



IPO Snapshot – Windlas Biotech Limited

02-August-2021

Issue Snapshot:

Issue Open: Aug 04 – Aug 06 2021

Price Band: Rs. 448 –460

*Issue Size: 8,729,024 eq shares
(Fresh Issue of Rs.165 cr + Offer for sale of 5,142,067 eq sh)

Issue Size: Rs.391.1 – 401.5 cr

Reservation for:

QIB	Upto	50% eq sh
Non Institutional	atleast	15% eq sh
Retail	atleast	35% eq sh

Face Value: Rs 5

Book value: Rs 109.36 (Mar 31, 2021)

Bid size: - 30 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity: Rs. 9.10 cr

*Post issue Equity: Rs. 10.89 cr

Listing: BSE & NSE

Book Running Lead Managers: SBI Capital Markets Ltd, DAM Capital Advisors Ltd, IIFL Securities Ltd

Registrar to issue: Link Intime India Private Ltd

Shareholding Pattern

Shareholding Pattern	Pre issue %	Post issue %
Promoter and Promoter Group	78.0	59.9
Public	22.0	40.1
Total	100.0	100.0

*=assuming issue subscribed at higher band
Source for this Note: RHP

Background & Operations:

Windlas Biotech Limited (WBL) 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 two 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, it 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 addition to providing services and products in the CDMO market, it also sells its own branded products in the trade generics and OTC markets as well as export generic products to several countries.

The Company has a significant experience in developing and manufacturing generic fixed dose combinations. Its focus has currently been on launching new complex generic products in the chronic therapeutic category linked to lifestyle related disorders. Its 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 Fiscal 2019 and was 68.98% in Fiscal 2020 and was 68.48% in Fiscal 2021 of its total product portfolio. It has three distinct strategic business verticals (“SBVs”): (i) CDMO Services and Products; (ii) Domestic Trade Generics and over-the-counter (“OTC”) Brands; and (iii) Exports.

CDMO Services and Products.: CDMO Services and Products SBV 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 its own brand names to the end users.

Domestic Trade Generics and OTC Brands. Domestic Trade Generics and OTC Brands SBV 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 its own brand names through online and offline channels and majorly manufactured by WBL. Trade generic products are generic medicines, *i.e.* drugs for which the patents have expired, which are sold directly to the distributor and not marketed through medical representatives, and are typically used as a substitute for more expensive branded generic medicines in order to offer affordable medicines to patients by the retailers and pharmacies.

Exports. Exports SBV is engaged in identifying high growth markets and opportunities in semi-regulated international markets as well as selected regulated markets, for developing and registering product applications to obtain marketing authorizations for generic medicines and health supplements and subsequently, sell such products to pharmaceutical companies and pharmacies in the respective markets. Each of WBL’s SBVs is supported by a network of R&D laboratories and manufacturing facilities which in turn are supported by various functions, including supply chain, inventory, finance and human resources.

Currently WBL owns and operate four manufacturing facilities located at Dehradun in Uttarakhand. As of March 31, 2021, its manufacturing facilities had an aggregate installed operating capacity of 7,063.83 million tablets/ capsules, 54.46 million pouch/ sachet and 61.08 million liquid bottles. In addition, it has recently received a license to manufacture certain APIs at its Dehradun Plant – I, which will help it with backward integration. It is led by professional and experienced Promoters and a senior management team with significant expertise in the pharmaceutical industry.

Business of WBL has grown organically, as reflected in a consistent increase in revenues and profitability, and its long-term CDMO service agreements with customers results in predictable and stable cash flows. Revenue from operations was Rs 3,072.67 million, Rs 3,288.52 million and Rs 4,276.02 million in Fiscals 2019, 2020 and 2021, respectively, while its PAT margin (*i.e.* profit for the period/ year before exceptional items divided by revenue from operations) was 4.65%, 4.93% and 8.70%, respectively, in the same periods.

Objects of Issue:

The Offer comprises a Fresh Issue by WBL and Offer for Sale by the Selling Shareholders.

Offer for Sale

The Selling Shareholders will be entitled to their respective portion of the proceeds of the Offer for Sale after deducting their proportion of Offer expenses and relevant taxes thereon. WBL will not receive any proceeds from the Offer for Sale and the proceeds received from the Offer for Sale will not form part of the Net Proceeds.

Fresh Issue

WBL proposes to utilise the Net Proceeds from the Fresh Issue towards funding the following objects:

- Purchase of equipment required for (i) capacity expansion of existing facility at Dehradun Plant – IV; and (ii) addition of injectables dosage capability at existing facility at Dehradun Plant-II; Rs.500 mn
- Funding incremental working capital requirements of WBL; Rs.475.6 mn
- Repayment/prepayment of certain of borrowings Rs.200 mn; and
- General corporate purposes.

Further, WBL expects to receive the benefits of listing of the Equity Shares, including to enhance visibility and brand image among its existing and potential customers.

Utilisation of Net Proceeds

Particulars	Amount (Rs. in million)
Purchase of equipment required for (i) capacity expansion of existing facility at Dehradun Plant – IV; and (ii) addition of injectables dosage capability at existing facility at Dehradun Plant-II;	500.00
Funding incremental working capital requirements of WBL;	475.62
Repayment/prepayment of certain of borrowings;	200
General corporate purposes	*
Total	*

Competitive Strengths

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

Business Strategy:

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

Key Concerns:

- Depends on the success of WBL's relationships with its CDMO customers, including leading Indian pharmaceutical companies and multinational companies. Any adverse developments or inability to enter into or maintain such relationships could have an adverse effect on the business, results of operations and financial condition.
- WBL is subject to strict technical specifications, quality requirements, regular inspections and audits by its 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 the reputation, business prospects and results of operations, including cancellation of existing and future orders which may expose it to warranty claims.
- Operations are dependent on research and development ("R&D"), and inability to identify and understand evolving industry trends, technological advancements, customer preferences, regulatory change and innovate new products to meet WBL's customers' demands may adversely affect the business.

- The continuing impact of the COVID-19 pandemic, or any future pandemic or widespread public health emergency could materially and adversely impact WBL's business and operations and it may be significant and continue to have an adverse effect on its business, operations and future financial performance.
- The pharmaceutical market is subject to extensive regulation and failures to comply with the existing and future regulatory requirements in any pharmaceutical market could adversely affect WBL's business in that market, results of operations and financial condition.
- Proposes to enter into the manufacture of injectables, which will be a new business for WBL and if it is unable to establish itself in this business segment, its business condition, results of operations and cash flows may be adversely affected.
- Operates in a market that is highly competitive. WBL compete to provide outsourced pharmaceutical manufacturing services or CDMO services, particularly for formulations, to pharmaceutical companies in India and other jurisdictions.
- CDMO agreements impose several contractual obligations upon the Company. If WBL is unable to meet these contractual obligations and/ or its customers perceive any deficiency in its service it may face legal liabilities and consequent damage to the reputation which may in-turn adversely impact its business, financial condition and results of operations.
- Business is working capital intensive. If WBL experience insufficient cash flows from its operations or are unable to borrow to meet working capital requirements, it may materially and adversely affect its business and results of operations.
- Derives a significant portion of WBL's revenue from the sale of products in certain therapeutic areas. Its business, results of operations and financial condition may be adversely affected if any of its products in such therapeutic areas do not perform as expected.
- WBL's operations are subject to environmental and workers' health and safety laws and regulations.
- Manufacturing facilities are concentrated in a single region. Any inability to operate and grow its business in this particular region may have an adverse effect on the business, financial condition, results of operations, cash flows and future business prospects.
- Any failure of the third parties, on whom WBL rely for clinical trials, in performing their obligations and complying with regulatory standards could result in a delay in receiving regulatory approval and adversely affect its business, financial condition and results of operations.
- Reforms in the healthcare industry and the uncertainty associated with pharmaceutical pricing, reimbursement and related matters could adversely affect the pricing and demand for WBL's products as well as the consumer demand for the products it manufactures for its customers, which may significantly influence the business, results of operations and financial condition.
- Any shortfall in the supply of raw materials or an increase in raw material costs, or other input costs, may adversely affect the pricing and supply of the products and have an adverse effect on its business, results of operations and financial condition.
- Required to obtain, renew or maintain statutory and regulatory permits, licenses and approvals to operate WBL's business, and any delay or inability in obtaining, renewing or maintaining such permits, licenses and approvals could result in an adverse effect on the results of operations.
- WBL in the past has entered into related party transactions and may continue to do so in the future, which may potentially involve conflicts of interest with the equity shareholders.
- Relies on distributors and stockists for the sale and distribution of its products. A termination of sales arrangements or if its distributors and stockists do not effectively sell or market its products, WBL's business, results of operations and financial condition may be adversely affected.
- Any unscheduled, unplanned or prolonged disruption of manufacturing operations, such as, strikes and lockouts, could materially and adversely affect the business, financial condition and results of operations.
- WBL is subject to risks associated with rejection of supplied products, and consequential claims and associated product liability costs due to defects in its products, which could generate adverse publicity or adversely affect the business, results of operations or financial condition.
- Any of WBL's products or products it manufactures for its customer's cause, or are perceived to cause, severe side effects, its reputation, revenues and profitability could be adversely affected.
- Under-utilization of manufacturing capacities and an inability to effectively utilize expanded manufacturing capacities could have an adverse effect on the business, future prospects and future financial performance.
- Spurious pharmaceutical products or counterfeit products passed off by others as WBL's products, could adversely affect its reputation, goodwill and results of operations.
- Employees, suppliers, distributors and stockists may engage in misconduct or other improper activities, including noncompliance with regulatory standards and requirements and insider trading.
- Inability to collect receivables and default in payment from customers could result in the reduction of profits and affect the cash flows.
- Dependent on third-parties for certain operations, such as, transportation of raw materials, delivery of finished products and hazardous waste management.
- An inability or delay in launching new generic pharmaceutical products if innovator pharmaceutical companies are successful in limiting the use of generics through their legislative, regulatory and other efforts, including patent extensions, may adversely affect the business, results of operations and financial condition.
- Any surplus production on account of inaccurate forecasting of customer requirements and failure to manage inventory could adversely affect the business, results of operations, financial condition and cash flows.

- WBL faces foreign exchange risks that could adversely affect the results of operations as a portion of its revenue and expenditure is denominated in foreign currencies.
- Operations are labour intensive and manufacturing operations may be materially adversely affected by strikes, work stoppages or increased wage demands by the employees or those of the suppliers
- Business subjects WBL to risks in multiple countries that could materially adversely affect the business, cash flows, results of operations and prospects.
- WBL may in the future engage in acquisitions and joint ventures. It may not be able to complete such transactions, and such transactions, if executed, pose significant risks. Further, consolidation trend in the pharmaceutical and healthcare industries could adversely affect its future revenues and operating income.
- An inability to effectively manage growth and expansion may have a material adverse effect on the business prospects and future financial performance.
- A shortage or non-availability of essential utilities such as electricity and water could affect WBL's manufacturing operations and have an adverse effect on the business, results of operations and financial condition.
- Certain of WBL's business transactions in the Domestic Trade Generics and OTC Brands SBV are entered into with government or government-funded entities in India and any change in the government policies, practices or focus may adversely affect the business, cash flows and results of operations.
- WBL currently avails benefits under certain export promotion schemes and are entitled to certain incentives. Any change in these benefits and incentives applicable to it or a delay in disbursement of benefits under such schemes may affect the results of operations.
- WBL's customers may engage in certain transactions in or with countries or persons that are subject to U.S. and other sanctions.
- A slowdown in economic growth in India could cause WBL's business to suffer.
- Fluctuation in the exchange rate between the Indian Rupee and foreign currencies may have an adverse effect on the value of the Equity Shares, independent of its operating results.

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