Windlas Biotech Limited

Issue Opens	Wednesday, August 04, 2021
Issue Closes	Friday, August 06, 2021
Price Band (in Rs)	448/460
Bid Lot	30 shares and multiples thereafter

IPO UPDATE

Windlas Biotech Limited

Industry Overview: Indian domestic formulations CDMO industry

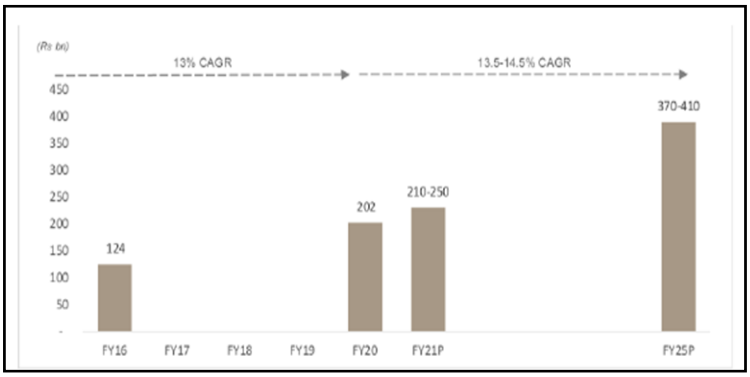
Contract manufacturing refers to the outsourcing of production activities to third-party vendors. Indian CDMO space has seen traction in the recent times with big pharmaceutical companies preferring to outsource R&D as well as manufacturing activities. Most CDMOs cater to the domestic industry and export to semi-regulated markets. Contract manufacturing is characterized by high fragmentation and competition, with large number of organized and unorganized players. Going ahead, new product launches and volume growth in the chronic segment would support growth for the CMOs in the medium term.

Pharmaceutical companies are increasingly outsourcing development and manufacturing of new products, and as a result the domestic formulations CDMO market has grown at a higher rate of ~13% compared to the growth rate of ~8.6% of the domestic formulations market (in terms of consumption) in the past five years. It is expected to continue this trend over the next five years from FY20-25E as well. Domestic formulations CDMO is projected to grow at approximately 14% CAGR while, domestic formulations segment is expected to grow at approximately 11% during the corresponding period. The growth in the market is expected to be driven by strong demand in generic formulations segment. Domestic formulations CDMO value stood at approximately Rs202bn in FY20. Indian formulation CDMO industry is expected to reach Rs370-410bn by 2025.

The key drivers for growth in the CDMO industry include growth of asset light pharmaceutical companies, increasing cost awareness and manufacturing efficiency, growing focus on product/packaging innovation, CDMO's enabling customer's end market aspirations through combination products and new dosages, increasing generics and institutionalization of pharmaceutical industry, end to end services, time to market, maintaining margins, regulatory changes and increasing economies of scale is shifting CDMO identity from 'supplier' to 'partner' status.

In FY20, 31% to 33% of the total domestic formulations market was catered by CDMO players, which is anticipated to grow to Rs370bn to Rs410bn by value by FY25. The trend is unequivocal evidence of the pharmaceutical industry leaning towards CDMO players. Further, a large number of customers require deeper product solutions around better products and patient compliance. In dosage terms, oral solids have dominated the domestic formulations CDMO industry and constituted ~70% share in FY20; it is expected to maintain this share over the next five years leading up to FY25. Injectables segment which constituted approximately 14% of the domestic formulations market is also expected to maintain strong growth over the next five years and maintain it share during the corresponding period.

Exhibit 1: Domestic Formulations CDMO Trend



Source: Red Herring Prospectus

SNAPSHOT		
Issue Opens	Wednesday, August 04, 2021	
Issue Closes	Friday, August 06, 2021	
Price Band (Rs)	448/460	
Bid Lot	30 shares and multiples thereafter	
Face Value	Rs5	
Listing	BSE & NSE	
Type of Issue	Fresh Issue & OFS	
Offer Size *(Rs Mn)*	**Fresh Issue**	1,650
	OFS	2,365
	Total	4,015
Implied Market Cap *(Rs Mn)	10,025	
P/E *(based on FY21 Earnings)****	64.39	

**Note: Implied Market Cap & P/E are calculated at upper price band of Rs460*

Issue Allocation	
Reservations	**% of Net Issue**
QIB	50
NIB	15
Retail	35
Total	**100**
Employee Reservation: NIL	

Object of the Offer

- To purchase equipment required for capacity expansion of the existing facility at Dehradun Plant IV.
- To finance incremental working capital requirements of the company.
- Repayment/prepayment of company's borrowings
- General corporate purposes

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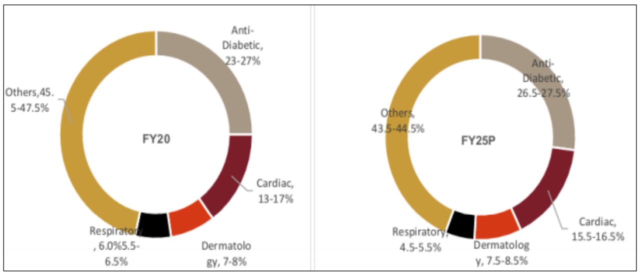
Industry Overview (contd.):

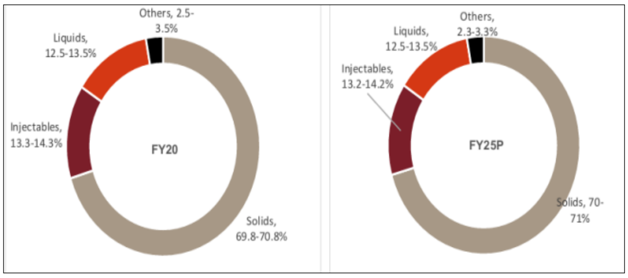
Chronic therapies to continue to account for a higher share of the domestic formulations CDMO market:
Anti-diabetic and cardiac therapies account for a major share of the domestic formulations CDMO industry. As the prevalence of chronic diseases have grown in the country, chronic diseases such as diabetes and cardiac disorders are more prevalent in Indian population. Anti-diabetics is estimated to have constituted approximately 25% share of the domestic formulations CDMO market in FY20 and is expected to account for approximately 27% share by FY25. Similarly, cardiac which is estimated to have constituted approximately 15% of the market share in FY20 is expected to grow to approximately 16% by FY25.

Exhibit 2: Therapeutic Breakup



Source: Red Herring Prospectus

Exhibit 03: Dosage Wise CDMO Breakup



Source: Red Herring Prospectus

Recent trends in Indian CDMO Industry

- Potential consolidation opportunity in fragmented CDMO space
- Strong tailwinds for larger and more organized players due to regulatory changes
- Impact of new Schedule M to be implemented in October 2021

Key growth drivers for the CDMO Industry

- Rising trend of outsourcing among the Indian pharmaceutical players
- Healthy demand-supply gap to aid IPM and in turn boost contract manufacturing segment business
- End to end service makes CDMOs key partner in pharmaceutical value chain
- Consolidation in Indian pharmaceutical industry
- Rising demand for generics

About the Company:

Windlas Biotech Limited (Windlas) is amongst the top five players in the domestic pharmaceutical formulations contract development and manufacturing organization (**CDMO**) industry in India in terms of revenue. With over 2 decades of experience in manufacturing both solid and liquid pharmaceutical dosage forms and significant experience in providing specialized capabilities, including, high potency, controlled substances and low-solubility, the company provides a 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 (**GMP**) with a focus on improved safety, efficacy and cost. In FY20, the market share was approximately 1.5% in terms of revenue in the domestic formulations CDMO industry. In addition to providing services and products in the CDMO market, the company also sells their own branded products in the trade generics and OTC markets as well as export generic products to several countries. Windlas currently owns and operate 4 manufacturing facilities located at Dehradun in Uttarakhand. In addition, the company has recently received a license to manufacture certain APIs at its Dehradun Plant-I, which will help them with backward integration. The R&D laboratories are located at Dehradun Plant-I.
Windlas has significant experience in developing and manufacturing generic fixed dose combinations. Their focus currently has been on launching new complex generic products in the chronic therapeutic category linked to lifestyle related disorders. Their 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 FY19 and 68.48% in FY21 of their total product portfolio. The complex generic products market has a high barrier to entry as these products are generally difficult to develop and require special know-how from the development and manufacturing perspective compared to conventional generic products. The company's business has grown organically, as reflected in a consistent increase in revenues and profitability, and their long-term CDMO service agreements with customer results in predictable and stable cash flows.

Please Turn Over

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Windlas Biotech Limited

Windlas has 3 distinct Strategic Business Verticals (SBVs):

⇒ CDMO Services and Products
⇒ Domestic Trade Generics and Over-the-Counter (OTC) brands
⇒ Exports

Strengths:

1. CDMO player with focus on the chronic therapeutic category
2. Innovative portfolio of complex generic products supported by robust R&D capabilities
3. Efficient and quality compliant manufacturing facilities with significant entry barriers
4. Long-term relationships with Indian pharmaceutical companies
5. Consistent track record of financial performance
6. Experienced Promoters and Senior Management with a professional and technically qualified team

Strategies:

1. Capitalize on expansion opportunities by leveraging our leadership position in the CDMO industry
2. Continue to grow the CDMO customer base
3. Expand the product portfolio and delivery systems by enhancing R&D and manufacturing capabilities
4. Focus on the Domestic Trade Generics and OTC Brands SBV and high growth export markets by capitalizing on industry opportunities
5. Foray into high growth injectables segment
6. Selectively pursue strategic investments and acquisitions

Financials:

On the financial performance front, the top line of the company is showing an uptrend, the total revenues for FY21 increased to Rs4,276mn from Rs3,289mn for FY20. PAT has slightly declined to Rs156mn from Rs162mn. Some volatility can be seen in the profitability margins of the issuer. Net margins have been affected due to the impairment of goodwill in FY21. The company has undertaken divestment (in FY19) and reacquisition (FY20) of its subsidiary, Windlas Healthcare and thus the company has few adjustments in its financials like impairment of goodwill, gain/loss in a joint venture, and associate company. The company does not have a formal dividend policy. Further, it has not declared dividends on the equity shares during the current FY and the last three FYs. It will follow a prudent dividend policy post listing based on its financial performance and future prospects.

Exhibit 4: Financial Snapshot

Revenues (Rs mn)	FY19	FY20	FY21
Sales	3,073	3,289	4,276
EBITDA	385	415	547
EBITDA Margin %	*12.5*	*12.6*	*12.8*
Net Profit After Tax	638	162	156
Net Profit Margin %	*20.8*	*4.9*	*3.6*
Earning Per Share	38.6	8.9	8.7
RoNW (%)	*9.0*	*8.0*	*18.2*

Source: RHP, Progressive Research

Risks and Concerns:

- The company depends on the success of its relationships with its CDMO customers, both domestic and international
- They propose to enter into the manufacture of injectables, which will be a new business for the company and if they are unable to establish themselves in this business segment, their business condition, results of operations and cash flows may be adversely affected.
- The business is working capital intensive
- Their manufacturing facilities are concentrated in a single region

Outlook and Recommendations:

Windlas Biotech is one of the top five formulation of CDMO companies in India with services from product discovery to product development, licensing, and commercial manufacturing of generic products including complex generics and supplying to marquee pharma clients such as Pfizer, Sanofi, Cadila, Emcure, Eris etc. Another key highlight is that the company has a strong and established international presence with robust exports. The company gets an edge over its peers as it maintains a high production capacity of its CDMO offerings. Besides being a domestic leader in the CDMO segment, Windlas Biotech boasts an innovative product portfolio comprising complex generic products. At the higher end of the price band, Windlas Biotech is priced at a P/E ratio of ~64 times FY21 EPS. The company's leadership position, strong revenue growth with positive growth triggers, makes it an ideal candidate for investments. We recommend a **Subscribe** to the IPO for investors with surplus cash reserve and apply purely for the long term.

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Registered Office Address:
Progressive Share Brokers Pvt. Ltd,
122-124, Laxmi Plaza, Laxmi Indl Estate,
New Link Rd, Andheri West,
Mumbai-400053;
www.progressiveshares.com | research@progressiveshares.com

Compliance Officer:
Mr. Shyam Agrawal,
Email Id: compliance@progressiveshares.com,
Contact No.:022-40777500.