

Retail Research	IPO Note
Sector: Pharmaceuticals	Price Band (Rs): 522 - 549
10 <sup>th</sup> December 2024	Recommendation: Subscribe for long-term investment horizon

## Sai Life Sciences Ltd.

### Company Overview:

**Sai Life Sciences Ltd (SLSL)** is an innovator-focused contract research, development & manufacturing organization (CRDMO) providing 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. The company's capabilities include discovery, Contract Research (CRO), Chemistry, Manufacturing & Control (CMC) and Contract Development & Manufacturing (CDMO). As of 1HFY25, the company's product portfolio comprises of over 170 innovator pharmaceutical products in its CDMO business vertical. While in its CRO business, it provides services to over 60 clients on an ongoing basis for their integrated drug discovery programs.

### Key Highlights:

**1. Amongst the largest integrated CRDMOs in India:** SLSL is one of the largest integrated CRDMOs among listed Indian peers in terms of revenue as of FY24, serving as a one-stop platform for discovery, development and manufacturing. The company has established capabilities across drug discovery, development and manufacturing value chain. This provides several advantages including the ability to provide end-to-end support from discovery to commercialization as well as multiple entry points to acquire customers in intermediate stages of the discovery to commercialization journey. By establishing and maintaining connections through the drug development process, the company builds long-standing relationships with its clients.

**2. Diverse mix of commercial & under-development molecules:** As of Sep'24, SLSL's development & manufacturing (CDMO) portfolio constituted 38 products used in the production of 28 commercial drugs, including 7 blockbuster drugs and 12 products used in the production of 11 APIs that are either undergoing or have completed Phase III clinical trials. Additionally, the company's product portfolio consists of 120 products in various stages of development across pre-clinical, Phase I and Phase II clinical trial stages.

**3. Integrated Discovery capabilities with focus on biology, chemistry services:** The company's CRO business has added ~230 new customers in between FY19-FY24 and has served more than 176 customers in 1HFY25. At least 5 of the company's drug discovery programs have culminated in approvals which are now commercially available in the market, and at least 40 programs that have resulted in IND filings. The company's diverse scientific talent and laboratory infrastructure support various therapeutic areas such as oncology, immuno-oncology, central nervous system, autoimmune diseases, metabolic disorders, fibrosis, rare diseases and more.

**4. Long standing relations with a diverse client base:** The company's diverse client base includes global pharmaceutical companies and biotechnology companies, including 18 out of the top 25 pharmaceutical companies in terms of CY23 revenue across the regulated markets of the US, the UK, EU and Japan. The number of companies serviced among the top 25 global pharma companies have doubled from 9 as of FY19 to 18 as of FY24 underscoring the robust capabilities of the company.

**Valuation:** The company is valued at FY24 P/E and EV/EBITDA multiples of 137.9x and 38.6x respectively based on the upper price band on the post-issue capital. Sai Life Sciences is one of the largest integrated CRDMOs in India among listed peers and has established capabilities across the discovery, drug development and commercial manufacturing value chain. Although, the company may seem slightly overvalued compared to its closest peer, the company has delivered Revenue/EBITDA/PAT CAGR of 29.8%/53.4%/264.7% respectively between FY22-FY24. Further, repayment of debt from the proceeds of the issue will reduce finance costs by ~Rs 56 cr thus augmenting profitability going forward. We recommend subscribing to the issue for long-term investment horizon.

Issue Details	
Date of Opening	11 <sup>th</sup> December 2024
Date of Closing	13 <sup>th</sup> December 2024
Price Band (Rs)	522 – 549
Offer for sale (shares)	3,81,16,934
Fresh Issue (Rs cr)	950
Issue Size (Rs cr)	2,940 – 3,043
No. of shares	5,63,16,168- 5,54,21,123
Face Value (Rs)	1
Post Issue Market Cap (Rs cr)	10,904 – 11,419
BRLMs	Kotak Mahindra Capital Co, IIFL Capital Services, Jefferies India, Morgan Stanley India Co
Registrar	KFin Technologies Ltd
Bid Lot	27 shares and in multiple thereof
QIB shares	50%
Retail shares	35%
NIB shares	15%

Objects of Issue	
	Estimated utilization from net proceeds (Rs cr)
Repayment/Pre-payment in full or in half of certain outstanding borrowings availed by the company.	720.0
General Corporate Purposes	230.0
<b>Total proceeds from fresh issue</b>	<b>950.0</b>

Shareholding Pattern		
Pre-Issue	No. of Shares	%
Promoter & Promoter Group	7,97,48,670	41.8
Public & Others	11,09,36,670	58.2
<b>Total</b>	<b>19,06,85,340</b>	<b>100.0</b>

Post Issue @Lower Price Band	No. of Shares	%
Promoter & Promoter Group	7,32,93,890	35.1
Public & Others	13,55,90,684	64.9
<b>Total</b>	<b>20,88,84,574</b>	<b>100.0</b>

Post Issue @Upper Price Band	No. of Shares	%
Promoter & Promoter Group	7,32,93,890	35.2
Public & Others	13,46,95,639	64.8
<b>Total</b>	<b>20,79,89,529</b>	<b>100.0</b>

Source: RHP, SSL Research

## Key Financials

Particulars (Rs cr)	FY22	FY23	FY24	1HFY25
Revenue from operation	869.6	1,217.1	1,465.2	675.3
EBITDA	121.3	164.9	285.5	128.3
PAT	6.2	10.0	82.8	28.0
EBITDA Margin (%)	13.9	13.6	19.5	19.0
PAT Margin (%)	0.7	0.8	5.7	4.1
ROE (%)	0.7	1.1	8.5	-
ROCE (%)	3.6	5.9	11.6	-
P/E (x)*	1,664.7	1,037.6	125.2	-

Source: RHP, SSL Research

\*Pre-issue based on upper price band

## Risk Factors

- Biotech funding risk:** A substantial portion of the company's CRO, CMC and CDMO services are reliant on biotechnology customers, which are typically dependent on highly fluctuating market funding. In challenging economic climates there is a heightened risk that these firms will experience decreased funding leading to potential business closure. Any decrease in funding to clients operating in the biotechnology segment will in turn have an adverse effect on business, result of operations and cashflows.
- Drug commercialization risk:** The company generates revenue from services related to small molecules throughout the drug discovery lifecycle, with R&D forming a crucial part of its business. The company's R&D efforts may not always lead to the successful commercialization of new drugs and may in turn lead to loss of future revenue. Any failure to develop or manufacture commercially viable drugs may have an adverse impact on business, result of operations and cashflows.
- Regulatory risk:** The company operates in a highly regulated industry and is required to comply with various local, state, provincial and national regulatory authorities like the CDSCO (Central Drug Standard Control Organization), USFDA (US Food & Drug Administration), etc. Further, the company's clients also conduct regular audits and inspections of manufacturing facilities to ensure the services meet their standards. Any failure to meet regulatory or customer standards may have an adverse impact on business, result of operations and cashflows.
- Raw material sourcing risk:** The company's competitiveness, cost and profitability rely on its ability to source and maintain a stable and sufficient supply of critical raw materials, including reagents and solvents. The company does not engage in long-term supply contracts with raw material suppliers and sources raw materials either from third-parties or open market based on production plans or customer orders. As of FY22/FY23/FY24/1HFY25 the company imported 32.9%/29.5%/27.6%/29.6% of its raw material from China. Any supply side disruptions or failure to source raw materials at stable prices may have adverse effect on business, result of operations and cashflows.

## Growth Strategy

- Increase cross-selling with existing customers while acquiring new customers.
- Continue to build strong Commercial Development and Manufacturing portfolio for CMC capabilities.
- Pursue more integrated Discovery projects to drive customer stickiness along with larger integrated Discovery programs.
- Continue to expand existing capacity and add new technical capabilities.
- Continue to drive operational excellence initiatives to improve profitability and return metrics.
- Continue to invest in technology including AI to improve processes.

## Revenue Mix – Segment wise

Particulars	FY22		FY23		FY24		1HFY25	
	Rs cr	% of Total	Rs cr	% of Total	Rs cr	% of Total	Rs cr	% of Total
Contract Research	273.7	31.5	467.1	39.0	497.2	33.9	287.9	42.9
Contract Development & Manufacturing	595.4	68.5	729.8	61.0	971.6	66.1	383.8	57.1
<b>Total</b>	<b>869.1</b>	<b>100.0</b>	<b>1,196.9</b>	<b>100.0</b>	<b>1,468.7</b>	<b>100.0</b>	<b>671.7</b>	<b>100.0</b>

Source: RHP, SSL Research

## Revenue Mix – Geography wise

Particulars	FY22		FY23		FY24		1HFY25	
	Rs cr	% of Total	Rs cr	% of Total	Rs cr	% of Total	Rs cr	% of Total
Export Customers	801.0	92.2	1,176.2	98.3	1,438.6	97.9	654.2	97.4
Domestic Customers	68.1	7.8	20.8	1.7	30.1	2.1	17.5	2.6
<b>Total</b>	<b>869.1</b>	<b>100.0</b>	<b>1,196.9</b>	<b>100.0</b>	<b>1,468.7</b>	<b>100.0</b>	<b>671.7</b>	<b>100.0</b>

Source: RHP, SSL Research

## Installed Capacity & Utilization (Liters per day)

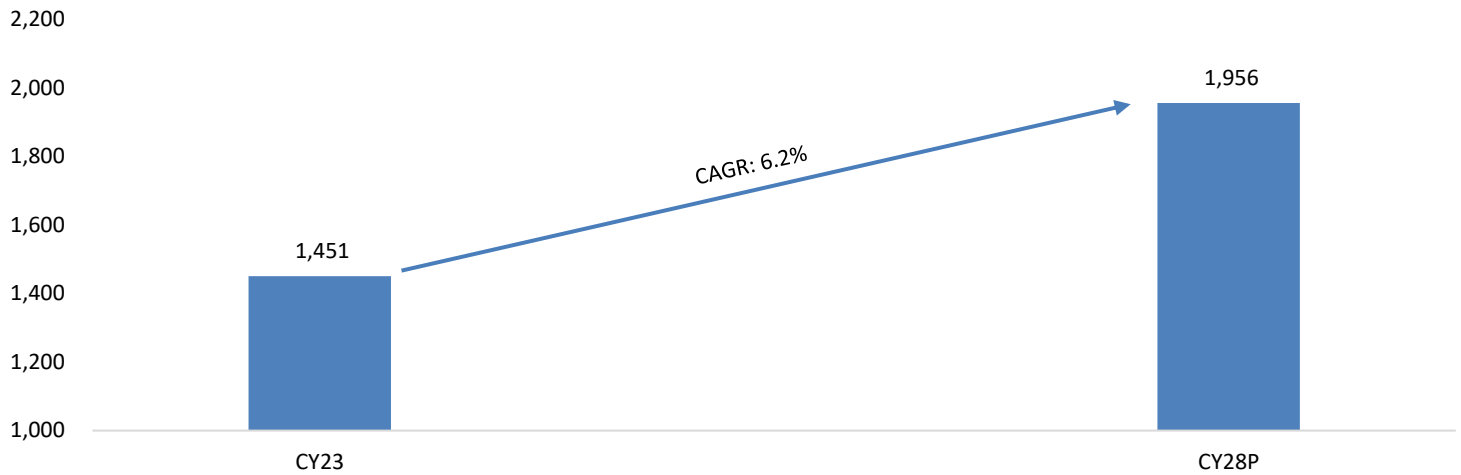
Particulars	FY22	FY23	FY24	1HFY25
<b>Unit II (Hyderabad)</b>				
Installed capacity	2,863.0	3,673.0	3,423.0	3,473.0
Actual utilized capacity	2,349.4	2,784.8	2,689.5	2,602.8
Capacity Utilization (%)	82.1	75.8	78.6	74.9
<b>Unit III (Bollaram)</b>				
Installed capacity	44,750.0	44,800.0	44,800.0	44,550.0
Actual utilized capacity	20,046.3	29,825.4	33,893.1	21,835.9
Capacity Utilization (%)	44.8	66.6	75.7	49.0
<b>Unit IV (Bidar)</b>				
Installed capacity	4,09,920.0	4,09,920.0	4,35,250.0	4,69,450.0
Actual utilized capacity	1,85,640.7	2,86,852.7	2,98,226.4	2,90,032.5
Capacity Utilization (%)	45.3	70.0	68.5	61.8
<b>Unit VI (Bidar)</b>				
Installed capacity	-	-	-	8,600.0
Actual utilized capacity	-	-	-	993.5
Capacity Utilization (%)	-	-	-	11.6
<b>Total Installed Capacity</b>	<b>4,57,533.0</b>	<b>4,58,393.0</b>	<b>4,83,473.0</b>	<b>5,26,073.0</b>

Source: RHP, SSL Research

## Industry Overview

The **Global Pharmaceutical Market** was valued at USD 1,450 bn in CY23 and is projected to reach USD 1,956 bn by CY28P, growing at a CAGR of ~6.2% between CY23-CY28P. The growth in the overall pharmaceutical industry will be driven by factors like increasing incidence of chronic diseases, sedentary lifestyles leading to diseases, increased health consciousness amongst people and aging population. The global pharmaceutical sector is currently undergoing a profound transformation across its entire value chain, driven by a strong emphasis on product innovation, healthcare equity (healthcare for all), technological advancements, operational efficiency, enhanced engagement with healthcare providers and patients and favorable policies.

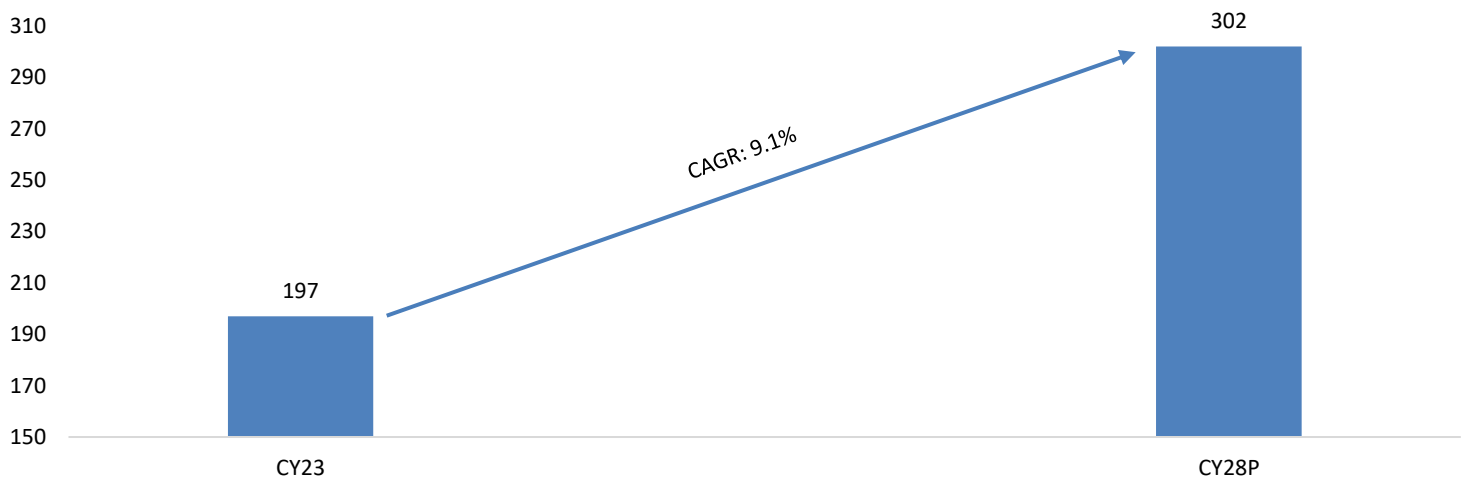
**Global Pharmaceutical Market (USD bn)**



Source: RHP, SSL Research

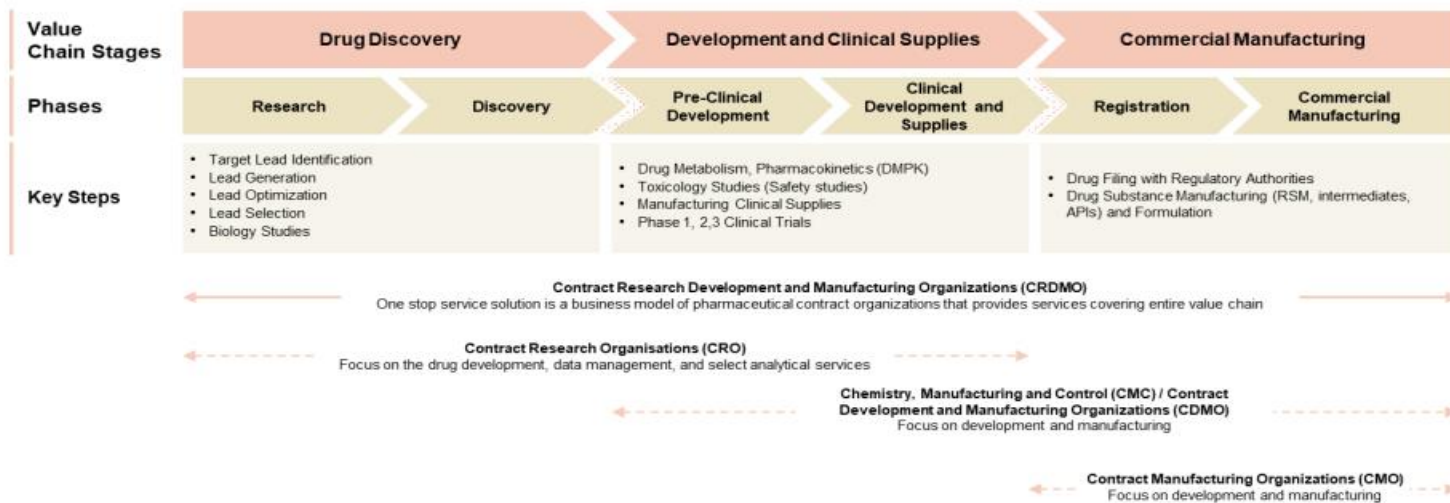
The **Global Contract Research, Development & Manufacturing (CRDMO) Industry** which comprises of discovery, pre-clinical, development and commercial manufacturing services was valued at USD 197 bn in CY23 and is projected to grow at a CAGR of 9.1% between CY23-CY28P, to reach USD 302 bn by CY28P. Traditionally, pharma companies retained in-house control over discovery and pre-clinical stages due to intellectual property sensitivities while outsourcing development and commercial manufacturing activities. However, with the emergence of smaller pharmaceutical and biotech firms and enhanced intellectual property protection protocols at CRDMOs there has been a noticeable surge in the outsourcing of these services.

**Global CRDMO Industry (USD bn)**



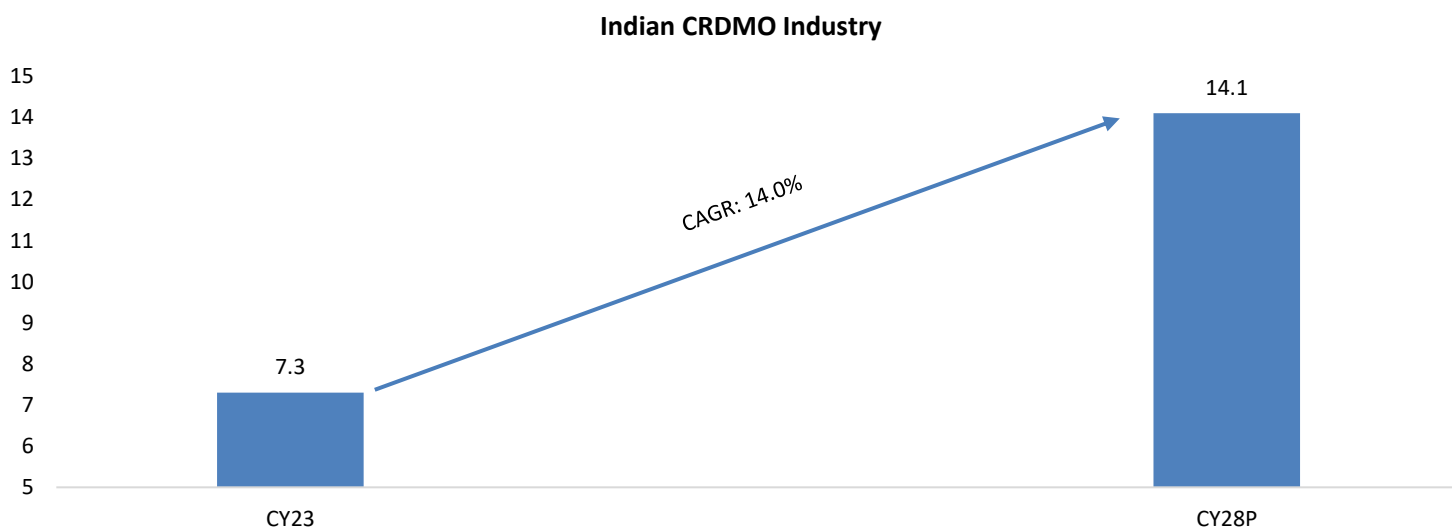
Source: RHP, SSL Research

The **CRDMO industry** primarily comprises of 3 key types of players i) CRDMOs (Contract Research, Development & Manufacturing Organizations); ii) CROs (Contract Research Organizations); iii) CDMO's (Contract Development & Manufacturing Organizations). **CRDMOs** are integrated contract service organizations which provide end-to-end services spanning the entire drug discovery, development, and manufacturing lifecycle. They provide pharmaceutical innovators with economically viable and tailored solutions for the various challenges they face across the value chain. **CROs** specialize in offering various scientific functions of the discovery, pre-clinical and clinical stages of pharmaceutical R&D. **CDMOs** provide commercialization manufacturing as well as process/formulation development to support the pre-clinical and clinical stages.



Source: RHP, SSL Research

The **Indian CRDMO Industry** which primarily consists of discovery, pre-clinical development and commercial manufacturing was valued at USD 7.3 bn in CY23 and is projected to grow at a CAGR of 14.0% between CY23-CY28P to reach USD 14.1 bn by CY28P. Indian CRDMO industry has observed a significant growth in recent years on the back of increased collaborations and partnerships in the industry. Amongst the value chain functions, pre-clinical development is expected to grow at a significantly faster pace at 15.7% during CY23-28F, driven by significant improvement in technical capabilities of Indian companies driving R&D outsourcing demand from global pharma innovator companies. Bolstering of integrated offerings by Indian companies with increase in Biology and DMPK capabilities is driving significant growth in discovery and pre-clinical segments.



Source: RHP, SSL Research

## Financial Snapshot

INCOME STATEMENT			
Particulars (Rs cr)	FY22	FY23	FY24
<b>Revenue from Operations</b>	<b>870</b>	<b>1,217</b>	<b>1,465</b>
<b>YoY growth (%)</b>	-	40.0%	20.4%
Cost Of Revenues (incl Stock Adj)	267	423	446
<b>Gross Profit</b>	<b>603</b>	<b>795</b>	<b>1,019</b>
<b>Gross margins (%)</b>	<b>69.3%</b>	<b>65.3%</b>	<b>69.6%</b>
Employee Cost	309	417	495
Other Operating Expenses	173	212	239
<b>EBITDA</b>	<b>121</b>	<b>165</b>	<b>285</b>
<b>EBITDA margins (%)</b>	<b>13.9%</b>	<b>13.6%</b>	<b>19.5%</b>
Other Income	28	28	29
Interest Exp.	50	77	86
Depreciation	90	99	119
<b>PBT</b>	<b>10</b>	<b>16</b>	<b>109</b>
Tax	3	6	26
<b>PAT</b>	<b>6</b>	<b>10</b>	<b>83</b>
<b>PAT margin (%)</b>	<b>0.7%</b>	<b>0.8%</b>	<b>5.7%</b>
<b>EPS (Rs)*</b>	<b>0.3</b>	<b>0.5</b>	<b>4.4</b>

BALANCE SHEET			
Particulars (Rs cr)	FY22	FY23	FY24
<b>Assets</b>			
Net Block	743	778	926
Capital WIP	189	151	107
Intangible Assets	8	11	14
Right of use assets	221	248	240
Other Non-current Assets	58	35	43
<b>Current Assets</b>			
Inventories	127	140	87
Trade receivables	243	284	256
Cash and Bank Balances	130	86	159
Other Current Assets	445	454	443
<b>Total Current Assets</b>	<b>945</b>	<b>964</b>	<b>945</b>
<b>Current Liabilities &amp; Provisions</b>			
Trade payables	199	209	199
Other current liabilities	31	67	57
Short-term provisions	6	7	8
<b>Total Current Liabilities</b>	<b>236</b>	<b>283</b>	<b>265</b>
<b>Net Current Assets</b>	<b>709</b>	<b>681</b>	<b>680</b>
<b>Total Assets</b>	<b>1,928</b>	<b>1,903</b>	<b>2,010</b>
<b>Liabilities</b>			
Share Capital	18	18	18
Reserves and Surplus	861	870	957
<b>Total Shareholders' Funds</b>	<b>879</b>	<b>888</b>	<b>975</b>
<b>Total Debt</b>	<b>751</b>	<b>699</b>	<b>710</b>
Long Term Provisions	19	17	20
Lease Liabilities	214	233	217
Other Long-Term Liabilities	3	4	1
Net Deferred Tax Liability	63	63	86
<b>Total Liabilities</b>	<b>1,928</b>	<b>1,903</b>	<b>2,010</b>

Cashflows (Rs cr)	FY22	FY23	FY24
Cash flow from Operating Activities	105	219	263
Cash flow from Investing Activities	(104)	(102)	(192)
Cash flow from Financing Activities	72	(201)	(95)
Free Cash Flow	(102)	106	81

RATIOS			
	FY22	FY23	FY24
<b>Profitability</b>			
Return on Assets (%)	0.3	0.5	3.6
Return on Capital Employed (%)	3.6	5.9	11.6
Return on Equity (%)	0.7	1.1	8.5
<b>Margin Analysis</b>			
Gross Margin (%)	69.3	65.3	69.6
EBITDA Margin (%)	13.9	13.6	19.5
Net Profit Margin (%)	0.7	0.8	5.7
<b>Short-Term Liquidity</b>			
Current Ratio (x)	1.3	1.3	1.3
Quick Ratio (x)	1.1	1.1	1.2
Avg. Days Sales Outstanding	102	85	64
Avg. Days Inventory Outstanding	174	121	72
Avg. Days Payables	97	72	62
Fixed asset turnover (x)	0.9	1.2	1.2
Debt-service coverage (x)	0.1	0.1	0.2
<b>Long-Term Solvency</b>			
Total Debt / Equity (x)	0.9	0.8	0.7
Interest Coverage Ratio (x)	1.2	1.2	2.3
<b>Valuation Ratios*</b>			
EV/EBITDA (x)	90.6	66.6	38.2
P/E (x)	1,664.7	1,037.6	125.2
P/B (x)	11.8	11.7	10.6
EV/Sales (x)	12.6	9.0	7.5

Source: RHP, SSL Research

\*Valuation ratios based on Pre-issue Share capital

## Peer Comparison

Particulars (Rs cr)	Sai Life Sciences Ltd	Divis Laboratories Ltd	Syngene International Ltd	Suven Pharmaceuticals Ltd
CMP	549.0	5,936.0	884.3	1,296.6
Sales	1,465.2	7,845.0	3,488.6	1,051.4
EBITDA	285.5	2,205.0	1,014.4	405.8
Net Profit	82.8	1,600.0	510.0	300.3
Mkt Cap.	11,418.6	1,57,582.2	35,596.4	33,006.9
Enterprise Value	11,020.0	1,57,219.2	35,652.4	32,998.2
EBITDA Margin (%)	19.5	28.1	29.1	38.6
Net Margin (%)	5.7	20.4	14.6	28.6
P/E (x)	137.9	98.5	69.6	109.9
EV/EBITDA (x)	38.6	71.3	35.1	81.3
RoE (%)	8.5	11.8	12.0	14.6
RoCE (%)	11.6	16.0	15.4	19.8
EV/Sales	7.5	20.0	10.2	31.4

*The data is based on FY24 financial data.*

*For Sai Life Sciences Limited, the Market cap, P/E(x), EV/EBITDA (x) and EV/Sales (x) are calculated on post-issue equity share capital based on the upper price band.*

*CMP as on 10<sup>th</sup> December, 2024.*

*Source: RHP, SSL Research*



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