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SAI LIFE SCIENCES LIMITED

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IPO Report

11th Dec'24

Snapshot

Company is an innovator-focused, contract research, development, and manufacturing organization ("CRDMO"). Company provide end-to-end services across the drug discovery, development, and manufacturing value chain, for small molecule new chemical entities ("NCE"), to global pharmaceutical innovator companies and biotechnology firms. Company possess both (a) discovery / contract research ("CRO") and (b) chemistry, manufacturing, and control ("CMC") / contract development and manufacturing organization ("CDMO") capabilities. Company is the fastest-growing Indian CRDMOs among listed Indian peers in terms of revenue CAGR as well as EBITDA CAGR from Financial Year 2022 to Financial Year 2024. Company's CRDMO platform provides multiple entry points for it to acquire customers in the intermediate stages of their new drug discovery to commercialization journey.

VALUATION

Company is bringing the issue at price band of Rs 522-549 per share at p/e multiple of 138x on post issue FY24 PAT basis.

Company being one of the largest integrated Indian CRDMOs in terms of revenue from operations for the Financial Year 2024, acting as a one-stop platform for discovery, development and manufacturing. Company has CDMO platform with a diverse mix of commercial and under-development molecules & it is fast-growing, integrated Discovery capabilities with focus on biology, chemistry and DMPK services Also, company hasmodern R&D infrastructure with a differentiated delivery model and strong regulatory track-record.Hence Looking after all above , we recommend "Subscribe" on issue.

Price Band (Rs./Share)	**522-549**
Opening date of the issue	**11th Dec '2024**
Closing Date of the issue	**13th Dec '2024**
No of shares pre issue	19,06,85,340 Eq Shares
Issue Size	Rs 2940-3043 Cr
No Of Shares	5,63,16,167-5,54,21,123 Eq Sh
Fresh issue	Rs 950 Cr
Offer For Sale	38,116,934 Equity Shares
Face Value (Rs/ share)	Rs 1/share
Bid Lot	27
BIDDING DETAILS	
QIBs (Including Anchor)	50% of the offer (Approx 2,77,10,560 Eq Shares)
Non-Institutional	15% of the offer (Approx 83,13,169 Eq Shares)
Retail	35% of the offer (Approx 1,93,97,394 Eq Shares)
Lead managers	Kotak Mahindra Capital, IIFL Capital Services, Jefferies India, Morgan Stanley India
Registrar to the issue	KFin Technologies Limited

WHAT WE LIKE

One of the largest integrated Indian CRDMOs in terms of revenue from operations for the Financial Year 2024, acting as a one-stop platform for discovery, development and manufacturing

Company is one of the largest integrated CRDMOs among listed Indian peers in terms of revenue from operations for the Financial Year 2024, serving as a one-stop platform for discovery, development and manufacturing. As of September 30, 2024, company's CDMO portfolio constituted 50 "late phase" (products which are undergoing or have completed Phase III clinical trials) or commercial products, 34 of which underwent process development in company's R&D facilities before entering Phase III clinical trials, and the remaining 16 were transferred to company's manufacturing facilities from another facility.

"Modern R&D infrastructure with a differentiated delivery model and strong regulatory track-record

Company have established a fully integrated CRDMO platform with access to talent from across the world . Company is the only CRDMO among the listed Indian peers that can conduct development activities in close proximity to its customers, and transfer technology for manufacturing back to India.

Strategic business investments with improving profitability metrics

For Financial Years 2024, 2023, 2022, and for the six months period ended September 2024, company's total revenue from operations was ₹14,651.78 million, ₹12,171.39 million, ₹8,695.93 million and ₹6,752.85 million, respectively, representing a CAGR of approximately 29.80% from Financial Year 2022 to Financial Year 2024. For Financial Years 2024, 2023 and 2022, company's EBITDA margin was 20.48%, 14.97% and 15.07%, respectively and the EBITDA CAGR was 51.32% from Financial Year 2022 to Financial Year 2024.

COMPANY BACKGROUND

Sai Lifesciences is also one of the few CRDMOs to have a differentiated delivery model of having research laboratories for discovery and development located near overseas innovation hubs at Watertown (Greater Boston, MA), United States ("US") and Manchester, United Kingdom ("UK"), complemented by large-scale research laboratories and manufacturing facilities in cost competitive locations in India. During the Financial Year 2024 and six months period ended September 30, 2024, company served more than 280 and 230 innovator pharmaceutical companies, respectively, including 18 of the top 25 pharmaceutical companies (in terms of revenue for the calendar year 2023), across regulated markets, including the US, the UK, Europe and Japan. (Source: F&S Report)

During both the Financial Year 2024 and six months period ended September 30, 2024, company also provided CRO services to more than 60 customers, respectively, on an ongoing basis, for their integrated drug discovery programs. As of September 30, 2024, company's CDMO product portfolio included more than 170 innovator pharmaceutical products, including 38 products that were supplied for manufacturing of 28 commercial drugs.

A brief summary of company's CRO and CDMO services is set out below:

Company's CRO services include integrated discovery ("Discovery") capabilities across biology, chemistry, and drug metabolism and pharmacokinetics ("DMPK"). Company have provided services for more than 200 small molecule discovery programs in the past five years and the six months period from September 30, 2024 and to more than 160 customers in the past three years and six months period ended September 30, 2024. At least five of the discovery programs that company have provided services for have culminated in the approval of drugs that are now commercially available in the market and at least 40 programs having resulted in Investigational New Drug ("IND") filings. During the Financial Year 2024 and six months period ended September 30, 2024, company served more than 60 customers, respectively, for their integrated drug discovery programs, an increase from 29 customers in the Financial Year 2019. Company provide Discovery services through its Unit II Hyderabad Facility (as defined below) and Greater Boston Facility (as defined below).

Company's CDMO services include comprehensive capabilities that support its customers in the development and scaling up production of active pharmaceutical ingredients ("APIs") (i.e., the active ingredients used in medications) and intermediates (i.e., chemical compounds used for the manufacture of APIs) for clinical phase and commercial phase supplies. As of September 30, 2024, company's development and manufacturing portfolio consisted of 38 APIs and intermediates used in the manufacturing of 28 commercial drugs, including seven blockbusters (drug products with annual sales of over US$1 billion in the Financial Year 2023) and 12 products for 11 APIs that were either undergoing or had completed Phase III clinical trials . This portfolio of 50 commercial and late phase products as of September 30, 2024, increased from 23 products, as of March 31, 2019, representing a 117% growth in company's portfolio over the five and a halfyear period. The commercial and late phase products typically offer higher potential for return and a stable source of revenue given that they are commercialized or close to commercialization. In addition, company's portfolio consists of 120 186 products in various stages of development across pre-clinical, Phase I and Phase II clinical trial stages.

Company provide these CMC services through its Unit IV Bidar Facility (as defined below), Unit II Hyderabad Facility (as defined below) and Manchester Facility (as defined below). Company's CMC services are broadly classified as early-phase (pre-clinical to Phase II) and late phase (commercial, Phase III and post-Phase-III products). Company's product portfolio and customer base are diversified, encompassing commercial, late-stage and early-stage CMC molecules and discovery programs. As of September 30, 2024, no single customer accounted for more than 8.00% of company's revenue from operations. Additionally, company is also one of the few Indian CRDMOs to combine discovery and development operations in the US, the UK and India, with manufacturing capabilities in India. Company have strategic presence, located in close proximity to innovation clusters in Boston, US and Manchester, UK. Presence in innovation hubs facilitates access to the latest research trends, talented global workforce, and potential collaboration within innovation hubs, while company's facilities in India offer a cost-competitive advantage for conducting drug discovery research activities at scale, development and large-scale commercial production of products . Company's continuing and expanding customer relationships are developed by company's 16-member business development team, distributed across US, UK, Europe, and Japan.

Company provide its services through its globally accredited manufacturing and R&D facilities with quality systems that are supported by a qualified pool of scientists, engineers, and other scientific staff. As of September 30, 2024, company had 2,353 scientific staff, with majority of its scientific team holding advanced degrees, including 302 PhDs and 1,475 master's degrees. Company's manufacturing facilities have received several regulatory approvals from the United States Food and Drug Administration ("USFDA"), the Pharmaceuticals and Medical Devices Agency, Japan ("PMDA") and the state level drug control departments which are arms of the Central Drug Standards Control Organization, India ("CDSCO").

INVESTMENT RATIONALE	
CDMO platform with a diverse mix of commercial and under-development molecules	Company provide end-to-end development and manufacturing services covering the full value chain for intermediates and APIs. As of September 30, 2024, company's development and manufacturing portfolio constituted 38 products used in the production of 28 commercial drugs, including seven blockbusters (drug products with annual sales of over US$1 billion in the Financial Year 2023) and 12 products used in the production of 11APIs that were either undergoing or had completed Phase III clinical trials (Source: F&S Report). In addition, as of September 30, 2024, company also have a portfolio of 120 products in various stages of development across pre-clinical, Phase I and Phase II clinical trial stages.
Fast-growing, integrated Discovery capabilities with focus on biology, chemistry and DMPK services	Company's Discovery business grew at a CAGR of approximately 34.77% from Financial Year 2022 to Financial Year 2024. Company added 230 new customersfrom the Financial Year 2019 to the Financial Year 2024, and company served more than 200 customers in each of the Financial Years 2022, 2023 and 2024 and 176 customers for the six months period ended September 30, 2024. The number of customers outsourcing their integrated discovery programs to company increased from 29 in the Financial Year 2019 to over 60 in the Financial Year 2024 and in the six months period ended September 30, 2024. In the past five years and the six months period from September 30, 2024, company provided services for more than 200 small molecule discovery programs, with at least five of these programs having culminated in the approval of drugs that are now commercially available in the market, and at least 40 programs have resulted in IND filings. Company's co-located technical competencies spans biology, chemistry and DMPK services within its Unit II Hyderabad Facility where its scientific services are conducted by a single CRO for time and cost efficiencies, enables an "integrated drug discovery" process for its customers. Company have biology capabilities both in the Unit II Hyderabad Facility and the Greater Boston Facility, which enables company to engage an increasing share of customers to co-locate their discovery activities with company. Through company's Greater Boston Facility, company have developed and transferred over seven and one biology assays that have enabled company to onboard eight drug discovery customers for conducting larger discovery programs in India for Financial Year 2024 and the six months period ended September 30, 2024. In Financial Year 2024 and six months period ended September 30, 2024, 75.19% and 83.46% of company's revenue, respectively, from chemistry services were from customers who availed biology and/or DMPK services as well. This includes customers who outsourced their discovery programs to company on an FTE basis, which is one of its two models for service fee arrangement.
Long-standing relationship with a diverse base of existing and new customers	Company have a diversified customer base that helps to reduce customer concentration. As of September 30, 2024, no single customer accounted for more than 8.00% of company's revenue from operations. Company's diverse customer base includes global pharmaceutical companies and biotechnology companies, including 18 out of the top 25 pharmaceutical companies in terms of revenue for the calendar year 2023, across the regulated markets of the US, the UK, EU and Japan (Source: F&S Report). The number of customers company serviced among the top 25 pharmaceutical companies, doubled from nine in the Financial Year 2019 to 18 in the Financial Year 2024.

OBJECTS OF OFFER

The Offer comprises the Fresh Issue and the Offer for Sale.

Offer for Sale

Each of the Selling Shareholders shall be entitled to its respective portion of the proceeds of the Offer for Sale, after deducting its proportion of the Offer-related expenses and the relevant taxes thereon.

Requirement of funds and utilization of Net Proceeds

Company propose to utilise the Net Proceeds towards funding the following objects:

1. Repayment/prepayment, in full or part, of all or certain outstanding borrowings availed by Company; and
2. General corporate purposes.

RISKS

Company's financial performance depends on its ability to secure business from biotechnology and pharmaceutical customers and consequently company may be subject to risks, uncertainties and trends that affect company's customers in these industries.

Source:RHP

INDUSTRY OVERVIEW

Global CDMO Industry

The CDMO industry includes services provided for drug development and commercial manufacturing. Historically, pharma has often concentrated on selling high-volume products and used contracts with CDMOs to leverage increased manufacturing capacity. But as the mass-distribution blockbuster pharmaceuticals faded and precision medicine, specialty indications, and more R&D in complicated treatments took center stage, pharmaceutical sponsors are starting to view CDMOs as strategic partners rather than vendors. Pharma innovators increasingly leverage cost efficiencies, specialist knowledge, latest manufacturing technologies and other benefits from CDMOs. In addition, the growing pipeline of sophisticated pharmaceutical products and the increased focus on efficiency and innovation has further driven the global outsourcing of research and manufacturing tasks to CDMOs. The reliance on CDMOs will further grow going forward as they continue to offer innovator pharmaceutical companies commercially feasible solutions for a range of drug development and manufacturing services, such as pharmaceutical formulation, analytical development, process optimization, and scaleup manufacturing. Strong technical and R&D infrastructure capabilities, availability of skilled scientific talent and quality manufacturing with clean track record of regulatory compliance, are some of the key success factors for a CDMO. The global CDMO industry size increased from $86 Bn in 2018 to $120 billion in 2023, representing a CAGR of 6.9%, and is expected to reach USD 176 billion in 2028, representing a CAGR of 7.9%.

Global CDMO Industry by Modality

In the CDMO industry, small molecules currently dominate the industry with 80%+ proportion, as they can target a wide range of diseases and disorders and remain a fundamental component of pharmaceutical markets. With increase in outsourcing and growing complexity and diversity of small molecules, Small molecule CDMO industry is expected to grow at a faster rate of 6.8% during 2023- 28 to reach a $137 Bn by 2028, as compared the historical growth rate of 5.4% during 2018-23.

Global Small Molecule CDMO Industry Split between API and FDFs

Small molecules or synthetic compounds account for around 70% of APIs on the market today. Due to the considerable economic benefits of outsourcing API manufacturing, there has always been a substantial reliance on CDMOs for APIs (many worldwide APIs are produced in China, India, and Italy). Outsourcing is anticipated to rise further in the next decades because to the increasing complexity of APIs, which are increasingly potent and need expert handling. API and intermediates are expected to continue to dominate the CDMO market in 2023-28 period. In the API category, the small molecule CDMO market revenue was USD 73 billion in 2023 and is expected to reach USD 101 billion by 2028, growing at a CAGR of 6.7% between 2023 and 2028.

Global Small Molecule API CDMO Industry Split by Drug Type

Generic manufacturing has historically comprised a large pie of CDMO outsourcing, as it is a relatively simpler duplication of current manufacturing processes once patents expire. In the recent years, there is a discernible trend toward outsourcing the production of innovative drugs as well. The increasing complexity of innovative drugs, the need to use cutting-edge machinery, technologies, and knowledge for innovative drug manufacturing, globalization concerns for easier and faster market access, and the importance of resource optimization for small and mid-sized businesses leading the way in innovation are all contributing factors to this. The innovator drug API CDMO industry grew by 6.1% between 2018 and 2023 and is anticipated to grow by 6.8% over 2023-28F, faster than the generics CDMO industry, comprising 52% of the API CDMO industry in 2028.

Consolidated Financials

(Rs in Mn)

Financials	FY22	FY23	FY24	H1 FY 2025
Total Revenue (A)	8695.93	12171.39	14651.78	6752.85
Total Expenditure (B)	7482.84	10522.08	11796.89	5469.5
EBIDTA	1213.09	1649.31	2854.89	1283.35
EBIDTA Margin	13.95	13.55	19.48	19.00
Other Income	281.48	279.66	290.91	180.65
Depreciation	901.61	994.32	1194.36	669.92
EBIT	592.96	934.65	1951.44	794.08
Interest	495.71	770.57	859.10	421.50
PBT	97.25	164.08	1092.34	372.58
Share of profit in Asso	0.00	0.00	0.00	0.00
PBIT	97.25	164.08	1092.34	372.58
Exceptional	0.00	0.00	0.00	0.00
PBT	97.25	164.08	1092.34	372.58
Tax	34.69	64.19	264.25	92.46
PAT	62.56	99.89	828.09	280.12
NPM	0.72	0.82	5.65	4.15
ROE%	0.71	1.13	8.50	2.68
EPS	0.35	0.55	4.57	1.50
Eq Cap	179.43	180.10	180.50	188.79
Net Worth	8,785.65	8,880.93	9,751.44	10,455.58

(Source: RHP)

Peer Comparison

Company Name	Face Value	EPS	P/E	ROE %	NAV
Sai Life Sciences Limited	***1.00***	***4.57***	*--*	***8.50***	***53.83***
Peers					
Divi's Laboratories Limited	2.00	60.27	103.04	11.79	511.21
Suven Pharmaceuticals Limited	1.00	11.80	109.37	14.64	94.04
Syngene International Limited	10.00	12.71	73.59	11.98	105.91

(Source: RHP)

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