVID-19 which are highly uncertain and cannot be accurately predicted and may possibly have greater economic impact on local, regional, national and international markets. Company will continue to assess the potential impact of the next wave of COVID-19 pandemic on its business, financial condition, and results of operations.

Industry Overview

Global pharmaceuticals outsourcing industry

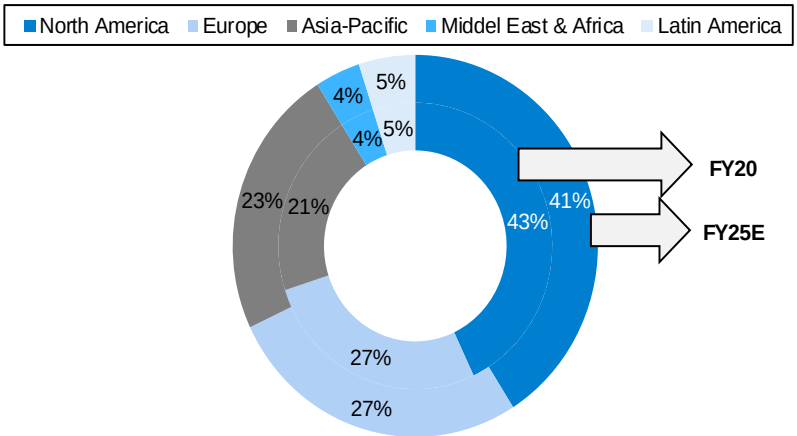
Increasing globalisation and focus of large players on cost competitive business model, Contract Development and Manufacturing Organisations ("CDMOs") have received significant acceptance and also emerged as a viable model for the pharmaceutical industry globally. Cost-cutting, chasing innovation, gaining access to specialized knowledge and technology, and increasing speed and agility are some of the significant factors encouraging the pharma companies to expand the level of formulation development outsourcing. The Global formulations outsourcing market is expected to grow at ~ 8.5% CAGR over the next five years and to reach USD28bn to USD32bn by 2025.

Exhibit 7: Review and outlook on global formulations outsourcing market



Source: Company, PL

Exhibit 8: Region-wise segmentation of global outsourcing market



Source: Company, PL

North America is one of the leading generics market in the world leads the formulation outsourcing market with ~43% of the total revenue (at ~USD 8.5 billion in 2020) as well. North America is followed by Europe and Asia-Pacific with market sizes of ~USD 6bn and ~USD 5bn, respectively. Growth in the North American

market particularly in the United States is primarily due to higher spends on R&D and large pharma companies partnering with specialised contract manufacturers.

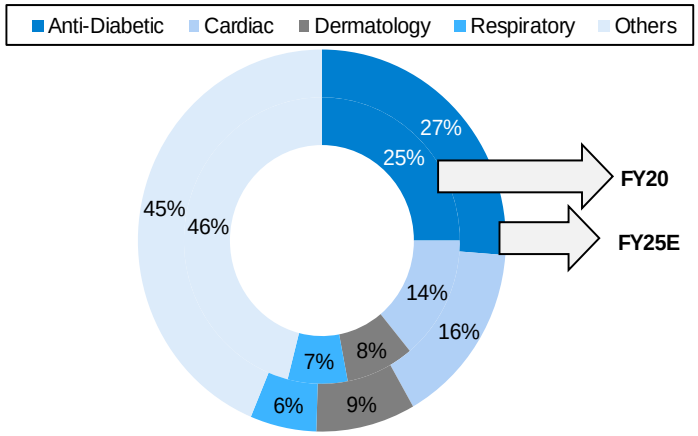
Oncology is the largest therapy segment under global formulations outsourcing segment. As the prevalence of cancer has increased across the globe, share of oncology has grown to ~USD 4bn in 2020 increasing from ~USD 3bn in 2016. Going ahead, Cardiology and respiratory segments are expected to record strong growth followed by oncology segment over the next five years as compared to other therapeutic segments. In terms of dosages, over the next five years outsourcing of development and manufacturing of solid dosages and liquids are estimated to have major share although injectable are expected to grow at faster rate compared to past few years.

Indian domestic formulations CDMO industry:

Contract manufacturing has picked up in India because of huge availability of skilled personnel, lower production costs and large number of WHO-GMP certified plants. Many of the pharmaceutical players in order to move to asset light model have been outsourcing R&D as well as manufacturing activities. Most of the CDMOs cater to the domestic industry and exports to semi-regulated markets. Going ahead, new product launches and volume growth in the chronic segment would support growth for the CMOs in the medium term.

Domestic formulations CDMO value stood at ~Rs 202bn in FY20. Indian formulation CDMO industry is expected to reach Rs 370 to 410bn by the year 2025. The key drivers for growth in the CDMO industry include growth of asset light pharmaceutical companies, increasing cost awareness, manufacturing efficiency, growing focus on product and packaging innovation. Chronic is the largest therapy segment account for largest share of the domestic formulations CDMO market. As the prevalence of chronic diseases have grown in the country, chronic diseases such as diabetes and cardiac disorders are more prevalent in Indian population.

Exhibit 9: Therapy-wise segmentation of domestic CDMO market



Source: Company, PL

Competition Analysis

Domestic formulations CDMO industry in India is highly fragmented industry with few organized players and many small unorganized players. Domestic formulations CDMO players in line with the Indian pharmaceutical industry operate out of geographical clusters. Some of the notable clusters are Gujrat, Himachal Pradesh and Uttarakhand.

CDMOs offer services ranging from preclinical and clinical development and commercial manufacturing to pharmaceutical companies. Pharmaceutical companies are continuously looking to mitigate the risks associated with the R&D and reduce the time to market for their products. CDMOs are therefore considered as an important and growing part of the pharmaceutical value chain. Players with differentiated technologies, offering complex manufacturing and having high barriers to entry and higher regulatory compliance enjoy higher growth and higher margins as compared to their peers. The profitability for the players depends on the type of business operations they are in and as the domestic formulations CDMO industry is highly fragmented.

'In Licensing' CDMO operations: 'In Licensing' is the process by which intellectual property rights are transferred to the CDMO process by the licensor or the innovator under the agreed terms. The transfer of intellectual property rights can be related to a product or process. In domestic formulations CDMO industry usually licensor transfers the technology for development and manufacturing of the product. The profitability is restricted by scale of operation as CDMO players do not have the intellectual property rights.

Intellectual property owned CDMO operations: In this type of agreements the development costs of the product are borne by the CDMO players. CDMO players develop the molecule which is then commercialized and marketed by the drug marketer. CDMO players charge drug marketer the licensing fee and transfer fees plus profit. The profitability in this type of agreement is dependent on the scalability of the operations as intellectual property rights are with the CDMO player while risk with high capital in R&D can impact the profitability of the players.

CDMO with allied activities: Majority of the CDMO players are going in to the allied business of branded and traded generics as well as exports. Many players are seeking DCGI approval to sell branded and traded generics in India. As India presents big opportunity for branded generics segments, CDMO players are foraying in to branded and traded generics business. This business is operated with owned marketing and distribution networks which includes sales agents, stockiest and retailers. The expertise in development and manufacturing support the CDMO players with increased revenue tractions.

The contract manufacturing market is highly competitive and players have limited bargaining power with customers. Another factor causing increased competition is that a number of companies in Asia, particularly India, have been entering the sectors and have begun obtaining approval from the US FDA for their specific manufacturing plants which helps to the CDMO players to serve the requirements of their customers.

Valuation

Windlas being local player, has potential to have better margins and return ratios than higher risk-return matrix of traditional pharma companies with presence in exports markets. It has also keenly focused on its profitability and return ratios along with its core expansion strategy which ranks it ahead of traditional peers, With Dishman and Suven having similar business model, its growth and quality of earnings has been better due to lowest risk in comparison to its peers. Windlas is nicely balanced between small branded players with limited presence and high-end pharma companies with strong IPR. At upper price band, company is attractively valued at 53.2x FY21 PE for better financial performance, in comparison to its peers. We recommend 'SUBSCRIBE' for listing gains.

Exhibit 10: Key financial ratios of peer group (FY21)

Company Name	Revenue (Rs bn)	EBITDA (Rs bn)	PAT (Rs bn)	EBITDA Margin	Net profit Margin
Dishman Carbogen	19.1	2.7	-1.7	14.1%	-9.6%
Divi's Labs	69.7	28.6	19.8	41.0%	28.4%
Suven Pharma	10.1	3.8	3.1	37.6%	30.7%
Windlas Biotech	**4.3**	**0.5**	**0.4**	**12.8%**	**8.7%**

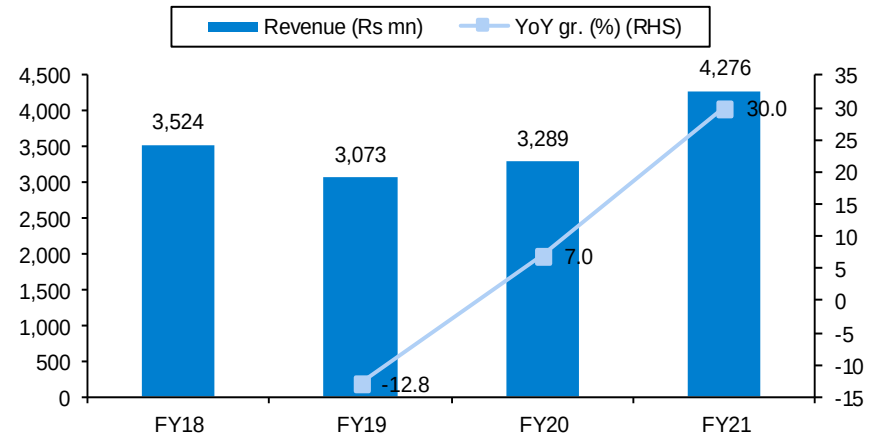
3 year average growth rate

Company Name	Revenue Growth	EBITDA Growth	ROA	ROCE	PE(x)
DishmanCarbogen	4.8%	-9.6%	-2.0	-2.89	-
Divi's Labs	22.7%	34.2%	20.6	23.9	48.5
Suven Pharma	n/a	n/a	25.0	33.4	40.9
Windlas Biotech	**8.1%**	**12.5%**	**29.2**	**18.2**	**53.2**

Source: Company, Bloomberg, PL

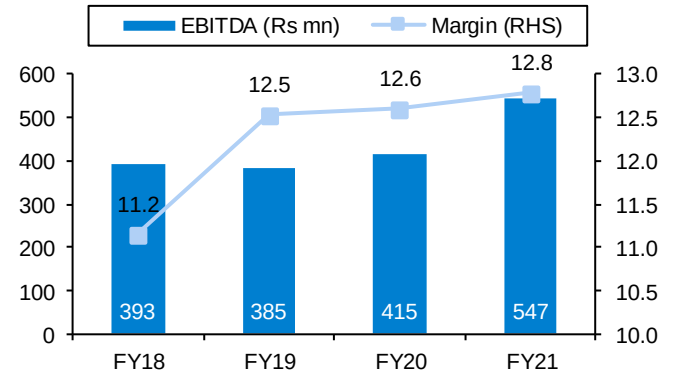
Operational and Financial Metrics

Exhibit 11: Revenue



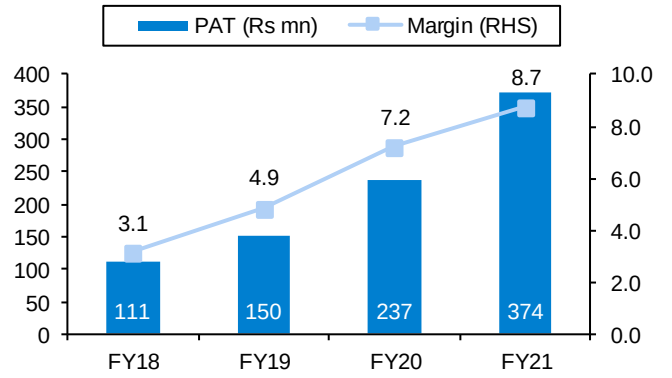
Source: Company, PL

Exhibit 12: Margin expansion



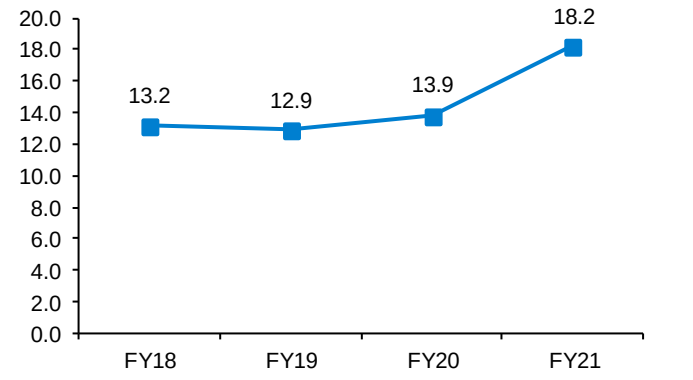
Source: Company, PL

Exhibit 13: PAT



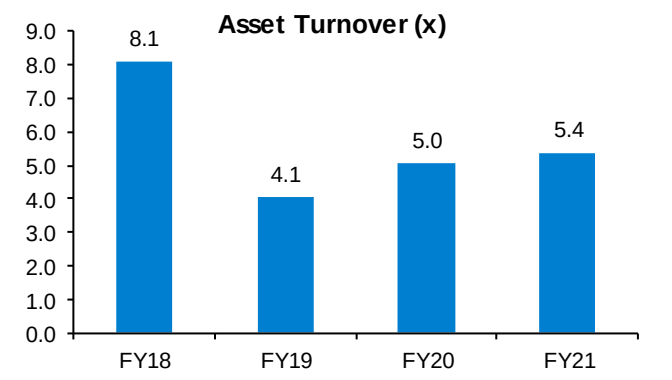
Source: Company, PL

Exhibit 14: ROCE



Source: Company, PL

Exhibit 15: Asset Turnover



Source: Company, PL

Financials

Exhibit 16: Income Statement (Rsmn)

Y/E March	2018	2019	2020	2021
Net Sales	**3,524**	**3,073**	**3,289**	**4,276**
Change (%)		*-12.8*	*7.0*	*30.0*
Material Consumed	2,371	1,919	2,116	2,744
Gross Profit	**1,153**	**1,153**	**1,173**	**1,532**
Gross Margin %	*32.7*	*37.5*	*35.7*	*35.8*
Operating expenses	760	768	758	985
EBITDA	**393**	**385**	**415**	**547**
Change (%)		*-2.1*	*7.7*	*31.9*
Margin (%)	*11.16*	*12.53*	*12.61*	*12.79*
Depreciation	173	106	93	130
Int. and Fin. Ch.	65	48	25	13
Other Non-recurring Inc.	42	43	25	31
PBT	**197**	**273**	**321**	**435**
Change (%)		*38.6*	*17.5*	*35.5*
Margin (%)	*5.6*	*8.9*	*9.8*	*10.2*
Tax	87	123	85	62
Tax Rate (%)	43.9	45.0	26.3	14.2
Adjusted PAT	**111**	**150**	**237**	**374**
Change (%)		*35.8*	*57.4*	*57.8*
Margin (%)	*3.1*	*4.9*	*7.2*	*8.7*
Exceptional Item	0	495	0	-217.4
Loss from discontinued operations	1.24	-7.67	-74.66	-1.37
Reported PAT	**110**	**-337**	**311**	**592**

Source: Company, PL

Exhibit 17: Balance Sheet (Rsmn)

Y/E March	2018	2019	2020	2021
Property, Plant and Equipment	768	597	661	925
Right of Use Asset	63	42	36	30
Goodwill	0	0	0	0
Intangible Assets	455	4	6	5
Capital work in progress	105	46	0	0
Financial Assets				
Loans	25	21	22	30
Other	9	1020	947	0
Other Non-Current Assets	35	48	33	29
Assets for Current Tax	0	0	0	0
Current Assets				
Inventories	351	190	493	415
Financial Assets				
Investments	224	209	223	231
Trade receivables	666	617	639	794
Cash and cash equivalents	77	132	184	311
Other Financial Assets	9	1	10	44
Other Current Assets	114	55	131	148
Total Assets	**2,899**	**2,982**	**3,385**	**2,961**
Equity				
Equity share Capital	56	64	64	64
Other Equity	1,195	1,872	2,032	1,927
Non Controlling Interest	0	0	0	0
Total Networth	**1,250**	**1,936**	**2,097**	**1,991**
Non Current Liabilities				
Financial Liabilities				
Borrowings	181	58	12	8
Lease liabilities	19	15	10	5
Provision	14.61	10.57	11.94	14
Other non-current liabilities	2.3	0	1	9
Current Liabilities				
Financial Liabilities				
Borrowings	239	171	209	294
Trade and other Payables	846	579	831	399
Lease liabilities	4	4	5	5
Other Financial liabilities	249	137	189	206
Short term Provisions	53	43	4	3
Other Current liabilities	40	28	15	27
Current Tax Liab	0	0	0	0
Total Equity and Liabilities	**2,899**	**2,982**	**3,385**	**2,961**

Source: Company, PL

Exhibit 18: Cash Flow (Rsmn)

Y/E March	2018	2019	2020	2021
OP/(loss) before Tax	199	761	247	217
Depreciation and Amort.	173	106	93	130
Interest Paid	62	46	24	13
Others	13	-492	56	220
Direct Taxes Paid	-51	-121	-134	-65
Incr in WC	-48	-115	-35	-400
CF from Operations	**349**	**186**	**250**	**115**
Increase in FA	-252	-89	-153	-58
Change in Right of use of assets	0	0	0	0
Purchase of Investments	0	0	0	0
Others	142	36	10	-144
CF from Investment Activity	**-110**	**-53**	**-143**	**-202**
Issue of Shares	0	48	0	-13
Change in lease liabilities	-4	-4	-4	-5
Borrowings/(Repayments)	-200	-57	-25	39
Interest paid	-57	-50	-25	-14
Dividend paid	0	0	0	0
Others	0	0	0	0
CF from Finance. Activity	**-261**	**-62**	**-54**	**8**
Incr/Decr of Cash	**-22**	**71**	**52**	**-80**
Add: Opening Balance	94	72	129	181
Closing Balance	**72**	**143**	**181**	**101**

Source: Company, PL

Exhibit 19: Key Ratios

Y/E March	2018	2019	2020	2021
Basic (INR)				
EPS	7.1	38.6	8.9	8.6
BV/Share	44.8	60.4	65.4	62.1
DPS	0	0	0	0
Payout %	0	0	0	0
Valuation (x)				
P/E	65.2	11.9	51.7	53.2
EV/Sales	0.9	1.0	0.9	0.7
EV/EBITDA	8.4	7.9	7.2	5.4
P/BV	10.3	7.6	7.0	7.4
Dividend Yield (%)	0	0	0	0
Return Ratios (%)				
RoE	8.9	-17.8	11.3	29.7
RoCE	13.2	12.9	13.9	18.2
Working Capital Ratios				
Debtor (Days)	69	73	71	68
Inventory (Days)	36	23	55	35
Creditor (Days)	88	69	92	34
Asset Turnover (x)	8.1	4.1	5.0	5.4
Leverage Ratio				
Debt/Equity (x)	0.3	0.1	0.1	0.2

Source: Company, PL

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	BUY	1,139	980
2	Cadila Healthcare	Accumulate	696	637
3	Cipla	Accumulate	960	969
4	Dr. Lal PathLabs	Sell	2,626	3,889
5	Dr. Reddy's Laboratories	Accumulate	5,114	4,843
6	Eris Lifesciences	BUY	909	768
7	Glenmark Pharmaceuticals	Reduce	509	648
8	Indoco Remedies	BUY	401	445
9	Ipca Laboratories	Accumulate	2,163	2,099
10	Lupin	Accumulate	1,314	1,141
11	Sun Pharmaceutical Industries	BUY	922	774
12	Thyrocare Technologies	UR	-	1,343

PL's Recommendation Nomenclature (Absolute Performance)

Buy : >15%
Accumulate : 5% to 15%
Hold : +5% to -5%
Reduce : -5% to -15%
Sell : < -15%
Not Rated (NR) : No specific call on the stock
Under Review (UR) : Rating likely to change shortly

ANALYST CERTIFICATION

(Indian Clients)

We/I, Mr. Surajit Pal- PGDBA, CFA, M.Com, Ms. Akshaya Shinde- MBA Finance Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

(US Clients)

The research analysts, with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is or will be directly related to the specific recommendation or views expressed in this research report.

DISCLAIMER

Indian Clients

Prabhudas Lilladher Pvt. Ltd, Mumbai, India (hereinafter referred to as "PL") is engaged in the business of Stock Broking, Portfolio Manager, Depository Participant and distribution for third party financial products. PL is a subsidiary of Prabhudas Lilladher Advisory Services Pvt Ltd. which has its various subsidiaries engaged in business of commodity broking, investment banking, financial services (margin funding) and distribution of third party financial/other products, details in respect of which are available at www.plindia.com.

This document has been prepared by the Research Division of PL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

PL may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

PL is in the process of applying for certificate of registration as Research Analyst under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

PL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.

PL or its research analysts or its associates or his relatives do not have any financial interest in the subject company.

PL or its research analysts or its associates or his relatives do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

PL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report.

PL or its associates might have received compensation from the subject company in the past twelve months.

PL or its associates might have managed or co-managed public offering of securities for the subject company in the past twelve months or mandated by the subject company for any other assignment in the past twelve months.

PL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.

PL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months

PL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report.

PL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. PL or its analysts did not receive any compensation or other benefits from the subject Company or third party in connection with the preparation of the research report. PL or its Research Analysts do not have any material conflict of interest at the time of publication of this report.

It is confirmed that Mr. Surajit Pal- PGDBA, CFA, M.Com, Ms. Akshaya Shinde- MBA Finance Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

The research analysts for this report has not served as an officer, director or employee of the subject company PL or its research analysts have not engaged in market making activity for the subject company

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

PL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

US Clients

This research report is a product of Prabhudas Lilladher Pvt. Ltd., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Prabhudas Lilladher Pvt. Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Prabhudas Lilladher Pvt. Ltd. has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.