Windlas Biotech Ltd

ICICI direct Research

Price Band ₹ 448-460

UNRATED

August 3, 2021

Incorporated in 2001, Windlas Biotech (WBL) is among the top five players in the domestic pharma formulations CDMO industry in India in terms of revenue with 1.5% market share. Apart from CDMO business (~85% of revenues), it also sells own branded products in the trade generics and OTC markets (10.2% of revenues) as well as exports (~4.3% of revenues) generic products to several countries. The company has four manufacturing facilities in Dehradun, Uttarakhand. Its manufacturing facilities had an aggregate installed operating capacity of 706.4 crore tablets/ capsules, 5.4 crore pouch/ sachet and 6.1 crore liquid bottles. All manufacturing facilities are Schedule M compliant while Dehradun Plant – I, Dehradun Plant – II and Dehradun Plant – IV are compliant with standards set by WHO GMP.

Leading player in fast growing CDMO market

With increasing globalisation and focus of large pharmaceutical players on cutting costs and optimising operations, CDMOs have seen significant acceptance in the pharmaceutical industry internationally over the last few years. The domestic formulations CDMO market has grown at a higher rate of ~13% compared to ~8.6% growth of the domestic formulations market (in terms of consumption) in the past five years. The company believe 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 it.

Strong customer base

WBL has developed multiyear relationships with leading Indian pharmaceutical companies, including Pfizer, Sanofi India, Cadila Healthcare, Emcure, Eris Life, Intas and Systopic Lab. WBL's number of domestic CDMO customers increased from 97 in FY19 to 143 to 204 in FY21. In FY20, it provided CDMO services to seven of the top 10 Indian formulations pharmaceutical companies.

Key risk & concerns

- Delay or/and termination of contract
- Regulatory concern – Failure to comply with quality standard
- Steep competition
- Contractual obligations

Priced at FY21 P/E of 26.8x on upper band

WBL is among top five players in the fast moving domestic formulations CMDO industry with a strong track record and multiyear contractual relations with leading domestic formulations companies. The company also has high asset turnover and return ratios. That said, we need more time and clarity to gauge the sustainability of asset turnover, return ratios and also progress towards strengthening of profitability ratios.

windlas

Particulars

Issue Details	
Issue Opens	4th Aug 2021
Issue Closes	6th Aug 2021
Issue Size (₹ crore)*	401.5
Fresh Issue	165.0
Price Band (₹)	₹ 448 - ₹ 460
No. of Shares on Offer (in crore)	0.9
QIB (%)	50
Retail (%)	35
Minimum lot size (no of shares)	30

* based on upper price band of ₹ 460

Shareholding Pattern (%)

	Pre-Issue	Post-Issue
Promoter Group	78.00	59.9
Investor	22.0	0.0
Public	0.0	40.1

Objective of issue ₹ crore

Objects of issue	₹ crore
Purchase of equipment for Dehradun Plant IV & Additional Injectables capability at Dehradun Plant II	50.0
Funding Working Capital Requirement	47.6
Repayment of borrowings	20.0
General Corporate Purposes	47.4
Fresh Issue	**165.0**
Offer for Sale*	**236.5**

**Upper Band*

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IPO Review

ICICI Securities – Retail Equity Research

Key Financial Summary

₹ crore	FY19	FY20	FY21	CAGR FY19-21 (%)
Total Revenues	311.5	331.3	430.7	17.6%
EBITDA	38.5	41.5	54.7	19.2%
EBITDA Margins (%)	12.4%	12.5%	12.7%	
Adjusted PAT	14.3	16.2	37.4	62.0%
EPS (₹)	6.6	7.4	17.2	
P/E (x)	70.2	61.8	26.8	
P/B (x)	2.4	2.2	2.3	
RoE (%)	7.4	7.7	18.8	
RoCE (%)	13.7	15.1	21.0	

Source: RHP, ICICI Direct Research

Company background

Windlas Biotech (WBL) is among the top five players in the domestic pharmaceutical formulations contract development and manufacturing organisation (CDMO) industry in India in terms of revenue with 1.5% market share in the domestic formulations CDMO industry (Source: Crisil report). With over two decades of experience in manufacturing both solid and liquid pharmaceutical dosage forms and significant experience in providing specialised capabilities, including high potency, controlled substances and low-solubility, it provides a comprehensive range of CDMO services ranging from product discovery, product development, licensing and commercial manufacturing of generic products, including complex generics. Apart from CDMO business, it also sells own branded products in the trade generics and OTC markets as well as exports generic products to several countries.

WBL has significant experience in developing and manufacturing generic fixed dose combinations. The company's complex generic products portfolio primarily comprises fixed dosage combinations, fixed dosage plus modified release combinations, customised generics and chewable or dispersible, which was 68.48% in FY21 of total product portfolio.

Business vertical

CDMO Services and Products -- CDMO services and products vertical 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. In FY21, this segment accounted for 84.66% of total revenue

CDMO customers rely on the company's customised formulation, development and manufacturing expertise to address the growing drug and therapy complexity, cost pressures and regulatory scrutiny. The company partners with many CDMO customers early in the drug development process, which provides an opportunity to continue to expand relationship as molecules progress through the clinical phase and into commercial manufacturing. This results in long-term relationships with customers and a recurring revenue stream. The company's range of products and services, reliability and scale addresses CDMO customers' increasing need to outsource and desire to reduce the number of supply chain partners while maintaining a high quality of product and service. Accordingly, it has relationships with various leading Indian pharmaceutical companies, including Pfizer, Sanofi India, Cadila Healthcare, Emcure Pharmaceuticals, Eris Lifesciences, Intas Pharmaceuticals and Systopic Laboratories Pvt Ltd. In FY20, it provided CDMO services to seven of the top 10 Indian formulations pharmaceutical companies (Source: Crisil report).

Domestic trade generics and OTC brands - This vertical 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 own brand names through online and offline channels and mainly manufactured by the company. This segment accounted for 10.22% of FY21 revenues

Export – Export vertical is engaged in identifying high growth markets and opportunities in semi-regulated international markets as well as select regulated markets, for developing and registering product applications to obtain marketing authorisations for generic medicines & health supplements and to subsequently, sell such products to pharmaceutical companies and pharmacies in the respective markets. Exports accounted for 4.25% of FY21 revenues.

The company owns and operate four manufacturing facilities in Dehradun, Uttarakhand. As of the end of FY21, its manufacturing facilities had an aggregate installed operating capacity of 706.383 crore tablets/capsules, 5.446 crore pouch/sachet and 6.108 crore liquid bottles. In addition, it has recently received a license to manufacture certain APIs at Dehradun Plant – I, which will help with backward integration. All manufacturing facilities are Schedule M compliant, while Dehradun Plant – I, Dehradun Plant – II and Dehradun Plant – IV are compliant with standards set by WHO GMP.

Competitive Strengths

Leading player in fast growing CDMO market

WBL is among the top five players in the domestic pharmaceutical formulations CDMO industry in India in terms of revenue with 1.5% market share in the domestic formulations CDMO industry (*Source: Crisil Report*).

With increasing globalisation and focus of large pharmaceutical players on cutting costs and optimising operations, CDMOs have seen significant acceptance in the pharmaceutical industry internationally over the last few years. Moreover, with the growing demand for generic medicines and biologics, focus on reducing time to market, the capital-intensive nature of the business and the complex manufacturing requirements, many pharmaceutical companies have identified the potential profitability in contracting with contract manufacturing and outsourcing for formulation manufacturing. In particular, 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. (*Source: Crisil Report*). The company believe 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 it.

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

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 (Source: Crisil Report). The company uses own R&D resources to develop, optimise and standardise the formulation and manufacturing process and conduct the required stability testing as well as conduct clinical studies through qualified third party contract research organisations to obtain the requisite regulatory licenses required to manufacture such complex generic products. Further, the development and manufacturing of complex generic products typically involves a higher degree of expertise/ trained manpower and also utilises higher overall process times which is also reflected higher margins in comparison to conventional products (Source: Crisil Report). In addition, the manufacturing of complex generics provides for higher profitability owing to limited competition with presence of only a few players (Source: Crisil Report). The company's complex generic products portfolio primarily comprises fixed dosage combinations, fixed dosage plus modified release combinations, customised generics and chewable or dispersible, which was 68.48% in FY21 of total product portfolio.

The company's R&D and innovation capabilities focus on (i) creating novel formulations of existing molecules aimed towards improving patients benefit through reduction of 'pill burden' or improvement of organoleptic features of the product; (ii) launching low cost 'first-to-launch' generic products in the market, *i.e.* launching immediately after the patent expiry of products, and (iii) creating new delivery mechanism of an approved drug (for the same or different indication) or combining it with a diagnostic device to bring a 'novel therapy' to the market that significantly improves treatment cost or safety/ side-effects profile of the drug. For instance, for improving patient benefit, it developed (i) chocolate flavoured chewable tablets of microencapsulated iron and vitamin tablets; (ii) dispersible tablets, such as Ivermectin and Clonazepam; and (iii) sustained release products, such as, Rabeprazole 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, it has launched Vildagliptin within two days of its patent expiry. In addition, in relation to the drug and device combination products, the company has recently launched a lung therapy food supplement and telemedicine support for respiratory wellness in India under the brand PulmoHeal in partnership with a US oncology company, which is an anti-inflammatory nutraceutical health supplement approved by the FDA of India.

Efficient, quality compliant manufacturing facilities with significant entry barriers

EBL currently own and operates four manufacturing facilities in Dehradun, Uttarakhand. As of end of FY21, these manufacturing facilities had an aggregate installed operating capacity of 706.383 crore tablets/capsules, 5.446 crore pouch/sachet and 6.108 crore liquid bottles. It continuously aims to improve cost-efficiencies and increase productivity in its operations.

The high quality, cost-efficiency and complexity requirements from both R&D and manufacturing systems together pose a substantial competitive barrier for the unorganised 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 organised domestic CDMO players having WHO GMP compliant manufacturing capabilities along with sophisticated and modern technology and data analytics capabilities. (Source: *Crisil Report)*

The company's manufacturing facilities are regularly inspected for compliance with current GMP and all manufacturing facilities are Schedule M of the Drugs and Cosmetic Act, 1940 (Schedule M) compliant. Further, Dehradun Plant – I, Dehradun Plant – II and Dehradun Plant – IV are also compliant with standards set by WHO GMP. The company operate manufacturing facilities to the standards that conform to the requirements of multinational customers, who routinely conduct audits at the company's manufacturing facilities to ensure consistent quality standards.

Long-term relationships with Indian pharmaceutical companies

WBL has developed relationships with leading Indian pharmaceutical companies, including Pfizer, Sanofi India, Cadila Healthcare, Emcure Pharmaceuticals, Eris Lifesciences, Intas Pharmaceuticals and Systopic Laboratories Pvt Ltd. The company's operational track record in successful delivery of products, responsiveness, dosage innovation, complex generic product development, quality and technical standards, turnaround times, and productivity has facilitated the strengthening of customer base and helped it in expanding product and service offerings as well as geographic reach. The number of domestic CDMO customers that it has catered to have increased from 97 in FY19 to 143 to 204 in FY21. In FY20, it provided CDMO services to seven of the top 10 Indian formulations pharmaceutical companies (Source: Crisil Report).

Over the years, it has invested in specialised services & equipment and dedicated infrastructure to support customers' growing needs. The company's ability to make these investments helps strengthen trust and engagement with customers, which enhances its ability to retain them and extend engagement. As result, it has a history of high customer retention and as of December 31, 2020, **WBL been associated with (i) Systopic Laboratories Pvt Ltd for 19 years and four months; (ii) Win-Medicare Pvt Ltd for ~19 years; (iii) Eris Lifesciences for ~12 years; (iv) Intas Pharmaceuticals for 11 years and eight months; (v) Lincoln Pharmaceuticals for 11 years; and (vi) Cadila Healthcare for nine years and five months. The company is also the exclusive supplier of certain products to Wallace Pharmaceuticals Pvt Ltd, Intas Pharmaceuticals, Systopic Laboratories Pvt Ltd, Vestige Marketing Pvt Ltd and Lincoln Pharmaceuticals.**

The company's CDMO agreements are typically long-term in nature where the validity of the contract ranges between two and five years, with the option of renewal on mutually agreed terms. It derives a significant proportion of revenue from such long-term agreements with customers. Revenue generated from sales to top 10 customers were 57.87% of FY21 revenue. Long-term relationships and ongoing active engagements with customers also allow WBL to plan capital expenditure, enhance ability to benefit from increasing economies of scale with stronger purchasing power for raw materials and a lower cost base, thereby ensuring a competitive cost structure to achieve sustainable growth and profitability.

Key risks & concerns

Risk of additional Covid 19 waves

Delay or termination of contract

Total 84.66% of the company's revenues come from the CDMO business. Hence its business, financial condition and results of operations are dependent on relationships with multiple Indian and multinational pharmaceutical companies. However, some of WBL's customers may start manufacturing at their own facilities and may discontinue the use of CDMO services. Further, the company typically plans and incurs capital expenditure for future periods. Delays in successfully entering into contracts for utilisation of upcoming capacity may result in lack of proportionate increase in revenues and results of operations vis-à-vis capacity increase. In addition, there can be no assurance that it will be able to maintain historic levels of business with significant customers. If it is unable to maintain relationships with customers on the existing terms & conditions and there is a delay in replacing these discontinuances with new products/new customers, it could have an adverse impact on business, financial condition and results of operations. Further, if any such customer relationship terminations result in adverse impact on the company's reputation, it could have a follow-on effect on ability to engage with new customers.

Regulatory Hurdles -- Failure to comply with quality standards, technical specifications

The company is subject to strict technical specifications, quality requirements, regular inspections and audits by CDMO customers including leading Indian pharmaceutical companies. Failure to comply with the quality standards and technical specifications prescribed by such customers may lead to loss of business from such customers and could negatively impact its reputation, business prospects and results of operations, including cancellation of existing and future orders, which may expose it to warranty claims.

Pandemic impact –

The company's operations at Dehradun Plant – I and Dehradun Plant – II were temporarily suspended for one day in March 2020. The Covid-19 pandemic resulted in some disruptions in the supply of raw materials from domestic and international suppliers during March and April 2020. The company also experienced disruptions in supply chain and inventory management, as well as delays in orders and payments. The continuing impact of the Covid-19 pandemic, or any future pandemic or widespread public health emergency, could materially and adversely impact business and operations and may be significant and continue to have an adverse effect on business, operations and future financial performance.

Steep competition

Contract manufacturing is characterised by high fragmentation and competition, with large number of organised and unorganised players in India. As a result, the bargaining power of contract manufacturing players is lowered owing to high competition. (Source: Crisil Report) The key players in domestic formulations CDMO segment include Akums Drugs and Pharmaceuticals, Synokem Pharmaceuticals, Theon Pharmaceuticals, Innova Captab and Tirupati Medicare (Source: Crisil Report). If competitors gain significant market share at the company's expense, particularly in the therapeutic areas in which it has focused such as cardiovascular, anti-diabetics, neurology, gastrointestinal, vitamins, minerals and nutrients, the company's business, results of operations and financial condition could be adversely affected.

Contractual obligations

CDMO agreements are typically long-term in nature where the validity of the contract ranges between two to five years, with the option of renewal on mutually agreed terms. These agreements typically provide that the quality, quantity and specifications for the products shall be approved by the customer and be in accordance with the requirements specified in the relevant agreements, while, in certain cases the specifications may be mutually agreed upon between the customer and us. CDMO agreements impose several contractual obligations upon the company. If it is unable to meet these contractual obligations and/or customers perceive any deficiency in the company's service, it may face legal liabilities and consequent damage to reputation, which may, in turn, adversely impact business, financial condition and results of operations.

Financial summary

Exhibit 4: Income Statement

Revenue (₹ crore)	FY19	FY20	FY21
Revenue from operations	307.3	328.9	427.6
Other income	4.3	2.5	3.1
Total revenue	**311.5**	**331.3**	**430.7**
Raw Material Expenses	191.9	211.6	274.4
Employee expense	43.0	43.6	58.3
Other expenses	33.9	32.2	40.2
Total Expenses	268.8	287.4	372.9
EBITDA	**38.5**	**41.5**	**54.7**
Finance costs	4.8	2.5	1.3
Depreciation and amortisation expens	10.6	9.3	13.0
Profit before tax and exceptional item	27.3	32.1	43.5
Exceptional items	49.5	0.0	-21.6
Profit before tax	**76.9**	**32.1**	**21.9**
Tax expense	12.3	8.5	6.2
Profit after tax before Minority interes	64.6	23.7	15.7
Less: Share of Minority interest			-0.3
Profit from Associates	-0.8	-7.5	-0.2
Profit after tax	**63.8**	**16.2**	**15.8**
Adjusted PAT	14.3	16.2	37.4

Source: RHP, ICICI Direct Research

Exhibit 6: Balance Sheet

Balance Sheet (₹ crore)	FY19	FY20	FY21
Equity and liabilities			
Shareholders' funds			
Share capital	6.4	6.4	6.4
Reserves and surplus	187.2	203.2	192.7
Non-current liabilities			
Long-term borrowings	5.8	1.2	0.8
Deferred tax liabilities (net)	0.0	0.0	0.7
Other non-current liabilities	2.6	2.3	2.1
Current liabilities			
Short-term borrowings	17.1	20.9	29.4
Trade payables	57.9	83.1	39.9
Other current liabilities	20.9	20.8	23.8
Short-term provisions	0.3	0.4	0.3
Total	**298.2**	**338.5**	**296.1**
Assets			
Non current assets			
Fixed assets			
Tangible assets	63.8	69.7	95.5
Capital work in progress	4.6	0.0	0.0
Intangible assets	0.4	0.6	0.5
Non-current investments	101.5	94.0	0.0
Deferred tax assets (net)	0.5	0.7	0.0
Other financial assets	2.1	2.2	3.0
Other non-current assets	4.8	3.3	2.9
Current assets			
Inventories	19.0	49.3	41.5
Trade receivables	61.7	63.9	79.4
Cash and bank balances	13.2	18.4	31.1
Other current assets	26.5	36.4	42.3
Total	**298.2**	**338.5**	**296.1**

Source: RHP, ICICI Direct Research

Exhibit 5: Cash Flow Statement

Cash Flow (₹ crore)	FY19	FY20	FY21
PBT	76.1	24.7	21.7
Operating profit before working capita	42.2	42.0	58.0
Changes in working capital	-11.5	-3.5	-40.0
Income tax paid	-12.1	-13.4	-6.5
CF from operating activities	**18.7**	**25.0**	**11.5**
(Purchase)/Sale of Fixed Assets	-9.1	-15.3	-109.3
Interest Received	0.7	0.9	1.7
Investment in bank deposits	3.1	0.0	87.5
CF from investing activities	**-5.3**	**-14.3**	**-20.2**
Proceeds from issue of share capital	4.8	0.0	-1.3
Adj. of Loan	-5.7	-2.5	3.9
Interest Paid	-5.0	-2.5	-1.4
Other Financial Activities	-0.4	-0.4	-0.5
CF from financing activities	**-6.2**	**-5.4**	**0.8**
Net Cash Flow	7.2	5.2	-8.0
Opening Cash	7.2	12.9	18.1
Closing Cash Flow	**12.9**	**18.1**	**15.9**
FCF	9.6	9.7	-97.9

Source: RHP, ICICI Direct Research

Financial summary

Exhibit 7: Key Ratios

Ratio Sheet	FY19	FY20	FY21
Per share data (₹)			
Diluted EPS	6.6	7.4	17.2
Cash EPS	11.4	11.7	23.1
BV per share	88.8	96.2	91.4
Cash Per Share	6.1	8.4	14.3
Operating Ratios (%)			
Gross Profit Margins	37.5	35.7	35.8
EBITDA Margins	12.5	12.6	12.8
PAT Margins	4.6	4.9	8.8
Inventory days	22.6	54.7	35.4
Debtor days	73.3	71.0	67.8
Creditor days	68.8	92.3	34.1
EBITDA Conversion Rate	48.4	60.3	20.9
Return Ratios (%)			
RoE	7.4	7.7	18.8
RoCE	13.7	15.1	21.0
RoIC	14.0	15.1	21.1
Valuation Ratios (x)			
EV / Sales	3.3	3.1	2.3
EV/EBITDA	26.3	24.3	18.3
Market Cap / Sales	3.3	3.0	2.3
P/E	70.2	61.8	26.8
Price to Book Value	2.4	2.2	2.3
Solvency Ratios			
Debt / EBITDA	0.6	0.5	0.6
Debt / Equity	0.1	0.1	0.2
Net Debt/ Equity	0.1	0.0	0.0
Current Ratio	1.5	1.6	3.0
Quick Ratio	1.3	1.1	2.4
Asset Turnover	4.5	4.7	4.5

Source: RHP, ICICI Direct Research, considered upper band for calculations

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