

<b>Retail Research</b>	<b>IPO Note</b>
<b>Sector: Pharmaceutical Sector</b>	<b>Price Band (Rs): 705 - 741</b>
<b>4<sup>th</sup> August 2023</b>	<b>Recommendation: Subscribe for long term Horizon</b>

## Concord Biotech Limited

### Company Overview:

Concord Biotech is an India-based biopharma company, globally recognized for the expertise in developing and manufacturing fermentation-based APIs in the fields of immunosuppressants and oncology. According to the F&S Report of FY22, they held a significant market share of over 20% by volume, supplying to more than 70 countries, including major regulated markets such as the United States, Europe, Japan, and India. Their identified fermentation-based API products include mupirocin, sirolimus, tacrolimus, mycophenolate sodium, and cyclosporine. They ventured into the formulation business in India and emerging markets like Nepal, Mexico, Indonesia, Thailand, Ecuador, Kenya, Singapore, and Paraguay in 2016. Over time, they have further expanded their reach to include the United States.

### Key Highlights:

**Robust Product Portfolio:** As of March'23, the company has 23 API products. The company had filed 128 Drug Master Files (DMFs) across several countries for the APIs, including 20, 65 and 4, respectively, in the United States, Europe and Japan, as of June'23. In addition, they had obtained Certification of Suitability to the Monographs of the European Pharmacopoeia (CEPs) for 14 APIs as of March'23. In India, they market a portfolio of 27 brands across immunosuppressants, nephrology drugs, and anti-infective drugs for critical care. They also have 77 approved products for formulations as well.

**Manufacturing Facility:** As of March'23, they have 3 manufacturing facilities in Gujarat comprising API manufacturing facilities in Dholka and Limbasi, and a formulation manufacturing facility in Valthera. The total annual installed fermentation capacity for APIs is 1,250 m<sup>3</sup>. Dholka and Limbasi facilities have 41 blocks, and 387 reactors for flexible plant configuration. Valthera formulation facility has an annual installed production capacity of 801.64 million units, with dosage capability per shift of 0.45 million tablets, 0.36 million capsules, and 646.46 bottles of dry syrup.

**Customer base:** Customers: As of March'23, the Company has over 200 customers in 70+ countries for their APIs and formulations. They have also entered into long-term supply agreements with some customers. Some of the key API customers include Intas Pharmaceuticals Limited and Glenmark Pharmaceuticals Limited. The company has on average 8 years of relationships with top ten revenue customers as of FY23.

### Valuation:

**At CMP, the business is valued at a FY23 Post issue P/E multiple of 32.3 times at upper price band. The IPO looks fairly valued across various valuation parameters when compared with its close peers. Investors can SUBSCRIBE the issue for long term investment perspective.**

Issue Details	
Date of Opening	4 <sup>th</sup> August 23
Date of Closing	8 <sup>th</sup> August 23
Price Band (Rs)	705 – 741
Issue Size (Rs cr)	1,475 – 1,551
No. of shares	2,09,25,652
Face Value (Rs)	1
Post Issue Market Cap (Rs cr)	7,375 – 7,752
BRLMs	Kotak Mahindra Capital, Citi Group Global Market, Jefferies India
Registrar	Link Intime Private Limited
Bid Lot	20 shares and in multiple thereof
QIB shares	50%
Retail shares	35%
NIB (HNI) shares	15%
Employee Reservation	Upto 10,000 Equity shares
Employee Price Band (Rs)	635 - 671

Objects of Issue	
	(Rs Cr.)
Gross Proceed From OFS	1,551
(Less) Offer expenses in relation to the OFS*	-
Net Proceeds*	-

\*The net proceed will be received by the selling shareholders, in proportion to the offered shares sold by the respective selling shareholders as part of the offer.

Shareholding Pattern		
Pre Issue	No. of Shares	%
Promoter & Promoter Group	31,64,64,857	79.0
Public & Others	8,41,23,583	21.0
<b>Total</b>	<b>40,05,88,440</b>	<b>100.0</b>

Post Issue @Lower Price Band	No. of Shares	%
Promoter & Promoter Group	30,64,50,146	76.5
Public & Others	9,41,38,294	23.5
<b>Total</b>	<b>40,05,88,440</b>	<b>100.0</b>

Post Issue @Upper Price Band	No. of Shares	%
Promoter & Promoter Group	30,64,50,146	76.5
Public & Others	9,41,38,294	23.5
<b>Total</b>	<b>40,05,88,440</b>	<b>100.0</b>

Source: RHP, SSL Research

## Risk factors

- Any delay, interruption or reduction in the supply of the raw materials or the transportation of the raw materials or products may adversely impact the pricing and supply of the products and have an adverse effect on the business.
- Any manufacturing or quality control issues may damage the reputation, subject to regulatory action, and expose them to litigation or other liabilities, which could adversely affect the business, financial condition and results of operations.
- A slowdown or shutdown in the manufacturing or research and development operations, all located in Gujarat, India, could adversely affect the business, financial condition and results of operations.
- The company depends on a limited number of customers for a substantial portion of the revenues. Any significant reduction in demand for the products from such customers may adversely affect the business and results of operations.
- Any inability to accurately forecast demand for the products, managing of the inventory, and utilization of the manufacturing capacity optimally may have an adverse effect on the business, financial condition, results of operations, and cash flows.

## Growth strategy

- Continue to increase the API market share and further develop the portfolio of complex and niche APIs with high growth potential.
- Increase the presence of the existing formulations and expand into new formulations.
- Improve cost management and operational efficiencies.
- Grow the CDMO business.

## Revenue Break-up (Rs cr)

Particulars	FY21		FY22		FY23	
	Revenue (Rs cr)	% to Total	Revenue (Rs cr)	% to Total	Revenue (Rs cr)	% to Total
India	252.7	41.0%	337.4	47.3%	432.1	50.7%
America	159.8	25.9%	131.5	18.4%	147.3	17.3%
Rest of the World	204.5	33.2%	244.1	34.2%	273.8	32.1%
<b>Total</b>	<b>616.9</b>	<b>100.0%</b>	<b>712.9</b>	<b>100.0%</b>	<b>853.2</b>	<b>100.0%</b>

Source: RHP, SSL Research

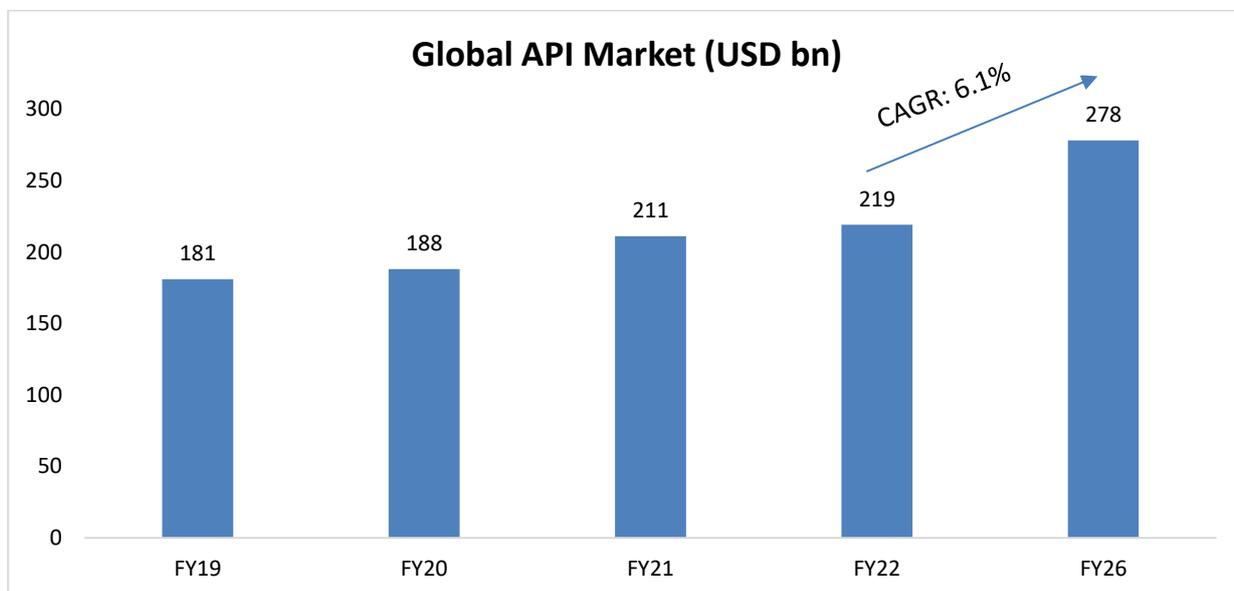
Particulars	FY21		FY22		FY23	
	Revenue (Rs cr)	% to Total	Revenue (Rs cr)	% to Total	Revenue (Rs cr)	% to Total
API	506.9	82.2%	574.9	80.6%	761.3	89.2%
Formulations	110.1	17.8%	138.0	19.4%	91.9	10.8%
<b>Total</b>	<b>616.9</b>	<b>100.0%</b>	<b>712.9</b>	<b>100.0%</b>	<b>853.2</b>	<b>100.0%</b>

Source: RHP, SSL Research

## Industry Overview

### Global API Market Size: High Drug Demand Will Continue to Drive Growth in the API Market

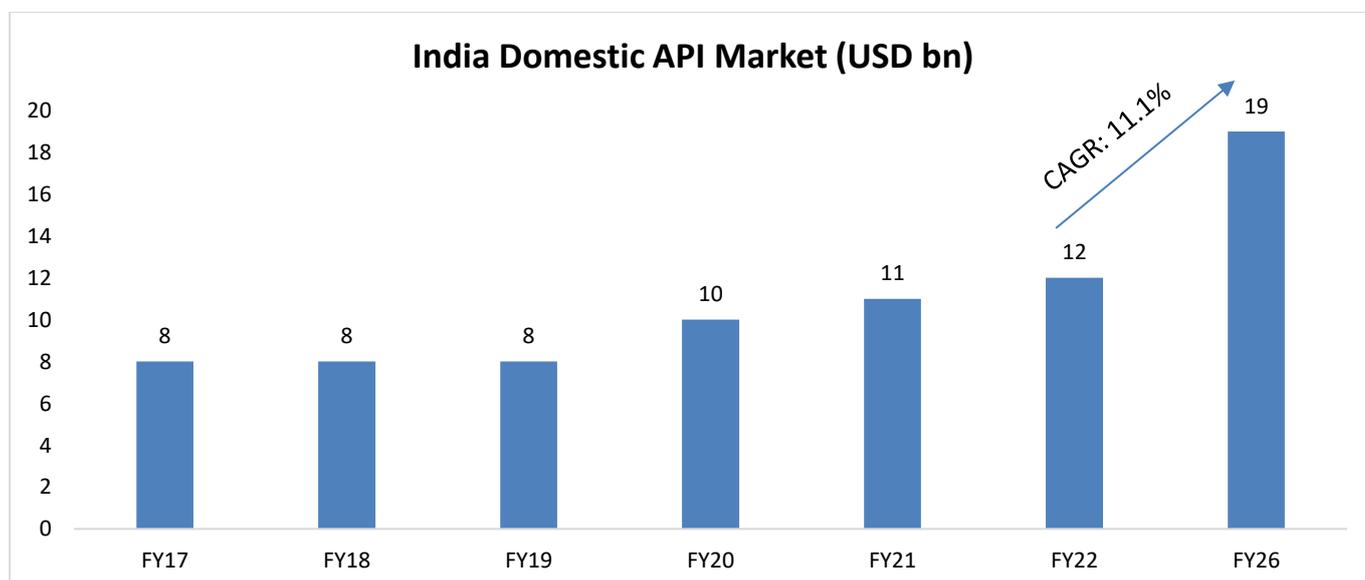
The global API market was valued at approximately USD 219 bn (Rs 18,157 bn) in FY22, which constitutes about 16% of the total pharmaceutical formulations market and is expected to reach approximately USD 278 bn (Rs 23,051 bn) by the year FY26, at a projected CAGR of 6.1% over the forecast period of FY22 to FY26. Of the total market, biological APIs accounted for 37% of the share in FY22, and small molecule drug APIs accounted for the remainder of 63% share.



Source: RHP, SSL Research

### India API Market

The total domestic India API market (APIs consumed for exported and domestically consumed formulations) is expected to grow at a CAGR of 11.1% between 2022 and 2026. The API consumption for domestic formulations is also expected to drive high demand in the next four to five years. This growth is in line with the overall growth of pharmaceutical drug consumption in the country. As disease patterns shift from acute to chronic and translate into high drug (and API) volume consumption, access to healthcare facilities and affordable medicine increases, and economic prosperity grows, the growth of the API industry is projected to follow suit.



Source: RHP, SSL Research

## Financial Snapshot

Concord Biotech Limited			
(Rs. Cr.)	Pre Issue	Post Issue	
	FY22	FY23	
Particulars		Price Band	
	741.0	705.0	741.0
<b>Net Sales</b>	712.9	853.2	853.2
Total Income	736.3	888.5	888.5
EBIDTA	269.6	345.2	345.2
PAT	174.9	240.1	240.1
Equity Share Capital	9.5	10.5	10.5
No of Equity Shares	9.5	10.5	10.5
Face Value	1.0	1.0	1.0
<b>EPS</b>	18.4	22.9	22.9
CMP	741.0	705.0	741.0
Cash and Bank	88.9	43.4	43.4
Debt	60.6	31.2	31.2
Market Cap	7,047.7	7,375.7	7,752.3
BV per share (Rs)	116.0	132.9	132.9
PE(x)	40.3	30.7	32.3
P/BV (x)	6.4	5.3	5.6
Enterprise Value	7,019.3	7,363.5	7,740.1
Mcap/Sales (x)	9.9	8.6	9.1
EV/Sales (x)	9.8	8.6	9.1
EV/EBIDTA (x)	26.0	21.3	22.4
EBITDA Margins (%)	37.8	40.5	40.5
Net Margins (%)	24.5	28.1	28.1
ROE (%)	16.6	19.3	19.3
ROCE (%)	21.6	25.3	25.3
Debt/Equity	0.1	0.0	0.0
Net worth	1,103.2	1,390.0	1,390.0

Source: RHP, SSL Research (Post Issue)

Year	FY20	FY21	FY22
Net Sales	616.9	712.9	853.17
EBITDA	327.1	269.6	345.2
Net Profit	234.9	174.9	240.08
EBITDA Margin (%)	53.0	37.8	40.5
Net Profit Margin (%)	38.1	24.5	28.1

Source: RHP, SSL Research

## Peer Comparison

	Concord Biotech Ltd	Divi's Laboratories Ltd	Suven Pharmaceuticals Ltd	Lauras Labs Ltd
CMP	741.0	3726.3	489.1	384.4
Sales (Rs cr)	853.2	7768.0	1340.0	5773.0
EBITDA (Rs cr)	345.2	2368.0	567.0	1482.0
Net Profit (Rs cr)	240.1	1823.0	411.0	760.0
M.Cap (Rs Cr)	7752.3	98921.6	12450.8	20703.1
EBITDA Margin (%)	40.5	30.5	42.3	25.7
PE(x)	32.3	54.3	30.3	36.7
RoE (%)	19.3	14.9	25.2	20.4
RoCE (%)	25.3	19.3	33.0	22.2

*(Source: RHP, SSL Research)*

*CMP as of 3<sup>rd</sup> August, 2023*

*The data is based on FY23 financial data*

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