



IPO Report

03rd Aug '23

Snapshot

Concord Biotech is an India-based biopharma company and one of the leading global developers and manufacturers of select fermentation-based APIs across immunosuppressants and oncology in terms of market share, based on volume in 2022, supplying to over 70 countries including regulated markets, such as the United States, Europe and Japan, and India. Company commanded a market share of over 20% by volume in 2022 across identified fermentation-based API products, including mupirocin, sirolimus, tacrolimus, mycophenolate sodium and cyclosporine. As of March 31, 2023, company had a total installed fermentation capacity of 1,250 m³. In 2016, company launched its formulation business in India as well as emerging markets, including Nepal, Mexico, Indonesia, Thailand, Ecuador, Kenya, Singapore and Paraguay, and have further expanded to the United States.

VALUATION

Company is bringing the issue at price band of Rs 705-741 per share at p/e multiple of 32x on FY23 PAT basis. Company has established presence across the complex fermentation value chain along with global leadership in immunosuppressant APIs with a wide spectrum of complex fermentation-based APIs across multiple therapeutic areas. Company has diversified global customer base with long-standing relationships with key customers & experienced promoters, management team supported by marquee investors. Also, Financial track record of rapid growth and consistent profitability with healthy cash flows makes this issue decent avenue to deploy the funds in. Hence we recommend to “Subscribe” issue .

Price Band (Rs./Share)	705-741
Opening date of the issue	04 th Aug 2023
Closing Date of the issue	08 th Aug 2023
No of shares pre issue	104,616,204 Eq Shares
Issue Size(In Rs)	Rs 1498-1551 Cr
Issue Size (in No of Shares)	20,925,652 Eq Shares
Offer For Sale	20,925,652 Eq Shares
Face Value (Rs/ share)	Rs 1/share
Bid Lot	20

BIDDING DETAILS	
QIBs (Including Anchor)	50% of the offer (Approx 10,457,825 Eq Shares)
Non-Institutional	15% of the offer (Approx 3137348 Eq Shares)
Retail	35 % of the offer (Approx 7320479 Eq Shares)
Employee Reservation	10000 Equity Shares
Employee Discount	Rs 70/ share
Pre Issue Promoter & Group Holding	44.08%
Post Issue Promoter & Group Holding	44.08%
Lead managers	Kotak Mahindra Capital, Citigroup Global, Jefferies India
Registrar to the issue	Link Intime India Pvt Ltd.

KEY HIGHLIGHTS

Established presence across the complex fermentation value chain

Company have established capabilities across the fermentation value chain. The fermentation value chain encompasses aspects such as R&D, patents, key starting materials, API and formulation manufacturing, as well as marketing and distribution of fermentation-based products. In addition, company have honed its capabilities across the fermentation value chain, which company leveraged to build a track record across multiple products in various therapeutic areas.

Global leadership in immunosuppressant APIs along with a wide spectrum of complex fermentation-based APIs across multiple therapeutic areas

Company is one of the leading global developers and manufacturers of select fermentation-based APIs across immunosuppressants and oncology in terms of market share, based on volume in 2022. Company commanded a market share of over 20% by volume in 2022 across identified fermentation-based API products, including mupirocin, sirolimus, tacrolimus, mycophenolate sodium and cyclosporine.

Diversified global customer base with long-standing relationships with key customers

Company supply APIs to customers such as Intas Pharmaceuticals Limited and Glenmark Pharmaceuticals Limited, which have been its long-term customers. A majority of company’s customers are from regulated markets. In addition, company have developed relationships with 48, 47 and 60 new customers during the Financial Years 2021, 2022 and 2023, respectively..



COMPANY BACKGROUND

As of March 31, 2023, company had a total installed fermentation capacity of 1,250 m³. In 2016, company launched its formulation business in India as well as emerging markets, including Nepal, Mexico, Indonesia, Thailand, Ecuador, Kenya, Singapore and Paraguay, and have further expanded to the United States. Company manufacture (i) bio-pharmaceutical APIs through fermentation and semi-synthetic processes, across the therapeutic areas of immunosuppressants, oncology and anti-infectives; and (ii) formulations, which are used in the therapeutic areas of immunosuppressants, nephrology drugs and anti-infective drugs for critical care. Company is amongst the few companies globally that have successfully and sustainably established and scaled up fermentation-based API manufacturing capabilities.

As of March 31, 2023, company had six fermentation-based immunosuppressant APIs, including tacrolimus, mycophenolate mofetil, mycophenolate sodium, cyclosporine, sirolimus and pimecrolimus. Company aim to continue to grow its immunosuppressant API portfolio, which will remain one of the key contributors to company's API business in the near future. In addition to company's immunosuppressant API portfolio, company aim to increase the sales of its APIs across other therapeutic areas, especially the following:

Anti-infective APIs.

Company's anti-infective APIs include:

- o Anti-bacterial APIs. Company offer five anti-bacterial APIs, including mupirocin, mupirocin calcium, vancomycin hydrochloride and teicoplanin;
- o Anti-fungal APIs. Company offer three anti-fungal APIs, including anidulafungin, micafungin sodium and caspofungin; and
- Oncology drug APIs. Company offer six oncology drug APIs, including temsirolimus, everolimus, romidepsin, mitomycin, dactinomycin and midostaurin.

Company have invested significantly in capacity expansion in recent years. With its increased capacities, company is in the process of scaling up its API production to serve more customers. As of March 31, 2023, company had 23 API products. Company had filed 128 Drug Master Files ("DMFs") across several countries for its APIs, including 20, 65 and four, respectively, in the United States, Europe and Japan, as of June 30, 2023. DMFs are documents filed by pharmaceutical manufacturers in respect of certain drug products, such as APIs, which contain proprietary information relating to such drug products. DMFs are filed in support of pharmaceutical manufacturers' applications for approval of such drug products (also known as dossiers) that they submit to various regulatory agencies which review the DMF.

To capitalize on the benefits of backward integration that company's presence in APIs provides, company entered into the formulations segment in 2016. In India, company market a portfolio of 27 brands across immunosuppressants, nephrology drugs and anti-infective drugs for critical care. Company have a presence across 20 states and five union territories in India, through its sales team. Company also have a B2B contract development manufacturing organization ("CDMO") business where it supply immunosuppressants to the Indian market. Company's immunosuppressant formulations are manufactured in facilities inspected or accredited by overseas regulators, such as the USFDA, and distributed to the United States and countries in Asia, Africa and Latin America on a B2B basis, primarily through arrangements with distributors. As on the date, company had 77 approved products for formulations. In addition, company have obtained four ANDA approvals for six products from the USFDA for formulations. Company's R&D team is working on developing new formulations for which company expect to apply for ANDA approvals from the USFDA.



INVESTMENT RATIONALE

<p><i>Scaled manufacturing facilities with a consistent regulatory compliance track record and supported by strong R&D capabilities</i></p>	<p>Company have three manufacturing facilities in the state of Gujarat, India. Company’s API manufacturing facilities in Dholka and Limbasi are divided into a total of 41 manufacturing blocks to process different classes of APIs, which provides flexible plant configuration and allows company to scale up production volume to meet increased demand, such as through running parallel processes across different classes of APIs. Company also have a formulation manufacturing facility in Valthera, which had an annual installed production capacity of 801.64 million units, with an average dosage capability of 0.45 million tablets, 0.36 million capsules and 646.46 bottles of dry syrup per shift, which is defined as eight hours of production. Company have the ability to expand its installed capacity at the existing manufacturing facilities, which may help company reduce the need for significant capital expenditure on capacity expansion in the near term, as compared to setting up new manufacturing facilities.</p>
<p><i>Global leadership in immunosuppressant APIs along with a wide spectrum of complex fermentation-based APIs across multiple therapeutic areas</i></p>	<p>As of March 31, 2023, company had six fermentation-based immunosuppressant APIs. As of 2022, more than 90% of the approved and commonly prescribed small-molecule organ transplant drugs were fermentation-based. The global demand for immunosuppressant APIs is expected to increase, driven by the growth of the immunosuppressant formulation markets. In particular, the growth is expected to be driven by organ transplantation becoming more common, where patients would need to take immunosuppressants for the rest of their lives. However, the end use of immunosuppressants in organ transplantation requires stringent quality standards to minimize variations during the fermentation process. The global immunosuppressant drug market was valued at US\$111 billion (₹9,200 billion) in 2022 and is expected to grow at a CAGR of 9.6% between 2022 and 2026 in terms of revenue. As an established fermentation-based immunosuppressant API manufacturer, company is well-positioned to benefit from the growth potential in the immunosuppressant drug market. In addition to immunosuppressants, company manufacture fermentation-based APIs for the therapeutic areas of anti-bacterials, anti-fungals and oncology. As of March 31, 2023, company had a portfolio of five, three and six commercialized fermentation-based anti-bacterial, anti-fungal and oncology drug APIs, respectively. The anti-infective market, which is one of the largest segments by revenue among the therapeutic areas in the API market with a market size of US\$32 billion (₹2,643 billion) in 2022 in terms of revenue, is expected to reach US\$36 billion (₹3,005 billion) by 2026. Cancer is considered among the leading causes of death worldwide and its prevalence has been increasing. As a result, the oncology drug market has become the largest segment among the therapeutic areas in the API market with revenue of US\$42 billion (₹3,466 billion) in 2022, accounting for 19% of the market share in terms of revenue in 2022. The oncology drug market is expected to be the fastest growing among the therapeutic areas, with a CAGR of 14.3% from 2022 to 2026 in terms of revenue. Company’s growth in the near future will be primarily driven by the anti-infective and oncology drug markets.</p>
<p><i>Experienced Promoters, management team supported by marquee investors</i></p>	<p>Company is managed by a Promoter-led management team, including Mr. Sudhir Vaid, one of company’s Promoters and the Chairman and Managing Director on company’s Board. He has previously been associated with Ranbaxy Laboratories Limited and as a part of M/s. Sudman Consultants acted as a consultant for companies such as Plus Chemicals S.A., Lek Pharmaceuticals & Chemicals Co. and Biocon India Limited, he has been playing a crucial role in building company’s technology capabilities, scaling up company’s manufacturing facilities and developing its R&D division.</p>



OBJECTS OF OFFER

The objects of the Offer are to

- (i) achieve the benefits of listing the Equity Shares on the Stock Exchanges; and
- (ii) carry out the Offer for Sale of up to 20,925,652 Equity Shares by the Selling Shareholder.

RISKS

Company depend on a limited number of customers for a substantial portion of company’s revenues. Any significant reduction in demand for company’s products from such customers may adversely affect its business and results of operations.

Source:RHP

INDUSTRY OVERVIEW

Global Pharmaceutical Market by Therapy Area Oncology and immunology are expected to be the fastest-growing segments, with a renewed focus on anti-infectives following the COVID-19 pandemic. The key therapeutic areas including oncology, immunology, central nervous system (“CNS”), anti-infectives, cardiovascular (“CVS”) (comprising anti-hypertensives and anti-hyperlipidemic), anti-diabetics, and blood disorders (comprising anti-coagulants, antifibrinolytics, plasma expanders) accounted for nearly 70% of the total formulations market in 2022, of which anti-infectives, oncology, and immunology alone accounted for 34%

Competitive Landscape

According to the 2017 Newport data, there are more than 3,000 API manufacturers worldwide. However, only 542 API manufacturers can meet the cGMP requirements, and most of these companies are based in the United States, Europe, Japan, China, and India. The number shrinks further for fermentation API companies. As opposed to chemical API companies, there are a limited number of companies globally that have successfully and sustainably established and scaled up fermentation-based API manufacturing capabilities, as evidenced by plant closures in India and China. This results from the fact that fermentation is a challenging process, as it involves working with microbial strains and culture, controlling multiple processes, and performing various purification steps. Small modifications to the process may lead to relatively large variances in the outputs. Complex technical capabilities, difficulties in scaling up operations, and the substantial capital investments have resulted in significant barriers to entry in the fermentation-based API space. According to industry sources, small molecule fermentation API companies are largely concentrated in Asia, with China accounting for more than 50% of the global supply. Given the government initiatives, Indian companies too are expanding their presence and gaining market share. Concord Biotech is an India-based biopharma company and one of the leading global developers and manufacturers of select fermentation-based APIs across immunosuppressants and oncology in terms of market share based on volume in 2022. Concord Biotech commanded a market share of over 20% by volume in 2022 across identified fermentation-based API products, including tacrolimus, mycophenolate sodium, cyclosporine, sirolimus, and mupirocin. As per the data provided by Concord Biotech, it had 128 DMF filings across several countries, including 20, 65, and 4 in the United States, Europe, and Japan, and four ANDAs, as of June 30,2023. In the immunosuppressant drug APIs for organ transplant, including tacrolimus, mycophenolate mofetil, and cyclosporine, Concord Biotech is one of the very few companies when compared to peers listed in the table with a presence in all the key regions, including the United States, Europe, and Japan (based on DMF filings). Amongst the global peers listed in the table below, Concord Biotech also offers one of the widest range of small molecule fermentation-based immunosuppressant APIs used for organ transplant. Furthermore, Concord Biotech is among the few Indian immunosuppressant formulation manufacturers with US ANDA approvals to be integrated with in-house fermentation-based immunosuppressant APIs for select organ transplant drugs namely Tacrolimus, Mycophenolate Mofetil, and Mycophenolate Sodium. In addition to immunosuppressants, Concord Biotech also has an expansive portfolio of fermentation-based APIs across a wide range of therapeutic areas including oncology and anti-infective including anti-bacterial and anti-fungal.

India API Market

India's growth trajectory of the API market is well-cemented for domestic API consumption as well as exports. The Indian API market, valued at USD 17 billion (INR 1,377 billion) in 2022, comprises APIs manufactured for export and APIs consumed in formulation manufacturing. These formulations are domestically consumed as well as exported to the global market. While API exports accounted for USD 5 billion (INR 356 billion) in 2022, APIs required for formulation manufacturing amounted to USD 12 billion (INR 1,035 billion) in 2022. 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. The export during the same period is also expected to grow at a rate of 7% to 9%, but the rate is forecasted to remain lower (than the domestic API market) as Indian formulation manufacturers expand capacity, reduce import dependence, and consume increasing amounts of domestically-produced APIs.



Consolidated Financials

(Rs in Mn)

Financials	FY21	FY22	FY23
Total Revenue (A)	6169.43	7129.36	8531.68
Total Expenditure (B)	2893.92	4396.59	5098.8
EBIDTA	3275.51	2732.77	3432.88
EBIDTA Margin	53.09	38.33	40.24
Other Income	138.07	234.16	353.09
Depreciation	275.23	500.50	540.33
EBIT	3138.35	2466.43	3245.64
Interest	6.66	54.84	45.11
PBT	3131.69	2411.59	3200.53
Extraordinary item	0.00	0.00	0.00
PBT	3131.69	2411.59	3200.53
Share of Profit in Associates	-4.49	-36.38	19.59
PBT	3127.20	2375.21	3220.12
Tax	778.33	625.89	819.28
PAT	2348.87	1749.32	2400.84
NPM%	38.07	24.54	28.14
Eq Cap	95.11	95.11	104.62
Net Worth	9,993.73	11,032.23	12,900.01
EPS	24.70	18.39	22.95
ROE %	23.31	15.86	18.61

(Source: RHP)

Peer Comparison

Company Name	Total Income (Rs in million)	EPS	PE	RONW%	NAV (in Rs)
Concord Biotech Ltd	8531.68	22.95		20.06	123.31
Peers Group					
Divi's Laboratories Limited	77675.10	68.69	54.15	14.28	480.93
Suven Pharmaceuticals Limited	13403.29	16.16	30.08	23.70	68.16
Laurus Labs Limited	60405.50	14.69	23.70	19.68	75.16
Shilpa Medicare Limited	10501.12	-3.74	NA	NA	204.41



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